HOME CAPITAL GROUP INC.

CANADA'S ONE-STOP MORTGAGE LENDER

ANNUAL REPORT 2014

Business Profile

Home Capital Group Inc., together with its operating subsidiary Home Trust Company, has developed a track record of success as Canada's leading alternative lender. Building on the demonstrated strength of its core residential mortgage lending business, the Company also offers complementary lending services, as well as highly competitive deposit investment products.

MISSION STATEMENT

Home Capital's mission is to deliver superior shareholder value by focusing on well-defined niches in the Canadian lending and deposit-taking marketplace that generate above-average returns, have acceptable residual risk profiles and are not adequately served by traditional financial institutions, while protecting the depositors and operating within regulatory guidelines and the Company's risk appetite.

Home Trust Branches

MORTGAGE LENDING

Home Trust is one of Canada's leading mortgage lenders, focusing on homeowners who typically do not meet all the lending criteria of traditional financial institutions. By offering a range of mortgage products, Home Trust is uniquely positioned to provide financial solutions to meet the needs of thousands of Canadians. With a proprietary lending approach, comprehensive borrower profiling and flexible alternative options, Home Trust is a one-stop shop for borrowers and mortgage brokers. Home Trust is also a provider of commercial first mortgages to high-quality borrowers in selected markets across Canada.

CONSUMER LENDING

Home Trust's Equityline *Visa* program brings the advantages to cardholders of accessing the equity they have built in their homes together with the benefit of 1% cash back on all purchases and the features and convenience of a Gold *Visa* card. The Company also offers deposit-secured credit cards for individuals who wish to build or re-establish a positive credit history. Home Trust's Retail Credit Services provides installment financing for customers making purchases from established businesses. PSiGate, a wholly owned subsidiary, offers electronic card-based payment services to merchants who conduct business primarily on the Internet.

DEPOSIT INVESTMENTS

Home Trust provides a broad range of deposit investment services through its extensive deposit broker network. In addition, Home Trust's direct-to-consumer brand, Oaken Financial, offers a competitive suite of deposit products and convenient online banking to customers as a secure alternative to manage their savings independently. With efficient, personal service and competitive rates, Home Trust and Oaken Financial offer a number of solutions to meet the long-term and short-term needs of investors looking to diversify their portfolios.

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Financial Highlights

Summary of Data for 10 Year Review

For the years ended December 31 (000s)		2014 – Adjusted	2014	2013	2012	2011
Total assets	$	**20,082,744**	**20,082,744**	20,075,850	18,800,079	17,696,471
Total assets under administration	$	**24,281,366**	**24,281,366**	21,997,781	19,681,750	17,696,471
Total loans	$	**18,364,910**	**18,364,910**	18,019,901	17,159,913	16,089,648
Total loans under administration	$	**22,563,532**	**22,563,532**	19,941,832	18,041,584	16,089,648
Securitized residential mortgages on-balance sheet	$	**3,945,654**	**3,945,654**	5,210,021	6,706,160	8,243,350
Deposits	$	**13,939,971**	**13,939,971**	12,765,954	10,136,599	7,922,124
Shareholders' equity	$	**1,448,633**	**1,448,633**	1,177,697	968,213	774,785
Revenue[1]	$	**1,014,566**	**1,042,986**	949,547	887,685	790,274
Net income[1]	$	**288,384**	**313,172**	256,542	221,983	190,080
Book value of common shares[2]	$	**20.67**	**20.67**	16.95	13.98	11.19
Earnings per share – basic[1,2]	$	**4.13**	**4.48**	3.70	3.20	2.74
Earnings per share – fully diluted[1,2]	$	**4.09**	**4.45**	3.66	3.19	2.73

In 2011, Home Capital Group Inc. implemented International Financial Reporting Standards (IFRS) with a transition date of January 1, 2010. Figures for 2010 have been restated on an IFRS basis.

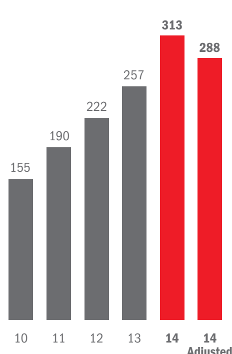
17 years

Return on equity[1] was 22.0% on an adjusted basis, exceeding 20% for the 17th successive year.

$313.2 million

Reported net income for 2014 was $313.2 million, an increase of 22.1% over 2013.

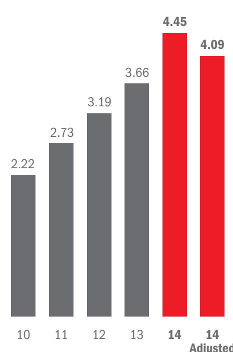
Net Income[1]
($ millions)



11.9%

Home Capital recorded an 11.9% increase in adjusted net income over 2013, reaching $288.4 million for the year ended 2014.

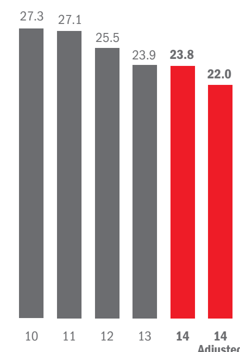
Diluted Earnings per Share[1,2]
($)



11.1%

Adjusted diluted earnings per share rose to $4.09 for the year ended December 31, 2014, an 11.1% increase over the year ended 2013.

Return on Equity[1]
(percentage)



22.0%

Home Capital surpassed 20% return on equity for the 17th consecutive year, reaching 22.0% on an adjusted basis at December 31, 2014.

1 See definition of Adjusted Net Income, Total Adjusted Revenue, Adjusted Earnings per Share and Adjusted Return on Equity in the Non-GAAP Measures and Glossary section of this report and the Reconciliation of Net Income to Adjusted Net Income in Table 3 of this report.

2 Share prices have been restated to reflect the stock dividend of one common share per each issued and outstanding share, paid on March 10, 2014.

2010 IFRS	2010 CGAAP	2009	2008	2007	2006	2005
15,518,818	7,712,239	7,360,874	5,809,713	4,975,093	3,902,316	3,284,829
15,518,818	15,878,772	11,508,585	8,423,971	6,434,548	5,009,878	4,085,013
14,091,755	5,861,722	5,468,540	4,531,568	4,045,571	3,328,858	2,813,459
14,091,755	14,028,255	9,616,251	7,145,826	4,505,026	4,436,420	3,613,643
8,116,636	–	–	–	–	–	–
6,595,979	6,522,850	6,409,822	5,102,781	4,413,984	3,443,640	2,901,515
628,585	742,280	590,288	432,753	348,040	276,866	218,885
687,249	533,937	489,179	454,695	368,881	282,549	234,704
154,752	180,944	144,493	108,687	90,241	67,815	60,861
9.07	10.71	8.50	6.28	5.04	4.05	3.22
2.23	2.61	2.10	1.57	1.31	0.99	0.90
2.22	2.60	2.08	1.57	1.29	0.97	0.86

. Figures for 2009 and prior years are on a former Canadian Generally Accepted Accounting Principles (GAAP) basis.

$22.56 billion

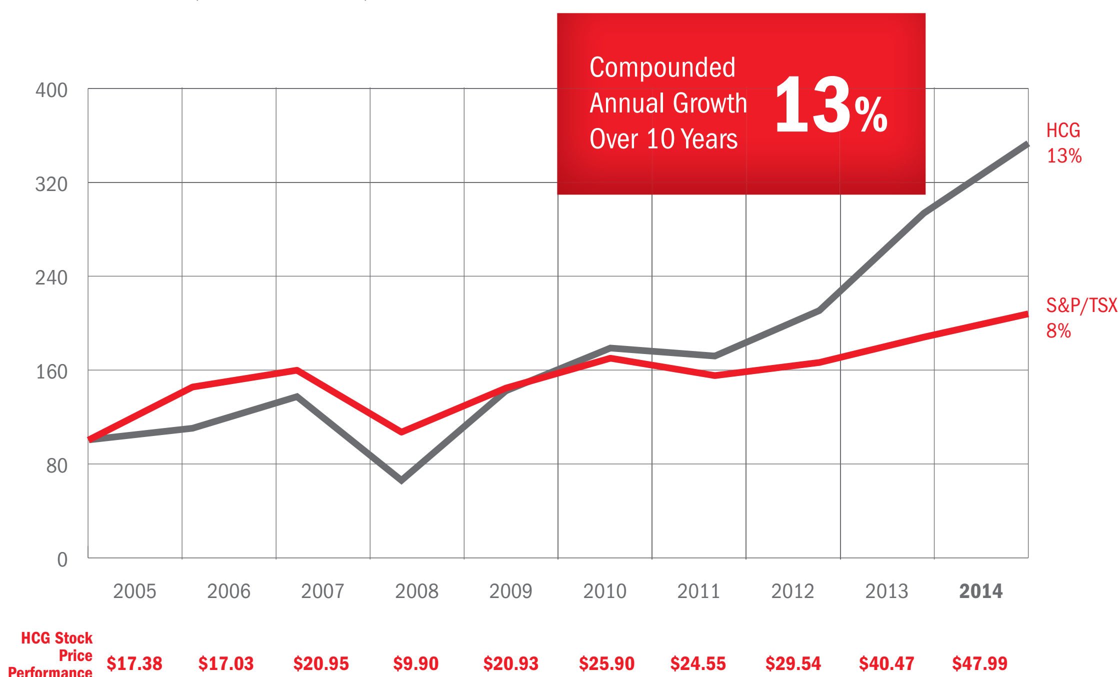
Total loans under administration grew by 13.1% over 2013 to reach $22.56 billion at the end of 2014.

$1 billion

Total Revenue exceeded $1 billion on an adjusted basis, reaching a significant milestone in 2014.

Ten-year Cumulative Total Return on $100 Investment

Comparison between S&P/TSX Composite Index (S&P/TSX) and Home Capital Group Inc. (HCG)
December 31, 2004–December 31, 2014



Closing Price as of December 31
Share prices have been restated to reflect the stock dividend of one common share per each issued and outstanding share, paid on March 10, 2014.

Building Solid Fundamentals.

We are pleased to report to shareholders on another exciting and rewarding year for Home Capital Group. In 2014, we continued to leverage our depth of experience and, with the benefits of both a stable real estate sector and steady Canadian economy, 2014 marked the achievement of another year of record operating and financial performance.

Financial Performance

The success of our business model has been established, and year after year we have demonstrated consistent, superior growth in our results. Since Home Capital's inception over 25 years ago, we have remained disciplined in applying our focused strategies to generate strong financial performance, and thereby generate consistent increases in shareholder value.

1

PLATFORM FOR CONTINUED GROWTH

Growing Our Core Business

We remain focused on building and maintaining Canada's leading alternative financial institution by serving an established, but underserved and growing market niche.

In 2014, Home Capital achieved a major milestone as adjusted revenue exceeded $1 billion for the first time. Excluding prepayment income of $32.7 million related to the sale of a water heater loan portfolio, adjusted net income increased 11.9% from the 2013 level. Adjusted diluted earnings per share were up 11.1% to $4.09 and total loans under administration increased 13.1% to $22.56 billion. Adjusted return on shareholders' equity was 22.0%, which represents the 17th consecutive year that our annual return on equity has exceeded 20%.

Mortgage originations increased by a healthy 28.0% during 2014, with traditional mortgages accounting for 66.2% of originations. Concurrently, we achieved a year-over-year reduction in net non-performing loans, which decreased from 0.35% of gross loans to 0.30%, a highly enviable result in our industry. We are very proud of these accomplishments. When looked at together, they underline our ability to continuously leverage our extensive expertise to identify high-quality growth opportunities without compromising our credit standards. Looking ahead, by remaining focused on what we do best, we are confident that we will capitalize on what we perceive to be opportunities for steady, sustainable growth in Canada.

Investing in Infrastructure

In 2014, we continued to invest in upgrades to our technology and back-office support functions. We now have two disaster recovery sites in southern Ontario, enhancing our business continuity readiness. We have increased our cyber-security capabilities and continue to strengthen our control functions and the technology that supports the business, and continue to introduce and enhance processes to defend against more sophisticated and complex fraud. While many of these initiatives are not visible on the front lines, they support the long-term growth we are targeting.

During the first half of 2015, we will launch a new mortgage origination platform. This new technology will increase efficiency and enhance the effectiveness of our underwriting practices. This is the first phase of a long-term investment to add new features, controls and metrics to our procedures, which supports our goal of continuous improvement in the mortgage process.

Shareholder Dividends

We continue to prioritize the distribution of profits to our shareholders. Sustainable growth, strong cash flow and a positive outlook led to three separate dividend increases during 2014, resulting in annualized year-over-year dividend growth of 37.5%. With these recent increases, we have now increased our dividend 20 times during the last 10 years. We are dedicated to maintaining this policy of increasing returns to shareholders through 2015 and beyond. In this regard, we recently announced that our Board of Directors has approved an increase to our dividend payout target range from 14%–21% to 19%–26% of profits – the second such increase in our payout target range in less than a year – underscoring our commitment to shareholder returns.

Building our Asset Base

At $24.3 billion, assets under administration grew 10.4% from $22.0 billion last year. We are particularly pleased with the performance of our traditional mortgage portfolio where we not only generated a year-over-year increase in originations of 22.9%, but at the same time we experienced an improvement in the credit quality of our loan portfolio. We continue to experience very strong demand for these products and anticipate continued growth and increased profitability from this business line in the years ahead.

Over the course of 2014, we renewed focus on Accelerator, our insured residential mortgage product. As a result of our efforts, originations for this component of our portfolio increased by 76.4% in 2014. This business segment continues to be one of our key offerings and helps to fulfil our mandate to offer a full line of products that meet the needs of our borrowers and brokers.

2

PLATFORM FOR CONTINUED GROWTH

Achieving Strong Shareholder Returns

By maintaining a strong, conservative financial position, we can continue to deliver superior shareholder value with a strong return on equity and increased shareholder dividends.

We continue to leverage our expertise in the real estate market to generate high-quality growth in our Retail Credit business line, which provides loans for durable household goods and large-ticket home improvement items. We are pleased with the 13.5% increase this year, which was primarily driven by our ability to continue to build and expand relationships with our business partners. Looking ahead, we will continue to identify opportunities to grow this business segment, capitalizing on its attractive returns and excellent risk profile.

Rounding out our offering, and in line with our longer-term strategy of diversifying our sources of funding, is our direct-to-consumer brand, Oaken Financial. Originally launched in 2013 with a line of consumer deposit products, Oaken was propelled ahead in 2014 with the launch of online banking. Oaken's online and telephone presence is supported by its sales and service professionals located in Home Trust's Vancouver, Calgary, Toronto and Halifax offices. In 2015, Oaken will be moving from its Home Trust office locations in Toronto and Calgary by opening a new downtown retail store in each city. These new retail locations will enhance the consumer experience and provide greater visibility for the Oaken brand. Customers are responding to the safe, stable and sound product offering, which furthers our commitment to diversifying our sources of funding. Total deposits raised through our deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits now total $2.42 billion.

Maintaining a Strong Balance Sheet

At Home Capital, sustainable growth – ensuring that we are well positioned to prosper in both good and bad economic times – is a key focus. We believe that this is achieved through a continuous effort to enhance the quality and strength of our capital base, without negatively impacting our risk profile. At year-end, we had solid Common Equity Tier 1 and Total capital ratios of 18.30% and 20.94%, respectively. Additionally, the credit quality of our loans remains strong and our provision for credit losses remains low.

Strategic Priorities

Our first strategic priority is to continue to build and maintain our presence as Canada's leading alternative financial institution by serving an established, but underserved and growing market niche. We believe that by continuing to offer a full suite of mortgage lending products, complemented by other innovative product offerings in our lending portfolio, we will be able to effectively continue our cautious geographic expansion throughout Canada.

Our second strategic priority is to maintain a strong and conservative financial position in order to generate consistent returns for our shareholders. By maintaining strong capital and liquidity positions, with capital and leverage ratios exceeding the regulatory minimums by a safe margin, we believe that we can deliver superior shareholder returns as measured by consistently high returns on equity and increased dividends to shareholders.

3

PLATFORM FOR CONTINUED GROWTH

Building on Operational Excellence

We continue to invest in technology and processes that enhance the customer experience, improve efficiencies and strengthen our risk management capabilities.

Our third strategic priority is to enhance operational excellence by continuing to invest in industry-leading risk oversight and control functions. Through investments in technology and processes that enhance the customer experience, we are able to improve efficiencies and contribute to strong risk management and compliance processes, ensuring that growth is managed and prudent.

Board of Directors

The Hon. William G. Davis will retire from our Board of Directors at the conclusion of the Annual and Special Meeting on May 13, 2015. Bill has been an integral part of our growth since first joining the Board of Home Capital in 1999. He served as Chair of Home Trust from 2000 to 2013 and, since that time, served as Vice Chair of Home Capital and Home Trust. Bill has provided the highest level of corporate oversight, while consistently impressing everyone in our organization with his commitment, wit and wisdom. Our success, both as a growing enterprise and in terms of accountability to shareholders, would not have been as profound without Bill's involvement. We are honoured that he has consented to serve as Chair Emeritus of Home Trust Company. On behalf of all stakeholders, we thank Bill for his contribution over the past 15 years and wish him all the best in the years ahead.

We are pleased to strengthen our Board as we welcome Robert Blowes, FCPA, FCA, who will be standing as a nominee for election to the Board at the upcoming Annual and Special Meeting. Bob brings significant financial services experience, most recently as Executive Vice President and Chief Financial Officer of Home Capital and Home Trust. Prior to working at Home Capital, Bob was a Partner at Ernst & Young, where he served a number of reporting issuers in the financial services and technology sectors over the course of a 35-year career. We are confident that his strong leadership skills, extensive knowledge and deep understanding of our business will be valuable assets to the Board, the Company and our stakeholders.

A Positive Outlook for the Future

Looking ahead, we remain confident that we will continue to generate strong shareholder returns. Our view is that the supply and demand dynamics in our established markets will remain balanced in the near-term. In the wake of the current uncertainty resulting from declining oil prices, we will proceed with caution with respect to our geographic and product expansion plans outside of our established Ontario base.

While we have historically provided annual financial objectives, we believe that sustainable long-term growth is best achieved by having our medium-term objectives guide our decision-making. While not drastically different, we believe that the short-term flexibility inherent in this approach will allow us to maximize value creation for our shareholders over both the mid-term and long-term.

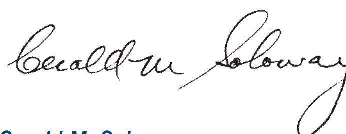
In this regard, we have established the following objectives for the mid-term (3 to 5 years):

- **Achieve, on average, annual growth in diluted earnings per share (adjusted) of 8% to 13%;**
- **Achieve, on average, annual return on equity in excess of 20%;**
- **Maintain strong capital ratios that exceed regulatory minimums by a safe margin commensurate with our risk profile; and**
- **Pay out, on average, 19% to 26% of our profits as dividends to shareholders.**

To deliver on these objectives, we will continue to adhere to our core competencies and remain focused on our well-defined strategic priorities. By maintaining this focus, we will maintain our track record of delivering long-term value to our customers and to you, our shareholders.

Our success would not be possible without the dedication and professionalism of everyone on the Home Capital team. On behalf of our Board of Directors and shareholders, we thank them for their contribution to our company.

Dr. Kevin P.D. Smith
Chairman of the Board

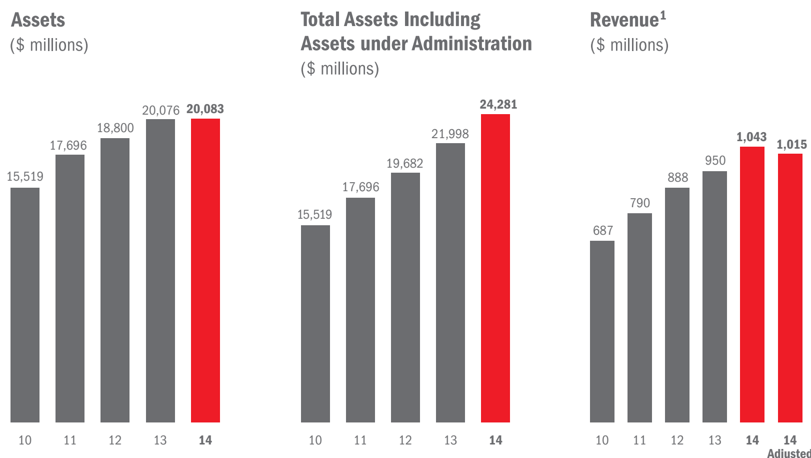


Gerald M. Soloway
Chief Executive Officer

Proven Results

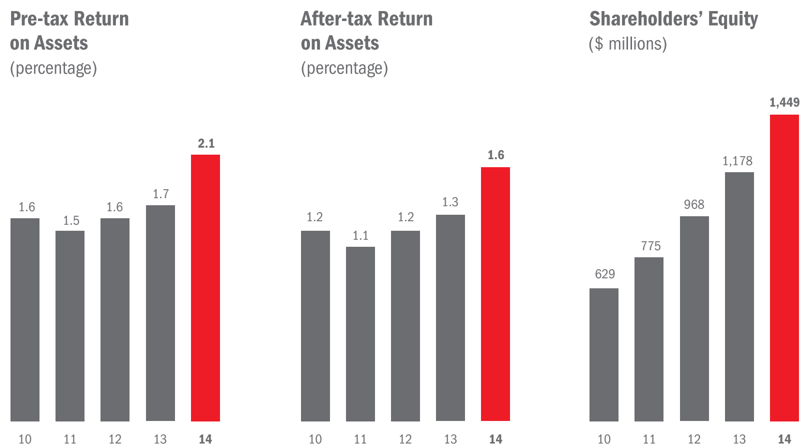
GROWTH

Home Capital sustained its strength in key financial measurements. The Company's core business activities generated strong results, contributing to growth in assets under administration of 10.4% year over year and revenue exceeding $1 billion for the first time.



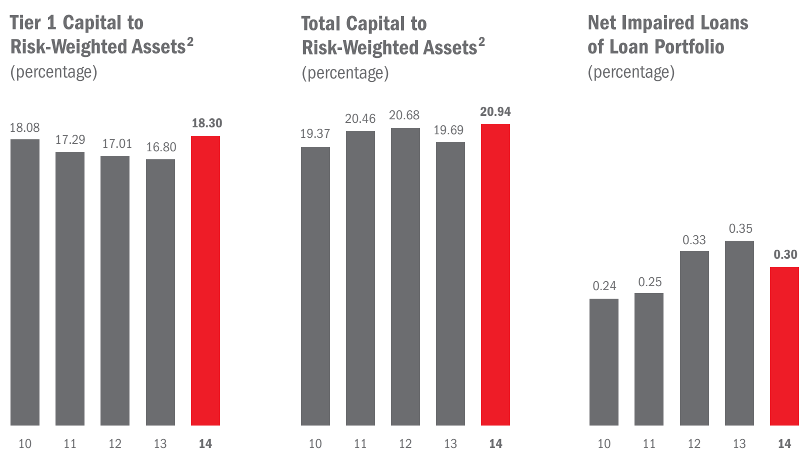
RETURNS

The Company recorded pre-tax return on assets of 2.1% and after-tax return on assets of 1.6%, while shareholders' equity increased to $1.45 billion, a 23.0% rise from the previous year.



RISK

Home Capital continued to surpass all applicable regulatory and related standards. The level of impaired loans is comparable to that of large, traditional financial institutions. Home Capital's robust risk management framework is a key component of the Company's philosophy.



[1] See definition of Adjusted Revenue in the Non-GAAP Measures and Glossary section of this report.
[2] These figures are calculated under Basel III for 2013 and 2014 and Basel II for 2012 and earlier.

Performance vs. Target

RETURN ON EQUITY (ROE)

Home Capital again exceeded 20% in return on equity, reaching 22.0% on an adjusted basis for the year ended December 31, 2014, representing the 17th consecutive year in which the Company surpassed 20% ROE.

TARGET:
20% adjusted return on equity[1]

Adjusted return on equity at

22.0%

for the year ended December 31, 2014

NET INCOME

The Company reported net earnings of $288.4 million on an adjusted basis for the year ended December 31, 2014, an 11.9% increase over 2013. Reported net income increased by 22.1% over 2013 to $313.2 million in 2014.

TARGET:
13% to 18% increase in adjusted net income[1]

Increase in adjusted net income of

11.9%

over 2013

DILUTED EARNINGS PER SHARE

Diluted earnings per share rose to $4.09 on an adjusted basis at December 31, 2014, an 11.1% increase over $3.68 recorded for 2013. Reported diluted earnings per share increased by 21.6% over 2013 to $4.45.

TARGET:
13% to 18% increase in adjusted diluted earnings per share[1]

Adjusted diluted earnings per share grew

11.1%

over 2013

TOTAL LOANS UNDER ADMINISTRATION

Total loans under administration grew to $22.56 billion by December 31, 2014, an increase of 13.1% over the $19.94 billion recorded on December 31, 2013.

TARGET:
15% to 20% increase in total loans under administration

Total loans under administration increased

13.1%

over 2013

1 See definition of Adjusted Net Income, Adjusted Earnings per Share and Adjusted Return on Equity in the Non-GAAP Measures and Glossary section of this report and the Reconciliation of Net Income to Adjusted Net Income in Table 3 of this report.

Corporate Governance at Home Capital

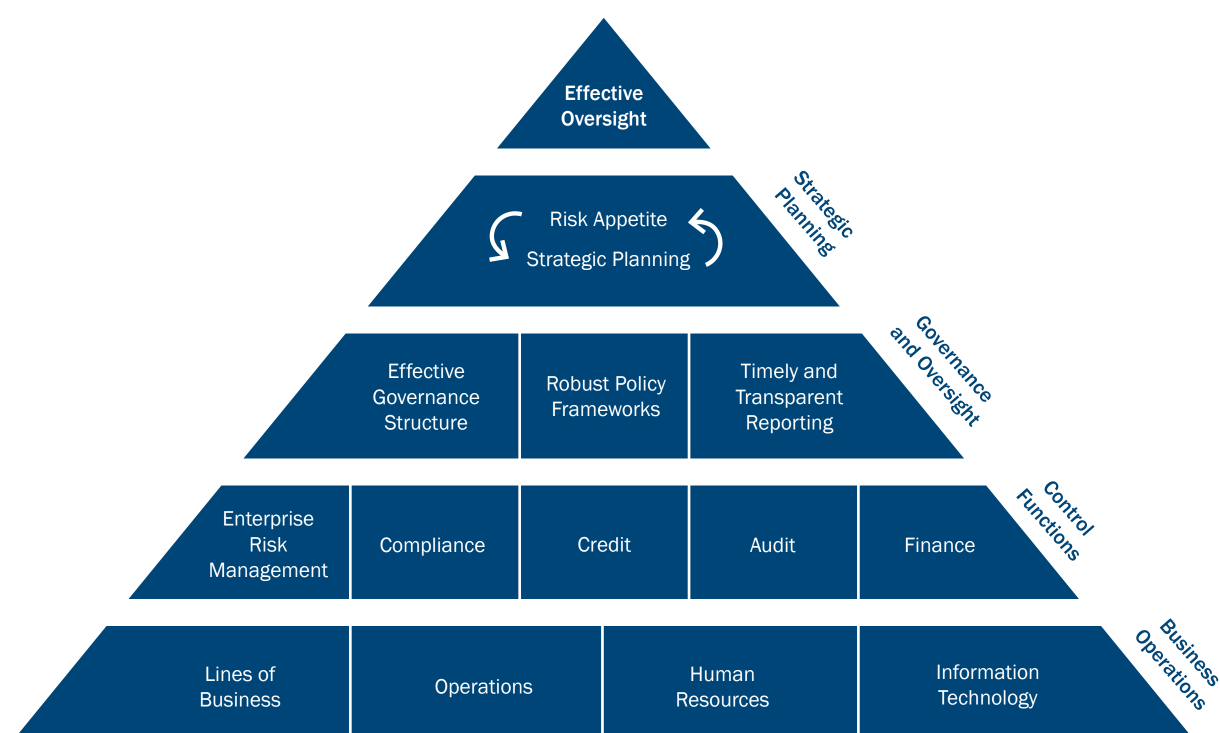
Home Capital recognizes the importance of strong and effective corporate governance. As a reporting issuer and publicly accountable entity, Home Capital has governance standards that are consistent with the corporate governance guidelines set out by the Toronto Stock Exchange and are compliant with applicable rules adopted by the Canadian Securities Administrators.

The Board of Directors of Home Capital is responsible for the stewardship of Home Capital and for supervising the management of the business affairs of the Company. This includes creating a culture of integrity throughout the Company. All employees, officers and directors are subject to Home Capital's Code of Conduct and Ethics Policy, which requires the highest standards of ethical behaviour in all dealings on behalf of the Company.

The Board ensures that appropriate structures and procedures are in place so that it can independently and effectively oversee the Company's strategy, risk profile and operations. A straightforward, proven business model and comparatively simple products afford a thorough understanding of risk and opportunity. New product initiatives are subjected to a formal evaluation process to ensure they are both well understood and consistent with the Company's risk appetite. Home Capital uses a Board-driven, strategic planning process that links strategic analysis and insight with financial forecasting, stress testing and capital adequacy. The Company aligns employee incentives with long-term value creation through a compensation process that includes the engagement of expert third-party compensation advice.

In addition to regularly scheduled meetings, the Board and its committees hold ad hoc meetings as the need arises and directors attend education sessions for emerging trends, industry developments and best practices. The Company continually looks for ways to improve its corporate governance policies and procedures, and the Governance, Nominating and Conduct Review Committee is responsible for reviewing Home Capital's corporate governance practices at least annually.

The Board reviews and approves Home Capital's strategic and financial plans and risk appetite at least annually. The Board receives strategic updates throughout the year from each of the principal business groups and receives regular risk updates from the control functions.



Highlights of Home Capital's corporate governance framework include:

- The Board and its committees function under charters that specify their roles, accountabilities and responsibilities.
- Nine of ten directors are independent, the Chairs and all members of each of the Board committees are independent, and the roles of CEO and Chairman of the Board are separate.
- The Board is responsible for adopting and approving the Company's risk appetite and strategic and financial plans annually.
- The Board reviews and approves all critical risk policies, delegations of authority, and Company-wide limits.
- The Board holds in-camera meetings of the independent directors at every Board meeting, and meets independently with the Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Senior Vice President of Internal Audit, Chief Compliance Officer and Chief Anti-Money Laundering Officer, and external auditors no less than quarterly.
- Home Capital provides an orientation program for new directors and conducts ongoing education sessions.
- The Company maintains a minimum share ownership requirement for directors, the Chief Executive Officer and the President to ensure alignment with the interests of all shareholders.
- The Board has adopted a Shareholder Rights Plan to preserve the fair treatment of all shareholders in the event of a take-over bid.
- The Chair of the Governance, Nominating and Conduct Review Committee conducts an annual Board evaluation to assess the effectiveness of the Board and its committees, as well as the effectiveness of each director through self-evaluation and one-on-one meetings with the Chairman of the Board.

The Board of Directors is assisted in its oversight of the business by four committees of the Board and by independent oversight functions within the business that report directly to the Board and its committees.

Audit Committee

The Audit Committee assists the Board in its oversight role with respect to:

- the quality and integrity of financial reporting to shareholders;
- the external auditor's performance, qualifications and independence;
- complaints with respect to accounting, internal accounting control or auditing matters; and
- the effectiveness of the Company's internal controls, including the effectiveness and independence of the Company's finance, internal audit and compliance functions.

The Chief Financial Officer, Chief Compliance Officer and Chief Anti-Money Laundering Officer, and the Senior Vice President of Internal Audit each report to the Audit Committee independently and meet in camera at least quarterly. The Committee meets with the external auditors at least quarterly.

Risk and Capital Committee

The Risk and Capital Committee assists the Board in its oversight role with respect to:

- reviewing and recommending Board approval of the Company's overall risk appetite framework, including risk limits;
- identifying, assessing and managing the Company's risk profile;
- reviewing and approving the Company's risk and capital policies;
- reviewing the effectiveness of the Company's risk and capital practices; and
- reviewing the Company's adherence to internal risk and capital policies and procedures through timely management reporting.

The Chief Risk Officer and the Chief Credit Officer each report to the Risk and Capital Committee independently and meet in camera at least quarterly.

Governance, Nominating and Conduct Review Committee

The Governance, Nominating and Conduct Review Committee assists the Board in its oversight role with respect to:

- identifying individuals qualified and suitable to become members of the Board of Directors and recommending nominees to the Board for each annual meeting of shareholders;
- the development of the Company's corporate governance policies, practices and processes;
- the effectiveness of the Board, its committees and the Chairs of those committees;

> evaluating the contributions of individual Directors;

> reviewing conflicts of interest, confidential information, transactions involving related parties of the Company, and disclosure of information; and

> Director orientation, education and development policy and programs.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists the Board in its oversight role with respect to:

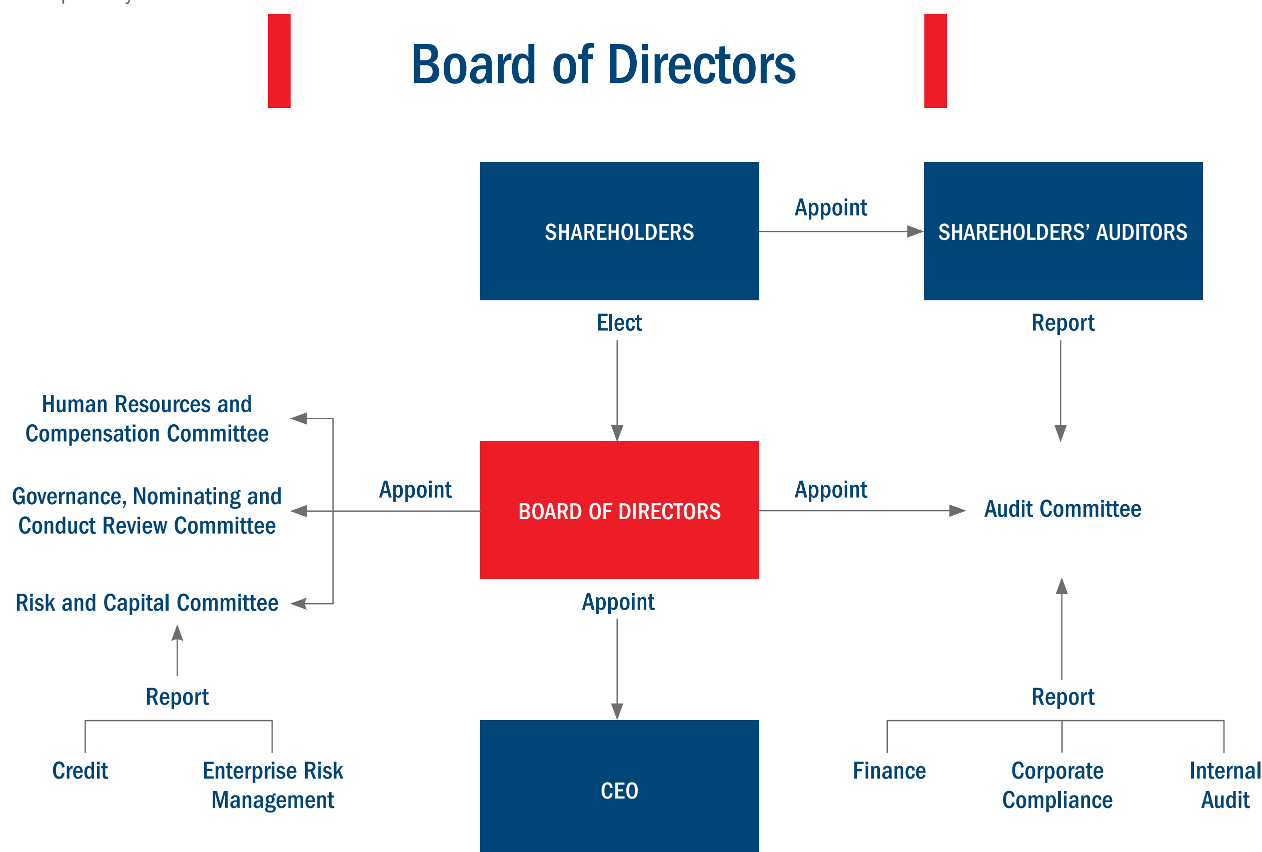
> the Company's human resources strategy, policies and programs;

> all matters relating to proper utilization of human resources within the Company, with special focus on management succession, development and compensation;

> management of compensation-related risk; and

> the compliance of Directors, officers and employees with the Company's Code of Conduct and Ethics Policy.

The Senior Vice President, Human Resources meets in camera with the Human Resources and Compensation Committee at least quarterly.



Home Capital views robust corporate governance principles and practices not only as a critical matter of regulatory compliance, but also as a competitive advantage in its core market. For more information about corporate governance at Home Capital, please refer to Home Capital's Management Information Circular. The Circular contains detailed information about Directors and management, as well as the Company's Statement of Corporate Governance Practices.

www.homecapital.com

The Company's website contains information about corporate governance at Home Capital, including the Statement of Corporate Governance Practices, Charters of the Board of Directors and Board Committees, Position Descriptions, Director Independence Standards, Code of Conduct and Ethics Policy, Disclosure Policy, Whistleblower Policy and Shareholder Rights Plan.

A Commitment to Our Communities

Home Capital recognizes the importance of supporting our neighbourhoods through corporate commitment and employee fundraising efforts. We invest in communities through a variety of charitable donations and sponsorships, and are proud to partner with organizations whose focus aligns with our principles – financial literacy, an entrepreneurial culture, serving the underserved and our belief in every Canadian's right to shelter. In 2014, employee volunteers participated in a number of events including a Junior Achievement of Canada Economics for Success Program for Grade 8 students in Toronto, a Habitat for Humanity construction project to help 21 families move into homes of their own, and a day of providing manual labour and offering support to homeless youth at Covenant House.

A Commitment to Our Employees

We strive to attract top talent and create a workplace where people feel engaged, inspired, challenged, proud and respected. To that end, we focus on all aspects of the employee experience, including rewards and recognition, communication, leadership, culture, professional and personal growth, accountability and performance, and corporate social responsibility. At Home Capital, we work to foster employee engagement through our shared vision, mission and values, and the promotion of a climate of trust and encouragement. We support our employees through various initiatives, and most recently launched our Bursary Program which provides monetary awards to children of employees for post-secondary education and apprenticeships.

A Commitment to Our Environment

Home Capital is committed to implementing environmentally sustainable business practices that reduce our impact on the environment. We achieve this through employee awareness programs, encouraging employees to make green choices, and supporting business practices and participating in initiatives that benefit the environment in practical and meaningful ways. In 2014, a number of employees took part in an initiative with Nature Conservancy Canada, a non-profit organization that focuses on conservation and protection of natural areas that sustain Canada's plants and wildlife. Through this program, volunteers helped build a footpath through part of the Oak Ridges Moraine, supporting the preservation of this sensitive and vital ecosystem in southern Ontario.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the year ended December 31, 2014. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 included in this report. This MD&A has been prepared with reference to the audited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of February 11, 2015. As in prior years, the Company's Audit Committee reviewed this document and, prior to its release, the Company's Board of Directors approved it, on the Audit Committee's recommendation. The Non-GAAP measures used in this MD&A and a glossary of terms used in this MD&A and financial statements are presented in the last section of this MD&A.

The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.homecapital.com, and on the Canadian Securities Administrators' website at www.sedar.com.

