HOME CAPITAL GROUP INC.

2016

ANNUAL AND FOURTH QUARTER CONSOLIDATED FINANCIAL REPORT

Financial Highlights

	For the three months ended			For the year ended	
(000s, except Percentage and Per Share Amounts)	**December 31 2016**	September 30 2016	December 31 2015	**December 31 2016**	December 31 2015
OPERATING RESULTS					
Net Income	**$ 50,706**	$ 66,190	$ 70,239	**$ 247,396**	$ 287,285
Adjusted Net Income[1]	**63,475**	66,190	71,811	**263,414**	288,857
Net Interest Income	**120,620**	119,924	126,658	**485,164**	481,090
Total Revenue	**239,417**	243,928	248,462	**967,719**	995,767
Diluted Earnings per Share	**$ 0.79**	$ 1.01	$ 1.00	**$ 3.71**	$ 4.09
Adjusted Diluted Earnings per Share[1]	**$ 0.98**	$ 1.01	$ 1.02	**$ 3.95**	$ 4.11
Return on Shareholders' Equity	**12.7%**	16.9%	17.6%	**15.3%**	18.7%
Adjusted Return on Shareholders' Equity[1]	**15.9%**	16.9%	18.0%	**16.3%**	18.8%
Return on Average Assets	**1.0%**	1.3%	1.4%	**1.2%**	1.4%
Net Interest Margin (TEB)[2]	**2.38%**	2.34%	2.46%	**2.37%**	2.36%
Provision as a Percentage of Gross Uninsured Loans (annualized)	**0.07%**	0.04%	0.04%	**0.05%**	0.06%
Provision as a Percentage of Gross Loans (annualized)	**0.05%**	0.03%	0.03%	**0.04%**	0.05%
Efficiency Ratio (TEB)[2]	**48.8%**	37.7%	36.0%	**40.8%**	32.4%
Adjusted Efficiency Ratio (TEB)[1,2]	**39.1%**	37.7%	33.7%	**37.6%**	31.8%

	As at		
	December 31 2016	September 30 2016	December 31 2015
BALANCE SHEET HIGHLIGHTS			
Total Assets	**$ 20,528,777**	$ 20,317,030	$ 20,527,062
Total Assets Under Administration[3]	**28,917,534**	28,327,676	27,316,476
Total Loans[4]	**18,035,317**	18,002,238	18,268,708
Total Loans Under Administration[3,4]	**26,424,074**	26,012,884	25,058,122
Liquid Assets	**2,067,981**	1,878,082	2,095,145
Deposits	**15,886,030**	15,694,102	15,665,958
Shareholders' Equity	**1,617,192**	1,579,478	1,621,106
FINANCIAL STRENGTH			
Capital Measures[5]			
Risk-Weighted Assets	**$ 8,643,267**	$ 8,414,960	$ 7,985,498
Common Equity Tier 1 Capital Ratio	**16.55%**	16.54%	18.31%
Tier 1 Capital Ratio	**16.54%**	16.53%	18.30%
Total Capital Ratio	**16.97%**	16.97%	20.70%
Leverage Ratio	**7.20%**	7.08%	7.36%
Credit Quality			
Net Non-Performing Loans as a Percentage of Gross Loans	**0.30%**	0.31%	0.28%
Allowance as a Percentage of Gross Non-Performing Loans	**73.4%**	69.3%	74.0%
Share Information			
Book Value per Common Share	**$ 25.12**	$ 24.47	$ 23.17
Common Share Price – Close	**$ 31.34**	$ 27.00	$ 26.92
Dividend paid during the period ended	**$ 0.26**	$ 0.24	$ 0.22
Market Capitalization	**$ 2,017,920**	$ 1,743,093	$ 1,883,808
Number of Common Shares Outstanding	**64,388**	64,559	69,978

[1] See definition of Adjusted Net Income, Adjusted Diluted Earnings per Share, Adjusted Return on Shareholders' Equity and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the Reconciliation of Net Income to Adjusted Net Income in Table 2 of this report.
[2] See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures in this report.
[3] Total assets and loans under administration include both on- and off-balance sheet amounts.
[4] Total loans include loans held for sale.
[5] These figures relate to the Company's operating subsidiary, Home Trust Company.

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 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, Home Bank. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

Home Trust Company www.hometrust.ca

Home Capital Group Inc. www.homecapital.com

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the year ended December 31, 2016. 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, Home Bank. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016 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 8, 2017. 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 Group Inc. 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 the Company's other publicly filed information, which is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, liquidity and funding risk, structural interest rate risk, operational risk, investment risk, strategic 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 section in the Annual Report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "intend," "should," "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 presents forward-looking statements to assist shareholders in understanding the Company's assumptions and expectations about the future that are relevant in management's setting of performance goals, strategic priorities and outlook. The Company presents its outlook to assist shareholders in understanding management's expectations on how the future will impact the financial performance of the Company. These forward-looking statements may not be appropriate for other purposes. 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 2017 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 performance goals, strategic priorities and outlook for 2017, management's expectations continue to assume:

- The Canadian economy is expected to be relatively stable in 2017, supported by expanded Federal Government spending; however, it will continue to be impacted by adverse effects related to 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 remain elevated in 2017. 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 interest rates will remain at the current very low rate for 2017. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.
- The Company believes that the current and expected levels of housing activity indicate a stable real estate market overall. Please see Market Conditions under the 2017 Overall Outlook for more discussion on the Company's expectations for the housing market and the impact of the recent changes unveiled by the government to the mortgage market.
- 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 deposits, residential and non-residential commercial mortgage lending and consumer lending. Home Trust also conducts business through its wholly owned subsidiary, Home Bank. The Company's other subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment 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 and ACE Plus Lending

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. The ACE Plus product is a lower-rate mortgage product directed toward lower-risk borrowers. These mortgages are funded by the Company's deposit products. The Company participates in a bank-sponsored securitization conduit program and will periodically assign select ACE Plus mortgages into this program to provide for more cost-effective funding.

Insured Residential Lending

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)

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

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

Consumer Lending

Credit Card and Line of Credit Lending

The Company's Equityline Visa product, which is a home equity line of credit (HELOC) secured by residential property, currently represents in excess of 80% of the credit card portfolio. The Company also offers cash-secured Visa products and unsecured Visa cards. Credit card loans and lines of credit are funded by deposits.

Other Consumer Retail Lending

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

The Company's uninsured assets are largely funded by its deposit activities. Deposits are generally taken for fixed terms, varying from 30 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 demand product, Oaken Financial direct-to-consumer deposit brand and an institutional deposit note program. Home Trust and Home Bank are both members of the Canada Deposit Insurance Corporation (CDIC) and their 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 Home Bank, a Canadian retail bank, offers deposit and mortgage 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 & Risk and Compliance Culture

In late 2016, the Company updated 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 a leader in providing financial services to underserved Canadians.

Our Mission
We listen, and deliver exceptional services to empower our customers and partners.

Our Corporate Values
Customer Centricity, Diversity, Efficiency, Integrity, Passion, Respect.

Risk and Compliance Culture

The Company has adopted a risk and compliance culture that has been designed to support its sales and entrepreneurial culture. It includes the following guiding principles:

Risk Governance

- Alignment and commitment to an effective three lines of defence model, including respective roles, responsibilities, accountabilities and effective challenge, that is supported by strong Board oversight.
- An effective system of controls commensurate with the size and complexity of the organization and consistent with regulatory expectations.
- Decision making is facilitated by engaging all relevant parties in the process to arrive at the best decision for the organization.

Risk Appetite

- The Company's risk appetite is forward-looking, and it reflects the Company's strategic and financial objectives and informs enterprise and line of business decision making.
- Risk-reward balance is consistent with the Company's risk appetite.

Accountability

- Risk management structures and capabilities are embraced and add value to the business.
- Business leaders are empowered to manage all aspects of their business and held accountable for financial and risk results.

Capability

- The lines of business (first line) have the capability (people, information, tools, processes and models) to effectively measure and manage performance, risk and compliance.
- Human capital decisions reflect risk and compliance competencies and behaviours.

Tone from the Top

- Board and senior management lead by example and promote adherence to the Company's risk appetite and compliance requirements, as well as a continuous improvement and learning culture.
- Proportionate disciplinary actions are taken when necessary in response to compliance and internal policy breaches and Code of Conduct & Ethics violations.

Communication

- Risk and compliance culture is actively promoted (formally and informally) through multiple modes of communication and training to internal and external stakeholders.

Compensation and Incentives

- Employees are rewarded in a manner that encourages behaviour that is consistent with the Company's long-term strategic objectives, risk appetite, and adherence to compliance requirements.

2016 Strategies and Achievements

Strategic Priority	2016 Strategies and Achievements
Build and maintain Canada's leading alternative financial institution	*Serving an established and growing market niche* • Grew total assets under administration to $28.9 billion • Continued to build Oaken Financial, increasing deposits by 62.6% over 2015, to over $1.77 billion • Completed the integration of Home Bank's deposit business into the Company's infrastructure
Maintain a strong, conservative financial position	*Generating strong shareholder returns in good times and bad* • Maintained a strong capital position, with a Common Equity Tier 1 capital ratio of 16.55% and Total capital ratio of 16.97% at the end of 2016 • Increased dividends paid to shareholders by 3.2% over 2015 • Returned $264.4 million to shareholders through a Substantial Issuer Bid repurchasing $150.0 million in common shares, $49.2 million of common shares through the Normal Course Issuer Bid and $65.2 million through dividends • Generated an adjusted ROE of 16.3% • Maintained a prudent credit risk profile of the loan portfolio, with net non-performing loans as a percentage of gross loans ratio (NPL ratio) of 0.30% and low net write-offs at 0.03% of gross loans • Maintained and managed strong liquidity positions, ending the year with $2.07 billion in liquid assets
Build on our operational excellence	*Investing to ensure our growth is managed and prudent* • 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 the risk and compliance framework, including enhancing income verification procedures to ensure new lending continues to reflect the Company's risk appetite

Performance Goals

Following completion of the Company's annual planning process and review of the prior mid-term targets, Home Capital Group is introducing new performance goals moving forward. These goals are consistent with the Company's strategic plans and long-term objectives. The Company expects to achieve these goals over the long term, and management will report on progress regularly.

Measure[1]	Previous[2]	2016 Performance[2]	New
Revenue Growth	-	-	5% or greater
Diluted Earnings Per Share Growth	8% to 13%	Declined 3.9% year over year	7% or greater
Return on Shareholders' Equity (ROE)	Annual ROE >16%	ROE of 16.3%	15% or greater
Dividend Payout Ratio	19% to 26%	Dividend Payout Ratio of 25%	-

[1] Measures are calculated on an adjusted basis.
[2] 2016 Mid-term targets and performance were calculated on an adjusted basis. Previous targets included a measure to maintain a strong capital ratio that exceeds regulatory minimums by a safe margin commensurate with our risk profile. The Company maintained a strong CET 1 Ratio of 16.55% at the end of 2016.

Management expects that 2017 will be a transition period in which cost reductions and revenue generation initiatives continue to unfold. Successful delivery of these items is expected to translate into improved results consistent with the above goals later in 2017 and beyond.

2017 Strategic Priorities

The Company has updated its vision, mission, values, and strategic priorities, which inform and are reflected in new performance goals. Home Capital's foundation and culture support achievement of the Company's strategic priorities and vision of being a leader in providing financial services to underserved Canadians. The Company's foundation comprises the key strengths of Talent, Service, Technology, Agility, and Risk Management.

Beginning in 2017 and moving forward, Home Capital is focused on the following strategic priorities to position the Company for long-term success:

- Prudent Growth in the Core Residential Mortgage Business
- Provide Innovative Products and Solutions
- Positive Operating Leverage
- Efficient Balance Sheet and Capital Utilization

2017 Overall Outlook

Looking ahead, the Board of Directors and management expect that Home Capital will continue generating solid shareholder returns in 2017 and beyond.

Government Changes to Insured Mortgage Rules

The Company continues to watch and anticipate the impact of the recently implemented measures taken to tighten mortgage rules, which came into effect mid-October and the end of November 2016. These rules had minimal impact on the Company's 2016 results but it is expected that the impacts on the housing market and on consumers and competitors will become clearer further into 2017, especially as the seasonally active spring market arrives. Further policy changes, particularly as they pertain to risk sharing, are expected to become more defined further into 2017.

Policymakers are focused on controlling household debt and cooling particular housing markets in Canada. It is expected that if recently implemented and known policies are not effective, the Company will potentially need to be prepared to adapt to further changes.

Market Conditions

In the Company's established regions, the Company expects that the housing market will remain active with tight supply supported by continued low interest rates and relatively stable employment, depending on location and level of immigration. There will be moderate easing of housing starts and resale activity and relatively stable prices throughout most of Canada, with continued regional disparities such as the relatively high prices and increased concern over affordability seen in Toronto and Vancouver. Canada Mortgage and Housing Corporation (CMHC) issued a "red alert" for the country's real estate market in October 2016 and is maintaining its "red warning" early in 2017 for the country's real estate market as a whole, with high prices in and around Vancouver and Toronto among its top concerns. Pressure and affordability issues have also spread among the suburbs of Toronto and Vancouver, with CMHC expressing concerns related to surrounding areas such as Hamilton, Ontario and Victoria, British Columbia. These conditions support continued low credit losses and stable demand for the Company's lending products in its established regions. The Company believes that the current and expected levels of housing activity indicate a stable real estate market overall.

The Company expects to see the impact of certain positive economic forces on its established markets through 2017, including a generally positive outlook for the US economy although some uncertainty exists with the change in administration, the Canadian dollar remaining low compared to the US dollar, the continued low domestic interest rate environment, stimulative impact from increased Federal Government spending, and the continued benefits of relatively lower oil prices on economic growth in Central Canada. In addition, adverse effects related to lower oil prices and other commodity prices continue to impact the economies of energy-producing regions.

Traditional Single-family Mortgage Lending

The Company expects to see continuing demand supporting its origination volumes through 2017, building its market share through the Company's proven business model and continued focus on improving service levels. The Company expects that the launch of certain initiatives, including its broker portal technology, Loft, as well as renewed focus on service, retention and product development in 2017 will allow the Company to continue to build its origination volumes, leveraging the demand for its traditional mortgages within its established regions. The Company will continue to build its uninsured ACE Plus product, which is a lower-rate mortgage product directed towards lower-risk borrowers, through 2017. The product may lower the overall uninsured single-family residential mortgage net interest margin.

Net interest margins in the traditional portfolio reflected both improved credit quality of borrowers and more competitive pricing. The Company expects the 2017 net interest margin to remain relatively stable, but is prepared for modest volatility as the net interest margin will be impacted by the continued improving credit quality of the overall portfolio resulting from regulatory changes to mortgage rules over the past few years, among other variables.

Uninsured Securitized Mortgage Lending

To partially offset the impact of the ACE Plus product on overall net interest margin, the Company commenced participation in a bank-sponsored securitization conduit program during the second quarter of 2016. The sponsor of the program is a Schedule 1 Canadian bank with which the Company has entered into an agreement to assign to the conduit all of the Company's interests in qualifying uninsured single-family residential mortgages. The participation in this program provides for cost-effective funding of its ACE Plus product, and the Company will continue to participate in this program.

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 since the second half of 2016 but this is dependent on market conditions and competition.

The Company has previously disclosed that it anticipates that limitations placed by the new mortgage rules on the eligibility criteria for low-ratio government-backed insured mortgages could significantly reduce the Company's ability to profitably originate and fund these mortgages. Specifically, low-ratio lending for the purpose of refinancing and rental properties will be primarily impacted within the Company's Accelerator program. The Company remains committed to offering a range of mortgage products through its distribution channel and is actively pursuing new products and initiatives, where possible, to fill market demand and capacity as needed.

Commercial Mortgage Lending

Commercial mortgage lending will remain an important portfolio for the Company, with high yields 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 2017 at a rate similar to 2016 if market conditions remain favourable.

Consumer Lending

Credit cards and other consumer retail loans will continue to be important complementary high-margin product offerings supporting both the "one-stop" lending strategy with mortgage brokers and diversification via other parties.

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.

In Q3 2016, the Company completed the integration of Home Bank's deposit business into the Company's infrastructure. Home Bank is now seamlessly available through both the intermediary and the Oaken Financial channels. Deposit funding generated through Home Bank will further facilitate the Company's deposit diversification.

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 2017; 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 is committed to a heightened focus on expenses to improve efficiency. As part of that focus, the Company announced an expense savings initiative for 2017, Project EXPO, that targets, at minimum, an annualized $15.0 million of cost savings based on an annualized run rate of Q4 2016 expenses (excluding items of note) over the course of 2017. This project will encompass most expense categories, including employees, premises and other operating expenses, and will result in restructuring provisions to be taken in 2017.

Moving ahead, Home Capital will continue to make the investments required to enable the Company to meet its strategic goals, but will do so in a manner that results in expenses rising at a more measured rate.

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 accumulated capital more rapidly through retained earnings than would be required to support the business activities. 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 expects to participate opportunistically in its normal course issuer bid activity, which it accelerated in 2016 relative to previous years. The Company expects capital ratios to exceed both regulatory and internal capital targets. The Company will continue to evaluate opportunities to further optimize capital levels during 2017.

The Company will continue to diversify its funding sources and maintain a strong liquidity position by holding a sufficient stock of unencumbered high-quality liquid assets.

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.

FINANCIAL HIGHLIGHTS

Table 1: Key Performance Indicators

For the years ended December 31 *(000s, except %, multiples and per share amounts)*	2016	2015	2014	2013	2012
FINANCIAL PERFORMANCE MEASURES					
Total revenue	**$ 967,719**	$ 995,767	$ 1,042,986	$ 949,547	$ 887,685
Total adjusted revenue[1]	**967,068**	993,711	1,010,311	949,547	887,685
Net income	**247,396**	287,285	313,172	256,542	221,983
Adjusted net income[1]	**263,414**	288,857	289,153	256,542	221,983
Net interest income	**485,164**	481,090	459,529	421,979	381,472
Earnings per share - basic[2]	**3.71**	4.09	4.48	3.70	3.20
Adjusted earnings per share - basic[1,2]	**3.96**	4.12	4.14	3.70	3.20
Earnings per share - diluted[2]	**3.71**	4.09	4.45	3.66	3.19
Adjusted earnings per share - diluted[1,2]	**3.95**	4.11	4.11	3.66	3.19
Dividends per share[2]	**0.98**	0.88	0.70	0.54	0.45
Return on shareholders' equity	**15.3%**	18.7%	23.8%	23.9%	25.5%
Adjusted return on shareholders' equity[1]	**16.3%**	18.8%	22.0%	23.9%	25.5%
Return on average assets	**1.2%**	1.4%	1.6%	1.3%	1.2%
Net interest margin (TEB)[3]	**2.37%**	2.36%	2.25%	2.17%	2.09%
Net interest margin non-securitized assets (TEB)[3]	**2.73%**	2.83%	2.83%	3.01%	3.10%
Net interest margin CMHC-sponsored securitized assets	**0.47%**	0.49%	0.67%	0.73%	0.93%
Efficiency ratio (TEB) [3]	**40.8%**	32.4%	27.2%	28.7%	27.7%
Adjusted efficiency ratio (TEB) [1,3]	**37.6%**	31.8%	28.8%	28.7%	27.7%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 20,528,777**	$ 20,527,062	$ 20,082,744	$ 20,075,850	$ 18,800,079
Total assets under administration[4]	**28,917,534**	27,316,476	24,281,366	21,997,781	19,681,750
Cash and securities-to-total assets	**8.5%**	7.8%	4.7%	5.8%	3.8%
Total loans[5]	**$ 18,035,317**	$ 18,268,708	$ 18,364,910	$ 18,019,901	$ 17,159,913
Total loans under administration[4,5]	**26,424,074**	25,058,122	22,563,532	19,941,832	18,041,584
Common Equity Tier 1 capital ratio[6]	**16.55%**	18.31%	18.30%	16.80%	N/A
Tier 1 capital ratio[6]	**16.54%**	18.30%	18.30%	16.80%	17.01%
Total capital ratio[6]	**16.97%**	20.70%	20.94%	19.69%	20.68%
Assets to regulatory capital multiple[6,7,8]	**N/A**	N/A	12.47	13.19	13.39
Leverage ratio[6,8]	**7.20%**	7.36%	N/A	N/A	N/A
Credit quality					
Provision for credit losses as a % of gross loans	**0.04%**	0.05%	0.07%	0.09%	0.09%
Net non-performing loans as a % of gross loans	**0.30%**	0.28%	0.30%	0.35%	0.33%
Allowance as a % of gross non-performing loans	**73.4%**	74.0%	64.4%	52.4%	57.0%

[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. Figures are calculated under Basel III with the exception of 2012 figures which were calculated 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.

