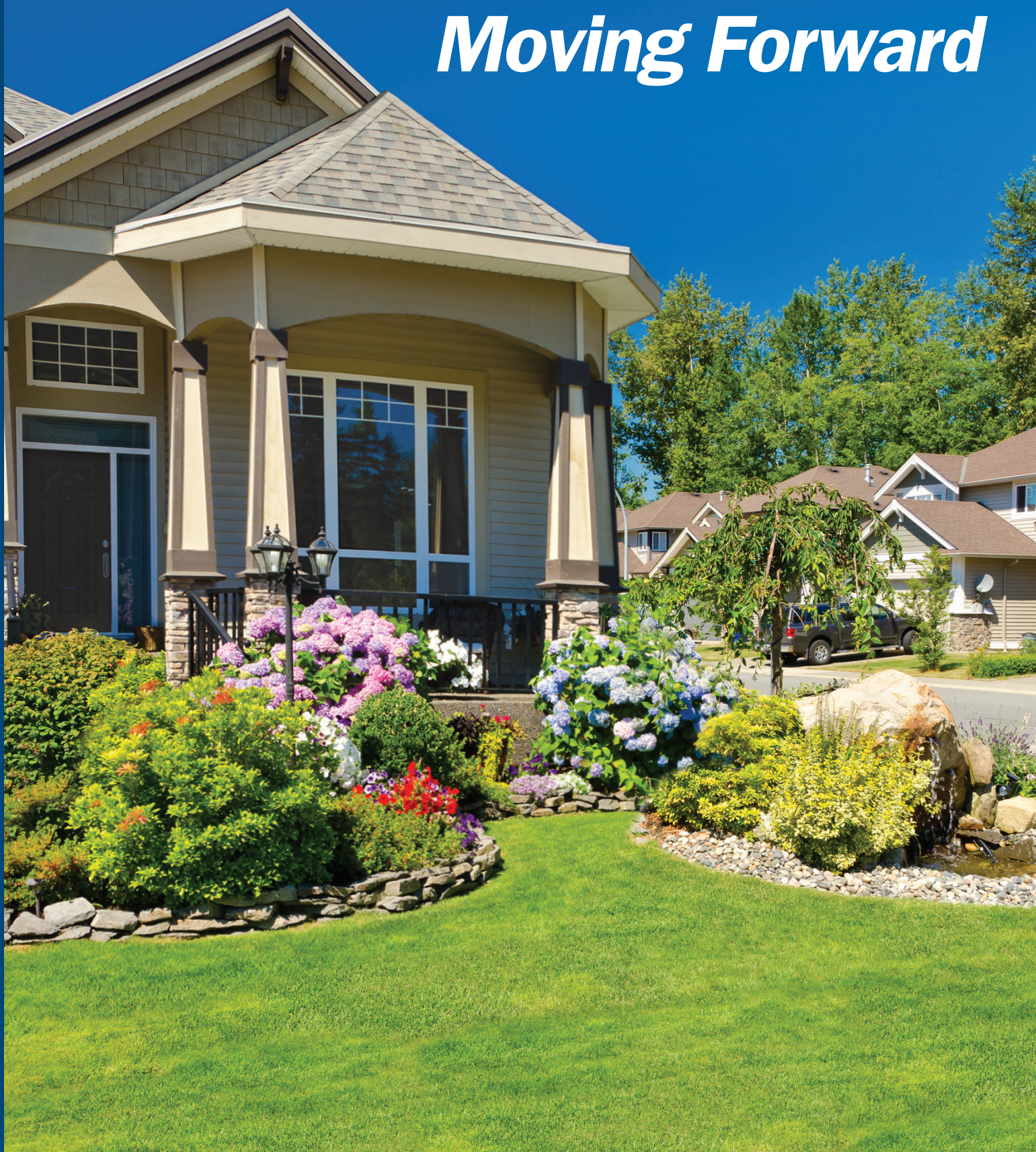


Moving Forward



Business Profile

Home Capital Group Inc. is a public company, traded on the Toronto Stock Exchange (HCG), operating through its principal subsidiary, Home Trust Company. Home Trust is a federally regulated trust company offering residential and non-residential mortgage lending, securitization of insured residential first mortgage products, consumer lending and credit card services. In addition, Home Trust offers deposits via brokers and financial planners, and through its direct-to-consumer deposit brand, Oaken Financial. Home Trust also conducts business through its wholly owned subsidiary, CFF Bank. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

VISION, MISSION AND VALUES

In 2015, the Company relaunched its Vision, Mission and Values in concert with its evolving service delivery commitments to its stakeholders.

Our Vision

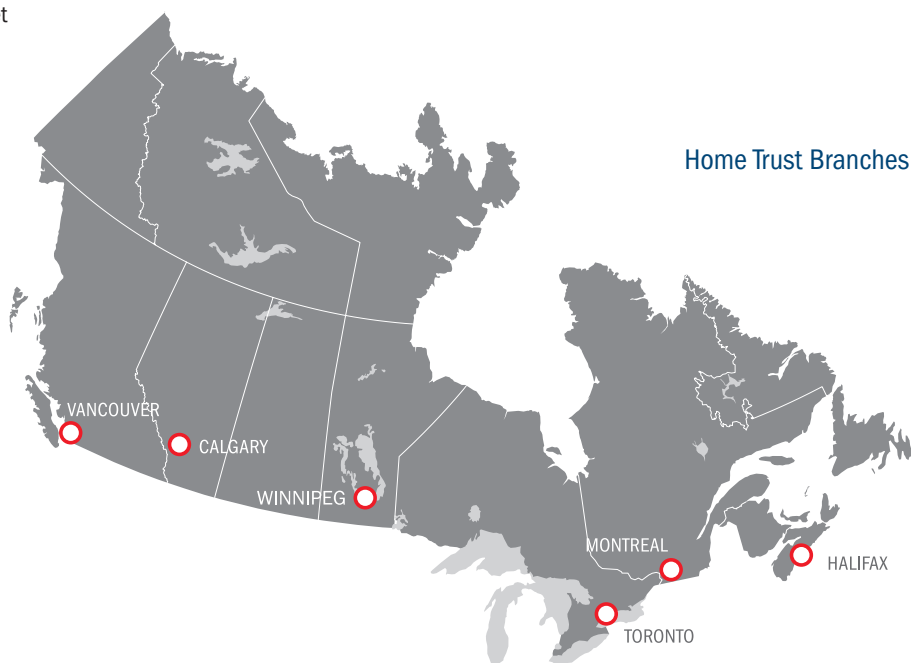
The Company's vision is to be the market leader in alternative-based financial services solutions to Canadians.

Our Mission

We believe every Canadian deserves a home and the opportunity to prosper.

Our Corporate Values (PROSPER)

- Passion
- Risk awareness
- Optimism
- Service
- Professionalism
- Ethics
- Respect



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 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, as well as unsecured cards under Home Trust's brand name. 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 suite of consumer deposit products and provides customers with 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.

Financial Highlights

Summary of Data for 10 Year Review

For the years ended December 31 (000s, except per share amounts)	2015 – Adjusted	2014 – Adjusted	2013	2012
Total assets	\$ 20,512,019	20,082,744	20,075,850	18,800,079
Total assets under administration	\$ 27,301,433	24,281,366	21,997,781	19,681,750
Total loans	\$ 18,268,708	18,364,910	18,019,901	17,159,913
Total loans under administration	\$ 25,058,122	22,563,532	19,941,832	18,041,584
Securitized residential mortgages	\$ 2,674,475	3,945,654	5,210,021	6,706,160
Deposits	\$ 15,665,958	13,939,971	12,765,954	10,136,599
Shareholders' equity	\$ 1,621,106	1,448,633	1,177,697	968,213
Revenue ¹	\$ 993,711	1,010,311	949,547	887,685
Net income ¹	\$ 288,857	289,153	256,542	221,983
Book value of common shares ²	\$ 23.17	20.67	16.95	13.98
Earnings per share – basic ^{1,2}	\$ 4.12	4.14	3.70	3.20
Earnings per share – fully diluted ^{1,2}	\$ 4.11	4.11	3.66	3.19

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. Figure

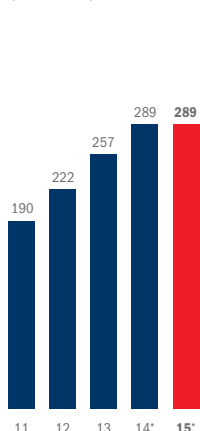
18.8%

Return on equity¹ was 18.8% on an adjusted basis, reflecting a strong balance sheet and accumulated earnings

\$288.9 million

Net income¹ for 2015 remained strong at \$288.9 million on an adjusted basis

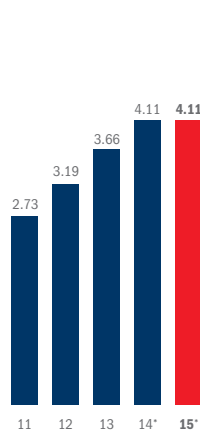
Net Income¹
(\$ millions)



\$288.9M

Home Capital reported adjusted net income of \$288.9 million in 2015 compared to \$289.2 million in 2014.

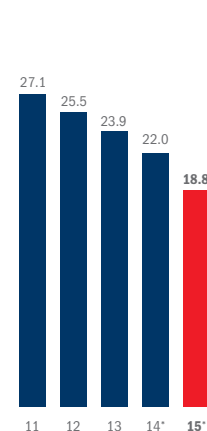
Diluted Earnings per Share^{1,2}
(\$)



\$4.11

Adjusted diluted earnings per share were \$4.11 for the year ended December 31, 2015, consistent with the prior year.

After-tax Return on Equity¹
(percentage)



18.8%

Home Capital reported adjusted return on equity of 18.8%, representing the Company's continued strong financial position.

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 2 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.

* 2014 and 2015 figures are adjusted.

2011	2010 IFRS	2010 CGAAP	2009	2008	2007	2006
17,696,471	15,518,818	7,712,239	7,360,874	5,809,713	4,975,093	3,902,316
17,696,471	15,518,818	15,878,772	11,508,585	8,423,971	6,434,548	5,009,878
16,089,648	14,091,755	5,861,722	5,468,540	4,531,568	4,045,571	3,328,858
16,089,648	14,091,755	14,028,255	9,616,251	7,145,826	4,505,026	4,436,420
8,243,350	8,116,636	–	–	–	–	–
7,922,124	6,595,979	6,522,850	6,409,822	5,102,781	4,413,984	3,443,640
774,785	628,585	742,280	590,288	432,753	348,040	276,866
790,274	687,249	533,937	489,179	454,695	368,881	282,549
190,080	154,752	180,944	144,493	108,687	90,241	67,815
11.19	9.07	10.71	8.50	6.28	5.04	4.05
2.74	2.23	2.61	2.10	1.57	1.31	0.99
2.73	2.22	2.60	2.08	1.57	1.29	0.97

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

\$25.06 billion

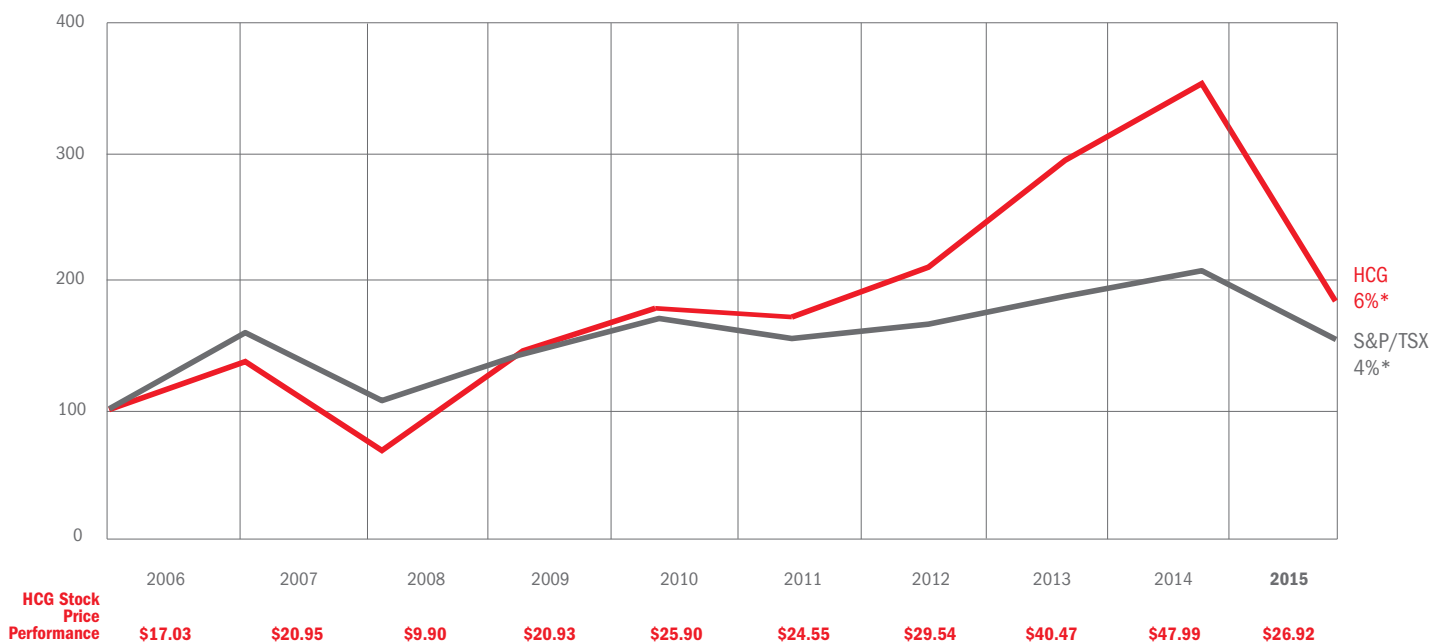
Total loans under administration grew by 11.1% over 2014 to reach \$25.06 billion at the end of 2015

\$993.7 million

Total Revenue¹ remained healthy in 2015 at \$993.7 million on an adjusted basis

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, 2005–December 31, 2015



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.

* Compounded annual growth over 10 years.



Chairman's Letter

Dr. Kevin P.D. Smith, Chairman

Three Decades of Leadership A Tribute to Jerry Soloway

Thirty years ago Home Capital Group was a small company with a big ambition – to take on the Canadian financial industry and create an alternative for customers who didn't fit the mould at traditional banks and share the Canadian dream of home ownership. Thanks in large part to the leadership of Gerald (Jerry) Soloway, Home Capital has today achieved that goal and stands poised to build its business to even greater heights, all while remaining true to that original idea.

Jerry is a true pioneer, having recognized the potential for a business serving Canadians who are dependable borrowers but who don't meet the criteria of the major financial institutions as they may not have the credit history, or are self-employed or have recently arrived in Canada. It was a remarkable insight, and having seen the opportunity, Jerry tirelessly worked to build the business. In doing so, Jerry built a major financial institution.

Under Jerry's stewardship, Home Capital has delivered truly outstanding performance, with the Company's shares returning approximately 19% each year since 1988. Home's success is not only measured by the bottom line and the stock chart, but also by the culture of entrepreneurship and family feel of Home Capital.

True to form, Jerry thought about continuing the legacy through thoughtful recruitment and succession planning. It's a credit to Jerry as well that the next generation of leaders at Home Capital is ready and able to take this Company forward.

Following this year's Annual Meeting, we will welcome Martin Reid as Home's next CEO. Martin is an outstanding executive with a strong track record at Home Capital. For the past six years in his role as president, your Board has observed his development and contributions. In recent years, Martin has taken on an increasingly important and visible role, running many aspects of the business from day to day and leading the Company's outreach to investors. He has also played a key role in strengthening and safeguarding the quality of our business. The Board is very confident that he will build on the strong foundations and strategic vision set by Jerry, while bringing his own insights and style to the role.

I'm delighted that we will continue to benefit from Jerry's wisdom and entrepreneurial zeal as a member of our Board. On behalf of the Board, the employees, and the shareholders of Home Capital, I would like to extend a heartfelt "thank you" to Jerry for his dedication to this Company for so long and to wish him well in his retirement from the role of Chief Executive Officer.

Dr. Kevin P.D. Smith
Chairman of the Board
Home Capital Group Inc.



Gerald M. Soloway, Chief Executive Officer

Dear fellow shareholders,

On the cover of Home Capital Group's first-ever annual report, I wrote that the Company was established in 1986 to "pursue a strategy of occupying profitable niches in the financial services industry that have been vacated by large financial conglomerates." Many things have changed in the intervening three decades, but that underlying strategy remains the same, and it is as relevant as ever. Our results bear that out.

We finished our first year with less than \$50 million of mortgage loans and a net loss of \$373,000. There were about a dozen employees.

Thirty years later, we have more than 875 employees, \$25 billion in loans under administration and we reported adjusted net income for 2015 of \$288.9 million. That's just shy of a record profit for our Company.

In Good Hands

This growth has created tremendous value for our shareholders. Early this year we increased our dividend for the 18th time in the past 10 years, and our stock closed at \$34.00 as of February 29, 2016, a big difference from the less than 12 cents our shares fetched on a pre-split basis in the 1990s as Canada emerged from a recession. Our shareholders have enjoyed a return of approximately 19% each year since 1988.

Those numbers tell only part of the story of the many successes that have come from the outstanding teamwork, dedication and entrepreneurial spirit of the unmatched Home Capital team. Home Capital has enabled hundreds of thousands of deserving Canadians to buy homes where they can raise families, celebrate milestones and enjoy their lives. That is perhaps the most gratifying fulfillment of the strategy we laid out in 1986. It has been a true privilege to be a part of building such an outstanding organization and to be able to work with such an excellent team.

I am very pleased to say that, as we move into 2016 under the new leadership of Martin Reid, I am incredibly optimistic about the future of Home Capital. As always, Home Capital will seek to grow by doing what this Company does best – finding innovative ways to help Canadians meet their financial needs. We will do that in the tried and true way that we have developed over the past 30 years, which we have proven delivers sustainable results for our shareholders. That means sticking to our core strategy – maintaining a strong and conservative financial position; generating good returns over the long term; and investing to ensure we deliver the excellent products and services our clients expect, all while managing our risks.

BUILDING OUR BUSINESS

In 2015, we made progress on many fronts. We sought opportunities to build and diversify our business, both to deliver more value to existing customers and to reach new ones. We invested to grow both organically and by acquisition.

We opened our first two Oaken Financial stores in the downtown cores of Toronto and Calgary, complementing our online presence. Oaken is a key part of our strategy to diversify deposits, and it's working. Deposits have now topped \$1 billion at Oaken.

Letter to Shareholders (continued)

We achieved another strategic priority in 2015, gaining ownership of a chartered bank with the purchase of CFF Bank. This was a relatively small purchase that we believe will pay big dividends. Our research shows that for many Canadians, knowing that their money is in a licensed bank is a big draw. CFF Bank also brings new assets, new customers and new relationships with owner-managed Canadian First Financial Centres across Canada which will help to drive new business.

In 2015, we took steps to drive growth in other lines of business. We expanded the commercial mortgage lending business, which is an important source of diversification and yield. We did so with our eye always on risk management, ensuring that these assets are in line with our risk appetite.

We also demonstrated good success in adding to our consumer lending business, which includes retail credit services and Visa credit cards. These businesses are becoming an increasingly larger part of our assets and produce excellent interest income.

ON THE RIGHT TRACK

Of course, Home Capital is first and foremost a provider of residential mortgages to individuals and families seeking to buy homes. In 2015, our mortgage business showed its strength and resiliency in the face of some challenges. We learned some important lessons from this experience, and we acted on them. For example, we further enhanced our income verification procedures to ensure new loans continue to reflect our risk appetite.

We are seeing continued progress in rebuilding our originations pipeline. In the fourth quarter, we reported a surge in originations of our Accelerator mortgages, and we demonstrated more success in generating originations in our traditional uninsured mortgage business. We are confident that we are on the right track.

GREAT PARTNERS

I would be remiss if we did not recognize the excellent work done every day by the more than 4,400 mortgage brokers that we continue to do business with. These are hard-working, honest and driven individuals and Home Capital would not be the great success it is without their help.

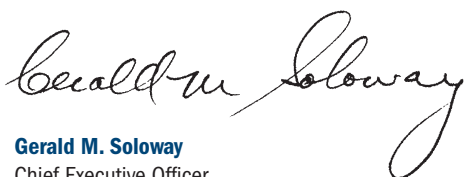
For that reason, we redoubled our efforts in 2015 to ensure that we support them in their business. We introduced Spire, a new broker loyalty program, to reward partners who generate high-quality business. We also unveiled Loft, a new broker portal, which enables brokers to connect with us electronically more quickly and easily.

MOVING FORWARD

During 2015, we had many accomplishments to be proud of, such as our near-record adjusted net income and book value per share, yet another dividend increase, the continued strong credit quality of our loan portfolio and our performance in delivering on our strategic priorities.

The moments of adversity we faced in 2015 also revealed another reason to be proud. As we built this Company, we wanted to ensure that no matter how big we got, we would always feel like family. A family looks after one another, in good times and bad. That's exactly what I saw in 2015. So I must say thank you, yet again, to the members of the Home Capital family for another year of hard work and dedication.

At Home Capital, we have always believed that the proper measure of success is over the long term. As I look back at what we have accomplished and forward at the opportunities, I am confident that Home Capital, under the leadership of Martin Reid, will deliver many more successes for our shareholders, our customers, and our employees in the years ahead.



Gerald M. Soloway
Chief Executive Officer
Home Capital Group Inc.

Q&A with Martin Reid



You spent almost 10 years in senior roles at Home Capital and Home Trust before being named the new CEO. Tell us about your impressions of the Company and why you are excited about what's to come.

Home Capital and Home Trust in many respects pioneered the alternative mortgage lending business in Canada and we remain the leader. The Company's growth is incredible. We have tripled net income in the time I've been here. That's driven a lot of success for shareholders, including the 18th increase to our dividend in the last 10 years, which we announced in February. We have managed that growth while being very careful with risks and while strengthening our balance sheet. We also continue to experience strong credit performance in our loan portfolio with near-record low losses.

Thanks to the hard work of Jerry Soloway and all the people at Home over the past 30 years, we have the right people, the right platform and the right strategy. All of us at Home take great pride in these accomplishments. However, we also know there is much more we can achieve. That's where my focus is now, and I'm really optimistic about the opportunities for future growth.

Looking forward, I believe we will continue to deliver strong growth in our core mortgage lending business, as well as our ancillary businesses, such as credit cards and retail credit. We will continue to diversify our product offerings, building on the success we've already experienced. And we will leverage our expertise to grow our business through opportunities that balance attractive returns with acceptable risk and a continued strong capital position. But beyond Home's growth and success, what has struck me most in my time here is Home's culture – the integrity of our people, their entrepreneurial spirit, and their dedication to doing the right thing. As we look to grow the business, it's our people who are the most important asset of all.

For Home Capital, 2015 was an eventful year. What were the highlights?

Part of the reason I'm so optimistic about Home's future is because in 2015 we took many important steps to push the business to new heights. At the end of 2015, we began piloting Spire, our new broker partnership program, and Loft, our new broker portal, to select partners. I expect Loft will really gain traction in 2016 because we believe it is an industry-leading tool that is easy to use and gives the mortgage brokers what they want. We also made huge strides in diversifying our deposit base away from term deposits that come in through brokers to include more direct deposits from our clients. This is crucial because a more diverse deposit base is much less risky from a funding perspective, and we are always looking for ways to reduce risk.

So it was great to see our Oaken Financial business really come into its own last year, with deposits topping \$1 billion. In fact, we now generate more than 23% of our funding through a number of new deposit initiatives that we have introduced over the past several years. Our acquisition of CFF Bank, although small, was significant. With CFF, Home has a trust company *and* a bank, and we can generate deposits in both entities. CFF also gives us another platform for new products. We also launched some white label credit cards such as Giant Tiger. Credit cards are a very profitable business, and we're pleased with the growth. We foresee new products in cards, but we will always keep a careful eye on risk.

We continued to transform, in particular in our mortgage lending business, to strengthen the organization and better manage risk. For example, we have separated the mortgage sales and underwriting roles. We've also realigned our rewards and compensation program to ensure that risks and rewards are aligned with our longer-term corporate objectives. That transformation work continues, with our teams always looking for innovative ways to improve our business. Finally, I'm very proud of the resilience the Company showed in dealing with the situation we faced involving the suspended brokers. It wasn't easy, but we handled it the right way. I'm pleased to say that by year-end we were showing solid momentum entering 2016.



What did you learn from 2015?

Managing the situation regarding the suspended brokers was undoubtedly one of our biggest challenges. We have now intensively reviewed approximately half of the files that may be impacted and, based on that review, there is no indication that this will translate into any material losses from a financial perspective. Our investigation did not identify any issues with the underlying collateral of the mortgages or the validity of the credit bureau scores, and the value of those houses is sound. The investigation of the nature and extent of the issue is complete, and remediation related to suspended brokers will be done by year-end.

We've worked very hard to ensure this doesn't happen again by instituting a number of changes to our mortgage lending processes. To give you one example, we are in the process of changing broker compensation to better align it with the risk profile and quality of the deals they bring us. 2015 presented a number of challenges for Home, and in 2016 we will be back on track with a much stronger organization that generates quality business for years to come.

The Company put a big focus last year on "reigniting the culture." Why was that so important?

We put a lot of effort in 2015 into redefining and communicating who Home is, who we want to be, and what we stand for. In recent years, Home has grown tremendously, with hundreds of new employees. It's key that we all have a clear picture of our vision, mission and values. Home has always had a very strong entrepreneurial and risk-aware culture. We want to build on that strong culture, but a larger organization needs different tools to manage the business and manage risk. One of the benefits of Home is that we are much more agile than the big banks. That is what we've always been about: helping hardworking, dependable Canadians find solutions that they couldn't with the big banks. We want to ensure we remain nimble.

Finally, what's your vision and outlook for the Company in 2016 and beyond?

My vision for the Company is built on what Home has always done so well - serving the under-served part of the financial market, and being very entrepreneurial and agile in how we do that. We will continue to improve our tools and skill sets to make us even stronger, ensuring we are well positioned for the next 30 years.

Looking ahead, our core mortgage business has solid momentum and we expect to see continued growth in our residential and commercial mortgage business lines. We are pleased with the direction of our complementary businesses, including retail credit and credit cards. We are excited by the potential that the acquisition of CFF Bank provides as an additional platform for growth. And the Oaken brand will continue to be a key driver in our deposit diversification strategy. All of this growth will be accompanied by a strong risk management culture and infrastructure, which we continue to enhance. Indeed, the future looks bright for Home.

What's so exciting is that we have a great opportunity to further expand and diversify while keeping our focus on that under-served part of the market. And we have the right team in place to deliver on our future success - our people are committed, enthusiastic and diligent. That's where we have the strengths that set us apart and that have made us so successful for the past 30 years. It's those same strengths that will carry us forward, delivering the best products and services for our customers and the prudent, profitable and sustainable growth that our shareholders have come to expect.