Caution Regarding Forward-looking Statements

From time to time Home Capital makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail in the Risk Management section of this report, as well as its other publicly filed information, which is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, funding and liquidity risk, structural interest rate risk, operational risk, investment risk, strategic and business risk, reputational risk, and regulatory and legal risk along with additional risk factors that may affect future results. Forward-looking statements can be found in the Report to the Shareholders and the Outlook sections in the Annual Report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "forecast," "may," and "could" or other similar expressions.

By their very nature, these statements require the Company to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf, except as required by securities laws.

Assumptions about the performance of the Canadian economy in 2015 and its effect on Home Capital's business are material factors the Company considers when setting its objectives, targets and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In setting and reviewing its targets, objectives and outlook for 2015, management's expectations assume:

- While the Canadian economy is expected to produce modest growth in 2015, there is some uncertainty about the effect lower oil prices will have on the broader Canadian economy and specific energy-producing regions in Canada. While the Company has limited exposure in energy-producing regions, it has plans for geographic expansion in Canada. There is some uncertainty as to the timing and extent of expansion given the economic conditions.
- Generally the Company expects stable employment conditions in most regions, except potentially for the energy-producing regions, and also expects inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and consistent demand for the Company's lending products in its established regions. Credit losses and delinquencies in the energy-producing regions may see an increase, but given the Company's limited exposure, this is not expected to be significant to the Company's credit losses.
- The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets and the continued volatility in oil prices; as such, the Company is prepared for the variability to plan that may result.
- The Company is assuming that overnight interest rates will remain at the current very low rate for 2015. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.

- In the Company's established regions the expectation is the housing market will remain stable with balanced supply supported by continued low interest rates, relatively stable employment, and immigration. There will be modest declines in housing starts and resale activity with stable to modestly declining prices throughout most of Canada. This supports continued stable credit losses and stable demand for the Company's lending products in its established regions.
- Consumer debt levels will remain serviceable by Canadian households.
- The Company will have access to the mortgage and deposit markets through broker networks.

BUSINESS PROFILE

Home Capital is a holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers insured and uninsured deposits, residential and non-residential commercial mortgage lending and consumer lending. The Company's subsidiary Payment Services Interactive Gateway Inc. (PSiGate) provides payment card services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba. Business is primarily conducted in Canadian dollars.

Business Portfolios

The Company's management views the business as a single business with separately identified lending portfolios, deposits and other activities, as described below.

Mortgage Lending

Traditional Single-family Lending – $11.73 billion in loans under administration

The traditional single-family residential portfolio is the Company's "Classic" mortgage portfolio which consists of mortgages with loan-to-value ratios of 80% or less, serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. These mortgages are funded by the Company's deposit products.

Insured Securitized Lending – $8.25 billion in loans under administration

Insured securitized lending includes the Company's insured single-family, "Accelerator" mortgages and multi-unit residential mortgages. These mortgages are generally funded through Canada Mortgage and Housing Corporation (CMHC) sponsored mortgage-backed security (MBS) and Canada Mortgage Bond (CMB) securitization programs. In some cases these mortgage portfolios may be sold off-balance sheet, resulting in recognition of gains on sale. The Company remains responsible for the administration of these mortgages and includes them in loans under administration.

Commercial Lending – $1.35 billion in loans under administration

This portfolio comprises uninsured residential commercial lending, including multi-unit residential properties, and non-residential commercial lending. Residential commercial lending comprises uninsured multi-unit residential mortgage loans and other residential commercial loans that are secured by residential property. Non-residential commercial lending includes store and apartment mortgages and commercial mortgages. These loans are funded by deposits.

Credit Card Lending – $330.3 million

This portfolio includes credit card lending. The Company's Equityline *Visa* product, secured by residential property, currently represents almost all of the credit card portfolio. The Company also offers cash-secured *Visa* products and preferred unsecured *Visa* cards to current mortgage customers with acceptable credit history. Credit card loans are funded by deposits.

Consumer Lending – $186.1 million

This portfolio includes consumer retail lending for durable household goods, such as water heaters and larger-ticket home improvement items. Consumer loans are supported by holdbacks or guarantees from the distributors of such items and/or collateral charges on real property. Consumer loans are funded with deposits.

Deposits – $12.88 billion

The Company's uninsured assets are largely funded by its deposit activities. Deposits are generally taken for fixed terms, varying from 90 days to five years, and carry fixed rates of interest over the full term of the deposit. The Company also has three deposit diversification initiatives, including a high-interest savings account, Oaken Financial direct to consumer deposit brand and an institutional deposit program. The Company is a member of the Canada Deposit Insurance Corporation (CDIC) and its retail deposit products are eligible for CDIC coverage, up to the applicable limits.

Other Activities

In addition to its lending portfolios, the Company manages a treasury portfolio to support liquidity requirements and invest excess capital. The Company's operations also include PSiGate, the Company's subsidiary involved in payment processing.

As management views its business as a single segment with a variety of product and service activities, the financial statements and the MD&A are prepared on that basis.

VISION, MISSION AND VALUES

It is the vision of the Company to be recognized as the leading alternative lender in the Canadian financial marketplace.

The Company's mission is to deliver superior shareholder value by focusing on well-defined niches in the Canadian lending and deposit-taking marketplace that generate above-average returns, have acceptable residual risk profiles and are not adequately served by traditional financial institutions, while protecting the depositors and operating within regulatory guidelines and the Company's risk appetite.

The Company has a set of values that are integral to its day-to-day business. These values are the cornerstone of Home Capital's vision and play a key role in the Company achieving both its strategic and financial performance goals:

- Respect, trust and integrity
- The highest level of customer service to our clients and business partners
- A nimble, entrepreneurial culture with our enthusiasm, teamwork and desire for continuous improvement
- Community and environmental improvement through fundraising, community involvement and sustainable environmental initiatives

Risk-taking Philosophy

The Company's core strategy focuses on serving segments of the Canadian financial services market that traditionally have not been adequately served by larger financial institutions. The Company's strategy provides the opportunity for higher returns but carries an inherently different risk profile than one serving the broader market and requires an integrated risk management strategy. The Company recognizes this risk and proactively seeks to reduce overall risk exposure to an acceptable level through:

- Active Board and senior management oversight, monitoring and timely revision of corporate strategies, risk appetite and risk mitigation activities;
- Promotion of a sound risk management culture and awareness throughout the entire organization;
- Adoption of a conservative financial risk profile, comprising prudent levels of liquidity, capital levels in excess of regulatory and risk-based minimums, and reserves that account for all incurred losses;
- Extensive, customized risk evaluation practices and controls at the transactional level executed by experienced personnel and supported by effective and efficient processes and technology;
- Proactive, independent and timely monitoring and assessment of all risk exposures, regardless of the source, by the business units, with enterprise risk management, credit, corporate compliance and finance functions acting as second lines of defence and the internal audit function acting as the third line of defence; and
- Ongoing efforts to diversify funding sources.

The Company's acceptable business and risk-taking activities can be substantially characterized by the following:

- The Company conducts business with individuals, other businesses and borrowers that are well understood, including, but not limited to, confirmation of identity, credit profile, employment and willingness and ability to repay debts;
- New products and initiatives are subject to a new initiative review process and undertaken only after complete risk identification and control infrastructure has been established. All acquisitions will be subject to a due diligence process that ensures alignment with the Company's risk appetite;
- For any material lending, the Company requires strong collateral against the loan, specifically where legal and equity rights can be held against the collateral asset. Unsecured credit exposures must fit within the Company's risk appetite framework and have appropriate risk management processes in place to mitigate the associated risk;
- The Company conducts business in locations that are well known and understood, particularly when lending against properties;
- The Company employs various risk mitigation techniques and actions to reduce inherent business risks to acceptable residual levels, including trusted asset appraisals and valuations, limited loan-to-value lending, and risk-based pricing;
- The Company will not pursue profits through trading activities and will limit the use of derivatives to hedging purposes only; and
- The Company will manage interest rate gaps within its risk appetite.

2014 STRATEGIES AND ACHIEVEMENTS

The Company consistently employs three value-enhancing strategic priorities to achieve its long-term objectives:

Strategic Priority	2014 Strategies and Achievements
Build and maintain Canada's leading alternative financial institution	Serving an established and growing market niche > Continued to offer "one-stop" convenience to borrowers and brokers, offering both traditional alternative residential lending and prime lending – increasing total originations by 28% over 2013 > Continued offering ancillary consumer lending products with growth in originations of 14% over 2013 > Improved *Visa* offering with 1% cash back incentive and increasing number of new accounts by 61% over 2013 > Continued to build on Oaken Financial and high-interest savings accounts, increasing balances by 160% over 2013 > Enhanced Oaken Financial presence through the introduction of Oaken Online Banking > Maintained service levels to clients and mortgage brokers
Maintain a strong, conservative financial position	Generating strong shareholder returns in good times and bad > Maintained a strong capital position, with a Common Equity Tier 1 capital ratio of 18.30% at the end of 2014 and increased total capital of Home Trust, through the increase in retained earnings of $262.6 million > Generated an adjusted ROE of 22%, the 17th consecutive year over 20% > Increased dividends paid to shareholders by 37.5% over 2013 > Maintained the prudent credit risk profile of the loan portfolio, with a net non-performing loans as a percentage of gross loans ratio (NPL ratio) of 0.30% and low write-offs at 0.06% of gross loans > Maintained and managed strong liquidity positions, ending the year with $1.06 billion in liquid assets > Maintained a flexible supply of funding through the deposit broker network and Oaken Financial; continued to utilize funding through securitization markets and high-interest savings accounts; raised additional $500 million through the institutional deposit note program
Build on our operational excellence	Investing to ensure our growth is managed and prudent > Continued to invest in process and customer experience-enhancing technology and IT security > Continued to enhance risk management, internal audit, compliance capabilities, reporting and analytics > Maintained a strong adjusted efficiency ratio of 28.5%

Table 1: 2014 Targets and Performance

(000s, except per share and percentage amounts)	2014 Targets	For the year ended December 31, 2014 Actual Results	Amount	Increase over 2013
Growth in adjusted net income[1]	13%–18%	**11.9%**	**$ 288,384**	**$ 30,651**
Growth in adjusted diluted earnings per share[1, 2]	13%–18%	**11.1%**	**4.09**	**0.41**
Growth in total loans under administration[3]	15%–20%	**13.1%**	**22,563,532**	**2,621,700**
Adjusted return on shareholders' equity[1]	20.0%	**22.0%**		
Adjusted efficiency ratio (TEB)[1, 4]	28.0%–32.0%	**28.5%**		
Provision as a percentage of gross uninsured loans	0.15%–0.25%	**0.10%**		

1 See definition of Adjusted Net Income, Adjusted Diluted Earnings per Share, Adjusted Return on Shareholders' Equity, and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the reconciliation of net income to adjusted net income in Table 3.

2 The Company's diluted earnings per share have been presented as if the stock dividend was retrospectively applied to all comparative periods presented.

3 Includes loans held for sale.

4 See definition of TEB under Non-GAAP Measures in this report.

The Company applies IFRS which are the GAAP for Canadian publicly accountable enterprises.

Non-GAAP measures are discussed in the Non-GAAP Measures and Glossary section located at the end of this MD&A.

The Company met or exceeded its annual targets with respect to return on shareholders' equity, efficiency ratio and credit performance.

The Company's 2014 earnings were below its target range by $2.9 million or 1.1% of 2013 adjusted net income. Results were affected by a number of factors, but primarily the Company experienced lower than planned insured mortgage originations at lower spreads resulting in lower gains on sale. This experience reflects the very competitive market for prime insured mortgages. Additionally, the Company also had lower net interest income in Q4 due to the prepayment of the water heater loans. As a result, the Company was also below target for growth in loans under administration. The sale of the water heater loans also affected the growth in the loans under administration and, without the sale, growth would have been 14.3% in 2014.

Growth and earnings in the traditional mortgage portfolio was positive and within the Company's expectations, reflective of its strong market position and high level of service quality. Credit performance in 2014 exceeded the Company's target range based on strong credit profiles of new mortgages combined with stable Canadian economic conditions. The Company's efficiency ratio remained in the lower end of its target range (the lower the better), demonstrating continued prudent cost management and a high level of efficiency.

2015 STRATEGIES

2015 Strategic Priorities

The Company's key long-term objective is to deliver superior shareholder value.

The Company believes long-term shareholder value can be achieved through consistent focus on its three value-enhancing strategic priorities as follows:

Strategic Priority	2015 Strategies
Build and maintain Canada's leading alternative financial institution	Serving an established and growing market niche > Continue to offer a full suite of mortgage lending products while maintaining a high level of service to brokers and customers > Cautiously continue geographic expansion of mortgage lending products > Continue to build complementary and innovative product offerings in our credit card and consumer lending portfolios > Continue to grow Oaken Financial > Launch Home Trust Bank, subject to approval from the Minister of Finance
Maintain a strong, conservative financial position	Generating strong shareholder returns in good times and bad > Maintain a strong capital position with capital ratios and leverage ratios exceeding the regulatory minimums by a safe margin and sensitive to our risk position > Maintain prudent levels of liquidity that meet regulatory requirements and our own conservative assessments > Maintain the prudent credit risk profile of the loan portfolios > Deliver superior shareholder returns measured by a consistently high return on equity and increased dividends to shareholders
Build on our operational excellence	Investing to ensure our growth is managed and prudent > Continue to invest in technology and processes that enhance the customer experience, improve efficiencies and contribute to strong risk management and compliance processes > Maintain a relatively low cost structure as measured by the efficiency ratio

MID-TERM FINANCIAL TARGETS

While the Company has typically provided annual financial targets, management believes that by focusing on our medium-term objectives in our decision-making, we will be well positioned to provide sustainable earnings growth and solid returns to our shareholders. This approach allows management the flexibility to take actions in the short-term to maximize mid-term and long-term value for the Company's shareholders. The Company will measure its long-term objective of superior shareholder value through three- to five-year mid-term financial targets as follows:

Measure	Mid-term target (3–5 years)
Diluted Earnings per Share	Achieve, on average, annual growth in diluted earnings per share (adjusted) of 8% to 13%
Return on Shareholders' Equity (ROE)	Achieve, on average, annual ROE >20%
Capital Ratios	Maintain strong capital ratios that exceed regulatory minimums by a safe margin commensurate with our risk profile
Dividend Payout Ratio	Payout, on average, 19% to 26% of earnings to shareholders

The Company's mid-term targets for growth in diluted earnings per share are lower than the annual targets provided for 2014. This reflects the Company's cautious approach to growth in the current uncertain economic environment in Canada and abroad and the potential range of outcomes for income growth that may result.

The Company seeks to achieve a return on common equity of at least 20%, and has exceeded this benchmark in each of the past 17 years. Management also seeks to align its capital with the risk profile of the business through an understanding of the nature and level of risks being taken and how these risks attract regulatory and risk-based capital. The Company consistently maintains high levels of regulatory capital as compared to other financial institutions.

Management is committed to returning a superior total return to its shareholders and has increased its target dividend payout ratio to reflect that commitment.

The Company's Board of Directors has approved an increase in the Company's dividend payout ratio to 19% to 26% from 14% to 21%. The increased dividend payout target range is based on Home Capital's strong financial performance and liquidity position, and the anticipated formation of capital through future profitability. The Company's dividend payout target range is subject to the review by the Company's Board of Directors on a quarterly basis and modified in accordance with the performance of the Company and then current market conditions.

2015 OVERALL OUTLOOK

Looking ahead, the Board of Directors and management expect that Home Capital will continue generating strong shareholder returns in 2015 and beyond.

Market Conditions

Supply and demand in the Company's key established real estate markets is expected to remain balanced in 2015, with relatively stable to modestly decreasing prices and sales volumes somewhat reduced in most markets, as demand for new homes and resale activity eases moderately. The Company believes that the current and expected levels of housing activity indicate a healthy real estate market overall. There remains some uncertainty about the effect of the recent volatility in oil prices and the potential implications for the energy-producing regions and the broader Canadian economy. In the wake of this uncertainty the Company will be more cautious with its geographic and product expansion plans outside its established regions in Ontario.

Traditional Single-family Mortgage Lending

The Company expects continued strong demand for its traditional mortgages within its established regions, and it will continue to increase its market share. This market share increase reflects the success of the Company's business model, service levels and strategy, and the Company will continue to expand its traditional lending portfolio to take advantage of the attractive returns available in the alternative mortgage space. As mentioned, the Company has plans to increase business outside the Ontario market, and while this is still the case, the Company will move prudently and potentially more slowly, in light of the economic uncertainty. The Company expects the rate of growth in the portfolio to be relatively consistent with 2014. Net interest margins in the traditional mortgage portfolio have narrowed over the last two years reflecting both improved credit quality of borrowers and higher relative cost of funds. The Company expects 2015 net interest margin to remain relatively stable on average to the experience of Q4 2014, but is prepared for modest volatility.

Insured Securitized Mortgage Lending

The Company will continue to originate and securitize prime insured single-family and insured multi-unit residential mortgages and will generally sell these off-balance sheet, generating gains on sale. The market for both of these products remains very competitive and the Company expects that new origination levels, seasonality, spreads and gains on sale will be similar to levels experienced in 2014, but this is dependent on market conditions. The Company remains committed to offering a range of mortgage products to support its "one-stop" initiative.

The Company will continue to actively renew its maturing portfolio of insured prime mortgages as renewed mortgages offer enhanced profitability. Net interest income on the on-balance sheet securitized portfolio will decline as older, higher-yielding pools reach maturity and are replaced with pools that qualify for off-balance sheet accounting. The Company expects that sufficient securitization funding is available to meet its planned volumes.

Commercial Mortgage Lending

Commercial mortgage lending will remain an important portfolio for the Company, generating high levels of return and providing asset diversification. The Company has been a prudent and conservative lender in this segment, experiencing very low levels of losses and delinquencies. The portfolio grew modestly in 2014 and the Company plans to cautiously grow the portfolio at a slightly higher rate in 2015 if market conditions remain favourable.

Credit Card Lending

Equityline *Visa* credit cards are an important component of the "one-stop" lending strategy, allowing customers the flexibility of a home equity line of credit with the convenience of a credit card and the new 2014 benefit of a cash back incentive. The Company will continue to focus marketing and cross-selling in this product offering and expects growth at similar to modestly higher levels compared to 2014. The Company also has a number of new initiatives underway, including a preferred *Visa* offering to our best customers, and while these initiatives are not expected to be material to our results in 2015, they are important strategies for mid- to long-term growth.

Consumer Lending

Consumer lending remains an important ancillary business for the Company, with high rates of return for the allocated capital. With the prepayment of the water heater portfolio in late 2014, the portfolio will contribute lower revenue than in 2014 as it seeks to rebuild the portfolio size. Origination volumes are expected to be consistent with 2014 with similar levels of spreads.

Deposits

The Company will continue to source deposits from the public through investment dealers and deposit brokers and will continue to emphasize growth of its direct to consumer business and Oaken Financial brand. The Company will continue to strengthen its funding capability through agreements with additional deposit brokers, growth of its high-yield savings accounts and the enhancement of its direct channel sales and service capabilities. The relative cost of deposits is expected to remain consistent with 2014.

The Company will continue to issue institutional deposits and, on average, plans to access this market on a semi-annual basis.

Credit Performance and Losses

Broadly positive Canadian economic conditions, along with the Company's underwriting and collection practices, have led to very low levels of credit losses and delinquencies over the past few years. Credit losses and delinquencies are expected to remain low in 2015, consistent with broadly positive Canadian economic conditions in the Company's established regions; however, the Company is prepared for volatility in this trend if economic conditions are less favourable. Credit performance in the energy-producing regions is expected to deteriorate, but given the Company's limited exposure in these geographic areas, the effect on credit losses is not expected to be material.

Non-interest Expenses

The continued expansion of the Company's business will continue to be accompanied by commensurate strengthening of risk management and control processes along with customer service platforms, involving increased spending on people and technology. Increased spending to support the Company's direct deposit initiative and the security of the Company's deliberate and increasing exposure to business online, along with increasing costs associated with regulatory requirements, can also be expected. While there will be continued upward pressure on expenses from these sources, the Company will continue to focus on deriving savings from its cost management and efficiency programs and, on an overall basis, expects its efficiency ratio to remain relatively consistent on average.

The Company expects that the effective income tax rate in 2015 will remain within the range of 25.7% to 26.2%, excluding the impact of any Scientific Research and Experimental Development (SR&ED) investment tax credits that may be realized. The Company expects to submit claims for SR&ED in 2015 that may result in a reduction to the effective tax rate of the Company. In the event that claims are submitted, the effective tax rate will decrease accordingly.

Liquidity and Capital

The Company continues to hold high levels of capital as measured by regulatory risk-based capital ratios and leverage and is currently accumulating capital more rapidly through retained earnings than would be required to support the lending activity. The Company will continue to employ robust capital adequacy stress-testing techniques to ensure that its conservative capital position is maintained and to provide for the flexibility to take advantage of appropriate market opportunities, if available, and to pay its shareholders an appropriate return.

The Company will continue to diversify its funding and maintain a strong liquidity position by holding a sufficient stock of unencumbered high-quality liquid assets. The Company complies with the Office of the Superintendent of Financial Institutions Canada (OSFI)'s new Liquidity Adequacy Requirements Guideline that is effective January 2015.

Strong levels of capital and liquidity provide additional safety and soundness to depositors.

This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-looking Statements on page 13 of this report.

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

Table 2: Key Performance Indicators

For the years ended December 31 (000s, except %, multiples and per share amounts)	2014	2013	2012	2011	2010
FINANCIAL PERFORMANCE MEASURES					
Total adjusted revenue[1]	**$ 1,014,566**	$ 957,537	$ 891,221	$ 792,699	$ 680,107
Net income	**313,172**	256,542	221,983	190,080	154,752
Adjusted net income[1]	**288,384**	257,733	224,585	192,505	147,610
Net interest income	**459,529**	421,979	381,472	333,952	264,030
Earnings per share – basic[2]	**4.48**	3.70	3.20	2.74	2.23
Adjusted earnings per share – basic[1, 2]	**4.13**	3.72	3.24	2.78	2.13
Earnings per share – diluted[2]	**4.45**	3.66	3.19	2.73	2.22
Adjusted earnings per share – diluted[1, 2]	**4.09**	3.68	3.23	2.77	2.12
Dividends per share[2]	**0.70**	0.54	0.45	0.38	0.33
Return on shareholders' equity	**23.8%**	23.9%	25.5%	27.1%	27.3%
Adjusted return on shareholders' equity[1]	**22.0%**	24.0%	25.8%	27.4%	26.1%
Return on average assets	**1.6%**	1.3%	1.2%	1.1%	1.2%
Net interest margin (TEB)[3]	**2.25%**	2.17%	2.09%	2.06%	2.07%
Net interest margin non–securitized assets (TEB)[3]	**2.83%**	3.01%	3.10%	3.04%	2.82%
Net interest margin securitized assets	**0.67%**	0.73%	0.93%	1.24%	1.23%
Efficiency ratio (TEB)[3]	**27.2%**	28.7%	27.7%	27.9%	29.3%
Adjusted efficiency ratio (TEB)[1, 3]	**28.5%**	28.2%	27.5%	27.7%	29.9%
FINANCIAL CONDITION MEASURES					
Total assets	**$20,082,744**	$20,075,850	$18,800,079	$17,696,471	$15,518,818
Total assets under administration[4]	**24,281,366**	21,997,781	19,681,750	17,696,471	15,518,818
Cash and securities-to-total assets	**4.7%**	5.8%	3.8%	5.2%	7.6%
Total loans[5]	**$18,364,910**	$18,019,901	$17,159,913	$16,089,648	$14,091,755
Total loans under administration[4, 5]	**22,563,532**	19,941,832	18,041,584	16,089,648	14,091,755
Common Equity Tier 1 capital ratio[6]	**18.30%**	16.80%	N/A	N/A	N/A
Tier 1 capital ratio[6]	**18.30%**	16.80%	17.01%	17.29%	18.08%
Total capital ratio[6]	**20.94%**	19.69%	20.68%	20.46%	19.37%
Assets to regulatory capital multiple[6, 7]	**12.47**	13.19	13.39	14.44	10.50
Credit quality					
Provision for credit losses as a % of gross loans	**0.07%**	0.09%	0.09%	0.05%	0.07%
Net non-performing loans as a % of gross loans	**0.30%**	0.35%	0.33%	0.25%	0.24%
Allowance as a % of gross non-performing loans	**64.4%**	52.4%	57.0%	74.9%	88.1%

1 See definition of Adjusted Net Income, Total Adjusted Revenue, Adjusted Diluted Earnings per Share, Adjusted Return on Shareholders' Equity and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the reconciliation of net income to adjusted net income in Table 3.

2 During Q1 2014, the Company paid a stock dividend of one common share per each issued and outstanding common share. Accordingly, diluted earnings per share is reduced to half and the number of shares disclosed is doubled for all periods prior to the dividend presented for comparative purposes.

3 See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures in this report.

4 Total assets and loans under administration include both on- and off-balance sheet amounts.

5 Total loans include loans held for sale.

6 These figures relate to the Company's operating subsidiary, Home Trust Company. The figures prior to 2011 have not been restated to IFRS. For 2014 and 2013, figures are calculated under Basel III, and for 2012 and earlier, under Basel II.

7 Commencing in Q3 2013, the Company excluded from its assets, for the purpose of calculating the assets to regulatory capital multiple, mortgages that are off-balance sheet as a result of sales of residual interests in light of regulatory communications confirming this treatment. The comparative multiple for 2012 was restated to reflect this treatment. The Company did not enter into these transactions prior to 2012.

Items of Note

The Company's results were affected by the following items of note that aggregated to a positive impact of $24.8 million or $0.36 diluted earnings per share in 2014:

> $32.7 million prepayment income in Q4 2014 ($24.0 million after tax and $0.34 diluted earnings per share) related to the sale of $234.9 million of water heater loans. The prepayment income compensates the Company in excess of the future net interest margin that will be lost as a result of the sale.

> $5.3 million tax benefit recognized in the first nine months of 2014 ($3.9 million after tax and $0.06 diluted earnings per share) related to SR&ED tax credits for the development of the core banking system functionality and other technology.

> $4.3 million charge in 2014 ($3.1 million after tax and $0.04 diluted earnings per share) for restructuring of certain derivative positions upon adoption of IFRS in 2011.

Also during the year, the Company paid a stock dividend of one common share per each issued and outstanding common share.

The Company's results were affected by the following items of note in 2013:

> $8.4 million tax benefit recognized in 2013 ($6.2 million after tax and $0.09 diluted earnings per share in 2013) related to SR&ED tax credits for the development of the core banking system functionality and other technology.

> $8.0 million charge in 2013 ($5.9 million after tax and $0.08 diluted earnings per share in 2013) for restructuring of certain derivative positions upon adoption of IFRS in 2011.

> $2.0 million provision in 2013 ($1.5 million after tax and $0.02 diluted earnings per share) associated with the settlement of disputed loans to condominium corporations.

Income Statement Highlights for 2014

> Reported net income of $313.2 million in 2014, an increase of $56.6 million or 22.1% from net income of $256.5 million in 2013.

> Adjusted net income of $288.4 million in 2014, as defined in Table 3, increased $30.7 million or 11.9% from adjusted net income of $257.7 million in 2013, reflecting higher loan balances in the traditional mortgage portfolio, solid net interest margin, continued low credit provisions and a consistent low efficiency ratio within an accepted range.

> Adjusted diluted earnings per share of $4.09 was up $0.41 or 11.1% from the adjusted diluted earnings per share of $3.68 in 2013.

> Adjusted revenue exceeded $1 billion for the first time in 2014.

> Return on average shareholders' equity of 23.8% for 2014 (adjusted return on average shareholders' equity of 22.0%) exceeded 20% for the 17th consecutive year.

> Total net interest income increased to $459.5 million, up $37.6 million or 8.9% over the $422.0 million earned in 2013, reflecting higher average loan balances of $18.90 billion compared to $18.22 billion in 2013 and improved total net interest margin (TEB) of 2.25% compared to 2.17% in 2013.

> Net interest income on non-securitized assets was $425.3 million in 2014, increasing 13.7% over 2013 on higher average asset balances of $15.17 billion, compared to $12.57 billion in 2013. Net interest margin on this portfolio was 2.83% for 2014, down from 3.01% in 2013 reflecting both lower asset yields and relatively higher cost of funds compared to benchmark rates. Asset yields are down due to a combination of factors, including origination of higher credit quality borrowers over the last year and the current low rate environment.

> Total income earned from securitization, which includes net interest income on the on-balance sheet portfolio and securitization income from off-balance sheet sales was $61.1 million for the year, compared to $60.8 million in 2013. Securitization income was $26.8 million in 2014 on $2.53 billion in notional sales compared to securitization income of $12.6 million on $1.14 billion of notional sales in 2013. Relative gains have declined year over year on lower spreads that reflect a highly competitive market for prime insured mortgages. Net interest income on the on-balance sheet securitized portfolio declined to $34.3 million for the year from $48.1 million in 2013. The decline reflects both a decline in net interest margin on the maturity of higher-yielding portfolios along with a net run-off of the portfolio as the Company has sold the residual interests of most newly originated insured mortgages.

> Fees and other income increased $10.0 million or 16.3% as a result of portfolio growth during the year.

> The credit quality of the loan portfolio remains strong with continued low non-performing loans and credit losses. Provisions for credit losses were $13.1 million for the year, a decrease from the $15.9 million recorded last year. This represents 0.10% of gross uninsured loans, down from 0.14% in 2013. Net non-performing loans as a percentage of gross loans ended the year at 0.30% compared to 0.35% at the end of last year. The NPL ratio for 2013 included one commercial loan of $6.4 million, which was subsequently collected. Net write-offs were $10.3 million for 2014, representing 0.06% of gross loans, compared to $15.5 million and 0.09% of gross loans in 2013.

> Non-interest expenses, which include salaries, premises and other operating expenses, were $162.3 million in 2014, up 12.9% over the $143.7 million recorded in 2013 and in line with business growth and strategic investments. The Company continues to invest in people, business development, infrastructure and technology to support the Company's strategic initiatives in mortgage and deposit product development. The Company's adjusted efficiency ratio (TEB) remains low at 28.5% compared to 28.2% in 2013, an indication of a high level of operating efficiency.

Balance Sheet Highlights for 2014

> Total assets under administration, which includes $4.20 billion of mortgages accounted for off-balance sheet, reached $24.28 billion, an increase of 10.4% over $22.00 billion last year.

> The Company sold residual interests in securitization transactions of $1.75 billion, compared with $519.3 million last year, which, combined with amortization of MBS liabilities and maturity of CMB liabilities, reduced both the securitized mortgage loans and securitization liabilities.

> Mortgage originations were $8.85 billion in 2014, compared to the $6.92 billion originated in 2013. The Company's originations reflect continued focus on the traditional mortgage portfolio, which accounted for 66.2% of originations and a significant portion of the overall increase in originations. Accelerator (insured) residential mortgage originations experienced significant growth year over year, increasing 76.4% to $1.79 billion from $1.01 billion one year ago, as the Company focused on the active rebuilding of this line of business.

> The credit quality of the loan portfolio remains strong, with continued low non-performing loans. Net non-performing loans as a percentage of the gross loan portfolio ended the year at 0.30%, down from 0.35% one year ago. At the end of 2014, 97.9% of the loan portfolio was current, as compared with 97.6% at the end of 2013.

> Liquid assets at December 31, 2014 were $1.06 billion, compared to $1.50 billion at December 31, 2013. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations.

> Home Trust's capital levels were strong throughout 2014, as indicated by the Common Equity Tier 1 ratio of 18.30% and the Tier 1 and Total capital ratios of 18.30% and 20.94%, respectively, at December 31, 2014. Home Trust's assets to capital multiple (ACM) ended 2014 at 12.47 compared to 13.19 at the end of 2013.

> Deposits reached $13.94 billion, up from $12.77 billion at December 31, 2013. Total deposits raised through the Company's deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits, now total $2.42 billion, an increase of $1.50 billion or 163.6% over last year. During the year, the Company launched Oaken Online Banking, providing Oaken customers with greater banking convenience, including the continued investment in security features to safeguard client personal and financial information.

> Securitization liabilities were $4.30 billion at the end of 2014, down from $5.77 billion last year. While originations increased in the Accelerator portfolio, which is typically funded by way of securitization, amortization of MBS liabilities and maturities of CMB combined with loans removed from the balance sheet on the sale of residual securitization interests exceeded the Accelerator originations, resulting in the overall decline in the securitization liabilities.

FINANCIAL PERFORMANCE REVIEW

Table 3: Income Statement Highlights

(000s, except % and per share amounts)	2014	2013	Change
Net interest income non-securitized assets	$ 425,250	$ 373,850	13.7%
Net interest income securitized loans and assets	34,279	48,129	(28.8)%
Total net interest income	459,529	421,979	8.9%
Provision for credit losses	13,134	15,868	(17.2)%
	446,395	406,111	9.9%
Non-interest income	133,359	75,059	77.7%
Non-interest expenses	162,252	143,738	12.9%
Income before income taxes	417,502	337,432	23.7%
Income taxes	104,330	80,890	29.0%
Net income	$ 313,172	$ 256,542	22.1%
Basic earnings per share[1]	$ 4.48	$ 3.70	21.1%
Diluted earnings per share[1]	$ 4.45	$ 3.66	21.6%
Reconciliation of Net Income to Adjusted Net Income			
Net income per above	$ 313,172	$ 256,542	22.1%
Adjustment for derivative restructuring – IFRS conversion (net of tax)	3,128	5,873	(46.7)%
Adjustment for disputed loans to condominium corporations (net of tax)	–	1,508	(100.0)%
Adjustment for investment tax credit benefits (net of tax)	(3,897)	(6,190)	(37.0)%
Adjustment for prepayment income on portfolio sale (net of tax)	(24,019)	–	–
Adjusted Net Income[2]	$ 288,384	$ 257,733	11.9%
Adjusted Basic Earnings per Share[1, 2]	$ 4.13	$ 3.72	11.0%
Adjusted Diluted Earnings per Share[1, 2]	$ 4.09	$ 3.68	11.1%

[1] The Company's basic and diluted earnings per share for 2013 have been reduced to half, reflecting the impact of the stock dividend paid in Q1 2014.

[2] Adjusted net income and adjusted earnings per share are defined in the Non-GAAP Measures section of this MD&A.

Net Interest Income and Margin

Presented in Tables 4 and 5 are analyses of average rates, net interest income and net interest margin. Net interest income is the difference between interest and dividends earned on loans and investments and the interest paid on deposits and borrowings to fund those assets. The net interest margin is net interest income divided by the Company's average total assets. Dividend income has been converted to TEB (refer to the Non-GAAP Measures and Glossary section of this report for a definition of TEB) for comparison purposes.

Table 4: Net Interest Margin

	2014	2013
Net interest margin non-securitized interest-earning assets (non-TEB)	2.80%	2.98%
Net interest margin non-securitized interest-earning assets (TEB)	2.83%	3.01%
Net interest margin securitized assets	0.67%	0.73%
Total net interest margin (non-TEB)	2.23%	2.15%
Total net interest margin (TEB)	**2.25%**	**2.17%**
Spread of non-securitized loans over deposits and other	2.93%	3.14%

Total net interest margin (TEB), including the securitized portfolio, was 2.25% for 2014 compared to 2.17% in 2013, reflecting a greater proportion of higher-yielding, non-securitized assets in the on-balance sheet portfolio. The Company has generally sold most of its newly insured originations off-balance sheet, which has reduced the relative proportion on-balance sheet. As such, over the period the portfolio weighting of securitized mortgages and assigned assets, which earn a lower net interest margin, decreased to 21.5% at December 31, 2014 from 29.0% at December 31, 2013. Interest spreads on non-securitized loans over deposits declined in 2014, resulting in net interest margin compression on non-securitized assets (TEB) to 2.83% from 3.01% last year. Net interest margin on securitized assets declined as expected on the structured maturity of high-yielding mortgage pools.

Table 5: Net Interest Income by Product and Average Rate

(000s, except %)	2014 Average Balance[1]	2014 Income/ Expense	2014 Average Rate[1]	2013 Average Balance[1]	2013 Income/ Expense	2013 Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 1,398,544**	**$ 25,338**	**1.81%**	$ 1,149,994	$ 19,448	1.69%
Traditional single-family residential mortgages	**10,826,314**	**552,112**	**5.10%**	9,116,538	482,491	5.29%
Accelerator single-family residential mortgages	**956,519**	**26,746**	**2.80%**	446,636	15,044	3.37%
Residential commercial mortgages[2]	**306,915**	**14,355**	**4.68%**	263,447	12,954	4.92%
Non-residential commercial mortgages	**1,033,519**	**64,852**	**6.27%**	975,217	62,681	6.43%
Credit card loans	**310,941**	**28,529**	**9.18%**	307,310	28,966	9.43%
Other consumer retail loans	**338,777**	**31,204**	**9.21%**	308,155	27,111	8.80%
Total non-securitized loans	**13,772,985**	**717,798**	**5.21%**	11,417,303	629,247	5.51%
Taxable equivalent adjustment	**–**	**4,117**	**–**	–	4,016	–
Total on non-securitized interest-earning assets	**15,171,529**	**747,253**	**4.93%**	12,567,297	652,711	5.19%
Securitized single-family residential mortgages	**3,285,467**	**105,393**	**3.21%**	4,559,463	144,702	3.17%
Securitized multi-unit residential mortgages	**1,291,643**	**54,634**	**4.23%**	1,780,245	73,712	4.14%
Assets pledged as collateral for securitization	**548,401**	**6,464**	**1.18%**	467,481	7,379	1.58%
Total securitized residential mortgages	**5,125,511**	**166,491**	**3.25%**	6,807,189	225,793	3.32%
Other assets	**308,848**	**–**	**–**	257,386	–	–
Total interest-bearing assets	**$20,605,888**	**$ 913,744**	**4.43%**	$19,631,872	$ 878,504	4.47%
Interest-bearing liabilities						
Deposits and other	**$13,677,719**	**$ 311,494**	**2.28%**	$11,327,983	$ 268,233	2.37%
Senior debt	**146,877**	**6,392**	**4.35%**	149,899	6,612	4.41%
Securitization liabilities	**5,194,504**	**132,212**	**2.55%**	6,849,261	177,664	2.59%
Other liabilities and shareholders' equity	**1,586,788**	**–**	**–**	1,304,729	–	–
Total interest-bearing liabilities	**$20,605,888**	**$ 450,098**	**2.18%**	$19,631,872	$ 452,509	2.30%
Net Interest Income (TEB)		**$ 463,646**			$ 425,995	
Tax Equivalent Adjustment		**(4,117)**			(4,016)	
Net Interest Income per Financial Statements		**$ 459,529**			$ 421,979	

1 The average is calculated with reference to opening and closing monthly asset and liability balances.

2 Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Total net interest income of $459.5 million increased 8.9% year over year, reflecting increases in the non-securitized portfolio offset by declines in the securitized portfolio.