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

Items of Note

Items of note are removed from reported results in determining adjusted results. Adjusted results are designed to provide a better understanding of how management assesses underlying business performance and to facilitate a more informed analysis of trends. Adjusted results are determined after removing items of notes from reported results.

The Company's results were affected by the following items of note that aggregated to a negative impact of $16.0 million, net of tax, or $0.24 diluted earnings per share in 2016:

- $9.0 million of goodwill impairment loss related the Company's PSiGate business ($9.0 million net of tax and $0.13 diluted earnings per share). Please see the Non-Interest Expenses section of this report for more information.
- $5.1 million of intangible asset impairment loss related to internally developed software costs ($3.8 million net of tax and $0.06 diluted earnings per share). Please see the Non-Interest Expenses section of this report for more information.
- Expenses including severance and other related costs in the amount of $5.1 million ($3.7 million net of tax and $0.06 diluted earnings per share), that were recognized in the first quarter of 2016. Please see the Non-Interest Expenses section of this report for more information.
- Positive adjustment to gain recognized on the acquisition of CFF Bank in the amount of $651 thousand ($478 thousand net of tax and $0.01 diluted earnings per share).

The Company's results were also affected by the following items of note 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 negative impact 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).

Income Statement Highlights for 2016

- Reported net income of $247.4 million in 2016, a decrease of $39.9 million or 13.9% from net income of $287.3 million in 2015.
- Adjusted net income of $263.4 million in 2016, as defined in Table 2, decreased $25.4 million or 8.8% from adjusted net income of $288.9 million in 2015.
- Reported diluted earnings per share of $3.71 decreased from the reported diluted earnings per share of $4.09 in 2015
- Adjusted diluted earnings per share of $3.95 decreased from the adjusted diluted earnings per share of $4.11 in 2015.
- Return on average shareholders' equity was 15.3% for 2016, compared to 18.7% for 2015. Adjusted return on average shareholders' equity was 16.3% for 2016, compared to 18.8% for 2015.
- Total net interest income increased to $485.2 million, up $4.1 million or 0.8% over the $481.1 million earned in 2015, reflecting higher total net interest margin (TEB) of 2.37% compared to 2.36% in 2015.
- Net interest income on non-securitized assets was $471.1 million in 2016, increasing 1.7% over 2015 on higher average asset balances of $17.37 billion, compared to $16.53 billion in 2015. Net interest margin (TEB) on this portfolio was 2.73% for 2016, down from 2.83% in 2015 as a result of higher average lower-yielding liquid assets.
- Total income earned from securitization includes both net interest income on securitized assets and securitization income arising from sales of securitized assets. Combined net interest income on securitized assets and securitization income was $47.9 million for the year, compared to $44.2 million in 2015. The increase over last year resulted from an increase in securitization gains on sales.
- Fees and other income decreased $11.3 million or 13.7% as a result of changes in the portfolio mix and in the fee structure year over year as the Company adjusted certain fees in the first half of the year to be responsive to its markets.
- The credit quality of the loan portfolio remains strong with continued low non-performing loans and credit losses. Provisions for credit losses were $7.9 million for the year, a decrease from the $8.9 million recorded last year. Provisions were 0.05% of gross uninsured loans, down from 0.06% in 2015. Net non-performing loans as a percentage of gross loans ended the year at 0.30% compared to 0.28% at the end of last year.

- Non-interest expenses, which include salaries, premises and other operating expenses, were $238.9 million in 2016, up 25.3% over the $190.7 million recorded in 2015. The Company's adjusted efficiency ratio (TEB) increased to 37.6% in 2016 from 31.8% in 2015 as a result of the higher expenses combined with lower growth in net interest income. The increase in expenses includes higher salaries and benefits resulting from an increase in the number of employees combined with higher operating expenses reflecting continued investment in technology, ongoing investment in the Company's IT security platform, and costs associated with strengthening risk management and compliance infrastructure. In addition, non-interest expenses in 2016 include $5.1 million in severance and other related costs, a $9.0 million goodwill impairment loss and a $5.1 million intangible asset impairment loss, each of which has been removed for the purposes of calculating the Company's adjusted metrics.

Balance Sheet Highlights for 2016

- Total assets under administration, which includes $8.39 billion of mortgages accounted for off-balance sheet, reached $28.92 billion, an increase of 5.9% over $27.32 billion in 2015.
- The Company sold residual interests in securitization transactions of $1.49 billion, compared with $1.18 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 $9.23 billion in 2016, compared to the $8.06 billion originated in 2015, an increase of 14.5%. The increase in originations reflects increases in all mortgage products. Single-family residential mortgage originations continue to represent the Company's primary focus with combined traditional and ACE Plus mortgage originations accounting for 58.5% of originations and Accelerator (insured) residential mortgage originations accounting for 17.6% of originations. Residential commercial and non-residential commercial mortgage originations make up the remaining 23.9% of the originations.
- Traditional mortgage originations were $4.99 billion, up 3.5% over originations of $4.82 billion in 2015. Accelerator (insured) residential mortgage originations were $1.62 billion, up 16.5% compared to 2015 originations of $1.39 billion. ACE Plus mortgage originations were $407.8 million compared to originations of $253.1 million in 2015.
- The credit quality of the loan portfolio remains strong with continued low non-performing loans. Net non-performing loans as a percentage of the gross loan portfolio ended the year at 0.30%, slightly up from 0.28% one year ago.
- Liquid assets at December 31, 2016 were $2.07 billion, compared to $2.10 billion at December 31, 2015. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations.
- Home Trust's capital levels were strong throughout 2016, as indicated by the Common Equity Tier 1 ratio of 16.55% and the Tier 1 and Total capital ratios of 16.54% and 16.97%, respectively, at December 31, 2016. Home Trust's Leverage ratio ended 2016 at 7.20%. The capital ratios decreased from the end of 2015 primarily as a result of the dividends paid by Home Trust to Home Capital to fund the repurchase of shares under the Company's substantial issuer bid and normal course issuer bid activity combined with the repayment and retiring of the subordinated debt from Home Trust to Home Capital.
- Deposits reached $15.89 billion, up from $15.67 billion at December 31, 2015. Total deposits raised through the Company's deposit diversification efforts, Oaken Financial, high-interest savings accounts and institutional deposits now total $4.59 billion, an increase of $943.6 million or 25.9% over last year.
- Securitization liabilities were $2.65 billion at the end of 2016, down from $2.78 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.
- During the year, the Company repurchased $150.0 million of common shares under its substantial issuer bid in the second quarter of 2016 and repurchased an additional $49.2 million of common shares under its normal course issuer bid activity, resulting in a total repurchase of $199.2 million of common shares. The Company also repaid and retired its senior debt in the principal amount of $150.0 million.

FINANCIAL PERFORMANCE REVIEW

Table 2: Income Statement Highlights

(000s, except % and per share amounts)	**2016**	2015	Change
Net interest income non-securitized assets	**$ 471,057**	$ 463,140	1.7%
Net interest income securitized loans and assets	**14,107**	17,950	(21.4)%
Total net interest income	**485,164**	481,090	0.8%
Provision for credit losses	**7,890**	8,933	(11.7)%
	477,274	472,157	1.1%
Non-interest income	**96,795**	103,793	(6.7)%
Non-interest expenses	**238,939**	190,673	25.3%
Income before income taxes	**335,130**	385,277	(13.0)%
Income taxes	**87,734**	97,992	(10.5)%
Net income	**$ 247,396**	$ 287,285	(13.9)%
Basic earnings per share	**$ 3.71**	$ 4.09	(9.3)%
Diluted earnings per share	**$ 3.71**	$ 4.09	(9.3)%

Reconciliation of Net Income to Adjusted Net Income			
Net income per above	$ 247,396	$ 287,285	(13.9)%
Adjustment for acquisition and integration costs, net of gain recognized on acquisition of CFF Bank (net of tax)[1]	(478)	1,572	(130.4)%
Adjustment for severance and other related costs (net of tax)[1]	3,727	-	-
Adjustment for goodwill impairment loss (net of tax)[1]	9,000	-	-
Adjustment for intangible assets impairment loss (net of tax)[1]	3,769	-	-
Adjusted net income[2]	$ 263,414	$ 288,857	(8.8)%
Adjusted basic earnings per share[2]	$ 3.96	$ 4.12	(3.9)%
Adjusted diluted earnings per share[2]	$ 3.95	$ 4.11	(3.9)%

[1] Please see Items of Note under the Financial Highlights section of this MD&A for further information on adjustments.

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

Net Interest Income and Margin

Presented in Tables 3 and 4 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 3: Net Interest Margin

	2016	2015
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.71%**	2.80%
Net interest margin non-securitized interest-earning assets (TEB)	**2.73%**	2.83%
Net interest margin CMHC-sponsored securitized assets	**0.47%**	0.49%
Net interest margin bank-sponsored securitization conduit assets	**1.90%**	-
Total net interest margin (non-TEB)	**2.35%**	2.34%
Total net interest margin (TEB)	**2.37%**	**2.36%**
Spread of non-securitized loans over deposits and other	**2.91%**	2.91%

Total net interest margin (TEB), including the securitized portfolio, was 2.37% for 2016 compared to 2.36% in 2015, reflecting a greater proportion of higher-yielding, non-securitized assets in the on-balance sheet portfolio. Average non-securitized assets of $17.37 billion for the year represent 84.2% of average total assets compared to 80.2% last year, while average securitized assets of $2.77 billion for the year represent 13.4% of average total assets compared to 17.6% 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 4: Net Interest Income by Product and Average Rate

(000s, except %)	2016 Average Balance[1]	2016 Income/ Expense	2016 Average Rate[1]	2015 Average Balance[1]	2015 Income/ Expense	2015 Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 1,699,889**	**$ 21,185**	**1.25%**	$ 1,291,955	$ 18,571	1.44%
Traditional single-family residential mortgages	**11,178,997**	**540,522**	**4.84%**	11,752,874	587,005	4.99%
ACE Plus single-family residential mortgages	**347,234**	**11,490**	**3.31%**	55,903	1,849	3.31%
Accelerator single-family residential mortgages	**1,301,346**	**30,935**	**2.38%**	1,113,847	28,777	2.58%
Residential commercial mortgages [2]	**427,924**	**17,614**	**4.12%**	409,718	17,053	4.16%
Non-residential commercial mortgages	**1,703,572**	**102,465**	**6.01%**	1,319,640	80,032	6.06%
Credit card loans and lines of credit	**372,841**	**33,536**	**8.99%**	346,965	31,427	9.06%
Other consumer retail loans	**341,315**	**31,472**	**9.22%**	237,024	23,419	9.88%
Total non-securitized loans	**15,673,229**	**768,034**	**4.90%**	15,235,971	769,562	5.05%
Taxable equivalent adjustment	**-**	**3,654**	**-**	-	3,830	-
Total non-securitized interest earning assets	**17,373,118**	**792,873**	**4.56%**	16,527,926	791,963	4.79%
CMHC-sponsored securitized single-family residential mortgages	**1,794,437**	**46,642**	**2.60%**	2,252,930	62,891	2.79%
CMHC-sponsored securitized multi-unit residential mortgages	**651,513**	**29,866**	**4.58%**	865,228	36,625	4.23%
Assets pledged as collateral for CMHC-sponsored securitization	**234,968**	**2,246**	**0.96%**	517,273	4,325	0.84%
Total CMHC-sponsored securitized residential mortgages	**2,680,918**	**78,754**	**2.94%**	3,635,431	103,841	2.86%
Bank-sponsored securitization conduit assets	**85,983**	**2,951**	**3.43%**	-	-	-
Other assets	**498,643**	**-**	**-**	435,311	-	-
Total assets	**$ 20,638,662**	**$ 874,578**	**4.24%**	$ 20,598,668	$ 895,804	4.35%
Interest-bearing liabilities						
Deposits and other	**$ 15,844,985**	**$ 315,919**	**1.99%**	$ 14,901,524	$ 318,597	2.14%
Senior debt	**57,347**	**2,243**	**3.91%**	153,089	6,396	4.18%
CMHC-sponsored securitization liabilities	**2,719,469**	**66,278**	**2.44%**	3,698,669	85,891	2.32%
Bank-sponsored securitization conduit liabilities	**83,357**	**1,320**	**1.58%**	-	-	-
Other liabilities and shareholders' equity	**1,933,504**	**-**	**-**	1,845,386	-	-
Total liabilities	**$ 20,638,662**	**$ 385,760**	**1.87%**	$ 20,598,668	$ 410,884	1.99%
Net Interest Income (TEB)		**$ 488,818**			$ 484,920	
Taxable Equivalent Adjustment		**(3,654)**			(3,830)	
Net Interest Income per Financial Statements		**$ 485,164**			$ 481,090	

[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 $485.2 million increased 0.8% from last year, reflecting increases in the non-securitized portfolio offset partially by declines in the securitized portfolio.

Net interest income on the non-securitized portfolio of $471.1 million in 2016 increased by $7.9 million or 1.7% over 2015, reflecting an increase of $845.2 million or 5.1% in average asset balances, while net interest margin (TEB) declined 10 basis points to 2.73% from 2.83% last year. Despite a consistent spread of non-securitized loans over deposits and other of 2.91% in both 2016 and 2015, non-securitized net interest margin declined as a result of higher average lower-yielding liquid assets held during the year, combined with a decrease in the average rate earned on those assets. Average cash resources and securities represented 9.8% of average non-securitized assets in 2016 compared to 7.8% in 2015. The Company held significantly higher liquid assets during the first half of 2016 to fund the repurchase of shares under the substantial issuer bid completed in the second quarter along with the maturity of the Company's senior debt and institutional deposit notes also in the second quarter of 2016. The consistent spread of non-securitized loans over deposits and other with 2015 includes a decline in the average rate earned on non-securitized loans offset by a decrease in the average rate on deposits. The decrease in the average rate earned on non-securitized loans reflects a combination of the improved credit quality of the portfolio and more competitive pricing. The decrease in the average rate on deposits reflects the higher proportion of lower-cost demand deposits relative to higher-cost fixed-term deposits. Deposits payable on demand represented 15.9% of total deposits at the end of 2016 compared to 12.7% at the end of 2015.

During the second quarter of 2016, the Company commenced participation in a bank-sponsored securitization conduit program and began assigning ACE Plus single-family residential mortgages into the program. The ACE Plus product is a lower rate mortgage product directed toward lower-risk borrowers. The bank-sponsored securitization conduit program provides for a cost-effective funding source for the ACE Plus product. At the end 2016, the balance of securitized ACE Plus mortgages assigned into this program was $114.3 million. The net interest margin on these assets was 1.90%.

The net interest income and net interest margin on CMHC-sponsored securitized assets in 2016 declined from 2015, 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.

Non-Interest Income

Table 5: Non-interest Income

(000s, except %)		**2016**		2015	Change
Fees and other income	**$**	**71,329**	$	82,632	(13.7)%
Securitization income		**33,797**		26,208	29.0%
Gain on acquisition of CFF Bank		**651**		2,056	(68.3)%
Net realized and unrealized (losses) gains on securities		**(175)**		836	(120.9)%
Net realized and unrealized losses on derivatives		**(8,807)**		(7,939)	(10.9)%
	$	**96,795**	$	103,793	(6.7)%

Table 6: Securitization Income

(000s, except %)		**2016**		2015	Change
Net gain on sale of mortgages and residual interest[1]	**$**	**26,972**	$	21,412	26.0%
Net change in unrealized gain or loss on hedging activities		**399**		(313)	227.5%
Servicing income		**6,426**		5,109	25.8%
Total securitization income	**$**	**33,797**	$	26,208	29.0%

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

Fees and other income decreased 13.7% from last year, reflecting changes in the portfolio mix and in the fee structure as the Company adjusted certain fees in the first half of the year to be responsive to its markets. The Company expects fee income for 2017 to remain at levels consistent with the second half of 2016, but management will continue to periodically review its fee structure.

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 are recorded. Servicing income increases as the size of the single-family residential mortgage portfolio under administration increases.

The increase in securitization income over last year reflects increased net gains on the sale of both residual interests in insured single-family residential mortgage securitizations and insured multi-unit residential mortgages combined with an increase in servicing income. Sales of residual interests during the year led to gains of $17.4 million on the derecognition of $1.49 billion of underlying insured single-family residential mortgages compared to gains of $15.5 million on the derecognition of $1.18 billion of underlying mortgages last year. During the year, the Company recognized gains of $9.6 million on sales of $1.05 billion of insured multi-unit residential mortgages compared to gains of $5.9 million recognized last year on sales of $713.6 million of insured multi-unit residential mortgages. The Company expects gains on sales in 2017 to be impacted by the effect that the new mortgage rules introduced by the government in late 2016 will have on the Company's origination of insured single-family residential mortgages.

During the year, the Company recognized $0.2 million of additional impairment losses on certain available for sale securities previously identified as impaired. The Company did not sell any securities during the year. In 2015, the Company recognized a gain of $1.7 million on the sale of certain available for sale securities and recognized $0.9 million of impairment losses.

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

Derivatives and Hedging

The Company enters into derivative transactions primarily to hedge interest rate exposure resulting from outstanding loans held for sale and to hedge interest rate risk on fixed-rate securitization liabilities and deposits. 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 7 below summarizes the impact of derivatives and hedge accounting on the Company's financial results.

Table 7: Derivatives Gains and Losses

(000s)	**2016**	2015
Fair value hedging ineffectiveness[1]	**$ (9,335)**	$ (7,797)
Derivative instruments marked-to-market gains (losses)[2]	**528**	(142)
Net realized and unrealized loss on derivatives	**$ (8,807)**	$ (7,939)

[1] Included in fair value hedging ineffectiveness are derivative losses related to senior debt.
[2] Included in derivative instruments marked to market are swaps.

Cash Flow Hedging

The Company uses Government of Canada bond forwards 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. Cash flow hedge accounting is also applied to total return swaps to hedge the variability in cash flows associated with forecasted future compensation obligations attributable to changes in the Company's stock price.

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 non-interest income as hedge ineffectiveness through net realized and unrealized gain or loss on derivatives.

Economic Hedge of Loans Held for Securitization and Sale

The Company enters into bond forwards to hedge interest rate risk on loans held for securitization and sale through National Housing Act NHA Mortgage-Backed Securities (MBS) securitization programs. The underlying loans are classified as held for sale 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 sale. The fair value changes reflect changes in interest rates. The net unrealized gain as at December 31, 2016 for fair value changes in both the outstanding derivatives and the loans held for sale was $399 thousand (2015 – unrealized loss of $313 thousand), which was recorded in securitization income.

Other Interest Rate Swaps

The Company had certain interest rate swaps that were not designated in hedge accounting relationships and, therefore, were adjusted to fair value without an offsetting hedged amount. These swaps were economic hedges of the Company's general interest rate risk and matured in 2016.