Executive Team

From left to right

John Hong

Senior Vice President,
Chief Compliance Officer &
Chief Anti-money Laundering
Officer

Gary Wilson

Executive Vice President,
Underwriting

Fariba Rawhani

Executive Vice President &
Chief Information Officer

Pino Decina

Executive Vice President,
Residential Mortgage Lending

Carol Ferguson

Senior Vice President,
Human Resources

Robert Morton

Chief Financial Officer &
Executive Vice President

Benji Katchen

Senior Vice President,
Deposits & Credit Cards

Marie Holland

Senior Vice President,
Internal Audit

Chris Ahlvik

Executive Vice President,
Corporate Counsel &
Corporate Secretary

Dinah Henderson

Executive Vice President,
Operations

Greg Parker

Chief Risk Officer &
Executive Vice President

John Harry

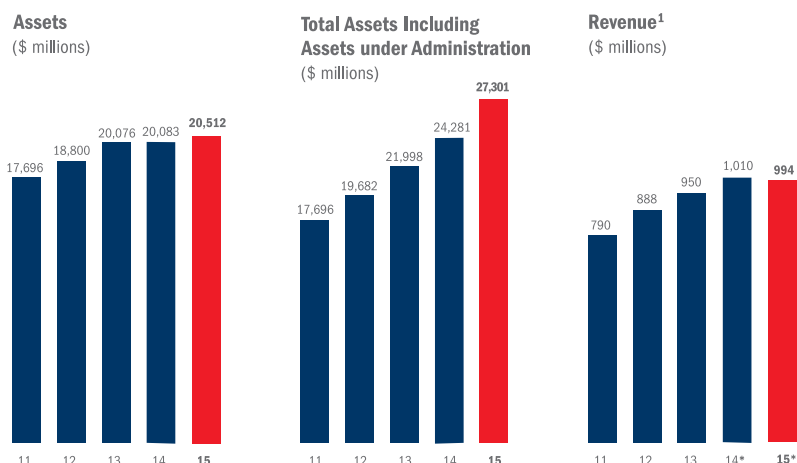
Executive Vice President,
Commercial Mortgage Lending



Proven Results

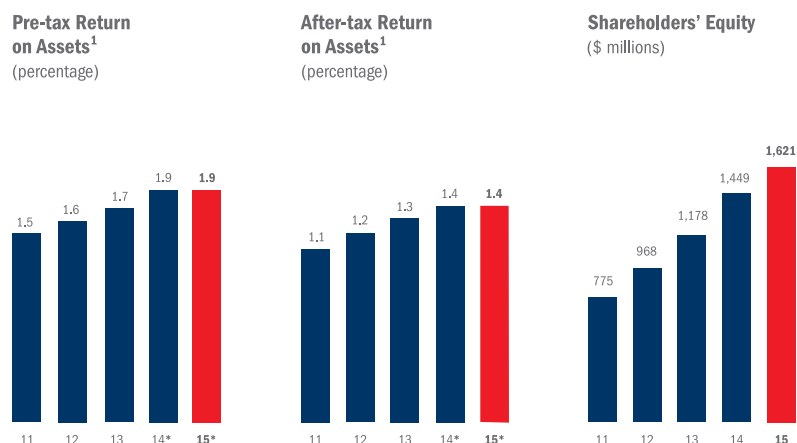
GROWTH

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 12.4% year over year and revenue remaining healthy at \$993.7 million on an adjusted basis.



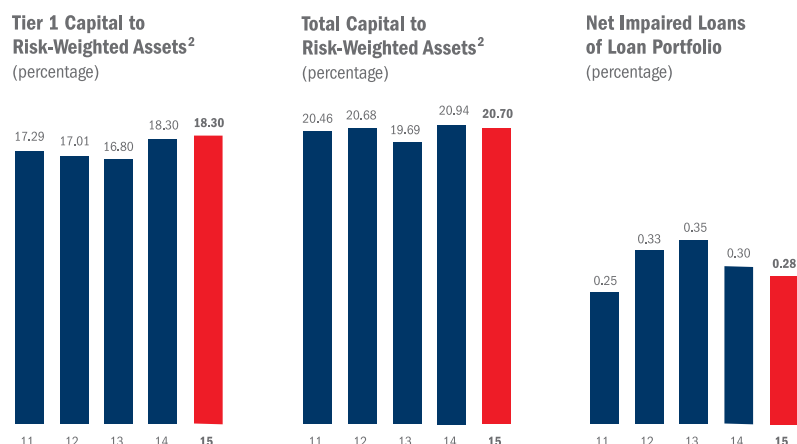
RETURNS

The Company recorded pre-tax return on assets of 1.9% and after-tax return on assets of 1.4%, both on an adjusted basis, while shareholders' equity increased to \$1.62 billion, an 11.9% increase over 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 and Adjusted Net Income in the Non-GAAP Measures and Glossary section of this report.

² These figures are calculated under Basel III for 2013 and after and Basel II for 2012 and earlier.

* 2014 and 2015 figures are adjusted.

Performance vs. Target

Management believes that by focusing on medium-term objectives in the Company's decision-making, we will be well positioned to provide sustainable earnings growth and solid returns to 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.

RETURN ON EQUITY (ROE)

In the fourth quarter 2015, Home Capital revised its return on equity target to achieve, on average, annual ROE in excess of 16%. The decision to adjust the ROE target reflects the effect of the Company's substantial equity cushion, which is indicative of a strong balance sheet and accumulated earnings.

► **MID-TERM TARGET:**

Achieve, on average, annual adjusted return on equity greater than 20%¹

Adjusted return on equity at

18.8%

for the year ended
December 31, 2015

DILUTED EARNINGS PER SHARE

Diluted earnings per share were \$4.11 on an adjusted basis at December 31, 2015, consistent with diluted earnings per share of \$4.11 one year prior. The mid-term target for growth in EPS continues to reflect the Company's cautious approach to growth.

► **MID-TERM TARGET:**

Achieve, on average, annual growth in adjusted diluted earnings per share of 8% to 13%¹

Adjusted diluted earnings
per share were

\$4.11

for 2015

CAPITAL RATIOS

The Company aligns capital with the risk profile of the business through an understanding of the nature and level of risks being taken. The Company consistently maintains high levels of regulatory capital.

► **MID-TERM TARGET:**

Maintain strong capital ratios that exceed regulatory minimums by a safe margin, commensurate with the Company's risk profile

Tier 1 capital ratio of

18.30%

well in excess of regulatory
minimums

DIVIDEND PAYOUT RATIO

Management is committed to returning a superior total return to the Company's shareholders. The target dividend payout range is subject to quarterly review by the Company's Board of Directors.

► **MID-TERM TARGET:**

Payout, on average, 19% to 26% of earnings to shareholders

Dividend payout ratio of

22.0%

of earnings to shareholders

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 2 of this report.

Corporate Governance at Home Capital

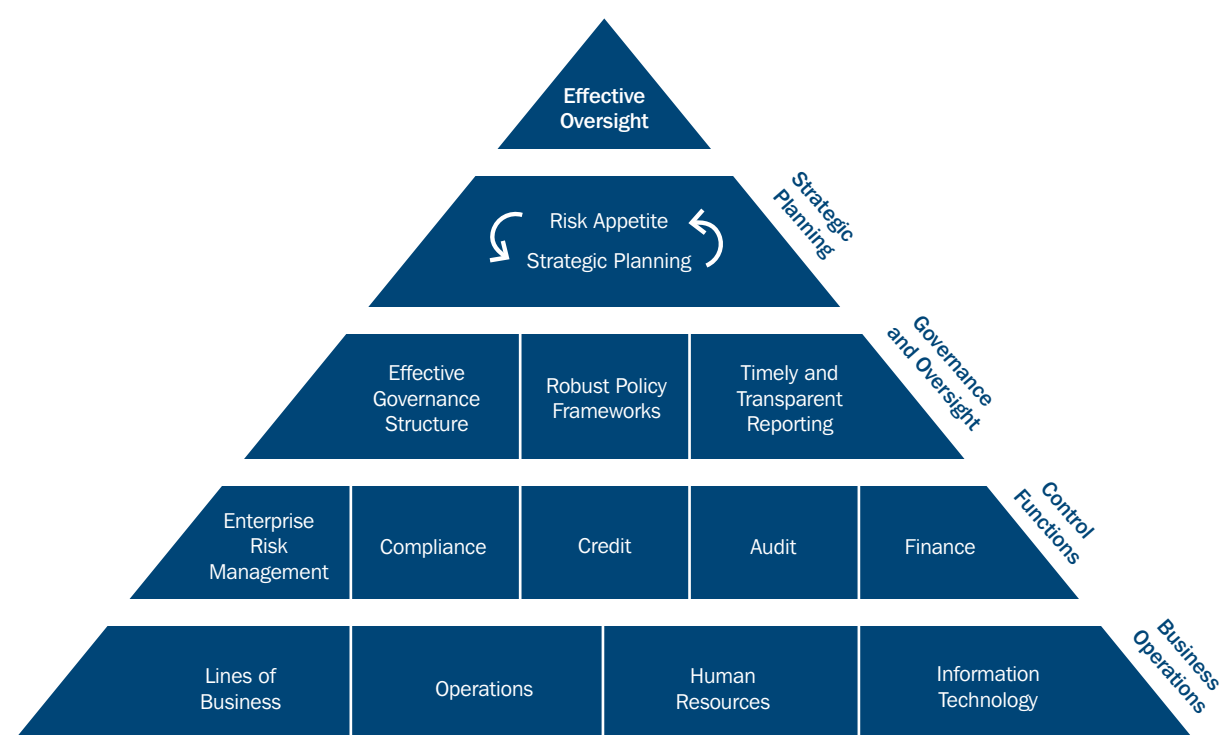
Home Capital recognizes the importance of strong and effective corporate governance. As a reporting issuer and publicly accountable entity, Home Capital has governance standards that are consistent with the corporate governance guidelines set out by the Toronto Stock Exchange and are compliant with applicable 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.
- > Eight 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, the President, Executive Vice Presidents and Senior Vice Presidents 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;

Corporate Governance at Home Capital (continued)

- > 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.

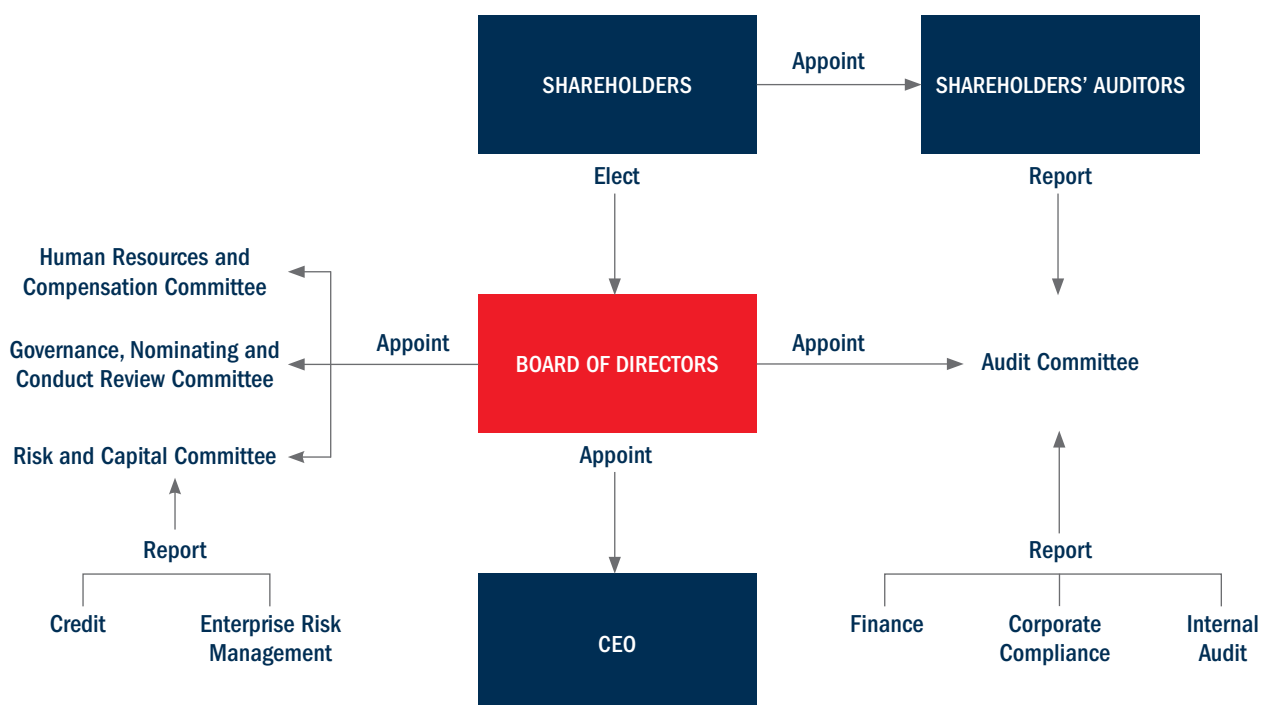
Human Resources and Compensation Committee

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.

Board of Directors



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.



Volunteering at Camp Oochigeas, Summer 2015

Corporate Social Responsibility

A Commitment to Our Communities

Home Capital invests in our neighbourhoods and communities through a wide range of corporate initiatives, sponsorships and employee fundraising efforts. We 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 2015, employee volunteers participated in a number of events including Junior Achievement of Canada programs for Grade 7 and 8 students in Toronto, a Habitat for Humanity construction project, delivering a day of assistance and support to homeless youth at Covenant House and a soup-making session with Soup Sisters Toronto to provide soup to local women’s shelters and youth programs. Employees also supported Camp Oochigeas for children with cancer by participating in a fundraising barbeque and taking part in readying camp facilities in Muskoka.

A Commitment to Our Employees

We invest in our employees by creating a workplace where people feel engaged, inspired, challenged, proud and respected. To that end, we focus on all facets of the employee experience and work to foster employee engagement through the promotion of a climate of trust and encouragement. We support our employees and their commitment to their communities through sponsorships of local sports teams, neighbourhood events and little league squads. We are proud of our more than 300 employees who volunteered for numerous events organized over the year by the Company’s Corporate Social Responsibility Committee, demonstrating a high level of interest and enthusiasm. In 2015, Home Capital launched its new vision, mission and values with a company-wide event, Reigniting our Culture. This event promoted deeper employee engagement and involvement in helping to shape what our values look like in action and create an environment where employees can grow and prosper.

A Commitment to Our Environment

Home Capital is committed to implementing environmentally sustainable business practices that reduce our impact to 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 2015, 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 clear invasive species in the Niagara Escarpment, supporting the preservation of this area of natural diversity in southern Ontario. In further efforts to support the environment, the Company donated one tree for each employee to Tree Canada’s National Greening Program, helping reforest areas of British Columbia hit hardest by devastating wildfires in 2015.

Management's Discussion and Analysis

BUSINESS PROFILE	14	QUARTERLY FINANCIAL HIGHLIGHTS	39
Business Portfolios	14	FOURTH QUARTER 2015	40
VISION, MISSION AND VALUES	15	Items of Note	40
Risk-taking Philosophy	15	Income Statement Highlights	40
2015 STRATEGIES AND ACHIEVEMENTS	16	Financial Position Highlights	41
MID-TERM FINANCIAL TARGETS	17	FOURTH QUARTER FINANCIAL INFORMATION	42
2015 PERFORMANCE SUMMARY	17	CAPITAL MANAGEMENT	49
2016 STRATEGIES	18	Capital Management Activity	51
2016 OVERALL OUTLOOK	19	Internal Capital Adequacy Assessment Process (ICAAP)	52
Market Conditions	19	Credit Ratings	52
Traditional Single-family Mortgage Lending	19	Share Information	52
Insured Securitized Mortgage Lending	19	RISK MANAGEMENT	52
Commercial Mortgage Lending	20	Risk Appetite	52
Credit Cards and Line of Credit Lending	20	Risk Governance	53
Consumer Lending	20	Stress Testing	55
Deposits	20	Principal Risks	56
Credit Performance and Losses	20	Strategic Risk	56
Non-interest Expenses	21	Credit Risk	56
Liquidity and Capital	21	Market Risk	62
FINANCIAL HIGHLIGHTS	22	Funding and Liquidity Risk	66
Items of Note	23	Operational Risk	68
Income Statement Highlights for 2015	23	Compliance Risk	69
Balance Sheet Highlights for 2015	24	Capital Adequacy Risk	69
FINANCIAL PERFORMANCE REVIEW	25	Reputational Risk	69
Acquisition of CFF Bank	25	Risk Factors That May Affect Future Results	69
Net Interest Income and Margin	26	ACCOUNTING STANDARDS AND POLICIES	70
Non-interest Income	27	Future Change in Accounting Standards	70
Derivatives and Hedging	28	CONTROLS OVER FINANCIAL REPORTING	70
Cash Flow Hedging	28	Disclosure Controls and Internal Control over Financial Reporting	70
Fair Value Hedging	28	Disclosure Controls and Procedures	71
Economic Hedge of Loans Held for Securitization and Sale	28	Internal Control over Financial Reporting	71
Other Interest Rate Swaps	29	Changes in Internal Control over Financial Reporting	71
Non-interest Expenses	30	Comparative Consolidated Financial Statements	71
Taxes	30	NON-GAAP MEASURES AND GLOSSARY	71
Comprehensive Income	31	Non-GAAP Measures	71
FINANCIAL POSITION REVIEW	31	Glossary of Terms	74
Assets	31	Acronyms	74
Loans under Administration	32		
Mortgage Lending	33		
Other Lending	35		
Cash Resources and Securities	35		
Liabilities	36		
Deposits, Senior Debt and Securitization Liabilities	36		
Shareholders' Equity	37		
Contingencies and Contractual Obligations	38		
Off-balance Sheet Arrangements	38		
Related Party Transactions	38		

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, 2015. 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. Home Trust includes its wholly owned subsidiary, CFF Bank. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 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 10, 2016. As in prior years, the Company's Audit Committee reviewed this document, and prior to its release the Company's Board of Directors (Board) 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 the 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 are 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, compliance risk, and capital adequacy 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 2016 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 2016, management's expectations assume:

- > The Canadian economy is expected to be relatively stable in 2016; however, it will continue to be impacted by adverse effects related to the drop and fluctuations in oil prices and other commodities. The Company has limited exposure in energy producing regions.
- > Generally the Company expects stable employment conditions in its established regions; however, unemployment rates in energy producing regions are expected to continue to increase in 2016. Also, the Company 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 increase, but given the Company's limited exposure, this is not expected to be significant.
- > The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets and further adjustments in commodity 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 2016. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.

Management's Discussion and Analysis

- > In the Company's established regions, the Company expects that the housing market will remain stable with reduced, but balanced supply supported by continued low interest rates, and relatively stable employment, depending on location and immigration. There will be moderately easing housing starts and resale activity with relatively stable prices throughout most of Canada, with continued regional disparities. This supports continued stable credit losses and stable demand for the Company's lending products in its established regions.
- > The Company expects that consumer debt levels, while elevated, 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. Home Trust also conducts business through its wholly owned subsidiary, CFF Bank. 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 – \$11.71 billion in loans under administration

The traditional single-family residential portfolio is the Company's "Classic" mortgage portfolio which consists of primarily uninsured 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 Residential Lending – \$10.73 billion in loans under administration

Insured residential lending includes the Company's insured single-family "Accelerator" mortgages and insured securitized 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.

Residential Commercial Lending (including loans held for sale) – \$456.5 million in loans under administration

This portfolio comprises insured and uninsured residential commercial lending, which includes commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. Insured multi-unit residential mortgages are included in this portfolio until they are securitized. These loans are funded by deposits.

Non-residential Commercial Lending – \$1.49 billion in loans under administration

Non-residential commercial lending includes store and apartment mortgages and commercial mortgages. These loans are funded by deposits.

Credit Cards and Lines of Credit – \$370.8 million

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 unsecured Visa cards. The Company's EasyOne line of credit product allows customers access to both an unsecured line of credit and high interest savings through one account. Credit card loans and lines of credit are funded by deposits.

Consumer Lending – \$296.9 million

This portfolio primarily 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 – \$15.67 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 certain deposit diversification strategies, 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. In addition, Home Trust's subsidiary CFF Bank, a Canadian retail bank, offers deposit, mortgage and personal banking products.

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

In 2015, the Company relaunched its Vision, Mission and Values in concert with its evolving service delivery commitments to its stakeholders.

Our Vision

The Company's vision is to be the market leader in alternative-based financial services solutions to Canadians.

Our Mission

We believe every Canadian deserves a home and the opportunity to prosper.

Our Corporate Values (PROSPER)

Passion, Risk awareness, Optimism, Service, Professionalism, Ethics, Respect

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 and compliance culture;
- > 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;
- > Implementation of a three lines of defence model; 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 and businesses 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 after risk identification and analysis. All acquisitions are subject to a due diligence process that ensures alignment with the Company's risk appetite and strategy;
- > 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 geographic 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.

Management's Discussion and Analysis

2015 STRATEGIES AND ACHIEVEMENTS

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

Strategic Priority	2015 Strategies and Achievements
Build and maintain Canada's leading alternative financial institution	<p><i>Serving an established and growing market niche</i></p> <ul style="list-style-type: none"> > Continued to offer “one-stop” convenience to borrowers and brokers, offering both traditional alternative residential lending and prime lending, generating solid net interest margins > Expanded the footprint of its commercial lending products with 2015 originations increasing 102% year over year > Continued offering ancillary consumer lending products, rebuilding the retail credit origination pipeline after the sale of the waterheater portfolio in 2014 > Established <i>Visa</i> co-branding initiatives with the launch of three new programs: Union Plus Canada, Optimax Credit and Giant Tiger > Continued to build Oaken Financial, increasing balances by 42.2% over 2014, to over \$1 billion > Enhanced Oaken Financial's presence through the launch of two Oaken stores in Calgary and Toronto > Finalized the acquisition of CFF Bank, a Schedule 1 Bank under the <i>Bank Act</i> (Canada), on October 1, 2015
Maintain a strong, conservative financial position	<p><i>Generating strong shareholder returns in good times and bad</i></p> <ul style="list-style-type: none"> > Maintained a strong capital position, with a Common Equity Tier 1 capital ratio of 18.31% at the end of 2015 and increased total capital of Home Trust, through the increase in retained earnings of \$221.4 million > Generated an adjusted ROE of 18.8% > Increased dividends paid to shareholders by 25.7% over 2014 > Maintained a prudent credit risk profile of the loan portfolio, with a net non-performing loans as a percentage of gross loans ratio (NPL ratio) of 0.28% and low write-offs at 0.04% of gross loans > Maintained and managed strong liquidity positions, ending the year with \$2.13 billion in liquid assets > Maintained a flexible supply of funding through the deposit broker network, Oaken Financial and securitization markets
Build on our operational excellence	<p><i>Investing to ensure our growth is managed and prudent</i></p> <ul style="list-style-type: none"> > Continued to invest in customer experience including Oaken Financial and the loans origination platform, as well as IT security commensurate with operating in an increasingly digital marketplace > Continued to enhance risk and compliance framework, including enhancing income verification procedures to ensure new lending continues to reflect the Company's risk appetite > The adjusted efficiency ratio ended the year at 31.8%, which includes a full quarter of CFF Bank operating expenses

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.

MID-TERM FINANCIAL TARGETS

Management believes that by focusing on 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 continue to measure its long term objective of superior shareholder value through mid-term, three- to five-year 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 >16%
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 continue to reflect the Company's cautious approach to growth in the current economic environment in Canada and abroad and the potential range of outcomes for income growth that may result.

The Company revised its return on equity target in Q4 2015, to seek to achieve a return on shareholders' equity of greater than 16%. The decision to adjust the return on shareholders' equity target reflects in large part the effect of the substantial equity cushion the Company has accumulated, reflective of a strong balance sheet and accumulated earnings.

Management also seeks to align the Company's 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 the Company's shareholders. 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 prevailing market conditions.

2015 PERFORMANCE SUMMARY

Below is a summary of the Company's performance for 2015 against the mid-term targets highlighted above. The Company will continue to focus on its medium-term objectives to guide the Company's decision-making and describe its accomplishments.

- > Diluted earnings per share (adjusted) were \$4.11 for 2015. The Company's goal is to achieve, on average, annualized growth in diluted earnings (adjusted) per share of 8% to 13% in the three- to five-year medium term.
- > Return on shareholders' equity (adjusted) was 18.8% for 2015, with the goal to achieve, on average, annualized return on equity of greater than 16% in the three- to five-year medium term. This objective was revised during the fourth quarter of 2015.
- > Common Equity Tier 1 and Tier 1 capital ratios of 18.31% and 18.30%, respectively, and Total capital ratio of 20.70% continue to be well in excess of regulatory minimums.
- > Dividend payout ratio of 22.0%, with a targeted payout on average of 19% to 26% of earnings to shareholders in the three- to five-year medium term.

On annual basis, the Company will update its three-year financial plan and evaluate targets as part of its year-end process, or as required.

Management's Discussion and Analysis

2016 STRATEGIES

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	2016 Strategies
Build and maintain Canada's leading alternative financial institution	<p><i>Serving an established and growing market niche</i></p> <ul style="list-style-type: none"> > Continue to offer a full suite of mortgage lending products while maintaining a high level of service to business partners and customers > Successfully launch the broker partnership program and broker portal to further strengthen business partnerships > Continue to build complementary and innovative product offerings > Continue to grow direct-to-consumer deposits through Oaken Financial
Maintain a strong, conservative financial position	<p><i>Generating strong shareholder returns in good times and bad</i></p> <ul style="list-style-type: none"> > 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 and appetite > 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 as measured by return on equity and deliver a dividend payout ratio within the mid-term target range > Continue to build on the Company's risk and compliance infrastructure to support sustainable future growth > Continue review and where appropriate, validation of the income documentation submitted in respect of mortgages referred by the 45 individual mortgage brokers suspended between September 2014 and March 2015, with plans to complete the review by the end of 2016
Build on our operational excellence	<p><i>Investing to ensure our growth is managed and prudent</i></p> <ul style="list-style-type: none"> > Continue to invest in technology and processes that enhance the customer experience, improve efficiencies and support a strong risk management and compliance infrastructure > Maintain a relatively low cost structure as measured by the efficiency ratio > Integrate and streamline the operations, distribution channels and product suites of CFF Bank

2016 OVERALL OUTLOOK

Looking ahead, the Board of Directors and management expect that Home Capital will continue generating solid shareholder returns in 2016 and beyond.

Market Conditions

Supply and demand in the Company's key established real estate markets is expected to remain balanced in 2016, with relatively stable prices and sales volumes, with regional disparities, 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.

The Company expects to see the impact of certain positive economic forces on its established markets through 2016, including a generally positive outlook for the US economy, the comparatively weaker Canadian dollar, the continued low interest rate environment and the expected beneficial impact of lower oil prices on economic growth in Central Canada. Adverse effects related to the drop in oil prices and other commodity prices continue to negatively impact the economies of energy producing regions.

Traditional Single-family Mortgage Lending

The Company expects to see continued strengthening of its origination volumes through 2016, when compared to 2015 originations. The Company will look to rebuild its market share lost during 2015 through the Company's proven business model and service levels. In addition, the Company expects that recently announced tightening in mortgage lending regulations may lead to increased demand for its traditional product. The Company is enhancing the broker experience through its broker portal technology, and launching a new broker partnership program at the beginning of the year. The Company expects that these initiatives, among others, will allow the Company to continue to improve origination volumes leveraging the demand for its traditional mortgages within its established regions. In addition, the Company launched its new uninsured product, Ace Plus, which is a lower margin mortgage product directed toward lower risk borrowers. The Company will look to grow this product in 2016, which may lower the overall traditional single-family reported net interest margin.

Net interest margins in the traditional portfolio through 2015 reflect both improved credit quality of borrowers and lower relative cost of funds driven by lower rates and the shift to a higher proportion of lower cost demand deposit products. The Company expects 2016 net interest margins to remain relatively stable to margins experienced on new loans originated in Q4 2015, 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 the second half of 2015 but this is dependent on market conditions. The Company remains committed to offering a range of mortgage products through its distribution channels 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 continue to decline as older, higher-yielding pools reach maturity and are replaced with pools that qualify for off-balance sheet accounting. The Company expects sufficient securitization funding will be available to meet its planned volumes.

Management's Discussion and Analysis

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 Company plans to continue to grow the non-residential commercial portfolio in 2016 at a higher rate, similar to the rate in 2015, if market conditions remain favourable.

Credit Cards and Line of Credit 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. The Company will continue to focus marketing and cross selling in this product offering and expects growth to improve in line with the Company's residential lending business. The Company also has additional co-branding and expansion initiatives in unsecured credit card lending underway. While these initiatives are not expected to be material to the Company's results in 2016 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. Origination volumes are expected to be consistent with 2015, 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, Oaken Financial. The Company will continue to strengthen its funding capability through agreements with additional deposit brokers and the enhancement of its direct-to-consumer sales and service capabilities. The relative cost of deposits is expected to remain stable to slightly lower when compared to 2015.