Net interest income on the non-securitized portfolio reached $425.3 million in 2014, an increase of $51.4 million or 13.7% over 2013, reflecting an increase of $2.60 billion or 20.7% in average asset balances offset by a decrease in net interest margin (TEB) of 18 basis points year over year. The average yield on non-securitized loans declined 30 basis points to 5.21% from 5.51% in 2013, reflecting a decline in market mortgage rates and improving credit quality in the traditional mortgage portfolio. Additionally, there was some lowering of total asset yield due to an increase in the average level of insured Accelerator mortgages held prior to securitization funding. Average deposit rates also declined 9 basis points to 2.28% from 2.37% in 2013. The declines in average rates primarily reflect lower average Government of Canada bond yields in 2014, upon which deposit and traditional mortgage rates are set. The net impact was a decline in average spreads of non-securitized loans over deposits to 2.93% from 3.14% last year, resulting from lower spreads on mortgages combined with a higher relative cost of deposits primarily due to higher offered rates in the direct deposit market and competitive pricing in the broker channel. The Company expects net interest margin on the non-securitized portfolio to remain relatively stable to the experience in Q4 2014.

The average rate for residential commercial mortgage loans declined, reflecting the maturity of higher-yielding loans and originations and renewals at current lower rates.

The net interest income and net interest margin on securitized assets declined year over year, reflecting net run-off and the maturity of higher-yielding MBS and CMB pools and the use of lower-yielding assets as replacement assets in the CMB program. The average assets in this portfolio declined by $1.68 billion in 2014, reflecting the sale of residual interests and maturities. As such, this portfolio had a lower impact on the Company's net interest margin and the relative impact can be expected to continue to decline through 2015.

Non-interest Income

Table 6: Non-interest Income

(000s, except %)		**2014**		2013	Change
Fees and other income	**$**	**71,241**	$	61,252	16.3%
Securitization income		**26,845**		12,648	112.2%
Prepayment income on portfolio sale		**32,675**		–	–
Net realized and unrealized gains on securities		**3,425**		2,589	32.3%
Net realized and unrealized loss on derivatives		**(827)**		(1,430)	(42.2)%
	$	**133,359**	$	75,059	77.7%

Table 7: Securitization Income

(000s, except %)		**2014**		2013	Change
Net gain on sale of mortgages or residual interest	**$**	**23,712**	$	11,010	115.4%
Net change in unrealized gain or loss on hedging activities		**(177)**		140	(226.4)%
Servicing income		**3,310**		1,498	121.0%
Total securitization income	**$**	**26,845**	$	12,648	112.2%

Fees and other income, which include mortgage and *Visa* account administration fees, net of direct servicing expenses, generally increase as the size of the loan portfolio increases. Fee income is also influenced by the overall mix of the portfolio and has grown at a slightly faster pace than the overall loans under administration portfolio due to a higher proportion of traditional mortgages. The Company expects fee income to increase in line with the growth in the loan portfolio in 2015.

Securitization income increases reflect the increased sales of residual interests in insured single-family mortgage pools year over year and relatively flat gains on sale of insured multi-unit residential mortgages. In both of these programs, mortgages have been removed from the calculation of the Company's ACM and, in the case of single-family residential mortgage sales, the Company will service the loans and record related fee revenue over the remaining term of the underlying mortgages. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further servicing revenue or fees will be recorded. Servicing income increases as the size of the single-family residential mortgage portfolio under administration increases. The Company expects gains on sale in 2015 to be relatively consistent with the levels experienced in 2014 but dependent on the level of insured mortgage originations.

The Company recognized prepayment income of $32.7 million ($24.0 million after tax and $0.34 diluted earnings per share) in relation to the sale of $234.9 million of water heater loans. The prepayment income compensates the Company in excess of the future net interest margin that will be lost as a result of the sale. This is a non-recurring item.

The Company recognized a net gain of $3.5 million on the sale of certain available for sale securities in 2014, compared to a gain of $2.8 million in 2013. The Company takes advantage of improvements in securities markets and will rebalance the investment portfolio as market conditions warrant. The Company also recognized $0.1 million in impairments through profit and loss on certain available for sale equity securities in 2014 compared to $0.2 million in 2013.

Please see the discussion below on Derivatives and Hedging related to net realized and unrealized loss on derivatives.

Derivatives and Hedging

From time to time, the Company enters into derivative transactions primarily to hedge interest rate exposure resulting from outstanding loan commitments and requirements to replace assets in the CMB program, as well as interest rate risk on fixed-rate mortgages, debt and deposits, such as CMB liabilities and senior debt. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. Please see the Derivative Financial Instruments Note 19 to the consolidated financial statements included in this report for further information. Table 8 below summarizes the impact of derivatives and hedge accounting on the Company's financial results.

Table 8: Derivatives Gains and Losses

(000s)	2014	2013
Cash flow hedging ineffectiveness	$ –	$ 13
Fair value hedging ineffectiveness	5,423	6,387
Swaps marked to market	(1,995)	160
Derivative restructuring: IFRS conversion	(4,255)	(7,990)
Net realized and unrealized loss on derivatives	$ (827)	$ (1,430)

Cash Flow Hedging

The Company uses Government of Canada bond forwards and interest rate swaps to hedge the impact of movements in interest rates between the time that mortgage commitments are made and the time that those mortgages are funded and/or securitized. Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in the fair value of the pool of fixed-rate mortgages due to interest rate fluctuations between commitment and funding. The term of these hedges is generally 60 to 150 days. These hedge instruments are settled or unwound at the time of funding or securitization of the underlying mortgages. The Company applies cash flow hedge accounting to the Government of Canada bond forwards. The intent of hedge accounting is to recognize the effective matching of the gain or loss on the Government of Canada bond forwards with the recognition of the related interest expense on the resulting funding.

Fair Value Hedging

The Company is exposed to interest rate risk through fixed-rate financial assets and liabilities and its participation in the CMB program due to reinvestment risk between the amortizing fixed-rate MBS and the bullet maturity fixed-rate CMB. To hedge these risks, the Company enters into interest rate swaps and applies fair value hedge accounting. The intent of fair value hedge accounting is to have the fair value changes in the interest rate swap offset, within a reasonable range, the changes in the fair value of the fixed-rate borrowing and assets resulting from changes in the interest rate environment. Any unmatched fair value change is recorded in income as hedge ineffectiveness through net realized and unrealized gain or loss on derivatives.

Economic Hedge of Loans Held for Securitization and Sale

At times the Company may enter into bond forwards to hedge interest rate risk on loans held for securitization and sale through National Housing Authority Mortgage-Backed Securities (NHA MBS) securitization programs. The underlying loans are classified as held for trading for accounting purposes and held at fair value on the balance sheet. The loans are insured mortgages on multi-unit residential properties. The derivatives used to hedge these loans are not designated in hedge accounting relationships. The fair value changes of these derivatives are mostly offset by the fair value changes related to loans held for trading. The fair value changes reflect changes in interest rates. The net unrealized loss as at December 31, 2014 for fair value changes in both the outstanding derivatives and the loans held for trading was $177 thousand (2013 – unrealized gain of $140 thousand) and was recorded in securitization income.

Other Interest Rate Swaps

The Company also has certain interest rate swaps that are not designated in hedge accounting relationships and, therefore, are adjusted to fair value without an offsetting hedged amount. These swaps are economic hedges of the Company's general interest rate risk.

Please see Note 19 of the consolidated financial statements for further information.

Amounts related to derivative restructuring upon adoption of IFRS will continue as the underlying hedged instruments mature. The Company expects charges in 2015 that are approximately in the range of 2014.

Table 9: Provision for Credit Losses and Net Write-offs as a Percentage of Gross Loans

	2014		2013	
(000s, except %)	**Amount**	**% of Gross Loans[1]**	Amount	% of Gross Loans[1]
Provision[2]				
Single-family residential mortgages	**$ 9,507**	**0.08%**	$ 10,257	0.09%
Residential commercial mortgages	**(1)**	**(0.00)%**	2,792	1.42%
Non-residential commercial mortgages	**270**	**0.02%**	274	0.03%
Credit card loans	**571**	**0.17%**	679	0.23%
Other consumer retail loans	**187**	**0.10%**	366	0.11%
Securitized single-family residential mortgages	**–**	**–**	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–
Total individual provision	**10,534**	**0.06%**	14,368	0.08%
Total collective provision	**2,600**	**0.01%**	1,500	0.01%
Total provision	**$ 13,134**	**0.07%**	$ 15,868	0.09%
Net write-offs[2]				
Single-family residential mortgages	**$ 9,099**	**0.07%**	$ 11,165	0.10%
Residential commercial mortgages	**24**	**0.01%**	3,199	1.62%
Non-residential commercial mortgages	**202**	**0.02%**	230	0.02%
Credit card loans	**692**	**0.21%**	589	0.20%
Other consumer retail loans	**272**	**0.15%**	345	0.10%
Securitized single-family residential mortgages	**–**	**–**	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–
Net write-offs	**$ 10,289**	**0.06%**	$ 15,528	0.09%

[1] Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.

[2] There were no specific provisions, allowances or net write-offs on securitized mortgages.

The provision for credit losses is charged to the statement of income by an amount that brings the individual and collective allowances for credit losses to the level determined by management to be adequate to cover incurred losses and identified credit events in the portfolio, including losses that are not yet individually identifiable. Factors which influence the provisions for credit losses include the formation of new non-performing loans, the level of individual write-offs and management's assessment of the level of collective and individual allowances required based on available data, including the collateral supporting specific non-performing loans. In addition, management considers current and historical credit performance of the portfolio, external economic factors, the composition of the portfolio, and the overall growth in the loans portfolio.

Favourable credit performance continued through 2014. The provision for credit losses was $13.1 million, as compared with $15.9 million in 2013. Provisions as a percentage of gross uninsured loans of 0.10% for 2014 decreased from 0.14% in 2013 and are better than the target range of 0.15% to 0.25%. Provisions as a percentage of gross loans (insured plus uninsured) were 0.07% (2013 – 0.09%). Included in the 2013 provision was $3.0 million in individual provision charges related to disputed loans to condominium corporations. Excluding this amount, the provisions charges remain reasonably consistent year over year despite an increase of $1.91 billion in uninsured loans.

The Company continues to observe strong credit profiles and stable loan-to-value ratios, combined with stable economic conditions, which supports low delinquency and non-performing rates and ultimately low net write-offs. Net write-offs were low at $10.3 million and represented 0.06% of gross loans compared to 0.09% in 2013.

Net non-performing loans as a percentage of gross loans decreased to 0.30% at the end of 2014 from 0.35% at the end of 2013. Included in 2013 is one commercial loan for $6.4 million, which the Company subsequently recovered. Considering the increase in the proportion of traditional mortgages in the loan portfolio, non-performing loans have remained low. The Company remains satisfied with the credit performance of the portfolio, but is prepared for moderate volatility in the trend.

The level of individual allowances at the end of 2014 increased by $0.5 million over 2013, while gross non-performing loans decreased by $7.7 million to $57.2 million from $64.9 million. As discussed above, the non-performing loans include one commercial loan for $6.4 million, which the Company subsequently recovered. The amount set aside for individual allowances can be influenced by specific local real estate markets and the amount of time needed to sell when required.

The collective allowance balance at December 31, 2014 increased by $2.6 million in 2014 to $34.1 million, reflecting the increase in the traditional mortgage portfolio, and represents over three times the current year write-offs. Please see the Credit Risk section of this MD&A for further discussion.

Individual allowances will continue to be determined and reviewed monthly on an account-by-account basis. The collective allowance for credit losses reflects an ongoing assessment of the strength of the portfolio at any given time, and it will continue to be reviewed at least on a quarterly basis, giving consideration to current economic conditions.

Non-interest Expenses

Table 10: Non-interest Expenses

(000s, except % and number of employees)	2014	2013	Change
Salaries and employee benefits	$ 80,769	$ 70,954	13.8%
Premises and equipment			
Rent – premises	8,490	6,994	21.4%
Equipment rental and repairs	3,376	2,907	16.1%
	11,866	9,901	19.8%
Other operating expenses			
Consulting and professional services	9,577	12,740	(24.8)%
Outsourced services	14,738	10,004	47.3%
Computer services	4,763	5,179	(8.0)%
Advertising and business development	14,797	8,857	67.1%
General and administration	16,627	14,735	12.8%
Amortization and depreciation	9,115	11,368	(19.8)%
	69,617	62,883	10.7%
Total non-interest expenses	$ 162,252	$ 143,738	12.9%
Average total assets under administration	$23,139,574	$20,839,766	
As a % of assets under administration	0.70%	0.69%	
Adjusted efficiency ratio calculation			
Net interest income	$ 459,529	$ 421,979	8.9%
Adjusted other income	104,939	83,049	26.4%
Total adjusted revenue, net of interest expense	564,468	505,028	11.8%
TEB adjustment	4,117	4,016	
Total adjusted revenue TEB, net of interest expense	$ 568,585	$ 509,044	11.7%
As a % of total adjusted revenue, net of interest expense	28.7%	28.5%	
As a % of total adjusted revenue TEB, net of interest expense	28.5%	28.2%	
Target efficiency ratio TEB	28.0%–32.0%	28.0%–34.0%	
Number of active employees	783	692	13.2%

In 2014, the Company continued to operate at a low efficiency ratio that was at the low end of the 2014 target range on an adjusted basis (see definition of Adjusted Efficiency Ratio under Non-GAAP Measures in this report). The ratio reflects continued low costs compared to revenues, net of interest expense. Non-interest expense as a percentage of average total assets under administration increased marginally year over year. The Company continues to manage expenses in a disciplined and measured manner and aligns its expense management strategy with its growth targets and strategic objectives. Maintaining the Company's operational effectiveness and efficiency, combined with cost management, remains a strategic priority for the Company, and this focus is expected to contribute to a low and relatively stable efficiency ratio.

Salaries and employee benefits increased over last year due to the increase in active employees. Active employees have increased to support business growth and include former information technology consultants and contractors who have joined the Company as permanent employees. The resulting decrease in information technology consultants has contributed to the decrease in consulting and professional services despite the business growth.

Premises expense increased due to the expansion of the Toronto head office. The increase in outsourced services reflects the increase in PSiGate costs, which rose in line with revenue and gross margin increases in the Company's payment card services business (the associated revenues of this line of business are included in fees and other income in the Company's consolidated statements of income). Advertising and business development expenses have increased to support the Company's expansion initiatives, including higher loan origination volumes and deposit diversification. General and administrative expenses have increased with business growth.

The decrease in amortization and depreciation expenses resulted from a change in the estimated useful life of the Company's core banking system from 10 years to 15 years. This change resulted in a reduction in the amortization expense of deferred software development costs of $4.0 million from what the amortization expense would have been in the absence of this change (see Note 9 to the consolidated financial statements for more information). Without this reduction, amortization and depreciation expense would have been $13.1 million, reflecting a 15.4% increase over last year resulting from the completion of development of certain software projects during the year. The Company continues to invest in developing enhanced technology and security to support the Company's strategic initiatives and governance, risk and compliance enhancements.

Taxes

Table 11: Income Taxes

(000s, except %)	2014	2013	Change
Current	$ 102,201	$ 82,128	24.4%
Deferred	2,129	(1,238)	72.0%
Total income taxes	$ 104,330	$ 80,890	29.0%
Effective income tax rate	24.99%	23.97%	

The provision for income taxes for the year ended December 31, 2014 amounted to $104.3 million, resulting in an effective tax rate of 24.99% ($80.9 million and 23.97% in 2013). The effective tax rate of the Company was lower than the statutory rate primarily due to the benefits recorded in the accounts attributed to Scientific Research and Experimental Development (SR&ED) credits recognized throughout the year. The Company claimed $5.3 million in SR&ED credits in 2014.

Note 17 to the consolidated financial statements included in this report provides more information about the Company's current income taxes, deferred income taxes and provisions for income taxes.

The Company expects that the effective income tax rate in 2015 will remain within the range of 25.7% to 26.2%, excluding the impact of any SR&ED credits that may be realized and the receipt of dividends from taxable Canadian corporations. The Company expects to submit claims for SR&ED in 2015 that may result in a reduction to the effective tax rate of the Company. In the event that claims are submitted, the effective tax rate will decrease accordingly.

Comprehensive Income

Table 12: Comprehensive Income

(000s, except %)	2014	2013	Change
Net income	$ 313,172	$ 256,542	22.1%
Net unrealized losses on securities and retained interests available for sale, net of reclassifications to net income and taxes	(419)	(16,255)	97.4%
Net unrealized gains on cash flow hedges, net of reclassifications to net income and taxes	293	1,521	(80.7)%
Total other comprehensive loss	(126)	(14,734)	99.1%
Comprehensive income	$ 313,046	$ 241,808	29.5%

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the year was $313.0 million compared to $241.8 million in 2013.

OCI for the year was a loss of $0.1 million compared to a loss of $14.7 million in 2013. The change in OCI from 2013 resulted primarily from favourable changes in the fair value of the Company's preferred shareholdings, which are included in available for sale securities. Declines in the fair value of the Company's preferred shares led to the recognition of increases in unrealized losses in OCI in 2013. In the Company's judgement, the decline in fair value was due primarily to changes in interest rates.

Included in the transfer to net income for the year was $0.1 million in impairment losses on available for sale securities, compared to $0.2 million in 2013.

FINANCIAL POSITION REVIEW

Assets

Table 13: Loans Portfolio

(000s, except % and number of loans)	**2014**	2013	Change
Securitized single-family residential mortgages	**$ 2,990,119**	$ 3,720,097	(19.6)%
Securitized multi-unit residential mortgages	**955,535**	1,489,924	(35.9)%
Traditional single-family residential mortgages	**11,726,970**	10,047,211	16.7%
Accelerator single-family residential mortgages	**723,558**	800,156	(9.6)%
Residential commercial mortgages	**243,318**	196,880	23.6%
Non-residential commercial mortgages	**1,106,878**	994,210	11.3%
Credit card loans	**330,327**	293,485	12.6%
Other consumer retail loans	**186,111**	339,963	(45.3)%
Total loan portfolio	**18,262,816**	17,881,926	2.1%
Loans held for sale	**102,094**	137,975	(26.0)%
Total on-balance sheet loans	**$18,364,910**	$18,019,901	1.9%
Off-balance sheet loans			
Single-family residential mortgages	**$ 2,613,481**	$ 1,088,066	140.2%
Multi-unit residential mortgages	**1,585,141**	833,865	90.1%
Total off-balance sheet loans	**4,198,622**	1,921,931	118.5%
Total loans under administration	**$22,563,532**	$19,941,832	13.1%
Number of loans outstanding			
Mortgages	**64,456**	59,031	9.2%
Credit card loans	**33,853**	28,892	17.2%
Other consumer retail loans	**57,412**	266,515	(78.5)%
Total number of loans outstanding	**155,721**	354,438	(56.1)%

Loans under Administration

Figure 1: Portfolio Composition by Product Type

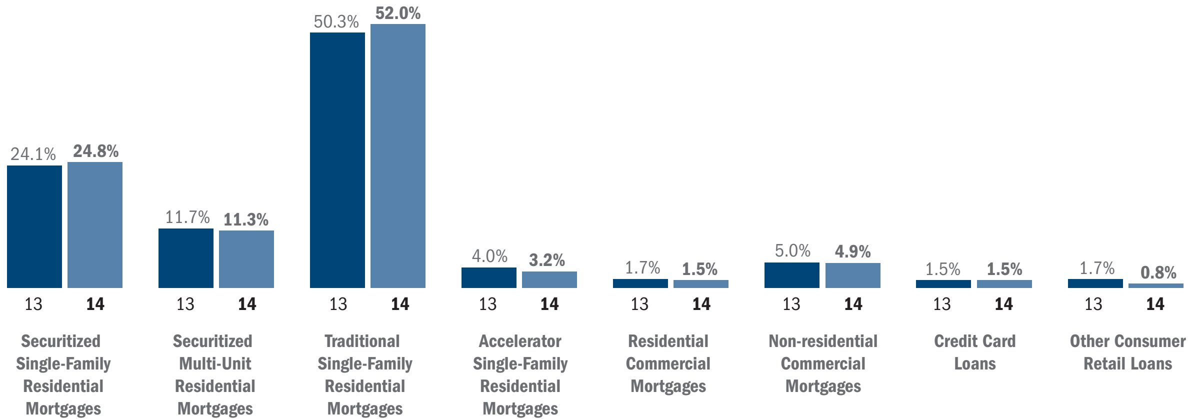


Figure 2: Insured versus Uninsured Mortgages under Administration

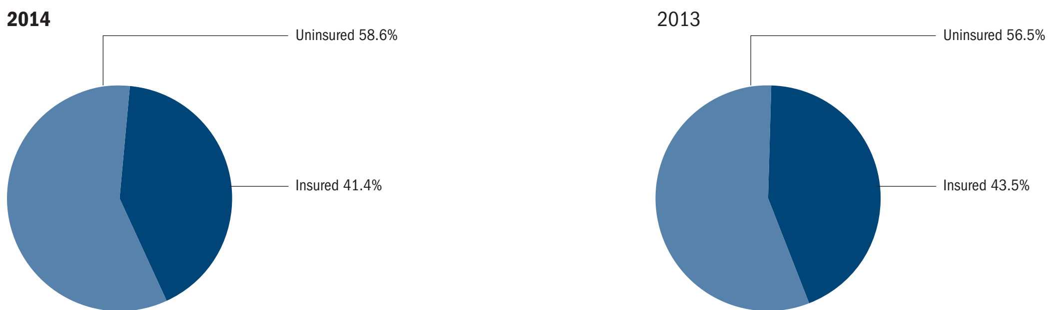


Figure 3: Loans under Administration Composition by Province

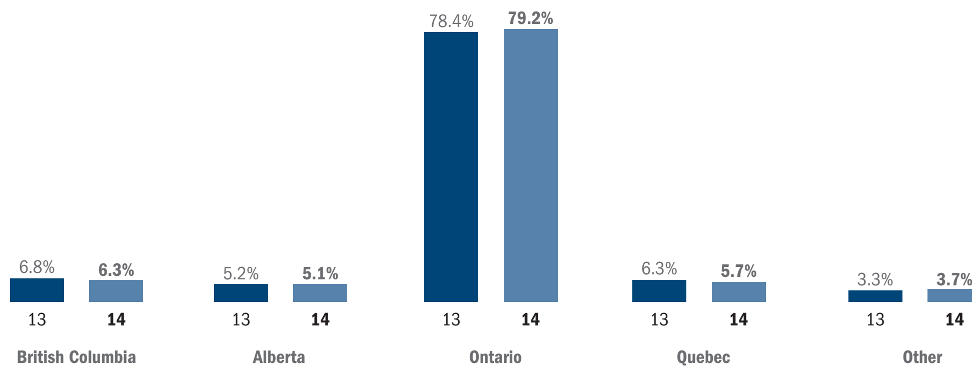


Table 14: Mortgage Advances by Type and Province

(000s, except %)	2014	% of Total	2013	% of Total	Change
Single-family residential mortgages					
Traditional	**$ 5,864,562**	**66.2%**	$ 4,770,773	69.0%	22.9%
Accelerator	**1,785,032**	**20.2%**	1,011,650	14.6%	76.4%
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**93,476**	**1.1%**	129,738	1.9%	(28.0)%
Multi-unit insured residential mortgages	**624,879**	**7.1%**	693,461	10.0%	(9.9)%
Other[1]	**45,615**	**0.5%**	31,479	0.5%	44.9%
Non-residential commercial mortgages					
Stores and apartments	**118,272**	**1.3%**	99,951	1.4%	18.3%
Commercial	**319,459**	**3.6%**	180,131	2.6%	77.3%
Total mortgage advances	**$ 8,851,295**	**100.0%**	$ 6,917,183	100.0%	28.0%

(000s, except %)	2014	% of Total	2013	% of Total	Change
British Columbia	**$ 458,917**	**5.2%**	$ 395,879	5.7%	15.9%
Alberta	**436,787**	**4.9%**	180,998	2.6%	141.3%
Ontario	**7,382,637**	**83.4%**	5,735,648	82.9%	28.7%
Quebec	**282,089**	**3.2%**	454,064	6.6%	(37.9)%
Other	**290,865**	**3.3%**	150,594	2.2%	93.1%
Total mortgage advances	**$ 8,851,295**	**100.0%**	$ 6,917,183	100.0%	28.0%

[1] Other residential commercial mortgages include mortgages such as builders' inventory.

Loans under administration reached $22.56 billion at the end of 2014, an increase of $2.62 billion or 13.1% from the end of 2013. On-balance sheet loans are up 1.9% over the end of 2013, while off-balance sheet loans are up 118.5% from the end of 2013, comprising most of the growth in loans under administration. Off-balance sheet growth is from the increased sales of residual interests in single-family residential mortgages (resulting in removal from the balance sheet of securitized mortgages) and securitization of multi-unit residential mortgages qualifying for off-balance sheet accounting. The increase in loans under administration was supported by mortgage production of $8.85 billion and retail and credit card loan production of $330.9 million in 2014, up from $6.92 billion and $224.8 million, respectively, in 2013.

Mortgage Lending

Uninsured Residential Mortgages – "Traditional Mortgages"

Traditional mortgages of $11.73 billion is the largest component of loans under administration and on-balance sheet loans at 52.0% and 63.9%, respectively, of the total portfolios. The portfolio increased $1.68 billion or 16.7% from the end of 2013.

Originations of traditional mortgages of $5.86 billion in 2014 were up 22.9% over the same period last year. Origination volumes, reflecting 66.2% of total originations, continue to demonstrate the solid and increased demand for the Company's traditional product in the marketplace and strong broker relationships. The Company continued to observe strong credit profiles and stable LTVs across the traditional portfolio.

Insured Securitized Residential Mortgages

Insured securitized loans under administration, which include both insured single-family and multi-unit residential mortgages, continued to be a significant part of the Company's portfolio at 36.1%. The portfolio increased $1.01 billion or 14.2% over 2013 to a balance of $8.14 billion at the end of 2014. Of this total, $4.20 billion was accounted for off-balance sheet, up $2.28 billion or 118.5% from the end of 2013.

The Company originated $1.79 billion in insured single-family Accelerator mortgages in 2014, up 76.4% from the same period in 2013, and consistent with the renewed focus on this product offering through increased market penetration for the product, and stemming from focused marketing activities. The Company continued to sell residual interests on insured fixed-rate single-family NHA MBS, selling $1.75 billion in 2014 in underlying outstanding principal amounts and generating gains of $18.7 million. The underlying mortgages included mortgages newly originated or renewed during the year along with insured mortgages held in inventory from the prior year. New originations included $324.4 million of variable-rate single-family insured mortgages that have been or will be securitized and remain on-balance sheet.

In 2014, the Company originated $624.9 million of insured multi-unit residential mortgages and sold $784.0 million that qualified for off-balance sheet treatment. The sales included mortgages that were renewed from the on-balance sheet portfolio. This resulted in $5.2 million in gains on sale in 2014 compared to $5.7 million in gains on sale in 2013. The multi-unit residential mortgage market is relatively limited, and in the Company participates in appropriate transactions as they become available through various origination channels. As a result, origination volumes, sales and resultant securitization gains can vary significantly through the year. Most of the Company's newly insured multi-unit residential originations qualify for off-balance sheet treatment, and the on-balance sheet securitized multi-unit residential portfolio is declining through amortization and maturities.

Residential Commercial Mortgages

Residential commercial mortgages include commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. The Company increases these portfolios selectively, when appropriate assets are available.

Non-residential Commercial Mortgages

Non-residential commercial mortgages, which include store and apartment mortgages and commercial mortgages, are an important complementary source of loan assets and revenue. The non-residential commercial mortgage portfolio grew 11.3% to $1.11 billion in 2014 from $994.2 million in 2013, supported by originations of $437.7 million, which were up 56.3% over 2013. Non-residential mortgage production is affected by the availability of appropriate assets and production trends are variable. This portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage production continued to favour Ontario and, in particular, the greater Toronto and Hamilton areas, through 2014. The Company will continue to cautiously increase business within other markets in Ontario and the rest of Canada to the extent that market conditions remain stable. The increase in the total loan proportion in Ontario reflected strong mortgage origination volumes in 2014 that grew 28.7% year over year. New originations in other provinces were 16.6% of total originations, compared to 17.1% last year. Please see Table 14 above. The concentration of new originations is influenced, in part, by the Company's credit experience. Please see Note 5(A) of the consolidated financial statements for the geographic distribution of the portfolio.

Table 15: Credit Card and Other Consumer Retail Loan Production

(Amount in 000s)	**2014**		2013		Change	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]	Number of New Accounts	Amount[1]
Credit card loans						
Equityline *Visa* credit cards	**4,374**	**$ 159,714**	3,484	$ 80,088	25.5%	99.4%
Other credit cards	**7,549**	**11,587**	3,915	4,130	92.8%	180.6%
Other consumer retail loans						
Water heaters	**45,918**	**125,886**	59,239	113,249	(22.5)%	11.2%
Other retail lending	**6,028**	**33,720**	5,177	27,315	16.4%	23.4%

[1] For credit cards, the amount represents the authorized credit limits. For water heaters and other retail lending, the amount represents the advanced amount.

Other Lending

Other lending, comprising credit cards and other consumer loans, continues to be an important source of loan assets with attractive returns. While representing 2.8% of the total on-balance sheet loan portfolio, these assets generated 13.0% of the interest income for the year.

During Q4 2014, $234.9 million of water heater loans were prepaid as a result of the sale of a customer's business. The Company recorded $32.7 million in prepayment income as a result of the transaction.

Other consumer retail loans experienced solid growth in the year with originations of $159.6 million, an increase of $19.0 million or 13.5% over 2013.

Credit card balances increased to $330.3 million from $293.5 million in 2013. Equityline *Visa* accounts (Home Equity Line of Credit) represent 95.3% of the total credit card balance. Originations in 2014 more than doubled 2013 originations at $171.3 million, as compared to $84.2 million last year. The Company continued to cautiously increase focus on the portfolio through new marketing efforts, including a 1% cash back incentive to *Visa* customers.

Cash Resources and Securities

Combined cash resources and securities as at December 31, 2014 decreased by $213.9 million from December 31, 2013, reflecting a decrease in cash of $372.4 million offset by an increase in securities of $158.5 million. Relatively lower liquidity at the end of December 2014 reflects the maturity and repayment of CMB liabilities. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

The Company has a revolving term credit facility and a committed insured mortgage purchase facility with a Canadian chartered bank. The details of these facilities are disclosed in Note 4 to the consolidated financial statements included in this report.

In addition to holding cash and securities, the Company maintains prudent liquidity by investing a portion of the liquid assets in Company-originated MBS. Although these securities are available for liquidity purposes, they are classified as residential mortgages on the balance sheet, as required by GAAP.

The securities portfolio consists of bonds, residual interests of underlying securitized insured fixed-rate residential mortgages, and common and preferred shares. At December 31, 2014, the preferred share portfolio was $248.0 million or 42.5% of the Company's securities compared to $273.0 million or 64.3% in 2013. Investment-grade preferred shares represent 51.4% of the preferred share portfolio (55.7% in 2013). Corporate and government bonds represent 55.0% of the securities portfolio compared to 35.3% in 2013. The entire bond portfolio of $320.7 million ($149.6 million in 2013) is investment grade. Residual interests represent 2.4% (2013 – nil) of the securities portfolio and common shares and mutual funds combined represent 0.1% of the securities portfolio compared to 0.4% in 2013.

The Company continues to invest in conservative assets while seeking appropriate returns. During the year, the Company took advantage of market opportunities and sold certain securities, realizing a net pre-tax gain of $3.5 million compared to $2.8 million during 2013. The Company recognized $0.1 million in impairment losses on securities in 2014, compared to $0.2 million in 2013.

Additional details related to the Company's securities portfolio can be found in Note 4 to the consolidated financial statements included in this report.

Table 16: Other Assets

(000s, except %)	**2014**	2013	Change
Restricted assets			
Restricted cash	**$ 119,093**	$ 118,133	0.8%
Non-Home Trust MBS and treasury bills assigned as replacement assets	**301,990**	530,150	(43.0)%
Derivative assets	**38,534**	29,886	28.9%
Other assets			
Accrued interest receivable	**65,132**	62,961	3.4%
Prepaid CMB coupon	**4,506**	7,168	(37.1)%
Securitization receivable and retained interest	**128,522**	54,556	135.6%
Capital assets	**12,052**	10,875	10.8%
Income taxes recoverable	**–**	9,519	(100.0)%
Other prepaid assets and deferred items	**25,404**	17,600	44.3%
Goodwill and intangible assets			
Goodwill	**15,752**	15,752	–
Intangible assets	**97,384**	73,405	32.7%
	$ 808,369	$ 930,005	(13.1)%

The decline in other assets primarily reflects a decline of $228.2 million in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program, as $1.28 billion of CMB liabilities matured during the year. Derivative assets and liabilities are discussed in the Derivatives and Hedging section of this MD&A.

The decline in other assets was partially offset by increases in securitization receivables and retained interest as the Company increased its sales of insured multi-unit residential mortgages and sold residual interests in insured residential mortgages. Further information on the Company's securitization activity can be found in Note 6 to the consolidated financial statements included in this report. The increase in intangible assets reflects the continued investment in software development.

Liabilities

Deposits, Senior Debt and Securitization Liabilities

Table 17: Deposits, Senior Debt and Securitization Liabilities

(000s, except % and number of accounts)	2014	2013	Change
Deposits payable on demand			
High-interest savings accounts	$ 854,501	$ 337,239	153.4%
Oaken Savings Account	44,409	1,142	3,788.7%
Other deposits payable on demand	165,242	90,888	81.8%
	1,064,152	429,269	147.9%
Deposits payable on fixed dates			
Brokered GICs	11,352,182	11,756,015	(3.4)%
Oaken GICs	720,887	284,294	153.6%
Institutional deposit notes	802,750	296,376	170.9%
	12,875,819	12,336,685	4.4%
Senior debt	152,026	153,474	(0.9)%
Securitization liabilities			
Mortgage-backed security liabilities	471,551	660,964	(28.7)%
Canada Mortgage Bond liabilities	3,831,912	5,112,100	(25.0)%
	4,303,463	5,773,064	(25.5)%
Total	$18,395,460	$18,692,492	(1.6)%
Total number of deposit accounts	395,600	356,908	10.8%

The Company's deposit portfolio increased primarily to provide funding for the non-securitized loan portfolio. The Company's deposit portfolio primarily comprises fixed-term deposits, which represent 92.4% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company generally matches the terms of its deposits with its assets. Please see the Structural Interest Rate and the Funding and Liquidity Risk sections of this MD&A for more information.

The Company continued to source deposits primarily through deposit brokers and investment dealers. Other deposits payable on demand include amounts collected for real estate tax accounts, which are generally paid out in accordance with each municipality's payment frequency requirements. Please see Note 11 to the consolidated financial statements included in this report for a breakdown of the Company's deposit portfolio by remaining contractual term to maturity and yield.

The Company continues its longer-term strategy to diversify its sources of funding. During Q4 2013, Home Trust launched a new direct to consumer brand, Oaken Financial, offering a line of consumer deposit products, including Guaranteed Investment Certificates (GICs) and a new Oaken Savings Account to provide customers with a secure alternative for managing their savings independently. In Q2 2014, the Company successfully launched Oaken Online Banking, allowing Oaken customers to bank at their convenience. In addition to providing customers with greater banking convenience, Oaken Online Banking provides security features to safeguard client personal and financial information. Oaken Financial will open its first store front in Toronto in the first half of 2015. Together, these initiatives represent Oaken's ongoing aim of becoming the leading alternative for Canadians to securely save and invest their money and the Company's commitment to diversify its sources of funding. The balance of Oaken deposits at the end of the year increased to 168.1% of the balance at the end of 2013.

The Home Trust high-interest savings account, which is distributed through investment brokers, was launched in 2012 as part of the Company's deposit diversification strategy. These accounts continue to grow significantly, reaching a balance at the end of the year of $854.5 million, an increase of 153.4% over the $337.2 million at the end of 2013.

Further funding diversification was accomplished in Q4 2013 with the successful initial issue of Home Trust's institutional deposit notes in the principal amount of $300 million. An additional issuance of $500 million occurred in Q2 2014. The Company expects that Home Trust will be a regular issuer of deposit notes, generally on a semi-annual basis.

The Company introduced a prepaid card program in 2014 as part of its payment card services business. Prepayments of $73.4 million are included in other deposits payable on demand.

Securitization liabilities, including MBS and CMB liabilities, declined $1.47 billion from the end of 2013 due to the settlement of MBS liabilities, the maturity of CMB liabilities of $1.28 billion and planned changes in the asset mix. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. In addition, the Company sold residual interests in certain pools of single-family mortgages securitized through the NHA MBS program that resulted in the derecognition of $1.75 billion of mortgages and the associated securitization liabilities. The Company also securitized and sold into the market $644.4 million of MBS in the year that did not qualify for off-balance sheet accounting.

Table 18: Other Liabilities

(000s, except %)		2014		2013	Change
Derivative liabilities	$	**2,266**	$	3,809	(40.5)%
Other liabilities					
Accrued interest payable		**127,135**		127,075	0.0%
Securitization servicing liability		**11,216**		5,727	95.8%
Income taxes payable		**11,317**		–	100.0%
Other liabilities		**50,163**		34,625	44.9%
Deferred tax liabilities		**36,554**		34,425	6.2%
	$	**238,651**	$	205,661	16.0%

The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which have increased in line with business growth, combined with increases in income taxes payable, which was in a recovery position in 2013, and an increase in securitization servicing liability, reflecting increased sales of insured multi-unit residential mortgages.

Shareholders' Equity

Table 19: Shareholders' Equity

(000s, except %)	2014	2013	Change
Shareholders' equity at the beginning of the year	**$ 1,177,697**	$ 968,213	21.6%
Net income	**313,172**	256,542	22.1%
Other comprehensive loss	**(126)**	(14,734)	(99.1)%
Amounts related to stock-based compensation	**12,493**	8,160	53.1%
Repurchase of shares	**(1,390)**	(2,302)	(39.6)%
Dividends	**(53,213)**	(38,182)	39.4%
Shareholders' equity at the end of the year	**$ 1,448,633**	$ 1,177,697	23.0%

The increase of $270.9 million in total shareholders' equity since December 31, 2013 was primarily internally generated from net income, net of $53.2 million for dividends to shareholders and $1.4 million related to the repurchase of shares. The amounts related to stock-based compensation arose primarily from the exercise of vested employee stock options. Details related to the repurchase of shares and stock-based compensation are provided in Notes 14 and 15 to the consolidated financial statements included in this report.

At December 31, 2014, the book value per common share was $20.67, compared to $16.95 at December 31, 2013. The Company has consistently increased the net book value per share through earnings.

Return on equity when combined with dividends of $0.70 per common share in 2014 ($0.54 per common share in 2013) confirms the Company's continued commitment to total shareholder return.

Contingencies and Contractual Obligations

In the normal course of its activities, the Company enters into various types of contractual agreements. The main obligations result from the acceptance of deposits from retail investors to finance lending activities. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

In addition to the obligations related to deposits, securitization liabilities and senior debt previously discussed, the following table presents a summary of the Company's other contractual obligations as at December 31, 2014.

Table 20: Contractual Obligations

(000s)	2015	2016	2017	2018	2019	Thereafter	Total
Premises and equipment	$ 14,212	$ 12,942	$ 11,972	$ 4,452	$ 4,157	$ 14,683	**$ 62,418**

The Company had no material contingencies in 2014.

The Company also has outstanding commitments for future advances on mortgages and unutilized and available credit on its credit card products. Refer to the Off-balance Sheet Arrangements section of this report and Note 18 to the consolidated financial statements for a description of those commitments.