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

Table 8: Provision for Credit Losses and Net Write-offs as a Percentage of Gross Loans

(000s, except %)	**2016**		2015	
		% of Gross		% of Gross
	Amount	**Loans** [1]	Amount	Loans[1]
Provision[2]				
Single-family residential mortgages	**$ 3,917**	**0.03%**	$ 5,415	0.04%
Residential commercial mortgages	**2**	**0.00%**	4	0.00%
Non-residential commercial mortgages	**246**	**0.01%**	720	0.05%
Credit card loans and lines of credit	**2,379**	**0.64%**	798	0.22%
Other consumer retail loans	**532**	**0.14%**	171	0.06%
Securitized single-family residential mortgages	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-
Total individual provision	**7,076**	**0.04%**	7,108	0.04%
Total collective provision	**814**	**0.00%**	1,825	0.01%
Total provision	**$ 7,890**	**0.04%**	$ 8,933	0.05%
Net Write-offs[2]				
Single-family residential mortgages	**$ 3,087**	**0.02%**	$ 5,292	0.04%
Residential commercial mortgages	**2**	**0.00%**	4	0.00%
Non-residential commercial mortgages	**515**	**0.03%**	435	0.03%
Credit card loans and lines of credit	**1,928**	**0.52%**	969	0.26%
Other consumer retail loans	**275**	**0.07%**	168	0.06%
Securitized single-family residential mortgages	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-
Net write-offs	**$ 5,807**	**0.03%**	$ 6,868	0.04%

[1] Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.
[2] There were no individual provisions, allowances or net write-offs on securitized mortgages.

The provision for credit losses is charged to the consolidated statements 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 2016. The provision for credit losses was $7.9 million, as compared with $8.9 million in 2015. Provisions as a percentage of gross uninsured loans of 0.05% for 2016 decreased from 0.06% in 2015.

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 $5.8 million and represented 0.03% of gross loans compared to 0.04% in 2015.

Net non-performing loans as a percentage of gross loans were 0.30% at the end of 2016 compared to 0.28% at the end of 2015. 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, 2016 increased by $0.8 million in 2016 to $37.1 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 2016 increased by $1.3 million over 2015, while gross non-performing loans increased by $3.3 million to $56.9 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.

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 9: Non-Interest Expenses

(000s, except % and number of employees)	**2016**	2015	Change
Salaries and benefits	**$ 101,880**	$ 88,873	14.6%
Premises	**14,505**	12,274	18.2%
Other operating expenses	**122,554**	89,526	36.9%
	$ 238,939	$ 190,673	25.3%
Efficiency ratio (TEB)	**40.8%**	32.4%	8.4%
Adjusted efficiency ratio (TEB)	**37.6%**	31.8%	5.8%
Active employees at end of period	**916**	877	4.4%

The increase in non-interest expenses over last year resulted primarily from increases in both salaries and benefits and other operating expenses. The increased expenses combined with lower growth in net interest income drove an increase in the efficiency ratio (TEB) on both an adjusted and unadjusted basis.

The increase in salaries and benefits reflects an increase in the number of active employees over last year combined with $5.1 million of severance and other related costs incurred in the first quarter of 2016 which have been removed in the calculation of the Company's adjusted metrics.

The increase in other operating expenses reflects continued investment in technology, ongoing investment in the Company's IT security platform, and costs associated with strengthening risk management and compliance infrastructure. In addition, other operating expenses include a goodwill impairment loss of $9.0 million in relation to the Company's PSiGate business and an intangible asset impairment loss of $5.1 million in relation to software development costs for a component of the Company's core banking system for which it was determined that future benefits may not be realized. Please see Notes 9 and 10 to the consolidated financial statements included in this report for further information on these impairment losses. Both impairment losses have been removed from the Company's results for the purpose of calculating adjusted metrics.

The Company is currently conducting an expense savings initiative for 2017 as part of its Project EXPO, which was previously discussed in the 2017 Overall Outlook section of this MD&A. Project EXPO will encompass most expense categories, including employees, premises and other operating expenses, and will result in restructuring provisions to be taken in 2017. Please see the 2017 Overall Outlook for more information.

Taxes

Table 10: Income Taxes

(000s, except %)	**2016**	2015	Change
Current	**$ 90,895**	$ 98,481	(7.7)%
Deferred	**(3,161)**	(489)	546.4%
Total income taxes	**$ 87,734**	$ 97,992	(10.5)%
Effective income tax rate	**26.18%**	25.43%	

The provision for income taxes for the year ended December 31, 2016 amounted to $87.7 million, reflecting an effective tax rate of 26.18% ($98.0 million and 25.43% in 2015). 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 scientific research and experimental development (SR&ED) tax credits recognized throughout the year. The Company claimed $2.0 million in SR&ED tax credits in 2016 ($2.5 million in 2015). Expenses that are non-deductible for tax purposes include the goodwill impairment loss of $9.0 million, which had an upward impact on the effective tax rate.

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 2017 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 2017 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 11: Comprehensive Income

(000s, except %)	**2016**	2015	Change
Net income	**$ 247,396**	$ 287,285	(13.9)%
Net unrealized gains (losses) on securities and retained interests available for sale, net of reclassifications to net income and taxes	**8,877**	(46,224)	119.2%
Net unrealized gains (losses) on cash flow hedges, net of reclassifications to net income and taxes	**1,602**	(715)	324.1%
Total other comprehensive income (loss)	**10,479**	(46,939)	122.3%
Comprehensive income	**$ 257,875**	$ 240,346	7.3%

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the year was $257.9 million compared to $240.3 million in 2015.

OCI for the year was a gain of $10.5 million compared to a loss of $46.9 million in 2015. The gain in OCI reflects the improvement during the year in the fair value of the Company's preferred share holdings included in available for sale securities. Despite this improvement, the preferred share holdings remain in an unrealized loss position, 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 negative credit events in relation to its preferred share holdings in 2016.

FINANCIAL POSITION REVIEW

Assets

Table 12: Loans Portfolio

(000s, except % and number of loans)	**2016**	**% of Total**	2015	% of Total	Change
CMHC-sponsored securitized single-family residential mortgages	**$ 1,792,301**	**6.8%**	$ 1,948,110	7.8%	(8.0)%
CMHC-sponsored securitized multi-unit residential mortgages	**620,193**	**2.4%**	726,365	2.9%	(14.6)%
Bank-sponsored securitization conduit single-family residential mortgages	**114,310**	**0.4%**	-	-	-
Traditional single-family residential mortgages	**11,024,960**	**41.7%**	11,463,299	45.8%	(3.8)%
ACE Plus single-family residential mortgages	**433,800**	**1.6%**	251,411	1.0%	72.5%
Accelerator single-family residential mortgages	**963,248**	**3.7%**	1,264,708	5.0%	(23.8)%
Residential commercial mortgages	**305,188**	**1.2%**	321,442	1.3%	(5.1)%
Non-residential commercial mortgages	**1,954,820**	**7.4%**	1,490,648	5.9%	31.1%
Credit card loans and lines of credit	**369,678**	**1.4%**	370,825	1.5%	(0.3)%
Other consumer retail loans	**378,901**	**1.4%**	296,857	1.2%	27.6%
Total loan portfolio	**17,957,399**	**68.0%**	18,133,665	72.4%	(1.0)%
Loans held for sale	**77,918**	**0.3%**	135,043	0.5%	(42.3)%
Total on-balance sheet loans	**$ 18,035,317**	**68.3%**	$ 18,268,708	72.9%	(1.3)%
Off-balance sheet loans					
Single-family residential mortgages	**$ 5,207,351**	**19.7%**	$ 4,567,155	18.2%	14.0%
Multi-unit residential mortgages	**3,181,406**	**12.0%**	2,222,259	8.9%	43.2%
Total off-balance sheet loans	**8,388,757**	**31.7%**	6,789,414	27.1%	23.6%
Total loans under administration	**$ 26,424,074**	**100.0%**	$ 25,058,122	100.0%	5.5%
Total insured mortgages under administration	**$ 11,913,490**	**46.4%**	$ 11,059,569	45.3%	7.7%
Total uninsured mortgages under administration	**13,762,005**	**53.6%**	13,330,871	54.7%	3.2%
Total mortgages under administration	**$ 25,675,495**	**100.0%**	$ 24,390,440	100.0%	5.3%
Number of loans outstanding under administration					
Mortgages	**65,665**		68,710		(4.4)%
Credit card loans and lines of credit	**42,707**		40,355		5.8%
Other consumer retail loans	**115,244**		88,226		30.6%
Total number of loans outstanding	**223,616**		197,291		13.3%

Table 13: Mortgage Continuity

The following table presents the activity during the year in relation to the Company's on-balance sheet mortgage portfolio. Single-family residential mortgages and residential commercial mortgages include both non-securitized mortgages and securitized mortgages. Residential commercial mortgages include loans held for sale.

(000s)				**2016**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the year	**$ 14,927,528**	**$ 1,182,850**	**$ 1,490,648**	**$ 17,601,026**
Advances	**7,020,821**	**1,149,204**	**1,055,752**	**9,225,777**
Scheduled payments and prepayments[1]	**(346,995)**	**(21,976)**	**(25,694)**	**(394,665)**
Discharges	**(5,875,503)**	**(271,425)**	**(567,195)**	**(6,714,123)**
Capitalization and amortization of fees and other	**93,618**	**11,103**	**1,309**	**106,030**
Sales of mortgages and residual interests	**(1,490,850)**	**(1,046,457)**	**-**	**(2,537,307)**
Balance at the end of the year	**$ 14,328,619**	**$ 1,003,299**	**$ 1,954,820**	**$ 17,286,738**

(000s)				2015
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the year	$ 15,440,647	$ 1,300,947	$ 1,106,878	$ 17,848,472
Advances	6,466,463	837,798	755,148	8,059,409
Scheduled payments and prepayments[1]	(350,931)	(35,377)	(24,559)	(410,867)
Discharges	(5,645,100)	(234,175)	(336,507)	(6,215,782)
Capitalization and amortization of fees and other[2]	200,702	27,292	(10,312)	217,682
Sales of mortgages and residual interests	(1,184,253)	(713,635)	-	(1,897,888)
Balance at the end of the year	$ 14,927,528	$ 1,182,850	$ 1,490,648	$ 17,601,026

[1] Includes regularly scheduled principal payments and unscheduled partial payments.

[2] Included in other for single-family residential mortgages in 2015 is $124.0 million of mortgages assumed on the acquisition of CFF Bank.

Table 14: Mortgage Advances by Type and Province

(000s, except %)	**2016**	**% of Total**	2015	% of Total	Change
Single-family residential mortgages					
Traditional	**$ 4,991,051**	**54.1%**	$ 4,821,659	59.9%	3.5%
ACE Plus	**407,767**	**4.4%**	253,064	3.1%	61.1%
Accelerator	**1,622,003**	**17.6%**	1,391,740	17.3%	16.5%
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**142,026**	**1.5%**	105,098	1.3%	35.1%
Multi-unit insured residential mortgages	**956,406**	**10.4%**	688,743	8.5%	38.9%
Other[1]	**50,772**	**0.5%**	43,957	0.5%	15.5%
Non-residential commercial mortgages					
Stores and apartments	**80,888**	**0.9%**	109,115	1.4%	(25.9)%
Commercial	**974,864**	**10.6%**	646,033	8.0%	50.9%
Total mortgage advances	**$ 9,225,777**	**100.0%**	$ 8,059,409	100.0%	14.5%

(000s, except %)	**2016**	**% of Total**	2015	% of Total	Change
British Columbia	**$ 721,718**	**7.8%**	$ 580,832	7.2%	24.3%
Alberta	**263,843**	**2.9%**	321,925	4.0%	(18.0)%
Ontario	**7,347,408**	**79.6%**	6,541,893	81.1%	12.3%
Quebec	**498,393**	**5.4%**	328,485	4.1%	51.7%
Other	**394,415**	**4.3%**	286,274	3.6%	37.8%
Total mortgage advances	**$ 9,225,777**	**100.0%**	$ 8,059,409	100.0%	14.5%

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

Total loans under administration were $26.42 billion at the end of 2016, an increase of $1.37 billion or 5.5% from the end of 2015. On-balance sheet loans were down 1.3% from the end of 2015, while off-balance sheet loans were up 23.6% from the end of 2015, 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 advances, as well as production of consumer retail loans and credit card loans and line of credit.

Mortgage Lending

Uninsured Residential Mortgages – Traditional Mortgages and ACE Plus Mortgages

The Company's uninsured residential mortgage portfolio includes both its traditional mortgage portfolio and its ACE Plus mortgage portfolio. The ACE Plus product is a lower rate mortgage product directed toward lower risk borrowers which the Company began originating in the second half of 2015. Commencing in the second quarter of 2016, the Company began participating in a bank-sponsored securitization conduit program and has assigned select ACE Plus mortgages into this program. At the end of 2016, ACE Plus mortgages with a balance of $114.3 million have been assigned to this program and reclassified to securitized mortgages on the consolidated balance sheet. Combined traditional and non-securitized ACE Plus mortgages of $11.46 billion represent the largest portfolio at 43.4% of loans under administration and 63.5% of on-balance sheet loans. The combined portfolio decreased by 2.2% from the end of 2015. Combined originations of traditional and ACE Plus mortgages of $5.40 billion for the year were up 6.4% over last year. Despite this origination growth, the overall loan portfolio has not increased by a commensurate amount. The Company is continuing its efforts on improving its retention process and saw signs of improvement towards the end of 2016. Improved results are forecasted to have a larger impact in 2017.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.91 billion at the end of 2016, reflecting an increase of 7.7% over the balance of $11.06 billion at the end of 2015. Of this total, $8.39 billion were accounted for off-balance sheet, up $1.60 billion or 23.6% from the end of 2015.

The Company originated $1.62 billion in single-family Accelerator mortgages in 2016, up 16.5% from 2015. The Company continues to take a conservative approach to growing its residential mortgage business and its participation in the highly competitive market for prime insured mortgages. The Company views its Accelerator product offering as complementary to its traditional portfolio. The Company sold residual interests in insured fixed-rate single-family NHA MBS totalling $1.49 billion in underlying outstanding principal amounts in 2016, generating gains of $17.4 million. The NHA MBS market spread remained wide in 2016, maintaining the increased 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 2016, the Company originated $956.4 million of insured multi-unit residential mortgages and sold $1.05 billion that qualified for off-balance sheet treatment. The sales included mortgages that were renewed from the on-balance sheet portfolio and resulted in $9.6 million in gains on sale in 2016. 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 will continue to increase these portfolios selectively, when appropriate assets are available.

Non-residential Commercial Mortgages

Non-residential commercial mortgage originations were $1.06 billion in 2016, an increase of 39.8% over 2015. 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 advances are affected by the availability of appropriate assets and trends are variable. Through 2017, the Company will continue to participate in appropriate opportunities as they arise. The portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage advances continued to favour Ontario, and in particular, the Greater Toronto Area (GTA), through 2016. 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

(000s, except number of accounts)	**2016**		2015		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	**2,522**	**$ 145,277**	3,282	$ 139,963	(23.2)%	3.8%
Other credit cards and lines of credit	**8,939**	**22,810**	10,728	16,858	(16.7)%	35.3%
Other consumer retail loans						
Water heaters	**34,808**	**118,847**	32,927	137,204	5.7%	(13.4)%
Other consumer retail lending	**9,676**	**64,846**	7,641	49,082	26.6%	32.1%

[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 Consumer Lending

Other lending, comprising credit cards, lines of credit and other consumer retail loans, continues to be an important source of loan assets with attractive returns. While representing 4.2% of the total on-balance sheet loan portfolio, these assets generated 7.7% of the interest income from loans for the year.

Credit card and lines of credit balances decreased slightly to $369.7 million at the end of 2016 from $370.8 million at the end of 2015. Equityline *Visa* accounts (Home Equity Line of Credit) represent 86.8% of the total credit card and lines of credit balance. Equityline *Visa* originations of $145.3 million increased 3.8% in 2016 as compared to 2015 originations of $140.0 million. In general, Equityline *Visa* account originations trend with single-family residential mortgage origination volumes.

The balance of other consumer retail loans increased 27.6% to $378.9 from $296.9 million at the end of 2015.

Cash Resources and Securities

Combined cash resources and securities as at December 31, 2016 increased by $137.2 million from December 31, 2015, reflecting an increase in cash $55.5 million and an increase in securities of $81.7 million. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

The Company has an uncommitted 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 preferred shares. At December 31, 2016, the preferred share portfolio was $193.3 million or 36.2% of the Company's securities compared to $190.7 million or 42.0% in 2015. Investment-grade preferred shares represent 83.9% of the preferred share portfolio (77.2% in 2015). Government bonds represent 63.0% of the securities portfolio compared to 55.9% in 2015. The entire bond portfolio of $337.2 million ($253.2 million in 2015) is investment grade. Residual interests represent 0.8% (2015 – 2.1%) of the securities portfolio.

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

Table 16: Other Assets

(000s, except %)	**2016**	2015	Change
Restricted assets			
Restricted cash	**$ 143,296**	$ 139,046	3.1%
Non-Home Trust MBS and treasury bills assigned as replacement assets	**122,078**	56,875	114.6%
Derivative assets	**37,524**	64,796	(42.1)%
Other assets			
Accrued interest receivable	**60,314**	63,532	(5.1)%
Prepaid CMB coupon	**3,289**	3,544	(7.2)%
Securitization receivable and retained interest	**213,312**	142,243	50.0%
Capital assets	**13,013**	14,468	(10.1)%
Income taxes recoverable	**25,619**	35,953	(28.7)%
Other prepaid assets and deferred items	**33,091**	27,677	19.6%
Deferred tax assets	**16,914**	15,043	12.4%
Goodwill and intangible assets			
Goodwill	**6,752**	15,752	(57.1)%
Intangible assets	**115,003**	112,595	2.1%
	$ 790,205	$ 691,524	14.3%

The increase in other assets over 2015 resulted primarily from an increase of $65.2 million in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program and an increase of $71.5 million in securitization receivable and retained interest. In general, as CMB maturities approach, the Company replaces maturing securitized mortgages with non-Home Trust MBS and treasury bills. The increase in securitization receivable and retained interests reflects the Company's securitization and sale of insured multi-unit residential mortgages and sales of residual interests in insured single-family residential mortgages. Further information on the Company's securitization activity can be found in Note 6 to the consolidated financial statements included in this report.

The increase in other assets was offset partially by a decrease in derivative assets. Derivative assets and liabilities are discussed in the Derivatives and Hedging section of this MD&A. In addition, goodwill decreased as a result of a $9.0 million impairment loss recognized during the year. Please see Note 10 to the consolidated financial statements included in this report for more information.

