

## **FINAL TRANSCRIPT**

**Street Capital Group Inc.**

**Annual Meeting of Shareholders**

Event Date/Time: June 15, 2016 — 4:00 p.m. E.T.

Length: 18 minutes

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## CORPORATE PARTICIPANTS

**Allan Silber**

*Street Capital Group Inc. — Chairman*

**Marissa Lauder**

*Street Capital Group Inc. — Chief Financial Officer*

**Ed Gettings**

*Street Capital Group Inc. — Chief Executive Officer*

## CONFERENCE CALL PARTICIPANTS

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**PRESENTATION**

**Allan Silber** — Chairman, Street Capital Group Inc.

Good afternoon. My name is Allan Silber, and I would like to call the meeting to order.

Welcome to the Annual Meeting of Shareholders of Street Capital Group Inc.

And with the consent of the meeting, as Chairman of the Corporation it is my privilege to act as Chairman of this meeting.

With the consent of the meeting I will ask Stephen Weintraub to act as Secretary of the meeting. Also with the consent of the meeting I will appoint Josette Koffyberg and Eric Carbonazione (phon) of Computershare Investor Services Inc. to act as our scrutineers.

In order that we may have a complete record of those present, may I ask anyone who has not yet given his or her name to the scrutineers to please do so now.

The deadline to file a proxy was 4:00 p.m. on June 13, 2016; therefore, the scrutineers will not be accepting any additional proxies at this time.

Unless a ballot is demanded on any motion, I propose to conduct votes by the show of hands on all resolutions put to the meeting.

I've been advised by the Secretary that there is a quorum in attendance. When the formal report of the scrutineers is available, it will be kept with the minutes of this meeting.

The Corporation's consolidated financial statements for the year ended December 31, 2015, together with the auditor's report thereon have been placed before the meeting. Copies of

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the financial statements were mailed to all the shareholders, and it is not proposed to read them to the meeting.

There are extra copies of the financial statements available at the front desk and the scrutineer's table for anyone wishing one.

The next item of business is the election of directors. Eight directors are to be elected, and I invite nominations.

**Unidentified Speaker**

Mr. Chairman, I nominate Allan Silber; Ronald Appleby; Tom Bermingham; Ed Gettings; Ron Lalonde; Morris Perlis; Lea Ray; and Paul Vessey (unintelligible).

**Unidentified Speaker**

Mr. Chairman, I second the nomination.

**Allan Silber**

Thank you. Are there any further nominations? I declare the nominations closed.

Would someone move and someone second a resolution for the election of each of the eight persons nominated as directors?

**Unidentified Speaker**

Mr. Chairman, I move a resolution (unintelligible) each of the eight persons nominated (unintelligible) to hold office until the next Annual Meeting of Shareholders (unintelligible).

**Unidentified Speaker**

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Mr. Chairman, I second the resolution.

**Allan Silber**

All those in favour of the resolution, please so signify. Contrary, if any?

I declare the resolution carried.

I declare those nominated to have been duly elected as directors of the Corporation, to hold office until the next Annual Meeting of Shareholders, or until their successors are elected or appointed.

The next item of business is the appointment of auditors and the authority of the directors to fix the remuneration of the auditors. Will someone move and someone second a resolution appointing the auditors for the current year and authorizing the directors to fix the remuneration of the auditors? I believe Ms. Lauder has a motion.

**Marissa Lauder** — Chief Financial Officer, Street Capital Group Inc.

Mr. Chairman, I move the following resolution. Be it resolved the Ernst & Young LLP is hereby appointed as auditors of the Corporation, to hold office until the next Annual Meeting of Shareholders, or until their successors are appointed at such remuneration as may be fixed by the directors, and the directors are hereby authorized to fix such remuneration.

**Unidentified Speaker**

Mr. Chairman, I second the resolution.

**Allan Silber**

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All those in favour, please so signify. Contrary, if any?

I declare the resolution carried.

I declare that Ernst & Young LLP has been duly appointed auditors of the Corporation, to hold office until the next Annual Meeting of Shareholders, and that the directors have been duly authorized to fix the remuneration of the auditors.

We have now completed the formal part of our meeting. Before we deliver a presentation on Street Capital Group Inc. and its operations, after which we will invite questions from the floor, is there any further business?

**Unidentified Speaker**

Mr. Chairman, I move that the meeting be terminated.

**Unidentified Speaker**

I second the motion.

**Allan Silber**

All those in favour of the motion, please so signify. Contrary, if any?

I declare that this meeting is now terminated.

I will now pass the stage over to Ed Gettings, who's the Chief Executive Officer of Street Capital. Ed?