Off-balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding amounts for future advances on mortgage loans that amounted to $850.1 million at December 31, 2014 ($754.6 million – December 31, 2013). These amounts include offers made but not yet accepted by the customer as of the reporting date. Also included within the outstanding amounts are unutilized non-residential commercial loan advances of $233.8 million at December 31, 2014 ($157.2 million – December 31, 2013). Offers for the loans remain open for various periods. As at December 31, 2014, unutilized credit card balances amounted to $100.9 million ($80.8 million – December 31, 2013). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $5.6 million at December 31, 2014 ($5.8 million – December 31, 2013). The unutilized credit and offers to extend credit are in the normal course of business and are considered through the Company's liquidity and capital management processes.

The Company has $4.20 billion (2013 – $1.92 billion) of loans under administration that are accounted for off-balance sheet (see Table 13). Please refer to Note 2 and Note 6 of the consolidated financial statements for details of the Company's securitization activities.

Related Party Transactions

The Company had no material related party transactions in the years ended December 31, 2014 and December 31, 2013, other than the compensation of key management personnel, as disclosed in Note 22 of the consolidated financial statements.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 21: Summary of Quarterly Results

(000s, except per share and %)	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net interest income (TEB[1])	**$ 117,440**	**$ 118,648**	**$ 116,187**	**$ 111,371**	$ 111,888	$ 107,536	$ 103,537	$ 103,034
Less: TEB adjustment	**1,024**	**1,065**	**1,044**	**984**	921	942	1,005	1,148
Net interest income per financial statements	**116,416**	**117,583**	**115,143**	**110,387**	110,967	106,594	102,532	101,886
Non-interest income	**56,437**	**24,972**	**26,765**	**25,185**	21,827	19,624	16,431	17,177
Non-interest expense	**39,889**	**42,901**	**40,522**	**38,940**	37,862	37,635	34,272	33,969
Total revenues	**284,592**	**255,046**	**255,448**	**247,900**	246,365	239,433	232,555	231,194
Total adjusted revenues[2]	**253,656**	**255,190**	**256,573**	**249,147**	247,522	240,700	235,696	233,619
Net income	**95,936**	**73,755**	**73,745**	**69,736**	68,827	66,417	61,573	59,725
Adjusted net income[2]	**73,195**	**71,435**	**73,616**	**70,138**	68,207	64,613	61,897	63,016
Return on shareholders' equity	**27.2%**	**22.0%**	**23.1%**	**23.1%**	23.9%	24.3%	23.6%	24.0%
Adjusted return on shareholders' equity[2]	**20.8%**	**21.3%**	**23.1%**	**23.2%**	23.7%	23.6%	23.7%	25.3%
Return on average total assets	**1.9%**	**1.4%**	**1.4%**	**1.4%**	1.4%	1.3%	1.3%	1.3%
Total assets under administration	**$24,281,366**	**$24,226,114**	**$23,716,585**	**$22,871,407**	$21,997,781	$21,287,095	$20,577,505	$20,377,074
Total loans under administration	**22,563,532**	**22,153,408**	**21,235,234**	**20,475,143**	19,941,832	19,530,680	18,838,967	18,448,493
Earnings per common share[3]								
Basic	**$ 1.37**	**$ 1.05**	**$ 1.06**	**$ 1.00**	$ 0.99	$ 0.96	$ 0.89	$ 0.86
Diluted	**$ 1.36**	**$ 1.05**	**$ 1.05**	**$ 1.00**	$ 0.98	$ 0.95	$ 0.88	$ 0.86
Adjusted earnings per common share[2, 3]								
Basic	**$ 1.04**	**$ 1.02**	**$ 1.06**	**$ 1.01**	$ 0.98	$ 0.93	$ 0.89	$ 0.91
Diluted	**$ 1.04**	**$ 1.01**	**$ 1.04**	**$ 1.00**	$ 0.98	$ 0.93	$ 0.89	$ 0.90
Book value per common share	**$ 20.67**	**$ 19.57**	**$ 18.74**	**$ 17.82**	$ 16.95	$ 16.14	$ 15.41	$ 14.77
Efficiency ratio (TEB[1])	**22.9%**	**29.9%**	**28.3%**	**28.5%**	28.3%	29.6%	28.6%	28.3%
Adjusted efficiency ratio (TEB[1, 2])	**27.9%**	**29.8%**	**28.1%**	**28.3%**	28.1%	29.3%	27.8%	27.7%
Common equity tier 1 ratio[4]	**18.30%**	**17.58%**	**17.45%**	**17.22%**	16.80%	16.72%	16.63%	16.57%
Tier 1 capital ratio[4]	**18.30%**	**17.58%**	**17.45%**	**17.22%**	16.80%	16.72%	16.63%	16.57%
Total capital ratio[4]	**20.94%**	**20.24%**	**20.20%**	**20.06%**	19.69%	19.72%	19.74%	19.82%
Net non-performing loans as a % of gross loans	**0.30%**	**0.27%**	**0.32%**	**0.33%**	0.35%	0.32%	0.31%	0.32%
Annualized provision as a % of gross uninsured loans	**0.09%**	**0.11%**	**0.10%**	**0.11%**	0.14%	0.10%	0.17%	0.18%
Annualized provision as a % of gross loans	**0.07%**	**0.08%**	**0.07%**	**0.07%**	0.09%	0.09%	0.10%	0.11%

[1] TEB – Taxable Equivalent Basis: see definition under Non-GAAP Measures in this report.

[2] See definition of Adjusted Net Income, Adjusted Earnings per Share, Adjusted Return on Shareholders' Equity, and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the reconciliation of net income to adjusted net income in Table 3 in this report.

[3] During Q1 2014, the Company paid a stock dividend of one common share per each issued and outstanding common share. Accordingly, both basic and diluted earnings per common share and book value per common share are reduced to half for all periods prior to 2014 presented.

[4] These figures relate to the Company's operating subsidiary, Home Trust Company.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, as well as efficiency measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions, while the second and third quarters have traditionally experienced higher levels of advances. First quarter credit statistics may experience a decline reflecting post-holiday arrears increases. Non-interest expenses and the efficiency ratio tend to increase in the third quarter, reflecting increased lending activity through the summer period.

The Company continues to achieve positive financial results driven by strong net interest margins, continued low operating expenses and favourable non-interest income. Capital ratios over the last eight quarters reflect the Company's prudent capital management strategies and the proactive approach to maintaining a strong capital base.

FOURTH QUARTER 2014

Items of Note

The Company's results were affected by the following items of note that aggregated to a positive impact of $22.7 million or $0.32 diluted earnings per share in Q4 2014:

> $32.7 million prepayment income ($24.0 million after tax and $0.34 diluted earnings per share) related to the prepayment of $234.9 million of water heater loans and leases and other loans. The prepayment income more than compensates the Company for the future net interest margin that will be lost as a result of the sale.

> $1.7 million charge ($1.3 million after tax and $0.02 diluted earnings per share) for restructuring of certain derivative positions upon adoption of IFRS in 2011.

The Company's results were affected by the following items of note in Q4 2013:

> $1.2 million charge ($0.9 million after tax and $0.01 diluted earnings per share in 2013) for restructuring of certain derivative positions upon adoption of IFRS in 2011.

> $2.0 million tax benefit recognized in Q4 2013 ($1.5 million after tax and $0.02 diluted earnings per share in Q3 2013) related to SR&ED tax credits for the development of the core banking system functionality and other technology.

Income Statement Highlights

> Reported net income of $95.9 million was 39.4% higher than the $68.8 million net income recorded in Q4 2013 and 30.1% over the $73.8 million in Q3 2014.

> Adjusted net income, as defined in the Non-GAAP Measures and Glossary section, was $73.2 million in Q4 2014, representing an increase of 7.3% over Q4 2013 and 2.5% over Q3 2014.

> Adjusted basic and diluted earnings per share for the fourth quarter were both $1.04, compared to adjusted basic and diluted earnings per share of $0.98 in Q4 2013. Adjusted basic and diluted earnings per share were $1.02 and $1.01, respectively, in Q3 2014.

> Adjusted return on equity was 20.8% in Q4 2014, compared to 23.7% in Q4 2013, and 21.3% in Q3 2014.

> Total net interest margin (TEB) was 2.27% in the quarter, up from 2.22% in Q4 2013 and down from 2.29% in Q3 2014. Net interest margin (TEB) continues to be favourably influenced by the overall shift to higher-yielding mortgages on-balance sheet, partially offset by lower spreads on traditional uninsured single-family mortgages.

> Net interest income on non-securitized assets was $109.6 million in the fourth quarter, increasing 9.9% over Q4 2013 and 1.6% over Q3 2014. Net interest margin on this portfolio was 2.79% in Q4, 2014, down from 2.94% in Q4 2013 and consistent with 2.79% in Q3 2014. The decline from last year reflects both lower asset yields and relatively higher cost of funds compared to benchmark rates. Asset yields are down due to a combination of factors, including origination of higher credit quality borrowers over the last year and the current low rate environment.

> Total income earned from securitization, which includes net interest income on the on-balance sheet portfolio and securitization income from off-balance sheet sales, was $11.8 million in Q4 2014, down from $17.0 million in Q4 2013 and $15.4 million in Q3 2014. Securitization income was $5.0 million in the quarter on $612.8 million in notional sales. This compares to securitization income in Q4 2013 of $5.8 million on $505.2 million of notional sales and $5.7 million on $531.9 million in notional sales in Q3 2014. Relative gains have generally declined year over year on lower spreads, reflecting a highly competitive market for prime insured mortgages. Net interest income on the on-balance sheet securitized portfolio declined to $6.8 million in the quarter, declining from $11.2 million in Q4 2013 and $9.7 million in Q3 2014. The decline reflects both a decline in net interest margin on the maturity of higher-yielding portfolios along with a net run-off of the portfolio as the Company has sold the residual interests of most newly originated insured mortgages.

> Fees and other income of $18.3 million in Q4 2014 were up 18.6% from the $15.4 million recorded in Q4 2013 as a result of portfolio growth during the year. Fees and other income were up 3.0% from the $17.7 million recorded in Q3 2014.

> During the quarter, the Company sold certain available for sale securities, realizing a gain of $1.04 million and recognized additional impairment losses of $76 thousand, resulting in a net gain on securities of $965 thousand compared to net gains of $148 thousand in Q4 2013 and $521 thousand in Q3 2014.

- The credit quality of the loan portfolio remained strong in the quarter and for the year, with continued low non-performing loans and credit losses, and outperformed the Company's objectives. Net non-performing loans as a percentage of gross loans ended 2014 at 0.30% of the total loans portfolio compared to 0.35% at the end of 2013 and 0.27% at the end Q3 2014. The annualized credit provision as a percentage of gross uninsured loans for the quarter of 0.09% decreased from 0.14% in the same quarter last year, and 0.11% in Q3 2014, and remains well below the target range of 0.15% to 0.25%
- Non-interest expenses were $39.9 million in the fourth quarter, up from $37.9 million in Q4 2013 and down from $42.9 million last quarter. The adjusted efficiency ratio was 27.9% in the fourth quarter, down from 28.1% in Q4 2013 and 29.8% in Q3 2014. Lower fourth quarter expenses reflect prudent expense management. In addition, in Q4 2014, amortization expense decreased as a result of an increase in the estimated useful life of the Company's core banking system.

Financial Position Highlights

- Home Trust's Common Equity Tier 1 (CET 1) and Total capital ratios remained very strong at 18.30% and 20.94%, respectively, at December 31, 2014, and well above Company and regulatory minimum targets. Home Trust's ACM was 12.47 at December 31, 2014, compared to 13.19 at December 31, 2013 and 12.88 at September 30, 2014.
- Total loans under administration, which includes securitized mortgages that qualify for off-balance sheet accounting, increased by $2.62 billion in 2014 to $22.56 billion, representing growth of 13.1% over the $19.94 billion at the end of 2013 and 1.9% or $410.1 million from the $22.15 billion at the end of Q3 2014.
- Total loans increased by $345.0 million in Q4 2014 to $18.36 billion, representing growth of 1.9% over the $18.02 billion at the end of 2013, and decreased by 0.7% or $124.0 million from the $18.49 billion at the end of Q3 2014. The decline from Q3 2014 is due to the sale of loans from the balance sheet exceeding the growth in on-balance sheet loans.
- The total value of mortgages originated in Q4 2014 was $2.29 billion, compared to $1.91 billion in Q4 2013 and $2.55 billion in Q3 2014. The year-over-year increase in originations reflects continued demand for the Company's traditional mortgage products. Compared to the third quarter, the decline in originations reflects normal and expected seasonal factors.
- The Company originated $1.48 billion of traditional mortgages in Q4 2014, compared to $1.23 billion in Q4 2013 and $1.78 billion in Q3 2014.
- Accelerator (insured) residential mortgage originations were down 1.2% to $353.0 million in Q4 2014, compared to $357.1 million in Q4 2013. Originations were down 32.5% compared to $522.9 million in Q3 2014. Decline in originations reflects both seasonal factors and the very competitive market for prime insured mortgages that decreases the relative spread and profitability.
- Multi-unit residential originations were $299.5 million in the quarter, compared to $239.9 million in the same period of 2013 and $140.7 million last quarter. Multi-unit residential mortgage originations are mostly insured and subsequently securitized through programs that qualify for off-balance sheet accounting, resulting in a portion of the securitization gains discussed above.
- Commercial mortgage and other loan advances were $129.3 million in Q4 2014, compared to $60.5 million in the comparable period of 2013 and $85.2 million in Q3 2014. Store and apartment advances were $24.1 million for the fourth quarter, compared to $24.5 million in the same period of 2013 and $28.8 million in the third quarter of 2014.
- The consumer retail portfolio, which includes durable household goods, such as water heaters and larger-ticket home improvement items, was $186.1 million in Q4 2014, down 45.3% from $340.0 million one year ago and 51.6% from $384.8 million in Q3 2014. The decrease from both last year and last quarter resulted from the prepayment during Q4 2014 of $234.9 million of water heater loans discussed previously.
- Total deposits reached $13.94 billion in Q4 2014, increasing 9.2% year over year, and down 0.6% from last quarter. Total deposits raised through the Company's deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits totalled $2.42 billion, an increase of $0.35 billion or 16.9% over Q3 2014, and $1.50 billion or 163.6% over the end of 2013.

FOURTH QUARTER FINANCIAL INFORMATION

Table 22: Fourth Quarter Review of Financial Performance

(000s, except per share amounts and %)	For the three months ended December 31 2014	September 30 2014	December 31 2013	Change December 31, 2014– September 30, 2014	Change December 31, 2014– December 31, 2013
Net Interest Income Non-Securitized Assets					
Interest from loans	**$ 187,272**	$ 183,101	$ 168,045	2.3%	11.4%
Dividends from securities	**2,842**	2,955	2,556	(3.8)%	11.2%
Other interest	**2,482**	3,855	2,663	(35.6)%	(6.8)%
	192,596	189,911	173,264	1.4%	11.2%
Interest on deposits and other	**81,326**	80,428	71,744	1.1%	13.4%
Interest on senior debt	**1,660**	1,610	1,793	3.1%	(7.4)%
Net interest income non-securitized assets	**109,610**	107,873	99,727	1.6%	9.9%
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets	**35,559**	40,163	51,274	(11.5)%	(30.6)%
Interest expense on securitization liabilities	**28,753**	30,453	40,034	(5.6)%	(28.2)%
Net interest income securitized loans and assets	**6,806**	9,710	11,240	(29.9)%	(39.4)%
Total Net Interest Income	**116,416**	117,583	110,967	(1.0)%	4.9%
Provision for credit losses	**3,186**	3,511	4,004	(9.3)%	(20.4)%
	113,230	114,072	106,963	(0.7)%	5.9%
Non-Interest Income					
Fees and other income	**18,272**	17,736	15,402	3.0%	18.6%
Securitization income	**4,956**	5,665	5,770	(12.5)%	(14.1)%
Prepayment income on portfolio sale	**32,675**	–	–	–	–
Net realized and unrealized gains on securities	**965**	521	148	85.2%	552.0%
Net realized and unrealized (loss) gain on derivatives	**(431)**	1,050	507	(141.0)%	(185.0)%
	56,437	24,972	21,827	126.0%	158.6%
	169,667	139,044	128,790	22.0%	31.7%
Non-Interest Expenses					
Salaries and benefits	**20,156**	20,533	19,563	(1.8)%	3.0%
Premises	**3,213**	2,884	2,610	11.4%	23.1%
Other operating expenses	**16,520**	19,484	15,689	(15.2)%	5.3%
	39,889	42,901	37,862	(7.0)%	5.4%
Income Before Income Taxes	**129,778**	96,143	90,928	35.0%	42.7%
Income taxes					
Current	**32,539**	20,144	22,337	61.5%	45.7%
Deferred	**1,303**	2,244	(236)	(41.9)%	(652.1)%
	33,842	22,388	22,101	51.2%	53.1%
NET INCOME	**$ 95,936**	$ 73,755	$ 68,827	30.1%	39.4%
NET INCOME PER COMMON SHARE					
Basic	**$ 1.37**	$ 1.05	$ 0.99	30.5%	38.4%
Diluted	**$ 1.36**	$ 1.05	$ 0.98	29.5%	38.8%
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**70,101**	70,089	69,490	0.0%	0.9%
Diluted	**70,462**	70,480	69,939	(0.0)%	0.7%
Total number of outstanding common shares	**70,096**	70,105	69,488	(0.0)%	0.9%
Book value per common share	**$ 20.67**	$ 19.57	$ 16.95	5.6%	21.9%

Table 23: Fourth Quarter Review of Comprehensive Income

(000s, except %)	For the three months ended **December 31 2014**	September 30 2014	December 31 2013	Change December 31, 2014– September 30, 2014	Change December 31, 2014– December 31, 2013
NET INCOME	**$ 95,936**	$ 73,755	$ 68,827	30.1%	39.4%
OTHER COMPREHENSIVE LOSS					
Available for Sale Securities and Retained Interests					
Net unrealized losses	**(3,862)**	(2,552)	(5,320)	51.3%	(27.4)%
Net gains reclassified to net income	**(965)**	(521)	(147)	85.2%	556.5%
	(4,827)	(3,073)	(5,467)	57.1%	(11.7)%
Income tax recovery	**(1,279)**	(813)	(1,449)	57.3%	(11.7)%
	(3,548)	(2,260)	(4,018)	57.0%	(11.7)%
Cash Flow Hedges					
Net unrealized (losses) gains	**(608)**	217	897	(380.2)%	(167.8)%
Net losses reclassified to net income	**365**	370	247	(1.4)%	47.8%
	(243)	587	1,144	(141.4)%	(121.2)%
Income tax (recovery) expense	**(64)**	156	303	(141.0)%	(121.1)%
	(179)	431	841	(141.5)%	(121.3)%
Total other comprehensive loss	**$ (3,727)**	$ (1,829)	$ (3,177)	103.8%	17.3%
COMPREHENSIVE INCOME	**$ 92,209**	$ 71,926	$ 65,650	28.2%	40.5%

Table 24: Fourth Quarter Review of Financial Position

(000s, except %)	As at December 31 2014	As at September 30 2014	Change
ASSETS			
Cash and Cash Equivalents	**$ 360,746**	$ 488,101	(26.1)%
Available for Sale Securities	**582,819**	597,990	(2.5)%
Loans Held for Sale	**102,094**	56,561	80.5%
Loans			
Securitized mortgages	**3,945,654**	4,093,553	(3.6)%
Non-securitized mortgages and loans	**14,317,162**	14,338,788	(0.2)%
	18,262,816	18,432,341	(0.9)%
Collective allowance for credit losses	**(34,100)**	(33,500)	1.8%
	18,228,716	18,398,841	(0.9)%
Other			
Restricted assets	**421,083**	666,640	(36.8)%
Derivative assets	**38,534**	32,459	18.7%
Other assets	**235,616**	219,407	7.4%
Goodwill and intangible assets	**113,136**	101,609	11.3%
	808,369	1,020,115	(20.8)%
	$20,082,744	$20,561,608	(2.3)%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 1,064,152**	$ 828,982	28.4%
Deposits payable on a fixed date	**12,875,819**	13,193,150	(2.4)%
	13,939,971	14,022,132	(0.6)%
Senior Debt	**152,026**	154,640	(1.7)%
Securitization Liabilities			
Mortgage-backed security liabilities	**471,551**	548,640	(14.1)%
Canada Mortgage Bond liabilities	**3,831,912**	4,177,521	(8.3)%
	4,303,463	4,726,161	(8.9)%
Other			
Derivative liabilities	**2,266**	1,223	85.3%
Other liabilities	**199,831**	250,216	(20.1)%
Deferred tax liabilities	**36,554**	35,251	3.7%
	238,651	286,690	(16.8)%
	18,634,111	19,189,623	(2.9)%
Shareholders' Equity			
Capital stock	**84,687**	84,565	0.1%
Contributed surplus	**3,989**	3,650	9.3%
Retained earnings	**1,378,562**	1,298,648	6.2%
Accumulated other comprehensive loss	**(18,605)**	(14,878)	25.1%
	1,448,633	1,371,985	5.6%
	$20,082,744	$20,561,608	(2.3)%

Table 25: Fourth Quarter Net Interest Margin

	For the three months ended		
	December 31 2014	September 30 2014	December 31 2013
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.77%**	2.76%	2.92%
Net interest margin non-securitized interest-earning assets (TEB)	**2.79%**	2.79%	2.94%
Net interest margin securitized assets	**0.60%**	0.80%	0.74%
Total net interest margin (non-TEB)	**2.25%**	2.27%	2.20%
Total net interest margin (TEB)	**2.27%**	**2.29%**	**2.22%**
Spread of non-securitized loans over deposits and other	**2.83%**	2.88%	3.11%

Table 26: Fourth Quarter Net Interest Income

	For the three months ended					
	December 31, 2014		September 30, 2014		December 31, 2013	
(000s, except %)	**Income/ Expense**	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 5,324**	**1.80%**	$ 6,810	1.86%	$ 5,219	1.62%
Traditional single-family residential mortgages	**144,496**	**4.98%**	140,670	5.08%	128,659	5.24%
Accelerator single-family residential mortgages	**7,518**	**2.90%**	7,107	2.61%	5,282	3.42%
Residential commercial mortgages[2]	**3,959**	**4.79%**	3,287	4.93%	4,043	4.93%
Non-residential commercial mortgages	**16,566**	**6.16%**	16,280	6.26%	15,749	6.38%
Credit card loans	**7,552**	**9.21%**	7,273	9.24%	6,934	9.39%
Other consumer retail loans	**7,181**	**10.07%**	8,484	9.08%	7,378	8.85%
Total non-securitized loans	**187,272**	**5.11%**	183,101	5.17%	168,045	5.43%
Taxable equivalent adjustment	**1,024**	**–**	1,065	–	921	–
Total on non-securitized interest-earning assets	**193,620**	**4.89%**	190,976	4.89%	174,185	5.10%
Securitized single-family residential mortgages	**22,875**	**3.12%**	25,650	3.33%	33,112	3.19%
Securitized multi-unit residential mortgages	**10,969**	**4.09%**	13,054	4.29%	16,429	4.01%
Assets pledged as collateral for securitization	**1,715**	**1.22%**	1,459	1.06%	1,733	1.57%
Total securitized residential mortgages	**35,559**	**3.11%**	40,163	3.31%	51,274	3.29%
Total interest-bearing assets	**$ 229,179**	**4.42%**	$ 231,139	4.45%	$ 225,459	4.47%
Interest-bearing liabilities						
Deposits and other	**$ 81,326**	**2.28%**	$ 80,428	2.29%	$ 71,744	2.32%
Senior debt	**1,660**	**4.55%**	1,610	4.40%	1,793	4.82%
Securitization liabilities	**28,753**	**2.48%**	30,453	2.47%	40,034	2.55%
Total interest-bearing liabilities	**$ 111,739**	**2.15%**	$ 112,491	2.16%	$ 113,571	2.25%
Net Interest Income (TEB)	**$ 117,440**		$ 118,648		$ 111,888	
Tax Equivalent Adjustment	**(1,024)**		(1,065)		(921)	
Net Interest Income per Financial Statements	**$ 116,416**		$ 117,583		$ 110,967	

[1] The average is calculated with reference to opening and closing monthly asset and liability balances.

[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Table 27: Fourth Quarter Mortgage Advances

(000s)	December 31 2014	September 30 2014	December 31 2013
	For the three months ended		
Single-family residential mortgages			
Traditional	**$ 1,484,475**	$ 1,775,993	$ 1,227,462
Accelerator	**353,002**	522,935	357,125
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	**38,519**	34,649	62,276
Multi-unit insured residential mortgages	**261,016**	106,087	177,632
Other[1]	**14,296**	13,455	4,411
Non-residential commercial mortgages			
Stores and apartments	**24,144**	28,840	24,514
Commercial	**114,999**	71,793	56,134
Total mortgage advances	**$ 2,290,451**	$ 2,553,752	$ 1,909,554

[1] Other residential commercial mortgages include mortgages such as builders' inventory.

Table 28: Provision for Credit Losses and Net Write-offs as a Percentage of Gross Loans on an Annualized Basis

	For the three months ended					
	December 31 2014		September 30 2014		December 31 2013	
(000s, except %)	**Amount**	**% of Gross Loans[1]**	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]
Provision[2]						
Single-family residential mortgages	**$ 2,263**	**0.07%**	$ 2,646	0.09%	$ 2,841	0.10%
Residential commercial mortgages	**24**	**0.04%**	–	–	168	0.34%
Non-residential commercial mortgages	**81**	**0.03%**	92	0.03%	99	0.04%
Credit card loans	**128**	**0.15%**	164	0.20%	183	0.25%
Other consumer retail loans	**90**	**0.19%**	9	0.01%	113	0.13%
Securitized single-family residential mortgages	**–**	**–**	–	–	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–	–	–
Total individual provision	**2,586**	**0.06%**	2,911	0.06%	3,404	0.08%
Total collective provision	**600**	**0.01%**	600	0.01%	600	0.01%
Total provision	**$ 3,186**	**0.07%**	$ 3,511	0.08%	$ 4,004	0.09%
Net write-offs[2]						
Single-family residential mortgages	**$ 3,054**	**0.10%**	$ 1,638	0.05%	$ 3,135	0.12%
Residential commercial mortgages	**24**	**0.04%**	–	–	168	0.34%
Non-residential commercial mortgages	**56**	**0.02%**	107	0.04%	79	0.03%
Credit card loans	**114**	**0.14%**	179	0.22%	293	0.40%
Other consumer retail loans	**48**	**0.10%**	71	0.07%	94	0.11%
Securitized single-family residential mortgages	**–**	**–**	–	–	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–	–	–
Net write-offs	**$ 3,296**	**0.07%**	$ 1,995	0.04%	$ 3,769	0.08%

[1] Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.

[2] There were no specific provisions, allowances or net write-offs on securitized mortgages.

Table 29: Fourth Quarter Allowance for Credit Losses

	For the three months ended December 31, 2014					
(000s)	**Single-family Residential Mortgages**	**Residential Commercial Mortgages**	**Non-residential Commercial Mortgages**	**Credit Card Loans**	**Other Consumer Retail Loans**	**Total**
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 2,399**	**$ –**	**$ 55**	**$ 66**	**$ 118**	**$ 2,638**
Provision for credit losses	**2,463**	**24**	**56**	**128**	**90**	**2,761**
Write-offs	**(3,125)**	**(24)**	**(56)**	**(134)**	**(123)**	**(3,462)**
Recoveries	**71**	**–**	**–**	**20**	**75**	**166**
	1,808	**–**	**55**	**80**	**160**	**2,103**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**760**	**–**	**32**	**–**	**3**	**795**
Provision for credit losses	**(200)**	**–**	**25**	**–**	**–**	**(175)**
	560	**–**	**57**	**–**	**3**	**620**
Total individual allowance	**2,368**	**–**	**112**	**80**	**163**	**2,723**
Collective allowance						
Balance at the beginning of the period	**20,032**	**327**	**9,300**	**3,541**	**300**	**33,500**
Provision for credit losses	**600**	**–**	**–**	**–**	**–**	**600**
	20,632	**327**	**9,300**	**3,541**	**300**	**34,100**
Total allowance	**$ 23,000**	**$ 327**	**$ 9,412**	**$ 3,621**	**$ 463**	**$ 36,823**
Total provision	**$ 2,863**	**$ 24**	**$ 81**	**$ 128**	**$ 90**	**$ 3,186**

	For the three months ended September 30, 2014					
(000s)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,418	$ –	$ 68	$ 81	$ 177	$ 1,744
Provision for credit losses	2,619	–	94	164	12	2,889
Write-offs	(1,843)	–	(108)	(185)	(118)	(2,254)
Recoveries	205	–	1	6	47	259
	2,399	–	55	66	118	2,638
Allowance on accrued interest receivable						
Balance at the beginning of the period	733	–	34	–	6	773
Provision for credit losses	27	–	(2)	–	(3)	22
	760	–	32	–	3	795
Total individual allowance	3,159	–	87	66	121	3,433
Collective allowance						
Balance at the beginning of the period	19,432	327	9,300	3,541	300	32,900
Provision for credit losses	600	–	–	–	–	600
	20,032	327	9,300	3,541	300	33,500
Total allowance	$ 23,191	$ 327	$ 9,387	$ 3,607	$ 421	$ 36,933
Total provision	$ 3,246	$ –	$ 92	$ 164	$ 9	$ 3,511

Table 29: Fourth Quarter Allowance for Credit Losses (continued)

(000s)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
	For the three months ended December 31, 2013					
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,441	$ –	$ –	$ 311	$ 219	$ 1,971
Provision for credit losses	2,895	168	79	183	111	3,436
Write-offs	(3,259)	(376)	(87)	(314)	(118)	(4,154)
Recoveries	124	208	8	21	24	385
	1,201	–	–	201	236	1,638
Allowance on accrued interest receivable						
Balance at the beginning of the period	813	25	24	–	10	872
Provision for credit losses	(54)	–	20	–	2	(32)
	759	25	44	–	12	840
Total individual allowance	1,960	25	44	201	248	2,478
Collective allowance						
Balance at the beginning of the period	17,313	446	9,300	3,541	300	30,900
Provision for credit losses	719	(119)	–	–	–	600
	18,032	327	9,300	3,541	300	31,500
Total allowance	$ 19,992	$ 352	$ 9,344	$ 3,742	$ 548	$ 33,978
Total provision	$ 3,560	$ 49	$ 99	$ 183	$ 113	$ 4,004

There were no specific provisions, allowances, or net write-offs on securitized residential mortgages.

Table 30: Securitization Income

(000s)	**December 31, 2014**	September 30, 2014	December 31, 2013
	For the three months ended		
Net gain on sale of mortgages or residual interest	**$ 4,362**	$ 4,448	$ 4,598
Net change in unrealized gain or loss on hedging activities	**(591)**	311	602
Servicing income	**1,185**	906	570
Total securitization income	**$ 4,956**	$ 5,665	$ 5,770

Table 31: Securitization Activity

				For the three months ended		
			December 31, 2014			September 30, 2014
(000s)	**Single-family Residential MBS**	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 371,782**	**$ 241,023**	**$ 612,805**	$ 419,679	$ 112,207	$ 531,886
Gains on sale of mortgages or residual interest[1]	**2,549**	**1,813**	**4,362**	3,799	649	4,448
Retained interests recorded	**–**	**9,289**	**9,289**	–	5,043	5,043
Servicing liability recorded	**–**	**2,257**	**2,257**	–	1,034	1,034

	For the three months ended December 31, 2013		
(000s)	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 327,500	$ 177,700	$ 505,200
Gains on sale of mortgages or residual interest[1]	3,460	1,138	4,598
Retained interests recorded	–	7,983	7,983
Servicing liability recorded	–	1,186	1,186

[1] Gains on sale of mortgages are net of hedging impact

CAPITAL MANAGEMENT

Capital is a key factor in the safety and soundness of a financial institution. A strong capital position assists the Company in promoting confidence among depositors, creditors, regulators and shareholders. The Company's Capital Management Policy governs the quantity and quality of capital held. The objective of the Capital Management Policy is to ensure that adequate capital is available to the Company to support its strategic and business objectives, absorb potential unexpected losses, meet minimum regulatory capital requirements as stipulated by the Office of the Superintendent of Financial Institutions Canada (OSFI), and enable the allocation of capital for maximum economic benefit. The Capital Management Committee reviews compliance with the policy at minimum on a monthly basis while the Risk and Capital Committee and the Board of Directors review compliance with the policy on a quarterly basis.

Two regulatory capital requirements are addressed in the Company's policy: the Assets to Regulatory Capital Multiple (ACM) and the risk-based capital ratios. The Capital Management Committee reviews these ratios on a regular basis while the Board of Directors reviews them quarterly.

The Company's principal subsidiary, Home Trust, calculates capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI, which are based on *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* (Basel II) and *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* (Basel III). As Home Trust, a wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited primarily by its permitted ACM. This is defined as the ratio of total regulatory assets to total regulatory capital of Home Trust.

Under Basel II and Basel III, Home Trust calculates risk-weighted assets for credit risk using the Standardized Approach and for operational risk using the Basic Indicator Approach. Home Trust's capital structure and risk-weighted assets were as follows:

Table 32: Basel III Regulatory Capital (Based only on the subsidiary, Home Trust Company)

	December 31 2014		December 31, 2013	
(000s, except ratios and multiples)	All-In Basis	Transitional Basis	All-In Basis	Transitional Basis
Common Equity Tier 1 capital (CET 1)				
Capital stock	$ 38,497	$ 38,497	$ 38,497	$ 38,497
Contributed surplus	951	951	951	951
Retained earnings	1,393,117	1,393,117	1,130,517	1,130,517
Accumulated other comprehensive loss	(18,571)	(18,571)	(18,490)	(18,166)
Cash flow hedge reserves	2,362	2,362	2,656	2,656
Regulatory deductions from CET 1[1]	(101,976)	(44,705)	(62,927)	(8,964)
Total CET 1 capital	1,314,380	1,371,651	1,091,204	1,145,491
Additional Tier 1 capital	–	–	–	–
Total Tier 1 capital	1,314,380	1,371,651	1,091,204	1,145,491
Tier 2 capital				
Collective allowance for credit losses[2]	34,100	34,100	31,500	31,500
Subordinated debentures	156,000	156,000	156,000	156,000
Total Tier 2 capital	190,100	190,100	187,500	187,500
Total regulatory capital	$ 1,504,480	$ 1,561,751	$ 1,278,704	$ 1,332,991
Risk-weighted assets for				
Credit risk	$ 6,267,400	$ 6,324,671	$ 5,702,192	$ 5,756,155
Operational risk	904,438	904,438	793,575	793,575
Total risk-weighted assets, before CVA[3]	$ 7,171,838	$ 7,229,109	$ 6,495,767	$ 6,549,730
CVA adjustment for CET 1 capital	10,581	N/A		
Total CET 1 capital risk-weighted assets	7,182,419	N/A		
CVA adjustment for Tier 1 capital	12,066	N/A		
Total Tier 1 capital risk-weighted assets	7,183,904	N/A		
CVA adjustment for total capital	14,294	18,563		
Total risk-weighted assets	$ 7,186,132	$ 7,247,672		
Regulated capital to risk-weighted assets				
CET 1 ratio	18.30%	18.93%	16.80%	17.49%
Tier 1 capital ratio	18.30%	18.93%	16.80%	17.49%
Total regulatory capital ratio	20.94%	21.55%	19.69%	20.35%
Assets to regulatory capital multiple	N/A	12.47	N/A	13.19
National regulatory minimum				
CET 1 ratio (required January 1, 2013)	7.00%		7.00%	
Tier 1 capital ratio (required January 1, 2014)	8.50%		8.50%	
Total regulatory capital ratio (required January 1, 2014)	10.50%		10.50%	

[1] Regulatory deductions on the all-in basis include intangible assets related to software development and unrealized multi-unit residential mortgage securitization gains, net of deferred taxes.

[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of total credit risk-weighted assets, inclusive of total CVA before transitional phase-in adjustments, in Tier 2 capital. At December 31, 2014, the Company's collective allowance represented 0.54% of total credit risk-weighted assets, inclusive of total CVA.

[3] CVA – Credit Valuation Adjustment.

Home Trust's regulatory "all-in" capital ratios have increased from the end of 2013 as capital increased at a faster rate than risk-weighted assets. Capital increased principally due to an increase in retained earnings of $262.6 million. Risk-weighted assets increased in line with increases in the loan portfolio.

Home Trust's ACM declined from the end of 2013, primarily as a result of increased off-balance sheet activity that limited the growth rate of total assets while capital increased during 2014.

Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios continue to exceed internal capital targets.

Home Trust adopted certain Basel III capital requirements beginning January 1, 2013, as required by OSFI. The primary impact at adoption was the deduction from Common Equity Tier 1 capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to IT development costs as well as the inclusion of all its accumulated other comprehensive income, net of cash flow hedge reserves. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For Home Trust, the transitional basis is applied to the deduction from capital of intangible assets related to development costs. Deductions for transitional calculations commenced in 2014. For the purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. ACM is calculated and evaluated on a transitional basis.

The current ACM will be replaced with the Basel III leverage ratio measure on January 1, 2015. The Company will be required to disclose the leverage ratio and its components for 2015 year-end reporting. Like the ACM, the leverage ratio is a non-risk-adjusted view of a Company's leverage. Compared to the ACM, the leverage ratio has a narrower view of capital, and only includes Tier 1 capital. The leverage ratio also includes some off-balance sheet exposures, including potential future exposure amounts on derivatives, credit equivalent amounts of certain commitments and securities financing transactions. OSFI has assigned a minimum leverage ratio to the Company and the Company's analysis of the leverage ratio suggests that the implementation of the leverage ratio will not affect its business plans.

Table 33: Risk-Weighted Assets (RWA) (Based only on the subsidiary, Home Trust Company)

			2014			2013
(000s, except %)	**Balance Sheet Amounts**	**Effective Risk Weight**[1]	**Risk-weighted Amount**	Balance Sheet Amounts	Effective Risk Weight[1]	Risk-weighted Amount
Cash and cash equivalents	**$ 338,461**	**20.0%**	**$ 67,692**	$ 715,342	20.0%	$ 143,068
Restricted assets	**421,083**	**5.7%**	**23,818**	648,283	3.6%	23,627
Available for sale securities	**568,687**	**44.1%**	**251,018**	424,226	71.8%	304,579
Insured residential mortgages	**4,921,451**	**0.5%**	**26,549**	6,484,974	0.6%	40,459
Uninsured single-family residential mortgages	**11,603,298**	**35.3%**	**4,096,045**	9,728,804	35.4%	3,441,510
Uninsured residential commercial mortgages	**216,845**	**100.0%**	**216,871**	178,465	100.5%	179,383
Non-residential commercial mortgages	**1,106,878**	**100.1%**	**1,108,107**	994,210	100.4%	997,805
Credit card loans	**330,327**	**41.7%**	**137,602**	293,485	44.6%	130,781
Other consumer retail loans	**186,111**	**75.0%**	**139,583**	339,963	75.0%	254,973
Other assets	**272,437**	**57.9%**	**157,830**	191,634	59.0%	113,159
Total assets subject to risk rating	**19,965,578**	**31.2%**	**6,225,115**	19,999,386	28.1%	5,629,344
Intangible assets	**97,384**	**–**	**–**	73,405	–	–
Collective allowance for credit losses	**(34,100)**	**–**	**–**	(31,500)	–	–
Total assets	**20,028,862**	**31.1%**	**6,225,115**	20,041,291	28.1%	5,629,344
Off-balance sheet items						
Loan commitments	**1,037,225**	**4.1%**	**42,285**	835,368	8.7%	72,848
Total credit risk	**21,066,087**		**6,267,400**	20,876,659		5,702,192
Operational risk	**–**		**904,438**	–		793,575
Total risk-weighted assets, before CVA	**$21,066,087**		**$ 7,171,838**	$20,876,659		$ 6,495,767

[1] The effective risk weight represents the weighted average of the risk weights for each asset category prescribed by OSFI, weighted based on the Company's balance sheet classification.