Liabilities

Deposits, Senior Debt and Securitization Liabilities

Table 17: Deposits, Senior Debt and Securitization Liabilities

(000s, except % and number of accounts)		**2016**	**% of Totals**		2015	% of Totals	Change
Deposits payable on demand							
High-interest savings accounts	**$**	**2,016,881**	**12.7%**	$	1,576,536	10.1%	27.9%
Oaken savings accounts		**340,809**	**2.1%**		242,124	1.5%	40.8%
Other deposits payable on demand		**174,113**	**1.1%**		167,476	1.1%	4.0%
		2,531,803	**15.9%**		1,986,136	12.7%	27.5%
Deposits payable on fixed dates							
Brokered GICs		**11,120,107**	**70.0%**		11,850,238	75.6%	(6.2)%
Oaken GICs		**1,429,153**	**9.0%**		846,085	5.4%	68.9%
Institutional deposit notes		**804,967**	**5.1%**		983,499	6.3%	(18.2)%
		13,354,227	**84.1%**		13,679,822	87.3%	(2.4)%
Total deposits		**15,886,030**	**100.0%**		15,665,958	100.0%	1.4%
Senior debt		**-**	**-**		151,480	100.0%	(100.0)%
Securitization liabilities							
CMHC-sponsored mortgage-backed security liabilities		**898,386**	**33.9%**		531,326	19.1%	69.1%
CMHC-sponsored Canada Mortgage Bond liabilities		**1,637,117**	**61.8%**		2,249,230	80.9%	(27.2)%
Bank-sponsored securitization conduit liabilities		**114,146**	**4.3%**		-	-	-
Total securitization liabilities	**$**	**2,649,649**	**100.0%**	$	2,780,556	100.0%	(4.7)%
Total number of deposit accounts		**441,782**			433,373		1.9%

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 84.1% 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 Liquidity and Funding 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 $15.89 billion increased 1.4% over 2015. The Company continues its efforts to diversify its sources of funding. The balance of Oaken deposits at the end of the year was $1.77 billion, reflecting an increase in the balance over last year of 62.6%. Home Trust high-interest savings accounts, distributed through investment brokers and financial planners, continued to grow, reaching a balance of $2.02 billion at the end of the year, an increase of 27.9% over the balance of $1.58 billion in 2015. In addition, the Company has institutional deposit notes of $805.0 million at the end of 2016, compared to $983.5 million at the end of 2015. The decrease in institutional deposit notes over the end of 2015 reflects the maturity of deposit notes with a principal amount of $175 million in Q2 2016.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities decreased $130.9 million from the end of 2015 primarily due to the maturity of CMB liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. MBS liabilities have increased from the end of 2015, reflecting the issuance of new MBS which remained on-balance sheet. New CMHC-sponsored securitization transactions related to insured fixed-rate single-family residential mortgages are primarily sold off-balance sheet subsequent to securitization. The bank-sponsored securitization conduit program was introduced during 2016. Please see Note 6 to the consolidated financial statements for more information on the Company's securitization programs.

Table 18: Other Liabilities

(000s, except %)	**2016**	2015	Change
Derivative liabilities	**$ 3,490**	$ 5,447	(35.9)%
Other liabilities			
Accrued interest payable	**130,222**	131,534	(1.0)%
Securitization servicing liability	**20,573**	15,234	35.0%
Other, including accounts payable and accrued liabilities	**185,337**	118,173	56.8%
Deferred tax liabilities	**36,284**	37,574	(3.4)%
	$ 375,906	$ 307,962	22.1%

The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which fluctuate based on timing of the payment of associated liabilities. The increase in accounts payable and accrued liabilities also reflects increased amounts to be remitted for principal and interest payments received on single-family residential mortgages that the Company has previously derecognized but continues to service. The increase in these amounts are in line with the growth in the off-balance sheet portfolio. The increase in securitization servicing liability also reflects the growth in the off-balance sheet single-family residential mortgage portfolio.

Shareholders' Equity

Table 19: Shareholders' Equity

(000s, except %)	**2016**	2015	Change
Shareholders' equity at the beginning of the year	**$ 1,621,106**	$ 1,448,633	11.9%
Net income	**247,396**	287,285	(13.9)%
Other comprehensive income (loss)	**10,479**	(46,939)	122.3%
Amounts related to stock-based compensation	**2,581**	5,978	(56.8)%
Repurchase of shares	**(199,196)**	(10,712)	(1,759.6)%
Dividends	**(65,174)**	(63,139)	(3.2)%
Shareholders' equity at the end of the year	**$ 1,617,192**	$ 1,621,106	(0.2)%

The decrease of $3.9 million in total shareholders' equity since December 31, 2015 resulted from the $199.2 million reduction on repurchase of shares combined with $65.2 million of dividends to shareholders, which was mostly offset by the internal generation of net income and other comprehensive income. The significant increase in repurchase of shares is primarily attributable to the substantial issuer bid completed in Q2 2016 for $150.0 million, but also includes increased normal course issuer bid activity. Please see Notes 14 and 15 to the consolidated financial statements included in this report for more information.

At December 31, 2016, the book value per common share was $25.12, compared to $23.17 at December 31, 2015. The Company has consistently increased the net book value per share through a combination of earnings and share repurchase.

Contingencies and Contractual Obligations

In the normal course of its activities, the Company enters into various types of contractual agreements. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

The following table presents a summary of the Company's contractual obligations comprising minimum lease payments on premises, property, computer hardware and software as at December 31, 2016.

Table 20: Contractual Obligations

(000s)	2017	2018	2019	2020	2021	Thereafter	**Total**
Minimum lease payments	$ 16,923	$ 10,970	$ 8,420	$ 4,358	$ 4,121	$ 6,471	**$ 51,263**

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 mortgages which were $1.34 billion at December 31, 2016 ($1.14 billion – December 31, 2015). 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 $486.6 million at December 31, 2016 ($303.9 million – December 31, 2015). Offers for the loans remain open for various periods. As at December 31, 2016, unutilized credit card balances amounted to $146.3 million ($118.8 million – December 31, 2015). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $28.8 million at December 31, 2016 ($11.6 million – December 31, 2015). 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 $8.39 billion (2014 - $6.79 billion) of loans under administration that are accounted for off-balance sheet (see Table 12). Please refer to Note 2 and Note 6 of the consolidated financial statements for details of the Company's securitization activities.

Related Party Transactions

IFRS considers key management personnel to be related parties. Compensation of key management personnel is disclosed in Note 22 of the consolidated financial statements.

In the normal course of the business, the Company refers borrowers who require loans at a higher loan-to-value ratio than the Company will provide to second mortgage lenders. All referrals are conducted at arm's length and at market terms. Second mortgage lenders independently underwrite all second mortgages with the borrowers. One of the second mortgage lenders is related to the Company through a close family relationship with a member of the Company's key management personnel. The amount of second mortgages referred to this lender during the years ended December 31, 2016 and 2015 is not significant.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 21: Summary of Quarterly Results

(000s, except per share and %)				2016				2015
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (TEB[1])	**$ 121,564**	$ 120,777	$ 122,987	$ 123,490	$ 127,599	$ 122,635	$ 118,175	$ 116,511
Less: TEB adjustment	**944**	853	884	973	941	937	965	987
Net interest income per financial statements	**120,620**	119,924	122,103	122,517	126,658	121,698	117,210	115,524
Non-interest income	**23,977**	25,171	24,658	22,989	24,255	23,385	29,061	27,092
Non-interest expense	**71,028**	54,982	54,912	58,017	54,681	44,955	47,374	43,633
Total revenue	**239,417**	243,928	242,526	241,848	248,462	247,194	250,879	249,232
Total adjusted revenue[2]	**239,417**	243,928	242,526	241,197	246,406	247,194	250,879	249,232
Net income	**50,706**	66,190	66,252	64,248	70,239	72,443	72,317	72,286
Adjusted net income[2]	**63,475**	66,190	66,252	67,497	71,811	72,443	72,317	72,286
Return on shareholders' equity	**12.7%**	16.9%	16.5%	15.7%	17.6%	18.7%	19.1%	19.7%
Adjusted return on shareholders' equity[2]	**15.9%**	16.9%	16.5%	16.4%	18.0%	18.7%	19.1%	19.7%
Return on average total assets	**1.0%**	1.3%	1.3%	1.2%	1.4%	1.4%	1.4%	1.4%
Total assets under administration	**28,917,534**	28,327,676	28,430,730	27,960,592	27,316,476	25,404,219	25,456,212	25,066,234
Total loans under administration	**26,424,074**	26,012,884	25,732,657	25,222,523	25,058,122	23,426,735	22,922,440	22,742,462
Earnings per common share								
Basic	**$ 0.79**	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03
Diluted	**$ 0.79**	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03
Adjusted earnings per common share[2]								
Basic	**$ 0.98**	$ 1.01	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03
Diluted	**$ 0.98**	$ 1.01	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03
Book value per common share	**$ 25.12**	$ 24.47	$ 23.67	$ 23.75	$ 23.17	$ 22.37	$ 21.87	$ 21.18
Efficiency ratio (TEB[1])	**48.8%**	37.7%	37.2%	39.6%	36.0%	30.8%	32.2%	30.4%
Adjusted efficiency ratio (TEB[1,2])	**39.1%**	37.7%	37.2%	36.3%	33.7%	30.8%	32.2%	30.4%
Common equity tier 1 ratio[3]	**16.55%**	16.54%	16.38%	18.28%	18.31%	18.06%	18.03%	17.95%
Tier 1 capital ratio[3]	**16.54%**	16.53%	16.38%	18.28%	18.30%	18.06%	18.03%	17.94%
Total capital ratio[3]	**16.97%**	16.97%	16.82%	20.63%	20.70%	20.51%	20.53%	20.50%
Net non-performing loans as a % of gross loans	**0.30%**	0.31%	0.33%	0.34%	0.28%	0.30%	0.33%	0.25%
Annualized provision as a % of gross uninsured loans	**0.07%**	0.04%	0.08%	0.04%	0.04%	0.08%	0.07%	0.07%
Annualized provision as a % of gross loans	**0.05%**	0.03%	0.06%	0.03%	0.03%	0.06%	0.05%	0.05%

[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 Expenses section of this MD&A for discussion on the increase in non-interest expenses in Q4 2016).

The Company continues to achieve positive financial results driven by strong net interest margins and favourable non-interest income, tempered by increased expenses as discussed in this report. Capital ratios over the last eight quarters reflect the Company's capital management strategies and the proactive approach to managing a strong capital base.

FOURTH QUARTER 2016

Items of Note

Items of note are removed from reported results in determining adjusted results. Adjusted results are designed to provide a better understanding of how management assesses underlying business performance and to facilitate a more informed analysis of trends. Adjusted results are determined after removing items of notes from reported results.

The Company's results were affected by the following items of note that aggregated to a negative impact of $12.8 million or $0.19 diluted earnings per share in Q4 2016:

- $9.0 million of goodwill impairment loss related the Company's PSiGate business ($9.0 million net of tax and $0.13 diluted earnings per share).
- $5.1 million of intangible asset impairment loss related to internally developed software costs ($3.8 million net of tax and $0.06 diluted earnings per share).

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

There were no items of note for Q3 2016.

Income Statement Highlights

- Reported net income of $50.7 million was 27.8% lower than the $70.2 million net income recorded in Q4 2015 and 23.4% lower compared to $66.2 million in Q3 2016.
- Adjusted net income, as defined in the Non-GAAP Measures and Glossary section, was $63.5 million in Q4 2016, 11.6% lower than the $71.8 million adjusted net income in Q4 2015 and 4.1% lower than the $66.2 million adjusted net income in Q3 2016.
- Reported diluted earnings per share for the fourth quarter were $0.79, compared to $1.00 in Q4 2015 and $1.01 in Q3 2016. Adjusted diluted earnings per share for the fourth quarter were $0.98 compared to $1.02 in Q4 2015 and $1.01 in Q3 2016.
- Return on shareholders' equity was 12.7% in Q4 2016, compared to 17.6% in Q4 2015 and 16.9% in Q3 2016. Adjusted return on shareholders' equity was 15.9% in Q4 2016, compared to 18.0% in Q4 2015 and 16.9% in Q3 2016.
- Total net interest income of $120.6 million for the quarter declined by 4.8% from Q4 2015, reflecting the decrease in total net interest margin (TEB) to 2.38% from 2.46% last year. Total net interest income for the quarter increased by 0.6% from Q3 2016, reflecting the increase in net interest margin (TEB) from 2.34% last quarter.
- Net interest income on non-securitized assets was $116.6 million for the quarter, down 4.2% from Q4 2015, reflecting the decrease in net interest margin (TEB) to 2.73% for the quarter from 2.89% last year. The decline over last year reflects a combination of the improved credit quality of the portfolio and more competitive pricing. Net interest income on the non-securitized portfolio was relatively flat when compared to the $116.3 million reported last quarter, while net interest margin (TEB) improved by 3 basis points from 2.70% last quarter. The improvement over last quarter resulted primarily from a decrease in the average rate on deposits, reflecting an increase in the proportion of lower-cost demand deposits.
- Total income earned from securitization includes both net interest income on securitized assets and securitization income arising from sales of securitized assets. Combined net interest income on securitized assets and securitization income was $13.0 million in Q4 2016, up from $10.7 million in Q4 2015 and from $11.2 million in Q3 2016, primarily resulting from an increase in securitization gains on sales over both 2015 and last quarter.
- Fees and other income of $17.6 million in Q4 2016 were down 11.6% from the $19.9 million recorded in Q4 2015 as a result of changes in the portfolio mix and in the fee structure year over year as the Company adjusted certain fees in the first half of 2016 to be responsive to its markets. Fees and other income were up 2.3% from the $17.2 million recorded in Q3 2016.
- The Company did not recognize any impairment losses on securities during Q3 or Q4 of 2016. The Company recognized impairment losses on securities of $66 thousand in Q4 2015.

- The credit quality of the loan portfolio remained strong in the quarter. Despite an increase in the provision for credit losses over 2015 and last quarter, the level of credit losses and non-performing loans remains low. Provision for credit losses for the quarter was $2.4 million, compared to $1.4 million in Q4 2015 and $1.3 million in Q3 2016. The annualized credit provision as a percentage of gross uninsured loans for the quarter was 0.07%, compared to 0.04% in both Q4 2015 and Q3 2016. Net non-performing loans as a percentage of gross loans ended 2016 at 0.30%, compared to 0.28% at the end of 2015 and 0.31% at the end of Q3 2016.
- Non-interest expenses were $71.0 million in the fourth quarter, up from $54.7 million in Q4 2015 and from $55.0 million last quarter. The adjusted efficiency ratio was 39.1% in the fourth quarter, up from 33.7% in Q4 2015 and 37.7% in Q3 2016. The increase in non-interest expenses resulted from increases in other operating expenses, which includes continued investment in technology, ongoing investment in the Company's IT security platform, and costs associated with strengthening risk management and compliance infrastructure. In addition, non-interest expenses in the quarter include a $9.0 million goodwill impairment loss and a $5.1 million intangible asset impairment loss, both of which have been removed for the purposes of calculating the Company's adjusted metrics.

Financial Position Highlights

- Home Trust's Common Equity Tier 1 (CET 1) and Total capital ratios remained very strong at 16.55% and 16.97%, respectively, at December 31, 2016, and well above Company and regulatory minimum targets. Home Trust's Leverage ratio was 7.20% at December 31, 2016, also well above regulatory minimums.
- Total loans under administration, which includes securitized mortgages that qualify for off-balance sheet accounting, increased by $1.37 billion in 2016 to $26.42 billion, representing growth of 5.5% over the $25.06 billion at the end of 2015 and 1.6% or $411.2 million from the $26.01 billion at the end of Q3 2016.
- Total loans were $18.04 billion at Q4 2016, a decrease of 1.3% from $18.27 billion at the end of 2015 and an increase of 0.2% from the $18.00 billion at the end of Q3 2016.
- The total value of mortgages originated in Q4 2016 was $2.43 billion, compared to $2.15 billion in Q4 2015 and $2.54 billion in Q3 2016. The year-over-year increase was primarily driven by increases in originations of traditional single-family residential mortgages, insured multi-unit residential mortgages and commercial mortgages. Compared to the third quarter, the decline in originations was primarily on single-family residential mortgages, reflecting normal and expected seasonal factors.
- The Company originated $1.43 billion of combined traditional and ACE Plus single-family residential mortgages in Q4 2016, compared to $1.30 billion in Q4 2015 and $1.53 billion in Q3 2016.
- Accelerator (insured) single-family residential mortgage originations were $346.7 million in Q4 2016, compared to $515.9 million in Q4 2015 and $446.7 million in Q3 2016. The decrease in originations is partially attributable to the impact of the new insured mortgages rules introduced by the government, which took effect during the fourth quarter of 2016. The decrease over last quarter also reflects expected seasonality.
- Multi-unit residential originations were $371.5 million in the quarter, compared to $133.7 million in Q4 2015 and $212.8 million in Q3 2016. 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.
- Non-residential commercial mortgage originations, which include store and apartment mortgages, were $277.3 million in Q4 2016, compared to $200.3 million in Q4 2015 and $347.6 million in Q3 2016.
- Total deposits reached $15.89 billion at the end of Q4 2016, increasing 1.4% year over year, and 1.2% from the end of last quarter. Total deposits raised through the Company's efforts to diversify its sources of funds, Oaken Financial, high-interest savings accounts and institutional deposits, total $4.59 billion, an increase of $943.6 million or 25.9% over the end of Q4 2015, and $26.8 million or 0.1% over the end of last quarter.

FOURTH QUARTER FINANCIAL INFORMATION

Table 22: Fourth Quarter Review of Financial Performance

	For the three months ended			Change	
(000s, except per share amounts and %)	**December 31 2016**	September 30 2016	December 31 2015	December 31, 2016 - September 30, 2016	December 31, 2016 - December 31, 2015
Net Interest Income Non-Securitized Assets					
Interest from loans	**$ 190,389**	$ 192,395	$ 197,052	(1.0)%	(3.4)%
Dividends from securities	**2,614**	2,359	2,608	10.8%	0.2%
Other interest	**2,514**	3,046	1,694	(17.5)%	48.4%
	195,517	197,800	201,354	(1.2)%	(2.9)%
Interest on deposits and other	**78,868**	81,519	77,762	(3.3)%	1.4%
Interest on senior debt	**-**	-	1,824	-	(100.0)%
Net interest income non-securitized assets	**116,649**	116,281	121,768	0.3%	(4.2)%
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets	**19,923**	20,957	22,853	(4.9)%	(12.8)%
Interest expense on securitization liabilities	**15,952**	17,314	17,963	(7.9)%	(11.2)%
Net interest income securitized loans and assets	**3,971**	3,643	4,890	9.0%	(18.8)%
Total Net Interest Income	**120,620**	119,924	126,658	0.6%	(4.8)%
Provision for credit losses	**2,400**	1,336	1,415	79.6%	69.6%
	118,220	118,588	125,243	(0.3)%	(5.6)%
Non-Interest Income					
Fees and other income	**17,613**	17,223	19,927	2.3%	(11.6)%
Securitization income	**9,064**	7,599	5,760	19.3%	57.4%
Gain on acquisition of CFF Bank	**-**	-	2,056	-	(100.0)%
Net realized and unrealized losses on securities	**-**	-	(66)	-	(100.0)%
Net realized and unrealized losses (gains) on derivatives	**(2,700)**	349	(3,422)	(873.6)%	(21.1)%
	23,977	25,171	24,255	(4.7)%	(1.1)%
	142,197	143,759	149,498	(1.1)%	(4.9)%
Non-Interest Expenses					
Salaries and benefits	**24,134**	24,350	25,874	(0.9)%	(6.7)%
Premises	**3,607**	3,472	2,731	3.9%	32.1%
Other operating expenses	**43,287**	27,160	26,076	59.4%	66.0%
	71,028	54,982	54,681	29.2%	29.9%
Income Before Income Taxes	**71,169**	88,777	94,817	(19.8)%	(24.9)%
Income taxes					
Current	**22,941**	22,957	25,548	(0.1)%	(10.2)%
Deferred	**(2,478)**	(370)	(970)	569.7%	155.5%
	20,463	22,587	24,578	(9.4)%	(16.7)%
NET INCOME	**$ 50,706**	$ 66,190	$ 70,239	(23.4)%	(27.8)%
NET INCOME PER COMMON SHARE					
Basic	**$ 0.79**	$ 1.01	$ 1.00	(21.8)%	(21.0)%
Diluted	**$ 0.79**	$ 1.01	$ 1.00	(21.8)%	(21.0)%
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**64,479**	65,386	70,157	(1.4)%	(8.1)%
Diluted	**64,519**	65,435	70,237	(1.4)%	(8.1)%
Total number of outstanding common shares	**64,388**	64,559	69,978	(0.3)%	(8.0)%
Book value per common share	**$ 25.12**	$ 24.47	$ 23.17	2.7%	8.4%