The acquisition of CFF Bank supports the Company's long-term strategy to diversify its funding sources. Through 2016, the Company will integrate the technology platform of CFF Bank into the Company's infrastructure in order to facilitate growth in deposit funding generated through CFF Bank, which issues deposits that would be eligible for deposit insurance in an efficient and effective manner.

The Company will continue to issue institutional deposits when appropriate, given market conditions.

Credit Performance and Losses

The Company's prudent underwriting and collection practices are reflected in low levels of credit losses and delinquencies. Credit losses and delinquencies are expected to remain low in 2016; however, the Company is prepared for volatility in this performance that may result from uncertainty in the macroeconomic environment. 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 for the Company.

Non-interest Expenses

The Company's continued focus on the growth of its business will be accompanied by commensurate strengthening of risk and compliance oversight, along with customer service platforms, involving increased spending on people and technology. Increased spending to support Oaken Financial and loans origination initiatives, and the Company's enterprise information security as well as increasing costs associated with regulatory requirements can also be expected.

Through 2016, the Company expects to continue to incur integration costs, specifically to integrate CFF Bank's operations with those of Home Trust. Upon completion of one-time integration activities, the Company expects CFF Bank to be operating with a significantly more efficient ongoing cost structure.

While there will be continued upward pressure on expenses from these sources, the Company will continue to focus on deriving savings from cost management and efficiency programs and, on an overall basis, expects its efficiency ratio to remain relatively consistent with the levels experienced at the end of 2015.

The Company expects that the effective income tax rate in 2016 will remain within the range of 26.2% to 26.8%, excluding the impact of any Scientific Research and Experimental Development (SR&ED) investment tax credits that may be realized and the recognition of dividends from Canadian corporations. The Company expects to submit claims for SR&ED in 2016 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 ratios. Further, the Company has been 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, as they arise, 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 Liquidity Adequacy Requirements Guideline.

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 in this report.

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

Table 1: Key Performance Indicators

For the years ended December 31
(000s, except %, multiples and per share amounts)

	2015	2014	2013	2012	2011
FINANCIAL PERFORMANCE MEASURES					
Total adjusted revenue ¹	\$ 993,711	\$ 1,010,311	\$ 949,547	\$ 887,685	\$ 790,274
Net income	287,285	313,172	256,542	221,983	190,080
Adjusted net income ¹	288,857	289,153	256,542	221,983	190,080
Net interest income	481,090	459,529	421,979	381,472	333,952
Earnings per share – basic ²	4.09	4.48	3.70	3.20	2.74
Adjusted earnings per share – basic ^{1,2}	4.12	4.14	3.70	3.20	2.74
Earnings per share – diluted ²	4.09	4.45	3.66	3.19	2.73
Adjusted earnings per share – diluted ^{1,2}	4.11	4.11	3.66	3.19	2.73
Dividends per share ²	0.88	0.70	0.54	0.45	0.38
Return on shareholders' equity	18.7%	23.8%	23.9%	25.5%	27.1%
Adjusted return on shareholders' equity ¹	18.8%	22.0%	23.9%	25.5%	27.1%
Return on average assets	1.4%	1.6%	1.3%	1.2%	1.1%
Net interest margin (TEB) ³	2.36%	2.25%	2.17%	2.09%	2.06%
Net interest margin non-securitized assets (TEB) ³	2.83%	2.83%	3.01%	3.10%	3.04%
Net interest margin securitized assets	0.49%	0.67%	0.73%	0.93%	1.24%
Efficiency ratio (TEB) ³	32.4%	27.2%	28.7%	27.7%	27.9%
Adjusted efficiency ratio (TEB) ^{1,3}	31.8%	28.8%	28.7%	27.7%	27.9%
FINANCIAL CONDITION MEASURES					
Total assets	\$20,512,019	\$20,082,744	\$20,075,850	\$18,800,079	\$17,696,471
Total assets under administration ⁴	27,301,433	24,281,366	21,997,781	19,681,750	17,696,471
Cash and securities-to-total assets	7.8%	4.7%	5.8%	3.8%	5.2%
Total loans ⁵	\$18,268,708	\$18,364,910	\$18,019,901	\$17,159,913	\$16,089,648
Total loans under administration ^{4,5}	25,058,122	22,563,532	19,941,832	18,041,584	16,089,648
Common Equity Tier 1 capital ratio ⁶	18.31%	18.30%	16.80%	N/A	N/A
Tier 1 capital ratio ⁶	18.30%	18.30%	16.80%	17.01%	17.29%
Total capital ratio ⁶	20.70%	20.94%	19.69%	20.68%	20.46%
Assets to regulatory capital multiple ^{6,7}	N/A	12.47	13.19	13.39	14.44
Leverage Ratio ^{6,8}	7.36%	N/A	N/A	N/A	N/A
Credit quality					
Provision for credit losses as a % of gross loans	0.05%	0.07%	0.09%	0.09%	0.05%
Net non-performing loans as a % of gross loans	0.28%	0.30%	0.35%	0.33%	0.25%
Allowance as a % of gross non-performing loans	74.0%	64.4%	52.4%	57.0%	74.9%

¹ See definition of Total Adjusted Revenue, Adjusted Net Income, Adjusted Basic and 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 2.

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. For 2013 through 2015, 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.

⁸ Effective Q1 2015, the Assets to Regulatory Capital Multiple has been replaced with the Basel III leverage ratio. See definition of leverage ratio under Non-GAAP Measures in this report.

Items of Note

The Company's results were affected by the following items of note that aggregated to a negative impact on net income of \$1.6 million or \$0.02 diluted earnings per share in 2015:

- > \$0.7 million in acquisition costs and \$3.5 million in integration costs, less \$2.1 million in relation to a bargain purchase gain, for a net of \$2.1 million related to the acquisition of CFF Bank in 2015 (\$1.6 million after tax and \$0.02 diluted earnings per share).

The Company's results were affected by the following items of note 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.

Income Statement Highlights for 2015

- > Reported net income of \$287.3 million in 2015, a decrease of \$25.9 million or 8.3% from net income of \$313.2 million in 2014.
- > Adjusted net income of \$288.9 million in 2015, as defined in Table 2, decreased \$0.3 million or 0.1% from adjusted net income of \$289.2 million in 2014, supported by a healthy loan portfolio evidenced by low non-performing loans and credit losses, solid net interest margins and a strong capital position.
- > Adjusted diluted earnings per share of \$4.11 was unchanged from the adjusted diluted earnings per share of \$4.11 in 2014.
- > Return on average shareholders' equity was 18.7% for 2015 (adjusted return on average shareholders' equity of 18.8%) as compared to 23.8% for 2014 (adjusted return on average shareholders' equity of 22.0%). In the fourth quarter of 2015, the Company adjusted its return on equity target to greater than 16% over the medium term, reflecting in large part the Company's substantial accumulated equity.
- > Total net interest income increased to \$481.1 million, up \$21.6 million or 4.7% over the \$459.5 million earned in 2014, reflecting higher total net interest margin (TEB) of 2.36% compared to 2.25% in 2014.
- > Net interest income on non-securitized assets was \$463.1 million in 2015, increasing 8.9% over 2014 on higher average asset balances of \$16.53 billion, compared to \$15.17 billion in 2014. Net interest margin (TEB) on this portfolio was 2.83% for 2015, flat compared to 2014.
- > 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 \$44.2 million for the year, compared to \$61.1 million in 2014. Securitization income was \$26.2 million in 2015 on \$1.90 billion in notional sales compared to securitization income of \$26.8 million on \$2.53 billion of notional sales in 2014. Relative gains vary based on market opportunities and reflect the highly competitive market for prime insured mortgages. Net interest income on the on-balance sheet securitized portfolio declined to \$18.0 million for the year from \$34.3 million in 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 increased \$11.4 million or 16.0% as a result of portfolio mix and changes in the fee structure year over year.
- > On October 1, 2015, the Company's subsidiary, Home Trust, acquired 100% of the outstanding shares of CFF Bank, a Schedule 1 bank under the *Bank Act* (Canada), for cash consideration of \$19.6 million, subject to final adjustments. CFF Bank is a Canadian retail bank offering deposit, mortgage and personal banking products through a number of channels. The Company recognized a gain on acquisition in the income statement of \$2.1 million, representing a bargain purchase. The acquisition supports the Company's long-term strategy to develop deposit diversification and expand the broker network to build relationships and drive mortgage and loan origination volumes.
- > The credit quality of the loan portfolio remains strong with continued low non-performing loans and credit losses. Provisions for credit losses were \$8.9 million for the year, a decrease from the \$13.1 million recorded last year. This represents 0.06% of gross uninsured loans down from 0.10% in 2014. Net non-performing loans as a percentage of gross loans ended the year at 0.28% compared to 0.30% at the end of last year. Net write-offs were \$6.9 million for 2015, representing 0.04% of gross loans compared to \$10.3 million and 0.06% of gross loans in 2014.
- > Non-interest expenses, which include salaries, premises and other operating expenses, were \$190.7 million in 2015, up 17.5% over the \$162.3 million recorded in 2014. The increase in non-interest expenses represents the continued investment by the Company to grow its business including, among other things, technology related to moving toward operating as a digital enterprise and updating the Company's loan origination platform. The increase in non-interest expenses also includes costs related to the day-to-day operations of the newly acquired CFF Bank. Costs to acquire and integrate CFF Bank have been excluded from the adjusted efficiency ratio. In addition, non-interest expenses include \$2.9 million in relation to the ongoing efforts to realign some of its business partnerships following the suspension of the 45 individual mortgage brokers. The Company's adjusted efficiency ratio (TEB) is 31.8% compared to 28.8% in 2014.

Management's Discussion and Analysis

Balance Sheet Highlights for 2015

- > Total assets under administration, which includes \$6.79 billion of mortgages accounted for off-balance sheet, of which \$1.45 billion relate to the acquisition of CFF Bank, reached \$27.30 billion, an increase of 12.4% over \$24.28 billion last year.
- > The Company sold residual interests in securitization transactions of \$1.18 billion, compared with \$1.75 billion 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 \$8.06 billion in 2015, compared to the \$8.85 billion originated in 2014. The decrease in originations reflects decreases in both the traditional and Accelerator mortgage portfolios partially offset by an increase in commercial mortgage originations. Despite the current year decrease, single-family residential mortgage originations continue to represent the Company's primary focus with the traditional mortgage portfolio accounting for 63.0% of originations and Accelerator (insured) residential mortgage originations accounting for 17.3% of originations. Residential commercial and non-residential commercial mortgage originations make up the remaining 19.7% of the originations.
- > Traditional mortgage originations were \$5.07 billion, down 13.5% over originations of \$5.86 billion in 2014. Accelerator (insured) residential mortgage originations were \$1.39 billion, down 22.0% compared to 2014 originations of \$1.79 billion. The year-over-year decrease in originations reflects the impact of, among other things, the Company's ongoing review of its business partners (including the suspension of approximately 45 individual mortgage brokers through the period of September 2014 to March 2015), its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages.
- > 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 0.28% down from 0.30% one year ago. At the end of 2015, 98.2% of the loan portfolio was current, as compared with 97.9% at the end of 2014.
- > Liquid assets at December 31, 2015 were \$2.13 billion, compared to \$1.06 billion at December 31, 2014. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations. Higher liquidity at the end of 2015 reflects securitization proceeds from participation in a CMB issuance and additional liquidity held to support relatively higher demand deposit balances.
- > Home Trust's capital levels were strong throughout 2015, as indicated by the Common Equity Tier 1 ratio of 18.31% and the Tier 1 and Total capital ratios of 18.30% and 20.70%, respectively, at December 31, 2015. Home Trust's Leverage ratio ended 2015 at 7.36%.
- > Subsequent to the end of the year, the Company's Board authorized a share repurchase of up to \$150 million, which is anticipated to take place through a Substantial Issuer Bid by way of an issuer bid circular that would be provided to the shareholders of Home Capital. The terms and conditions of the bid remain to be determined, and are subject to approval by the Board of Directors.
- > Deposits reached \$15.67 billion, up from \$13.94 billion at December 31, 2014. Total deposits raised through the Company's deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits now total \$3.65 billion, an increase of \$1.23 billion or 50.6% over last year.
- > Securitization liabilities were \$2.78 billion at the end of 2015, down from \$4.30 billion last year. Originations in the Accelerator portfolio, which is typically funded by way of securitization, were exceeded by the amortization of MBS liabilities and maturities of CMB liabilities combined with loans removed from the balance sheet on the sale of residual securitization interests, resulting in the overall decline in the securitization liabilities.

FINANCIAL PERFORMANCE REVIEW

Table 2: Income Statement Highlights

(000s, except % and per share amounts)	2015	2014	Change
Net interest income non-securitized assets	\$ 463,140	\$ 425,250	8.9%
Net interest income securitized loans and assets	17,950	34,279	(47.6)%
Total net interest income	481,090	459,529	4.7%
Provision for credit losses	8,933	13,134	(32.0)%
	472,157	446,395	5.8%
Non-interest income	103,793	133,359	(22.2)%
Non-interest expenses	190,673	162,252	17.5%
Income before income taxes	385,277	417,502	(7.7)%
Income taxes	97,992	104,330	(6.1)%
Net income	\$ 287,285	\$ 313,172	(8.3)%
Basic earnings per share	\$ 4.09	\$ 4.48	(8.7)%
Diluted earnings per share	\$ 4.09	\$ 4.45	(8.1)%

Reconciliation of Net Income to Adjusted Net Income

Net income per above	\$ 287,285	\$ 313,172	(8.3)%
Adjustment for acquisition and integration costs, net of gain recognized on acquisition of CFF Bank (net of tax)	1,572	-	-
Adjustment for prepayment income on portfolio sale (net of tax)	-	(24,019)	(100.0)%
Adjusted Net Income ¹	\$ 288,857	\$ 289,153	(0.1)%
Adjusted Basic Earnings per Share ¹	\$ 4.12	\$ 4.14	(0.5)%
Adjusted Diluted Earnings per Share ¹	\$ 4.11	\$ 4.11	-

¹ Adjusted net income and adjusted earnings per share are defined in the Non-GAAP Measures section of this MD&A.

Acquisition of CFF Bank

On October 1, 2015, the Company, through its subsidiary Home Trust, acquired all of the issued and outstanding shares of CFF Bank, a Schedule 1 bank under the *Bank Act* (Canada) for a purchase price of \$19.6 million subject to final adjustments. The Company acquired assets of \$251.8 million and \$1.49 billion of loans that are accounted for off-balance sheet, and assumed liabilities of \$228.2 million. Included in the Company's results for 2015 are three months of operating results of CFF Bank, which include a contribution to revenue of \$2.0 million and a net loss before taxes of \$5.7 million. The Company has calculated a preliminary bargain purchase gain of \$2.1 million, recognized in the consolidated statements of income, representing primarily the recognition of a deferred tax asset in the amount of \$13.5 million.

For illustrative purposes, the following table shows the income statement of the Company for the year ended 2015, as if it had not purchased CFF Bank. The table below excludes the operating results of CFF Bank, acquisition and integration costs for CFF Bank and the gain on bargain purchase related to CFF Bank. The comparative income statement for 2014 excludes the prepayment income related to the sale of the water heater loan portfolio.

Table 3: Income Statement Excluding Impact of CFF Bank and Prepayment Income from Sale of Waterheater Loan Portfolio

(000s, except per share amounts)	2015 Actual	2015 Excluding CFF Bank	2014 Actual	2014 Excluding Prepayment Income
Net interest income non-securitized assets	\$ 463,140	\$ 461,867	\$ 425,250	\$ 425,250
Net interest income securitized loans and assets	17,950	17,914	34,279	34,279
Total net interest income	481,090	479,781	459,529	459,529
Provision for credit losses	8,933	8,648	13,134	13,134
	472,157	471,133	446,395	446,395
Non-interest income	103,793	101,372	133,359	100,684
Non-interest expenses	190,673	184,052	162,252	162,252
Income before income taxes	385,277	388,453	417,502	384,827
Income taxes	97,992	98,592	104,330	95,674
Net income	\$ 287,285	\$ 289,861	\$ 313,172	\$ 289,153
Basic earnings per share	\$ 4.09	\$ 4.13	\$ 4.48	\$ 4.14
Diluted earnings per share	\$ 4.09	\$ 4.12	\$ 4.45	\$ 4.11

Management's Discussion and Analysis

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

	2015	2014
Net interest margin non-securitized interest earning assets (non-TEB)	2.80%	2.80%
Net interest margin non-securitized interest earning assets (TEB)	2.83%	2.83%
Net interest margin securitized assets	0.49%	0.67%
Total net interest margin (non-TEB)	2.34%	2.23%
Total net interest margin (TEB)	2.36%	2.25%
Spread of non-securitized loans over deposits and other	2.91%	2.93%

Total net interest margin (TEB), including the securitized portfolio, was 2.36% for 2015 compared to 2.25% in 2014, reflecting a greater proportion of higher-yielding, non-securitized assets in the on-balance sheet portfolio. The Company sold a higher proportion of its newly insured originations off-balance sheet which has reduced the relative proportion on-balance sheet. Average non-securitized assets of \$16.53 billion for the year represent 80.2% of average total assets compared to 73.6% last year while average securitized assets of \$3.64 billion for the year represent 17.6% of average total assets compared to 24.9% last year. The continued decline in average on-balance sheet securitized assets reflects maturities in the on-balance sheet portfolio and the sales of residual interests in securitized single-family residential mortgages.

Table 5: Net Interest Income by Product and Average Rate

	2015			2014		
(000s, except %)	Average Balance ¹	Income/ Expense	Average Rate ¹	Average Balance ¹	Income/ Expense	Average Rate ¹
Interest-bearing assets						
Cash resources and securities	\$ 1,291,955	\$ 18,571	1.44%	\$ 1,398,544	\$ 25,338	1.81%
Traditional single-family residential mortgages	11,808,777	588,854	4.99%	10,826,314	552,112	5.10%
Accelerator single-family residential mortgages	1,113,847	28,777	2.58%	956,519	26,746	2.80%
Residential commercial mortgages ²	409,718	17,053	4.16%	306,915	14,355	4.68%
Non-residential commercial mortgages	1,319,640	80,032	6.06%	1,033,519	64,852	6.27%
Credit card loans and lines of credit	346,965	31,427	9.06%	310,941	28,529	9.18%
Other consumer retail loans	237,024	23,419	9.88%	338,777	31,204	9.21%
Total non-securitized loans	15,235,971	769,562	5.05%	13,772,985	717,798	5.21%
Taxable equivalent adjustment	-	3,830	-	-	4,117	-
Total on non-securitized interest earning assets	16,527,926	791,963	4.79%	15,171,529	747,253	4.93%
Securitized single-family residential mortgages	2,252,930	62,891	2.79%	3,285,467	105,393	3.21%
Securitized multi-unit residential mortgages	865,228	36,625	4.23%	1,291,643	54,634	4.23%
Assets pledged as collateral for securitization	517,273	4,325	0.84%	548,401	6,464	1.18%
Total securitized residential mortgages	3,635,431	103,841	2.86%	5,125,511	166,491	3.25%
Other assets	435,311	-	-	308,848	-	-
Total interest-bearing assets	\$20,598,668	\$ 895,804	4.35%	\$20,605,888	\$ 913,744	4.43%
Interest-bearing liabilities						
Deposits and other	\$14,901,524	\$ 318,597	2.14%	\$13,677,719	\$ 311,494	2.28%
Senior debt	153,089	6,396	4.18%	146,877	6,392	4.35%
Securitization liabilities	3,698,669	85,891	2.32%	5,194,504	132,212	2.55%
Other liabilities and shareholders' equity	1,845,386	-	-	1,586,788	-	-
Total interest-bearing liabilities	\$20,598,668	\$ 410,884	1.99%	\$20,605,888	\$ 450,098	2.18%
Net Interest Income (TEB)		\$ 484,920			\$ 463,646	
Tax Equivalent Adjustment		(3,830)			(4,117)	
Net Interest Income per Financial Statements		\$ 481,090			\$ 459,529	

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 \$481.1 million increased 4.7% 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 of \$463.1 million in 2015 increased by \$37.9 million or 8.9% over 2014, reflecting an increase of \$1.36 billion or 8.9% in average asset balances while net interest margin (TEB) remained flat year over year at 2.83%. The flat net interest margin reflects a decrease of 14 basis points in the average rates earned on the non-securitized portfolio to 4.79% in 2015 from 4.93% in 2014, offset by a decrease of 14 basis points in the average rate of interest expense on deposits and other to 2.14% in 2015 from 2.28% last year. The decrease in rates earned reflects 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. In addition to a decline in market rates on deposits, the decrease in the average rate on deposits and other reflects a higher proportion of lower-rate deposits payable on demand combined with the use of the lower-cost insured mortgage purchase facility (see Cash Resources and Securities note in the consolidated financial statements included in this report for further information on this facility). Deposits payable on demand represented 12.7% of total deposits at the end of 2015 compared to 7.6% at the end of 2014. The Company expects net interest margin on the non-securitized portfolio to remain relatively stable to the margins experienced on new loans originated in Q4 2015.

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. In addition, there was higher prepayment penalty income in 2014. The decrease in net interest margin was partially offset by a decrease in interest expense resulting from CMB maturities during the year which reduced interest expense on the portfolio. The average assets in the securitized portfolio declined by \$1.49 billion in 2015, reflecting the sale of residual interests and maturities. As such, this portfolio has had a lower impact on the Company's net interest margin and the relative impact can be expected to continue to decline through 2016.

Non-Interest Income

Table 6: Non-interest Income

(000s, except %)	2015	2014	Change
Fees and other income	\$ 82,632	\$ 71,241	16.0%
Securitization income	26,208	26,845	(2.4)%
Prepayment income on portfolio sale	-	32,675	(100.0)%
Gain on acquisition of CFF Bank	2,056	-	-
Net realized and unrealized gains on securities	836	3,425	(75.6)%
Net realized and unrealized loss on derivatives	(7,939)	(827)	(860.0)%
	\$ 103,793	\$ 133,359	(22.2)%

Table 7: Securitization Income

(000s, except %)	2015	2014	Change
Net gain on sale of mortgages and residual interest	\$ 21,412	\$ 23,712	(9.7)%
Net change in unrealized gain or loss on hedging activities	(313)	(177)	(76.8)%
Servicing income	5,109	3,310	54.4%
Total securitization income	\$ 26,208	\$ 26,845	(2.4)%

Fees and other income, which include mortgage and Visa account administration fees, net of direct servicing expenses, generally increases proportionate to the size of the portfolio. Fee income is also influenced by the overall mix of the portfolio. Fees and other income were up 16.0% over last year, reflecting changes in the portfolio mix and in the fee structure year over year. The Company expects fee income to increase in line with the growth in the loan portfolio in 2016.

Securitization income during the year resulted primarily from gains recognized on the sale of residual interests in single-family residential mortgage securitizations and the sale of insured multi-unit residential mortgages. Securitization income primarily includes sales of underlying mortgages either newly originated or renewed during the period along with insured mortgages held in inventory from prior periods. 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 decrease in securitization income reflects decreased sales of residual interests in insured single-family residential mortgage pools and sales of insured multi-unit residential mortgages, offset by an increase in servicing income. Sales of residual interests during the year led to gains of \$15.5 million on the derecognition of \$1.18 billion of insured single-family residential mortgages compared to gains of \$18.7 million on the derecognition of \$1.75 billion of underlying mortgages last year. During the year, the Company recognized gains of \$5.9 million on sales of \$713.6 million of insured multi-unit residential mortgages compared to gains of \$5.0 million recognized last year on the sales of \$784.0 million of insured multi-unit residential mortgages. The Company expects gains on sales in 2016 to be relatively consistent with the volumes experienced in the second half of 2015 depending on the level of insured mortgage originations.

Management's Discussion and Analysis

As a result of the acquisition of CFF Bank on October 1, 2015, the Company recognized an acquisition gain of \$2.1 million representing the excess fair value of net assets acquired over the purchase consideration. The Company is in the process of finalizing the assessment of the fair values of the tangible and intangible assets acquired and liabilities assumed. Accordingly, the fair value of the assets and liabilities acquired and assumed may be adjusted pending the completion of final valuation and post-closing adjustments.

In 2014, the Company recognized prepayment income of \$32.7 million in relation to the sale of \$234.9 million of water heater loans. This was a non-recurring item.

The Company recognized a net gain of \$1.7 million on the sale of certain available for sale securities in 2015, compared to a net gain of \$3.5 million in 2014. The Company takes advantage of improvements in the market price of certain securities and will rebalance the investment portfolio as market conditions warrant. The Company also recognized \$0.9 million in impairments through profit and loss on certain available for sale equity securities in 2015 compared to \$0.1 million in 2014.

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 Note 19, Derivative Financial Instruments, 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)	2015	2014
Fair value hedging ineffectiveness ¹	\$ (7,797)	\$ 1,168
Derivative instruments marked to market ²	(142)	(1,995)
Net realized and unrealized loss on derivatives	\$ (7,939)	\$ (827)

¹ Included in fair value hedging ineffectiveness are amounts related to derivative restructuring upon adoption of IFRS.

² Included in derivative instruments marked to market are swaps and bond forwards.

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, 2015 for fair value changes in both the outstanding derivatives and the loans held for trading was \$313 thousand (2014 - unrealized loss of \$177 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.

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

(000s, except %)	2015		2014	
	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹
Provision²				
Single-family residential mortgages	\$ 5,415	0.04%	\$ 9,507	0.08%
Residential commercial mortgages	4	0.00%	(1)	(0.00)%
Non-residential commercial mortgages	720	0.05%	270	0.02%
Credit card loans and lines of credit	798	0.22%	571	0.17%
Other consumer retail loans	171	0.06%	187	0.10%
Securitized single-family residential mortgages	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-
Total individual provision	7,108	0.04%	10,534	0.06%
Total collective provision	1,825	0.01%	2,600	0.01%
Total provision	\$ 8,933	0.05%	\$ 13,134	0.07%
Net Write-Offs²				
Single-family residential mortgages	\$ 5,292	0.04%	\$ 9,099	0.07%
Residential commercial mortgages	4	0.00%	24	0.01%
Non-residential commercial mortgages	435	0.03%	202	0.02%
Credit card loans and lines of credit	969	0.26%	692	0.21%
Other consumer retail loans	168	0.06%	272	0.15%
Securitized single-family residential mortgages	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-
Net write-offs	\$ 6,868	0.04%	\$ 10,289	0.06%

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.

Strong credit performance continued through 2015. The provision for credit losses was \$8.9 million, as compared with \$13.1 million in 2014. Provisions as a percentage of gross uninsured loans of 0.06% for 2015 decreased from 0.10% in 2014.

The Company continues to actively monitor the credit performance of the mortgages related to the suspended brokers, described in the Mortgage Lending section of this MD&A. No unusual credit issues have been identified in this portfolio.

The Company continues to observe strong credit profiles and stable loan-to-value ratios across its portfolio, which continues to support low delinquency and non-performing rates and ultimately low net write-offs. Net write-offs were low at \$6.9 million and represented 0.04% of gross loans compared to 0.06% in 2014.

Net non-performing loans as a percentage of gross loans decreased to 0.28% at the end of 2015 from 0.30% at the end of 2014. The Company remains satisfied with the credit performance of the portfolio, but is prepared for moderate volatility in the trend.

The collective allowance balance at December 31, 2015 increased by \$2.1 million in 2015 to \$36.2 million. The current collective allowance exceeds the cumulative net write-offs experienced over the last 36 months. Please see the Credit Risk section of this MD&A for further discussion.

The level of individual allowances at the end of 2015 decreased by \$3.4 million over 2014, while gross non-performing loans decreased by \$3.7 million to \$53.5 million from \$57.2 million. 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.