Risk-weighted assets are determined by applying the OSFI-prescribed rules to on-balance sheet and off-balance sheet exposures. The Company's securitization activities are not subject to the Basel II securitization framework as they are all within the NHA MBS program and do not involve tranching of credit risk.

Capital Management Activity

During the third quarter of 2014, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange, which allows it to purchase over a 12-month period up to 2.0% of the public float outstanding on September 11, 2014. The Company believes that, from time to time, the market price of its common shares does not fully reflect the value of its business and the repurchase of shares may represent an appropriate and desirable business decision.

During 2014, the Company repurchased 28,000 common shares (2013 – 78,200 common shares) for $1.4 million, thereby reducing retained earnings by $1.4 million and share capital by $34 thousand (2013 – $2.2 million and $70 thousand, respectively).

Internal Capital Adequacy Assessment Process (ICAAP)

Under the Company's capital and risk management policies, and OSFI's guidelines, the Company is required to assess the adequacy of current and projected capital resources under expected and stressed conditions. This involves evaluating the Company's strategy, financial plan and risk appetite; assessing the effectiveness of its risk and capital management practices (including Board and senior management oversight); subjecting the Company's plans to a range of stress tests; and drawing conclusions about its capital adequacy (including a rigorous review and challenge). Based on the Company's ICAAP, management has concluded that Home Trust is adequately capitalized.

Credit Ratings

The following table presents the credit ratings for the Company and its subsidiary Home Trust. These investment-grade credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital.

Table 34: Credit Ratings

	Home Capital Group Inc.		Home Trust Company	
	DBRS	Standard & Poor's	DBRS	Standard & Poor's
Long-term rating	BBB	BBB-	BBB (high)	BBB
Short-term rating	R2 (middle)	A-3	R2 (high)	A-2
Outlook	Stable	Stable	Stable	Stable

The Company no longer obtains ratings from the Fitch rating agency, hence there is no such rating provided in the table above.

Share Information

Table 35: Share Information

	2014		2013	
(000s)	**Number of Shares**	**Amount**	Number of Shares[4]	Amount
Common shares issued and outstanding[1]	**70,096**	**$ 84,687**	69,488	$ 70,233
Employee stock options outstanding[2]	**1,235**	**N/A**	1,650	N/A
Employee stock options exercisable[2, 3]	**634**	**14,866**	1,048	19,287

1 No shares were issued, other than through employee stock options exercised.

2 Please see Note 15(C). Amount for employee stock options is not applicable.

3 For employee stock options exercisable, the amount refers to proceeds payable to the Company upon exercise.

4 The number of shares has been doubled to reflect the stock dividend of one common share per each issued and outstanding common share paid in Q1 2014.

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, market, liquidity and operational risks that are required under IFRS 7, *Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the audited consolidated financial statements for the year ended December 31, 2014.

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The Company continues to invest significantly in risk management practices and resources.

The Company's business strategies and operations expose the Company to a wide range of risks that could adversely affect its operations, financial condition, or financial performance, and which may influence an investor to buy, hold, or sell the Company's shares. When evaluating risks, the Company makes decisions about which risks it accepts, which risks it mitigates, offsets or hedges, and which risks it will avoid. These decisions are guided by the Company's risk appetite framework. The types of risk to which the Company is subject include, among others, credit, funding and liquidity, market, and operational risks.

Risk Appetite

The Company has adopted a risk appetite framework that sets out the amount and types of risk the Company will accept in pursuit of its business objectives and strategies. The Company's risk appetite framework provides the structure to link the objectives of the Company's key stakeholders with the level of risk the Company can, and is willing to, take. The risk appetite framework comprises five major components.

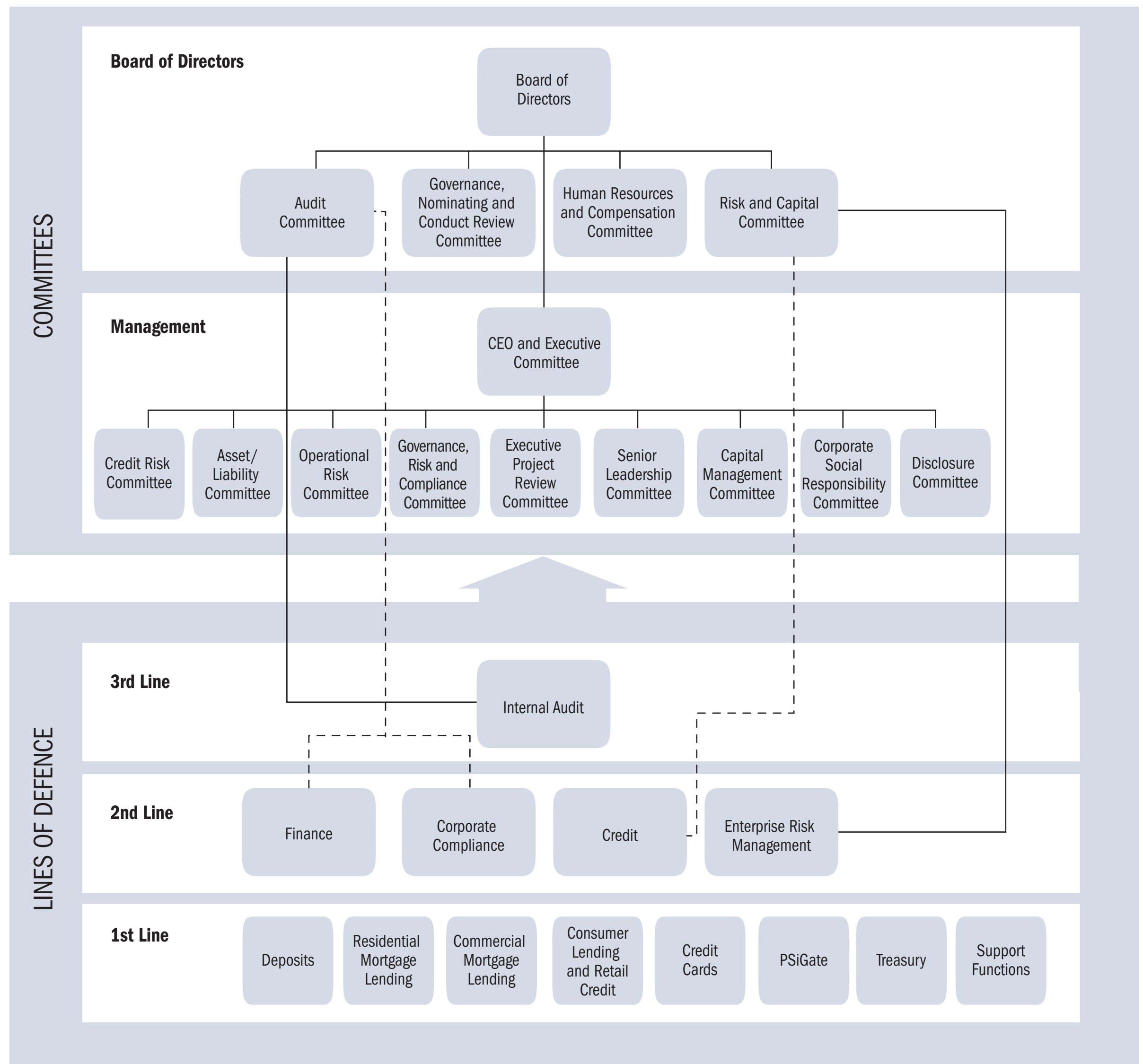
1. Clear articulation of the Company's overall mission and objectives, given key stakeholder concerns. The level of risk inherent in these objectives drives the level of risk the Company may accept.
2. Identification of the Company's risk capacity by identifying the supply of capital capable of supporting risk and absorbing loss. Risk capacity is limited by other factors, including regulatory constraints.
3. Identification of the risks inherent in the corporate strategy supporting the mission and the governing objectives of the Company, and establishment of a risk-taking philosophy that sets out the key principles that guide how the Company may take and mitigate risk.
4. Documentation of the amount and types of risk the Company may accept given its mission, risk capacity, strategy and risk-taking philosophy. The Company explicitly articulates its Balance Sheet risk appetite (how much of the Company's capital it will put at risk), Earnings Volatility risk appetite, Portfolio Composition risk appetite (the types of risk the Company will take) and Non-financial risk appetite (expressions of risk appetite that are difficult to quantify). Among others, the Company has established risk appetite statements addressing:
    - maximum capital at risk and minimum capital ratios;
    - maximum leverage or assets to capital multiple;
    - maximum amount of top-level individual risk types; and
    - reputational risk.
5. Establishment of risk limits as an expression of the Company's risk appetite for individual risks or factors that contribute to risk levels.

Risk Governance

The Company's strategies and management of risk are supported by an overall enterprise risk management (ERM) framework, including policies, guidelines, and procedures for each major category of risk to which it is exposed. The Company defines ERM as an ongoing process involving its Board of Directors (the "Board"), management and other personnel in the identification, measurement, assessment and management of risks that may positively or negatively impact the organization as a whole. ERM is applied in strategy-setting across the enterprise and is designed to provide reasonable assurance that the Company's objectives can be realized given its stated risk appetite. The goal of ERM is to help maximize, within the Company's risk appetite, the benefit to the enterprise, shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept.

Supporting the Company's ERM structure is a risk culture and a governance framework, including Board and senior management oversight and an increasingly robust set of risk policies and guidelines reflective of the Company's risk appetite, that set boundaries for acceptable business strategies, exposures and activities. The Company's governance structure is supported by the industry standard three lines of defence model. Authority is delegated by the Board through the Chief Executive Officer to business units that are responsible for managing the risks they take in the pursuit of their business objectives. The ERM group, along with the Credit, Finance and Corporate Compliance groups, represents the second line of defence, and provides policy guidance to business units and helps ensure that all risks are identified, monitored, measured, assessed and reported to senior management and the Board. Internal Audit, the third line of defence, provides objective and independent reviews of the risk management process, its controls, and the effectiveness of governance, risk management and controls.

The governance structure as depicted in the following figure ensures that there is a framework in place for risk oversight and accountability across the organization. Risk owners are responsible for developing and executing strategies for controlling risk.



The Board is accountable for establishing the overall vision, mission, objectives and strategies of the Company and setting the Company's risk appetite and risk-bearing capacity. It challenges management's proposals and plans to ensure that the forecasted results and risk assessments are reasonable and in line with the Company's capabilities, objectives and risk appetite. These risk management responsibilities are primarily carried out through the Risk and Capital Committee of the Board. In this oversight role the Committee is designed to ensure that all significant risks to the Company, regardless of source, are proactively identified and effectively managed. This is accomplished by reviewing and approving, on at least an annual basis, all key risk policies; monitoring, on at least a quarterly basis, the Company's actual exposures versus Board-approved risk appetite and limits; and providing direction to management where deemed necessary. It further monitors to ensure that the ERM function is independent of the business activities it oversees and that an appropriate, independent monitoring and reporting framework is in place and operating effectively, so as to deliver accurate, timely and meaningful risk information for its review and evaluation.

The Executive Committee (EC), chaired by the Chief Executive Officer, is responsible for recommending corporate strategy to the Board and for overseeing its execution. A critical component of this mandate is recommending to the Risk and Capital Committee of the Board a risk appetite that aligns with the objectives and strategy of the Company. The EC is accountable for establishing an appropriate "risk aware" culture and proactively monitoring actual exposures and business activities in comparison to risk appetite. The EC reviews and validates the Company's portfolio of key risk exposures through comprehensive risk reporting as well as by an ongoing risk identification and assessment process. Through this process, significant risks are identified in light of current business, market, and economic conditions, ensuring that the risks the Company manages and monitors are not static but evolving in context with the greatest likelihood of impact on the Company at any given point in time.

The most significant risks to the Company, described as principal risks and as reflected in the following diagram, are subject to more specific review, monitoring and assessment under the mandates of supporting risk committees. These committees (Credit Risk, Asset/Liability, Capital Management, Operational Risk, Governance, Risk and Compliance, Corporate Social Responsibility, Disclosure, Executive Project Review, and Senior Leadership) recommend policies and guidelines for approval as proposed by the lines of business, with review by the ERM group, and proactively monitor and assess the specific risks under their mandates compared to the approved risk appetite. In addition to the Executive Committee and supporting risk committees, the Company's risk governance is supported by:

- The ERM group is mandated to work with the executive team and the Board of Directors of the Company to support sustainable business performance through the independent identification, measurement, assessment and monitoring of all significant risks to the Company, regardless of source. Working closely with the Risk and Capital Committee of the Board, the ERM group recommends the Company's overall risk appetite and limits. It develops policies to address significant risks and recommends Board and/or management approval. ERM independently maintains a current view of the Company's risk profile by monitoring actual exposure and practice against approved risk appetite, limits, policies and guidelines.
- The Chief Compliance Officer (CCO), the Chief Anti-Money Laundering Officer (CAMLO) and the Corporate Compliance group are mandated to establish and maintain an independent enterprise-wide Compliance Framework (a set of controls and oversight processes) designed to mitigate the Company's Legislative and Regulatory Risk. The CCO and Corporate Compliance group are mandated to promote a sound compliance culture; report to the Company's senior management and the Board about compliance with the Company's legislative and regulatory requirements; follow up with senior management on breaches; and make recommendations related to the Compliance Framework activities. The CCO and CAMLO are responsible for expressing an independent opinion to the Audit Committee on the status, adequacy and effectiveness of the Company's state of compliance on a periodic basis.
- Internal Audit is mandated to independently assess and report to the Audit Committee, the Board and management on the effectiveness of governance, risk management and internal control processes.
- The Finance group compiles the Company's financial statements, budget and capital plan for recommendation to the Executive Committee and Board, and reports to the Board, shareholders and regulators on the performance of the Company. The Finance group also updates the Company's financial and capital plans with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

In order to align the Company's risk and control processes, management has formed the Governance, Risk and Compliance Committee to review and align the management structure, resources, processes and controls to match the size, complexity, scope, and risk profile of the organization. This committee makes recommendations to the Executive Committee to improve, operate and sustain all aspects of governance, risk and compliance.

Stress Testing

In addition to day-to-day risk management practices, a key component of the ERM framework is stress testing and scenario analysis. Management conducts regular stress testing, including stress testing through its internal capital adequacy assessment process (ICAAP), liquidity and funding planning and ad hoc stress testing to evaluate a range of extreme but plausible scenarios. Stress tests are conducted to determine the potential impact of these events, the effectiveness of management's contingency plans to deal with these unlikely but possible events, and management's ability to mitigate the potential risk. A common set of enterprise scenarios is developed to assess the impact on the Company's financial results, capital position, operational capabilities and the Company's ability to respond to the event. In particular, management has evaluated a range of stress scenarios, including a real estate driven recession, a natural disaster, a recession in oil-producing regions, a condominium and commercial downturn, and a reverse stress scenario. Management analyzes the outcomes from stress testing and, where applicable, takes proactive measures to mitigate potential risks to the business.

Principal Risks

The Company has identified seven principal risks that are material to the business: strategic, credit, market, funding and liquidity, operational, legislative and regulatory, and reputational risk. In addition to these principal risks, the Company employs a risk register to outline risk sub-categories and provide more detailed linkages to the specific risks inherent to, or taken by, the business. These risks are identified, measured, assessed, and monitored on an ongoing basis, with regular reporting to both management and the Board of Directors. Where appropriate, principal and sub-category risks are mitigated through various actions to reduce the inherent risk to acceptable residual levels, as defined by the Company's risk appetite. Strategic and reputational risks are considered overarching risks, as substantial outcomes from other principal risks could pose a significant second order impact on the Company's reputation or ability to execute strategic objectives.

Principal Risks

Strategic Risk

Strategic and business risk is the risk of loss due to changes in the external business environment, the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response to those changes. Strategic and business risk is managed by the EC. On a regular basis, the EC reviews the current environment, the business results and the actions of the Company's competitors and adjusts business plans accordingly. The Board approves the Company's strategies at least annually and reviews results against those strategies at least quarterly.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company's overall exposure to credit risk is governed by a defined credit-specific risk appetite, limits and a Board-approved Credit Risk Policy, and regular independent monitoring and reporting. The Credit Risk Committee establishes, implements and monitors credit risk-related policies and guidelines enterprise-wide, taking into account business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures, with geographic, product, property and security type limits established to cover all material classes of exposure. The Company's credit risk management policy limits the total aggregate exposure to any entity or connection. The lines of business are responsible for managing the Company's credit risks in accordance with approved policies and guidelines and for assessing overall credit conditions and exposures on an ongoing basis. The Credit Risk Committee, the ERM group, and the Risk and Capital Committee of the Board oversee the credit portfolio through ongoing reviews of credit-risk management policies, lending practices, portfolio composition and risk profile, the adequacy of loan loss allowances and the allocation of credit-risk-based capital.

At a transactional level, loans are independently approved by credit staff commensurate with their experience and expertise to extend credit within the bounds of the Company's credit risk policies. A foundation of the Company's approach to credit is a high level of due diligence on each individual transaction, with oversight from a management team with strong industry experience. All transactions are subject to detailed reviews of the underlying security, an assessment of the applicant's ability to service the loan, and the application of a standard risk rating or credit score. Enhanced due diligence is conducted on transactions deemed to carry higher credit risks based on pre-defined parameters. Transactions in excess of individual authority are approved by the Credit Risk Transactional Sub-Committee of the Credit Risk Committee and ultimately by the Risk and Capital Committee of the Board as required.

Table 36: Credit Risk Portfolio Metrics

(000s, except % and number of credit cards issued)	2014	2013	2012
Total loans balance (net of individual allowances)	$18,262,816	$17,881,926	$17,137,992
Mortgage Portfolio[1]			
Total mortgage portfolio balance (net of individual allowance)	$17,746,378	$17,248,478	$16,538,499
Residential mortgages as a percentage of total mortgages	93.8%	94.2%	94.0%
Non-residential mortgages as a percentage of total mortgages	6.2%	5.8%	6.0%
Percentage of insured residential mortgages[2]	27.7%	36.8%	44.8%
Percentage of mortgages current	97.9%	97.6%	97.6%
Percentage of mortgages over 90 days past due	0.3%	0.5%	0.4%
Percentage of insured residential mortgage originations	23.7%	25.1%	19.3%
Loan-to-value ratio of residential mortgages (current uninsured)[3]	66.7%	65.9%	65.5%
Credit Card Portfolio			
Total credit card portfolio balance	$ 330,327	$ 293,485	$ 327,516
Percentage of Equityline *Visa* credit cards	95.3%	95.7%	96.9%
Percentage of secured credit cards	3.8%	3.8%	3.0%
Percentage of credit cards current	97.8%	97.8%	96.6%
Percentage of credit cards over 90 days past due	0.6%	0.9%	1.1%
Loan-to-value ratio of Equityline *Visa* (current)[3]	62.4%	66.1%	69.9%
Visa card security deposits	$ 18,787	$ 15,997	$ 14,345
Total authorized limits of credit cards	$ 430,906	$ 373,702	$ 403,110
Total number of credit cards issued	33,853	28,892	26,840
Average balance authorized	$ 13	$ 13	$ 15

[1] Residential mortgages include multi-unit residential and other residential commercial mortgages.

[2] Insured loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio.

[3] Loan-to-value ratio is calculated as the current balance outstanding to the appraised value at origination.

Mortgage Lending

Credit risk mitigation is a key component of the Company's approach to credit risk management. The composition of the mortgage portfolio is well within the policy limits. Senior management and the ERM group closely monitor credit metrics and the performance of the mortgage loan portfolio. The portfolio continues to perform well, with arrears and net write-offs that are well within expected levels.

The Company mitigates credit risk by ensuring borrowers have the capacity and willingness to pay and through collateral in the form of real property and, as such, loan to value (LTV) is a key credit metric. Please see Tables 41 and 42 for further information.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. Condominiums represent less than 9% of the residential mortgage portfolio and, of these, 26.8% are insured. The average current LTV of the condominium portfolio was 68.4% at the end of 2014. The credit performance of the condominium portfolio is strong and within the Company's expectations, with 98.6% of the portfolio current and 0.3% over 90 days.

Given the rapid decline in oil prices and the economic uncertainty in the regions most affected by oil prices, the Company is closely monitoring its exposure and the credit performance of mortgages in Alberta, Saskatchewan, and Newfoundland and Labrador. At December 31, 2014, 4.1% of the uninsured mortgage portfolio was in these regions, with an average LTV of 62.8%, and 98.2% were current.

The level of non-residential mortgages was relatively stable over the last 12 months and the Company anticipates that the non-residential portfolio will remain relatively stable or grow modestly. The proportion is well within the policy limits.

Other Lending

Credit card balances were $330.3 million at the end of the year, virtually all of which are secured by either cash deposits or residential property. Within the credit card portfolio, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 62.4% at the end of the year, compared to 66.1% at the end of 2013. The LTV includes both the first mortgage and the secured Equityline *Visa* balance.

Senior management and the ERM group closely monitor the credit performance of the credit card portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of December 31, 2014, $1.9 million or 0.6% of the credit card portfolio was over 90 days in arrears, compared to $2.6 million or 0.9% at December 31, 2013.

Retail credit is secured by charges on financed assets, primarily improvements to residential property or fixtures, such as water heaters. Water heater loans are also guaranteed by the gas supplier.

Refer to Note 5 in the consolidated financial statements included in this report for a breakdown of the overall loan portfolio by geographic region. While the Company's strategy is to increase the geographic diversification of the loan portfolio, this has been tempered by credit conditions in local markets.

Table 37: Non-performing Loans and Allowances

	2014		2013		Change	
(000s, except %)	**Gross**	**Net[1]**	Gross	Net[1]	Gross	Net[1]
Single-family residential mortgages	**$ 52,551**	**$ 50,743**	$ 52,837	$ 51,636	(0.5)%	(1.7)%
Residential commercial mortgages	**54**	**54**	1,836	1,836	(97.1)%	(97.1)%
Non-residential commercial mortgages	**2,516**	**2,461**	7,189	7,189	(65.0)%	(65.8)%
Credit card loans	**1,938**	**1,858**	2,785	2,584	(30.4)%	(28.1)%
Other consumer retail loans	**160**	**–**	236	–	(32.2)%	–
Non-performing loans	**57,219**	**55,116**	64,883	63,245	(11.8)%	(12.9)%
Total gross loans	**$18,264,919**		$17,883,564		2.1%	–
Net non-performing loans as a % of gross loans		**0.30%**		0.35%		
Total allowance for credit losses		**$ 36,823**		$ 33,978		
Total allowance as a % of gross loans		**0.20%**		0.19%		
Total allowance as a % of gross non-performing loans		**64.35%**		52.37%		
Net write-offs as a % of gross loans		**0.06%**		0.09%		

[1] Non-performing loans are net of individual allowances as shown in Table 38, Allocation of Allowance for Credit Losses.

Net non-performing loans remain within expected and acceptable ranges. As part of the Company's ongoing business strategy, experienced employees undertake reviews of delinquent and non-performing loans to analyze patterns and drivers and then modify, where appropriate, the Company's lending guidelines. This analytical approach and attention to emerging trends have resulted in continued low write-off rates relative to the gross loans portfolio. Write-offs, net of recoveries, totalled $10.3 million or 0.06% of gross loans in 2014, compared to $15.5 million or 0.09% of gross loans in 2013. The Company continually monitors arrears and write-offs and deals effectively with non-performing loans.

Table 38: Allocation of Allowance for Credit Losses

(000s)	2014 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2014 Ending Balance
Individual allowances				
Single-family residential mortgages	$ 1,960	$ (9,099)	$ 9,507	$ 2,368
Residential commercial mortgages	25	(24)	(1)	–
Non-residential commercial mortgages	44	(202)	270	112
Credit card loans	201	(692)	571	80
Other consumer retail loans	248	(272)	187	163
Total individual allowances	2,478	(10,289)	10,534	2,723
Collective allowance				
Single-family residential mortgages	18,032	–	2,600	20,632
Residential commercial mortgages	327	–	–	327
Non-residential commercial mortgages	9,300	–	–	9,300
Credit card loans	3,541	–	–	3,541
Other consumer retail loans	300	–	–	300
Total collective allowance	31,500	–	2,600	34,100
Total allowances	$ 33,978	$ (10,289)	$ 13,134	$ 36,823

(000s)	2013 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2013 Ending Balance
Individual allowances				
Single-family residential mortgages	$ 2,868	$ (11,165)	$ 10,257	$ 1,960
Residential commercial mortgages	432	(3,199)	2,792	25
Non-residential commercial mortgages	–	(230)	274	44
Credit card loans	111	(589)	679	201
Other consumer retail loans	227	(345)	366	248
Total individual allowances	3,638	(15,528)	14,368	2,478
Collective allowance				
Single-family residential mortgages	16,523	–	1,509	18,032
Residential commercial mortgages	336	–	(9)	327
Non-residential commercial mortgages	9,300	–	–	9,300
Credit card loans	3,541	–	–	3,541
Other consumer retail loans	300	–	–	300
Total collective allowance	30,000	–	1,500	31,500
Total allowances	$ 33,638	$ (15,528)	$ 15,868	$ 33,978

The Company maintains credit allowances that, in management's judgement, are sufficient to cover incurred losses and identified credit events in the loans portfolio.

Individual allowances represent the amount on identified non-performing loans required to reduce the carrying value of those loans to their estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans and the realizable value of the underlying security.

The collective allowance for credit losses is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of the various loan portfolios that the Company manages. At December 31, 2014, the Company held a collective allowance of $34.1 million, compared to $31.5 million held at December 31, 2013, reflecting the increase in the traditional single-family residential mortgage lending portfolio. The Company has security in the form of real property or cash deposits for virtually the entire loans portfolio. The Company's evaluation of the adequacy of the collective allowance takes into account asset quality, borrower creditworthiness, property location, past loss experience, current and forecasted probability of default and exposure at default based on product, risk ratings and credit scores, and current economic conditions. The Company periodically reviews the methods utilized in assessing the collective allowance, giving consideration to changes in economic conditions, interest rates and local housing market conditions. The principal factors impacting the assessment of the adequacy of the collective allowance are the stable economic environment in the Company's markets, the increased weighting of uninsured mortgages and the low loan to value of the uninsured mortgage portfolio. For the most part, these factors tend to offset each other and, accordingly, the collective allowance has been increased marginally and currently exceeds three years of current year write-offs.

Additional Information: Residential Loans and Equityline* Visa *Home Equity Line of Credit (HELOC)

The tables below provide additional information on the composition of the Company's single-family residential mortgage portfolio by province and insured status, as well as by remaining contractual amortization periods and loan to value by province.

Table 39: Single-family Residential Loans by Province

2014

(000s, except %)	**Insured Residential Mortgages[1]**	**Percentage of Total for Province**	**Uninsured Residential Mortgages**	**Percentage of Total for Province**	**Equityline *Visa*[2]**	**Percentage of Total for Province**	**Total**
British Columbia	**$ 301,557**	**34.1%**	**$ 579,031**	**65.4%**	**$ 4,323**	**0.5%**	**$ 884,911**
Alberta	**248,418**	**38.7%**	**379,769**	**59.0%**	**14,512**	**2.3%**	**642,699**
Ontario	**2,993,336**	**22.3%**	**10,121,442**	**75.5%**	**292,098**	**2.2%**	**13,406,876**
Quebec	**166,704**	**31.9%**	**354,293**	**67.8%**	**1,477**	**0.3%**	**522,474**
Other	**127,333**	**42.7%**	**168,764**	**56.5%**	**2,308**	**0.8%**	**298,405**
	$ 3,837,348	**24.4%**	**$11,603,299**	**73.6%**	**$ 314,718**	**2.0%**	**$15,755,365**

2013

(000s, except %)	Insured Residential Mortgages[1]	Percentage of Total for Province	Uninsured Residential Mortgages	Percentage of Total for Province	Equityline *Visa*[2]	Percentage of Total for Province	Total
British Columbia	$ 399,055	45.5%	$ 471,668	53.8%	$ 5,863	0.7%	$ 876,586
Alberta	339,525	52.9%	284,456	44.3%	17,702	2.8%	641,683
Ontario	3,707,836	29.7%	8,519,799	68.3%	253,731	2.0%	12,481,366
Quebec	245,272	44.2%	308,136	55.6%	1,260	0.2%	554,668
Other	146,971	50.0%	144,746	49.2%	2,309	0.8%	294,026
	$ 4,838,659	32.6%	$ 9,728,805	65.5%	$ 280,865	1.9%	$14,848,329

[1] See definition of insured loans under the Glossary of Terms in this report.

[2] Equityline *Visa* is an uninsured product.

Table 40: Insured and Uninsured Single-family Residential Mortgages by Effective Remaining Amortization Period

2014

(000s, except %)	**≤ 20 Years**	**> 20 and ≤ 25 Years**	**> 25 and ≤ 30 Years**	**> 30 and ≤ 35 Years**	**> 35 Years**	**Total**
Balance outstanding	**$ 677,965**	**$ 2,220,655**	**$10,905,290**	**$ 1,621,133**	**$ 15,604**	**$15,440,647**
Percentage of total	**4.4%**	**14.4%**	**70.6%**	**10.5%**	**0.1%**	**100.0%**

2013

(000s, except %)	≤ 20 Years	> 20 and ≤ 25 Years	> 25 and ≤ 30 Years	> 30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 548,872	$ 1,816,546	$ 8,972,602	$ 3,192,678	$ 36,766	$14,567,464
Percentage of total	3.8%	12.5%	61.6%	21.9%	0.2%	100.0%

Table 41: Weighted-average Loan-to-Value (LTV) Ratios for Uninsured Single-family Residential Mortgages Originated During the Year

	2014		2013	
	Uninsured Residential Mortgages[1]	**Equityline *Visa***[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]
British Columbia	**68.2%**	**53.5%**	67.4%	55.7%
Alberta	**72.3%**	**54.5%**	69.1%	49.0%
Ontario	**74.3%**	**56.3%**	73.7%	57.3%
Quebec	**68.2%**	**57.3%**	67.7%	52.9%
Other	**67.4%**	**51.7%**	67.2%	53.2%
Total	**73.7%**	**56.3%**	73.0%	57.2%

[1] Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

The Company actively manages the entire mortgage portfolio and performs stress testing, based on a combination of increasing unemployment, rising interest rates, and a downturn in real estate markets. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn, the Company would expect an increased rate of delinquency and also an increase in credit losses. The total single-family residential mortgage portfolio including HELOC was $15.76 billion as of December 31, 2014, of which $3.84 billion was insured against credit losses. The Company would expect to recover any lost principal, interest and direct collection costs associated with this insured portion of the portfolio. Management monitors these risks carefully on an ongoing basis, including stress testing of the portfolio.

The Company's key mitigant against credit losses in the event of default in the uninsured portfolio is the excess of the value of the collateral over the outstanding loan amount (expressed as LTV ratio). As at December 31, 2014, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 67.8% compared to 67.9% at the end of 2013. These LTVs were estimated using the Teranet-National Bank National Composite House Price Index and the most recent appraisals. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The distribution of LTV around the mean for each significant market is indicated below.

Table 42: Weighted-average Loan-to-Value Ratios for Uninsured Residential Mortgages

	2014			2013		
	Weighted-average Current LTV[1]	**Percentage of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to**		Weighted-average Current LTV[1]	Percent of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to	
		75%	**65%**		75%	65%
British Columbia	**65.7%**	**84.7%**	**44.8%**	65.4%	86.9%	40.2%
Alberta	**64.9%**	**80.6%**	**47.7%**	63.8%	91.0%	47.3%
Ontario	**68.1%**	**72.3%**	**32.9%**	68.4%	70.8%	29.8%
Quebec	**65.1%**	**91.3%**	**45.7%**	64.3%	93.2%	45.3%
Other	**64.9%**	**85.3%**	**49.3%**	62.5%	92.1%	55.9%
Total	**67.8%**	**73.9%**	**34.6%**	67.9%	73.2%	31.7%

[1] Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

Market Risk

For the Company, Market Risk consists primarily of Investment Risk and Structural Interest Rate Risk. A summary of these risks is as follows:

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company's investment portfolio consists primarily of preferred shares at 42.6% of the portfolio, and corporate and government bonds at 55.0% of the portfolio. The total balance was $582.8 million at December 31, 2014, compared to $424.3 million at the end of 2013.

The Company's investment risk management framework includes investment policies that are approved by the Asset/Liability Committee (ALCO) and the Risk and Capital Committee of the Board. The ALCO is responsible for defining and monitoring the Company's investment portfolio and identifying investments that may be at risk of impairment. The Treasury group is responsible for managing the Company's investment portfolio in accordance with approved policies and assesses the impact of market events on potential implications to its total value. ERM recommends prudential policies, reviews procedures and guidelines, and provides enterprise-wide oversight of investment risk, including valuations.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings and seeks to organically match liabilities to assets in terms of maturity and interest rate re-pricing through its actions in the deposit market in priority to accessing off-balance sheet solutions.

The Company's market risk management framework includes interest rate risk policies that are approved by the ALCO and the Risk and Capital Committee of the Board. The ALCO is responsible for defining and monitoring the Company's structural interest rate risk and reviewing significant maturity and/or duration mismatches, as well as developing strategies that allow the Company to operate within its overall risk appetite. In addition, the ALCO oversees stress testing of structural interest rate risk using a number of interest rate scenarios. The Treasury group is responsible for managing the Company's interest rate gaps in accordance with approved policies and assesses the impact of market events on the Company's net interest income and economic value of shareholders' equity. The ERM group recommends prudent policies and guidelines, and provides independent enterprise-wide oversight of all interest rate risk.

From time to time, the Company enters into derivative transactions in order to hedge interest rate exposure resulting from outstanding loan commitments and requirements to replace assets in the CMB program, as well as interest rate risk on fixed-rate mortgages, debt and deposits, such as CMB liabilities and senior debt. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. The use of derivative products has been approved by the Board; however, permitted usage is governed by specific policies. Derivatives are only permitted in circumstances in which the Company is hedging asset-liability mismatches or loan commitments, or as a result of hedging requirements under the terms of its participation in the CMB program. Moreover, the policy expressly articulates that the use of derivatives is not permitted for transactions that are undertaken to potentially create trading profits through speculation on interest rate movements.

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or re-pricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at December 31, 2014 and December 31, 2013 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for credit commitments and derivatives. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be made but may not materialize. In measuring its interest rate risk exposure, the Company makes assumptions about these factors and monitors these against actual experience. Variable rate assets and liabilities are allocated to a maturity category based on their interest re-pricing date.

Table 43: Interest Rate Sensitivity

								As at December 31, 2014
(thousands of Canadian dollars, except %)	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	$ 105,750	$ 254,996	$ –	$ –	$ –	$ –	$ –	$ 360,746
Weighted-average interest rate	1.0%	1.0%	–	–	–	–	–	1.0%
Available for sale securities	–	87,430	15,595	9,853	113,860	356,017	64	582,819
Weighted-average interest rate	–	2.1%	4.2%	4.9%	4.7%	2.0%	–	2.6%
Loans held for sale	–	–	–	–	–	102,094	–	102,094
Weighted-average interest rate	–	–	–	–	–	2.9%	–	2.9%
Securitized mortgages	–	1,877,406	240,434	299,317	544,644	983,853	–	3,945,654
Weighted-average interest rate	–	3.0%	3.9%	3.7%	3.8%	4.3%	–	3.5%
Non-securitized mortgages and loans	–	2,715,260	2,050,234	5,774,695	3,187,190	562,886	(7,203)	14,283,062
Weighted-average interest rate	–	5.5%	5.0%	5.0%	5.0%	6.1%	–	5.1%
Other assets	118,888	336,183	4,547	–	–	–	348,751	808,369
Weighted-average interest rate	0.9%	1.2%	1.6%	–	–	–	–	0.7%
Total	$ 224,638	$ 5,271,275	$ 2,310,810	$ 6,083,865	$ 3,845,694	$ 2,004,850	$ 341,612	$ 20,082,744
Weighted-average interest rate	0.9%	4.0%	4.8%	4.9%	4.8%	4.3%	–	4.5%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 898,909	$ –	$ –	$ –	$ –	$ –	$ 165,243	$ 1,064,152
Weighted-average interest rate	1.5%	–	–	–	–	–	–	1.5%
Deposits payable at a fixed rate	–	1,484,448	1,765,946	3,627,058	4,117,316	1,881,051	–	12,875,819
Weighted-average interest rate	–	1.9%	2.1%	2.1%	2.3%	2.7%	–	2.2%
Senior debt	–	–	–	–	152,026	–	–	152,026
Weighted-average interest rate	–	–	–	–	5.2%	–	–	5.2%
Securitization liabilities	–	2,447,794	294,520	165,740	354,121	1,041,288	–	4,303,463
Weighted-average interest rate	–	2.0%	3.2%	2.6%	2.7%	3.3%	–	2.5%
Other liabilities	–	2,266	–	–	–	–	236,385	238,651
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	1,448,633	1,448,633
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 898,909	$ 3,934,508	$ 2,060,466	$ 3,792,798	$ 4,623,463	$ 2,922,339	$ 1,850,261	$ 20,082,744
Weighted-average interest rate	1.5%	1.9%	2.3%	2.1%	2.4%	2.9%	–	2.1%
	$ (674,271)	$ 1,336,767	$ 250,344	$ 2,291,067	$ (777,769)	$ (917,489)	$ (1,508,649)	$ –
Credit commitments	–	(842,992)	12,440	31,448	589,823	209,281	–	–
Weighted-average interest rate	–	5.9%	6.1%	6.2%	5.1%	3.2%	–	–
Interest rate sensitivity gap	$ (674,271)	$ 493,775	$ 262,784	$ 2,322,515	$ (187,946)	$ (708,208)	$ (1,508,649)	$ –
Cumulative gap	$ (674,271)	$ (180,496)	$ 82,288	$ 2,404,803	$ 2,216,857	$ 1,508,649	$ –	$ –
Cumulative gap as a percentage of total assets	(3.4)%	(0.9)%	0.4%	12.0%	11.0%	7.5%	–	–

Table 43: Interest Rate Sensitivity (continued)

							As at December 31, 2013	
(thousands of Canadian dollars, except %)	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	$ 50,526	$ 682,646	$ –	$ –	$ –	$ –	$ –	$ 733,172
Weighted-average interest rate	1.0%	1.0%	–	–	–	–	–	1.0%
Available for sale securities	–	37,818	68,784	94,814	129,655	93,201	–	424,272
Weighted-average interest rate	–	2.0%	2.5%	3.0%	4.2%	4.5%	–	3.5%
Loans held for sale	–	–	–	–	–	137,975	–	137,975
Weighted-average interest rate	–	–	–	–	–	3.7%	–	3.7%
Securitized mortgages	–	2,154,530	421,987	603,121	957,023	1,073,360	–	5,210,021
Weighted-average interest rate	–	2.8%	3.9%	4.1%	3.6%	4.1%	–	3.4%
Non-securitized mortgages and loans	–	2,057,497	1,722,058	4,501,134	3,301,711	1,067,311	(9,306)	12,640,405
Weighted-average interest rate	–	5.3%	5.1%	5.3%	5.1%	5.5%	–	5.2%
Other assets	122,836	442,376	138,123	–	4,720	–	221,950	930,005
Weighted-average interest rate	1.2%	0.9%	1.5%	–	1.6%	–	–	0.8%
Total	$ 173,362	$ 5,374,867	$ 2,350,952	$ 5,199,069	$ 4,393,109	$ 2,371,847	$ 212,644	$ 20,075,850
Weighted-average interest rate	1.1%	3.4%	4.6%	5.1%	4.7%	4.7%	–	4.3%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 338,381	$ –	$ –	$ –	$ –	$ –	$ 90,888	$ 429,269
Weighted-average interest rate	1.5%	–	–	–	–	–	–	1.5%
Deposits payable at a fixed rate	–	838,509	1,889,830	4,412,669	4,144,478	1,051,199	–	12,336,685
Weighted-average interest rate	–	1.9%	2.0%	2.1%	2.3%	2.8%	–	2.2%
Senior debt	–	–	–	–	153,474	–	–	153,474
Weighted-average interest rate	–	–	–	–	5.2%	–	–	5.2%
Securitization liabilities	–	2,536,540	499,825	659,953	997,915	1,078,831	–	5,773,064
Weighted-average interest rate	–	1.9%	3.2%	2.8%	2.9%	3.3%	–	2.6%
Other liabilities	–	3,809	–	–	–	–	201,852	205,661
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	1,177,697	1,177,697
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 338,381	$ 3,378,858	$ 2,389,655	$ 5,072,622	$ 5,295,867	$ 2,130,030	$ 1,470,437	$ 20,075,850
Weighted-average interest rate	1.5%	1.9%	2.2%	2.2%	2.5%	3.1%	–	2.2%
	$ (165,019)	$ 1,996,009	$ (38,703)	$ 126,447	$ (902,758)	$ 241,817	$ (1,257,793)	$ –
Credit commitments	–	(748,741)	305	19	26,758	721,659	–	–
Weighted-average interest rate	–	4.6%	6.3%	5.1%	5.0%	4.6%	–	–
Interest rate sensitivity gap	$ (165,019)	$ 1,247,268	$ (38,398)	$ 126,466	$ (876,000)	$ 963,476	$ (1,257,793)	$ –
Cumulative gap	$ (165,019)	$ 1,082,249	$ 1,043,851	$ 1,170,317	$ 294,317	$ 1,257,793	$ –	$ –
Cumulative gap as a percentage of total assets	(0.8)%	5.4%	5.2%	5.8%	1.5%	6.3%	–	–

To assist in matching assets and liabilities, the Company utilizes a variety of metrics, including two interest rate risk sensitivity metrics that measure the relationship between changes in interest rates and the resulting estimated impact on both the Company's future net interest income and the economic value of shareholders' equity. The Company measures these metrics over a number of different yield curve scenarios.