Table 23: Fourth Quarter Review of Comprehensive Income

	For the three months ended			Change	
(000s, except %)	**December 31 2016**	September 30 2016	December 31 2015	December 31, 2016 - September 30, 2016	December 31, 2016 - December 31, 2015
NET INCOME	**$ 50,706**	$ 66,190	$ 70,239	(23.4)%	(27.8)%
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities and Retained Interests					
Net unrealized losses	**12,774**	7,820	6,171	63.4%	107.0%
Net losses reclassified to net income	**-**	-	66	-	(100.0)%
	12,774	7,820	6,237	63.4%	104.8%
Income tax expense	**3,391**	2,075	1,654	63.4%	105.0%
	9,383	5,745	4,583	63.3%	104.7%
Cash Flow Hedges					
Net unrealized gains (losses)	**(1,677)**	803	(2,110)	(308.8)%	(20.5)%
Net losses reclassified to net income	**174**	268	369	(35.1)%	(52.8)%
	(1,503)	1,071	(1,741)	(240.3)%	(13.7)%
Income tax (recovery) expense	**(398)**	284	(462)	(240.1)%	(13.9)%
	(1,105)	787	(1,279)	(240.4)%	(13.6)%
Total other comprehensive income	**8,278**	6,532	3,304	26.7%	150.5%
COMPREHENSIVE INCOME	**$ 58,984**	$ 72,722	$ 73,543	(18.9)%	(19.8)%

Table 24: Fourth Quarter Review of Financial Position

(000s, except %)	December 31 2016	September 30 2016	Change
	As at		
ASSETS			
Cash and Cash Equivalents	**$ 1,205,394**	$ 1,058,940	13.8%
Available for Sale Securities	**534,924**	523,482	2.2%
Loans Held for Sale	**77,918**	74,207	5.0%
Loans			
Securitized mortgages	**2,526,804**	2,549,205	(0.9)%
Non-securitized mortgages and loans	**15,430,595**	15,378,826	0.3%
	17,957,399	17,928,031	0.2%
Collective allowance for credit losses	**(37,063)**	(37,063)	-
	17,920,336	17,890,968	0.2%
Other			
Restricted assets	**265,374**	231,235	14.8%
Derivative assets	**37,524**	52,178	(28.1)%
Other assets	**348,638**	336,077	3.7%
Deferred tax assets	**16,914**	16,362	3.4%
Goodwill and intangible assets	**121,755**	133,581	(8.9)%
	790,205	769,433	2.7%
	$ 20,528,777	$ 20,317,030	1.0%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 2,531,803**	$ 2,432,283	4.1%
Deposits payable on a fixed date	**13,354,227**	13,261,819	0.7%
	15,886,030	15,694,102	1.2%
Securitization Liabilities			
CMHC-sponsored mortgage-backed security liabilities	**898,386**	930,614	(3.5)%
CMHC-sponsored Canada Mortgage Bond liabilities	**1,637,117**	1,610,482	1.7%
Bank-sponsored securitization conduit liabilities	**114,146**	139,115	(17.9)%
	2,649,649	2,680,211	(1.1)%
Other			
Derivative liabilities	**3,490**	959	263.9%
Other liabilities	**336,132**	324,070	3.7%
Deferred tax liabilities	**36,284**	38,210	(5.0)%
	375,906	363,239	3.5%
	18,911,585	18,737,552	0.9%
Shareholders' Equity			
Capital stock	**84,910**	83,975	1.1%
Contributed surplus	**4,562**	4,588	(0.6)%
Retained earnings	**1,582,785**	1,554,258	1.8%
Accumulated other comprehensive loss	**(55,065)**	(63,343)	(13.1)%
	1,617,192	1,579,478	2.4%
	$ 20,528,777	$ 20,317,030	1.0%

Table 25: Fourth Quarter Net Interest Margin

	For the three months ended		
	December 31 2016	September 30 2016	December 31 2015
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.71%**	2.68%	2.87%
Net interest margin non-securitized interest-earning assets (TEB)	**2.73%**	2.70%	2.89%
Net interest margin CMHC-sponsored securitized assets	**0.53%**	0.45%	0.60%
Net interest margin bank-sponsored securitization conduit assets	**1.90%**	1.85%	-
Total net interest margin (non-TEB)	**2.36%**	2.33%	2.45%
Total net interest margin (TEB)	**2.38%**	**2.34%**	**2.46%**
Spread of non-securitized loans over deposits and other	**2.86%**	2.89%	2.97%

Table 26: Fourth Quarter Net Interest Income

	For the three months ended					
	December 31 2016		September 30, 2016		December 31 , 2015	
(000s, except %)	**Income/ Expense**	**Average Rate** [1]	Income/ Expense	Average Rate [1]	Income/ Expense	Average Rate [1]
Interest-bearing assets						
Cash resources and securities	**$ 5,128**	**1.31%**	$ 5,405	1.21%	$ 4,302	1.39%
Traditional single-family residential mortgages	**131,029**	**4.75%**	133,997	4.84%	144,335	4.98%
ACE Plus single-family residential mortgages	**3,344**	**3.38%**	3,104	3.36%	1,532	3.37%
Accelerator single-family residential mortgages	**6,505**	**2.24%**	7,342	2.40%	8,651	2.63%
Residential commercial mortgages[2]	**4,291**	**3.99%**	4,483	4.26%	5,036	3.97%
Non-residential commercial mortgages	**28,233**	**5.93%**	26,741	6.08%	22,205	5.95%
Credit card loans and lines of credit	**8,389**	**9.02%**	8,432	9.03%	8,388	9.05%
Other consumer retail loans	**8,598**	**9.32%**	8,296	9.40%	6,905	9.81%
Total non-securitized loans	**190,389**	**4.86%**	192,395	4.94%	197,052	5.00%
Taxable equivalent adjustment	**944**	**-**	853	-	941	-
Total non-securitized interest earning assets	**196,461**	**4.56%**	198,653	4.58%	202,295	4.76%
CMHC-sponsored securitized single-family residential mortgages	**11,115**	**2.50%**	11,921	2.57%	13,549	2.74%
CMHC-sponsored securitized multi-unit residential mortgages	**7,197**	**4.63%**	7,238	4.61%	8,580	4.28%
Assets pledged as collateral for CMHC-sponsored securitization	**495**	**1.35%**	489	1.27%	724	0.63%
Total CMHC-sponsored securitized residential mortgages	**18,807**	**2.96%**	19,648	2.98%	22,853	2.82%
Bank-sponsored securitization conduit assets	**1,116**	**3.53%**	1,309	3.52%	-	-
Total assets	**$ 216,384**	**4.24%**	$ 219,610	4.25%	$ 225,148	4.35%
Interest-bearing liabilities						
Deposits and other	**$ 78,868**	**2.00%**	$ 81,519	2.05%	$ 77,762	2.03%
Senior debt	**-**	**-**	-	-	1,824	4.78%
CMHC-sponsored securitization liabilities	**15,438**	**2.41%**	16,693	2.49%	17,963	2.20%
Bank-sponsored securitization conduit liabilities	**514**	**1.61%**	621	1.76%	-	-
Total liabilities	**$ 94,820**	**1.86%**	$ 98,833	1.91%	$ 97,549	1.89%
Net Interest Income (TEB)	**$ 121,564**		$ 120,777		$ 127,599	
Taxable Equivalent Adjustment	**(944)**		(853)		(941)	
Net Interest Income per Financial Statements	**$ 120,620**		$ 119,924		$ 126,658	

[1] The average is calculated with reference to opening and closing monthly asset and liability balances.
[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Table 27: Fourth Quarter Mortgage Advances

(000s)	December 31 2016	September 30 2016	December 31 2015
			For the three months ended
Single-family residential mortgages			
Traditional	**$ 1,325,896**	$ 1,416,842	$ 1,163,285
ACE Plus	**106,477**	116,666	140,983
Accelerator	**346,690**	446,734	515,891
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	**53,999**	17,947	23,503
Multi-unit insured residential mortgages	**293,306**	194,875	101,683
Other[1]	**24,179**	-	8,535
Non-residential commercial mortgages			
Stores and apartments	**14,878**	35,018	26,462
Commercial	**262,423**	312,618	173,825
Total mortgage advances	**$ 2,427,848**	$ 2,540,700	$ 2,154,167

[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 %)	December 31, 2016		September 30, 2016		December 31, 2015	
					For the three months ended	
	Amount	**% of Gross Loans** [1]	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]
Provision[2]						
Single-family residential mortgages	**$ 1,029**	**0.03%**	$ 1,006	0.03%	$ 986	0.03%
Residential commercial mortgages	**2**	**0.00%**	(128)	(0.19)%	-	-
Non-residential commercial mortgages	**45**	**0.01%**	(37)	(0.01)%	(40)	(0.01)%
Credit card loans and lines of credit	**1,164**	**1.26%**	280	0.30%	343	0.37%
Other consumer retail loans	**160**	**0.17%**	215	0.24%	101	0.14%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-
Total individual provision	**2,400**	**0.05%**	1,336	0.03%	1,390	0.03%
Total collective provision	**-**	**-**	-	-	25	0.00%
Total provision	**$ 2,400**	**0.05%**	$ 1,336	0.03%	$ 1,415	0.03%
Net Write-offs[2]						
Single-family residential mortgages	**$ 440**	**0.01%**	$ 664	0.02%	$ 1,415	0.04%
Residential commercial mortgages	**2**	**0.00%**	-	-	-	-
Non-residential commercial mortgages	**(5)**	**(0.00)%**	100	0.02%	127	0.03%
Credit card loans and lines of credit	**469**	**0.51%**	397	0.42%	502	0.54%
Other consumer retail loans	**48**	**0.05%**	77	0.09%	94	0.13%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-
Net write-offs	**$ 954**	**0.02%**	$ 1,238	0.03%	$ 2,138	0.05%

[1] Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.
[2] There were no individual provisions, allowances or net write-offs on securitized mortgages.

Table 29: Fourth Quarter Allowance for Credit Losses

(000s)						**For the three months ended December 31, 2016**
	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	**$ 1,637**	**$ -**	**$ 20**	**$ 85**	**$ 302**	**$ 2,044**
Provision for credit losses	**783**	**2**	**5**	**1,164**	**157**	**2,111**
Write-offs	**(619)**	**(2)**	**(5)**	**(493)**	**(126)**	**(1,245)**
Recoveries	**179**	**-**	**10**	**24**	**78**	**291**
	1,980	**-**	**30**	**780**	**411**	**3,201**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**1,095**	**-**	**58**	**-**	**9**	**1,162**
Provision for credit losses	**246**	**-**	**40**	**-**	**3**	**289**
	1,341	**-**	**98**	**-**	**12**	**1,451**
Total individual allowance	**3,321**	**-**	**128**	**780**	**423**	**4,652**
Collective allowance						
Balance at the beginning of the period	**23,032**	**327**	**9,500**	**3,904**	**300**	**37,063**
Provision for credit losses	**-**	**-**	**-**	**-**	**-**	**-**
	23,032	**327**	**9,500**	**3,904**	**300**	**37,063**
Total allowance	**$ 26,353**	**$ 327**	**$ 9,628**	**$ 4,684**	**$ 723**	**$ 41,715**
Total provision	**$ 1,029**	**$ 2**	**$ 45**	**$ 1,164**	**$ 160**	**$ 2,400**

(000s)						For the three months ended September 30, 2016
	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	$ 1,358	$ -	$ 160	$ 202	$ 167	$ 1,887
Provision for credit losses	943	-	(40)	280	212	1,395
Write-offs	(745)	-	(104)	(420)	(127)	(1,396)
Recoveries	81	-	4	23	50	158
	1,637	-	20	85	302	2,044
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,032	128	55	-	6	1,221
Provision for credit losses	63	(128)	3	-	3	(59)
	1,095	-	58	-	9	1,162
Total individual allowance	2,732	-	78	85	311	3,206
Collective allowance						
Balance at the beginning of the period	23,032	327	9,500	3,904	300	37,063
Provision for credit losses	-	-	-	-	-	-
	23,032	327	9,500	3,904	300	37,063
Total allowance	$ 25,764	$ 327	$ 9,578	$ 3,989	$ 611	$ 40,269
Total provision	$ 1,006	$ (128)	$ (37)	$ 280	$ 215	$ 1,336

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

(000s)	For the three months ended December 31, 2015					
	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

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

Table 30: Securitization Income

(000s)	For the three months ended		
	December 31, 2016	September 30, 2016	December 31, 2015
Net gain on sale of mortgages and residual interest[1]	**$ 7,006**	$ 6,055	$ 4,728
Net change in unrealized gain or loss on hedging activities	**276**	(121)	(232)
Servicing income	**1,782**	1,665	1,264
Total securitization income	**$ 9,064**	$ 7,599	$ 5,760

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

Table 31: Securitization Activity

(000s)			For the three months ended			
			December 31 2016			September 30 2016
	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	**$ 392,298**	**$ 314,985**	**$ 707,283**	$ 400,764	$ 242,894	$ 643,658
Net gains on sale of mortgages or residual interest[1]	**4,284**	**2,722**	**7,006**	3,904	2,151	6,055
Retained interests recorded	**-**	**10,004**	**10,004**	-	10,077	10,077
Servicing liability recorded	**-**	**2,408**	**2,408**	-	2,313	2,313

(000s)			For the three months ended
			December 31 2015
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 371,473	$ 161,757	$ 533,230
Net gains on sale of mortgages or residual interest[1]	3,362	1,366	4,728
Retained interests recorded	-	5,933	5,933
Servicing liability recorded	-	1,278	1,278

[1] Gains on sale of mortgages and 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.

Capital requirements are addressed in the Company's policy, including 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 Home 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 Home Bank, a wholly owned subsidiary of Home Trust, is regulated under 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. In addition, dividends paid by Home Trust to Home Capital may be subject to restrictions by OSFI.

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

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

(000s, except ratios)	**December 31 2016**	December 31 2015
	All-In Basis	All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 38,497**	$ 38,497
Contributed surplus	**951**	951
Retained earnings	**1,604,758**	1,614,491
Accumulated other comprehensive loss	**(55,040)**	(65,851)
Cash flow hedge reserves	**1,476**	3,078
Regulatory deductions from CET 1 [1]	**(160,917)**	(130,163)
Total CET 1 capital	**1,429,725**	1,461,003
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,429,725**	1,461,003
Tier 2 capital		
Collective allowance for credit losses [2]	**37,063**	36,249
Subordinated debentures	**-**	156,000
Total Tier 2 capital	**37,063**	192,249
Total regulatory capital	**1,466,788**	1,653,252
Risk-weighted assets for		
Credit risk	**7,578,490**	6,962,984
Operational risk	**1,050,888**	996,488
Total risk-weighted assets, before CVA [3]	**8,629,378**	7,959,472
CVA adjustment for CET 1 capital	**11,544**	21,632
Total CET 1 capital risk-weighted assets	**8,640,922**	7,981,104
CVA adjustment for Tier 1 capital	**12,806**	23,998
Total Tier 1 capital risk-weighted assets	**8,642,184**	7,983,470
CVA adjustment for total capital	**13,889**	26,026
Total risk-weighted assets	**$ 8,643,267**	$ 7,985,498
Regulated capital to risk-weighted assets		
CET 1 ratio	**16.55%**	18.31%
Tier 1 capital ratio	**16.54%**	18.30%
Total regulatory capital ratio	**16.97%**	20.70%
Leverage ratio	**7.20%**	7.36%
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	**3.00%**	3.00%

[1] Regulatory deductions on the all-in basis include intangible assets, net of deferred taxes, unrealized mortgage securitization gains, net of deferred taxes and deferred tax assets related to loss carryforwards from Home Bank.
[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, 2016, the Company's collective allowance represented 0.49% of total credit risk-weighted assets, inclusive of total CVA.
[3] CVA - Credit Valuation Adjustment.

Home Trust's regulatory "all-in" Total Capital ratio has decreased from the end of 2015 as a result of the decrease in both Tier 1 and Tier 2 regulatory capital combined with an increase in risk-weighted assets. Tier 1 capital decreased as a result of the Home Trust dividends that were used to fund Home Capital's repurchase of 5,660,961 common shares under the Company's substantial issuer bid and normal course issuer bid activity during the year, which reduced capital by $198.0 million. Tier 2 capital decreased as a result of Home Trust repaying and retiring the subordinated debentures, with the funds used by Home Capital to retire $150.0 million of senior debt. Risk-weighted assets increased in line with increases in the Company's uninsured loan portfolio.

The leverage ratio is a non-risk-adjusted view of a company's leverage. The Leverage ratio 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 Company's Leverage ratio of 7.20% (December 31, 2015 – 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 Company has disclosed the leverage ratio and its components under "Regulatory Disclosures" on the Home Trust website.

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 Company)

			2016			2015
(000s, except %)	**Balance Sheet Amounts**	**Effective Risk Weight [1]**	**Risk-weighted Amount**	Balance Sheet Amounts	Effective Risk Weight[1]	Risk-weighted Amount
Cash and cash equivalents	**$ 1,145,116**	**20.0%**	**$ 229,023**	$ 1,118,630	20.0%	$ 223,726
Restricted assets	**265,374**	**10.8%**	**28,659**	195,921	14.2%	27,809
Available for sale securities	**530,594**	**36.4%**	**193,350**	443,831	43.0%	190,647
Insured residential mortgages	**3,524,733**	**0.9%**	**30,449**	4,270,243	0.7%	31,438
Uninsured single-family residential mortgages	**11,501,997**	**35.3%**	**4,057,571**	11,571,872	35.3%	4,082,400
Uninsured residential commercial mortgages	**305,188**	**100.0%**	**306,123**	268,263	100.0%	268,263
Non-residential commercial mortgages	**1,954,820**	**100.1%**	**1,957,094**	1,490,648	100.1%	1,491,757
Credit card loans and lines of credit	**369,678**	**43.3%**	**160,040**	370,825	44.3%	164,346
Other consumer retail loans	**378,901**	**75.0%**	**284,176**	296,857	75.0%	222,643
Other assets	**383,435**	**62.4%**	**239,198**	351,006	56.0%	196,648
Total assets subject to risk rating	**20,359,836**	**36.8%**	**7,485,683**	20,378,096	33.9%	6,899,677
Deferred tax assets for loss carryforwards	**15,920**	**-**	**-**	-	-	-
Intangible assets	**115,003**	**-**	**-**	112,595	-	-
Collective allowance for credit losses	**(37,063)**	**-**	**-**	(36,249)	-	-
Total assets	**20,453,696**	**36.6%**	**7,485,683**	20,454,442	33.7%	6,899,677
Off-balance sheet items						
Loan commitments	**1,172,628**	**7.9%**	**92,807**	918,343	6.9%	63,307
Total credit risk	**21,610,404**		**7,578,490**	21,372,785		6,962,984
Operational risk	**-**		**1,050,888**	-		996,488
Total risk-weighted assets, before CVA	**$ 21,610,404**		**$ 8,629,378**	$ 21,372,785		$ 7,959,472

[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 fourth quarter of 2016, the Company filed a Normal Course Issuer Bid through the Toronto Stock Exchange, which allows it to purchase up to 5,336,040 of the Company's common shares. Please refer to the press release issued by the Company on December 23, 2016 for more information. 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 2016, the Company repurchased 5,660,961 common shares (2015 – 344,700 common shares) for $199.2 million, under the substantial issuer bid and normal course issuer bid activity, thereby reducing retained earnings by $191.9 million and share capital by $7.3 million (2015 - $10.3 million and $442 thousand, respectively). Included in the amount allocated to retained earnings is $0.4 million (net of tax) for transaction costs associated with the substantial issuer bid.

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	Negative	Negative	Negative	Negative

Share Information

Table 35: Share Information

(000s)	**2016**		2015	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares issued and outstanding[1]	**64,388**	**$ 84,910**	69,978	$ 90,247
Employee stock options outstanding[2]	**1,074**	**N/A**	1,208	N/A
Employee stock options exercisable[2,3]	**587**	**18,107**	511	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, 2016.