Management's Discussion and Analysis

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 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)	2015	2014	Change
Salaries and benefits	\$ 88,873	\$ 80,769	10.0%
Premises	12,274	11,866	3.4%
Other operating expenses	89,526	69,617	28.6%
	\$ 190,673	\$ 162,252	17.5%
Adjusted efficiency ratio (TEB)	31.8%	28.8%	3.0%
Active employees at end of period	877	783	12.0%

In 2015, the Company's efficiency ratio saw an increase, reflecting contributions to the longer-term health of the business, acquisition and integration costs related to CFF Bank and certain expenses related to the effort to realign some of the Company's business partnerships following the suspension of approximately 45 individual mortgage brokers.

Through 2016, the Company will continue to manage expenses in a disciplined and measured manner and align its expense management strategy with its growth targets and strategic objectives. Maintaining and enhancing the Company's operational effectiveness and efficiency, combined with cost management, remains a strategic priority for the Company.

Salaries and employee benefits increased over last year due to the increase in active employees and certain severance and other termination payments incurred related to the acquisition of CFF Bank. Active employees have increased to support longer-term business growth, broader skill sets in the mix of staff, the risk and compliance culture, and the acquisition of CFF Bank in the fourth quarter of 2015.

The Company continues to invest in technology which includes initiatives such as investment in the digitization of operating processes, ongoing investment in the Company's IT security platform, and those costs associated with operating in an increasingly digital marketplace.

Depreciation and amortization expense increased over 2014, as a result of new systems becoming live. In addition, last year, the Company changed the estimated useful life of the Company's core banking system which reduced the amortization expense of deferred software development costs by \$4.0 million in 2014.

Through 2015, the Company incurred additional expenses related to its efforts to realign some of its business partnerships following the suspension of approximately 45 individual mortgage brokers and recognized approximately \$2.9 million in expenses in 2015.

In addition, in the fourth quarter of 2015, the Company completed the acquisition of CFF Bank. The Company incurred \$0.7 million in acquisition costs and \$3.5 million in integration costs in 2015. Through 2016, the Company will continue to incur costs in relation to the integration of CFF's operations with its own. When these costs, along with the gain on acquisition, are excluded from the Company's efficiency ratio, the adjusted efficiency ratio is 31.8%.

Taxes

Table 11: Income Taxes

(000s, except %)	2015	2014	Change
Current	\$ 98,481	\$ 102,201	(3.6)%
Deferred	(489)	2,129	(123.0)%
Total income taxes	\$ 97,992	\$ 104,330	(6.1)%
Effective income tax rate	25.43%	24.99%	

The provision for income taxes for the year ended December 31, 2015 amounted to \$98.0 million, reflecting an effective tax rate of 25.43% (\$104.3 million and 24.99% in 2014). The effective tax rate of the Company is lower than the statutory rate primarily due to the tax-exempt dividend income from securities and the benefits recorded in the accounts attributed to SR&ED credits recognized throughout the year. The Company has claimed \$2.5 million in SR&ED credits in 2015 (\$5.3 million 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 provision for income taxes.

The Company expects that the effective income tax rate in 2016 will remain within the range of 26.2% to 26.8%, 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 2016 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 %)	2015	2014	Change
Net income	\$ 287,285	\$ 313,172	(8.3)%
Net unrealized losses on securities and retained interests available for sale, net of reclassifications to net income and taxes	(46,224)	(419)	(10,932.0)%
Net unrealized (losses) gains on cash flow hedges, net of reclassifications to net income and taxes	(715)	293	(344.0)%
Total other comprehensive loss	(46,939)	(126)	(37,153.2)%
Comprehensive income	\$ 240,346	\$ 313,046	(23.2)%

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the year was \$240.3 million compared to \$313.0 million in 2014.

OCI for the year was a loss of \$46.9 million compared to a loss of \$0.1 million in 2014. The increased loss in OCI from 2014 reflects the decline in the fair value of the Company's preferred share holdings included in available for sale securities, which is due primarily to the current interest rate environment and prevailing market sentiment relating to preferred shares. The Company has not identified any new credit events in relation to its preferred share holdings (Refer to Note 4(C) of the consolidated financial statements).

Included in the transfer to net income for the year was \$0.9 million in impairment losses on available for sale securities, compared to \$0.1 million in 2014.

FINANCIAL POSITION REVIEW

Assets

Table 13: Loans Portfolio

(000s, except % and number of loans)	2015	2014	Change
Securitized single-family residential mortgages	\$ 1,948,110	\$ 2,990,119	(34.8)%
Securitized multi-unit residential mortgages	726,365	955,535	(24.0)%
Traditional single-family residential mortgages	11,714,710	11,726,970	(0.1)%
Accelerator single-family residential mortgages	1,264,708	723,558	74.8%
Residential commercial mortgages	321,442	243,318	32.1%
Non-residential commercial mortgages	1,490,648	1,106,878	34.7%
Credit card loans and lines of credit	370,825	330,327	12.3%
Other consumer retail loans	296,857	186,111	59.5%
Total loan portfolio	18,133,665	18,262,816	(0.7)%
Loans held for sale	135,043	102,094	32.3%
Total on-balance sheet loans	\$18,268,708	\$18,364,910	(0.5)%
Off-balance sheet loans			
Single-family residential mortgages	\$ 4,567,155	\$ 2,613,481	74.8%
Multi-unit residential mortgages	2,222,259	1,585,141	40.2%
Total off-balance sheet loans	6,789,414	4,198,622	61.7%
Total loans under administration	\$25,058,122	\$22,563,532	11.1%
Number of loans outstanding			
Mortgages	68,710	64,456	6.6%
Credit card loans and lines of credit	40,355	33,853	19.2%
Other consumer retail loans	88,226	57,412	53.7%
Total number of loans outstanding	197,291	155,721	26.7%

Management's Discussion and Analysis

Loans under Administration

Figure 1: Portfolio Composition by Product Type

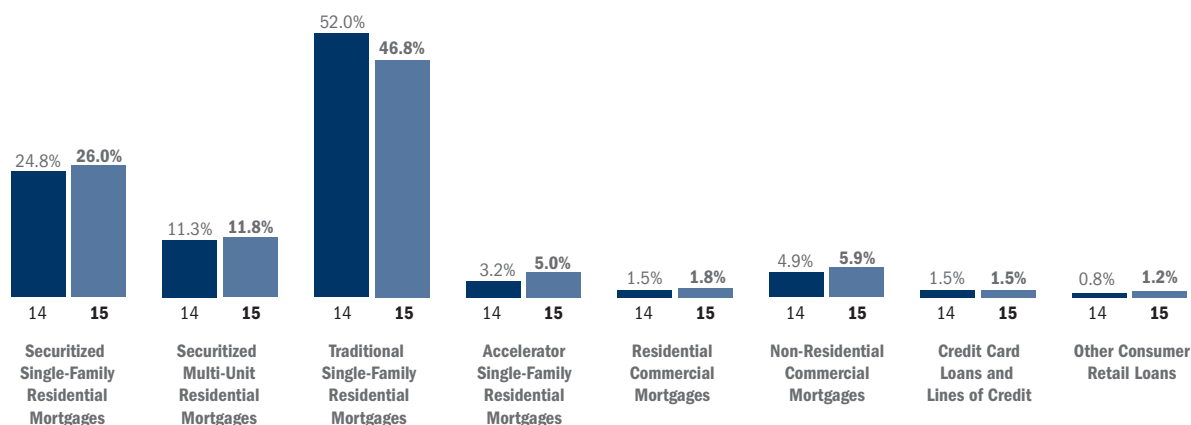


Figure 2: Insured versus Uninsured Mortgages under Administration

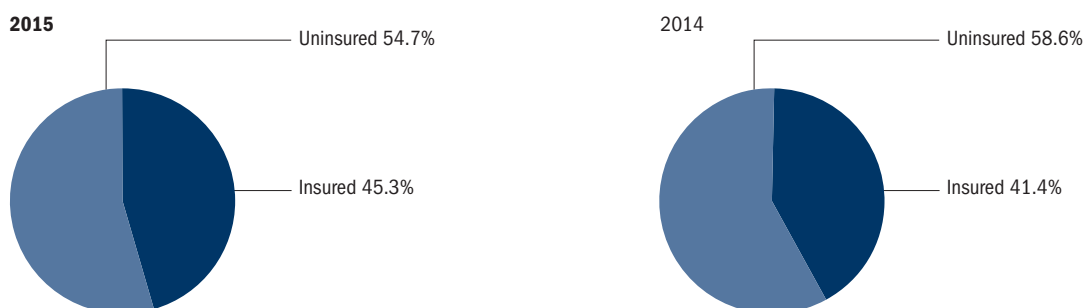


Figure 3: Loans under Administration Composition by Province

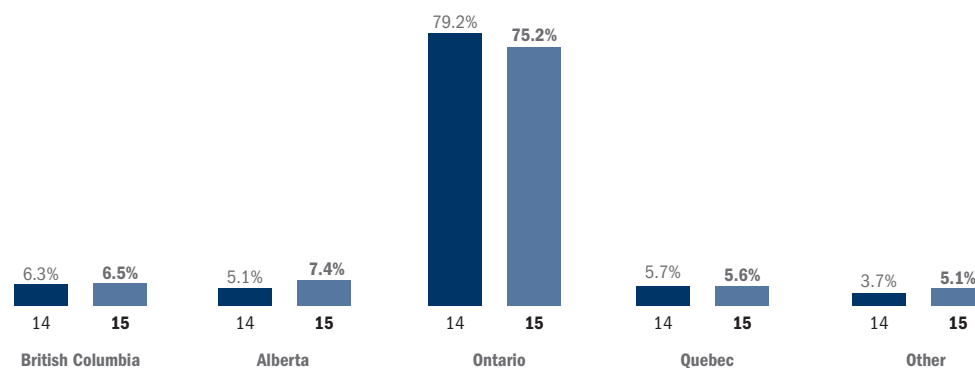


Table 14: Mortgage Advances by Type and Province

(000s, except %)	2015	% of Total	2014	% of Total	Change
Single-family residential mortgages					
Traditional	\$ 5,074,723	63.0%	\$ 5,864,562	66.2%	(13.5)%
Accelerator	1,391,740	17.3%	1,785,032	20.2%	(22.0)%
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	105,098	1.3%	93,476	1.1%	12.4%
Multi-unit insured residential mortgages	688,743	8.5%	624,879	7.1%	10.2%
Other ¹	43,957	0.5%	45,615	0.5%	(3.6)%
Non-residential commercial mortgages					
Stores and apartments	109,115	1.4%	118,272	1.3%	(7.7)%
Commercial	646,033	8.0%	319,459	3.6%	102.2%
Total mortgage advances	\$ 8,059,409	100.0%	\$ 8,851,295	100.0%	(8.9)%

(000s, except %)	2015	% of Total	2014	% of Total	Change
British Columbia	\$ 580,832	7.2%	\$ 458,917	5.2%	26.6%
Alberta	321,925	4.0%	436,787	4.9%	(26.3)%
Ontario	6,541,893	81.1%	7,382,637	83.4%	(11.4)%
Quebec	328,485	4.1%	282,089	3.2%	16.4%
Other	286,274	3.6%	290,865	3.3%	(1.6)%
Total mortgage advances	\$ 8,059,409	100.0%	\$ 8,851,295	100.0%	(8.9)%

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

Total loans under administration were \$25.06 billion at the end of 2015, an increase of \$2.49 billion or 11.1% from the end of 2014. On-balance sheet loans were relatively flat when compared to 2014, while off-balance sheet loans were up 61.7% from the end of 2014, driving the growth in total loans under administration. Off-balance sheet growth arose from the sale of residual interests in single-family residential mortgages (resulting in removal of securitized mortgages from the balance sheet) and securitization of multi-unit residential mortgages qualifying for off-balance sheet accounting. The increase in total loans under administration was supported by mortgage production, as well as consumer retail, credit card loans and lines of credit production. In addition, the Company acquired \$1.49 billion in loans under administration upon the purchase of CFF Bank.

Mortgage Lending

Mortgage Originations and Broker Suspensions

The Company continues to monitor the uninsured and insured single-family residential mortgages referred by the 18 independent mortgage brokers and 2 brokerages, for a total of approximately 45 individual mortgage brokers, suspended during the period of September 2014 to March 2015. The total value of the outstanding mortgages that were referred by these mortgage brokers included in the loans portfolio at the end of 2015 totalled \$1.55 billion, as compared to \$1.72 billion at the end of Q3 2015. The Company continues to actively monitor the subject mortgages and notes that there have been no unusual credit issues.

The Company is in the process of completing its review and, where appropriate, validation of the income documentation submitted in respect of the mortgages referred by the 45 suspended individual mortgage brokers. The Company is taking action as appropriate. The Company is over 40% of the way through its review process, with plans to complete these efforts by the end of 2016. Of the accounts reviewed, the Company has determined that approximately 90% of the mortgages reviewed to date could be eligible for renewal.

On an ongoing basis, the Company revises its underwriting procedures to ensure best practices. Following the suspension of brokers, the Company further enhanced its income verification procedures to ensure new loans continue to reflect Home Capital's risk appetite, which remains unchanged.

Uninsured Residential Mortgages – "Traditional Mortgages"

Traditional mortgages of \$11.71 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 46.8% and 64.1%, respectively. The portfolio was relatively flat compared to the end of 2014. Traditional originations have been impacted on a year-over-year basis by, among other things, the Company's ongoing review of its business partners (including the suspension of 45 individual mortgage brokers through the period of September 2014 to March 2015) and its conservative approach to growing its residential mortgage business. The Company continues to take a prudent approach to growing its traditional residential mortgage business in the current Canadian economic environment. The Company continued to observe strong credit profiles and stable loan-to-value (LTV) ratios across the traditional portfolio.

Management's Discussion and Analysis

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were \$11.06 billion at the end of 2015, reflecting an increase of 21.3% over the balance of \$9.12 billion at the end of 2014. Of this total, \$6.79 billion were accounted for off-balance sheet, up \$2.6 billion or 61.7% from the end of 2014. Included in the off-balance sheet loans is \$1.45 billion of single-family residential mortgages acquired as part of the purchase of CFF Bank.

The Company originated \$1.39 billion in single-family Accelerator mortgages in 2015, down 22.0% from the same period in 2014. Insured residential mortgage originations, when compared year over year, were impacted by, among other things, the Company's ongoing review of its business partners (including the suspension of 45 individual mortgage brokers through the period of September 2014 to March 2015), its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages. The year-over-year decrease in origination volumes was offset by the purchase of \$102.8 million in loans from a third party, as part of the effort to expand the Company's origination channels. In addition, as the market for insured prime mortgages continues to be highly competitive, the Company continues to view its Accelerator product offering as complementary to its traditional portfolio. The Company sold residual interests in insured fixed-rate single-family NHA MBS of \$1.18 billion in underlying outstanding principal amounts in 2015, generating gains of \$15.5 million. The NHA MBS market spread widened throughout 2015, increasing the funding cost on NHA MBS sold in the market. The underlying mortgages included mortgages newly originated or renewed during the year along with insured mortgages held in inventory from the prior year.

In 2015, the Company originated \$688.7 million of insured multi-unit residential mortgages and sold \$713.6 million that qualified for off-balance sheet treatment. The sales included mortgages that were renewed from the on-balance sheet portfolio. This resulted in \$5.9 million in gains on sale in 2015 compared to \$5.0 million of gains on sale in 2014. The multi-unit residential mortgage market is relatively limited and 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.

From time to time, the Company pools mortgages and may hold the related MBS as liquid assets or inventory for replacement assets for the CMB program. These MBS are carried on the balance sheet at amortized cost as part of residential mortgage loans (see Table 45: Liquidity Resources).

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. Insured multi-unit residential mortgages are included in this portfolio until they are securitized. The Company increases these portfolios selectively, when appropriate assets are available.

Non-residential Commercial Mortgages

Non-residential commercial mortgages originations were \$755.1 million in 2015, an increase of 72.5% over 2014. Non-residential commercial mortgages, which include store and apartment mortgages and commercial mortgages, are an important complementary source of loan assets and revenue. Non-residential mortgage production is affected by the availability of appropriate assets and production trends are variable. Through 2016, the Company will continue to focus on expanding its commercial lending products, allocating additional resources to expand its footprint and participate in appropriate opportunities as they arise. The portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage production continued to favour Ontario, and in particular the greater Toronto area (GTA), through 2015. 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 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, Lines of Credit and Other Consumer Retail Loan Production

(Amount in 000s)	2015		2014		Change	
	Number of New Accounts	Amount ¹	Number of New Accounts	Amount ¹	Number of New Accounts	Amount ¹
Credit card loans and lines of credit						
Equityline Visa credit cards	3,282	\$ 139,963	4,374	\$ 159,714	(25.0)%	(12.4)%
Other credit cards and lines of credit	10,728	16,858	7,549	11,587	42.1%	45.5%
Other consumer retail loans						
Water heaters	32,927	137,204	45,918	125,886	(28.3)%	9.0%
Other retail lending	7,641	49,082	6,028	33,720	26.8%	45.6%

¹ For credit cards and lines of credit, 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, lines of credit and other consumer loans, continues to be an important source of loan assets with attractive returns. While representing 3.7% of the total on-balance sheet loan portfolio, these assets generated 6.3% of the interest income from loans for the year.

Credit card and lines of credit balances increased to \$370.8 million from \$330.3 million in 2014. Overall credit card and lines of credit balances increased in part due to the acquisition of CFF Bank, adding \$28.2 million at the end of 2015 related to the EasyOne line of credit product, which allows customers to access both an unsecured line of credit and high-interest savings through one account.

Equityline Visa accounts (Home Equity Line of Credit) represent 86.6% of the total credit card and lines of credit balance. Equityline Visa originations of \$140.0 million decreased 12.4% in 2015 as compared to 2014 originations of \$159.7 million. In general, Equityline Visa account originations trend with single-family residential mortgage origination volumes. The decrease in Equityline Visa originations is in line with the decrease in single-family mortgage originations.

Other consumer retail loans experienced strong growth in the year with originations of \$186.3 million, an increase of \$26.7 million or 16.7% over 2014.

In 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.

Cash Resources and Securities

Combined cash resources and securities as at December 31, 2015 increased by \$659.5 million from December 31, 2014 reflecting an increase in cash of \$789.1 million offset by a decrease in securities of \$129.6 million. The increase in liquidity at the end of the year reflects securitization proceeds from participation in a CMB issuance and additional liquidity held to support relatively higher demand deposit balances. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

The Company has a term credit facility and a committed and uncommitted 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, 2015, the preferred share portfolio was \$190.7 million or 42.0% of the Company's securities compared to \$248.0 million or 42.6% in 2014. Investment-grade preferred shares represent 40.4% of the preferred share portfolio (51.4% in 2014). Corporate and government bonds represent 55.9% of the securities portfolio compared to 55.0% in 2014. The entire bond portfolio of \$253.2 million (\$320.7 million in 2014) is investment grade. Residual interests represent 2.1% (2014 - 2.4%) of the securities portfolio and common shares represent less than 0.1% of the securities portfolio compared to 0.1% in 2014.

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 \$1.7 million compared to \$3.5 million during 2014. The Company recognized \$0.9 million in impairment losses on securities in 2015 compared to \$0.1 million in 2014.

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

Management's Discussion and Analysis

Table 16: Other Assets

(000s, except %)	2015	2014	Change
Restricted assets			
Restricted cash	\$ 139,046	\$ 119,093	16.8%
Non-Home Trust MBS and treasury bills assigned as replacement assets	56,875	301,990	(81.2)%
Derivative assets	64,796	38,534	68.2%
Other assets			
Accrued interest receivable	63,532	65,132	(2.5)%
Prepaid CMB coupon	3,544	4,506	(21.3)%
Securitization receivable and retained interest	142,243	128,522	10.7%
Capital assets	14,468	12,052	20.0%
Income taxes recoverable	35,953	-	-
Other prepaid assets and deferred items	27,677	25,404	8.9%
Goodwill and intangible assets			
Goodwill	15,752	15,752	-
Intangible assets	112,595	97,384	15.6%
	\$ 676,481	\$ 808,369	(16.3)%

The decrease in other assets over 2014 primarily reflects the decrease in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program reflecting maturities in the program. In general, as CMB maturities approach, the Company has been replacing maturing securitized mortgages with non-Home Trust MBS and treasury bills. Further information on the Company's securitization activity can be found in Note 6 to the consolidated financial statements included in this report. The decrease is partially offset by increases in securitization receivables and retained interest, reflecting the Company's securitization and sale of insured multi-unit residential mortgages and sales of residual interests in insured single-family residential mortgages, an income taxes recoverable position, and an increase in intangible assets commensurate with the Company's continued investment in software development.

Derivative assets and liabilities are discussed in the Derivatives and Hedging section of this MD&A.

Liabilities

Deposits, Senior Debt and Securitization Liabilities

Table 17: Deposits, Senior Debt and Securitization Liabilities

(000s, except % and number of accounts)	2015	2014	Change
Deposits payable on demand			
High-interest savings account	\$ 1,576,536	\$ 854,501	84.5%
Oaken savings account	242,124	44,409	445.2%
Other deposits payable on demand	167,476	165,242	1.4%
	1,986,136	1,064,152	86.6%
Deposits payable on fixed dates			
Brokered GICs	11,850,238	11,352,182	4.4%
Oaken GICs	846,085	720,887	17.4%
Institutional deposit notes	983,499	802,750	22.5%
	13,679,822	12,875,819	6.2%
Senior debt	151,480	152,026	(0.4)%
Securitization liabilities			
Mortgage-backed security liabilities	531,326	471,551	12.7%
Canada Mortgage Bond liabilities	2,249,230	3,831,912	(41.3)%
	2,780,556	4,303,463	(35.4)%
Total	\$18,597,994	\$18,395,460	1.1%
Total number of deposit accounts	433,373	395,600	9.5%

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio. The Company's deposit portfolio principally comprises fixed-term deposits, which represent 87.3% 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 Risk 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.

Total deposits of \$15.67 billion increased 12.4% over 2014. The Company continues to invest in its longer-term strategy to diversify its sources of funding, including its direct-to-consumer business, Oaken Financial. The balance of Oaken deposits at the end of the year exceeded \$1 billion at \$1.09 billion, reflecting an increase in the balance over last year of 42.2%. Home Trust high-interest savings accounts, distributed through investment brokers and financial planners, continued to grow, reaching a balance of \$1.58 billion at the end of the year, an increase of 84.5% over the balance of \$854.5 million in 2014. In addition, the Company has outstanding institutional deposit notes of \$983.5 million at the end of 2015, compared to \$802.8 million at the end of last year. In Q4 2015, the Company completed the acquisition of CFF Bank, which will also support the Company's deposit diversification strategy.

Securitization liabilities, including MBS and CMB liabilities, declined \$1.52 billion from the end of 2014 due to the amortization of MBS liabilities, the maturity of CMB liabilities and planned changes in the asset mix. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. New securitization transactions have been primarily off-balance sheet transactions.

Table 18: Other Liabilities

(000s, except %)	2015	2014	Change
Derivative liabilities	\$ 5,447	\$ 2,266	140.4%
Other liabilities			
Accrued interest payable	131,534	127,135	3.5%
Securitization servicing liability	15,234	11,216	35.8%
Income taxes payable	-	11,317	(100.0)%
Other, including accounts payable and accrued liabilities	118,173	50,163	135.6%
Deferred tax liabilities	22,531	36,554	(38.4)%
	\$ 292,919	\$ 238,651	22.7%

The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities.

Shareholders' Equity

Table 19: Shareholders' Equity

(000s, except %)	2015	2014	Change
Shareholders' equity at the beginning of the year	\$ 1,448,633	\$ 1,177,697	23.0%
Net income	287,285	313,172	(8.3)%
Other comprehensive loss	(46,939)	(126)	37,153.2%
Amounts related to stock-based compensation	5,978	12,493	(52.1)%
Repurchase of shares	(10,712)	(1,390)	670.6%
Dividends	(63,139)	(53,213)	18.7%
Shareholders' equity at the end of the year	\$ 1,621,106	\$ 1,448,633	11.9%

The increase of \$172.5 million in total shareholders' equity since December 31, 2014 was primarily internally generated from net income, net of \$63.1 million for dividends to shareholders, \$46.9 million of other comprehensive losses related primarily to the decline in fair value of the preferred share portfolio and \$10.7 million related to the repurchase of shares. The amounts related to stock based compensation are due to 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, 2015, the book value per common share was \$23.17, compared to \$20.67 at December 31, 2014. The Company increased the net book value per share through earnings.

Management's Discussion and Analysis

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, 2015.

Table 20: Contractual Obligations

(000s)	2016	2017	2018	2019	2020	Thereafter	Total
Premises and equipment	\$ 18,846	\$ 12,396	\$ 10,576	\$ 8,150	\$ 5,366	\$ 11,220	\$ 66,554

The Company has recorded a liability for the fair value of contingent consideration in the amount \$1.9 million related to the acquisition of CFF Bank. The Company could be required to transfer additional consideration to the seller in relation to future sublease revenue to a maximum of \$4.4 million. 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 and lines of credit 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 which were \$1.14 billion at December 31, 2015 (\$850.1 million - December 31, 2014). 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 \$303.9 million at December 31, 2015 (\$233.8 million - December 31, 2014). Offers for the loans remain open for various periods. As at December 31, 2015, unutilized credit card balances amounted to \$118.8 million (\$100.9 million - December 31, 2014). In addition, other lines of credit have unutilized balances in the amount of \$21.5 million (\$nil - December 31, 2014). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline Visa portfolio of \$11.6 million at December 31, 2015 (\$5.6 million - December 31, 2014). 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 \$6.79 billion (2014 - \$4.20 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 has no material related party transactions in the years ended December 31, 2015 and December 31, 2014, 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

	2015								2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
(000s, except per share and %)									
Net interest income (TEB ¹)	\$ 127,599	\$ 122,635	\$ 118,175	\$ 116,511	\$ 117,440	\$ 118,648	\$ 116,187	\$ 111,371	
Less: TEB adjustment	941	937	965	987	1,024	1,065	1,044	984	
Net interest income per financial statements	126,658	121,698	117,210	115,524	116,416	117,583	115,143	110,387	
Non-interest income	24,255	23,385	29,061	27,092	56,437	24,972	26,765	25,185	
Non-interest expense	54,681	44,955	47,374	43,633	39,889	42,901	40,522	38,940	
Total revenue	248,462	247,194	250,879	249,232	284,592	255,046	255,448	247,900	
Total adjusted revenue ²	246,406	247,194	250,879	249,232	251,917	255,046	255,448	247,900	
Net income	70,239	72,443	72,317	72,286	95,936	73,755	73,745	69,736	
Adjusted net income ²	71,811	72,443	72,317	72,286	71,917	73,755	73,745	69,736	
Return on shareholders' equity	17.6%	18.7%	19.1%	19.7%	27.2%	22.0%	23.1%	23.1%	
Adjusted return on shareholders' equity ²	18.0%	18.7%	19.1%	19.7%	20.4%	22.0%	23.1%	23.1%	
Return on average total assets	1.4%	1.4%	1.4%	1.4%	1.9%	1.4%	1.4%	1.4%	
Total assets under administration	\$27,301,433	\$25,404,219	\$25,456,212	\$25,066,234	\$24,281,366	\$24,226,114	\$23,716,585	\$22,871,407	
Total loans under administration	25,058,122	23,426,735	22,922,440	22,742,462	22,563,532	22,153,408	21,235,234	20,475,143	
Earnings per common share									
Basic	\$ 1.00	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.37	\$ 1.05	\$ 1.06	\$ 1.00	
Diluted	\$ 1.00	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.36	\$ 1.05	\$ 1.05	\$ 1.00	
Adjusted earnings per common share ²									
Basic	\$ 1.02	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.05	\$ 1.06	\$ 1.00	
Diluted	\$ 1.02	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.02	\$ 1.05	\$ 1.05	\$ 1.00	
Book value per common share	\$ 23.17	\$ 22.37	\$ 21.87	\$ 21.18	\$ 20.67	\$ 19.57	\$ 18.74	\$ 17.82	
Efficiency ratio (TEB ¹)	36.0%	30.8%	32.2%	30.4%	22.9%	29.9%	28.3%	28.5%	
Adjusted Efficiency ratio (TEB ^{1,2})	33.7%	30.8%	32.2%	30.4%	28.2%	29.9%	28.3%	28.5%	
Common equity tier 1 ratio ³	18.31%	18.06%	18.03%	17.95%	18.30%	17.58%	17.45%	17.22%	
Tier 1 capital ratio ³	18.30%	18.06%	18.03%	17.94%	18.30%	17.58%	17.45%	17.22%	
Total capital ratio ³	20.70%	20.51%	20.53%	20.50%	20.94%	20.24%	20.20%	20.06%	
Net non-performing loans as a % of gross loans	0.28%	0.30%	0.33%	0.25%	0.30%	0.27%	0.32%	0.33%	
Annualized provision as a % of gross uninsured loans	0.04%	0.08%	0.07%	0.07%	0.09%	0.11%	0.10%	0.11%	
Annualized provision as a % of gross loans	0.03%	0.06%	0.05%	0.05%	0.07%	0.08%	0.07%	0.07%	

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

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

³ 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, 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 generally tend to increase in the third quarter, reflecting increased lending activity through the summer period. (Please see the Non-interest Expense section of this MD&A for discussion on the increase in non-interest expenses in Q4 2015.)