The following table provides measurements of interest rate sensitivity and the potential after-tax impact of an immediate and sustained 100 basis-point increase and decrease in interest rates on net interest income and on the economic value of shareholders' equity.

Table 44: Impact of Interest Rate Shifts

	Increase in interest rates		Decrease in interest rates	
(000s)	**December 31 2014**	December 31 2013	**December 31 2014**	December 31 2013
100 basis-point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 8,642**	$ 12,601	**$ (8,642)**	$ (12,601)
Impact on net present value of shareholders' equity	**13,953**	16,555	**(14,694)**	(18,003)
Impact on other comprehensive income	**2,114**	686	**(2,114)**	(686)

As illustrated in the above table, an increase in interest rates will have a positive impact on net interest income after tax and the economic value of shareholder's equity in the event of a 100 basis-point movement in rates without management action. A positive gap exists when interest-sensitive assets exceed interest-sensitive liabilities on specific maturity or re-pricing periods. As these gaps widen, the fluctuation in the sensitivity becomes more pronounced and, for this reason, the Company's ALCO manages this to within authorized limits.

Funding and Liquidity Risk

This is the risk that the Company is unable to generate or obtain cash or equivalents in a timely manner and at a reasonable cost to meet its commitments (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Company's cash flows associated with lending, securitization, deposit-taking, investing and other business activities.

The Company's liquidity risk management framework includes liquidity and funding risk policies and a Contingency Funding Plan that are approved by the ALCO and the Risk and Capital Committee of the Board. The mandate of the ALCO includes establishing and recommending to the Board an enterprise-wide liquidity risk appetite. In addition, the ALCO reviews the composition and term structure of assets and liabilities, reviews liquidity and funding risk policies and strategies, and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of liquidity and funding risk and the testing of the Company's Contingency Funding Plan. The Treasury group is responsible for managing the Company's liquidity and funding risk positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis. The ERM group recommends liquidity policies and guidelines and provides independent oversight of all liquidity and funding risk.

The Company's liquidity and funding risk policies are designed to ensure that cash balances and the inventory of other liquid assets are sufficient to meet all cash outflows, both in ordinary market conditions and during periods of extreme market stress. The Company's policies address several key elements, such as the minimum levels of liquid assets to be held at all times; the composition of types of liquid assets to be maintained; daily monitoring of the liquidity position by Treasury, senior management, and the ERM group; monthly reporting to the ALCO; and quarterly reporting to the Risk and Capital Committee of the Board.

The Company uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Company projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Company's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, deposit runoff, loan growth, liquidity portfolio valuation, loan arrears and write-downs. In addition, the Company regularly monitors a number of other structural funding and liquidity ratios in its overall funding and liquidity risk management framework.

The Company holds liquid assets in the form of cash, bank deposits, securities issued or guaranteed by the Government of Canada, securities issued by provincial governments, and highly rated short-term money market securities, corporate bonds and debentures. The Company's liquid assets are presented in the table below:

Table 45: Liquidity Resources

(000s, except %)	2014	2013	Change
Cash and cash equivalents per balance sheet	**$ 360,746**	$ 733,172	(50.8)%
Available for sale securities per balance sheet	**582,819**	424,272	37.4%
Add: MBS included in residential mortgages	**362,801**	614,903	(41.0)%
	1,306,366	1,772,347	(26.3)%
Less: securities held for investments	**(248,069)**	(274,667)	(9.7)%
Liquid assets at carrying value	**$ 1,058,297**	$ 1,497,680	(29.3)%
Liquid assets at fair value	**$ 1,059,821**	$ 1,495,894	(29.2)%
Liquid assets at carrying value as a % of total assets	**5.3%**	7.5%	(29.4)%

Certain Company-originated MBS are held as liquid assets, but are classified in residential mortgages on the balance sheet, as required by IFRS. The underlying mortgages are insured and the securities are stamped by CMHC.

The Company's main sources of funding come from retail deposits and securitization. Retail deposits are primarily sourced through the deposit broker network and the Company relies heavily on this channel. The majority of these deposits are received through channels that are controlled by several of the major Canadian banks. The broker network provides the Company with access to a very large volume of potential deposits, which are sourced almost entirely from individual investors or small businesses. The bulk of deposits raised are CDIC-insured fixed-term GICs that are not subject to early redemption. The Company has contractual agreements with most major national investment dealers and a large number of independent brokers. The Company continues to add new investment dealers and independent brokers in order to diversify its sources of funds.

The Company continues its longer-term strategy to diversify its sources of funding. During Q4 2013, Home Trust launched a new direct to consumer brand, Oaken Financial, offering a line of consumer deposit products, including GICs, and a new Oaken Savings Account as part of its strategy to provide customers with a secure alternative for managing their savings independently and to continue to diversify funding sources. In Q2 2014, the Company successfully launched Oaken Online Banking, allowing Oaken customers to bank at their convenience. In addition to providing customers with greater banking convenience, Oaken Online Banking provides security features to safeguard client personal and financial information. Together, these initiatives represent Oaken's ongoing aim of becoming a leading alternative for Canadians seeking to securely save and invest their money and furthering the Company's commitment to diversify its sources of funding.

In addition, the Company offers the Home Trust high-interest savings account, which is distributed through investment brokers and launched in 2012 as part of the Company's deposit diversification strategy to diversify its sources of funding and expand its deposit broker network.

Further funding diversification was accomplished in Q4 2013 with the successful close of Home Trust's initial issue of institutional fixed-term deposit notes in the principal amount of $300 million and the issuance of a further $500 million in Q2 2014. The Company expects that Home Trust will be a regular issuer of deposit notes, generally on a semi-annual basis.

The Company is an Approved NHA MBS Issuer and an Approved Seller into the CMB program, which are securitization initiatives sponsored by CMHC. Securitization funding provides the Company with long-term matched funding at attractive interest rates. Traditionally, the Company has used securitization markets to fund its Accelerator mortgages and insured multi-unit residential mortgages and, to a lesser extent, its traditional mortgages that qualified for bulk portfolio insurance. On-balance sheet Accelerator mortgages and multi-unit residential mortgages classified as held for sale are generally held for securitization and are funded with deposits or lines of credit until securitized. When mortgages are securitized, the Company receives principal and interest payments on its underlying mortgage loans before the required payments are passed-through to MBS investors. However, as a part of its servicing obligations, the Company must pass-through on a timely basis any payments that are not collected due to arrears. In the case of defaults, the Company would make required payments to investors and place the mortgage/property through the insurance claims process to recoup any losses. This could result in cash flow timing mismatches that could marginally increase funding and liquidity risk.

OSFI Liquidity Requirements

Effective January 1, 2015, the Company will start reporting its Liquidity Coverage Ratio (LCR), which is a new minimum regulatory liquidity standard being adopted by OSFI. The LCR requires regulated financial institutions to maintain a sufficient stock of high-quality liquid assets to cover a minimum of 30 days of net cumulative cash flow requirements in a stressed environment. The Company is well positioned to comply with the new requirements.

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The impact of operational risk may include financial loss, loss of competitive position, or regulatory enforcement actions, among others. It is an integral and unavoidable part of the Company's business as it is inherent in every business and support activity. While operational risk cannot be eliminated, the Company has taken proactive steps to mitigate this risk. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls. The Company continues to strengthen its operational risk framework, introducing enhanced risk tools and methodologies, including event data monitoring, line-of-business risk and control self-assessments, measurement and monitoring of key risk/performance indicators, a new initiatives risk assessment framework, and stress testing and scenario analytics.

The financial services sector, including the Company, remains exposed to cyber-crime risk. Threats are increasing in scale, scope and complexity. The Company is enhancing its information security program. In addition to cyber-crime, the Company is continuously exposed to other various types of fraud stemming from the nature of the Company's business. For example, the Company must often rely on information provided by customers and other third parties in its decisions to enter into transactions such as extending credit. The recent increasing pace of advancement in available technology has increased the sophistication and complexity of potential fraud crimes to which the Company is exposed. The Company continues to introduce and enhance processes to defend against more sophisticated and complex fraud. Despite the Company's commitment to information and cyber security and fraud prevention, the Company and its third-party service providers may not be able to fully mitigate all risks associated with the increased complexity and high rate of change in the threat landscape.

Key elements of the Company's operational risk framework include:

Governance

The Company maintains a system of comprehensive policies and an internal control framework designed to provide a sound and well-controlled operational environment. Operational risk policies are approved by the Operational Risk Committee and the Risk and Capital Committee of the Board. A three lines of defence model is used to manage operational risk, as described under Risk Governance. Oversight over the Company's operational risk exposures is also provided by the Operational Risk Committee.

Risk Identification and Assessment

A risk and control self-assessment program proactively identifies the Company's exposure to key operational risks and assesses the effectiveness of mitigating controls. Risk assessments are also performed on significant new initiatives (e.g., products, services and systems) by business and support areas and other internal subject matter experts to ensure that associated risks are identified, assessed and approved, and that the Company's control infrastructure can support the initiative prior to implementation.

Risk Measurement

The Company has adopted the Basic Indicator Approach for operational risk under Basel II. In addition, scenario analysis and stress testing are used to assess the possible impact of extreme but plausible operational risk loss events. Scenario analysis and stress testing provide a forward-looking basis for managing exposures within and potentially beyond the Company's risk appetite.

Risk Monitoring and Reporting

The Company monitors key risk indicators to gain assurance that it remains within its stated risk appetite and to identify early warning signals of changes in the risk environment, control effectiveness and potential risk issues before they crystallize and result in financial loss or other negative impact.

Operational losses, including near misses, are collected, analyzed and reported in order to reduce the likelihood of future recurrences and to strengthen risk management practices. The Company also proactively analyzes operational events in the industry and external environment to understand its exposure, if any, to similar events and takes steps to prevent such occurrences.

Operational risk issues and action plans across the Company are centrally captured, classified, monitored and reported upon.

Reporting and monitoring forms an integral part of the Company's operational risk management processes, which are designed to ensure that risks and issues are identified, escalated and managed on a timely basis. Regular reporting is in place with respect to the Company's current and emerging operational risks, key risk indicators, operational loss events, external event analyses, issues management, new initiative risk assessment, crisis management preparedness and third- party risk management.

Business Continuity and Crisis Management

The Company has implemented an all hazards-based business continuity and crisis management strategy to minimize the impact on our clients and operations in the event of a disruption or other adverse event.

Corporate Insurance

The Company maintains insurance coverage through a financial institution bond policy, which is reviewed at least annually for changes to coverage and the Company's operations.

Legislative and Regulatory Risk

Legislative and regulatory risk refers to the risk of non-compliance with an applicable legislative or regulatory requirement (law, regulation, guideline, an undertaking to a regulatory authority or provision, section, subsection, order, term or condition). This includes requirements that have been identified by the Governance, Risk and Compliance Committee and senior management that require the Company to do certain things, including conducting its affairs in a particular manner, and where non-compliance could have an impact on the Company's reputation and/or safety and soundness.

While all business units of the Company (as the first line of defence) are responsible for ensuring that legislative and regulatory risk is mitigated, the independent oversight of legislative and regulatory risk is principally managed by the CCO, CAMLO and the Corporate Compliance group as part of the Company's Compliance Framework.

Reputational Risk

Reputational risk is the risk that shareholders or the public will, with or without basis, judge the Company's operations or practices negatively, potentially resulting in a decline in its value, brand, liquidity, or customer base.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage any risk, regardless of the source, rather than a specific risk. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's strategic objectives.

The Company aims to safeguard its public reputation through its governance, compliance and risk management processes.

Risk Factors That May Affect Future Results

In addition to the risks described in this Risk Management section, there are numerous other risk factors: in particular, macroeconomic and industry factors beyond the Company's control, which could cause the Company's results to differ significantly from the Company's plans, objectives and estimates. All forward-looking statements, including those in this MD&A, are subject to inherent risks and uncertainties, general and specific, which may cause the Company's actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these external factors are discussed below.

Monetary and Fiscal Policy

The Company's earnings are affected by the monetary policy of the Bank of Canada and the fiscal policy of the federal government of Canada and other governments in Canada and abroad. Changes in the supply of money, government spending and the general level of interest rates can affect the Company's profitability. A change in the level of interest rates affects the interest spread between the Company's deposits and loans and, as a result, impacts the Company's net interest income. Changes in monetary and fiscal policy and in the financial markets are beyond the Company's control and are difficult to predict or anticipate.

Level of Competition

The Company's performance is impacted by the level of competition in the markets in which it operates. The Company currently operates in a highly competitive industry. Customer retention can be influenced by many factors, such as the pricing of products or services, changes in customer service levels, changes in products or services offered, and general trends in consumer demand.

Changes in Legislation and Regulations

Changes in legislation and regulations, including interpretation or implementation, could affect the Company by limiting the scale and scope of its products and services. Also, the Company's failure to comply with its legislative and regulatory requirements could result in sanctions and financial penalties that could adversely impact the Company's earnings and damage its reputation and ability to operate as a regulated entity.

Information Systems and Technology

The Company is highly dependent upon its information technology systems. The Company uses third-party software and software that it has developed or modified for its main operations, and relies on third parties for credit card processing, Internet connections and access to external networks. While the Company has well-designed and tested business continuity plans, should the Company experience significant disruptions outside its control in operations or connections of software, Internet or telecommunications for voice or data, this would impair its ability to provide service to clients. The longer and more severe the disruption, the more the Company's ability to conduct business would be impaired.

Accounting Policies and Estimates Used by the Company

The accounting policies and estimates the Company utilizes determine how the Company reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Company's results of operations and financial condition. More discussion is included in the Accounting Standards and Policies section and within the notes to the consolidated financial statements.

Ability to Attract and Retain Employees and Executives

The Company's future performance depends to a large extent on its ability to attract and retain key personnel. There is strong competition for the best people in the financial services sector. While there is no assurance that the Company will be able to continue to attract and retain key personnel, this remains a fundamental corporate priority.

ACCOUNTING STANDARDS AND POLICIES

The significant accounting policies are outlined in Note 2 to the consolidated financial statements included in this report. These policies are critical as they refer to material amounts and require management to make estimates.

Critical accounting estimates that require management to make significant judgements, some of which are inherently uncertain, are outlined in Note 2 to the consolidated financial statements included in this report. These estimates are critical as they involve material amounts and require management to make determinations that, by their very nature, include uncertainties. The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported. Actual results could differ from those estimates. Key areas where management has made estimates and applied judgement include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. In addition, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Most loans and other assets are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets. Certain loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39, *Financial Instruments*: *Recognition and Measurement* (IAS 39). Certain loans where residual interests in securitized transactions are sold are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred. Further information can be found under Notes 4, 5, 6, 9, 10, 14, 17, 19 and 21 to the consolidated financial statements.

Future Change in Accounting Standards

The new IFRS pronouncements that have been issued but are not yet effective and may have a future impact on the Company are discussed in Note 3 of the consolidated financial statements.

CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2014. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2014.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and receipts and expenditures are being made in accordance with authorizations of management and the Board of Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. As a result, the Company's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in conditions or that the degree of compliance with the policies and procedures may deteriorate.

The Company has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and COBIT, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

An evaluation of the design and operating effectiveness of internal controls over financial reporting was conducted as of December 31, 2014. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal controls over financial reporting were operating effectively as of December 31, 2014.

Changes in Internal Control over Financial Reporting

There were no significant changes in 2014 that have affected or could reasonably be expected to materially affect internal control over financial reporting.

Comparative Consolidated Financial Statements

The comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 audited consolidated financial statements. Please see Note 2 for further information.

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with GAAP, are not defined by GAAP, and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The non-GAAP measures used in this MD&A are defined as follows:

Adjusted Revenue, Adjusted Net Income, and Adjusted Earnings per Share

After-tax prepayment income associated with the sale of the water heater loans portfolio, after-tax charges associated with derivative restructuring related to IFRS conversion, after-tax charges related to the resolution of disputed loans to commercial condominium corporations and after-tax investment tax credit benefits are adjusted against revenue and net income to present adjusted revenue and adjusted net income. The reconciliation of net income to adjusted net income and the resulting adjusted earnings per share are presented below. Return on shareholders' equity and efficiency ratios are also presented on an adjusted basis. Please see the definitions below.

Reconciliation of Net Income to Adjusted Net Income

(000s, except % and per share amounts)	Quarter Q4 2014	Q3 2014	Change	Q4 2013	Change	Year 2014	2013	Change
Net income	**$ 95,936**	$ 73,755	30.1%	$ 68,827	39.4%	**$ 313,172**	$ 256,542	22.1%
Adjustment for derivative restructuring – IFRS conversion (net of tax)	**1,278**	106	1,105.7%	850	50.4%	**3,128**	5,873	(46.7)%
Adjustment for disputed loans to condominium corporations (net of tax)	**–**	–	–	–	–	**–**	1,508	(100.0)%
Adjustment for investment tax credit benefits (net of tax)	**–**	(2,426)	(100.0)%	(1,470)	(100.0)%	**(3,897)**	(6,190)	(37.0)%
Adjustment for sale of loan portfolio (net of tax)	**(24,019)**	–	–	–	–	**(24,019)**	–	–
Adjusted Net Income	**$ 73,195**	$ 71,435	2.5%	$ 68,207	7.3%	**$ 288,384**	$ 257,733	11.9%
Adjusted Basic Earnings per Share	**$ 1.04**	$ 1.02	2.0%	$ 0.98	6.1%	**$ 4.13**	$ 3.72	11.0%
Adjusted Diluted Earnings per Share	**$ 1.04**	$ 1.01	3.0%	$ 0.98	6.1%	**$ 4.09**	$ 3.68	11.1%

Allowance as a Percentage of Gross Loans

Allowance as a percentage of gross loans is calculated as the total allowance divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans except for loans held for sale.

Assets to Capital Multiple (ACM)

The ACM provided in this MD&A is that of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. The multiple reflects total regulatory assets, including specified off-balance sheet items net of other specified deductions, divided by Total regulatory capital.

Common Equity Tier 1, Tier 1, and Total Capital Ratios

The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 14(E) to the consolidated financial statements included in this report.

Efficiency or Productivity Ratio and Adjusted Efficiency or Productivity Ratio

Management uses the efficiency ratio as a measure of the Company's efficiency in generating revenue. This ratio represents non-interest expenses as a percentage of total revenue, net of interest expense. The Company also looks at the same ratio on a taxable equivalent basis and will include this adjustment in arriving at the efficiency ratio, on a taxable equivalent basis. In addition, the Company uses the adjusted efficiency ratio calculated using adjusted revenue. A lower ratio indicates better efficiency.

Liquid Assets

Liquid assets are unencumbered high-quality assets for which there is a broad and active secondary market available to the Company to sell these assets without incurring a substantial discount. Liquid assets are a dependable source of cash used by the Company when it experiences short-term funding shortfalls.

Market Capitalization

Market capitalization is calculated as the closing price of the Company's common shares multiplied by the number of common shares of the Company outstanding.

Net Interest Margin (Non-TEB)

Net interest margin is a measure of profitability of assets. Net interest margin is calculated by taking net interest income divided by the average total assets generating the interest income.

Net Interest Margin (TEB)

Net interest margin is a measure of profitability of assets. Net interest margin (TEB) is calculated by taking net interest income, on a taxable equivalent basis, divided by the average total assets generating the interest income.

Net Non-performing Loans as a Percentage of Gross Loans (NPL Ratio)

The NPL ratio is calculated as the total net non-performing loans divided by the gross on-balance sheet loans, which includes all on-balance sheet loans except for loans held for sale.

Provision as a Percentage of Gross Loans (PCL Ratio)

The PCL ratio is calculated as the total individual and collective provision expense divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans except for loans held for sale.

Provision as a Percentage of Gross Uninsured Loans

The provision as a percentage of gross uninsured loans ratio is calculated as the total individual and collective provision expense divided by the gross on-balance sheet uninsured loans outstanding.

Return on Assets (ROA)

Return on assets is a profitability measure that presents the annualized net income as a percentage of the average total assets for the period deployed to earn the income.

Return on Shareholders' Equity (ROE) and Adjusted Return on Shareholders' Equity

Return on equity is a profitability measure that presents the net income available to common shareholders as a percentage of the capital deployed to earn the income. The Company calculates its return on shareholders' equity using average common shareholders' equity, including all components of shareholders' equity. To calculate adjusted return on shareholders' equity, the Company uses adjusted net income.

Risk-weighted Assets (RWA)

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 14(E) to the consolidated financial statements included in this report.

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and discuss their financial results on a taxable equivalent basis (TEB) to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income principally from preferred and common equity securities. The adjustment to TEB used in this MD&A increases income and the provision for income taxes to what they would have been had the income from tax-exempt securities been taxed at the statutory tax rate. TEB adjustments of $4.1 million for 2014 ($4.0 million – 2013) increased interest income as used in the calculation of net interest margin. Net interest margin is discussed on a TEB throughout this MD&A. See Table 5 for the calculation of net interest income on a tax equivalent basis.

Total Assets under Administration (AUA)

Total assets under administration refers to all on-balance sheet assets plus all off-balance sheet loans that qualify for derecognition under IFRS.

Total Loans under Administration (LUA)

Total loans under administration refers to all on-balance sheet loans plus all off-balance sheet loans that qualify for derecognition under IFRS.

Glossary of Terms

Assets or Loans under Administration refer to assets or loans administered by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering financial institution, plus all assets or loans beneficially owned by the Company and carried on the balance sheets.

Average Earning Assets represent the monthly average balance of deposits with other banks and loans and securities over a relevant period.

Basis Point is one-hundredth of a percentage point.

Canada Deposit Insurance Corporation (CDIC) is a Canadian federal Crown corporation created to protect qualifying deposits made with member financial institutions in case of their failure.

Collective Allowance (previously referred to as the General Allowance) is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of the various loan portfolios that the Company manages.

Derivatives used by the Company are contracts whose value is "derived" from movements in interest rates. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates.

Forwards used by the Company are contractual agreements to either buy or sell a specified amount of an interest-rate-sensitive financial instrument or security at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Hedging is a risk management technique used by the Company to neutralize, manage or offset interest rate, equity, or credit exposures arising from normal banking activities.

Impaired or Non-performing Loans are loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Individual Allowances (previously referred to as Specific Allowances) reduce the carrying value of individual credit assets to the amount expected to be recovered if there is evidence of deterioration in credit quality.

Insured Loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio. The Company's insured lending includes single-family homes and multi-unit residential properties.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts. The principal does not change hands under the terms of a derivative contract.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the government agency responsible for regulation and supervision of banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in a portfolio of loans and other credit instruments, given the composition of the portfolio, the probability that default has occurred, the economic environment and the allowance for credit losses already established.

Securitization is the practice of selling pools of contractual debts, such as residential or commercial mortgages, to third parties.

Swaps are contractual agreements between two parties to exchange a series of cash flows. The only type of swap agreements used by the Company are interest rate swaps where counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency.

Acronyms

ALCO Asset/Liability Committee
AOCI Accumulated Other Comprehensive Income
CDIC Canada Deposit Insurance Corporation
CMB Canada Mortgage Bond
CMHC Canada Mortgage and Housing Corporation
COSO Committee of Sponsoring Organizations of the Treadway Commission
CVA Credit Valuation Adjustment
ERM Enterprise Risk Management
GAAP Generally Accepted Accounting Principles
GIC Guaranteed Investment Certificate
HELOC Home Equity Line of Credit
IASB International Accounting Standards Board
IFRS International Financial Reporting Standards
LTV Loan to Value (ratio expressed as a percentage)
MBS Mortgage-Backed Security
MD&A Management's Discussion and Analysis
NCCF Net Cumulative Cash Flow
NHA National Housing Authority
OCI Other Comprehensive Income
OSFI Office of the Superintendent of Financial Institutions Canada
TEB Taxable Equivalent Basis

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

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Management's Responsibility for Financial Information

The consolidated financial statements and Management's Discussion and Analysis (MD&A) of Home Capital Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for publicly accountable enterprises, which are International Financial Reporting Standards as issued by the International Accounting Standards Board, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. The consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this report is consistent with that in the consolidated financial statements. The MD&A has been prepared according to the requirements of securities regulators.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that the transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of business conduct and ethics and appropriate management information systems. Management has formed a disclosure committee, chaired by the Chief Financial Officer, which reviews all of the Company's financial disclosures for fairness before release to the Board or shareholders.

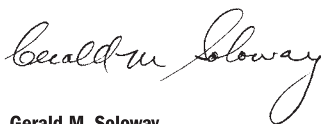
The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by an enterprise risk management function that monitors proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal audit function periodically assesses various aspects of the Company's operations and makes recommendations to management for, among other things, improvements to the control systems. As at December 31, 2014, the Company's Chief Executive Officer and Chief Financial Officer have determined that the Company's internal control over financial reporting is effective.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that Home Trust Company is in a sound financial position and that it complies with the provisions of the Trust and Loan Companies Act (Canada).

Ernst & Young LLP, independent auditors appointed by the shareholders, perform an annual audit of the Company's consolidated financial statements and their report follows.

The internal auditors, the Chief Compliance Officer, the external auditors and the Office of the Superintendent of Financial Institutions Canada meet periodically with the Audit Committee and/or the Board of Directors, with management either present or absent, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and Management's Discussion and Analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls and risk management as well as assessment of significant transactions and related party transactions through its Audit Committee. The Audit Committee is composed solely of independent Directors. The Audit Committee is responsible for selecting the shareholders' auditors.



Gerald M. Soloway
Chief Executive Officer
Toronto, Canada
February 11, 2015

Robert Morton, CPA, CMA
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of **Home Capital Group Inc**.

We have audited the accompanying consolidated financial statements of Home Capital Group Inc., which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

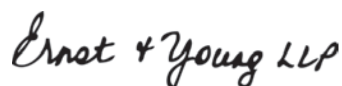
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Home Capital Group Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 11, 2015

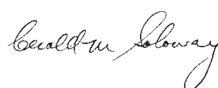
Consolidated Balance Sheets

thousands of Canadian dollars	As at December 31 2014	 December 31 2013
ASSETS		
Cash and Cash Equivalents (note 4(A))	**$ 360,746**	$ 733,172
Available for Sale Securities (notes 4(B) and (C))	**582,819**	424,272
Loans Held for Sale	**102,094**	137,975
Loans (note 5)		
Securitized mortgages (note 6(A))	**3,945,654**	5,210,021
Non-securitized mortgages and loans	**14,317,162**	12,671,905
	18,262,816	17,881,926
Collective allowance for credit losses (note 5(E))	**(34,100)**	(31,500)
	18,228,716	17,850,426
Other		
Restricted assets (note 7)	**421,083**	648,283
Derivative assets (note 19)	**38,534**	29,886
Other assets (note 8)	**235,616**	162,679
Goodwill and intangible assets (notes 9 and 10)	**113,136**	89,157
	808,369	930,005
	$20,082,744	$20,075,850
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (note 11)		
Deposits payable on demand	**$ 1,064,152**	$ 429,269
Deposits payable on a fixed date	**12,875,819**	12,336,685
	13,939,971	12,765,954
Senior Debt (note 12)	**152,026**	153,474
Securitization Liabilities (note 6(B))		
Mortgage-backed security liabilities	**471,551**	660,964
Canada Mortgage Bond liabilities	**3,831,912**	5,112,100
	4,303,463	5,773,064
Other		
Derivative liabilities (note 19)	**2,266**	3,809
Other liabilities (note 13)	**199,831**	167,427
Deferred tax liabilities (note 17(C))	**36,554**	34,425
	238,651	205,661
	18,634,111	18,898,153
Shareholders' Equity		
Capital stock (note 14)	**84,687**	70,233
Contributed surplus	**3,989**	5,984
Retained earnings	**1,378,562**	1,119,959
Accumulated other comprehensive loss (note 16)	**(18,605)**	(18,479)
	1,448,633	1,177,697
	$20,082,744	$20,075,850

Commitments and Contingencies (note 18)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:



Gerald M. Soloway
Chief Executive Officer

Robert A. Mitchell
Chair of Audit Committee

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts	For the year ended December 31 2014	December 31 2013
Net Interest Income Non-Securitized Assets		
Interest from loans (note 5(F))	**$ 717,798**	$ 629,247
Dividends from securities	**11,426**	11,165
Other interest	**13,912**	8,283
	743,136	648,695
Interest on deposits and other	**311,494**	268,233
Interest on senior debt	**6,392**	6,612
Net interest income non-securitized assets	**425,250**	373,850
Net Interest Income Securitized Loans and Assets		
Interest income from securitized loans and assets (note 5(F))	**166,491**	225,793
Interest expense on securitization liabilities	**132,212**	177,664
Net interest income securitized loans and assets	**34,279**	48,129
Total Net Interest Income	**459,529**	421,979
Provision for credit losses (note 5(E))	**13,134**	15,868
	446,395	406,111
Non-Interest Income		
Fees and other income	**71,241**	61,252
Securitization income (note 6(C))	**26,845**	12,648
Prepayment income on portfolio sale (note 5(H))	**32,675**	–
Net realized and unrealized gains on securities	**3,425**	2,589
Net realized and unrealized loss on derivatives (note 19)	**(827)**	(1,430)
	133,359	75,059
	579,754	481,170
Non-Interest Expenses		
Salaries and benefits	**80,769**	70,954
Premises	**11,866**	9,901
Other operating expenses	**69,617**	62,883
	162,252	143,738
Income Before Income Taxes	**417,502**	337,432
Income taxes (note 17(A))		
Current	**102,201**	82,128
Deferred	**2,129**	(1,238)
	104,330	80,890
NET INCOME	**$ 313,172**	$ 256,542
NET INCOME PER COMMON SHARE (note 14(D))		
Basic	**$ 4.48**	$ 3.70
Diluted	**$ 4.45**	$ 3.66
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (note 14(D))		
Basic	**69,857**	69,340
Diluted	**70,432**	70,046
Total number of outstanding common shares (note 14(B))	**70,096**	69,488
Book value per common share	**$ 20.67**	$ 16.95

During Q1 2014, the Company paid a stock dividend of one common share per each issued and outstanding common share. Accordingly, both basic and diluted net income per common share is reduced to half and the number of shares disclosed is doubled for all periods ending before Q1 2014 presented for comparative purposes.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

thousands of Canadian dollars	For the year ended **December 31 2014**	December 31 2013
NET INCOME	**$ 313,172**	$ 256,542
OTHER COMPREHENSIVE LOSS		
Available for Sale Securities and Retained Interests		
Net unrealized gains (losses)	**2,854**	(19,530)
Net gains reclassified to net income	**(3,425)**	(2,584)
	(571)	(22,114)
Income tax recovery	**(152)**	(5,859)
	(419)	(16,255)
Cash Flow Hedges (note 19)		
Net unrealized (losses) gains	**(1,061)**	702
Net losses reclassified to net income	**1,461**	1,362
	400	2,064
Income tax expense	**107**	543
	293	1,521
Total other comprehensive loss	**(126)**	(14,734)
COMPREHENSIVE INCOME	**$ 313,046**	$ 241,808

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized (Losses) Gains on Securities and Retained Interests Available for Sale, After Tax	Net Unrealized Losses on Cash Flow Hedges, After Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2013	**$ 70,233**	**$ 5,984**	**$1,119,959**	**$ (15,823)**	**$ (2,656)**	**$ (18,479)**	**$1,177,697**
Comprehensive income	**–**	**–**	**313,172**	**(419)**	**293**	**(126)**	**313,046**
Stock options settled (notes 14(B), 15(C))	**14,488**	**(3,895)**	**–**	**–**	**–**	**–**	**10,593**
Amortization of fair value of employee stock options	**–**	**1,900**	**–**	**–**	**–**	**–**	**1,900**
Repurchase of shares (note 14(C))	**(34)**	**–**	**(1,356)**	**–**	**–**	**–**	**(1,390)**
Dividends ($0.70 per share)	**–**	**–**	**(53,213)**	**–**	**–**	**–**	**(53,213)**
Balance at December 31, 2014	**$ 84,687**	**$ 3,989**	**$1,378,562**	**$ (16,242)**	**$ (2,363)**	**$ (18,605)**	**$1,448,633**
Balance at December 31, 2012	$ 61,903	$ 6,224	$ 903,831	$ 432	$ (4,177)	$ (3,745)	$ 968,213
Comprehensive income	–	–	256,542	(16,255)	1,521	(14,734)	241,808
Stock options settled (notes14(B), 15(C))	8,400	(2,202)	–	–	–	–	6,198
Amortization of fair value of employee stock options	–	1,962	–	–	–	–	1,962
Repurchase of shares (note 14(C))	(70)	–	(2,232)	–	–	–	(2,302)
Dividends ($0.54 per share)	–	–	(38,182)	–	–	–	(38,182)
Balance at December 31, 2013	$ 70,233	$ 5,984	$1,119,959	$ (15,823)	$ (2,656)	$ (18,479)	$1,177,697

During Q1 2014, the Company paid a stock dividend of one common share per each issued and outstanding common share.

Accordingly, dividends per share, presented for comparative purposes are reduced by half for all periods prior to the stock dividend.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

thousands of Canadian dollars	For the year ended December 31 2014	 December 31 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 313,172**	$ 256,542
Adjustments to determine cash flows relating to operating activities:		
Amortization of net premium on securities	**1,001**	2,562
Provision for credit losses	**13,134**	15,868
Prepayment income on portfolio sale	**(32,675)**	–
Gain on sale of mortgages or residual interest	**(23,712)**	(11,010)
Net realized and unrealized gains on securities	**(3,425)**	(2,589)
Amortization of capital and intangible assets	**10,387**	11,368
Amortization of fair value of employee stock options	**1,900**	1,962
Deferred income taxes	**2,129**	(1,238)
Changes in operating assets and liabilities		
Loans, net of securitization and sales	**(299,376)**	(863,438)
Restricted assets	**227,200**	70,227
Derivative assets and liabilities	**(9,791)**	18,989
Accrued interest receivable	**(1,951)**	(1,388)
Accrued interest payable	**60**	13,624
Deposits	**1,174,017**	2,629,355
Securitization liabilities	**(1,469,601)**	(1,562,831)
Taxes receivable or payable and other	**(41,867)**	(65,500)
Cash flows (used in) provided by operating activities	**(139,398)**	512,503
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(1,390)**	(2,302)
Exercise of employee stock options	**10,593**	6,198
Dividends paid to shareholders	**(48,922)**	(37,458)
Cash flows used in financing activities	**(39,719)**	(33,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(542,558)**	(182,382)
Proceeds from sales	**206,020**	38,400
Proceeds from maturities	**178,772**	112,094
Purchases of capital assets	**(3,080)**	(7,801)
Capitalized intangible development costs	**(32,463)**	(14,926)
Cash flows used in investing activities	**(193,309)**	(54,615)
Net (decrease) increase in cash and cash equivalents during the year	**(372,426)**	424,326
Cash and cash equivalents at beginning of the year	**733,172**	308,846
Cash and Cash Equivalents at End of the Year (note 4 (A))	**$ 360,746**	$ 733,172
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 9,750**	$ 9,022
Interest received	**895,851**	861,424
Interest paid	**450,038**	438,885
Income taxes paid	**81,320**	108,243

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(unless otherwise stated, all amounts are in Canadian dollars)

NOTE 1 CORPORATE INFORMATION

Home Capital Group Inc. (the Company) is a public corporation traded on the Toronto Stock Exchange. The Company is incorporated and domiciled in Canada with its registered and principal business offices located at 145 King Street West, Suite 2300, Toronto, Ontario. The Company operates primarily through its federally regulated subsidiary, Home Trust Company (Home Trust), which offers residential and non-residential mortgage lending, securitization of insured residential first mortgage products, consumer lending and credit card products. In addition, Home Trust offers deposits via brokers and financial planners, and through its direct to consumer deposit brand, Oaken Financial. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba. The Company is the ultimate parent of the group.

These consolidated financial statements for the year ended December 31, 2014 were authorized for issuance by the Board of Directors (the Board) of the Company on February 11, 2015. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

Subsequent to the end of the year and before the date these consolidated financial statements were authorized for issuance, the Board of Directors declared a quarterly cash dividend of $15.4 million or $0.22 per common share payable on March 1, 2015 to shareholders of record at the close of business on February 23, 2015.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises which are International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The accounting policies were consistently applied to all periods presented unless otherwise noted. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 consolidated financial statements. The consolidated financial statements reflect the impact of the stock dividend paid on a one-for-one basis during the first quarter of 2014 on the Company's issued and outstanding common shares. Accordingly, both basic and diluted earnings per share were restated to half and the number of shares was restated to double the amounts previously disclosed for the year ended December 31, 2013, that have been presented for comparative presentation purposes.