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 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:

- Identification of the principal risks to the Company's strategy and adoption of policies, guidelines and mitigation strategies to address such risks;
- Adoption of a risk appetite framework that includes risk capacity, a risk appetite statement, risk limits and other key risk indicators;
- Adoption of a risk governance structure that includes promotion of a sound risk and compliance culture, a three lines of defence model for the management of risk, and active oversight by the Board of Directors and senior management;
- Extensive risk identification, assessment, measurement and monitoring practices and controls executed by experienced personnel and supported by appropriate processes and technology;
- Monitoring of the Company's internal and external environments to identify and respond on a timely basis to emerging risk exposures, and to ensure that risks are considered in all change initiatives; and
- Robust reporting on risk exposures including establishment of key risk indicators that provide early warning indicators of changes in risk profile.

Principal Risks

The Company's business strategies 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.

The Company has identified eight principal risks that are material to the business: capital adequacy, credit, market, liquidity and funding, operational, compliance, strategic and reputational risk. In addition to these principal risks, the Company employs a risk register to describe risk categories and related subcategories to facilitate consistent risk identification and provide a common starting point in developing risk management strategies and processes. These risks are identified, measured, assessed, and monitored on an ongoing basis, with regular reporting to risk committees of both senior management and the Board of Directors. 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 impacts to the Company's reputation or ability to execute strategic objectives.

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 framework guides the risk-taking activities of the Company by establishing qualitative and quantitative benchmarks, parameters and limits related to the amount of risk the Company is willing to accept, taking into account financial, operational and macroeconomic factors. The Company's risk appetite statement articulates the following major enterprise principles:

The Company will:

- Maintain adequate capital and liquidity at all times.
- Only take risks that are transparent and manageable, and that fit the Company's business strategy.
- Not expose itself to any significant single loss event on any individual transaction or acquisition.
- Not take risks that are expected to result in significant volatility in earnings or shareholder returns.
- Conduct business with honesty, integrity, respect and high ethical standards.
- Strive to protect the Company's reputation at all times, with all key stakeholders.
- Adopt a risk-based approach for identifying, assessing, managing, mitigating and monitoring risk that meets regulatory requirements and expectations.
- 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.
- Incorporate risk and compliance measures into performance and reward measurement programs.

The risk appetite framework includes key risk appetite measures supported by management and management risk committee-level limit structures that provide forewarning capabilities intended to trigger management actions and mitigation plans before risk appetite limits are breached.

Risk Governance

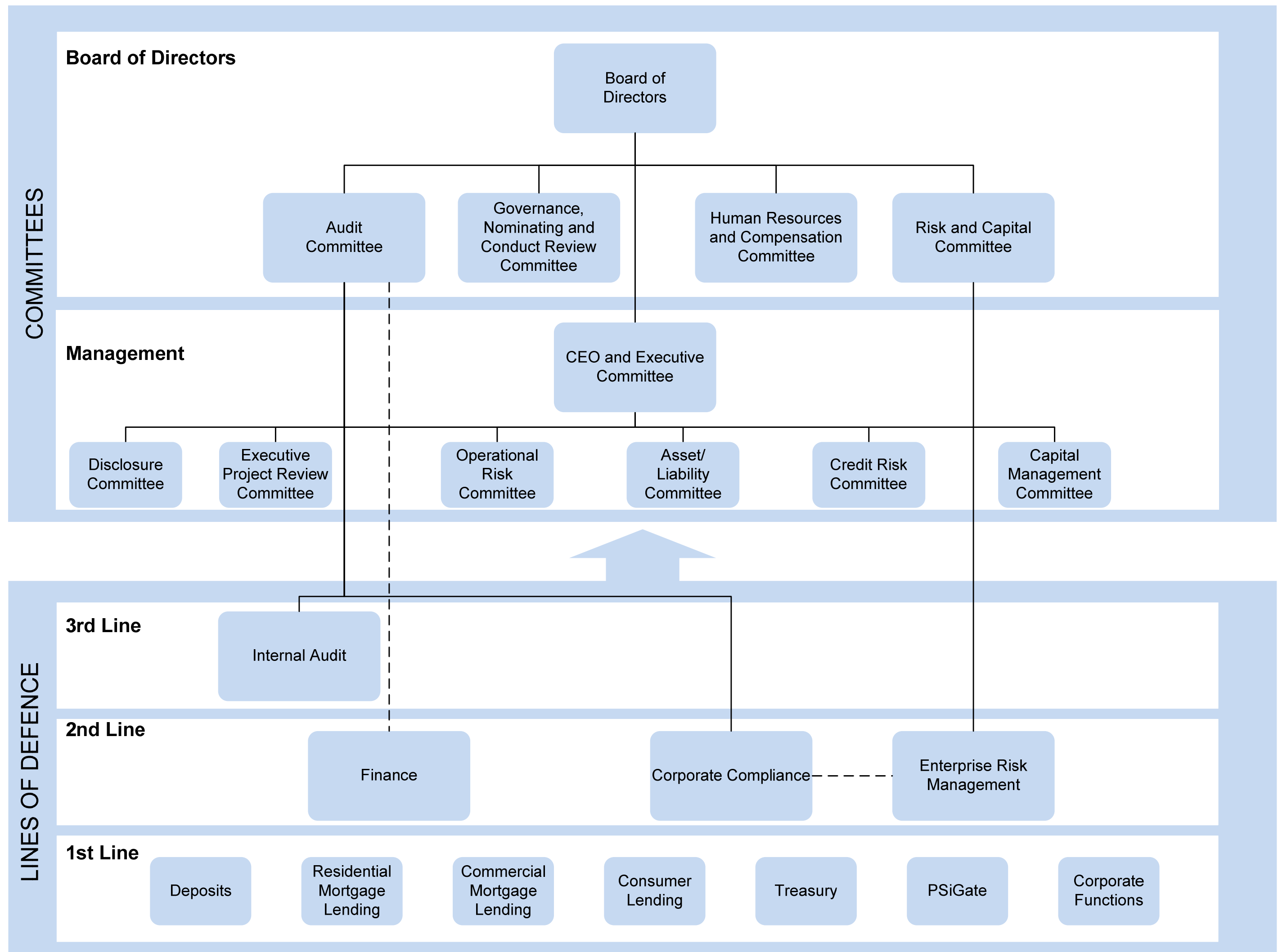
The Company's strategies and management of risk are supported by an overall enterprise risk management framework including policies, guidelines, and procedures for each major category of risk to which it is exposed. The Company defines risk management as an ongoing process involving its Board of Directors, management and other personnel in the identification, assessment, measurement, management and monitoring of risks that may positively or negatively impact the organization as a whole. Risk management 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 the risk management framework is to support superior and sustainable business performance, including informed decision making, improved deployment of capital, reduced volume and severity of surprises and losses, improved long-term business performance and increased stakeholder confidence.

Supporting the Company's risk management 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.

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

- 1st Line of Defence – consists of the business units and corporate functions. As risk owners, management is accountable for identifying, assessing, measuring, managing, monitoring, and reporting on the risks generated within their respective areas of responsibility. Business risk management teams are embedded within the first line of defence to assist management in carrying out their risk and compliance responsibilities.
- 2nd Line of Defence – consists of the Enterprise Risk Management and Corporate Compliance groups who are responsible for the establishment of the Company's risk management frameworks and the independent oversight of their implementation. Together with Finance, they are 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 Executive Management by assessing the effectiveness of governance, risk management and control processes.

The risk 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 of Directors (the "Board") is accountable for establishing the overall vision, mission, values, objectives and strategies of the Company and setting the Company's overall risk-bearing capacity and risk appetite. The Board challenges management's proposals and plans to ensure that the forecasted results and risk assessments are reasonable and in line with the Company's capabilities, objectives and risk appetite. These risk management responsibilities are primarily carried out through the Risk and Capital Committee (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 provides oversight of the independence and effectiveness of the Company's Enterprise Risk Management (ERM) function.

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 the implementation of the risk appetite and risk management frameworks. The EC is also accountable for implementation of an appropriate risk and compliance culture and monitoring the Company's 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, Asset/Liability, Capital Management, Operational Risk, Disclosure, and Executive Project Review) recommend policies for approval as proposed by the lines of business, with review by ERM and/or Corporate Compliance, proactively monitor and challenge management of specific risks under their mandates, and provide reporting to a Board Committee on risk profile compared to the Board-approved risk appetite and risk limits.

- The ERM group is mandated to work with management and the Board to support sustainable business performance through the independent identification, measurement, monitoring and reporting of all significant risks to the Company, regardless of source. Working closely with management and the Risk and Capital Committee of the Board, the ERM group recommends the Company's overall risk appetite and limits, develops and maintains an enterprise risk management framework and related risk governance structure to enable effective management of risk. It provides monitoring and oversight of the implementation of the risk appetite and risk management frameworks, including providing independent challenge and a current view of the Company's risk profile by monitoring actual exposures 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 enterprise-wide compliance framework (a set of controls and oversight processes) designed to mitigate the Company's compliance risk. The Corporate Compliance group is an independent function that promotes a sound risk and compliance culture. 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 Executive Management on the effectiveness of governance, risk management and internal control processes.
- The Finance group compiles the Company's financial statements and financial and capital plans for recommendation to the Executive Committee and Board, and reports to management and 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.

Risk Management Tools

The Company's risk management framework is supported by a number of tools, as discussed below, that are used in conjunction with the Company's risk appetite framework. These are regularly reviewed and updated to ensure consistency with risk-taking activities and ongoing relevance to the Company's strategies, and financial and capital plans.

Risk Identification and Assessment

The Company uses a risk and control self-assessment program to proactively identify its exposure to key risks and assesses the effectiveness of related mitigation strategies. Risk assessments are also performed on regulatory compliance management and significant new initiatives (e.g., products, services, technologies, or potential acquisitions) by business and support groups, and other internal subject matter experts.

Risk Policies and Limits

The Company maintains policies, guidelines, delegated lending authorities, risk limits and an internal control framework designed to ensure that business activities are conducted within the Company's risk appetite. Risk policies and guidelines are reviewed regularly and challenged by management risk committees, and key policies and frameworks are reviewed, challenged and approved by the Board.

Risk Measurement

The ability to measure risks is a key component of the Company's risk management framework. The Company's risk measurement processes align with regulatory requirements such as liquidity measures, leverage ratios, capital adequacy and stress testing. While quantitative risk measurement is important, reliance is also placed on qualitative factors for those risk types that are difficult to quantify. The Company uses various risk measurement methodologies including scenario and sensitivity analysis, stress testing, risk limits, provision for credit losses, and internal and external operational risk event monitoring.

Stress Testing

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. Management analyzes the outcomes from stress testing and, where applicable, takes proactive measures to mitigate potential risks to the business.

Risk Monitoring and Reporting

Enterprise and business level risk monitoring and reporting processes are designed to ensure that risks and issues are identified, escalated and managed on a timely basis. The Company monitors external developments, key risk indicators and early warning indicators to identify and provide timely responses to emerging risk issues and other changes in risk profile before risk appetite limits are reached. ERM, management risk committees and the Board regularly monitor the Company's risk profile in relation to risk appetite and related limits, with timely escalation of issues requiring broader attention and/or approval.

In addition to the above, risk-specific presentations are provided to and discussed with management risk committees and the Board periodically.

The following sections describe the principal risk types and how they are managed.

Strategic Risk

Strategic risk is the risk to earnings, capital or corporate value arising from making inappropriate strategic choices, lack of responsiveness to changes in the financial services and operating environment, or the inability to successfully implement selected strategies, related plans and decisions. Strategic risk is managed by the EC. On a regular basis, the EC reviews the current business environment, including regulatory developments 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, risk limits, a Board-approved Credit Risk Policy, delegated lending authorities, 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, Capital Management Committee, the ERM group, and the Risk and Capital Committee of the Board provide oversight of 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)	**2016**	2015	2014
Total loans balance (net of individual allowances)	**$ 17,957,399**	$ 18,133,665	$ 18,262,816
Mortgage Portfolio[1]			
Total mortgage portfolio balance (net of individual allowance)	**$ 17,208,820**	$ 17,465,983	$ 17,746,378
Residential mortgages as a percentage of total mortgages	**88.6%**	91.5%	93.8%
Non-residential mortgages as a percentage of total mortgages	**11.4%**	8.5%	6.2%
Percentage of insured residential mortgages[2]	**20.0%**	23.7%	27.7%
Percentage of mortgages current	**98.3%**	98.2%	97.9%
Percentage of mortgages over 90 days past due	**0.3%**	0.3%	0.3%
Percentage of insured residential mortgage originations	**27.7%**	22.1%	23.7%
Loan-to-value ratio of residential mortgages (current uninsured)[3]	**65.0%**	66.4%	66.7%
Credit Card and Lines of Credit Portfolio			
Total credit card and lines of credit portfolio balance	**$ 369,678**	$ 370,825	$ 330,327
Percentage of Equityline *Visa* credit cards	**86.8%**	86.6%	95.3%
Percentage of secured credit cards	**4.0%**	3.9%	3.8%
Percentage of credit cards and lines of credit current	**98.2%**	98.5%	97.8%
Percentage of credit cards and lines of credit over 90 days past due	**0.4%**	0.4%	0.6%
Loan-to-value ratio of Equityline *Visa* (current)[3]	**63.2%**	62.9%	62.4%
Visa card security deposits	**$ 21,253**	$ 20,646	$ 18,787
Total authorized limits of credit cards and lines of credit	**$ 515,947**	$ 511,283	$ 430,906
Total number of credit cards and lines of credit issued	**42,707**	40,355	33,853
Average balance authorized	**$ 12**	$ 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 without any price adjustment. For Equityline *Visa*, loan-to-value includes both the first mortgage and the secured Equityline *Visa* balance.

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 Company's risk appetite. 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 as well as through collateral in the form of real property. Loan-to-value (LTV) is a key credit risk indicator. Please see Tables 41 and 42 for further information. In certain situations the Company may make referrals to private lenders where the loan terms and conditions requested by the client are not able to be satisfied by the Company.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. High-rise condominiums represent 9.0% of the residential mortgage portfolio and, of these, 23.1% are insured. The average current LTV of the condominium portfolio was 60.9% at the end of December 2016. The credit performance of the condominium portfolio is strong and within the Company's expectations, with 98.3% of the portfolio current and 0.3% over 90 days past due.

The Company continues to monitor its exposure and the credit performance of mortgages in energy-producing regions, including Alberta, Saskatchewan, and Newfoundland and Labrador. At December 31, 2016, 2.6% of the uninsured mortgage portfolio was in these regions, with an average LTV of 60.6% and with 96.9% of the mortgages 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.

Consumer Lending

Credit card and Equityline *Visa* balances were $369.7 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 63.2% at the end of the year compared to 62.9% at the end of 2015. 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, 2016, $2.4 million or 0.4% of the credit card and lines of credit portfolio was over 90 days in arrears, compared to $1.6 million or 0.4% at December 31, 2015.

Other consumer retail loans are primarily secured by charges on financed assets, primarily improvements to residential property or fixtures.

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.

Table 37: Non-performing Loans and Allowances

(000s, except %)	2016		2015		Change	
	Gross	**Net**[1]	Gross	Net[1]	Gross	Net[1]
Single-family residential mortgages	**$ 49,834**	**$ 47,854**	$ 49,285	$ 47,633	1.1%	0.5%
Residential commercial mortgages	**-**	**-**	-	-	-	-
Non-residential commercial mortgages	**4,577**	**4,547**	2,558	2,218	78.9%	105.0%
Credit card loans and lines of credit	**2,049**	**1,269**	1,518	1,189	35.0%	6.7%
Other consumer retail loans	**411**	**-**	161	-	155.3%	-
Non-performing loans	**56,871**	**53,670**	53,522	51,040	6.3%	5.2%
Total gross loans	**$ 17,960,600**		$ 18,136,147		(1.0)%	
Net non-performing loans as a % of gross loans		**0.30%**		0.28%		
Total allowance for credit losses		**$ 41,715**		$ 39,632		
Total allowance as a % of gross loans		**0.23%**		0.22%		
Total allowance as a % of gross non-performing loans		**73.35%**		74.05%		
Net write-offs as a % of gross loans		**0.03%**		0.04%		

[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 operations, 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 $5.8 million or 0.03% of gross loans in 2016, compared to $6.9 million or 0.04% of gross loans in 2015. The Company continually monitors arrears and write-offs and deals quickly with non-performing loans.

Table 38: Allocation of Allowance for Credit Losses

(000s)	2016 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2016 Ending Balance
Individual allowances				
Single-family residential mortgages	**$ 2,491**	**$ (3,087)**	**$ 3,917**	**$ 3,321**
Residential commercial mortgages	**-**	**(2)**	**2**	**-**
Non-residential commercial mortgages	**397**	**(515)**	**246**	**128**
Credit card loans and lines of credit	**329**	**(1,928)**	**2,379**	**780**
Other consumer retail loans	**166**	**(275)**	**532**	**423**
Total individual allowance	**3,383**	**(5,807)**	**7,076**	**4,652**
Collective allowance				
Single-family residential mortgages	**22,232**	**-**	**800**	**23,032**
Residential commercial mortgages	**327**	**-**	**-**	**327**
Non-residential commercial mortgages	**9,500**	**-**	**-**	**9,500**
Credit card loans and lines of credit	**3,890**	**-**	**14**	**3,904**
Other consumer retail loans	**300**	**-**	**-**	**300**
Total collective allowance	**36,249**	**-**	**814**	**37,063**
Total allowances	**$ 39,632**	**$ (5,807)**	**$ 7,890**	**$ 41,715**

(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

[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 has security in the form of real property or cash deposits for virtually the entire loan portfolio. The Company maintains an allowance for credit losses in accordance with IFRS which represents management's best estimate of impairment incurred in the loan portfolio. The allowance is reviewed quarterly at a minimum. The Company records individual allowances for credit losses for loans that are specifically identified as impaired based on factors such as borrower performance. In addition, the Company records a collective allowance to estimate incurred credit losses inherent in the portfolio but not yet individually identified. Key factors in determining these estimates are credit scores, past loss experience, delinquency trends, loan-to-value ratios and general economic conditions. At December 31, 2016, the collective allowance was $37.1 million, ($36.2 million - December 31, 2015), representing more than the cumulative total net write-offs over the past 36 months.

Current accounting standards do not permit the Company to carry allowances for possible or future losses. This risk is considered in the determination of the appropriate level of capital supporting the Company's operations. The Company holds capital for possible further credit losses. This includes capital required by regulation (see Table 32) and additional capital amounts as recommended by management and approved by the Board. The Company uses stress testing and scenario analysis to challenge the adequacy of the capital appropriated for credit risk. As at December 31, 2016, the Company held total regulatory capital at 162% of the regulatory minimum. A substantial portion of this is appropriated for credit risk.

On the adoption of IFRS 9 in 2018, the accounting standards relating to credit losses will change such that forward-looking information regarding the possibility of future losses will be considered in the determination of allowances for credit losses. Please refer to Note 3 in the consolidated financial statements included in this report for further information on the adoption of IFRS 9.