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.

Management's Discussion and Analysis

FOURTH QUARTER 2015

Items of Note

The Company's results were affected by the following items of note that aggregated to a negative impact of \$1.6 million or \$0.02 diluted earnings per share in Q4 2015:

- > \$0.7 million in acquisition costs and \$3.5 million in integration costs, less of \$2.1 million in relation to a bargain purchase gain for a net of \$2.1 million related to the acquisition of CFF Bank in 2015 (\$1.6 million after tax and \$0.02 diluted earnings per share).

The Company's results were also affected by the following items of note in Q4 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.

Income Statement Highlights

- > Reported net income of \$70.2 million was 26.8% lower than the \$95.9 million net income recorded in Q4 2014 and 3.0% lower compared to \$72.4 million in Q3 2015.
- > Adjusted net income, as defined in the Non-GAAP Measures and Glossary section, was \$71.8 million in Q4 2015, flat compared to adjusted net income in Q4 2014 and 0.9% lower than Q3 2015.
- > Adjusted basic and diluted earnings per share for the fourth quarter were both \$1.02, compared to adjusted basic and diluted earnings per share of \$1.03 and \$1.02, respectively in Q4 2014. Adjusted basic and diluted earnings per share were \$1.03 in Q3 2015.
- > Adjusted return on equity was 18.0% in Q4 2015, compared to 20.4% in Q4 2014, and 18.7% in Q3 2015.
- > Total net interest margin (TEB) was 2.46% in the quarter, up from 2.27% Q4 2014 and up from 2.38% in Q3 2015. Net interest margin (TEB) continues to be favourably influenced by the overall shift to higher yielding mortgages on balance sheet, combined with a higher relative proportion of lower rate deposits payable on demand.
- > Net interest income on non-securitized assets was \$121.8 million in the fourth quarter, increasing 11.1% over Q4 2014 and 3.9% over Q3 2015. Net interest margin (TEB) on this portfolio was 2.89% in Q4 2015, up from 2.79% in Q4 2014 and up from 2.83% in Q3 2015. The increases reflect the higher relative proportion of lower rate deposits payable on demand.
- > 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 \$10.7 million in Q4 2015, down from \$11.8 million in Q4 2014 and up from \$10.3 million in Q3 2015. Securitization income included gains of \$4.7 million in the quarter on \$533.2 million in notional sales. This compares to gains in Q4 2014 of \$4.4 million on \$612.8 million of notional sales and \$4.5 million on \$365.9 million in notional sales in Q3 2015. Relative gains vary in the highly competitive market for prime insured mortgages. Net interest income on the on-balance sheet securitized portfolio declined to \$4.9 million in the quarter from \$6.8 million in Q4 2014 and up from \$4.5 million in Q3 2015. The decline reflects 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 \$19.9 million in Q4 2015 were up 9.1% from the \$18.3 million recorded in Q4 2014 as a result of portfolio mix and changes in the fee structure year over year. Fees and other income were down 0.8% from the \$20.1 million recorded in Q3 2015.
- > During the quarter, the Company recognized additional impairment losses of \$66 thousand resulting in a net loss on securities of \$66 thousand compared to net gains of \$965 thousand in Q4 2014 and a loss of \$542 thousand in Q3 2015.
- > 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. Net non-performing loans as a percentage of gross loans ended 2015 at 0.28% of the total loans portfolio compared to 0.30% at the end of 2014 and 0.30% at the end Q3 2015. The annualized credit provision as a percentage of gross uninsured loans for the quarter of 0.04% has decreased from 0.09% in the same quarter last year, and from 0.08% in Q3 2015.
- > Non-interest expenses were \$54.7 million in the fourth quarter, up from \$39.9 million in Q4 2014 and from \$45.0 million last quarter. The adjusted efficiency ratio was 33.7% in the fourth quarter, up from 28.2% in Q4 2014 and 30.8% in Q3 2015. The increase in non-interest expenses represents the continued investment by the Company to grow its business including, among other things, technology related to operating in an increasingly digital marketplace and updating the Company's loan origination platform. The increase in non-interest expenses also includes costs related to the day-to-day operations of the newly acquired CFF Bank. Costs to acquire and integrate CFF Bank have been excluded from the adjusted efficiency ratio. Through 2016, as the Company's integration efforts continue, it expects to be able to decrease the operating cost model of CFF Bank. In addition, non-interest expenses include \$1.6 million in relation to the ongoing efforts to realign some of its business partnerships following the suspension of approximately 45 individual mortgage brokers.

Financial Position Highlights

- > Home Trust's Common Equity Tier 1 (CET 1) and Total capital ratios remained very strong at 18.31% and 20.70%, respectively, at December 31, 2015, and well above Company and regulatory minimum targets. Home Trust's Leverage ratio was 7.36% at December 31, 2015, compared to 7.17% at September 30, 2015, well above regulatory minimums.
- > Total loans under administration, which includes securitized mortgages that qualify for off-balance sheet accounting, increased by \$2.49 billion in 2015 to \$25.06 billion, representing growth of 11.1% over the \$22.56 billion at the end of 2014 and 7.0% or \$1.63 billion from the \$23.43 billion at the end of Q3 2015.
- > Total loans were \$18.27 billion at Q4 2015, reflecting a decrease of 0.5% from \$18.36 billion at the end of 2014 and a decrease of 0.4% or \$68.0 million from the \$18.34 billion at the end of Q3 2015.
- > The total value of mortgages originated in Q4 2015 was \$2.15 billion, compared to \$2.29 billion in Q4 2014 and \$2.50 billion in Q3 2015. The year-over-year decrease in originations reflects, among other things, the Company's ongoing review of its business partners (including the suspension of 45 individual mortgage brokers through the period of September 2015 to March 2015), its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages. Compared to the third quarter, the decline in originations reflects normal and expected seasonal factors.
- > The Company originated \$1.30 billion of traditional mortgages in Q4 2015, compared to \$1.48 billion in Q4 2014 and \$1.51 billion in Q3 2015.
- > Accelerator (insured) residential mortgage originations were up 46.1% to \$515.9 million in Q4 2015, compared to \$353.0 million in Q4 2014. Originations were up 23.9% compared to \$416.3 million in Q3 2015. The Company has continued to focus through the second half of the year on rebuilding this channel. In addition, the increase in Accelerator originations during the quarter includes \$59.9 million of mortgages purchased from a third party (Q3 2015 - \$42.9 million, Q4 2014 - \$nil).
- > Multi-unit residential originations were \$125.2 million in the quarter, compared to \$299.5 million in the same period of 2014 and \$329.5 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 \$182.4 million in Q4 2015, compared to \$129.3 million in the comparable period of 2014 and \$205.1 million in Q3 2015. Store and apartment advances were \$26.5 million for the fourth quarter, compared to \$24.1 million in the same period of 2014 and \$32.7 million in the third quarter of 2015.
- > The consumer retail portfolio, which includes durable household goods, such as water heaters and larger-ticket home improvement items, was \$296.9 million in Q4 2015, up 59.5% from \$186.1 million one year ago and 10.9% from \$267.7 million in Q3 2015. The Company continues to focus its efforts on rebuilding this portfolio after the prepayment of \$234.9 million of water heater loans during Q4 2014.
- > Total deposits reached \$15.67 billion in Q4 2014, increasing 12.4% year over year, and up 4.8% from last quarter, with Oaken Financial deposits exceeding \$1 billion for the first time in Q4 2015. Total deposits raised through the Company's deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits were \$3.65 billion, an increase of \$0.33 billion or 9.9% over Q3 2015, and \$1.23 billion or 50.6% over the end of 2014.

Management's Discussion and Analysis

FOURTH QUARTER FINANCIAL INFORMATION

Table 22: Fourth Quarter Review of Financial Performance

	For the three months ended			Change	
	December 31 2015	September 30 2015	December 31 2014	December 31, 2015- September 30, 2015	December 31, 2015- December 31, 2014
(000s, except per share amounts and %)					
Net Interest Income Non-Securitized Assets					
Interest from loans	\$ 197,052	\$ 195,051	\$ 187,272	1.0%	5.2%
Dividends from securities	2,608	2,597	2,842	0.4%	(8.2)%
Other interest	1,694	1,846	2,482	(8.2)%	(31.7)%
	201,354	199,494	192,596	0.9%	4.5%
Interest on deposits and other	77,762	80,771	81,326	(3.7)%	(4.4)%
Interest on senior debt	1,824	1,512	1,660	20.6%	9.9%
Net interest income non-securitized assets	121,768	117,211	109,610	3.9%	11.1%
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets	22,853	24,315	35,559	(6.0)%	(35.7)%
Interest expense on securitization liabilities	17,963	19,828	28,753	(9.4)%	(37.5)%
Net interest income securitized loans and assets	4,890	4,487	6,806	9.0%	(28.2)%
Total Net Interest Income	126,658	121,698	116,416	4.1%	8.8%
Provision for credit losses	1,415	2,849	3,186	(50.3)%	(55.6)%
	125,243	118,849	113,230	5.4%	10.6%
Non-Interest Income					
Fees and other income	19,927	20,096	18,272	(0.8)%	9.1%
Securitization income	5,760	5,788	4,956	(0.5)%	16.2%
Prepayment income on portfolio sale	-	-	32,675	-	(100.0)%
Gain on acquisition of CFF Bank	2,056	-	-	-	-
Net realized and unrealized (losses) gains on securities	(66)	(542)	965	(87.8)%	(106.8)%
Net realized and unrealized loss on derivatives	(3,422)	(1,957)	(431)	74.9%	694.0%
	24,255	23,385	56,437	3.7%	(57.0)%
	149,498	142,234	169,667	5.1%	(11.9)%
Non-Interest Expenses					
Salaries and benefits	25,874	19,382	20,156	33.5%	28.4%
Premises	2,731	3,149	3,213	(13.3)%	(15.0)%
Other operating expenses	26,076	22,424	16,520	16.3%	57.8%
	54,681	44,955	39,889	21.6%	37.1%
Income Before Income Taxes	94,817	97,279	129,778	(2.5)%	(26.9)%
Income taxes					
Current	25,548	23,189	32,539	10.2%	(21.5)%
Deferred	(970)	1,647	1,303	(158.9)%	(174.4)%
	24,578	24,836	33,842	(1.0)%	(27.4)%
NET INCOME	\$ 70,239	\$ 72,443	\$ 95,936	(3.0)%	(26.8)%
NET INCOME PER COMMON SHARE					
Basic	\$ 1.00	\$ 1.03	\$ 1.37	(2.9)%	(27.0)%
Diluted	\$ 1.00	\$ 1.03	\$ 1.36	(2.9)%	(26.5)%
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	70,157	70,218	70,101	(0.1)%	0.1%
Diluted	70,237	70,380	70,462	(0.2)%	(0.3)%
Total number of outstanding common shares	69,978	70,160	70,096	(0.3)%	(0.2)%
Book value per common share	\$ 23.17	\$ 22.37	\$ 20.67	3.6%	12.1%

Table 23: Fourth Quarter Review of Comprehensive Income

	For the three months ended				Change
	December 31 2015	September 30 2015	December 31 2014	December 31, 2015- September 30, 2015	December 31, 2015- December 31, 2014
(000s except %)					
NET INCOME	\$ 70,239	\$ 72,443	\$ 95,936	(3.0)%	(26.8)%
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities and Retained Interests					
Net unrealized gains (losses)	6,171	(29,730)	(3,862)	(120.8)%	(259.8)%
Net losses (gains) reclassified to net income	66	460	(965)	(85.7)%	(106.8)%
	6,237	(29,270)	(4,827)	(121.3)%	(229.2)%
Income tax expense (recovery)	1,654	(7,760)	(1,279)	(121.3)%	(229.3)%
	4,583	(21,510)	(3,548)	(121.3)%	(229.2)%
Cash Flow Hedges					
Net unrealized (losses) gains	(2,110)	130	(608)	(1,723.1)%	247.0%
Net losses reclassified to net income	369	369	365	-	1.1%
	(1,741)	499	(243)	(448.9)%	616.5%
Income tax (recovery) expense	(462)	133	(64)	(447.4)%	621.9%
	(1,279)	366	(179)	(449.5)%	614.5%
Total other comprehensive income (loss)	\$ 3,304	\$ (21,144)	\$ (3,727)	(115.6)%	(188.7)%
COMPREHENSIVE INCOME	\$ 73,543	\$ 51,299	\$ 92,209	43.4%	(20.2)%

Management's Discussion and Analysis

Table 24: Fourth Quarter Review of Financial Position

(000s, except for %)	As at		
	December 31 2015	September 30 2015	Change
ASSETS			
Cash and Cash Equivalents	\$ 1,149,849	\$ 612,218	87.8%
Available for Sale Securities	453,230	413,381	9.6%
Loans Held for Sale	135,043	162,432	(16.9)%
Loans			
Securitized mortgages	2,674,475	2,900,586	(7.8)%
Non-securitized mortgages and loans	15,459,190	15,273,718	1.2%
	18,133,665	18,174,304	(0.2)%
Collective allowance for credit losses	(36,249)	(35,900)	1.0%
	18,097,416	18,138,404	(0.2)%
Other			
Restricted assets	195,921	494,133	(60.4)%
Derivative assets	64,796	77,875	(16.8)%
Other assets	287,417	292,331	(1.7)%
Goodwill and intangible assets	128,347	123,446	4.0%
	676,481	987,785	(31.5)%
	\$20,512,019	\$20,314,220	1.0%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	\$ 1,986,136	\$ 1,562,081	27.1%
Deposits payable on a fixed date	13,679,822	13,387,761	2.2%
	15,665,958	14,949,842	4.8%
Senior Debt	151,480	153,652	(1.4)%
Securitization Liabilities			
Mortgage-backed security liabilities	531,326	327,837	62.1%
Canada Mortgage Bond liabilities	2,249,230	2,990,281	(24.8)%
	2,780,556	3,318,118	(16.2)%
Other			
Derivative liabilities	5,447	2,922	86.4%
Other liabilities	264,941	283,421	(6.5)%
Deferred tax liabilities	22,531	37,035	(39.2)%
	292,919	323,378	(9.4)%
	18,890,913	18,744,990	0.8%
Shareholders' Equity			
Capital stock	90,247	89,683	0.6%
Contributed surplus	3,965	3,775	5.0%
Retained earnings	1,592,438	1,544,620	3.1%
Accumulated other comprehensive loss	(65,544)	(68,848)	(4.8)%
	1,621,106	1,569,230	3.3%
	\$20,512,019	\$20,314,220	1.0%

Table 25: Fourth Quarter Net Interest Margin

	For the three months ended		
	December 31 2015	September 30 2015	December 31 2014
Net interest margin non-securitized interest earning assets (non-TEB)	2.87%	2.80%	2.77%
Net interest margin non-securitized interest earning assets (TEB)	2.89%	2.83%	2.79%
Net interest margin securitized assets	0.60%	0.52%	0.60%
Total net interest margin (non-TEB)	2.45%	2.36%	2.25%
Total net interest margin (TEB)	2.46%	2.38%	2.27%
Spread of non-securitized loans over deposits and other	2.97%	2.93%	2.83%

Table 26: Fourth Quarter Net Interest Income

	For the three months ended					
	December 31 2015		September 30 2015		December 31 2014	
(000s, except %)	Income/ Expense	Average Rate ¹	Income/ Expense	Average Rate ¹	Income/ Expense	Average Rate ¹
Interest-bearing assets						
Cash resources and securities	\$ 4,302	1.39%	\$ 4,443	1.33%	\$ 5,324	1.80%
Traditional single-family residential mortgages	145,867	4.95%	148,945	5.02%	144,496	4.98%
Accelerator single-family residential mortgages	8,651	2.63%	6,879	2.47%	7,518	2.90%
Residential commercial mortgages ²	5,036	3.97%	4,121	3.85%	3,959	4.79%
Non-residential commercial mortgages	22,205	5.95%	21,067	6.09%	16,566	6.16%
Credit card loans and lines of credit	8,388	9.05%	7,823	9.14%	7,552	9.21%
Other consumer retail loans	6,905	9.81%	6,216	9.96%	7,181	10.07%
Total non-securitized loans	197,052	5.00%	195,051	5.07%	187,272	5.11%
Taxable equivalent adjustment	941	-	937	-	1,024	-
Total on non-securitized interest earning assets	202,295	4.76%	200,431	4.79%	193,620	4.89%
Securitized single-family residential mortgages	13,549	2.74%	14,524	2.85%	22,875	3.12%
Securitized multi-unit residential mortgages	8,580	4.28%	8,879	4.29%	10,969	4.09%
Assets pledged as collateral for securitization	724	0.63%	912	0.62%	1,715	1.22%
Total securitized residential mortgages	22,853	2.82%	24,315	2.81%	35,559	3.11%
Total interest-bearing assets	\$ 225,148	4.35%	\$ 224,746	4.36%	\$ 229,179	4.42%
Interest-bearing liabilities						
Deposits and other	\$ 77,762	2.03%	\$ 80,771	2.14%	\$ 81,326	2.28%
Senior debt	1,824	4.78%	1,512	3.96%	1,660	4.55%
Securitization liabilities	17,963	2.20%	19,828	2.26%	28,753	2.48%
Total interest-bearing liabilities	\$ 97,549	1.89%	\$ 102,111	1.98%	\$ 111,739	2.15%
Net Interest Income (TEB)	\$ 127,599		\$ 122,635		\$ 117,440	
Taxable Equivalent Adjustment	(941)		(937)		(1,024)	
Net Interest Income per Financial Statements	\$ 126,658		\$ 121,698		\$ 116,416	

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.

Management's Discussion and Analysis

Table 27: Fourth Quarter Mortgage Advances

(000s)	For the three months ended		
	December 31 2015	September 30 2015	December 31 2014
Single-family residential mortgages			
Traditional	\$ 1,304,268	\$ 1,514,429	\$ 1,484,475
Accelerator	515,891	416,273	353,002
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	23,503	31,031	38,519
Multi-unit insured residential mortgages	101,683	298,438	261,016
Other ¹	8,535	18,460	14,296
Non-residential commercial mortgages			
Stores and apartments	26,462	32,728	24,144
Commercial	173,825	186,598	114,999
Total mortgage advances	\$ 2,154,167	\$ 2,497,957	\$ 2,290,451

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

(000s, except %)	For the three months ended					
	December 31 2015		September 30 2015		December 31 2014	
	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹
Provision²						
Single-family residential mortgages	\$ 986	0.03%	\$ 1,805	0.06%	\$ 2,263	0.07%
Residential commercial mortgages	-	-	-	-	24	0.04%
Non-residential commercial mortgages	(40)	(0.01)%	237	0.06%	81	0.03%
Credit card loans and lines of credit	343	0.37%	163	0.19%	128	0.15%
Other consumer retail loans	101	0.14%	44	0.07%	90	0.19%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Total individual provision	1,390	0.03%	2,249	0.05%	2,586	0.06%
Total collective provision	25	0.00%	600	0.01%	600	0.01%
Total provision	\$ 1,415	0.03%	\$ 2,849	0.06%	\$ 3,186	0.07%
Net Write-Offs²						
Single-family residential mortgages	\$ 1,415	0.04%	\$ 1,128	0.03%	\$ 3,054	0.10%
Residential commercial mortgages	-	-	-	-	24	0.04%
Non-residential commercial mortgages	127	0.03%	303	0.08%	56	0.02%
Credit card loans and lines of credit	502	0.54%	163	0.19%	114	0.14%
Other consumer retail loans	94	0.13%	29	0.04%	48	0.10%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Net write-offs	\$ 2,138	0.05%	\$ 1,623	0.04%	\$ 3,296	0.07%

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, 2015						
(000s)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	\$ 1,952	\$ -	\$ 405	\$ 68	\$ 155	\$ 2,580
Allowance assumed on purchase of CFF Bank	-	-	-	420	-	420
Provision for credit losses	1,115	-	62	343	100	1,620
Write-offs	(1,531)	-	(167)	(519)	(123)	(2,340)
Recoveries	116	-	40	17	29	202
	1,652	-	340	329	161	2,482
Allowance on accrued interest receivable						
Balance at the beginning of the period	968	-	159	-	4	1,131
Provision for credit losses	(129)	-	(102)	-	1	(230)
	839	-	57	-	5	901
Total individual allowance	2,491	-	397	329	166	3,383
Collective allowance						
Balance at the beginning of the period	22,232	327	9,500	3,541	300	35,900
Allowance assumed on purchase of CFF Bank	-	-	-	324	-	324
Provision for credit losses	-	-	-	25	-	25
	22,232	327	9,500	3,890	300	36,249
Total allowance	\$ 24,723	\$ 327	\$ 9,897	\$ 4,219	\$ 466	\$ 39,632
Total provision	\$ 986	\$ -	\$ (40)	\$ 368	\$ 101	\$ 1,415

For the three months ended September 30, 2015

(000s)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	\$ 1,463	\$ -	\$ 480	\$ 68	\$ 142	\$ 2,153
Provision for credit losses	1,617	-	228	163	42	2,050
Write-offs	(1,417)	-	(309)	(166)	(78)	(1,970)
Recoveries	289	-	6	3	49	347
	1,952	-	405	68	155	2,580
Allowance on accrued interest receivable						
Balance at the beginning of the period	780	-	150	-	2	932
Provision for credit losses	188	-	9	-	2	199
	968	-	159	-	4	1,131
Total individual allowance	2,920	-	564	68	159	3,711
Collective allowance						
Balance at the beginning of the period	21,632	327	9,500	3,541	300	35,300
Provision for credit losses	600	-	-	-	-	600
	22,232	327	9,500	3,541	300	35,900
Total allowance	\$ 25,152	\$ 327	\$ 10,064	\$ 3,609	\$ 459	\$ 39,611
Total provision	\$ 2,405	\$ -	\$ 237	\$ 163	\$ 44	\$ 2,849

Management's Discussion and Analysis

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

For the three months ended December 31, 2014

(000s)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	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

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

Table 30: Securitization Income

For the three months ended

(thousands of Canadian dollars)	December 31 2015	September 30 2015	December 31 2014
Net gain on sale of mortgages or residual interest ¹	\$ 4,728	\$ 4,453	\$ 4,362
Net change in unrealized gain or loss on hedging activities	(232)	(39)	(591)
Servicing income	1,264	1,374	1,185
Total securitization income	\$ 5,760	\$ 5,788	\$ 4,956

¹ Gains on sale of mortgages or residual interest are net of hedging impact.

Table 31: Securitization Activity

(000s)	For the three months ended					
	December 31, 2015			September 30, 2015		
	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	\$ 371,473	\$ 161,757	\$ 533,230	\$ 210,881	\$ 154,986	\$ 365,867
Net gains on sale of mortgages or residual interest ¹	3,362	1,366	4,728	3,183	1,270	4,453
Retained interests recorded	-	5,933	5,933	-	8,910	8,910
Servicing liability recorded	-	1,278	1,278	-	1,686	1,686

(000s)	For the three months ended		
	December 31, 2014		
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	\$ 371,782	\$ 241,023	\$ 612,805
Net gains on sale of mortgages or residual interest ¹	2,549	1,813	4,362
Retained interests recorded	-	9,289	9,289
Servicing liability recorded	-	2,257	2,257

¹ Gains on sale of mortgages or residual interest 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 to 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 Leverage ratio 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 consolidated subsidiary, Home Trust, which includes its subsidiary CFF Bank, 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) and the Bank Act (Canada), Home Trust's ability to accept deposits is limited primarily by its permitted Leverage ratio. This is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage. The Capital Measure is the all-in Tier 1 capital of Home Trust. The Exposure Measure consists of on-balance sheet, derivatives, securities financing transactions and off-balance sheet exposures. The Leverage ratio has replaced the Assets to Capital Multiple and is effective for Home Trust as of January 1, 2015.

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:

Management's Discussion and Analysis

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

	December 31 2015	December 31 2014
	All-In Basis	All-In Basis
(000s, except ratios)		
Common Equity Tier 1 capital (CET 1)		
Capital stock	\$ 38,497	\$ 38,497
Contributed surplus	951	951
Retained earnings	1,614,491	1,393,117
Accumulated other comprehensive loss	(65,851)	(18,571)
Cash flow hedge reserves	3,078	2,362
Regulatory deductions from CET 1 ¹	(130,163)	(101,976)
Total CET 1 capital	1,461,003	1,314,380
Additional Tier 1 capital	-	-
Total Tier 1 capital	1,461,003	1,314,380
Tier 2 capital		
Collective allowance for credit losses ²	36,249	34,100
Subordinated debentures	156,000	156,000
Total Tier 2 capital	192,249	190,100
Total regulatory capital	\$ 1,653,252	\$ 1,504,480
Risk-weighted assets for		
Credit risk	\$ 6,962,984	\$ 6,267,400
Operational risk	996,488	904,438
Total risk-weighted assets, before CVA ³	\$ 7,959,472	\$ 7,171,838
CVA adjustment for CET 1 capital	21,632	10,581
Total CET 1 capital risk-weighted assets	7,981,104	7,182,419
CVA adjustment for Tier 1 capital	23,998	12,066
Total Tier 1 capital risk-weighted assets	7,983,470	7,183,904
CVA adjustment for total capital	26,026	14,294
Total risk-weighted assets	\$ 7,985,498	\$ 7,186,132
Regulated capital to risk-weighted assets		
CET 1 ratio	18.31%	18.30%
Tier 1 capital ratio	18.30%	18.30%
Total regulatory capital ratio	20.70%	20.94%
Leverage Ratio	7.36%	N/A
National regulatory minimum		
CET 1 ratio	7.00%	7.00%
Tier 1 capital ratio	8.50%	8.50%
Total regulatory capital ratio	10.50%	10.50%
Leverage Ratio ⁴	3.00%	N/A

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, 2015, the Company's collective allowance represented 0.52% of total credit risk-weighted assets, inclusive of total CVA.

³ CVA – Credit Valuation Adjustment.

⁴ Effective Q1 2015, the Assets to Capital Multiple (ACM) has been replaced with the Basel III Leverage ratio. See definition of the Leverage ratio under Non-GAAP Measures in this report.

Home Trust's regulatory "all-in" Total Capital ratio has decreased from the end of 2014 as capital increased at a slower rate than risk-weighted assets. Capital increased principally from an increase in retained earnings of \$221.4 million, offset by the increase in accumulated other comprehensive loss. Risk-weighted assets increased in line with increases in the Company's uninsured loan portfolio.

The Assets to Capital Multiple (ACM) was replaced with the Basel III Leverage ratio measure effective January 1, 2015. The Company has disclosed the Leverage ratio and its components under "Regulatory Disclosures" on the Home Trust website. 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. The Leverage ratio of 7.36% is in excess of OSFI's established minimum target of 3%, as well as the minimum ratio assigned to the Company by OSFI and the Company's internal targets. The implementation of the Leverage ratio has not affected the Company's business plans.