Use of Judgement and Estimates

Management has exercised judgement in the process of applying the Company's accounting policies. In particular, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Certain securitized loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred through the two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Key areas where management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances.

Subsidiaries are entities the Company controls. The Company has control when it has power over the entity, has exposure or rights to variable returns from its involvement and has the ability to use its power over the entity to affect returns. The subsidiaries included in the consolidated financial statements are Home Trust and PSiGate, both of which are wholly owned.

Cash and Cash Equivalents

For the purposes of the consolidated financial statements, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at amortized cost, which approximates fair value due to the short-term nature of the instruments. Interest income is recognized using the effective interest rate method and, to the extent not received at year-end, is recorded as a receivable in other assets on the consolidated balance sheets.

Securities

Securities are classified as either held for trading or available for sale, based on management's intentions. On the trade date, all securities are recognized at their fair value, which is normally the transaction price.

Held for trading securities are financial assets purchased for resale, generally within a short period of time, and primarily held for liquidity purposes. Interest earned is included in other interest income. Held for trading securities are measured at fair value, using published bid prices, as at the consolidated balance sheet date. All realized and unrealized gains and losses are reported in income under non-interest income. Transaction costs are expensed as incurred. The Company has not elected under the fair value option to designate any financial asset or liability as held for trading, nor does the Company have any securities classified as held for trading.

Available for sale securities are financial assets purchased for longer-term investment that may be sold in response to or in anticipation of changes in market conditions. Dividends and interest earned are included in dividends from securities or other interest income. Available for sale securities are measured at their fair value, using published bid prices, as at the consolidated balance sheet dates. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income (AOCI) until the security is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to net income. Transaction costs are capitalized.

At the end of each reporting period, the Company conducts a review to assess whether there is any objective evidence that an available for sale security is impaired. Objective evidence of impairment results from one or more events that occur after the initial recognition of the security and which event (or events) has an impact that can be reliably estimated on the estimated future cash flows of the security. Such objective evidence includes observable data that comes to the attention of the Company, such as significant financial difficulty of the issuer of the security. In the case of equity securities, objective evidence of impairment includes a significant or prolonged decline in the fair value of the security below its cost. The determination of what is significant or prolonged is based on management's judgement. Generally, management considers a significant decline to be 20% or more and a prolonged decline to be 12 months or more.

When there is objective evidence of an impairment of an available for sale security, any cumulative loss that has been recognized in other comprehensive income (OCI) is reclassified from AOCI to net income. The amount of the cumulative loss reclassified is the difference between the acquisition cost (net of any principal repayment, amortization and cumulative losses recognized in net income) and current fair value. In the case of debt securities, subsequent increases in fair value that can be objectively related to an event occurring after the impairment loss was recognized result in a reversal of the impairment loss through net income. Impairment losses on equity securities are not subsequently reversed through net income.

Obligations Related to Securities Sold under Repurchase Agreements

The purchase and sale of securities under sale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the consolidated statements of income.

Loans Held for Securitization and Sale

When identifiable, loans which the Company has the intention of securitizing and derecognizing from the consolidated balance sheets in the near term are classified as held for trading for accounting purposes and are carried at fair value. Unrealized gains and losses resulting from the change in fair value of these loans are reported as securitized income in non-interest income on the consolidated statements of income. Interest income earned on these loans is included in interest from loans. The fair value of loans held for trading is determined by discounting the expected future cash flows of the loans at market rates for financial instruments with similar terms and credit risk.

Loans

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan. Origination revenues and costs are applied to the carrying amount of the loan.

Loans are carried net of the individual allowance for credit losses and any unearned income.

Interest income is accrued as earned with the passage of time and continues to accrue when a loan is considered impaired (with an appropriate allowance for credit loss as discussed below).

A loan is recognized as being impaired (non-performing) when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, an uninsured mortgage, or retail or Equityline *Visa* loan is deemed to be impaired at the earlier of the date it has been individually provided for or when it has been in arrears for 90 days. Single-family and multi-unit residential mortgages (including securitized mortgages) guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. Material credit losses are generally not anticipated on insured mortgages. Secured and unsecured credit card balances that have a payment that is contractually 120 days in arrears are individually provided for, and those that have a payment that is 180 days in arrears are written off.

When loans are classified as impaired, the book value of such loans is adjusted to their estimated realizable value based on the fair value of any security underlying the loan, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for loan losses as described below.

An impaired loan is not returned to an unimpaired status unless all principal and interest payments are up to date, and management is reasonably assured of the recoverability of the loan.

Allowance for Credit Losses

An allowance for credit losses is maintained at an amount that, in management's opinion, is considered adequate to absorb all credit-related losses that have occurred in the portfolio, whether or not detected at the period end, including accrued interest on impaired loans. Allowances are mainly related to loans but may also apply to other assets. The allowance consists of accumulated individual and collective allowances, each of which is reviewed at least quarterly. The collective allowance is deducted from total loans on the consolidated balance sheets.

Individual Allowances

Individual allowances are determined on an item-by-item basis and reflect the associated estimate of credit loss. In the case of loans and Equityline *Visa* credit cards, the individual allowances are the amounts required to reduce the carrying value of an impaired asset, including accrued interest, to its estimated realizable amount. The fair value of the underlying security is used to estimate the realizable amount of the receivable. The allowance is the difference between the receivable's carrying value, including accrued interest, and its estimated realizable amount. For secured and unsecured credit card receivables, individual allowances are provided for arrears over 120 days.

Collective Allowances

Collective allowances are established to absorb credit losses on the aggregate exposures in each of the Company's loan portfolios for which losses have been incurred but not yet individually identified. The collective allowance takes into account asset quality, borrower creditworthiness, property location, past loss experience, current and forecasted probability of default and exposure at default based on product, risk ratings, credit scores, current economic conditions, and management's judgement. The collective allowance, based on the historical loss experience adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions.

The provision for credit losses that is charged to the consolidated statements of income is the amount required to establish a balance in the allowance for credit losses account that the Company's management considers adequate to absorb all credit-related losses in its portfolio of balance sheet items after charging amounts written off during the year, net of any recoveries, to the allowance for credit losses account.

Securitized Loans and Securitization Liabilities

The Company periodically securitizes mortgages and sells the securities to investors or Canada Mortgage and Housing Corporation (CMHC)-sponsored entities. Mortgage loan securitization is part of the Company's liquidity and funding strategy.

In the absence of sales of retained interests (see below), most transfers of pools of mortgages under the current programs do not result in derecognition of the mortgages from the Company's consolidated balance sheets. As such, these transactions result in the recognition of securitization liabilities when cash is received from the securitization entities. Such mortgages are reclassified to securitized residential mortgages on the consolidated balance sheets and continue to be accounted for as loans, as described above.

The securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability. Also included in securitization liabilities on the consolidated balance sheets are amounts related to fair value hedge accounting that increase or decrease the carrying amount of the securitization liability. Please see Note 19 for more information.

In certain cases, the Company's remaining involvement is quite limited, although it has not transferred substantially all of its risks and rewards in the underlying loans and it has retained control, as defined by IAS 39. Such mortgages are securitized and sold and the Company has residual interest and servicing responsibilities for the assets sold, with very little exposure to variable cash flows. The Company accounts for its continuing involvement as retained interests and servicing liabilities on the consolidated balance sheets. Gains or losses on these transactions are recognized as securitization income in non-interest income on the consolidated statements of income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs. Retained interests are classified as available for sale assets and are stated at their fair value with unrealized gains and losses reported in AOCI. The fair value of the retained interests is estimated using discounted cash flow methodology. Retained interests are revalued quarterly to assess for impairment.

In certain circumstances, the Company sells its retained interest arising from securitization transactions. When this results in the Company transferring substantially all of the risks and rewards of ownership associated with the underlying mortgages, the mortgages are derecognized and a resulting gain or loss is recorded. These gains or losses are recognized as securitization income in non-interest income on the consolidated statements of income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer.

Restricted Assets

Restricted assets include cash or cash equivalents and securities that are contractually restricted, such as collateral associated with derivative transactions and participation in securitization programs. Restricted assets also include cash, non-Home Trust MBS or treasury bills pledged as Canada Mortgage Bond replacement assets. The accounting treatment for cash and securities is described above.

Derivatives Held for Risk Management Purposes

The Company utilizes derivatives to manage interest rate risk. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value. The Company applies hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39. The Company utilizes two types of hedge relationships for accounting purposes, fair value hedges and cash flow hedges. If derivative instruments do not meet all of the criteria for hedge accounting, the changes in fair value of such derivatives are recognized in net income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, the Company has decided that there must be a correlation of between 80% and 125% in the changes in fair values or cash flows between the hedged and hedging items.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, at least quarterly. Hedge ineffectiveness occurs when the changes in the fair value of the hedging item (derivative) differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in income.

Fair Value Hedges

Fair value hedges generally use interest rate swap derivatives to hedge changes in the fair value of fixed-rate assets or liabilities (the "hedged items") attributable to interest rate risk. Changes in fair value of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in "net realized and unrealized gain (loss) on derivatives". Changes in fair value of the hedging item (interest rate swap) are also recognized in "net realized and unrealized gain or loss on derivatives".

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in income immediately.

Cash Flow Hedges

Cash flow hedges generally use bond forwards or interest rate swaps to hedge changes in future cash flows attributable to interest rate fluctuations arising on highly probable forecasted issuances of fixed-rate liabilities.

The effective portion of the change in fair value of the derivative instrument is recognized in OCI until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, an appropriate amount of the fair value changes of the derivative instrument is reclassified from AOCI into income. Any hedge ineffectiveness is immediately recognized in non-interest income. If the forecasted issuance of fixed-rate liabilities is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in income.

Capital Assets

Capital assets, which comprise office furniture and equipment, computer equipment and software, and leasehold improvements, are recorded at cost and amortized over their estimated useful lives on a straight-line basis. The ranges of useful lives for each asset type are as follows:

Office furniture and equipment	5 to 10 years
Computer equipment and purchased software	3 to 7 years

Leasehold improvements are amortized on a straight-line basis over the remaining term of the lease.

The Company assesses, at each reporting period date, whether there is an indication that a capital asset may be impaired. If any indication of impairment exists, the Company performs an impairment test to determine whether an impairment loss is required to be recognized. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Capital Assets and Intangible Assets.

Intangible Assets (internally developed software costs)

The Company's intangible assets comprise internally developed software costs. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company. In addition, the Company capitalizes borrowing costs directly attributable to the intangible assets flowing to the Company by applying a capitalization rate to the expenditures on the intangible assets. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Company's software development costs are considered to have finite useful lives and are amortized on a straight-line basis over their useful lives, generally not exceeding 10 years, with the exception of the core banking system, which has a useful life of 15 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful lives are accounted for by changing the amortization period, as appropriate, and treated as changes in accounting estimates. Amortization expense is included in other operating expenses in the consolidated statements of income.

The Company capitalizes eligible development costs related to software projects. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with development. The Company commences amortization of these costs over the appropriate useful life when development of the asset is substantially complete and the asset becomes available for use in the manner intended by management. Overhead costs, costs incurred during the research phase, costs to train staff to operate the asset and costs incurred after the software was substantially completed and available for use are expensed as incurred.

The Company assesses, at each reporting period date, whether there is an indication that an intangible asset may be impaired. If any indication of impairment exists, the Company performs an impairment test to determine whether an impairment loss is required to be recognized. In relation to development costs for software that is not yet available for use, the Company performs an impairment test on an annual basis as well as when indications of impairment exist. Such annual impairment tests will continue until the software is available for use. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Capital Assets and Intangible Assets.

Goodwill

Goodwill is initially measured as the excess of the price paid for the acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets acquired. Goodwill is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each unit to which the goodwill has been allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing whether the carrying amount of a CGU, including the allocated goodwill, exceeds its recoverable amount. The recoverable amount is determined as the greater of the estimated fair value less the costs of disposal or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying amount of goodwill, and any excess is allocated pro rata to the carrying amount of other assets in the CGU, on the basis of the carrying amount of each asset in the unit. Any goodwill impairment is charged to income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Impairment of Capital Assets and Intangible Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. If it is not possible to determine the recoverable amount of the individual asset, the Company determines the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use, where value in use is the present value of the future cash flows expected to be derived from the asset or the CGU. Where the carrying amount of the asset or the CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

Deposits

Deposits are financial liabilities that are measured at cost using the effective interest rate method. Deposit origination costs are included in deposits on the consolidated balance sheets as incurred and amortized to interest expense over the term of the deposit.

Senior Debt

Senior debt is carried at amortized cost, including the principal amount received on issue, plus accrued interest and costs incurred on issue, less repayments of principal and interest, amortization of issue costs and any premium or discount to the face amount of the debt. Issue costs and premiums or discounts are amortized to income using the effective interest rate method. Also included in senior debt on the consolidated balance sheets are amounts related to fair value hedge accounting that increases or decreases the carrying amount of the senior debt. Please see Note 19 for more information.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled. Deferred tax assets are only recognized for deductible temporary differences, carry forward of unused tax credits and losses to the extent that it is probable that taxable profit will be available and the carry forward of unused tax credits and losses can be utilized.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the principal market or most advantageous market that is accessible to the Company for the asset or liability.

Valuation techniques used to determine fair value maximize the use of relevant observable inputs and minimize the use of unobservable inputs. If the asset or liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure the fair value. Please see Note 21 for more information on the specific valuation techniques used to determine fair value and the related inputs for each class of assets or liabilities where fair value is disclosed.

Inputs for valuation techniques used to measure fair value are categorized into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Please see Note 21 for more information. When inputs used to measure the fair value of an asset or liability are categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fee Income

Fee income is accrued and recognized as income as the associated services are rendered.

Stock-based Compensation Plans

The Company has stock-based compensation plans, which are described in Note 15.

The Company's Employee Stock Option Plan provides for the granting of stock options to certain employees of the Company. In some cases, stock appreciation rights are also granted in tandem with the stock option, providing the Company with, at its sole discretion, the alternative of settling the award in cash at an amount equal to the excess of the market price of the shares to which the option relates over the exercise price of the option. The Company accounts for stock options, including those with tandem stock appreciation rights, as equity-settled transactions where the fair value of options granted is charged to salary expense over the option vesting period, with the offsetting amount recognized in contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized separately over its respective vesting period. For each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the consolidated statements of income with a corresponding adjustment to equity. The fair value of the options granted is determined using a Black-Scholes option pricing model.

The Company offers a deferred share unit (DSU) plan that is only open to non-employee Directors of the Company who annually elect to accept remuneration in the form of cash, cash and DSUs or DSUs. The Company accounts for the DSUs as cash-settled transactions. Under the plan, the obligations for the DSUs are accrued quarterly based on the Directors' remuneration for the quarter. The obligations are periodically adjusted for fluctuations in the market price of the Company's common shares and allow for dividend equivalents. Changes in obligations under the plan are recorded as salaries and benefits in the consolidated statements of income, with a corresponding increase in other liabilities on the consolidated balance sheets.

The Company grants restricted share units (RSUs) to certain key members of management. RSUs are settled in cash equivalents of common shares. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as dividends on common shares. Changes in the obligation resulting from changes in the market price of common shares are recognized in the consolidated statement of income as compensation expense, proportionally to the amount of the reward recognized.

The Company grants performance share units (PSUs) to certain key members of management. PSUs are settled in cash equivalents of common shares. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as dividends on common shares. Changes in the obligation resulting from changes in the market price of common shares are multiplied by a performance factor ranging from 0% to 200% and are recognized in the consolidated statements of income as compensation expense, proportionally to the amount of the reward recognized.

Employee Benefit Plans

Under both the Employee Share Ownership Plan and the Employee Retirement Savings Plan, the Company's contribution is expensed when paid. Please see Note 15 for more information.

Earnings per Share

Both basic and diluted earnings per share (EPS) are presented for the Company's common shares. Basic income per common share is determined as net income for the year divided by the average number of common shares outstanding for the year.

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding plus the stock options potentially exercisable for the year, as determined under the treasury stock method. The treasury stock method determines the net number of incremental common shares that could be purchased with the assumption that all in-the-money stock options are exercised and the proceeds are used to purchase common shares at the average market price during the year.

NOTE 3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at December 31, 2014 and therefore have not been applied in preparing these consolidated financial statements.

IFRS 9 *Financial Instruments*

The Company will be required to adopt IFRS 9, *Financial Instruments* (IFRS 9), including classification and measurement, impairment and hedge accounting for annual periods beginning on or after January 1, 2018. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

The Company will be required to adopt IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), which provides a single-principle-based framework that applies to contracts with customers, for annual periods beginning on or after January 1, 2017. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements*

The Company will be required to adopt amendments to IAS 1, *Presentation of Financial Statements*, which includes amendments to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements, for annual periods beginning on or after January 1, 2016.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

The Company will be required to adopt amendments to IFRS 7, *Financial Instruments: Disclosures*, requiring increased disclosure regarding continuing involvement accounting, for annual periods beginning on or after January 1, 2016.

NOTE 4 CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars	**December 31 2014**	December 31 2013
Cash and Cash Equivalents		
Deposits with regulated financial institutions	**$ 360,746**	$ 733,172
Cash resources unrestricted to Company use	**$ 360,746**	$ 733,172

The Company has a revolving term credit facility with a Canadian chartered bank in the amount of $50 million, which is available to the Company subject to meeting certain financial ratio requirements. As at December 31, 2014, all ratio requirements have been met and no amounts have been drawn against the borrowing facility.

The Company also has a committed insured mortgage purchase facility with a Canadian chartered bank in the amount of $300 million at December 31, 2014 (nil – December 31, 2013). This facility is used by the Company to fund insured mortgage loans until such time as they can be securitized. Proceeds from securitized loans are used to pay down the facility. As at December 31, 2014, this facility was undrawn.

(B) Available for Sale Securities at Fair Value by Type and Remaining Term to Maturity and Rate Reset Date

					December 31 2014	December 31 2013
thousands of Canadian dollars	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	Total Fair Value
Debt securities	**$ 15,011**	**$ 5,713**	**$ 314,026**	**$ –**	**$ 334,750**	$ 149,559
Equity securities	**97,931**	**108,147**	**39,951**	**2,040**	**248,069**	273,058
Mutual funds	**–**	**–**	**–**	**–**	**–**	1,655
	$ 112,942	**$ 113,860**	**$ 353,977**	**$ 2,040**	**$ 582,819**	$ 424,272

(C) Available for Sale Securities – Net Unrealized Gains and Losses

					As at December 31, 2014
thousands of Canadian dollars, except %	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
Debt securities	$ 333,485	$ 1,521	$ (256)	$ 334,750	1.8%
Equity securities	272,380	565	(24,876)	248,069	3.8%
	$ 605,865	$ 2,086	$ (25,132)	$ 582,819	

					As at December 31, 2013
thousands of Canadian dollars, except %	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
Debt securities	$ 149,501	$ 58	$ –	$ 149,559	1.4%
Equity securities	294,748	25	(21,715)	273,058	4.7%
Mutual funds	1,001	654	–	1,655	–
	$ 445,250	$ 737	$ (21,715)	$ 424,272	

Net unrealized gains and losses (excluding impairment losses which are transferred to net income) are included in accumulated other comprehensive income and presented in the table above. These unrealized gains and losses are not included in net income. Please see Note 16 for more information.

The unrealized gains or losses included above represent the differences between the cost of a security and its current fair value. The Company regularly monitors its investments and market conditions for indications of impairment.

For the year ended December 31, 2014, the Company recognized $0.1 million (2013 – $0.2 million) of impairment losses on available for sale securities.

NOTE 5 LOANS

(A) Loans by Geographic Region and Type (net of individual allowances for credit losses)

As at December 31, 2014

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	**$ 218,927**	**$ 182,797**	**$ 2,376,966**	**$ 127,999**	**$ 83,430**	**$ 2,990,119**
Securitized multi-unit residential mortgages	**133,838**	**72,615**	**480,693**	**79,128**	**189,261**	**955,535**
Total securitized mortgages	**352,765**	**255,412**	**2,857,659**	**207,127**	**272,691**	**3,945,654**
Single-family residential mortgages	**661,661**	**445,390**	**10,737,812**	**392,998**	**212,667**	**12,450,528**
Residential commercial mortgages[1]	**7,972**	**36,869**	**147,697**	**22,645**	**28,135**	**243,318**
Non-residential commercial mortgages	**9,956**	**45,263**	**1,001,141**	**10,422**	**40,096**	**1,106,878**
Credit card loans	**5,829**	**16,505**	**302,699**	**1,477**	**3,817**	**330,327**
Other consumer retail loans	**826**	**2,204**	**182,576**	**–**	**505**	**186,111**
Total non-securitized mortgages and loans[2]	**686,244**	**546,231**	**12,371,925**	**427,542**	**285,220**	**14,317,162**
	$ 1,039,009	**$ 801,643**	**$15,229,584**	**$ 634,669**	**$ 557,911**	**$18,262,816**
As a % of portfolio	**5.7%**	**4.4%**	**83.4%**	**3.5%**	**3.0%**	**100.0%**

As at December 31, 2013

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 334,511	$ 256,770	$ 2,835,878	$ 192,751	$ 100,187	$ 3,720,097
Securitized multi-unit residential mortgages	201,181	191,910	706,883	186,521	203,429	1,489,924
Total securitized mortgages	535,692	448,680	3,542,761	379,272	303,616	5,210,021
Single-family residential mortgages	536,212	367,211	9,391,757	360,657	191,530	10,847,367
Residential commercial mortgages[1]	8,897	16,192	135,133	28,689	7,969	196,880
Non-residential commercial mortgages	7,753	38,660	881,702	16,234	49,861	994,210
Credit card loans	7,230	19,324	262,016	1,260	3,655	293,485
Other consumer retail loans	899	1,256	334,652	2,900	256	339,963
Total non-securitized mortgages and loans[2]	560,991	442,643	11,005,260	409,740	253,271	12,671,905
	$ 1,096,683	$ 891,323	$14,548,021	$ 789,012	$ 556,887	$17,881,926
As a % of portfolio	6.1%	5.0%	81.4%	4.4%	3.1%	100.0%

[1] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

[2] Loans exclude mortgages held for sale.

(B) Past Due Loans that Are Not Impaired

A loan is recognized as being impaired (non-performing) when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, an uninsured residential or commercial mortgage, or retail loan, or Equityline *Visa* loan (included in credit card loans) is deemed to be impaired at the earlier of the date it has been individually provided for or when it has been in arrears for 90 days. Single-family and multi-unit residential mortgages (including securitized mortgages) guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. Cash secured and unsecured credit card balances that have a payment that is contractually 120 days in arrears are individually provided for, and those that have a payment that is 180 days in arrears are written off.

As at December 31, 2014

thousands of Canadian dollars	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	**$ 19,082**	**$ 1,645**	**$ 375**	**$ 2,087**[1]	**$ 23,189**
Securitized multi-unit residential mortgages	**–**	**–**	**–**	**–**	**–**
Single-family residential mortgages	**220,062**	**44,959**	**3,842**	**9,222**[1]	**278,085**
Residential commercial mortgages	**910**	**–**	**–**	**–**	**910**
Non-residential commercial mortgages	**9,040**	**3,304**	**–**	**–**	**12,344**
Credit card loans	**3,487**	**1,067**	**502**	**24**	**5,080**
Other consumer retail loans	**119**	**41**	**46**	**–**	**206**
	$ 252,700	**$ 51,016**	**$ 4,765**	**$ 11,333**	**$ 319,814**

As at December 31, 2013

thousands of Canadian dollars	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 27,522	$ 4,370	$ 265	$ 4,982[1]	$ 37,139
Securitized multi-unit residential mortgages	–	–	–	9,919[1]	9,919
Single-family residential mortgages	243,821	48,540	6,804	6,159[1]	305,324
Residential commercial mortgages	1,195	573	–	–	1,768
Non-residential commercial mortgages	8,685	902	–	–	9,587
Credit card loans	3,653	1,932	963	23	6,571
Other consumer retail loans	70	30	31	–	131
	$ 284,946	$ 56,347	$ 8,063	$ 21,083	$ 370,439

[1] Insured residential mortgages are considered impaired when they are 365 days past due.

(C) Impaired Loans and Individual Allowances for Credit Losses

Residential mortgages guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. As securitized residential mortgages are all insured, material credit losses are generally not anticipated.

As at December 31, 2014

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	**$ 52,551**	**$ 54**	**$ 2,516**	**$ 1,938**	**$ 160**	**$ 57,219**
Individual allowances on principal	**(1,808)**	**–**	**(55)**	**(80)**	**(160)**	**(2,103)**
Net amount of impaired loans	**$ 50,743**	**$ 54**	**$ 2,461**	**$ 1,858**	**$ –**	**$ 55,116**

As at December 31, 2013

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 52,837	$ 1,836	$ 7,189	$ 2,785	$ 236	$ 64,883
Individual allowances on principal	(1,201)	–	–	(201)	(236)	(1,638)
Net amount of impaired loans	$ 51,636	$ 1,836	$ 7,189	$ 2,584	$ –	$ 63,245

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $1.8 million (2013 – $2.2 million).

(D) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. At December 31, 2014, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $490.1 million (2013 – $539.7 million). For impaired mortgages, the total appraised value of collateral at December 31, 2014 was $81.2 million (2013 – $86.0 million).

(E) Allowance for Credit Losses

2014

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the year	$ 1,201	$ –	$ –	$ 201	$ 236	$ 1,638
Provision for credit losses	9,706	24	257	571	196	10,754
Write-offs	(9,645)	(24)	(294)	(752)	(488)	(11,203)
Recoveries	546	–	92	60	216	914
	1,808	–	55	80	160	2,103
Allowance on accrued interest receivable						
Balance at the beginning of the year	759	25	44	–	12	840
Provision for credit losses	(199)	(25)	13	–	(9)	(220)
	560	–	57	–	3	620
Total individual allowance	2,368	–	112	80	163	2,723
Collective allowance						
Balance at the beginning of the year	18,032	327	9,300	3,541	300	31,500
Provision for credit losses	2,600	–	–	–	–	2,600
	20,632	327	9,300	3,541	300	34,100
Total allowance	$ 23,000	$ 327	$ 9,412	$ 3,621	$ 463	$ 36,823
Total provision	$ 12,107	$ (1)	$ 270	$ 571	$ 187	$ 13,134

2013

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the year	$ 2,381	$ –	$ –	$ 111	$ 214	$ 2,706
Provision for credit losses	9,985	3,199	230	679	367	14,460
Write-offs	(12,048)	(3,407)	(241)	(1,129)	(436)	(17,261)
Recoveries	883	208	11	540	91	1,733
	1,201	–	–	201	236	1,638
Allowance on accrued interest receivable						
Balance at the beginning of the year	487	432	–	–	13	932
Provision for credit losses	272	(407)	44	–	(1)	(92)
	759	25	44	–	12	840
Total individual allowance	1,960	25	44	201	248	2,478
Collective allowance						
Balance at the beginning of the year	16,523	336	9,300	3,541	300	30,000
Provision for credit losses	1,509	(9)	–	–	–	1,500
	18,032	327	9,300	3,541	300	31,500
Total allowance	$ 19,992	$ 352	$ 9,344	$ 3,742	$ 548	$ 33,978
Total provision	$ 11,766	$ 2,783	$ 274	$ 679	$ 366	$ 15,868

There were no specific provisions, allowances or net write-offs on securitized residential mortgages.

(F) Interest Income by Product

thousands of Canadian dollars	2014	2013
Traditional single-family residential mortgages	$ 552,112	$ 482,491
Accelerator single-family residential mortgages	26,746	15,044
Residential commercial mortgages	14,355	12,954
Non-residential commercial mortgages	64,852	62,681
Credit card loans	28,529	28,966
Other consumer retail loans	31,204	27,111
Total interest income on non-securitized loans	717,798	629,247
Securitized single-family residential mortgages	105,393	144,702
Securitized multi-unit residential mortgages	54,634	73,712
Assets pledged as collateral for securitization	6,464	7,379
Total interest income on securitized loans	166,491	225,793
	$ 884,289	$ 855,040

(G) Loans by Remaining Contractual Term to Maturity

					December 31 2014	December 31 2013
thousands of Canadian dollars	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securitized single-family residential mortgages	$ 1,267,908	$ 927,303	$ 794,908	$ –	$ 2,990,119	$ 3,720,097
Securitized multi-unit residential mortgages	239,487	76,979	277,731	361,338	955,535	1,489,924
Single-family residential mortgages	8,947,815	2,738,127	713,716	50,870	12,450,528	10,847,367
Residential commercial mortgages	164,842	67,846	9,728	902	243,318	196,880
Non-residential commercial mortgages	623,515	452,428	30,667	268	1,106,878	994,210
Credit card loans	330,327	–	–	–	330,327	293,485
Other consumer retail loans	13,151	30,201	68,576	74,183	186,111	339,963
	11,587,045	4,292,884	1,895,326	487,561	18,262,816	17,881,926
Collective allowance for credit losses	–	–	–	–	(34,100)	(31,500)
	$11,587,045	$ 4,292,884	$ 1,895,326	$ 487,561	$18,228,716	$17,850,426

(H) Sale of Loan Portfolio

During the fourth quarter of 2014, the Company recognized $32.7 million of prepayment income in relation to the sale of $234.9 million of water heater loans and leases and other loans, as a result of the sale of a customer's business.

NOTE 6 SECURITIZATION ACTIVITY

(A) Assets Pledged as Collateral

As a requirement of the National Housing Authority Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) programs, the Company assigns to Canada Mortgage Housing Corporation (CMHC) all of its interest in securitized mortgage pools. If the Company fails to make timely payment under an NHA MBS or CMB security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools as well as other assets backing the MBS issued.

The following table presents the activity associated with the principal value of the Company's on-balance sheet mortgage loans and other assets assigned as collateral. The mortgages are recorded as securitized single-family or multi-unit residential mortgages, and assets assigned as CMB replacement assets are recorded as restricted assets.

thousands of Canadian dollars	**2014**	2013
Beginning balance on-balance sheet assets assigned as collateral for securitization[1]	**$ 5,740,171**	$ 7,294,229
Mortgages assigned in new securitizations	**2,553,211**	1,261,660
Change in assets assigned as replacements of repaid amounts to Canada Housing Trust	**765,024**	928,924
Net reduction of non-Home Trust MBS and treasury bills	**(228,159)**	(57,884)
Less: Mortgages derecognized[2]	**(2,529,426)**	(1,136,505)
Maturity and amortization of securitization assets	**(2,053,177)**	(2,550,253)
Ending balance on-balance sheet assets assigned as collateral for securitization[1]	**$ 4,247,644**	$ 5,740,171

[1] Included in the on-balance sheet assets assigned as collateral at December 31, 2014 is $302.0 million ($530.2 million – December 31, 2013) in non-Home Trust MBS and treasury bills and $3.95 billion ($5.21 billion – December 31, 2013) of securitized mortgages.

[2] Mortgages are derecognized upon the sale of residual interest in insured single-family residential mortgages and the securitization and sale of multi-unit residential mortgages.

Non-Home Trust MBS and treasury bills assigned as collateral are accounted for as available for sale assets and included in restricted assets on the consolidated balance sheets. Additionally, all off-balance sheet mortgage loans ($4.20 billion – December 31, 2014 and $1.92 billion – December 31, 2013) are assigned as collateral related to CMHC for sponsored securitization programs. Please see Note 7 for more information.

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the year, which are secured by insured mortgages and other restricted assets. This table includes only on-balance sheet originations and discharges.

thousands of Canadian dollars	**2014**	2013
Balance at the beginning of the year	**$ 5,773,064**	$ 7,335,895
Addition to securitization liabilities as a result of on-balance sheet activity	**144,354**	504,931
Net reduction in securitization liabilities due to maturities, amortization and sales	**(1,616,801)**	(2,066,991)
Other[1]	**2,846**	(771)
Securitization liability	**$ 4,303,463**	$ 5,773,064
Proceeds received for mortgages assigned in new securitizations	**$ 2,551,698**	$ 1,242,991

[1] Other includes premiums, discounts, transaction costs and changes in the mark to market of hedged items.

The following table provides the remaining contractual term to maturity of mortgage-backed security and Canada Mortgage Bond liabilities.

					December 31 2014	December 31 2013
thousands of Canadian dollars, except %	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Book Value**	Total Book Value
Mortgage-backed security liabilities	**$ 138,232**	**$ 22,763**	**$ 310,556**	**$ –**	**$ 471,551**	$ 660,964
Contractual yield	**1.8%**	**1.7%**	**2.2%**	**–**	**2.0%**	2.1%
Canada Mortgage Bond liabilities	**$ 1,834,460**	**$ 1,266,719**	**$ 236,114**	**$ 494,619**	**$ 3,831,912**	$ 5,112,100
Contractual yield	**2.5%**	**1.9%**	**4.2%**	**3.8%**	**2.5%**	2.6%
	$ 1,972,692	**$ 1,289,482**	**$ 546,670**	**$ 494,619**	**$ 4,303,463**	$ 5,773,064

(C) Securitization Income

The following table presents the total securitization income for the period.

thousands of Canadian dollars	**2014**	2013
Net gain on sale of mortgages or residual interest	**$ 23,712**	$ 11,010
Net change in unrealized gain or loss on hedging activities	**(177)**	140
Servicing income	**3,310**	1,498
Total securitization income	**$ 26,845**	$ 12,648

The hedging activities included in the previous table hedge interest rate risk on loans held for sale. The derivatives, which are typically bond forwards, are not designated in hedge accounting relationships. The gains or losses on the derivatives are mostly offset by the fair value changes related to the loans held for sale, which are classified as held for trading for accounting purposes.

During the year, the Company securitized and sold through the NHA MBS program certain insured multi-unit residential mortgages with no prepayment privileges. These mortgages are recognized on the Company's consolidated balance sheets only to the extent of the Company's continuing involvement in the mortgages (continuing involvement accounting). The Company's continuing involvement is limited to its retained interest and its obligations for mortgage servicing. There is no prepayment or credit risk associated with the retained interest or the cost of servicing. The mortgages are effectively derecognized as a result of this transaction. The retained interest and servicing liability are recorded on the consolidated balance sheets in other assets and other liabilities, respectively.

The Company also sold residual interests in certain pools of insured single-family mortgages securitized through the NHA MBS program. The sales resulted in the Company transferring substantially all of the risks and rewards of ownership associated with the underlying mortgages and the mortgages are derecognized.

The gains on both of the above transaction types are included in non-interest income under securitization income in the consolidated statements of income.

The following table provides additional quantitative information about these securitization and sales activities during the year.

		2014			2013	
thousands of Canadian dollars	**Single-family Residential MBS**	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 1,745,454**	**$ 783,972**	**$ 2,529,426**	$ 519,261	$ 617,244	$ 1,136,505
Gains on sale of mortgages or residual interest[1]	**18,685**	**5,027**	**23,712**	5,354	5,656	11,010
Retained interests recorded	**–**	**32,090**	**32,090**	–	26,131	26,131
Servicing liability recorded	**–**	**6,781**	**6,781**	–	4,563	4,563

[1] Gains on sale of mortgages are net of hedging impact.

(D) Purchased Residual Interests

The Company purchased, from certain counterparties, residual interests of underlying insured fixed-rate residential mortgages that have been securitized. The purchase results in the Company acquiring only the residual interests without acquiring either underlying mortgages or the corresponding liabilities. During Q2 2014, the Company purchased residual interests of underlying insured fixed-rate residential mortgages. At December 31, 2014, the notional amount of these instruments was $602.6 million, with $14.1 million recorded in available for sale securities. No residual interests were purchased prior or subsequent to Q2 2014. Interest earned on these investments is recorded in other interest income on the consolidated statements of income.

NOTE 7 RESTRICTED ASSETS

thousands of Canadian dollars	December 31 2014	December 31 2013
Restricted cash		
Restricted cash – Canada Mortgage Bond program	**$ 106,624**	$ 91,900
Restricted cash – interest rate swaps	**12,265**	21,482
Restricted cash – other programs	**204**	4,751
Total restricted cash	**119,093**	118,133
Non-Home Trust MBS and treasury bills assigned as replacement assets	**301,990**	530,150
Total restricted assets	**$ 421,083**	$ 648,283

Restricted cash – Canada Mortgage Bond program represents deposits held as collateral by CMHC in connection with the Company's securitization activities.

Restricted cash – interest rate swaps are deposits held by swap counterparties as collateral for the Company's interest rate swap transactions. The terms and conditions for the collateral are governed by International Swaps and Derivatives Association (ISDA) agreements.

Restricted cash – other programs are reserve accounts held in trust for the water heater financing program. These amounts are held as cash collateral against potential credit losses.

The following table provides the remaining contractual term to maturity of non-Home Trust MBS and treasury bills assigned as CMB replacement assets. Please see Note 6 (A) for more information.

					December 31 2014	December 31 2013
thousands of Canadian dollars	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	Total Fair Value
Restricted cash	**$ 119,093**	**$ –**	**$ –**	**$ –**	**$ 119,093**	$ 118,133
Non-Home Trust MBS and treasury bills assigned as replacement assets	**301,990**	**–**	**–**	**–**	**301,990**	530,150
	$ 421,083	**$ –**	**$ –**	**$ –**	**$ 421,083**	$ 648,283

NOTE 8 OTHER ASSETS

thousands of Canadian dollars	December 31 2014	December 31 2013
Accrued interest receivable	**$ 65,132**	$ 62,961
Prepaid CMB coupon	**4,506**	7,168
Securitization receivable and retained interest	**128,522**	54,556
Capital assets	**12,052**	10,875
Income taxes recoverable	**–**	9,519
Other prepaid assets and deferred items	**25,404**	17,600
	$ 235,616	$ 162,679

NOTE 9 INTANGIBLE ASSETS

Intangible assets comprise internally developed software costs which are principally related to the Company's core banking system. The following table presents the net carrying amount of software costs for the core banking system and other software costs as at December 31, 2014 and 2013, along with the changes in net carrying amount for the years ended December 31, 2014 and 2013.

			2014			2013
thousands of Canadian dollars	Core Banking System[1]	Other Software Costs[2]	Total	Core Banking System[1]	Other Software Costs[2]	Total
Cost						
Balance at the beginning of the year	$ 75,957	$ 13,797	$ 89,754	$ 67,672	$ 7,156	$ 74,828
Additions from internal development	19,703	12,760	32,463	8,285	6,641	14,926
Balance at the end of the year	95,660	26,557	122,217	75,957	13,797	89,754
Accumulated amortization						
Balance at the beginning of the year	14,084	2,265	16,349	6,498	1,987	8,485
Amortization expense	8,369	115	8,484	7,586	278	7,864
Balance at the end of the year	22,453	2,380	24,833	14,084	2,265	16,349
Carrying amount at the end of the year	$ 73,207	$ 24,177	$ 97,384	$ 61,873	$ 11,532	$ 73,405

[1] As at December 31, 2014, there was $20.3 million ($14.2 million – December 31, 2013) in work in progress related to the core banking system that was not being amortized.

[2] As at December 31, 2014, there was $6.3 million ($3.5 million – December 31, 2013) in work in progress related to other software costs that was not being amortized.