**Ed Gettings — Chief Executive Officer, Street Capital Group Inc.**

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Thanks, Allan. And thank you all for being here. We appreciate your support for Street Capital.

The next slide you've seen, I'm sure, many times before. It's a forward-looking statements slide. I will not be going through that in detail, so we'll move on to the main presentation.

During our Annual Shareholders Meeting last year we outlined some steps that we were going to take to secure the successful future of Street Capital for many years to come. I'm pleased to stand before you today and tell you that we believe we are near completing all of those steps.

The wind-down of our non-lending business is virtually finished, while the organizational realignment and share exchange that closed almost one year ago solidified our capital base and aligned a bank-ready management team with our loyal shareholders.

Today, Street Capital is poised for significant growth. We have the right team in place with substantial bank experience. We have a strong position in the mortgage broker channel, and we have two near-term growth drivers in the form of a significant renewal pipeline that will positively impact 2017 results, as well as the approval of our Schedule I bank licence, which we expect this year.

And Street Capital—and this is important—it has the capital it needs in order to execute on its current business plan.

2015 was another outstanding year for Street Capital. Our first year as a pure-play mortgage lender also marked a new high for mortgages under administration and loan sales. We

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ended 2015 with \$24.8 billion in mortgages under administration, occupying a strong number three position in the mortgage broker channel.

Importantly in 2015, we grew both revenue and earnings per share over 20 percent and 23 percent, respectively.

Now I'd like to review the Street Capital story. We have a great opportunity before us.

The residential mortgage market in Canada is large and growing. Under our current business model, we are focused on the prime insured segment of this market, which we estimate is roughly 85 percent of the total market.

Mortgage credit grew at a rate of over 5 percent during 2015, and as you can see on the graph on the right, with a strong tradition of home ownership in Canada along with other supportive factors like immigration, the market remains strong.

Our business model is relatively straight forward. We source, underwrite, and sell prime mortgages, taking a profit on each transaction.

At the time of the renewal we get to resell our loan again to our investors, and all the time we maintain the customer relationship.

Since our inception in 2008, we have focused on sourcing mortgages primarily from the mortgage broker channel. Mortgage brokers capture a large portion of the market, roughly 35 percent in total and over 50 percent of first-time buyers.

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Mortgage brokers excel versus others in the channel at handling these customers. The first-time buyer typically do not have a sticky relationship with a financial institution, and they are most concerned about qualifying and having someone guide them through the process of buying their first home.

Street Capital has acquired 125,000 individual customers as a result of this strategy. And it is a great opportunity to cross-sell additional products to them once we have launched our bank platform.

During 2015, we were the number three player in the broker channel, and that's from a standing start back in 2008. Now market share will fluctuate from quarter to quarter, but we're confident that we can maintain the number three or number four position in the channel on average going forward.

Our share is defensible because of the structure of the industry, with most of the largest banks choosing not to participate in the broker channel, and because we've set up our business for superior customer service and relationship retention.

Mortgage brokers are focused on closing deals. We've structured our relationships so that every mortgage broker has a dedicated contact on the underwriting side, guaranteeing them consistency in terms of how the deals are handled and providing good turnaround time for them.

Closing deals is one thing, but closing quality business is another. Our credit quality is well above industry average, with our serious arrears at half the industry levels and our CMHC early

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default stats, which is an indicator of the quality of underwriting of our portfolio, at less than half the industry average.

Our culture is established to live and breathe credit quality. Just as we do on the sales side, we have added strength through our underwriting processes to ensure top-quality credit.

We quality assure more than half of the deals we do, many before funding. Now this does cost us a substantial amount of money, but we believe that our stats show it's worth it.

We believe that good credit quality results in corresponding demand for the mortgages that we underwrite. It is a very strong story to walk into a large bank and to be able to show them that we underwrite better than their own retail branch networks, which historically produce higher credit quality.

Our underwriting and sales efforts have paid off since inception. We have a track record of growing this company every single year.

While our focus structure stressing credit quality and rapid turnaround for brokers may cost us more, as our growth shows, all of our efforts continue to pay off: mortgages under administration at just under \$25 billion last year, mortgage sales were \$9 billion, and net gain of sale of revenue was over \$76 million last year.

We have 125,000 Street customers right now, and all customer-facing interactions with respect to that individual mortgage are produced and come from Street Capital.

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Renewals are highly profitable, up to 80 basis points additional gain of sale compared to new origination where we have to pay various commissions to our broker contact. To this point, they've been a relatively small part of our loan sale business, but we are at a tipping point.