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 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 purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required.

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

	2015			2014		
	Balance Sheet Amounts	Effective Risk Weight ¹	Risk-weighted Amount	Balance Sheet Amounts	Effective Risk Weight ¹	Risk-weighted Amount
(000s, except %)						
Cash and cash equivalents	\$ 1,118,630	20.0%	\$ 223,726	\$ 338,461	20.0%	\$ 67,692
Restricted assets	195,921	14.2%	27,809	421,083	5.7%	23,818
Available for sale securities	443,831	43.0%	190,647	568,687	44.1%	251,018
Insured residential mortgages	4,270,243	0.7%	31,438	4,921,451	0.5%	26,549
Uninsured single-family residential mortgages	11,571,872	35.3%	4,082,400	11,603,298	35.3%	4,096,045
Uninsured residential commercial mortgages	268,263	100.0%	268,263	216,845	100.0%	216,871
Non-residential commercial mortgages	1,490,648	100.1%	1,491,757	1,106,878	100.1%	1,108,107
Credit card loans and lines of credit	370,825	44.3%	164,346	330,327	41.7%	137,602
Other consumer retail loans	296,857	75.0%	222,643	186,111	75.0%	139,583
Other assets	351,006	56.0%	196,648	272,437	57.9%	157,830
Total assets subject to risk rating	20,378,096	33.9%	6,899,677	19,965,578	31.2%	6,225,115
Intangible assets	112,595	-	-	97,384	-	-
Collective allowance for credit losses	(36,249)	-	-	(34,100)	-	-
Total assets	20,454,442	33.7%	6,899,677	20,028,862	31.1%	6,225,115
Off-balance sheet items						
Loan commitments	918,343	6.9%	63,307	1,037,225	4.1%	42,285
Total credit risk	21,372,785		6,962,984	21,066,087		6,267,400
Operational risk	-		996,488	-		904,438
Total risk-weighted assets, before CVA	\$21,372,785		\$ 7,959,472	\$21,066,087		\$ 7,171,838

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 2015, 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 5.0% of its issued and outstanding common shares as of September 9, 2015. 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 2015, the Company repurchased 344,700 common shares (2014 – 28,000 common shares) for \$10.7 million, thereby reducing retained earnings by \$10.3 million and share capital by \$442 thousand (2014 – \$1.4 million and \$34 thousand, respectively).

Subsequent to the end of the year, the Company's Board authorized a share repurchase of up to \$150 million, which is anticipated to take place through a Substantial Issuer Bid by way of an issuer bid circular that would be provided to the shareholders of Home Capital. The terms and conditions of the bid remain to be determined, and are subject to approval by the Board of Directors.

Management's Discussion and Analysis

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

Share Information

Table 35: Share Information

(000s)	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Common shares issued and outstanding ¹	69,978	\$ 90,247	70,096	\$ 84,687
Employee stock options outstanding ²	1,208	N/A	1,235	N/A
Employee stock options exercisable ^{2,3}	511	14,866	634	14,866

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.

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to certain 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, 2015.

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 will accept, which risks it will mitigate, offset or hedge, and which risks it will avoid. These decisions are guided by the Company's risk appetite framework and risk appetite statement. The types of risk to which the Company is subject include, among others, credit, market, funding and liquidity, operational, capital adequacy, compliance, reputation and strategic risks.

Risk Appetite

The Company's risk appetite framework sets out the aggregate level and types of risk that the Company is willing to accept in order to achieve its business objectives. It considers the maximum level of risk that the Company can assume before breaching constraints determined by regulatory capital and liquidity needs, as well as the Company's conduct with respect to depositors, customers, investors and other stakeholders. The risk appetite statement articulates the following major enterprise principles:

The Company will:

1. Maintain adequate capital and liquidity at all times.
2. Only take risks that are transparent, manageable and that fit the Company's business strategy.
3. Not expose itself to any significant single loss events on any single transaction or acquisition.
4. Not take risks that are expected to result in significant volatility in earnings or shareholder returns.
5. Conduct business with honesty, integrity, respect and high ethical standards.
6. Strive to protect the Company's reputation at all times, with all key stakeholders.
7. Adopt a risk-based approach for identifying, assessing, managing, mitigating and monitoring risk that meets regulatory requirements and expectations.
8. Not tolerate business activities that are not supported by appropriate processes and internal controls that are designed to detect, deter and prevent activity associated with financial crime or maintain relationships with persons or entities believed to be engaged in illegal or illicit activities.
9. Incorporate risk and compliance measures into performance and reward measurement programs.

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.

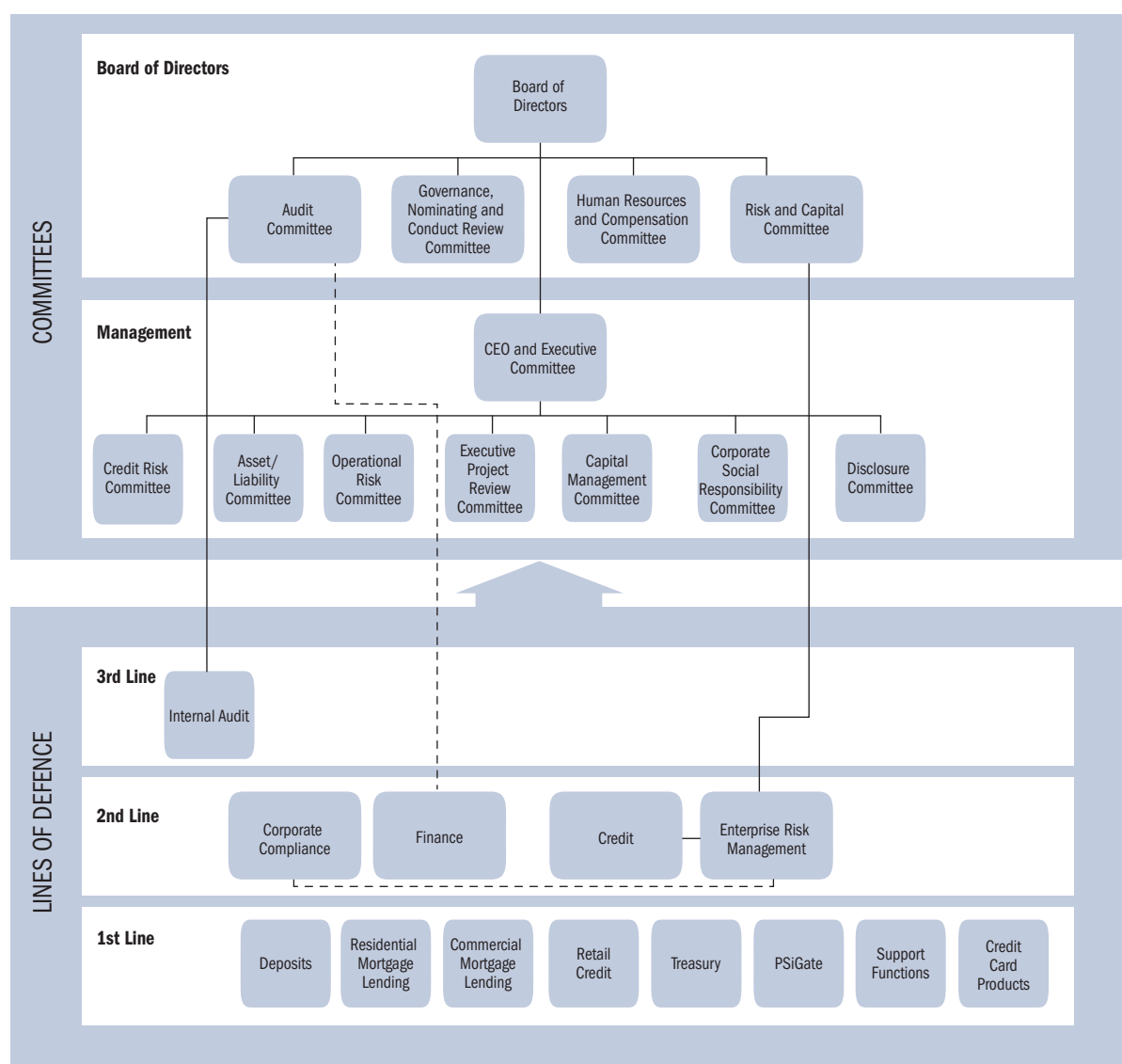
Supporting the Company's ERM structure is a risk and compliance culture, and a governance framework, including Board and senior management oversight and an increasingly robust set of risk policies and guidelines reflective of the Company's risk appetite that sets boundaries for acceptable business strategies, exposures and activities.

Management's Discussion and Analysis

The Company's risk governance is based on a three lines of defence model:

- > 1st Line of Defence - consists of the business units and support areas. As risk owners, management is accountable for identifying, assessing, monitoring, reporting and managing the risks generated within their respective areas of responsibility. Business Risk Management and Analytics is a risk management team embedded within the first line of defence to assist management in ensuring effective controls are in place to support short- and long-term revenue generation.
- > 2nd Line of Defence - consists of Enterprise Risk Management (including Credit) and Corporate Compliance which are responsible for the establishment of the Company's risk management framework and the independent oversight of their implementation. Together with Finance, the 2nd Line of Defence is also responsible for the independent assessment, monitoring and reporting of risk taking activities.
- > 3rd Line of Defence - Internal Audit is responsible for providing independent, objective assurance to the Board of Directors and the Executive Committee by assessing the effectiveness of governance, risk management and control processes.

The governance structure depicted below 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, values, objectives and strategies of the Company and setting the Company's overall risk appetite. The Board challenges management's recommendations 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 (RCC) of the Board. In this oversight role the RCC is mandated 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 risk profile against Board-approved risk appetite and limits; and providing direction to management when necessary. The RCC also ensures that the Company's 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 monitoring the Company's risk profile and business activities.

The most significant risks to the Company are subject to more specific review, monitoring and assessment under the mandates of supporting management risk committees. These committees (Credit Risk Management, Asset/Liability, Capital Management, Operational Risk Management, Corporate Social Responsibility, Disclosure, and Executive Project Review) 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 Board approved risk appetite and risk limits. In addition to the Executive Committee and supporting management risk committees, the Company's risk governance is supported by a robust risk management framework.

- > The ERM group is mandated to work with the EC and the Board of Directors 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 EC and 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 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 Corporate Compliance group promotes a sound compliance culture; provides regular reports to senior management and the Board about compliance with the Company's legislative and regulatory requirements; follows up with senior management on breaches; and makes 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.

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 the Company's 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, information security breach, appraisal fraud, 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.

Management’s Discussion and Analysis

Principal Risks

The Company has identified eight principal risks that are material to the business: strategic, credit, market, funding and liquidity, operational, compliance, capital adequacy 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 significant second order impact to the Company’s reputation or ability to execute strategic objectives.



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 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 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 credit loss allowances and the allocation of credit risk-based capital.

At a transactional level, loans are independently approved by credit and/or underwriting 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 and lines of credit issued)	2015	2014	2013
Total loans balance (net of individual allowances)	\$18,133,665	\$18,262,816	\$17,881,926
Mortgage Portfolio¹			
Total mortgage portfolio balance (net of individual allowance)	\$17,465,983	\$17,746,378	\$17,248,478
Residential mortgages as a percentage of total mortgages	91.5%	93.8%	94.2%
Non-residential mortgages as a percentage of total mortgages	8.5%	6.2%	5.8%
Percentage of insured residential mortgages ²	23.7%	27.7%	36.8%
Percentage of mortgages current	98.2%	97.9%	97.6%
Percentage of mortgages over 90 days past due	0.3%	0.3%	0.5%
Percentage of insured residential mortgage originations	22.1%	23.7%	25.1%
Loan-to-value ratio of residential mortgages (current uninsured) ³	66.4%	66.7%	65.9%
Credit Card and Lines of Credit Portfolio			
Total credit card and lines of credit portfolio balance	\$ 370,825	\$ 330,327	\$ 293,485
Percentage of Equityline Visa credit cards	86.6%	95.3%	95.7%
Percentage of secured credit cards	3.9%	3.8%	3.8%
Percentage of credit cards and lines of credit current	98.5%	97.8%	97.8%
Percentage of credit cards and lines of credit over 90 days past due	0.4%	0.6%	0.9%
Loan-to-value ratio of Equityline Visa (current) ³	62.9%	62.4%	66.1%
Visa card security deposits	\$ 20,646	\$ 18,787	\$ 15,997
Total authorized limits of credit cards and lines of credit	\$ 511,283	\$ 430,906	\$ 373,702
Total number of credit cards and lines of credit issued	40,355	33,853	28,892
Average balance authorized	\$ 13	\$ 13	\$ 13

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. LTV is a key credit metric. Please see Tables 41 and 42 for further information.

The Company continues to actively monitor the mortgages associated with the suspended individual mortgage brokers and there have been no unusual credit issues.

Due to the level of activity in the condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. Condominiums represent 9.1% of the residential mortgage portfolio and, of these, 22.3% are insured. The average current LTV of the condominium portfolio was 66.4% at the end of 2015. 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.

The Company continues to closely monitor its exposure and the credit performance of mortgages in energy-producing regions, including in Alberta, Saskatchewan, and Newfoundland and Labrador. At December 31, 2015, 3.0% of the uninsured mortgage portfolio was in these regions, with an average LTV of 62.2% and 97.0% current.

The level of non-residential mortgages increased over the last 12 months and the Company anticipates that the non-residential portfolio will continue to grow. The proportion is well within the policy limits.

Management's Discussion and Analysis

Other Lending

Credit card and lines of credit balances were \$370.8 million at the end of the year, most of which are secured by either cash deposits or residential property. Within the credit card and lines of credit 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 62.9% at the end of the year compared to 62.4% at the end of 2014. 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 and lines of credit portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of December 31, 2015, \$1.6 million or 0.4% of the credit card and lines of credit portfolio was over 90 days in arrears, compared to \$1.9 million or 0.6% at December 31, 2014.

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(A) 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 and economic conditions in local markets.

Table 37: Non-performing Loans and Allowances

(000s, except %)	2015		2014		Change	
	Gross	Net ¹	Gross	Net ¹	Gross	Net ¹
Single-family residential mortgages	\$ 49,285	\$ 47,633	\$ 52,551	\$ 50,743	(6.2)%	(6.1)%
Residential commercial mortgages	-	-	54	54	(100.0)%	(100.0)%
Non-residential commercial mortgages	2,558	2,218	2,516	2,461	1.7%	(9.9)%
Credit card loans and lines of credit	1,518	1,189	1,938	1,858	(21.7)%	(36.0)%
Other consumer retail loans	161	-	160	-	0.6%	-
Non-performing loans	53,522	51,040	57,219	55,116	(6.5)%	(7.4)%
Total gross loans	\$18,136,147		\$18,264,919		(0.7)%	-
Net non-performing loans as a % of gross loans		0.28%		0.30%		
Total allowance for credit losses	\$ 39,632		\$ 36,823			
Total allowance as a % of gross loans		0.22%		0.20%		
Total allowance as a % of gross non-performing loans		74.05%		64.35%		
Net write-offs as a % of gross loans		0.04%		0.06%		

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 \$6.9 million or 0.04% of gross loans in 2015, compared to \$10.3 million or 0.06% of gross loans in 2014. The Company continually monitors arrears and write-offs and deals effectively with non-performing loans.

Table 38: Allocation of Allowance for Credit Losses

(000s)	2015 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2015 Ending Balance
Individual allowances				
Single-family residential mortgages	\$ 2,368	\$ (5,292)	\$ 5,415	\$ 2,491
Residential commercial mortgages	-	(4)	4	-
Non-residential commercial mortgages	112	(435)	720	397
Credit card loans and lines of credit	500 ¹	(969)	798	329
Other consumer retail loans	163	(168)	171	166
Total individual allowance	3,143	(6,868)	7,108	3,383
Collective allowance				
Single-family residential mortgages	20,632	-	1,600	22,232
Residential commercial mortgages	327	-	-	327
Non-residential commercial mortgages	9,300	-	200	9,500
Credit card loans and lines of credit	3,865 ¹	-	25	3,890
Other consumer retail loans	300	-	-	300
Total collective allowance	34,424	-	1,825	36,249
Total allowances	\$ 37,567	\$ (6,868)	\$ 8,933	\$ 39,632

(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 and lines of credit	201	(692)	571	80
Other consumer retail loans	248	(272)	187	163
Total individual allowance	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 and lines of credit	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

¹ The opening balance of credit card loans and lines of credit includes the individual and collective allowances assumed on the purchase of CFF Bank on October 1, 2015.

The Company maintains credit allowances that, in management's judgement, are sufficient to cover incurred losses and identified credit events in the loans portfolio. Expected and unexpected future losses are mitigated by a combination of risk-sensitive pricing, solid earnings and a strong capital position.

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.

Management's Discussion and Analysis

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, 2015, the Company held a collective allowance of \$36.2 million, compared to \$34.1 million held at December 31, 2014. 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 default rate and exposure at default based on product, risk ratings and credit scores. The Company periodically reviews and performs back-testing on the methods utilized in assessing the collective allowance. The principal factors impacting the assessment of the adequacy of the collective allowance are the quality of new accounts, the low loan to value of the uninsured mortgage portfolio, historical default and loss rates as well as the impact of external factors impacting the portfolio. The collective allowance has been increased marginally over the course of the year and currently exceeds the net write-offs experienced over the past 36 months.

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 effective amortization periods and loan-to-value ratios by province.

Table 39: Single-family Residential Loans by Province

							2015
(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	\$ 294,117	35.2%	\$ 537,677	64.4%	\$ 3,408	0.4%	\$ 835,202
Alberta	270,146	41.4%	370,645	56.8%	11,824	1.8%	652,615
Ontario	2,467,766	19.1%	10,152,664	78.6%	301,869	2.3%	12,922,299
Quebec	149,504	29.8%	350,833	69.9%	1,469	0.3%	501,806
Other	174,123	51.7%	160,053	47.6%	2,380	0.7%	336,556
	\$ 3,355,656	22.0%	\$11,571,872	75.9%	\$ 320,950	2.1%	\$15,248,478

							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

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

	2015					2014
(000s, except %)	≤ 20 Years	> 20 and ≤ 25 Years	> 25 and ≤ 30 Years	> 30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	\$ 704,369	\$ 2,312,993	\$ 11,379,663	\$ 525,518	\$ 4,985	\$ 14,927,528
Percentage of total	4.7%	15.5%	76.3%	3.5%	0.0%	100.0%

	2015					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%

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

	2015		2014	
	Uninsured Residential Mortgages ¹	Equityline Visa ¹	Uninsured Residential Mortgages ¹	Equityline Visa ¹
British Columbia	67.6%	56.0%	68.2%	53.5%
Alberta	74.5%	48.0%	72.3%	54.5%
Ontario	73.9%	63.4%	74.3%	56.3%
Quebec	70.0%	58.2%	68.2%	57.3%
Other	70.7%	58.2%	67.4%	51.7%
Total	73.3%	63.3%	73.7%	56.3%

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 both standardized and ad-hoc stress testing. Stress testing includes scenarios that are based on a combination of increasing unemployment, rising interest rates, and a downturn in real estate markets, as well as specific operational, market and single-factor stress tests. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn, either regionally or nationally, the Company would expect an increased rate of delinquency and also an increase in credit losses. The Company's stress tests related to either regional or national economic downturns, which include declining housing prices and increased unemployment, indicate that the Company has sufficient capital to absorb such an event, albeit with increases to credit losses. The total single-family residential mortgage portfolio including HELOC was \$15.25 billion as of December 31, 2015, of which \$3.25 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, 2015, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 66.0% compared to 67.8% at the end of 2014. These LTVs were estimated using the Teranet-National Bank National Composite House Price Index. 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.

Management's Discussion and Analysis

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

	2015			2014		
	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	62.8%	91.5%	57.8%	65.7%	84.7%	44.8%
Alberta	65.4%	81.6%	45.6%	64.9%	80.6%	47.7%
Ontario	66.3%	75.0%	39.6%	68.1%	72.3%	32.9%
Quebec	65.6%	88.9%	43.5%	65.1%	91.3%	45.7%
Other	64.5%	87.3%	52.0%	64.9%	85.3%	49.3%
Total	66.0%	76.6%	40.9%	67.8%	73.9%	34.6%

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 42.0% of the portfolio, and corporate and government bonds at 55.9% of the portfolio. The total balance was \$453.2 million at December 31, 2015 compared to \$582.8 million at the end of 2014.

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 repricing 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 repricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at December 31, 2015 and December 31, 2014 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 repricing date.

Management's Discussion and Analysis

Table 43: Interest Rate Sensitivity

As at December 31, 2015								
(thousands of Canadian dollars, except %)	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	\$ 252,122	\$ 897,727	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,149,849
Weighted-average interest rate	1.0%	0.7%	-	-	-	-	-	0.8%
Available for sale securities	-	59,469	12,136	8,468	337,791	35,307	59	453,230
Weighted-average interest rate	-	4.1%	4.7%	4.4%	2.1%	2.4%	-	2.5%
Loans held for sale	-	-	-	-	-	135,043	-	135,043
Weighted-average interest rate	-	-	-	-	-	2.7%	-	2.7%
Securitized mortgages	-	1,243,393	137,772	147,377	1,124,894	21,039	-	2,674,475
Weighted-average interest rate	-	2.4%	3.8%	3.8%	4.1%	2.7%	-	3.3%
Non-securitized mortgages and loans	-	3,356,721	2,196,396	6,038,115	3,715,771	123,731	(7,793)	15,422,941
Weighted-average interest rate	-	5.1%	5.0%	4.9%	4.7%	6.9%	-	4.9%
Other assets	14,645	237,883	4,719	3,470	-	-	415,764	676,481
Weighted-average interest rate	0.5%	0.5%	1.9%	2.0%	-	-	-	0.2%
Total	\$ 266,767	\$ 5,795,193	\$ 2,351,023	\$ 6,197,430	\$ 5,178,456	\$ 315,120	\$ 408,030	\$20,512,019
Weighted-average interest rate	0.9%	3.6%	4.9%	4.9%	4.4%	4.3%	-	4.3%
Liabilities and shareholders' equity								
Deposits payable on demand	\$ 1,819,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 166,255	\$ 1,986,136
Weighted-average interest rate	1.4%	-	-	-	-	-	-	1.3%
Deposits payable at a fixed rate	-	1,170,250	1,992,516	4,074,166	6,442,890	-	-	13,679,822
Weighted-average interest rate	-	1.8%	1.9%	1.9%	2.3%	-	-	2.1%
Senior debt	-	-	151,480	-	-	-	-	151,480
Weighted-average interest rate	-	-	5.2%	-	-	-	-	5.2%
Securitization liabilities	-	1,209,382	331,025	97,598	1,142,551	-	-	2,780,556
Weighted-average interest rate	-	1.1%	2.8%	1.9%	3.2%	-	-	2.2%
Other liabilities	-	5,447	-	-	-	-	287,472	292,919
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	1,621,106	1,621,106
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 1,819,881	\$ 2,385,079	\$ 2,475,021	\$ 4,171,764	\$ 7,585,441	\$ -	\$ 2,074,833	\$20,512,019
Weighted-average interest rate	1.4%	1.4%	2.2%	1.9%	2.4%	-	-	1.8%
Credit commitments	\$(1,553,114)	\$ 3,410,114	\$(123,998)	\$ 2,025,666	\$(2,406,985)	\$ 315,120	\$(1,666,803)	\$ -
Weighted-average interest rate	-	4.2%	6.0%	5.7%	4.2%	2.7%	-	-
Interest rate sensitivity gap	\$(1,553,114)	\$ 2,289,018	\$(103,449)	\$ 2,071,973	\$(1,352,915)	\$ 315,290	\$(1,666,803)	\$ -
Cumulative gap	\$(1,553,114)	\$ 735,904	\$ 632,455	\$ 2,704,428	\$ 1,351,513	\$ 1,666,803	\$ -	\$ -
Cumulative gap as a percentage of total assets	(7.6)%	3.6%	3.1%	13.2%	6.6%	8.1%	-	-

Table 43: Interest Rate Sensitivity (continued)

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 5 Years	Over 5 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	467,836	2,041	64	582,819
Weighted-average interest rate	-	2.1%	4.2%	4.9%	2.6%	1.2%	-	2.6%
Loans held for sale	-	-	-	-	1,200	100,894	-	102,094
Weighted-average interest rate	-	-	-	-	2.6%	2.9%	-	2.9%
Securitized mortgages	-	1,877,406	240,434	299,317	1,167,159	361,338	-	3,945,654
Weighted-average interest rate	-	3.0%	3.9%	3.7%	3.9%	4.7%	-	3.5%
Non-securitized mortgages and loans	-	2,715,260	2,050,234	5,774,695	3,634,279	115,797	(7,203)	14,283,062
Weighted-average interest rate	-	5.5%	5.0%	5.0%	5.0%	9.7%	-	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	\$ 5,270,474	\$ 580,070	\$ 341,612	\$20,082,744
Weighted-average interest rate	0.9%	4.0%	4.8%	4.9%	4.6%	5.4%	-	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	5,998,367	-	-	12,875,819
Weighted-average interest rate	-	1.9%	2.1%	2.1%	2.4%	-	-	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	900,652	494,757	-	4,303,463
Weighted-average interest rate	-	2.0%	3.2%	2.6%	2.8%	2.8%	-	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	\$ 7,051,045	\$ 494,757	\$ 1,850,261	\$20,082,744
Weighted-average interest rate	1.5%	1.9%	2.3%	2.1%	2.5%	3.7%	-	2.1%
Credit commitments	\$ (674,271)	\$ 1,336,767	\$ 250,344	\$ 2,291,067	\$ (1,780,571)	\$ 85,313	\$ (1,508,649)	\$ -
Weighted-average interest rate	-	(842,992)	12,440	31,448	621,638	177,466	-	-
Interest rate sensitivity gap	\$ (674,271)	\$ 493,775	\$ 262,784	\$ 2,322,515	\$ (1,158,933)	\$ 262,779	\$ (1,508,649)	\$ -
Cumulative gap	\$ (674,271)	\$ (180,496)	\$ 82,288	\$ 2,404,803	\$ 1,245,870	\$ 1,508,649	\$ -	\$ -
Cumulative gap as a percentage of total assets	(3.4)%	(0.9)%	0.4%	12.0%	6.2%	7.5%	-	-

Management's Discussion and Analysis

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 and OCI.

Table 44: Impact of Interest Rate Shifts

(000s)	Increase in interest rates		Decrease in interest rates	
	December 31 2015	December 31 2014	December 31 2015	December 31 2014
100 basis-point shift				
Impact on net interest income, after tax (for the next 12 months)	\$ 11,052	\$ 8,642	\$ (9,525)	\$ (8,642)
Impact on net present value of shareholders' equity	25,913	13,953	(29,092)	(14,694)
Impact on other comprehensive income	2,571	2,114	(2,007)	(2,114)

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 shareholders' 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 repricing 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 funding and liquidity 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 funding and liquidity risk policies and strategies and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of funding and liquidity risk and the testing of the Company's Contingency Funding Plan. The Treasury group is responsible for managing the Company's funding and liquidity 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 funding and liquidity risk.

The Company's funding and liquidity 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 %)	2015	2014	Change
Cash and cash equivalents per balance sheet	\$ 1,149,849	\$ 360,746	218.7%
Available for sale securities per balance sheet	453,230	582,819	(22.2)%
Add: MBS included in residential mortgages	682,772	362,801	97.6%
	2,285,851	1,306,366	77.6%
Less: securities held for investments	(190,706)	(248,069)	(23.1)%
Liquid assets at carrying value	\$ 2,095,145	\$ 1,058,297	101.2%
Liquid assets at fair value	\$ 2,092,390	\$ 1,059,821	100.6%
Liquid assets at carrying value as a % of total assets	10.2%	5.3%	5.1%

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 the CMHC. On an overall basis, liquidity resources fluctuate as the Company's future cash requirements change.