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

(000s, except %)									**2016**
		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	**$**	**286,444**	**32.1%**	**$**	**603,377**	**67.6%**	**$**	**2,585**	**0.3%**	**$**	**892,406**
Alberta		**298,432**	**47.9%**		**314,519**	**50.5%**		**10,347**	**1.6%**		**623,298**
Ontario		**1,950,188**	**15.7%**		**10,145,301**	**81.8%**		**304,468**	**2.5%**		**12,399,957**
Quebec		**99,465**	**25.1%**		**295,017**	**74.6%**		**1,217**	**0.3%**		**395,699**
Other		**192,093**	**56.8%**		**143,783**	**42.5%**		**2,268**	**0.7%**		**338,144**
	$	**2,826,622**	**19.3%**	**$**	**11,501,997**	**78.5%**	**$**	**320,885**	**2.2%**	**$**	**14,649,504**

(000s, except %)											2015
		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

[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

(000s, except %)											**2016**
		≤20 Years		**> 20 and ≤ 25 Years**		**> 25 and ≤ 30 Years**		**> 30 and ≤ 35 Years**		**> 35 Years**	**Total**
Balance outstanding	**$**	**696,937**	**$**	**2,329,016**	**$**	**11,227,579**	**$**	**72,348**	**$**	**2,739**	**$ 14,328,619**
Percentage of total		**4.9%**		**16.3%**		**78.3%**		**0.5%**		**0.0%**	**100.0%**

(000s, except %)											2015
		≤ 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%

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

	2016		2015	
	Uninsured Residential Mortgages[1]	**Equityline *Visa***[1]	Uninsured Residential Mortgages[1]	EquityLine *Visa*[1]
British Columbia	**63.6%**	**52.4%**	67.6%	56.0%
Alberta	**69.4%**	**44.1%**	71.5%	48.0%
Ontario	**72.9%**	**63.9%**	73.9%	63.4%
Quebec	**69.3%**	**65.3%**	70.0%	58.2%
Other	**72.4%**	**58.9%**	70.7%	58.2%
Total	**72.2%**	**63.8%**	73.3%	63.3%

[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 mortgage portfolio and performs regular and ad-hoc stress testing. Stress testing includes scenarios that are based on a combination of increasing unemployment, rising interest rates, and a decline in real estate values, as well as specific operational, market and single-factor stress tests. The probability of default in the residential mortgage portfolio is most closely correlated with changes in employment rates. Consequently, during an economic downturn, either regionally or nationally, the Company would expect an increased rate of default and also an increase in credit losses arising from lower real estate values. 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 events, albeit with increases to credit losses. The total single-family residential mortgage portfolio including HELOC was $14.65 billion as of December 31, 2016, of which $2.83 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.

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, 2016, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 60.9% compared to 63.7% at the end of 2015. These average current LTVs were estimated with appraised property values adjusted for price changes by using the Teranet-National Bank home price index. This index provides changes in prices for all of Canada by region using the first three digits of the postal code in which the property is located. The Company began using this index for reporting LTVs as at December 31, 2016. For previous periods, the Company had used Teranet's publicly available 11-city composite index for property price adjustment. The new index provides more granular adjustments in property prices and where those property price adjustments have resulted in increased prices, the reported LTVs have decreased with use of the new index accordingly. For comparability, the LTVs presented in the table below for December 31, 2015 have been restated from previous disclosures using the new 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 weighted-average LTV for each significant market is indicated below.

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

	2016			2015		
	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]	Percentage of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to	
		75%	65%		75%	65%
British Columbia	**52.0%**	**98.4%**	**89.1%**	57.3%	95.6%	75.3%
Alberta	**65.0%**	**81.1%**	**46.8%**	65.4%	81.3%	45.1%
Ontario	**61.2%**	**85.7%**	**59.0%**	63.9%	84.5%	48.3%
Quebec	**62.8%**	**92.1%**	**53.4%**	64.6%	88.2%	46.1%
Other	**62.1%**	**86.4%**	**54.5%**	62.9%	85.2%	53.6%
Total	**60.9%**	**86.4%**	**60.1%**	63.7%	85.1%	49.4%

[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

Market Risk is the potential for adverse changes in the value of assets, liabilities or earnings resulting from changes in market variables such as interest rates, equity prices and counterparty credit spreads. 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 of earnings and capital from changes in security prices and dividends in the investment portfolio, whether they arise from macroeconomic factors, the economic prospects of the issuer, or the availability of liquid markets among other factors. The Company's investment portfolio consists primarily of preferred shares at 36.2% of the portfolio and government bonds at 63.0% of the portfolio. The total balance was $534.9 million at December 31, 2016 compared to $453.2 million at the end of 2015.

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 ERM group conducts analysis of counterparties to assess if credit deterioration has resulted in an impairment of the investments. 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. The ERM group recommends prudential policies, reviews procedures and guidelines, and provides enterprise-wide oversight and challenge of investment risk, including valuations.

As of December 31, 2016, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events during the year in relation to its preferred share or debt holdings.

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 proportion of overall funding from high-interest savings demand deposits continues to increase and, while this benefits the Company in funding diversification and lowering funding costs, the risk of funding mismatch also increases given the term profiles of the Company's assets.

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, deposits, and CMB liabilities. 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, 2016 and December 31, 2015 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.

Table 43: Interest Rate Sensitivity

thousands of Canadian dollars, except %								**As at December 31, 2016**
	Floating Rate	0 to 3 Months[1]	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	**$ 505,649**	**$ 699,745**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,205,394**
Weighted-average interest rate	**0.9%**	**0.7%**	**-**	**-**	**-**	**-**	**-**	**0.8%**
Available for sale securities	**-**	**71,694**	**16,461**	**11,050**	**429,921**	**5,798**	**-**	**534,924**
Weighted-average interest rate	**-**	**4.4%**	**4.0%**	**4.1%**	**1.5%**	**3.6%**	**-**	**2.1%**
Loans held for sale	**-**	**-**	**-**	**-**	**12,879**	**65,039**	**-**	**77,918**
Weighted-average interest rate	**-**	**-**	**-**	**-**	**1.9%**	**2.6%**	**-**	**2.5%**
Securitized mortgages	**-**	**834,641**	**38,517**	**47,447**	**1,606,199**	**-**	**-**	**2,526,804**
Weighted-average interest rate	**-**	**2.2%**	**3.6%**	**3.0%**	**3.5%**	**-**	**-**	**3.1%**
Non-securitized mortgages and loans	**-**	**3,536,255**	**2,015,900**	**5,625,534**	**4,175,070**	**50,838**	**(10,065)**	**15,393,532**
Weighted-average interest rate	**-**	**5.0%**	**4.8%**	**4.7%**	**4.8%**	**5.5%**	**-**	**4.8%**
Other assets	**-**	**205,095**	**5,333**	**4,975**	**87,495**	**-**	**487,307**	**790,205**
Weighted-average interest rate	**-**	**0.7%**	**1.9%**	**2.0%**	**0.8%**	**-**	**-**	**0.3%**
Total	**$ 505,649**	**$ 5,347,430**	**$ 2,076,211**	**$ 5,689,006**	**$ 6,311,564**	**$ 121,675**	**$ 477,242**	**$ 20,528,777**
Weighted-average interest rate	**0.9%**	**3.8%**	**4.8%**	**4.7%**	**4.2%**	**3.8%**	**-**	**4.1%**
Liabilities and shareholders' equity								
Deposits payable on demand	**$ 2,358,084**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 173,719**	**$ 2,531,803**
Weighted-average interest rate	**1.4%**	**-**	**-**	**-**	**-**	**-**	**-**	**1.3%**
Deposits payable at a fixed rate	**-**	**1,626,102**	**2,034,495**	**3,274,977**	**6,418,653**	**-**	**-**	**13,354,227**
Weighted-average interest rate	**-**	**1.8%**	**2.0%**	**1.8%**	**2.3%**	**-**	**-**	**2.1%**
Securitization liabilities	**-**	**1,041,593**	**-**	**81,416**	**1,526,640**	**-**	**-**	**2,649,649**
Weighted-average interest rate	**-**	**1.1%**	**-**	**1.5%**	**2.7%**	**-**	**-**	**2.0%**
Other liabilities	**-**	**3,490**	**-**	**-**	**-**	**-**	**372,416**	**375,906**
Weighted-average interest rate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**1,617,192**	**1,617,192**
Weighted-average interest rate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 2,358,084**	**$ 2,671,185**	**$ 2,034,495**	**$ 3,356,393**	**$ 7,945,293**	**$ -**	**$ 2,163,327**	**$ 20,528,777**
Weighted-average interest rate	**1.4%**	**1.5%**	**2.0%**	**1.8%**	**2.4%**	**-**	**-**	**1.8%**
	$ (1,852,435)	**$ 2,676,245**	**$ 41,716**	**$ 2,332,613**	**$ (1,633,729)**	**$ 121,675**	**$ (1,686,085)**	**$ -**
Credit commitments	**-**	**(1,282,939)**	**27,107**	**63,538**	**1,179,369**	**12,925**	**-**	**-**
Weighted-average interest rate	**-**	**4.4%**	**5.5%**	**5.6%**	**4.3%**	**2.5%**	**-**	**-**
Interest rate sensitivity gap	**$ (1,852,435)**	**$ 1,393,306**	**$ 68,823**	**$ 2,396,151**	**$ (454,360)**	**$ 134,600**	**$ (1,686,085)**	**$ -**
Cumulative gap	**$ (1,852,435)**	**$ (459,129)**	**$ (390,306)**	**$ 2,005,845**	**$ 1,551,485**	**$ 1,686,085**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**(9.0)%**	**(2.2)%**	**(1.9)%**	**9.8%**	**7.6%**	**8.2%**	**-**	**-**

thousands of Canadian dollars, except %								As at December 31, 2015
	Floating Rate	0 to 3 Months[1]	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	-	-	430,807	691,524
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	$ 423,073	$ 20,527,062
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	-	-	-	-	302,515	307,962
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	$ -	$ 2,089,876	$ 20,527,062
Weighted-average interest rate	1.4%	1.4%	2.2%	1.9%	2.4%	-	-	1.8%
	$ (1,553,114)	$ 3,410,114	$ (123,998)	$ 2,025,666	$ (2,406,985)	$ 315,120	$ (1,666,803)	$ -
Credit commitments	-	(1,121,096)	20,549	46,307	1,054,070	170	-	-
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%	-	-

[1] Total assets in the 0-3 month category above include $2.00 billion in variable rate mortgages (2015 - $2.01 billion)

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 or decrease in interest rates on net interest income and on the economic value of shareholders' equity and OCI, corresponding to an interest rate environment that is floored at 0%.

Table 44: Impact of Interest Rate Shifts

(000s)	December 31 2016	December 31 2015	December 31 2016	December 31 2015
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 4,024**	$ 11,052	**$ (5,696)**	$ (9,525)
Impact on net present value of shareholders' equity	**4,438**	25,913	**(6,415)**	(29,092)
Impact on other comprehensive income	**3,265**	2,571	**(2,677)**	(2,007)

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.

Liquidity and Funding Risk

This is the risk that the Company is unable to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its financial obligations (both on- and off-balance sheet) as they fall 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 high-interest savings demand deposit product adds to liquidity risk as depositors are allowed to withdraw deposits on notice in the absence of fixed contractual terms.

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

The Company's annual three-year funding plan assesses future funding needs and how the Company intends to fulfill these requirements as measured against the Company's risk appetite. Securing sustainable diversified funding at a reasonable cost and acceptable level of liquidity risk is fundamental to the Company realizing its future growth potential.

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

The Company uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Company projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Company's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, term deposit runoff, demand deposit runoff, loan growth, liquidity portfolio valuation, loan arrears and write-downs. In addition, the Company regularly monitors a number of other structural liquidity and funding ratios in its overall liquidity and funding 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 %)	**2016**	2015	Change
Cash and cash equivalents per balance sheet	**$ 1,205,394**	$ 1,149,849	4.8%
Available for sale securities per balance sheet	**534,924**	453,230	18.0%
Add: MBS included in residential mortgages	**521,013**	682,772	(23.7)%
	2,261,331	2,285,851	(1.1)%
Less: securities held for investments	**(193,350)**	(190,706)	1.4%
Liquid assets at carrying value	**$ 2,067,981**	$ 2,095,145	(1.3)%
Liquid assets at fair value	**$ 2,142,289**	$ 2,092,390	2.4%
Liquid assets at carrying value as a % of total assets	**10.1%**	10.2%	(0.1)%

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 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. 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 and Home Bank high-interest savings account offerings which are demand deposits, bank-sponsored conduit funding, and the issuance of institutional fixed-term deposit notes. The portion of overall funding from demand deposits continues to increase and attracts lower funding costs. The Company expects further opportunities for future deposit funding diversification through its bank subsidiary, Home Bank.

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 liquidity and funding risk.

OSFI Liquidity Requirements

As required by OSFI's Liquidity Adequacy Requirements (LAR), 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.

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, reputational harm, or regulatory enforcement actions, among others. Operational risk is inherent in every business and support activity, including the practices for managing other risks such as credit, compliance and liquidity and funding risk. The Company has taken proactive steps to mitigate this risk in order to create and sustain shareholder value, execute on business strategies and operate effectively. Strategies to manage operational risk include mitigation by controls as well as risk avoidance, transfer, and acceptance. Oversight of the operational risk framework is provided by the ERM group, the Operational Risk Committee, and the Audit and Risk and Capital Committees of the Board.

The Company continues to strengthen its operational risk framework which includes the following components:

- Risk and control self-assessments are applied at the line of business and business unit levels as well as for significant processes in the Company. Business process mapping supports the analysis of risks and controls at the process level.
- The new initiative risk assessment process requires risks to be identified and assessed for new initiatives including new or changed products, processes and systems, joint ventures and other corporate development activities.
- Subject-matter experts with expertise in privacy, security, data governance, legal, and other areas have been designated to assist in risk assessments.
- Risks are monitored on an ongoing basis through the use of key risk indicators which have established limits and thresholds aligned with the Company's risk appetite.
- Internal and external operational risk events are regularly reported along with root cause analysis and action plans as required.
- Risk mitigation action plans established for identified risks are regularly tracked and reported.
- Stress testing and scenario analysis have included scenarios such as earthquakes, pandemics, cyber-attacks, active shooters, and fraud scenarios.
- Information/Cyber Security, Business Continuity Management and Data Recovery programs have been established and are subject to regular testing.
- Through the model risk management program, key models are independently vetted and validated before use, and model performance is monitored on an ongoing basis.
- The Data Governance program is focused on providing accurate, complete and timely information to support decision-making.
- Third-party risk management programs require that appropriate risk assessment and due diligence be performed before engaging in business with third-party service providers and on a periodic basis going forward.
- The Company manages a portfolio of insurance and other risk mitigating arrangements. The insurance terms and provisions, including types and amounts of coverage in the portfolio, are continually assessed to ensure that both the Company's tolerance for risk and, where applicable, statutory requirements are satisfied.

Compliance Risk

Compliance risk refers to the risk of non-compliance with laws, regulations, guidelines, an undertaking to a regulatory authority or provision, section, subsection, order, term or condition, including related internal policies and procedures. 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 and corporate functions 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 Regulatory 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 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 of this MD&A for further information.

Oversight of the management of capital adequacy risk is provided by the ERM group, Finance, the Capital Management Committee and the Risk and Capital Committee of the Board.

Reputational Risk

Reputational risk is the risk that stakeholder impressions, whether true or not, regarding the Company's business practices, actions or inactions, will adversely affect the Company's earnings, economic value, capital, or ability to maintain existing or establish new business relationships and continued access to sources of funding.

The objective of reputational risk management is to protect and enhance the Company's reputation by building and maintaining stakeholder confidence and trust that the Company can deliver on its promises. The Company has adopted a reputational risk management framework which provides an overview of its approach for this type of risk, focusing on risk management principles, stakeholder management, and organizational accountabilities for the prevention and detection of reputational risk vulnerabilities. The Company's approach to the management of this risk combines the experience and knowledge applied in the management of other risk types with a corporate understanding of potential consequences to the Company.

Risk Factors That May Affect Future Results

The Company is exposed to a variety of continually changing risks that have the potential to 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.

Top and Emerging Risks

Greater Toronto Area (GTA) Housing Market and Canadian Consumer Debt

There have been substantial increases in real estate prices in the GTA over a sustained period of time. In addition, Canadian household indebtedness continues to outpace growth in household incomes fueled by persistently low interest rates and stable employment levels. While interest rates are expected to remain relatively low in the foreseeable future, concerns remain that higher interest rates or unemployment levels could trigger a correction in the housing market, putting pressure on the ability of households to repay their debts, including mortgages, with a corresponding increase in the Company's credit losses. In addition, the Canadian government recently introduced regulatory changes to tighten origination criteria on insured mortgages, and announced a public consultation on risk sharing for insured mortgages. While these measures are expected to reduce pricing pressure, it is too early to estimate the nature and extent of the impact. The Company believes the risk of a severe housing correction in the GTA to be unlikely, and stress testing results suggest that even a severe real estate decline in the GTA would lead to manageable losses.

Legal and Regulatory Risk

The Company is subject to a variety of regulations and related oversight. Although the Company maintains a framework and controls to address compliance with existing laws and regulations, and monitors and assesses the potential impact of regulatory developments and implements any necessary changes, regulators and/or private parties may challenge the interpretation or implementation of such compliance. Failure to comply with legal and regulatory requirements could result in fines, penalties, litigation, regulatory sanctions and limitations, all of which could have a negative impact on the Company's financial performance, reputation and ability to operate as a regulated entity.

Third Party Service Providers

The Company recognizes the value of using third parties to support its business activities, as they provide access to customers, applications, processing, products and services, specialized expertise, economies of scale and operational efficiencies. However, they also create reliance on the continuity, reliability, integrity and security of these relationships, and their associated people, processes and technology. While the Company has implemented a framework and controls to manage key supplier and other vendor risks (including maintenance of a list of prohibited third-party service providers), third-party service provider failures or disruptions could result in adverse effects including customer service disruptions, financial loss and damage to the Company's reputation. The Company has developed and implemented business continuity management plans and related testing that include areas of significant vendor reliance.

Other Factors That May Affect Future Results

Cyber Security and Fraud

As a financial institution, the Company is exposed to a variety of types of fraud and other financial crime, including cyber-crime. The scale, scope, complexity and velocity of these crimes is increasing. In deciding to extend credit or enter into other transactions with customers or counterparties, the Company may rely on information provided by or on behalf of such other parties including financial statements and other financial information, or on representations made by customers as to the completeness and accuracy of such information. Despite the Company's commitment to information security and cyber-security, as well as fraud prevention and detection, the Company may not be able to fully mitigate all risks associated with the increased sophistication and high rate of change in the threat landscape. In addition to the risk of service disruptions and financial loss that could result from a financial crime, stakeholder and market confidence in the Company could potentially be impacted.

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.

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 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 of this MD&A and within the notes to the consolidated financial statements.

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, 2016. 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, 2016.

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 the authorizations of management and the Board; 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, 2016. 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, 2016.

Changes in Internal Control over Financial Reporting

There were no significant changes in 2016 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 2016 audited consolidated financial statements. Please see Note 2 to the consolidated financial statements included in this report for further information.

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

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

Adjusted Net Income and Adjusted Earnings per Share

Items of note are removed from reported results in determining adjusted results. Adjusted results are designed to provide a better understanding of how management assesses underlying business performance and to facilitate a more informed analysis of trends. Adjusted results are determined after removing items of notes from reported results.

The Company presents 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 2016 included an additional gain recognized on acquisition of CFF Bank, certain severance and other related costs, an adjustment for a goodwill impairment loss and an adjustment for an intangible assets impairment loss. The item of note for 2015 is the after-tax acquisition and integration costs, net of gain recognized on CFF Bank acquisition. Please see Items of Note in the Financial Highlights section of this MD&A for more information. Total revenue, return on shareholders' equity and efficiency ratios are also presented on an adjusted basis (see definitions below).

Reconciliation of Net Income to Adjusted Net Income

(000s, except per share amounts)	**Q4 2016**	Q3 2016	Q4 2015	**2016**	2015
Net income	$ 50,706	$ 66,190	$ 70,239	$ 247,396	$ 287,285
Adjustment for acquisition and integration costs, net of gain recognized on acquisition of CFF Bank (net of tax)	-	-	1,572	(478)	1,572
Adjustment for severance and other related costs (net of tax)	-	-	-	3,727	-
Adjustment for goodwill impairment loss (net of tax)	9,000	-	-	9,000	-
Adjustment for intangible assets impairment loss (net of tax)	3,769	-	-	3,769	-
Adjusted net income	$ 63,475	$ 66,190	$ 71,811	$ 263,414	$ 288,857
Adjusted basic earnings per share	$ 0.98	$ 1.01	$ 1.02	$ 3.96	$ 4.12
Adjusted diluted earnings per share	$ 0.98	$ 1.01	$ 1.02	$ 3.95	$ 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 were 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 the Capital Management section of this MD&A and 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 and adjusted expenses. 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 a 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 the Capital Management section in this MD&A and 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 $3.7 million for 2016 ($3.8 million – 2015) 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 4 for the calculation of net interest income on a taxable 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.