Between 2011 to 2012, we drove 60 percent increase in mortgages sold. Because the vast majority of our mortgages are on five-year terms, we will see a substantial bump in renewal volume in 2017: 10 to 15 percent above 2015 levels and significantly above this year's levels.

As with all lenders, due to intense competition in the mortgage market we do lose renewal opportunities due to midterm liquidation activities. And that's where customers will move their mortgages to another lender, or in situations where they pay off their mortgage for other reasons.

However, of those mortgages that are available for renewal, we capture 75 to 80 percent of them. This is a key focus for us, and it will drive earnings and revenue per share in 2017 and beyond as renewals grow as a percentage of total loan sales.

I've already laid out for you that we will drive growth both from our new core business, new core origination business, as well as through our renewal pipeline. But the real to midterm growth in this business will come from leveraging a Schedule I bank platform.

We are in the final stages of the process toward approval, and expect to receive this licence this year.

The prime insured business is a large market on its own with well-established players. We've already solidified a strong position in that marketplace, and we're confident that the best

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way to lever our 125,000-customer base is to expand into additional products and services, including near prime mortgages, credit cards, and other lending products.

We have established an industry-leading credit quality position, and we will continue to focus on quality underwriting as we introduce these additional lending products through our balance sheet.

We have built a team from the top down that has significant experience in these product areas. The opportunity for this platform over time is massive. With a large portion of Canadians banking online, we see room for a nimble, credit-focused lender like Street Capital to drive substantial growth and shareholder value.

Over the next few years you could think about our revenue growth in three buckets: new prime loans, prime renewals, and the new bank products.

We see growth in prime mortgages to be roughly in line with growth in the mortgage broker channel. We will maintain our share, but we will focus our capital on the growth of the bank platform.

We also see substantial revenue growth coming from our growing renewal stream in 2017 and 2018. This will provide an additional revenue lift of 10 to 15 percent in 2017 and further growth in 2018. Because of the relative higher profitability, we expect this to help us deliver solid earnings growth in 2017.

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From the bank we see a 2 to 5 percent revenue growth in 2017 and somewhere between 10 and 20 percent growth in 2018, primarily from the near prime product line. These figures are just the beginning. We will be sticking closely to the conservative plan that we gave OFSI for the first three years of our existence as a bank, but beyond that time we'll be in a position to further leverage our customer and product opportunities.

Our priorities in 2016: number one, to advance our Schedule I bank application through to completion—we are ready and we are confident that we will receive that approval this year; number two, to continue to grow MUA and hold steady our market share in the mortgage broker channel; and number three, to generate renewal volumes of 75 to 80 percent of loans eligible for renewal.

Street Capital today is accompanied not only with an experienced bank-ready management team, but a team that has already posted a solid growth track record. Along with the Board, we own over 25 percent of this company, and we are intensely focused on maximizing the long-term value of Street Capital.

An investment in Street Capital is an investment in a solid prime mortgage business as a foundation, a renewal pipeline that over the next few years will drive revenue and earnings, and the prospect of long-term earnings growth through a Schedule I bank platform.

That's the end of my presentation. I'd like to open it up for any questions that we might have. Yes?

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**Q&A****Unidentified Speaker**

Can you tell us what areas of the banking sector you're contemplating (unintelligible)?

**Ed Gettings**

Direct lending to customers through uninsured mortgages—sorry, near prime mortgages, credit cards, and consumer-lending products. And the platform today we will cross-sell against customers that we're capturing from the broker channel, customers that are in our customer base today, but we also have the opportunity down the road, year three, four, five, to go direct to consumers.

**Unidentified Speaker**

Are you talking about car loans? Leases?

**Ed Gettings**

No. At this point, we don't...

**Unidentified Speaker**

Personal loans?

**Ed Gettings**

No. At this point what we put in our plan to OFSI is simply near prime mortgages, other consumer lending, direct-to-consumer lending, as well as credit cards.

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**Unidentified Speaker**

Thank you.

**Ed Gettings**

Jim (phon)?

**Unidentified Speaker**

(unintelligible) banks, like the bank and the broker channel? And be more competitive in that area?

**Ed Gettings**

Likely not. They've chosen—they tend to be focused on their retail customer strategy and not in the broker channel. In fact, we've seen banks exit the channel more so than anybody trying to get back in.

The few players that are in the marketplace today would be Scotiabank, which acquired a broker-facing component about seven years ago, as well as Toronto Dominion. It's not in their interest to come in and try to compete on price with us because we have a lower cost structure, and there's no intent for anybody to try to narrow margins in the business today.

All right. Well, thank you for the few questions we've got. And that's the end of my presentation.

We'll hang around and management will stick around if you have any one-on-one questions that you'd like to ask.

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Thank you very much.

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