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 through its direct-to-consumer brand, Oaken Financial, Home Trust high-interest savings account offerings, and the issuance of institutional fixed-term deposit notes. The successful acquisition of CFF Bank in Q4 2015 presents further opportunities for future deposit funding diversification.

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

As required by OSFI's Liquidity Adequacy Requirements (LAR), effective January 1, 2015, the Company reports its Liquidity Coverage Ratio (LCR) to OSFI, which is a minimum regulatory liquidity standard adopted by OSFI. The LCR requires net cumulative cash flow requirements in a stressed environment. As well, the Company reports the OSFI-designed Net Cumulative Cash Flow (NCCF), which measures detailed cash flows to capture the risk posed by funding mismatches over and up to a 12-month time horizon. The Company complies with these requirements.

Management's Discussion and Analysis

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 continues to enhance and strengthen 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. Furthermore, to the extent that the Company encounters events that impact its relationships with its third-party service providers, the Company may be exposed to service disruptions, regulatory action, financial loss, litigation or reputational damage. These complex relationships continue to receive increased oversight from regulators and attention from the media. As part of the Company's ongoing reviews of its operating procedures, the Company evaluates the alignment of all of its business partners' processes and controls with the Company's own processes and controls, and change relationships as appropriate. As part of its process, the Company actively maintains a list of third party service providers whose use is prohibited.

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 groups 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 its 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.

Compliance Risk

Compliance 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 EC 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 compliance risk is mitigated, the independent oversight of compliance risk is principally managed by the CCO, CAMLO and the Corporate Compliance group as part of the Company's Compliance Framework.

Capital Adequacy Risk

Capital adequacy is a key requirement in the safety and soundness of any financial institution. Capital is the difference between the Company's assets and liabilities, and acts as a financial cushion to absorb unexpected losses. Capital adequacy risk is the risk that the Company does not hold sufficient capital to meet its regulatory requirements and those which the Company believes are required to manage enterprise-wide risks as a going concern, even in periods of severe but plausible stress. Not maintaining sufficient capital adequacy may lead to insolvency and creditor (depositor) losses. Please refer to the Capital Management section for further information.

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 or business partners, 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.

Management's Discussion and Analysis

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 Changes 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, 2015. 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, 2015.

As permitted by National Instrument 52-109, section 5.3, the certifying officers have limited the scope of design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of CFF Bank, acquired on October 1, 2015. Summary financial information about CFF Bank has been included in the Financial Performance Review section of this MD&A.

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) 1992 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, 2015. 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, 2015.

Changes in Internal Control over Financial Reporting

The Company acquired CFF Bank on October 1, 2015. The scope of the design of Disclosure Controls and Procedures and Internal Control over Financial Reporting excludes the controls, policies and procedures of CFF Bank. There were no other significant changes in 2015 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 2015 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:

Management's Discussion and Analysis

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

The Company presents adjusted revenue, adjusted net income and adjusted earnings per share. The adjusted results remove items of note, net of income taxes, from reported results for items which management does not believe are indicative of future results. The items of note for 2015 are for the after-tax acquisition and integration costs, net of gain recognized on CFF Bank acquisition in Q4 2015. The 2014 item of note relates to prepayment income associated with the sale of the water heater loans portfolio in Q4 2014. Return on shareholders' equity and efficiency ratios are also presented on an adjusted basis.

Reconciliation of Net Income to Adjusted Net Income

(000s, except % and per share amounts)	Q4 2015	Q3 2015	Q4 2014	2015	2014
Net income	\$ 70,239	\$ 72,443	\$ 95,936	\$ 287,285	\$ 313,172
Adjustment for acquisition and integration costs, net of gain recognized on acquisition of CFF Bank (net of tax)	1,572	-	-	1,572	-
Adjustment for prepayment income on portfolio sale (net of tax)	-	-	(24,019)	-	(24,019)
Adjusted Net Income	\$ 71,811	\$ 72,443	\$ 71,917	\$ 288,857	\$ 289,153
Adjusted Basic Earnings per Share	\$ 1.02	\$ 1.03	\$ 1.03	\$ 4.12	\$ 4.14
Adjusted Diluted Earnings Per Share	\$ 1.02	\$ 1.03	\$ 1.02	\$ 4.11	\$ 4.11

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. For periods beginning on or after January 1, 2015, the ACM has been replaced by the Leverage ratio (see definition below).

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. 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.

Leverage Ratio

The Leverage ratio 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 Leverage ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as percentage. The Capital Measure is the all-in Tier 1 capital of Home Trust. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures. The Leverage ratio has replaced the ACM (defined above) and is effective for Home Trust as of January 1, 2015.

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. 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 \$3.8 million for 2015 (\$4.1 million – 2014) 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.

Management's Discussion and Analysis

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

Consolidated Financial Statements

Management's Responsibility for Financial Information	p. 76
Independent Auditors' Report	p. 77

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets	p. 78
Consolidated Statements of Income	p. 79
Consolidated Statements of Comprehensive Income	p. 80
Consolidated Statements of Changes in Shareholders' Equity	p. 80
Consolidated Statements of Cash Flows	p. 81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information	p. 82
2. Summary of Significant Accounting Policies	p. 82
3. Future Changes in Accounting Policies	p. 89
4. Cash Resources and Securities	p. 89
5. Loans	p. 91
6. Securitization Activity	p. 95
7. Restricted Assets	p. 97
8. Other Assets	p. 97
9. Intangible Assets	p. 98
10. Goodwill	p. 98
11. Deposits by Remaining Contractual Term to Maturity	p. 99
12. Senior Debt	p. 99
13. Other Liabilities	p. 99
14. Capital	p. 99
15. Employee Benefits	p. 101
16. Accumulated Other Comprehensive Income	p. 103
17. Income Taxes	p. 104
18. Commitments and Contingencies	p. 105
19. Derivative Financial Instruments	p. 105
20. Current and Non-Current Assets and Liabilities	p. 108
21. Fair Value of Financial Instruments	p. 108
22. Related Party Transactions	p. 111
23. Business Acquisition	p. 112
24. Risk Management	p. 113

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 subsidiaries Home Trust Company and CFF Bank. 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 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 of Directors or shareholders.

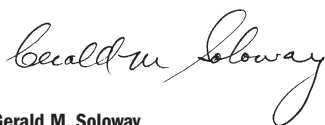
The internal control systems are further supported by a compliance framework, which ensures that the Company and its employees comply with all regulatory requirements, as well as by an enterprise risk management function that monitors proper risk control, related documentation and the measurement of 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, 2015, 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) and Bank 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, and in the case of risk management, through the Risk and Capital 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 10, 2016



Robert Morton, CPA, CMA, C. Dir
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, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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

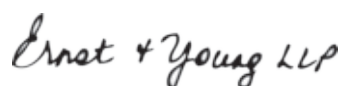
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The signature of Ernst & Young LLP is written in a cursive, handwritten style.

*Chartered Professional Accountants
Licensed Public Accountants*

Toronto, Canada
February 10, 2016

Consolidated Balance Sheets

	December 31 2015	December 31 2014
thousands of Canadian dollars		
As at		
ASSETS		
Cash and Cash Equivalents (note 4(A))	\$ 1,149,849	\$ 360,746
Available for Sale Securities (notes 4(B) and (C))	453,230	582,819
Loans Held for Sale	135,043	102,094
Loans (note 5)		
Securitized mortgages (note 6(A))	2,674,475	3,945,654
Non-securitized mortgages and loans	15,459,190	14,317,162
	18,133,665	18,262,816
Collective allowance for credit losses (note 5(E))	(36,249)	(34,100)
	18,097,416	18,228,716
Other		
Restricted assets (note 7)	195,921	421,083
Derivative assets (note 19)	64,796	38,534
Other assets (note 8)	287,417	235,616
Goodwill and intangible assets (notes 9 and 10)	128,347	113,136
	676,481	808,369
	\$20,512,019	\$20,082,744
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (note 11)		
Deposits payable on demand	\$ 1,986,136	\$ 1,064,152
Deposits payable on a fixed date	13,679,822	12,875,819
	15,665,958	13,939,971
Senior Debt (note 12)	151,480	152,026
Securitization Liabilities (note 6(B))		
Mortgage-backed security liabilities	531,326	471,551
Canada Mortgage Bond liabilities	2,249,230	3,831,912
	2,780,556	4,303,463
Other		
Derivative liabilities (note 19)	5,447	2,266
Other liabilities (note 13)	264,941	199,831
Deferred tax liabilities (note 17(C))	22,531	36,554
	292,919	238,651
	18,890,913	18,634,111
Shareholders' Equity		
Capital stock (note 14)	90,247	84,687
Contributed surplus	3,965	3,989
Retained earnings	1,592,438	1,378,562
Accumulated other comprehensive loss (note 16)	(65,544)	(18,605)
	1,621,106	1,448,633
	\$20,512,019	\$20,082,744

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

	For the year ended	
	December 31 2015	December 31 2014
thousands of Canadian dollars, except per share amounts		
Net Interest Income Non-Securitized Assets		
Interest from loans (note 5(F))	\$ 769,562	\$ 717,798
Dividends from securities	10,620	11,426
Other interest	7,951	13,912
	788,133	743,136
Interest on deposits and other	318,597	311,494
Interest on senior debt	6,396	6,392
Net interest income non-securitized assets	463,140	425,250
Net Interest Income Securitized Loans and Assets		
Interest income from securitized loans and assets (note 5(F))	103,841	166,491
Interest expense on securitization liabilities	85,891	132,212
Net interest income securitized loans and assets	17,950	34,279
Total Net Interest Income	481,090	459,529
Provision for credit losses (note 5(E))	8,933	13,134
	472,157	446,395
Non-Interest Income		
Fees and other income	82,632	71,241
Securitization income (note 6(C))	26,208	26,845
Prepayment income on portfolio sale (note 5(H))	-	32,675
Gain on acquisition of CFF Bank (note 23)	2,056	-
Net realized and unrealized gains on securities	836	3,425
Net realized and unrealized loss on derivatives (note 19)	(7,939)	(827)
	103,793	133,359
	575,950	579,754
Non-Interest Expenses		
Salaries and benefits	88,873	80,769
Premises	12,274	11,866
Other operating expenses	89,526	69,617
	190,673	162,252
Income Before Income Taxes	385,277	417,502
Income taxes (note 17(A))		
Current	98,481	102,201
Deferred	(489)	2,129
	97,992	104,330
NET INCOME	\$ 287,285	\$ 313,172
NET INCOME PER COMMON SHARE (note 14(D))		
Basic	\$ 4.09	\$ 4.48
Diluted	\$ 4.09	\$ 4.45
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (note 14(D))		
Basic	70,170	69,857
Diluted	70,323	70,432
Total number of outstanding common shares (note 14(B))	69,978	70,096
Book value per common share	\$ 23.17	\$ 20.67

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

Consolidated Statements of Comprehensive Income

	For the year ended	
thousands of Canadian dollars	December 31 2015	December 31 2014
NET INCOME	\$ 287,285	\$ 313,172
OTHER COMPREHENSIVE INCOME (LOSS)		
Available for Sale Securities and Retained Interests		
Net unrealized (losses) gains	(61,991)	2,854
Net gains reclassified to net income	(917)	(3,425)
	(62,908)	(571)
Income tax recovery	(16,684)	(152)
	(46,224)	(419)
Cash Flow Hedges (note 19)		
Net unrealized losses	(2,449)	(1,061)
Net losses reclassified to net income	1,474	1,461
	(975)	400
Income tax (recovery) expense	(260)	107
	(715)	293
Total other comprehensive loss	(46,939)	(126)
COMPREHENSIVE INCOME	\$ 240,346	\$ 313,046

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 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, 2014	\$ 84,687	\$ 3,989	\$ 1,378,562	\$ (16,242)	\$ (2,363)	\$ (18,605)	\$ 1,448,633
Comprehensive income	-	-	287,285	(46,224)	(715)	(46,939)	240,346
Stock options settled (notes 14(B), 15(C))	6,002	(1,605)	-	-	-	-	4,397
Amortization of fair value of employee stock options	-	1,581	-	-	-	-	1,581
Repurchase of shares (note 14(C))	(442)	-	(10,270)	-	-	-	(10,712)
Dividends (\$0.88 per share)	-	-	(63,139)	-	-	-	(63,139)
Balance at December 31, 2015	\$ 90,247	\$ 3,965	\$ 1,592,438	\$ (62,466)	\$ (3,078)	\$ (65,544)	\$ 1,621,106
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

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

Consolidated Statements of Cash Flows

	For the year ended	
thousands of Canadian dollars	December 31 2015	December 31 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 287,285	\$ 313,172
Adjustments to determine cash flows relating to operating activities:		
Amortization of net (discount) premium on securities	(169)	1,001
Provision for credit losses	8,933	13,134
Prepayment income on portfolio sale	-	(32,675)
Gain on acquisition of CFF Bank	(2,056)	-
Gain on sale of mortgages or residual interest	(21,412)	(23,712)
Net realized and unrealized gains on securities	(836)	(3,425)
Amortization of capital and intangible assets	12,922	10,387
Amortization of fair value of employee stock options	1,581	1,900
Deferred income taxes	(489)	2,129
Changes in operating assets and liabilities		
Loans, net of securitization and sales	205,412	(299,376)
Restricted assets	229,833	227,200
Derivative assets and liabilities	(24,075)	(9,791)
Accrued interest receivable	1,319	(1,951)
Accrued interest payable	4,399	60
Deposits	1,524,232	1,174,017
Securitization liabilities	(1,542,653)	(1,469,601)
Taxes receivable or payable and other	20,358	(41,867)
Cash flows provided by (used in) operating activities	704,584	(139,398)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	(10,712)	(1,390)
Exercise of employee stock options	4,397	10,593
Dividends paid to shareholders	(61,763)	(48,922)
Cash flows used in financing activities	(68,078)	(39,719)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	(35,020)	(542,558)
Proceeds from sales	76,924	206,020
Proceeds from maturities	25,350	178,772
Acquisition of CFF Bank, net of cash acquired	115,892	-
Purchases of capital assets	(5,302)	(3,080)
Capitalized intangible development costs	(25,247)	(32,463)
Cash flows provided by (used in) investing activities	152,597	(193,309)
Net increase (decrease) in cash and cash equivalents during the year	789,103	(372,426)
Cash and cash equivalents at beginning of the year	360,746	733,172
Cash and Cash Equivalents at End of the Year (note 4 (A))	\$ 1,149,849	\$ 360,746
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	\$ 11,656	\$ 9,750
Interest received	881,749	895,851
Interest paid	406,485	450,038
Income taxes paid	128,763	81,320

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. Home Trust also offers deposits via brokers and financial planners, and through its direct to consumer deposit brand, Oaken Financial. In addition, on October 1, 2015, Home Trust acquired CFF Bank, which is a federally regulated retail bank offering mortgage, deposit and personal banking products, as a wholly-owned subsidiary. 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, 2015 were authorized for issuance by the Board of Directors (the Board) of the Company on February 10, 2016. 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 \$16.8 million or \$0.24 per common share payable on March 1, 2016 to shareholders of record at the close of business on February 23, 2016.

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 2015 consolidated financial statements.

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, CFF Bank and PSiGate. Home Trust and PSiGate are wholly owned subsidiaries of Home Capital Group. CFF Bank is a wholly owned subsidiary of Home Trust.

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 where market value is readily available, 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, indication that the issuer will enter bankruptcy or the lack of an active market for a 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.

Notes to the Consolidated Financial Statements

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

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, consumer retail loan, Equityline Visa loan or line of credit 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. Line of credit balances that have a payment that is contractually 90 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. Line of credit receivables are provided for arrears over 90 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 funding and liquidity 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 mortgage-backed securities (MBS) or treasury bills pledged as Canada Mortgage Bond (CMB) 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.

Notes to the Consolidated Financial Statements

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

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 amortized 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.

Notes to the Consolidated Financial Statements

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

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. Each reporting period, the obligations are 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 statements 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 Purchase 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.

Acquisitions

The consideration transferred related to an acquisition is measured at the fair value of the consideration transferred, which would include the fair value of any contingent consideration. Direct transaction costs of acquisition are recognized as an expense in the period in which they are incurred. Identifiable assets and liabilities acquired are measured at their fair value and recognized on the Company's balance sheet. Goodwill is measured as the excess of the consideration transferred over the net of the fair value amounts of identifiable assets acquired and liabilities assumed. To the extent the net fair value of the purchased assets and assumed liabilities exceeds the consideration transferred, the excess is recognized as a gain on acquisition in the consolidated statements of income. The results of operations of acquired businesses are included in the Company's consolidated financial statements beginning on the date of acquisition.

NOTE 3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at December 31, 2015 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, 2018. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

IFRS 16 *Leases*

The Company will be required to adopt IFRS 16, *Leases* (IFRS 16), which will require companies to report all leases on its balance sheet as assets and liabilities for annual periods beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS 16 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. Management has concluded that the amendments to IAS 1 will have no impact on the Company's consolidated financial statements.

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 derecognition of financial assets and continuing involvement accounting, for annual periods beginning on or after January 1, 2016. Management has concluded that the amendments to IFRS 7 will have no impact on the Company's consolidated financial statements.

NOTE 4 CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars	December 31 2015	December 31 2014
Cash and Cash Equivalents		
Deposits with regulated financial institutions	\$ 1,149,849	\$ 360,746
Cash resources unrestricted to Company use	\$ 1,149,849	\$ 360,746

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, 2015, all ratio requirements have been met and no amounts have been drawn against the borrowing facility. In addition, the Company has an uncommitted credit facility with a Canadian chartered bank in the amount of \$20 million, which is undrawn.

The Company also has two insured mortgage purchase facilities, one committed and one uncommitted, with a Canadian chartered bank in the amounts of \$300 million and \$200 million, respectively at December 31, 2015 (\$300 million and \$nil, respectively at December 31, 2014). Both facilities are 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, 2015, these facilities are undrawn.

Notes to the Consolidated Financial Statements

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

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

						December 31 2015	December 31 2014
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	\$ -	\$ 84,220	\$ 153,282	\$ 25,022	\$	\$ 262,524	\$ 334,750
Equity securities	80,132	68,977	31,312	10,285		190,706	248,069
	\$ 80,132	\$ 153,197	\$ 184,594	\$ 35,307	\$	\$ 453,230	\$ 582,819

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

	As at December 31, 2015					
thousands of Canadian dollars, except %	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted- average Yield	
Debt securities	\$ 263,156	\$ 565	\$ (1,197)	\$ 262,524	1.3%	
Equity securities	276,457	481	(86,232)	190,706	4.1%	
	\$ 539,613	\$ 1,046	\$ (87,429)	\$ 453,230		

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		

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. As of December 31, 2015, the Company assessed its securities portfolio for evidence of impairment and has not identified any credit events in relation to its preferred share holdings.

For the year ended December 31, 2015, the Company recognized \$0.9 million (2014 – \$0.1 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, 2015

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	\$ 125,239	\$ 114,807	\$ 1,559,536	\$ 81,262	\$ 67,266	\$ 1,948,110
Securitized multi-unit residential mortgages	94,676	46,848	372,141	51,309	161,391	726,365
Total securitized mortgages	219,915	161,655	1,931,677	132,571	228,657	2,674,475
Single-family residential mortgages	706,555	525,984	11,060,894	419,075	266,910	12,979,418
Residential commercial mortgages ¹	21,128	14,215	216,407	27,265	42,427	321,442
Non-residential commercial mortgages	25,157	59,861	1,358,295	14,505	32,830	1,490,648
Credit card loans and lines of credit	9,598	22,709	330,188	1,489	6,841	370,825
Other consumer retail loans	783	11,090	284,231	-	753	296,857
Total non-securitized mortgages and loans ²	763,221	633,859	13,250,015	462,334	349,761	15,459,190
	\$ 983,136	\$ 795,514	\$ 15,181,692	\$ 594,905	\$ 578,418	\$ 18,133,665
As a % of portfolio	5.4%	4.4%	83.7%	3.3%	3.2%	100.0%

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 and lines of credit	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%

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.

Notes to the Consolidated Financial Statements

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

(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 contractually 180 days in arrears are written off. Lines of credit that have a payment that is contractually 90 days in arrears are individually provided for, and those that have a payment that is contractually 180 days in arrears are written off.

As at December 31, 2015

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	\$ 5,779	\$ 672	\$ 336	\$ 346 ¹	\$ 7,133
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	182,997	43,350	3,969	5,646 ¹	235,962
Residential commercial mortgages	-	4,000	-	-	4,000
Non-residential commercial mortgages	12,780	5,379	286	-	18,445
Credit card loans and lines of credit	2,246	889	814	49	3,998
Other consumer retail loans	104	42	65	-	211
	\$ 203,906	\$ 54,332	\$ 5,470	\$ 6,041	\$ 269,749

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 and lines of credit	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

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, credit losses are generally not anticipated.

As at December 31, 2015

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	\$ 49,285	\$ -	\$ 2,558	\$ 1,518	\$ 161	\$ 53,522
Individual allowances on principal	(1,652)	-	(340)	(329)	(161)	(2,482)
Net amount of impaired loans	\$ 47,633	\$ -	\$ 2,218	\$ 1,189	\$ -	\$ 51,040

As at December 31, 2014

thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	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

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of \$2.4 million (2014 - \$1.8 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. At December 31, 2015, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was \$458.3 million (2014 - \$490.1 million). For impaired mortgages, the total appraised value of collateral at December 31, 2015 was \$74.5 million (2014 - \$81.2 million).

(E) Allowance for Credit Losses

	2015					
thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the year	\$ 1,808	\$ -	\$ 55	\$ 80	\$ 160	\$ 2,103
Allowance assumed on purchase of CFF Bank	-	-	-	420	-	420
Provision for credit losses	5,136	4	720	798	169	6,827
Write-offs	(6,357)	(9)	(486)	(1,005)	(442)	(8,299)
Recoveries	1,065	5	51	36	274	1,431
	1,652	-	340	329	161	2,482
Allowance on accrued interest receivable						
Balance at the beginning of the year	560	-	57	-	3	620
Provision for credit losses	279	-	-	-	2	281
	839	-	57	-	5	901
Total individual allowance	2,491	-	397	329	166	3,383
Collective allowance						
Balance at the beginning of the year	20,632	327	9,300	3,541	300	34,100
Allowance assumed on purchase of CFF Bank	-	-	-	324	-	324
Provision for credit losses	1,600	-	200	25	-	1,825
	22,232	327	9,500	3,890	300	36,249
Total allowance	\$ 24,723	\$ 327	\$ 9,897	\$ 4,219	\$ 466	\$ 39,632
Total provision	\$ 7,015	\$ 4	\$ 920	\$ 823	\$ 171	\$ 8,933
						2014
thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	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

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

Notes to the Consolidated Financial Statements

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

(F) Interest Income by Product

thousands of Canadian dollars	2015	2014
Traditional single-family residential mortgages	\$ 588,854	\$ 552,112
Accelerator single-family residential mortgages	28,777	26,746
Residential commercial mortgages	17,053	14,355
Non-residential commercial mortgages	80,032	64,852
Credit card loans and lines of credit	31,427	28,529
Other consumer retail loans	23,419	31,204
Total interest income on non-securitized loans	769,562	717,798
Securitized single-family residential mortgages	62,891	105,393
Securitized multi-unit residential mortgages	36,625	54,634
Assets pledged as collateral for securitization	4,325	6,464
Total interest income on securitized loans	103,841	166,491
	\$ 873,403	\$ 884,289

(G) Loans by Remaining Contractual Term to Maturity

thousands of Canadian dollars					December 31 2015	December 31 2014
	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	\$ 684,837	\$ 552,455	\$ 710,818	\$ -	\$ 1,948,110	\$ 2,990,119
Securitized multi-unit residential mortgages	66,594	250,332	388,434	21,005	726,365	955,535
Single-family residential mortgages	9,475,219	2,253,665	1,190,595	59,939	12,979,418	12,450,528
Residential commercial mortgages	230,274	81,309	7,255	2,604	321,442	243,318
Non-residential commercial mortgages	833,909	616,109	40,630	-	1,490,648	1,106,878
Credit card loans and lines of credit	370,825	-	-	-	370,825	330,327
Other consumer retail loans	18,186	48,572	147,197	82,902	296,857	186,111
	\$11,679,844	\$ 3,802,442	\$ 2,484,929	\$ 166,450	\$18,133,665	\$18,262,816
Collective allowance for credit losses					(36,249)	(34,100)
					\$18,097,416	\$18,228,716

(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. This was a non-recurring transaction.

(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	2015	2014
Beginning balance on-balance sheet assets assigned as collateral for securitization ¹	\$ 4,247,644	\$ 5,740,171
Mortgages pledged in securitization acquired on purchase of CFF Bank	19,805	-
Mortgages assigned in new securitizations	2,386,624	2,553,211
Change in assets assigned as replacements of repaid amounts to Canada Housing Trust	55,502	765,024
Net reduction of non-Home Trust MBS and treasury bills	(245,115)	(228,159)
Mortgages derecognized ²	(1,897,888)	(2,529,426)
Maturity and amortization of securitization assets	(1,835,222)	(2,053,177)
Ending balance on-balance sheet assets assigned as collateral for securitization ¹	\$ 2,731,350	\$ 4,247,644

¹ Included in the on-balance sheet assets assigned as collateral at December 31, 2015 is \$56.9 million (\$302.0 million - December 31, 2014) in non-Home Trust MBS and treasury bills and \$2.67 billion (\$3.95 billion - December 31, 2014) 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 (\$6.79 billion - December 31, 2015 and \$4.20 billion - December 31, 2014) 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	2015	2014
Balance at the beginning of the year	\$ 4,303,463	\$ 5,773,064
Securitization liabilities assumed on purchase of CFF Bank	19,746	-
Addition to securitization liabilities as a result of on-balance sheet activity	484,112	144,354
Net reduction in securitization liabilities due to maturities, amortization and sales	(2,033,078)	(1,616,801)
Other ¹	6,313	2,846
Securitization liability	\$ 2,780,556	\$ 4,303,463
Proceeds received for mortgages assigned in new securitizations	\$ 2,374,209	\$ 2,551,698

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 MBS and CMB liabilities.

					December 31 2015	December 31 2014
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	\$ 1,660	\$ 317,115	\$ 212,551	\$ -	\$ 531,326	\$ 471,551
Contractual yield	1.0%	2.1%	1.3%	-	1.7%	2.0%
Canada Mortgage Bond liabilities	\$ 1,104,177	\$ 397,823	\$ 639,649	\$ 107,581	\$ 2,249,230	\$ 3,831,912
Contractual yield	1.7%	2.9%	3.1%	0.9%	2.3%	2.5%
	\$ 1,105,837	\$ 714,938	\$ 852,200	\$ 107,581	\$ 2,780,556	\$ 4,303,463

Notes to the Consolidated Financial Statements

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

(C) Securitization Income

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

thousands of Canadian dollars	2015		2014	
Net gain on sale of mortgages and residual interest ¹	\$	21,412	\$	23,712
Net change in unrealized gain or loss on hedging activities		(313)		(177)
Servicing income		5,109		3,310
Total securitization income	\$	26,208	\$	26,845

¹ Gain on sale of mortgages and residual interest are net of hedging impact.

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. As a result, the mortgages are derecognized and a gain on sale is recognized.

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.

thousands of Canadian dollars	2015			2014		
	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	\$ 1,184,253	\$ 713,635	\$ 1,897,888	\$ 1,745,454	\$ 783,972	\$ 2,529,426
Net gains on sale of mortgages or residual interest ¹	15,499	5,913	21,412	18,685	5,027	23,712
Retained interests recorded	-	33,228	33,228	-	32,090	32,090
Servicing liability recorded	-	6,229	6,229	-	6,781	6,781

¹ Gains on sale of mortgages or residual interest are net of hedging impact.