During the fourth quarter, the estimated useful lives of certain software development costs related to the Company's core banking system were reviewed. This review by management included consideration of the Company's experience in using the core banking system and its intended use for the future, which includes the continuing development of additional software projects that depend on the core banking system as a base platform. Based on the review, it was determined that the estimated useful life of the core banking system should be extended by 5 years from the original 10-year estimate to a revised estimate of 15 years. This change in useful life was accounted for as a change in accounting estimates and applied prospectively based on a straight-line amortization of the carrying value over the remaining revised useful life. The resulting impact on the fourth quarter and current year amortization expense was a decrease of $4.0 million from what the expense would have been in the absence of this change. The change in useful life is also expected to result in a decrease in annual amortization expense of $2.8 million per year over the remaining 12 years of the revised useful life.

NOTE 10 GOODWILL

The carrying amount of goodwill in relation to each of the Company's subsidiaries is as follows:

thousands of Canadian dollars	December 31 2014	December 31 2013
Home Trust	$ 2,324	$ 2,324
PSiGate	13,428	13,428
	$ 15,752	$ 15,752

There have been no additions, disposals or impairment losses of goodwill during the year.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, considering the business level at which goodwill is monitored for internal management purposes. The PSiGate goodwill is allocated to the PSiGate legal entity (the unit). Management has determined that the recoverable amount of the unit exceeds its carrying amount and that no impairment exists. The following information relates to the annual impairment test of the unit that was conducted during the fourth quarter of 2014.

The recoverable amount of the unit was determined on the basis of its fair value less costs of disposal. The fair value of the unit was determined using a discounted cash flow methodology where estimated cash flows were projected to December 31, 2018 and assuming a terminal growth rate of 3.0% (2013 – 3.0%) thereafter. A revenue growth rate of 6.4% (2013 – 4.9%) was assumed over the period of projections, with a stable gross margin percentage. Operating expenses considered necessary to support the expected growth were included and increased over the period of projections at an expected inflationary rate. Planned capital expenditures, also necessary to support expected growth, were incorporated.

A discount rate of 15.5% (2013 – 15.5%) was used, which comprised a risk-free rate, equity risk premium, size premium and company-specific risk premium. The risk-free rate, equity risk premium and size premium were based on data from external sources, whereas the company-specific risk premium was based on factors considered by management to be specific to PSiGate.

The discounted cash flow methodology used is most sensitive to the discount rate and revenue growth rate used. In consideration of this sensitivity, management determined that either an increase in the discount rate from 15.5% to 19.3% or a decrease in annual revenue growth from 6.4% to a growth rate of 0.1% for each year of the projection, assuming unchanged values for the other assumptions, would have caused the recoverable amount to equal the carrying amount.

NOTE 11 DEPOSITS BY REMAINING CONTRACTUAL TERM TO MATURITY

					December 31 2014	December 31 2013
thousands of Canadian dollars, except %	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	$ 782,560	$ 6,704,573	$ 3,553,500	$ 1,547,533	$12,588,166	$11,949,618
Businesses	281,592	172,879	64,971	29,613	549,055	519,960
Institutional deposits	–	–	498,845	303,905	802,750	296,376
	$ 1,064,152	$ 6,877,452	$ 4,117,316	$ 1,881,051	$13,939,971	$12,765,954
Average contractual yield	1.3%	2.1%	2.2%	2.7%	2.0%	2.1%

NOTE 12 SENIOR DEBT

The Company issued $150.0 million principal amount of 5.20% debentures on May 4, 2011. The debentures pay interest semi-annually on May 4 and November 4 in each year. The debentures mature on May 4, 2016 and are redeemable at the option of the Company upon 30 days written notice to the registered holder at a redemption price, equal to the greater of par and the price that would provide a yield to maturity equal to the Government of Canada bond rate plus 0.66%, plus accrued and unpaid interest to the date of redemption. The carrying amount includes unamortized issue costs and fair value adjustments related to interest rate hedging.

NOTE 13 OTHER LIABILITIES

thousands of Canadian dollars	December 31 2014	December 31 2013
Accrued interest payable on deposits	$ 117,089	$ 112,242
Accrued interest payable on securitization liabilities	10,046	14,833
Securitization servicing liability	11,216	5,727
Income taxes payable	11,317	–
Other, including accounts payable and accrued liabilities	50,163	34,625
	$ 199,831	$ 167,427

NOTE 14 CAPITAL

(A) Authorized

An unlimited number of common shares with no par value

An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares

An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares

(B) Common Shares Issued and Outstanding

	2014		2013	
thousands	**Number of Shares**	**Amount**	Number of Shares	Amount
Outstanding at the beginning of the year	**69,488**	**$ 70,233**	69,260	$ 61,903
Options exercised	**636**	**14,488**	306	8,400
Repurchase of shares	**(28)**	**(34)**	(78)	(70)
Outstanding at the end of the year	**70,096**	**$ 84,687**	69,488	$ 70,233

During Q1 2014, the Company paid a stock dividend of one common share per each outstanding common share. Comparative amounts have been restated to reflect the stock dividend. The Company has no preferred shares outstanding.

(C) Repurchase of Shares

During the year, 28,000 (2013 – 78,200) common shares were purchased for $1.4 million (2013 – $2.3 million). The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between share capital and retained earnings. The reduction to share capital for the year ended December 31, 2014 was $34 thousand (2013 – $70 thousand). The balance of the purchase price of $1.4 million (2013 – $2.2 million) was charged to retained earnings.

(D) Earnings per Common Share (EPS)

Basic earnings per common share of $4.48 (2013 – $3.70) is determined as net income for the year divided by the average number of common shares outstanding of 69,857,391 (2013 – 69,339,868).

Diluted earnings per common share of $4.45 (2013 – $3.66) is determined as net income for the year divided by the average number of common shares outstanding of 69,857,391 (2013 – 69,339,868) plus the stock options potentially exercisable, as determined under the treasury stock method, of 574,277 (2013 – 705,940) for a total of 70,431,668 (2013 – 70,045,808) diluted common shares.

Diluted income per common share excludes contingently assumable average options outstanding of 599,791 with a weighted-average exercise price of $38.99 for December 31, 2014 and contingently assumable average options outstanding of 601,750 with a weighted-average exercise price of $31.04 for December 31, 2013, as not all vesting and performance criteria had been met.

(E) Capital Management

The Company has a Capital Management Policy that governs the quantity and quality of capital held. The objectives of the policy are to ensure that capital levels are adequate and that Home Trust meets all regulatory capital requirements, while also providing a sufficient return to investors. The Risk and Capital Committee and the Board review the policy annually and monitor compliance with the policy on a quarterly basis.

The Company's subsidiary, Home Trust, is subject to the regulatory capital requirements stipulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). These requirements are consistent with international standards (Basel II and Basel III) set by the Bank for International Settlements. Home Trust follows the Basel II Standardized Approach for calculating credit risk and Basic Indicator Approach for operational risk. In addition, dividends paid by Home Trust to Home Capital may be subject to restrictions by OSFI.

The regulatory capital position of Home Trust was as follows:

	December 31 2014	December 31 2013	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets			
Common equity tier 1 ratio	**18.30%**	16.80%	7.00%
Tier 1 capital ratio	**18.30%**	16.80%	8.50%
Total regulatory capital ratio	**20.94%**	19.69%	10.50%

Home Trust adopted certain Basel III capital requirements, as required by OSFI, beginning January 1, 2013. The primary impact at adoption was the deduction from Common Equity Tier 1 Capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to information technology development costs as well as the inclusion of all accumulated other comprehensive income, net of cash flow hedges. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. The Assets to Regulatory Capital Multiple (ACM) is calculated and evaluated on a transitional basis. The ACM at December 31, 2014 was 12.47 (December 31, 2013 – 13.19).

Subordinated debt advanced by Home Capital to Home Trust is included in Total Capital, as Tier 2 Capital. Under Basel III this subordinated debt will be subject to straight-line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt currently mature in 2021 and 2022 in the amounts of $100 million and $56 million, respectively.

Currently, Home Trust's Common Equity Tier 1, Total Tier 1, and Total capital ratios significantly exceed OSFI's regulatory targets, as well as Home Trust's internal capital targets. No new capital was raised in 2014.

NOTE 15 EMPLOYEE BENEFITS

(A) Employee Share Ownership Plan

Under the Employee Share Ownership Plan, every year eligible employees can elect to purchase common shares of the Company up to 10% of their annual earnings. The Company matches 50% of the employees' contribution amount. During each pay period, all contributions are used by the plan's trustee to purchase the common shares in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totalled $1.2 million for 2014 (2013 – $0.9 million).

(B) Employee Retirement Savings Plan

During the year, Home Trust contributed $1.1 million (2013 – $0.9 million) to the employee group registered retirement savings plan.

(C) Stock Options

The details and changes in the issued and outstanding options are as follows:

		2014		2013
thousands, except per share amounts and years	**Number of Shares**	**Weighted-average Exercise Price**	Number of Shares	Weighted-average Exercise Price
Outstanding at the beginning of the year	**1,650**	**$ 23.02**	1,566	$ 19.36
Granted	**263**	**46.78**	432	34.46
Exercised	**(636)**	**16.65**	(306)	20.26
Forfeited	**(42)**	**33.90**	(42)	24.12
Outstanding at the end of the year	**1,235**	**$ 31.00**	1,650	$ 23.02
Exercisable at the end of the year	**634**	**$ 23.44**	1,048	$ 18.42
Weighted-average market price per share at date of exercise		**$ 48.50**		$ 30.51
Weighted-average remaining contractual life in years		**4.1**		4.0

The above table has been presented to reflect the stock dividend of one common share per each issued and outstanding common share paid by the Company during the first quarter of 2014. Accordingly, the number of shares has been doubled and weight-average exercise price is reduced to half.

The Company's stock option plan was approved by the shareholders of the Company on December 31, 1986. The plan was amended in 2002 to conform to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. During 2010, the Company approved an amendment to the Employee Stock Option Plan to provide stock appreciation rights that allow cash settlement of vested stock options, at the Company's discretion. No options were settled in cash in 2014 or 2013.

As at December 31, 2014, the maximum number of options on common shares that may be issued was 9,170,396, representing approximately 13.2% of the aggregate number of common shares. The exercise price of the options is fixed by the Board at the time of issuance at the market price of such shares, subject to all applicable regulatory requirements. The exercise period of any option is limited to a period of seven years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant is determined in each case by the Board. Stock options that are currently issued and outstanding vest at a rate of 25% per year over four years on the condition that set earnings per share targets are achieved for each year as established by the Board at the time of the grant.

As at December 31, 2014, the exercise prices for stock options outstanding to acquire common shares ranged from $8.14 to $50.02. The weighted-average range of exercise prices for stock options outstanding and exercisable are presented below along with the number of options outstanding and exercisable and the weighted-average contractual life remaining.

				As at December 31, 2014	
	Stock options outstanding			Stock options exercisable	
	Number Outstanding	Weighted-average Contractual Life Remaining in Years	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
Range of exercise prices					
Less than $20.00	91,500	1.0	$ 10.70	91,500	$ 10.70
$20.01 – $25.00	477,100	3.0	23.54	441,100	23.58
$25.01 – $30.00	179,000	5.0	29.07	44,500	28.95
$30.01 – $35.00	38,500	5.6	32.01	9,250	32.01
$35.01 – $40.00	192,000	5.9	39.66	48,000	39.66
$40.01 – $45.01	4,000	6.2	42.81	–	–
Over $45.01	252,041	5.0	46.90	–	–
	1,234,141	4.1	$ 31.00	634,350	$ 23.44

The Company determines the fair value of options granted using a Black-Scholes option pricing model. The weighted-average fair value of the options granted during the year was $6.65 (2013 – $11.03).

The following assumptions were used to determine the fair value of each of the following option grants on the date of grant:

Canadian dollars, except % and years	December 2014	November 2014	May 2014	February 2014	December 2013	November 2013	August 2013	February 2013
Fair value of options granted	$ 6.34	$ 8.36	$ 9.43	$ 9.51	$ 13.28	$ 13.28	$ 9.98	$ 8.85
Share price	$ 44.66	$ 50.11	$ 46.04	$ 42.50	$ 39.65	$ 39.75	$ 31.30	$ 28.54
Exercise price	$ 46.76	$ 50.02	$ 47.07	$ 42.81	$ 39.65	$ 39.87	$ 32.01	$ 29.43
Expected share price volatility	23.2%	23.1%	26.0%	27.6%	34.5%	34.6%	34.6%	35.6%
Option life	3.8	3.8	4.8	4.9	7.0	7.0	7.0	7.0
Expected period until exercise in years[1]	0.8	0.8	0.7	0.7	4.0	4.0	4.0	4.0
Forfeiture rate	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Expected dividend yield	0.80%	0.72%	0.64%	0.56%	1.41%	1.41%	1.66%	1.82%
Risk-free rate of return	1.25%	1.34%	1.57%	1.49%	2.19%	2.13%	2.18%	1.77%

[1] Exercisable upon vesting.

The above assumptions for expected volatility were determined on the basis of historical volatility.

During Q2 2014, the Company amended its Employee Stock Option Plan to allow options to be exercised, as they vest at a rate of 25% each year. Previously, stock options could not be exercised until the end of the 4-year vesting period.

The Company determines the fair value of stock options on the grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus (2014 – $1.9 million; 2013 – $2.0 million). When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock (2014 – $10.6 million; 2013 – $6.2 million).

(D) Deferred Share Units (DSUs)

The Company grants DSUs to Directors of the Company. Under the plan, the Directors may elect annually to accept remuneration in the form of cash, cash and DSUs or DSUs prior to the beginning of the year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to settle the DSUs until retirement or termination of directorship. The cash value of the DSUs is equivalent to the market value of common shares when settlement takes place. The fair value of the DSU liability as at December 31, 2014 was $2.81 million (2013 – $1.98 million). As of December 31, 2014, there were 58,603 DSUs outstanding (2013 – 48,886).

(E) Restricted Share Units (RSUs)

The Company grants RSUs to certain key members of management. The RSUs vest at a rate of one-third each year over a three-year period. The vested amount is settled on the vesting date. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as dividends on common shares. The cash value of the RSUs is equivalent to the market value of common shares on the vesting date. The fair value of the RSU liability as at December 31, 2014 was $714 thousand (2013 – $206 thousand). As of December 31, 2014, there were 64,424 RSUs outstanding (2013 – 41,880 RSUs outstanding).

(F) Performance Share Units (PSUs)

The Company grants PSUs to certain key members of management. The PSUs vest after three years on the condition that certain performance criteria are met. The vested amount is settled on the vesting date. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as dividends on common shares. The cash value of the PSUs is equivalent to the market value of common shares on the vesting date multiplied by a performance factor ranging from 0% to 200%. The fair value of the PSU liability as at December 31, 2014 was $1.2 million and there were 84,298 PSUs outstanding (2013 – $0.54 million and 34,318 PSUs outstanding).

(G) Share-based Compensation Expense

The expense recognized in the consolidated statements of income in relation to share-based compensation was as follows:

thousands of Canadian dollars	2014	2013
Expense arising from equity-settled share-based payment transactions	$ 1,900	$ 1,962
DSUs, RSUs and PSUs (representing all expenses arising from cash-settled share-based payment transactions)	2,311	1,348
	$ 4,211	$ 3,310

NOTE 16 ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars	December 31 2014	December 31 2013
Unrealized losses on		
Available for sale securities and retained interests	$ (22,101)	$ (21,530)
Income tax recovery	(5,859)	(5,707)
	(16,242)	(15,823)
Unrealized losses on		
Cash flow hedges	(3,212)	(3,612)
Income tax recovery	(849)	(956)
	(2,363)	(2,656)
Accumulated other comprehensive loss	$ (18,605)	$ (18,479)

NOTE 17 INCOME TAXES

(A) Reconciliation of Income Taxes

The combined federal and provincial income tax rate varies each year depending on changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statements of income is different from the combined federal and provincial income tax rate of 26.49% (2013 – 26.49%) due to various temporary and permanent differences.

thousands of Canadian dollars	2014	2013
Income before income taxes	$ 417,502	$ 337,432
Income taxes at statutory combined federal and provincial income tax rates	$ 110,587	$ 89,377
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	(3,025)	(2,956)
Non-deductible expenses	568	568
Other	97	91
Scientific research and experimental development investment tax credits	(3,897)	(6,190)
Income tax	$ 104,330	$ 80,890

(B) Reconciliation of Income Tax Rates

	2014	2013
Statutory income tax rate	26.49%	26.49%
Increase (reduction) in income tax rate resulting from		
Tax-exempt income	(0.73)%	(0.90)%
Non-deductible expenses	0.14%	0.17%
Other	0.02%	0.03%
Scientific research and experimental development investment tax credits	(0.93)%	(1.83)%
Effective income tax rate	24.99%	23.96%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars	December 31 2014	December 31 2013
Deferred tax liabilities		
Commissions	$ 9,129	$ 7,649
Finders' fees, net of commitment fees	3,914	5,949
Securitization transaction costs	2,121	4,008
Swaps	4,712	5,258
Development costs	25,795	19,443
Other	344	344
	46,015	42,651
Deferred tax assets		
Allowance for credit losses	8,169	7,534
Other	1,292	692
	9,461	8,226
Net deferred tax liability	$ 36,554	$ 34,425

NOTE 18 COMMITMENTS AND CONTINGENCIES

(A) Lease Commitments

The Company has entered into commercial leases on premises and property, as well as certain computer hardware and software leases. There are no restrictions imposed by lease arrangements. Future minimum lease payments under non-cancellable operating leases are as follows:

thousands of Canadian dollars	**December 31 2014**	December 31 2013
Within one year	**$ 14,212**	$ 8,806
After one year but not more than five years	**33,523**	27,116
More than five years	**14,683**	21,770
	$ 62,418	$ 57,692

Lease payments recognized as an expense in the consolidated statements of income amounted to $19.3 million in 2014 (2013 – $16.5 million).

(B) Credit Commitments

Outstanding amounts for future advances on mortgage loans amounted to $850.1 million as at December 31, 2014 (2013 – $754.6 million). These amounts include offers made but not yet accepted by the customers as of the reporting date. Also included within the outstanding amounts are unutilized non-residential commercial loan advances of $233.8 million at December 31, 2014 (2013 – $157.2 million). Offers for loans remain open for various periods. The average rate on mortgage offers is 4.72% (2013 – 4.60%).

The Company also has contractual amounts to extend credit to its clients for its credit card products. The contractual amounts for these products represent the maximum potential credit risk, assuming that all the contractual amounts are fully utilized, the clients default and collection efforts are unsuccessful. At December 31, 2014, these contractual amounts in aggregate were $430.9 million (2013 – $373.7 million), of which $100.9 million (2013 – $80.8 million) had not been drawn by customers. Outstanding amounts for future advances for the Equityline *Visa* portfolio were $5.6 million at December 31, 2014 (2013 – $5.8 million).

These amounts in aggregate are not indicative of total future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these amounts. Secured credit cards have spending limits restricted by collateral held by the Company.

(C) Directors' and Officers' Indemnification

The Company indemnifies Directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, Directors and officers at the request of the Company. The nature of this indemnification prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay to third parties. Management believes that the likelihood that the Company would incur a significant liability under these indemnifications is remote. The Company has purchased Directors' and officers' liability insurance.

(D) Contingencies

There were no material contingencies identified by the Company in 2014.

NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and bond forwards to hedge exposures to interest rate risk. The Company generally uses its derivative instruments in hedge accounting relationships to minimize volatility in earnings caused by changes in interest rates. When a hedging derivative functions effectively, gains, losses, revenues or expenses of the hedging derivative will offset the gains, losses, revenues or expenses of the hedged item. To qualify for hedge accounting treatment, the hedging relationship is formally designated and documented at its inception. The documentation describes the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged and how the effectiveness of the hedge is assessed and the ineffectiveness is measured. Changes in the fair value of the derivative instruments must be highly effective at offsetting either the changes in the fair value of the on-balance sheet asset or liability being hedged or the changes in the amount of future cash flows.

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained directly from market sources or calculated from market prices.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, retrospectively and prospectively, over the life of the hedge. Any ineffectiveness in the hedging relationship is recognized immediately through non-interest expense in net realized and unrealized gain or loss on derivatives.

Cash Flow Hedging Relationships

The Company uses bond forward contracts to hedge the economic value exposure to movements in interest rates between the time that the Company determines that it will likely incur liabilities pursuant to asset securitization and the time the securitization transaction is complete and the liabilities are incurred. The intent is to use the bond forward to manage the change in cash flows of the future interest payments on the anticipated secured borrowings through asset securitization. Changes in the fair value of the derivative instrument that occur before the liability is incurred are recorded in AOCI. The fair value changes recorded in AOCI are reclassified into net interest income over the term of the hedged liability.

The following table presents gains or losses related to cash flow hedges included in the Company's financial results:

thousands of Canadian dollars	2014	2013
Fair value (losses) gains recorded in OCI	$ (1,061)	$ 702
Fair value losses recorded in non-interest income (ineffectiveness)	–	13
Reclassification from OCI to net interest income and securitization gains	(1,461)	(1,362)

Fair Value Hedging Relationships

The Company uses interest rate swaps to hedge changes in the fair value of fixed-rate assets and liabilities, which are associated with changes in market interest rates. Fair value hedges include hedges of fixed-rate mortgages and fixed-rate liabilities, which include deposits, deposit notes, senior debt and securitization liabilities.

The following table presents gains or losses related to fair value hedges included in the Company's financial results:

thousands of Canadian dollars	2014	2013
Fair value changes recorded on interest rate swaps[1]	$ 14,594	$ (16,494)
Fair value changes of hedged fixed-rate liabilities for interest rate risk[2]	(9,171)	22,881
Hedge ineffectiveness gain recognized in non-interest income	$ 5,423	$ 6,387

1 Unrealized gains and losses on hedging derivatives (interest rate swaps) are recorded as derivative assets or liabilities, as appropriate, on the consolidated balance sheets.

2 Unrealized gains and losses on fixed-rate hedged items for the risk being hedged are recorded as part of the associated fixed-rate asset or liability on the consolidated balance sheets.

Other Derivative Gains and Losses

From time to time, the Company enters into derivative positions to hedge interest rate risk, and such derivatives are not designated as hedges for accounting purposes. The changes in fair value of such derivatives flow directly to the consolidated statements of income. Net realized and unrealized losses of $2.0 million (2013 – net realized and unrealized gains of $0.2 million) were recorded in income through net realized and unrealized gain or loss on derivatives.

The Company may also enter into bond forwards or interest rate swaps to hedge interest rate risk on loans held for securitization. Realized and unrealized gains or losses on these derivatives are included in securitization income on the consolidated statements of income. Please see Note 6 for more information.

Net realized and unrealized gains or losses on derivatives include amounts related to the restructuring of certain derivative positions upon adoption of IFRS. A charge of $4.3 million was recorded in 2014 (2013 – $8.0 million).

As at December 31, 2014 and 2013, the outstanding interest rate swap and bond forward contract positions were as follows:

thousands of Canadian dollars — **As at December 31, 2014**

Term (years)	**Notional Amount**	**Current Replacement Cost**	**Credit Equivalent Amount**	**Risk-weighted Balance**	**Derivative Asset**	**Derivative Liability**	**Net Fair Market Value**
Swaps designated as accounting hedges							
< 1 year	**$ 1,457,414**	**$ 7,623**	**$ 7,623**	**$ 1,525**	**$ 7,623**	**$ (34)**	**$ 7,589**
1 to 5 years	**1,945,800**	**25,754**	**35,433**	**8,245**	**25,754**	**(36)**	**25,718**
> 5 years	**59,000**	**5,151**	**6,036**	**1,207**	**5,151**	**–**	**5,151**
	3,462,214	**38,528**	**49,092**	**10,977**	**38,528**	**(70)**	**38,458**
Swaps not designated as accounting hedges							
1 to 5 years	**50,000**	**–**	**250**	**50**	**–**	**(509)**	**(509)**
	50,000	**–**	**250**	**50**	**–**	**(509)**	**(509)**
Bond forwards designated as accounting hedges[1]							
1 to 5 years	**100,000**	**6**	**506**	**101**	**6**	**(391)**	**(385)**
> 5 years	**75,000**	**–**	**1,125**	**225**	**–**	**(301)**	**(301)**
	175,000	**6**	**1,631**	**326**	**6**	**(692)**	**(686)**
Bond forwards not designated as accounting hedges[1]							
1 to 5 years	**6,600**	**1**	**33**	**49**	**–**	**(20)**	**(20)**
> 5 years	**83,500**	**–**	**1,253**	**15,255**	**–**	**(975)**	**(975)**
	90,100	**1**	**1,286**	**15,304**	**–**	**(995)**	**(995)**
Total	**$ 3,777,314**	**$ 38,535**	**$ 52,259**	**$ 26,657**	**$ 38,534**	**$ (2,266)**	**$ 36,268**

thousands of Canadian dollars — As at December 31, 2013

Term (years)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Derivative Asset	Derivative Liability	Net Fair Market Value
Swaps designated as accounting hedges							
< 1 year	$ 586,000	$ 3,204	$ 3,204	$ 641	$ 3,204	$ (69)	$ 3,135
1 to 5 years	1,590,214	22,105	30,056	6,011	22,105	(3,100)	19,005
> 5 years	59,000	3,186	4,071	814	3,186	–	3,186
	2,235,214	28,495	37,331	7,466	28,495	(3,169)	25,326
Swaps not designated as accounting hedges							
1 to 5 years	50,000	–	250	50	–	(595)	(595)
	50,000	–	250	50	–	(595)	(595)
Bond forwards not designated as accounting hedges[1]							
1 to 5 years	43,700	212	431	236	212	–	212
> 5 years	172,500	1,179	3,766	2,602	1,179	(45)	1,134
	216,200	1,391	4,197	2,838	1,391	(45)	1,346
Total	$ 2,501,414	$ 29,886	$ 41,778	$ 10,354	$ 29,886	$ (3,809)	$ 26,077

[1] The term of the bond forward contracts is based on the term of the underlying bonds.

The notional amount is not recorded as an asset or liability as it represents the face amount of the contract to which the rate or price is applied in order to calculate the amount of cash exchanged. Notional amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with the derivatives.

NOTE 20 CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table presents an analysis of each asset and liability line item by amounts, including prepayment assumptions, expected to be recovered or settled within one year or after one year as at December 31, 2014 and 2013.

	As at December 31, 2014			As at December 31, 2013		
thousands of Canadian dollars	Within 1 Year	After 1 Year	Total	Within 1 Year	After 1 Year	Total
Assets						
Cash and cash equivalents	$ 360,746	$ –	$ 360,746	$ 733,172	$ –	$ 733,172
Available for sale securities	112,942	469,877	582,819	201,416	222,856	424,272
Loans held for sale	102,094	–	102,094	137,975	–	137,975
Securitized mortgages	1,696,838	2,248,816	3,945,654	1,741,367	3,468,654	5,210,021
Non-securitized mortgages and loans	10,483,974	3,833,188	14,317,162	9,005,240	3,666,665	12,671,905
Collective allowance for credit losses	(22,733)	(11,367)	(34,100)	(21,000)	(10,500)	(31,500)
Restricted assets	421,083	–	421,083	643,563	4,720	648,283
Derivative assets	7,623	30,911	38,534	3,204	26,682	29,886
Other assets	164,879	70,737	235,616	119,869	42,810	162,679
Goodwill and intangible assets	–	113,136	113,136	–	89,157	89,157
Total assets	$13,327,446	$ 6,755,298	$20,082,744	$12,564,806	$ 7,511,044	$20,075,850
Liabilities						
Deposits payable on demand	$ 1,064,152	$ –	$ 1,064,152	$ 429,269	$ –	$ 429,269
Deposits payable on a fixed date	6,877,452	5,998,367	12,875,819	7,141,008	5,195,677	12,336,685
Senior debt	–	152,026	152,026	–	153,474	153,474
Mortgage-backed security liabilities	138,232	333,319	471,551	85,087	575,877	660,964
Canada Mortgage Bond liabilities	1,834,460	1,997,452	3,831,912	1,277,150	3,834,950	5,112,100
Derivative liabilities	34	2,232	2,266	69	3,740	3,809
Other liabilities	188,615	11,216	199,831	161,700	5,727	167,427
Deferred tax liabilities	–	36,554	36,554	–	34,425	34,425
Total liabilities	$10,102,945	$ 8,531,166	$18,634,111	$ 9,094,283	$ 9,803,870	$18,898,153
Net	$ 3,224,501	$(1,775,868)	$ 1,448,633	$ 3,470,523	$(2,292,826)	$ 1,177,697

NOTE 21 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments. The valuation methods and assumptions are described below.

The estimated fair value amounts approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants that are under no compulsion to act at the balance sheet date in the principal or most advantageous market which is accessible to the Company. For financial instruments carried at fair value that lack an active market, the Company applies present value and valuation techniques that use, to the greatest extent possible, observable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Significant inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes cash and cash equivalents, equity securities traded on the Toronto Stock Exchange and quoted corporate and government-backed debt instruments.

Level 2: Significant inputs are observable for the asset or liability, either directly or indirectly, and are not quoted prices included within Level 1. This level includes loans held for sale, interest rate swaps, bond forwards, mutual funds, certain corporate debt instruments and senior debt.

Level 3: Significant inputs are unobservable for the asset or liability. This level includes retained interest, certain corporate debt instruments, securitized and non-securitized mortgages and loans, securitization receivables and liabilities, other assets and liabilities, and deposits.

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy.

					As at December 31, 2014
thousands of Canadian dollars	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 360,746	$ –	$ –	$ 360,746	$ 360,746
Loans held for sale	–	102,094	–	102,094	102,094
Derivative assets	–	38,534	–	38,534	38,534
Restricted assets	119,093	–	–	119,093	119,093
Total financial assets held for trading	479,839	140,628	–	620,467	620,467
Financial instruments available for sale					
Debt securities	320,671	–	14,079	334,750	334,750
Equity securities	248,069	–	–	248,069	248,069
Restricted assets	297,443	4,547	–	301,990	301,990
Retained interest owned	–	–	58,685	58,685	58,685
Total financial instruments available for sale	866,183	4,547	72,764	943,494	943,494
Loans and receivables					
Securitized mortgages	–	–	4,012,822	4,012,822	3,945,654
Non-securitized mortgages and loans	–	–	14,344,740	14,344,740	14,283,062
Securitization receivables	–	–	69,837	69,837	69,837
Other	–	–	69,638	69,638	69,638
Total loans and receivables	–	–	18,497,037	18,497,037	18,368,191
Total	$ 1,346,022	$ 145,175	$18,569,801	$20,060,998	$19,932,152
Financial liabilities carried at amortized cost					
Deposits	$ –	$ –	$14,062,381	$14,062,381	$13,939,971
Senior debt	–	154,347	–	154,347	152,026
Securitization liabilities	–	–	4,410,496	4,410,496	4,303,463
Other	–	–	199,831	199,831	199,831
Total financial liabilities carried at amortized cost	–	154,347	18,672,708	18,827,055	18,595,291
Financial liabilities at fair value					
Derivative liabilities	–	2,266	–	2,266	2,266
Total	$ –	$ 156,613	$18,672,708	$18,829,321	$18,597,557

				As at December 31, 2013
thousands of Canadian dollars	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 733,172	$ –	$ –	$ 733,172	$ 733,172
Loans held for sale	–	137,975	–	137,975	137,975
Derivative assets	–	29,886	–	29,886	29,886
Restricted assets	118,133	–	–	118,133	118,133
Total financial assets held for trading	851,305	167,861	–	1,019,166	1,019,166
Financial instruments available for sale					
Debt securities	149,559	–	–	149,559	149,559
Equity securities	273,058	–	–	273,058	273,058
Mutual funds	–	1,655	–	1,655	1,655
Restricted assets	381,356	148,794	–	530,150	530,150
Retained interest owned	–	–	31,935	31,935	31,935
Total financial instruments available for sale	803,973	150,449	31,935	986,357	986,357
Loans and receivables					
Securitized mortgages	–	–	5,281,206	5,281,206	5,210,021
Non-securitized mortgages and loans	–	–	12,665,502	12,665,502	12,640,405
Securitization receivables	–	–	22,621	22,621	22,621
Other	–	–	79,648	79,648	79,648
Total loans and receivables	–	–	18,049,977	18,049,977	17,952,695
Total	$ 1,655,278	$ 318,310	$18,081,912	$20,055,500	$19,958,218
Financial liabilities carried at amortized cost					
Deposits	$ –	$ –	$12,934,643	$12,934,643	$12,765,954
Senior debt	–	157,294	–	157,294	153,474
Securitization liabilities	–	–	5,896,729	5,896,729	5,773,064
Other	–	–	167,427	167,427	167,427
Total financial liabilities carried at amortized cost	–	157,294	18,998,799	19,156,093	18,859,919
Financial liabilities at fair value					
Derivative liabilities	–	3,809	–	3,809	3,809
Total	$ –	$ 161,103	$18,998,799	$19,159,902	$18,863,728

The Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy during the years ended December 31, 2014 and December 31, 2013.

The following methods and assumptions were used to estimate the fair values of financial instruments:

> Cash and cash equivalents, restricted cash (included in restricted assets), other assets and other liabilities approximate their carrying values due to their short-term nature.

> Available for sale securities are valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices.

> Fair value of loans held for sale, all of which are insured, is determined by discounting the expected future cash flows of the loans at current market rates imputed by the realized sale of loans with similar terms.

> The fair value of the retained interest is determined by discounting the expected future cash flows using the current MBS spread over Government of Canada Bonds imputed from recent sale transactions.

> The fair value of securitization receivables is determined by discounting the expected future cash flows using current interest rate swap rates.

> Restricted assets include both securities valued based on quoted bid price and securities where fair value is determined using average dealer quoted prices.

> Securitized and non-securitized mortgages and loans are carried at amortized cost in the financial statements. For fair value disclosures, the fair value is estimated by discounting the expected future cash flows of the loans, adjusting for credit risk and prepayment assumptions at current market rates for offered loans with similar terms.

> Fair value of derivative financial instruments is calculated as described in Note 19.

> Retail deposits are not transferable by the deposit holders. In the absence of such transfer transactions, fair value of deposits is determined by discounting the expected future cash flows of the deposits at offered rates for deposits with similar terms. The fair value of the institutional deposit notes is determined using current rates of Government of Canada Bonds. The rates reflect the credit risks of similar instruments.

> Fair value of securitization liabilities is determined using current market rates for MBS and CMB.

> Fair value of the senior debt is determined using current market rates of Government of Canada Bonds. The rates reflect the credit risks of similar instruments.

NOTE 22 RELATED PARTY TRANSACTIONS

IFRS considers key management personnel to be related parties. Compensation of key management personnel of the Company is as follows:

thousands of Canadian dollars		2014		2013
Short-term employee benefits	$	**7,926**	$	7,626
Share-based payment		**7,784**		1,719
Other long-term benefits		**300**		241
	$	**16,010**	$	9,586

The Company had no related party transactions, other than with key management personnel, as described above, for the years ended December 31, 2014 and 2013.

NOTE 23 RISK MANAGEMENT

The Company is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, funding and liquidity, interest rate, investment, operational, reputational and legislative and regulatory risk. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a governance framework that includes policies, management standards, guidelines, procedures and limits appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company's risk management policies and procedures is included in the shaded text of the Risk Management section of the Management's Discussion and Analysis included in this report. Significant exposures to credit and liquidity risks are described in Notes 4, 5 and 19.

Corporate Directory

HOME CAPITAL GROUP INC.

Directors:

Kevin P. D. Smith[3, 4]
Chairman of the Board
President and Chief Executive Officer
St. Joseph's Health System
Hamilton, Ontario

Hon. William G. Davis P.C., C.C., Q.C.[3, 4]
Vice Chair of the Board
Counsel
Davis Webb LLP
Brampton, Ontario

James C. Baillie[2, 3]
Counsel
Torys LLP
Toronto, Ontario

Jacqueline Beaurivage[1, 2]
Vice President,
ePMO & Strategy
Ontario Teachers' Pension Plan
Toronto, Ontario

William Falk[2, 3, 4]
Managing Partner
Pricewaterhouse Coopers
Grand Valley, Ontario

Diana Graham[1, 2]
Corporate Director
Toronto, Ontario

John M. E. Marsh[1, 4]
Corporate Director
Port Colborne, Ontario

Robert A. Mitchell, CPA, CA[1, 2, 3]
Corporate Director
Oakville, Ontario

Gerald M. Soloway
Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

Bonita Then[1, 2]
Corporate Director
Toronto, Ontario

[1] Member of the Audit Committee
[2] Member of the Risk and Capital Committee
[3] Member of the Governance, Nominating and Conduct Review Committee
[4] Member of the Human Resources and Compensation Committee

Chair Emeritus:

William A. Dimma

Committees:

Audit Committee
Robert A. Mitchell, CPA, CA
Chair

Bonita Then
Vice Chair

Risk and Capital Committee
Bonita Then
Chair

William Falk
Vice Chair

Governance, Nominating and Conduct Review Committee
Hon. William G. Davis
Chair

James C. Baillie
Vice Chair

Human Resources and Compensation Committee
Kevin P. D. Smith
Chair

John M. E. Marsh
Vice Chair

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Robert Morton, CPA, CMA
Chief Financial Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

John R. K. Harry
Executive Vice President, Commercial Mortgage Lending

Chris Ahlvik, LL.B.
Executive Vice President, Corporate Counsel and Corporate Secretary

Greg Parker
Chief Risk Officer and Executive Vice President

Fariba Rawhani
Executive Vice President, Chief Information Officer

Dinah Henderson
Executive Vice President, Operations

Marie Holland, CPA, CA
Senior Vice President, Internal Audit

John Hong
Senior Vice President, Chief Compliance Officer and Chief Anti-Money Laundering Officer

Stephen Copperthwaite, CMA, ORMP
Senior Vice President, Relationship Manager

Carol Ferguson
Senior Vice President, Human Resources

Annual and Special Meeting Notice

The Annual and Special Meeting of Shareholders of Home Capital Group Inc. will be held at One King West, Grand Banking Hall, Toronto, Ontario, on Wednesday, May 13, 2015 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual and Special Meeting. All shareholders are encouraged to attend.

Corporate Directory

HOME TRUST COMPANY

Directors:

Kevin P. D. Smith
Chairman of the Board

Hon. William G. Davis P.C., C.C., Q.C.
Vice Chair of the Board

James C. Baillie

Jacqueline Beaurivage

William Falk

Diana Graham

John M. E. Marsh

Robert A. Mitchell

Martin Reid

Gerald M. Soloway

Bonita Then

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Robert Morton, CPA, CMA
Chief Financial Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

John R. K. Harry
Executive Vice President, Commercial Mortgage Lending

Chris Ahlvik, LL.B.
Executive Vice President, Corporate Counsel and Corporate Secretary

Greg Parker
Chief Risk Officer and Executive Vice President

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Executive Vice President, Chief Information Officer

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John Hong
Senior Vice President, Chief Compliance Officer and Chief Anti-Money Laundering Officer

Stephen Copperthwaite, CMA, ORMP
Senior Vice President, Relationship Manager

Carol Ferguson
Senior Vice President, Human Resources

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Auditors:
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Principal Bankers:
Bank of Montreal
Bank of Nova Scotia

Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Stock Listing:
Toronto Stock Exchange
Ticker Symbol: HCG

Options Listing:
Montreal Stock Exchange
Ticker Symbol: HCG

Capital Stock:
As at December 31, 2014, there were 70,096,330 Common Shares outstanding

Memberships:
Canada Deposit Insurance Corporation
Trust Companies Association of Canada

For Shareholder Information, Please Contact:
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