(D) Purchased Residual Interests

In 2014, 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 the underlying mortgages or the corresponding liabilities. At December 31, 2015, the notional amount of these instruments was \$520.6 million, with \$9.3 million related to the purchased residual interests recorded in available for sale securities (December 31, 2014 - notional amount of \$602.6 million, with \$14.1 million related to the purchased residual interests recorded in available for sale securities). No residual interests were purchased prior or subsequent to 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 2015	December 31 2014
Restricted cash		
Restricted cash – CMB and MBS programs	\$ 110,448	\$ 106,624
Restricted cash – derivatives	14,172	12,265
Restricted cash – other programs	14,426	204
Total restricted cash	139,046	119,093
Non-Home Trust MBS and treasury bills assigned as replacement assets	56,875	301,990
Total restricted assets	\$ 195,921	\$ 421,083

Restricted cash – CMB and MBS programs represent deposits held as collateral by CMHC in connection with the Company's securitization activities.

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

Restricted cash – other programs include reserve accounts held in trust for the water heater financing and lines of credit through CFF Bank. These amounts are held as cash collateral against potential credit losses. In addition, other programs include account balances held in trust for the whole loan sales program.

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

thousands of Canadian dollars	December 31 2015	December 31 2014				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value	Total Fair Value
Restricted cash	\$ 139,046	\$ -	\$ -	\$ -	\$ 139,046	\$ 119,093
Non-Home Trust MBS and treasury bills assigned as replacement assets	56,875	-	-	-	56,875	301,990
	\$ 195,921	\$ -	\$ -	\$ -	\$ 195,921	\$ 421,083

NOTE 8 OTHER ASSETS

thousands of Canadian dollars	December 31 2015	December 31 2014
Accrued interest receivable	\$ 63,532	\$ 65,132
Prepaid CMB coupon	3,544	4,506
Securitization receivable and retained interest	142,243	128,522
Capital assets	14,468	12,052
Income taxes recoverable	35,953	-
Other prepaid assets and deferred items	27,677	25,404
	\$ 287,417	\$ 235,616

Notes to the Consolidated Financial Statements

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

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, 2015 and 2014, along with the changes in net carrying amount for the years ended December 31, 2015 and 2014.

	2015			2014		
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	\$ 95,660	\$ 26,557	\$ 122,217	\$ 75,957	\$ 13,797	\$ 89,754
Additions from internal development	14,737	10,510	25,247	19,703	12,760	32,463
Balance at the end of the year	110,397	37,067	147,464	95,660	26,557	122,217
Accumulated amortization						
Balance at the beginning of the year	22,453	2,380	24,833	14,084	2,265	16,349
Amortization expense	9,436	600	10,036	8,369	115	8,484
Balance at the end of the year	31,889	2,980	34,869	22,453	2,380	24,833
Carrying amount at the end of the year	\$ 78,508	\$ 34,087	\$ 112,595	\$ 73,207	\$ 24,177	\$ 97,384

¹ As at December 31, 2015, there was \$14.6 million (\$20.3 million - December 31, 2014) in work in progress related to the core banking system that was not being amortized.

² As at December 31, 2015, there was \$8.4 million (\$6.3 million - December 31, 2014) in work in progress related to other software costs that was not being amortized.

NOTE 10 GOODWILL

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

thousands of Canadian dollars	December 31 2015	December 31 2014
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. During 2015, the Company acquired CFF Bank, which did not result in the recognition of goodwill, but instead a gain on acquisition, which was recognized in the consolidated statements of income. Please refer to Note 23 of the consolidated financial statements.

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 2015.

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, 2019 and assuming a terminal growth rate of 3.0% (2014 - 3.0%) thereafter. A revenue growth rate of 10.92% (2014 - 6.4%) 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 15.15% (2014 - 15.50%) 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 15.15% to 16.15% or a decrease in annual revenue growth from 10.92% to a growth rate of 9.6% 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 2015	December 31 2014
thousands of Canadian dollars, except %	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	\$ 1,479,776	\$ 6,665,844	\$ 3,740,193	\$ 1,607,882	\$13,493,695	\$12,588,166
Businesses	506,360	396,176	187,264	98,964	1,188,764	549,055
Institutional deposits	-	174,912	808,587	-	983,499	802,750
	\$ 1,986,136	\$ 7,236,932	\$ 4,736,044	\$ 1,706,846	\$15,665,958	\$13,939,971
Average contractual yield	1.4%	1.9%	2.3%	2.5%	2.0%	2.0%

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 2015	December 31 2014
Accrued interest payable on deposits	\$ 124,068	\$ 117,089
Accrued interest payable on securitization liabilities	7,466	10,046
Securitization servicing liability	15,234	11,216
Income taxes payable	-	11,317
Other, including accounts payable and accrued liabilities	118,173	50,163
	\$ 264,941	\$ 199,831

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

thousands	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at the beginning of the year	70,096	\$ 84,687	69,488	\$ 70,233
Options exercised	227	6,002	636	14,488
Repurchase of shares	(345)	(442)	(28)	(34)
Outstanding at the end of the year	69,978	\$ 90,247	70,096	\$ 84,687

The Company has no preferred shares outstanding.

Notes to the Consolidated Financial Statements

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

(C) Repurchase of Shares

During the year, 344,700 (2014 - 28,000) common shares were purchased for \$10.7 million (2014 - \$1.4 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, 2015 was \$442 thousand (2014 - \$34 thousand). The balance of the purchase price of \$10.3 million (2014 - \$1.4 million) was charged to retained earnings.

(D) Earnings per Common Share (EPS)

Basic earnings per common share of \$4.09 (2014 - \$4.48) is determined as net income for the year divided by the average number of common shares outstanding of 70,169,686 (2014 - 69,857,391).

Diluted earnings per common share of \$4.09 (2014 - \$4.45) is determined as net income for the year divided by the average number of common shares outstanding of 70,169,686 (2014 - 69,857,391) plus the stock options potentially exercisable, as determined under the treasury stock method, of 153,763 (2014 - 574,277) for a total of 70,323,449 (2014 - 70,431,668) diluted common shares.

Diluted income per common share excludes contingently assumable average options outstanding of 696,847 with a weighted-average exercise price of \$36.15 for December 31, 2015 and contingently assumable average options outstanding of 599,791 with a weighted-average exercise price of \$38.99 for December 31, 2014, 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 the 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 2015	December 31 2014	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets			
Common equity tier 1 ratio	18.31%	18.30%	7.00%
Tier 1 capital ratio	18.30%	18.30%	8.50%
Total regulatory capital ratio	20.70%	20.94%	10.50%

Home Trust adopted certain Basel III capital requirements, as required by OSFI, beginning January 1, 2013. 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. Home Trust is required to meet a minimum Leverage ratio determined by OSFI which has replaced the Assets to Regulatory Capital ratio required in previous years. As at December 31, 2015, the Leverage ratio was 7.36%, which exceeds OSFI's minimum requirements.

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 2015.

NOTE 15 EMPLOYEE BENEFITS

(A) Employee Share Purchase Plan

Under the Employee Share Purchase 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 \$1.5 million for 2015 (2014 - \$1.2 million).

(B) Employee Retirement Savings Plan

During the year, Home Trust contributed \$1.3 million (2014 - \$1.1 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:

	2015		2014	
	Number of Shares	Weighted- average Exercise Price	Number of Shares	Weighted- average Exercise Price
thousands, except per share amounts and years				
Outstanding at the beginning of the year	1,235	\$ 31.00	1,650	\$ 23.02
Granted	257	30.61	263	46.78
Exercised	(227)	19.42	(636)	16.65
Forfeited	(57)	44.49	(42)	33.90
Outstanding at the end of the year	1,208	\$ 32.45	1,235	\$ 31.00
Exercisable at the end of the year	511	\$ 27.39	634	\$ 23.44
Weighted-average market price per share at date of exercise		\$ 39.69		\$ 48.50
Weighted-average remaining contractual life in years		3.7		4.1

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 2015 or 2014.

Notes to the Consolidated Financial Statements

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

As at December 31, 2015, the maximum number of options on common shares that could be issued was 10,670,396, representing approximately 15.25% 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, 2015, the exercise prices for stock options outstanding to acquire common shares ranged from \$15.94 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.

	Stock Options Outstanding			As at December 31, 2015 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	30,000	0.4	\$ 15.94	30,000	\$ 15.94
\$20.01 – \$25.00	327,250	2.2	23.86	296,250	23.92
\$25.01 – \$30.00	363,360	4.4	28.78	74,000	29.14
\$30.01 – \$35.00	65,000	4.7	31.90	18,000	32.01
\$35.01 – \$40.00	181,000	4.9	39.66	89,500	39.66
\$40.01 – \$45.01	32,000	4.2	43.07	500	42.81
Over \$45.01	209,237	4.0	46.93	2,750	47.04
	1,207,847	3.7	\$ 32.45	511,000	\$ 27.39

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 \$4.82 (2014 – \$6.65).

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 2015	September 2015	August 2015	February 2015	December 2014	November 2014	May 2014	February 2014
Fair value of options granted	\$ 4.55	\$ 5.26	\$ 3.94	\$ 6.38	\$ 6.34	\$ 8.36	\$ 9.43	\$ 9.51
Share price	\$ 26.83	\$ 32.30	\$ 27.50	\$ 43.08	\$ 44.66	\$ 50.11	\$ 46.04	\$ 42.50
Exercise price	\$ 28.84	\$ 31.76	\$ 25.98	\$ 43.09	\$ 46.76	\$ 50.02	\$ 47.07	\$ 42.81
Expected share price volatility	28.4%	27.9%	27.3%	23.5%	23.2%	23.1%	26.0%	27.6%
Expected period until exercise in years ¹	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Forfeiture rate	5.0%	5.0%	5.0%	5.0%	6.8%	6.8%	6.8%	6.8%
Expected dividend yield	3.28%	2.72%	3.20%	0.80%	0.80%	0.72%	0.64%	0.56%
Risk-free rate of return	0.60%	0.68%	0.59%	0.54%	1.25%	1.34%	1.57%	1.49%

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 four-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 (2015 – \$1.6 million; 2014 – \$1.9 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 (2015 – \$4.4 million; 2014 – \$10.6 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, 2015 was \$2.09 million (2014 – \$2.81 million). As of December 31, 2015, there were 72,691 DSUs outstanding (2014 – 58,603).

(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, 2015 was \$389 thousand (2014 – \$714 thousand). As of December 31, 2015, there were 69,105 RSUs outstanding (2014 – 64,424 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, 2015 was \$1.3 million and there were 131,799 PSUs outstanding (2014 – \$1.2 million and 84,298 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	2015	2014
Expense arising from equity-settled share-based payment transactions	\$ 1,581	\$ 1,900
DSUs, RSUs and PSUs (representing all expenses arising from cash-settled share-based payment transactions)	(738)	2,311
	\$ 843	\$ 4,211

NOTE 16 ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars	December 31 2015	December 31 2014
Unrealized losses on		
Available for sale securities and retained interests	\$ (85,009)	\$ (22,101)
Income tax recovery	(22,543)	(5,859)
	(62,466)	(16,242)
Unrealized losses on		
Cash flow hedges	(4,187)	(3,212)
Income tax recovery	(1,109)	(849)
	(3,078)	(2,363)
Accumulated other comprehensive loss	\$ (65,544)	\$ (18,605)

Notes to the Consolidated Financial Statements

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

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 26.51% (2014 - 26.49%) due to various permanent differences.

thousands of Canadian dollars	2015	2014
Income before income taxes	\$ 385,277	\$ 417,502
Income taxes at statutory combined federal and provincial income tax rates	\$ 102,148	\$ 110,587
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	(2,816)	(3,025)
Non-deductible expenses	465	568
Scientific research and experimental development investment tax credits	(1,837)	(3,897)
Other	32	97
Income tax	\$ 97,992	\$ 104,330

(B) Reconciliation of Income Tax Rates

	2015	2014
Statutory income tax rate	26.51%	26.49%
Increase (reduction) in income tax rate resulting from		
Tax-exempt income	(0.73)%	(0.73)%
Non-deductible expenses	0.12%	0.14%
Scientific research and experimental development investment tax credits	(0.48)%	(0.93)%
Other	0.01%	0.02%
Effective income tax rate	25.43%	24.99%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars	December 31 2015	December 31 2014
Deferred tax liabilities		
Commissions	\$ 9,110	\$ 9,129
Finders' fees, net of commitment fees	3,281	3,914
Securitization transaction costs	1,820	2,121
Swaps	2,851	4,712
Development costs	29,880	25,795
Other	344	344
	47,286	46,015
Deferred tax assets		
Allowance for credit losses	8,464	8,169
Loss carryforwards	15,043	-
Other	1,248	1,292
	24,755	9,461
Net deferred tax liability	\$ 22,531	\$ 36,554

Capital losses totalling \$2.4 million are available to reduce capital gains in future years. The future tax benefits arising from application of these losses have not been reflected in the consolidated statements of income and changes in shareholders' equity.

On October 1, 2015, the Company acquired CFF Bank. On the date of acquisition, the Company recognized a deferred tax asset relating to losses generated in CFF Bank in the amount of \$13.5 million. At December 31, 2015 the losses generated in CFF Bank increased the deferred tax asset to \$15.0 million. The losses generated in CFF Bank expire after 2029. The Company plans to be able to generate sufficient income in CFF Bank to be able to utilize the losses recognized as a deferred tax asset.

During the year, the Company recognized Scientific Research and Experimental Development investment tax credits related to the development of its core banking system. The investment tax credits are recorded as a reduction of tax provisions, net of any tax that would be eligible on such benefit.

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 2015	December 31 2014
Within one year	\$ 18,846	\$ 14,212
After one year but not more than five years	36,488	33,523
More than five years	11,220	14,683
	\$ 66,554	\$ 62,418

Lease payments recognized as an expense in the consolidated statements of income amounted to \$26.4 million in 2015 (2014 - \$19.3 million).

(B) Credit Commitments

Outstanding amounts for future advances on mortgage loans amounted to \$1.14 billion as at December 31, 2015 (2014 - \$850.1 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 \$303.9 million at December 31, 2015 (2014 - \$233.8 million). Offers for loans remain open for various periods. The average rate on mortgage offers is 4.26% (2014 - 4.72%).

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, 2015, these contractual amounts in aggregate were \$461.3 million (2014 - \$430.9 million), of which \$118.8 million (2014 - \$100.9 million) had not been drawn by customers. In addition, other lines of credit have commitments to extend credit in the amount of \$50.0 million (nil - December 31, 2014), of which \$21.5 million has not been drawn by customers. Outstanding amounts for future advances for the Equityline Visa portfolio were \$11.6 million at December 31, 2015 (2014 - \$5.6 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 2015.

NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and bond forward contracts 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.

Notes to the Consolidated Financial Statements

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

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 forwards 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	2015	2014
Fair value losses recorded in OCI	\$ (2,449)	\$ (1,061)
Reclassification from OCI to net interest income and securitization gains	(1,474)	(1,461)

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	2015	2014
Fair value changes recorded on interest rate swaps ¹	\$ 24,737	\$ 10,339
Fair value changes of hedged fixed-rate liabilities for interest rate risk ²	(32,534)	(9,171)
Hedge ineffectiveness (loss) gain recognized in non-interest income	\$ (7,797)	\$ 1,168

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 \$0.1 million (2014 – net realized and unrealized losses of \$2.0 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.

As at December 31, 2015 and 2014, the outstanding interest rate swap and bond forward contract positions were as follows:

thousands of Canadian dollars

As at December 31, 2015

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	\$ 317,100	\$ 2,370	\$ 2,370	\$ 474	\$ 2,370	\$ -	\$ 2,370
1 to 5 years	1,889,700	62,332	71,775	14,355	62,332	-	62,332
	2,206,800	64,702	74,145	14,829	64,702	-	64,702
Swaps not designated as accounting hedges							
< 1 year	50,000	-	-	-	-	(407)	(407)
	50,000	-	-	-	-	(407)	(407)
Bond forwards designated as accounting hedges ¹							
1 to 5 years	475,000	91	2,466	493	91	(3,226)	(3,135)
	475,000	91	2,466	493	91	(3,226)	(3,135)
Bond forwards not designated as accounting hedges ¹							
< 1 year	47,000	-	-	-	-	(321)	(321)
> 5 years	122,950	3	1,848	585	3	(1,493)	(1,490)
	169,950	3	1,848	585	3	(1,814)	(1,811)
Total	\$ 2,901,750	\$ 64,796	\$ 78,459	\$ 15,907	\$ 64,796	\$ (5,447)	\$ 59,349

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

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

Notes to the Consolidated Financial Statements

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

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, 2015 and 2014.

thousands of Canadian dollars	As at December 31, 2015			As at December 31, 2014		
	Within 1 Year	After 1 Year	Total	Within 1 Year	After 1 Year	Total
Assets						
Cash and cash equivalents	\$ 1,149,849	\$ -	\$ 1,149,849	\$ 360,746	\$ -	\$ 360,746
Available for sale securities	80,132	373,098	453,230	112,942	469,877	582,819
Loans held for sale	135,043	-	135,043	102,094	-	102,094
Securitized mortgages	962,649	1,711,826	2,674,475	1,696,838	2,248,816	3,945,654
Non-securitized mortgages and loans	11,389,911	4,069,279	15,459,190	10,483,974	3,833,188	14,317,162
Collective allowance for credit losses	(24,166)	(12,083)	(36,249)	(22,733)	(11,367)	(34,100)
Restricted assets	195,921	-	195,921	421,083	-	421,083
Derivative assets	2,370	62,426	64,796	7,623	30,911	38,534
Other assets	191,862	95,555	287,417	164,879	70,737	235,616
Goodwill and intangible assets	-	128,347	128,347	-	113,136	113,136
Total assets	\$14,083,571	\$ 6,428,448	\$20,512,019	\$13,327,446	\$ 6,755,298	\$20,082,744
Liabilities						
Deposits payable on demand	\$ 1,986,136	\$ -	\$ 1,986,136	\$ 1,064,152	\$ -	\$ 1,064,152
Deposits payable on a fixed date	7,236,932	6,442,890	13,679,822	6,877,452	5,998,367	12,875,819
Senior debt	151,480	-	151,480	-	152,026	152,026
Mortgage-backed security liabilities	58,829	472,497	531,326	138,232	333,319	471,551
Canada Mortgage Bond liabilities	1,104,177	1,145,053	2,249,230	1,834,460	1,997,452	3,831,912
Derivative liabilities	728	4,719	5,447	34	2,232	2,266
Other liabilities	249,707	15,234	264,941	188,615	11,216	199,831
Deferred tax liabilities	-	22,531	22,531	-	36,554	36,554
Total liabilities	\$10,787,989	\$ 8,102,924	\$18,890,913	\$10,102,945	\$ 8,531,166	\$18,634,111
Net	\$ 3,295,582	\$ (1,674,476)	\$ 1,621,106	\$ 3,224,501	\$ (1,775,868)	\$ 1,448,633

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, 2015					
thousands of Canadian dollars	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	\$ 1,149,849	\$ -	\$ -	\$ 1,149,849	\$ 1,149,849
Loans held for sale	-	135,043	-	135,043	135,043
Derivative assets	-	64,796	-	64,796	64,796
Restricted assets	139,046	-	-	139,046	139,046
Total financial assets held for trading	1,288,895	199,839	-	1,488,734	1,488,734
Financial assets available for sale					
Debt securities	253,185	-	9,339	262,524	262,524
Equity securities	190,706	-	-	190,706	190,706
Restricted assets	56,875	-	-	56,875	56,875
Retained interest owned	-	-	81,087	81,087	81,087
Total financial assets available for sale	500,766	-	90,426	591,192	591,192
Loans and receivables					
Securitized mortgages	-	-	2,734,862	2,734,862	2,674,475
Non-securitized mortgages and loans	-	-	15,485,471	15,485,471	15,422,941
Securitization receivables	-	-	61,156	61,156	61,156
Other	-	-	103,029	103,029	103,029
Total loans and receivables	-	-	18,384,518	18,384,518	18,261,601
Total	\$ 1,789,661	\$ 199,839	\$18,474,944	\$20,464,444	\$20,341,527
Financial liabilities carried at amortized cost					
Deposits	\$ -	\$ -	\$15,807,316	\$15,807,316	\$15,665,958
Senior debt	-	151,402	-	151,402	151,480
Securitization liabilities	-	-	2,868,419	2,868,419	2,780,556
Other	-	-	264,941	264,941	264,941
Total financial liabilities carried at amortized cost	-	151,402	18,940,676	19,092,078	18,862,935
Financial liabilities at fair value					
Derivative liabilities	-	5,447	-	5,447	5,447
Total	\$ -	\$ 156,849	\$18,940,676	\$19,097,525	\$18,868,382

Notes to the Consolidated Financial Statements

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

thousands of Canadian dollars	As at December 31, 2014				
	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 assets 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 assets 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

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, 2015 or December 31, 2014.

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. The fair value of the residual interests of underlying securitized insured fixed-rate residential mortgages is calculated by modelling the future net cash flows. The cash flows are calculated as the difference between the expected cash flow from the underlying mortgages and payment to NHA MBS holders, discounted at the appropriate rate of return.
- > 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 prices 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, plus a spread. 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, plus a spread. 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	2015	2014
Short-term employee benefits	\$ 7,912	\$ 7,926
Share-based payment	1,948	7,784
Other long-term benefits	321	300
	\$ 10,181	\$ 16,010

The Company had no related party transactions, other than with key management personnel, as described above, for the years ended December 31, 2015 and 2014.

Notes to the Consolidated Financial Statements

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

NOTE 23 BUSINESS ACQUISITION

On October 1, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of CFF Bank through its wholly owned subsidiary, Home Trust, for cash consideration of \$19.6 million. CFF Bank is a Schedule 1 Bank under the *Bank Act* (Canada) offering deposit, mortgage and personal banking products through a number of channels. The acquisition provides the Company the addition of a bank licence to support the Company's long-term plan to achieve funding diversification and add new banking products.

The following table presents the fair value of the assets acquired and liabilities assumed, net of the cash consideration transferred to determine the gain on bargain purchase arising from the acquisition of CFF Bank:

	December 31 2015
thousands of Canadian dollars	
Fair value recognized on acquisition	
Assets	
Cash and cash equivalents	\$ 135,513
Non-securitized mortgages and lines of credit	74,496
Securitized mortgages	19,805
Restricted assets	4,671
Deferred tax assets	13,534
Other assets	3,824
Total assets	\$ 251,843
Liabilities	
Deposits	\$ 201,755
Securitization liabilities	19,746
Derivative liabilities	19
Other liabilities	6,710
Total liabilities	\$ 228,230
Net fair value of identifiable assets and liabilities	\$ 23,613
Cash purchase consideration transferred	19,621
Fair value of contingent consideration	1,936
Bargain purchase arising on acquisition	\$ 2,056

The excess fair value of net assets acquired over the purchase consideration of \$2.1 million has been recognized in the consolidated statements of income as a gain on acquisition on a preliminary basis. The bargain purchase amount recognized primarily represents the fair value of deferred tax assets in the amount of \$13.5 million. The Company is in the process of finalizing the purchase price allocation.

In addition, the Company recognized the fair value of contingent consideration in the amount of \$1.9 million. This contingent liability could require the Company to transfer additional consideration to the seller in relation to future sublease revenue. The maximum amount that the Company could be required to remit is \$4.4 million.

The following assumptions were used to estimate the fair values of the acquired assets and assumed liabilities:

- > Cash and cash equivalents and restricted cash approximate their carrying values due to their short-term nature.
- > Securitized mortgages are fair valued based on the expected future cash flows, adjusting for credit risk and prepayment assumptions.
- > The fair value for mortgages held for sale is determined by discounting the expected cash flows at current market rates.
- > Securitization liabilities are fair valued using current market rates for MBS and CMB.
- > The fair value of deposits is based on the discounted expected cash flow at offered rates for deposits with similar terms.

In connection with the acquisition, the Company incurred \$0.7 million in acquisition costs and \$3.5 million in integration costs. These amounts are recognized as other operating expenses in non-interest expenses.

Since the date of acquisition, CFF Bank has contributed \$2.0 million to the Company's revenue and has incurred a loss, before taxes of \$5.7 million. If the acquisition had occurred on January 1, 2015, management estimates that CFF Bank would not have had a material contribution to the results of the Company.

NOTE 24 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 strategic, credit, market, funding and liquidity, operational, compliance, capital adequacy, and reputational 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
Burlington, Ontario



Jacqueline Beauvage^{1,2}
Corporate Director
Toronto, Ontario



Robert J. Blowes
Corporate Director
Waterloo, 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^{1,3,4}
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^{1,2,4}
Corporate Director
Toronto, Ontario



William J. Walker
Partner
Gowling WLG
Caledonia, 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

John M. E. Marsh
Chair

William Falk
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 and
Chief Information Officer

Dinah Henderson

Executive Vice President,
Operations

Gary Wilson

Executive Vice President,
Underwriting

Marie Holland, CPA, CA

Senior Vice President,
Internal Audit

John Hong

Senior Vice President,
Chief Compliance Officer
and Chief Anti-Money
Laundering Officer

Carol Ferguson

Senior Vice President,
Human Resources

Benji Katchen

Senior Vice President,
Deposits and Credit Cards

Annual Meeting Notice

The Annual Meeting of Shareholders of Home Capital Group Inc. will be held at One King West, Grand Banking Hall, Toronto, Ontario, on Wednesday, May 11, 2016 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Corporate Directory

HOME TRUST COMPANY

Directors:

Kevin P. D. Smith
Chairman of the Board

Jacqueline Beaurivage

Robert J. Blowes

William Falk

Diana Graham

John M. E. Marsh

Robert A. Mitchell, CPA, CA

Martin Reid

Gerald M. Soloway

Bonita Then

William J. Walker

Chair Emeritus:

Hon. William G. Davis
P.C., C.C., Q.C.

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 and
Chief Information Officer

Dinah Henderson

Executive Vice President,
Operations

Gary Wilson

Executive Vice President,
Underwriting

Marie Holland, CPA, CA

Senior Vice President,
Internal Audit

John Hong

Senior Vice President,
Chief Compliance Officer
and Chief Anti-Money
Laundering Officer

Carol Ferguson

Senior Vice President,
Human Resources

Benjy Katchen

Senior Vice President,
Deposits and Credit Cards

Branches:

Toronto:

145 King Street West
Suite 2300
Toronto, Ontario M5H 1J8
Tel: 416-360-4663
1-800-990-7881
Fax: 416-363-7611
1-888-470-2092

Calgary:

517 - 10th Avenue SW
Calgary, Alberta T2R 0A8
Tel: 403-244-2432
1-866-235-3081
Fax: 403-244-6542
1-866-544-3081

Vancouver:

200 Granville Street
Suite 1288
Vancouver, British Columbia
V6C 1S4
Tel: 604-484-4663
1-866-235-3080
Fax: 604-484-4664
1-866-564-3524

Halifax:

1949 Upper Water Street,
Suite 101
Halifax, Nova Scotia B3J 3N3
Tel: 902-422-4387
1-888-306-2421
Fax: 902-422-8891
1-888-306-2435

Montreal:

2020 Boul. Robert-Bourassa
Suite 2420
Montreal, Quebec
H3A 2A5
Tel: 514-843-0129
1-866-542-0129
Fax: 514-843-7620
1-866-620-7620

Winnipeg:

201 Portage Avenue
Suite 830
Winnipeg, Manitoba
R3B 3K6
Tel: 204-220-3400
Fax: 204-942-1638

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, 2015,
there were 69,977,980
Common Shares outstanding

Memberships:

Canada Deposit Insurance
Corporation
Canadian Payments
Association
Trust Companies Association
of Canada

For Shareholder

Information, Please

Contact:

Chris Ahlvik
Executive Vice President,
Corporate Counsel and
Corporate Secretary
Home Capital Group Inc.
145 King Street West
Suite 2300
Toronto, Ontario M5H 1J8
Tel: 416-360-4663
1-800-990-7881
Fax: 416-363-7611
1-888-470-2092
www.homecapital.com
www.hometrusted.ca



Home Capital Group Inc.
Suite 2300
145 King Street West
Toronto, Ontario M5H 1J8
Tel: 416-360-4663
Toll Free: 1-800-990-7881



CANADA'S ONE-STOP MORTGAGE LENDER