Total Revenue and Adjusted Total Revenue

Total revenue is a measure of the gross revenues earned by the Company before interest and non-interest expenses, provision for credit losses and income taxes. Total revenue is the sum of gross interest and dividend income and non-interest income. Total adjusted revenue is the total revenue adjusted for the items of note referred to above on a pre-tax basis.

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 are a contract between two parties, which requires little or no initial investment and where payments between the parties are dependent upon the movements in price of an underlying instrument, index or financial rate. Examples of derivatives include swaps, options, forward rate agreements and futures. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

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 Company uses interest rate swaps and total return swaps. An interest rate swap is an agreement where counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency. A total return swap is an agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains.

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

CVA – Credit Valuation Adjustment

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

HELOC – Home Equity Line of Credit

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

LTV – Loan to Value (ratio expressed as a percentage)

MBS – Mortgage-Backed Security

MD&A – Management's Discussion and Analysis

NCCF – Net Cumulative Cash Flow

NHA – National Housing Act

OCI – Other Comprehensive Income

OSFI – Office of the Superintendent of Financial Institutions Canada

TEB – Taxable Equivalent Basis

Consolidated Financial Statements

Home Capital Group Inc.

December 31, 2016

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Management's Responsibility for Financial Information

The consolidated financial statements and Management's Discussion and Analysis (MD&A) of Home Capital Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for publicly accountable enterprises, which are International Financial Reporting Standards as issued by the International Accounting Standards Board, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiaries, Home Trust Company and Home 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, 2016, 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.

Martin Reid
President and Chief Executive Officer
Toronto, Canada
February 8, 2017

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, 2016 and 2015, 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' judgment, 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, 2016 and 2015, and its financial performance and its cash flows for the years ended then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

February 8, 2017

Consolidated Balance Sheets

		As at
thousands of Canadian dollars	**December 31 2016**	December 31 2015
ASSETS		
Cash and Cash Equivalents (note 4(A))	**$ 1,205,394**	$ 1,149,849
Available for Sale Securities (notes 4(B) and (C))	**534,924**	453,230
Loans Held for Sale	**77,918**	135,043
Loans (note 5)		
Securitized mortgages (note 6(A))	**2,526,804**	2,674,475
Non-securitized mortgages and loans	**15,430,595**	15,459,190
	17,957,399	18,133,665
Collective allowance for credit losses (note 5(E))	**(37,063)**	(36,249)
	17,920,336	18,097,416
Other		
Restricted assets (note 7)	**265,374**	195,921
Derivative assets (note 19)	**37,524**	64,796
Other assets (note 8)	**348,638**	287,417
Deferred tax assets (note 17(C))	**16,914**	15,043
Goodwill and intangible assets (notes 9 and 10)	**121,755**	128,347
	790,205	691,524
	$ 20,528,777	$ 20,527,062
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (note 11)		
Deposits payable on demand	**$ 2,531,803**	$ 1,986,136
Deposits payable on a fixed date	**13,354,227**	13,679,822
	15,886,030	15,665,958
Senior Debt (note 12)	**-**	151,480
Securitization Liabilities (note 6(B))		
CMHC-sponsored mortgage-backed security liabilities	**898,386**	531,326
CMHC-sponsored Canada Mortgage Bond liabilities	**1,637,117**	2,249,230
Bank-sponsored securitization conduit liabilities	**114,146**	-
	2,649,649	2,780,556
Other		
Derivative liabilities (note 19)	**3,490**	5,447
Other liabilities (note 13)	**336,132**	264,941
Deferred tax liabilities (note 17(C))	**36,284**	37,574
	375,906	307,962
	18,911,585	18,905,956
Shareholders' Equity		
Capital stock (note 14)	**84,910**	90,247
Contributed surplus	**4,562**	3,965
Retained earnings	**1,582,785**	1,592,438
Accumulated other comprehensive loss (note 16)	**(55,065)**	(65,544)
	1,617,192	1,621,106
	$ 20,528,777	$ 20,527,062

Commitments and Contingencies (note 18)

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

On behalf of the Board:

Martin Reid
President and Chief Executive Officer

Robert A. Mitchell
Chair of Audit Committee

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts	For the year ended **December 31 2016**	December 31 2015
Net Interest Income Non-Securitized Assets		
Interest from loans (note 5(F))	**$ 768,034**	$ 769,562
Dividends from securities	**10,112**	10,620
Other interest	**11,073**	7,951
	789,219	788,133
Interest on deposits and other	**315,919**	318,597
Interest on senior debt	**2,243**	6,396
Net interest income non-securitized assets	**471,057**	463,140
Net Interest Income Securitized Loans and Assets		
Interest income from securitized loans and assets (note 5(F))	**81,705**	103,841
Interest expense on securitization liabilities	**67,598**	85,891
Net interest income securitized loans and assets	**14,107**	17,950
Total Net Interest Income	**485,164**	481,090
Provision for credit losses (note 5(E))	**7,890**	8,933
	477,274	472,157
Non-Interest Income		
Fees and other income	**71,329**	82,632
Securitization income (note 6(C))	**33,797**	26,208
Gain on acquisition of CFF Bank (note 23)	**651**	2,056
Net realized and unrealized (losses) gains on securities	**(175)**	836
Net realized and unrealized losses on derivatives (note 19)	**(8,807)**	(7,939)
	96,795	103,793
	574,069	575,950
Non-Interest Expenses		
Salaries and benefits	**101,880**	88,873
Premises	**14,505**	12,274
Other operating expenses	**122,554**	89,526
	238,939	190,673
Income Before Income Taxes	**335,130**	385,277
Income taxes (note 17(A))		
Current	**90,895**	98,481
Deferred	**(3,161)**	(489)
	87,734	97,992
NET INCOME	**$ 247,396**	$ 287,285
NET INCOME PER COMMON SHARE (note 14(D))		
Basic	**$ 3.71**	$ 4.09
Diluted	**$ 3.71**	$ 4.09
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (note 14(D))		
Basic	**66,601**	70,170
Diluted	**66,668**	70,323
Total number of outstanding common shares (note 14(B))	**64,388**	69,978
Book value per common share	**$ 25.12**	$ 23.17

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 2016**	December 31 2015
NET INCOME	**$ 247,396**	$ 287,285
OTHER COMPREHENSIVE INCOME (LOSS)		
Available for Sale Securities and Retained Interests		
Net unrealized gains (losses)	**11,852**	(61,991)
Net losses (gains) reclassified to net income	**204**	(917)
	12,056	(62,908)
Income tax expense (recovery)	**3,179**	(16,684)
	8,877	(46,224)
Cash Flow Hedges (note 19)		
Net unrealized gains (losses)	**1,035**	(2,449)
Net losses reclassified to net income	**1,147**	1,474
	2,182	(975)
Income tax expense (recovery)	**580**	(260)
	1,602	(715)
Total other comprehensive income (loss)	**10,479**	(46,939)
COMPREHENSIVE INCOME	**$ 257,875**	$ 240,346

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, 2015	**$ 90,247**	**$ 3,965**	**$ 1,592,438**	**$ (62,466)**	**$ (3,078)**	**$ (65,544)**	**$ 1,621,106**
Comprehensive income	**-**	**-**	**247,396**	**8,877**	**1,602**	**10,479**	**257,875**
Stock options settled (notes 14(B), 15(C))	**1,984**	**(530)**	**-**	**-**	**-**	**-**	**1,454**
Amortization of fair value of employee stock options	**-**	**1,127**	**-**	**-**	**-**	**-**	**1,127**
Repurchase of shares (note 14(C))	**(7,321)**	**-**	**(191,875)**	**-**	**-**	**-**	**(199,196)**
Dividends ($0.98 per share)	**-**	**-**	**(65,174)**	**-**	**-**	**-**	**(65,174)**
Balance at December 31, 2016	**$ 84,910**	**$ 4,562**	**$ 1,582,785**	**$ (53,589)**	**$ (1,476)**	**$ (55,065)**	**$ 1,617,192**
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

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

Consolidated Statements of Cash Flows

	For the year ended	
	December 31	December 31
thousands of Canadian dollars	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 247,396**	$ 287,285
Adjustments to determine cash flows relating to operating activities:		
Amortization of net discount on securities	**(458)**	(169)
Provision for credit losses	**7,890**	8,933
Gain on acquisition of CFF Bank	**-**	(2,056)
Gain on sale of mortgages or residual interest	**(26,972)**	(21,412)
Net realized and unrealized losses (gains) on securities	**175**	(836)
Amortization and impairment losses [1]	**29,686**	12,922
Amortization of fair value of employee stock options	**1,127**	1,581
Deferred income taxes	**(3,161)**	(489)
Changes in operating assets and liabilities		
Loans, net of securitization and sales	**253,837**	205,412
Restricted assets	**(69,453)**	229,833
Derivative assets and liabilities	**27,497**	(24,075)
Accrued interest receivable	**2,668**	1,319
Accrued interest payable	**(1,312)**	4,399
Deposits	**220,072**	1,524,232
Securitization liabilities	**(130,907)**	(1,542,653)
Taxes receivable or payable and other	**2,757**	20,358
Cash flows provided by operating activities	**560,842**	704,584
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(199,196)**	(10,712)
Exercise of employee stock options	**1,454**	4,397
Repayment of senior debt	**(150,000)**	-
Dividends paid to shareholders	**(65,174)**	(61,763)
Cash flows used in financing activities	**(412,916)**	(68,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(203,674)**	(35,020)
Proceeds from sales	**-**	76,924
Proceeds from maturities	**132,932**	25,350
Acquisition of CFF Bank, net of cash acquired	**-**	115,892
Purchases of capital assets	**(2,550)**	(5,302)
Capitalized intangible development costs	**(19,089)**	(25,247)
Cash flows (used in) provided by investing activities	**(92,381)**	152,597
Net increase in cash and cash equivalents during the year	**55,545**	789,103
Cash and cash equivalents at beginning of the year	**1,149,849**	360,746
Cash and Cash Equivalents at End of the Year (note 4(A))	**$ 1,205,394**	$ 1,149,849
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 10,037**	$ 11,656
Interest received	**863,321**	881,749
Interest paid	**388,440**	406,485
Income taxes paid	**84,559**	128,763

[1]Amortization and impairment losses include amortization on capital and intangible assets and impairment losses on intangible assets and goodwill.

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

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 mortgage products and consumer lending. 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. On August 22, 2016, CFF Bank changed its name to Home Bank. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment 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, 2016 were authorized for issuance by the Board of Directors (the Board) of the Company on February 8, 2017. 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 $16.7 million or $0.26 per common share payable on March 1, 2017 to shareholders of record at the close of business on February 17, 2017.

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 2016 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.

The Company consolidates those entities, including structured entities, which 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, Home Bank and PSiGate. Home Trust and PSiGate are wholly owned subsidiaries of Home Capital Group. Home 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, 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. All securities are recognized on the trade date 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 date. 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. A deterioration in credit quality is considered objective evidence of impairment for available for sale debt securities. 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. A significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment for available for sale equity securities. Management will perform a detailed assessment if there has been a significant decline of 20% or more or a prolonged decline of 12 months or more. Since the business model of the Company is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term, all preferred shares are assessed for impairment using a debt impairment model.

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 for which the Company has the intention of securitizing and derecognizing from the consolidated balance sheets in the near term are classified as held for sale 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 securitization 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 sale is determined by discounting the expected future cash flows of the loans at market rates for financial instruments with similar terms and credit risk.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that the Company does not intend to sell immediately or in the near term and that are not quoted in an active market. Loans are initially recognized at fair value and subsequently measured at amortized cost net of the individual allowance for credit losses and any unearned income.

Interest income is recognized using the effective interest rate method and 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. 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 there is objective evidence of deterioration in credit quality to the extent 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. The allowance is increased by the provision for credit losses and decreased by write-offs net of recoveries.

Individual Allowances

Individual allowances are determined on an item-by-item basis and reflect the associated estimate of credit loss. 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 any 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.

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, 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.

Derecognition of Financial Assets

The Company derecognizes a financial asset when the contractual rights to that asset have expired. If substantially all the risks and rewards of ownership of the financial asset have been retained, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received. If substantially all the risks and rewards of ownership of the financial asset have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights or obligations created or retained in the transfer.

The Company periodically pools and securitizes insured mortgages under Canada Mortgage and Housing Corporation's (CMHC) National Housing Act (NHA) Mortgage-Backed Securities (MBS) program and sells the securities to investors or uses the securities as collateral for participation in CMHC's Canada Mortgage Bond (CMB) program. Mortgage loan securitization activities are a part of the Company's funding and liquidity strategies.

Most transfers of pools of mortgages under the MBS and CMB programs do not result in derecognition of the mortgages from the Company's consolidated balance sheets because the Company continues to hold a residual interest. As such, these transactions result in the recognition of securitization liabilities when cash is received and the mortgages are reclassified to securitized residential mortgages on the consolidated balance sheets and continue to be accounted for as loans.

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 the 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 a retained 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. 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 residual interest arising from securitization transactions, resulting in the transfer of 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 recognized as securitization income in non-interest income on the consolidated statements of income.

The Company transfers cash flows from residential mortgages as part of a bank-sponsored securitization conduit program to receive access to cost-effective funding. Mortgages continue to be recognized on the consolidated balance sheets, along with a securitization liability as the risks and rewards of ownership of mortgages have not been transferred.

Restricted Assets

Restricted assets include cash or cash equivalents and securities that are contractually restricted, such as collateral associated with derivative transactions and participation in securitization programs. Restricted assets also include cash, non-Home Trust MBS or treasury bills pledged as 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 uses bond forwards to economically hedge interest rate risk on loans held for sale that are not designated in hedge accounting relationships. 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 non-interest 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 non-interest income.

Fair Value Hedges

Fair value hedges generally use interest rate swaps to hedge changes in the fair value of fixed-rate assets or liabilities (the hedged items) attributable to interest rate risk. Changes in the 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 or loss on derivatives. Changes in the 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 non-interest income immediately.

Cash Flow Hedges

Cash flow hedges 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. Total return swaps are used to hedge the variability in cash flows associated with forecasted future compensation obligations attributable to changes in the Company's stock price.

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 transaction is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in non-interest income.

Capital Assets

Capital assets, which comprise office furniture and equipment, computer equipment and purchased 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	3 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

The Company's intangible assets comprise internally developed software costs and acquired intangible assets. 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.

All of the Company's intangible assets 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 are 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. Goodwill impairment is recorded as non-interest expense 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. Also included in deposits on the consolidated balance sheets are amounts related to fair value hedge accounting that increase or decrease the carrying amount of deposits. Please see Note 19 for more information.

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 increase or decrease the carrying amount of the senior debt. Please see Note 19 for more information.

Income Taxes

Income tax comprises current and deferred tax and is recognized in net income, except to the extent that it relates to items recognized directly in shareholders' equity, in which case the related taxes are also recognized directly in shareholders' equity. 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 temporary 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 determined 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.

Fees and Other Income

Fee income primarily relates to payment services and loan servicing and administration, net of related expenses to service the loans, with the net revenue recognized as the associated services are rendered.

Stock-based Compensation Plans

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

The Company's Employee Stock Option Plan provides for the granting of stock options to certain employees of the Company. In some cases, stock appreciation rights are also granted in tandem with the stock option, providing the Company with, at its sole discretion, the alternative of settling the award in cash at an amount equal to the excess of the market price of the shares to which the option relates over the exercise price of the option. The Company accounts for stock options, including those with tandem stock appreciation rights, as equity-settled transactions where the fair value of options granted is recognized as 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 expense 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) and performance share units (PSUs) to certain key members of management, which are settled in cash equivalents of common shares and earn dividend equivalents at the same rate as dividends on common shares. Salaries and benefits expense is recognized based on the fair value of the share units at the grant date adjusted for changes in fair value between the grant date and the vesting date, net of the effects of hedges, over the service period required for employees to become fully entitled to the awards. Changes in the PSU 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 salaries and benefits expense.

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 consolidated balance sheets. 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.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at December 31, 2016 and therefore have not been applied in preparing these consolidated financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments* (IFRS 9), which replaces IAS 39. IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and general hedge accounting. The Company will be required to adopt IFRS 9 on January 1, 2018 and, as permitted, will not restate comparative period financial information. An adjustment to opening retained earnings will be made upon adoption of IFRS 9 on January 1, 2018.

Consequential amendments were made to IFRS 7, *Financial Instruments: Disclosures* (IFRS 7) related to IFRS 9, which are required to be adopted on January 1, 2018 when the Company adopts IFRS 9. In June 2016, the Office of the Superintendent of Financial Institutions Canada (OSFI) issued its final guideline, *IFRS 9 Financial Instruments and Disclosures*. The guideline sets out OSFI's expectations on the application of IFRS 9 and includes supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks.

Classification and Measurement

Financial assets will be classified and measured based on the Company's business models and the nature of its contractual cash flows. These factors will determine whether financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). These categories replace the existing IAS 39 classifications of available for sale, loans and receivables, and held to maturity. Equity securities are measured at FVTPL unless an election is made for certain equity securities to be measured at FVOCI with no subsequent reclassification to profit or loss. The classification of financial liabilities is largely unchanged. The Company is in the process of defining its business models and assessing the cash flow characteristics for in-scope financial assets.

Impairment

IFRS 9 introduces a forward-looking three-stage expected credit loss (ECL) model that represents an unbiased and probability-weighted amount reflecting a range of possible outcomes. Upon initial recognition of financial assets, entities are required to recognize a 12-month ECL allowance resulting from default events that are possible within the next 12 months (Stage 1). If there has been a significant increase in credit risk, an entity is required to recognize a lifetime ECL allowance resulting from possible default events over the expected life of the financial instrument (Stage 2). This assessment must consider all reasonable and supportable information including forward-looking information. ECL will be measured based on multiple scenarios that will be probability-weighted with an expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Financial assets with objective evidence of impairment are considered to be impaired requiring the recognition of a lifetime ECL allowance with interest revenue recognized based on the carrying amount of the asset, net of the allowance, rather than its gross carrying amount (Stage 3). This new impairment model will apply to all loans and debt securities measured at amortized cost and FVOCI, as well as loan commitments and guarantees that are not measured at FVTPL.

In October 2016, the Basel Committee on Banking Supervision issued a consultative document and a discussion paper on the regulatory treatment of accounting provisions. The consultative document proposes to retain the current regulatory treatment of provisions for an interim period under the standardized and internal ratings-based approaches and also considers various transitional approaches to phase in the impact of the new ECL accounting standards on regulatory capital. The discussion paper considers policy options related to the long-term regulatory treatment of accounting provisions.

General Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that aims to better align accounting with risk management activities. The Company is currently evaluating an accounting policy choice to adopt the hedging requirements under IFRS 9 or continue to apply the hedging requirements under IAS 39. New hedge accounting disclosure requirements were introduced under IFRS 7 and will be effective on January 1, 2018 regardless of whether the Company adopts the new general hedge accounting model.

Transition

To manage the transition to IFRS 9, the Company established an enterprise-wide program sponsored by the Chief Financial Officer including establishing a formal governance structure supported by a Project Steering Committee comprising senior management representatives from Finance, Enterprise Risk Management, Information Technology, Operations and Treasury. The Company has also retained the services of external consultants with proven IFRS 9 expertise. During 2016, the project team focused on making initial accounting policy decisions, developing risk impairment models, determining business and technology requirements, and providing education sessions and updates to key stakeholders including the Audit Committee. The planning phase of the project has been completed and the project is currently in the implementation phase. Management is currently evaluating the potential quantitative 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) on January 1, 2018. IFRS 15 provides a principles-based five-step framework that applies to contracts with customers, except for revenue arising from financial instruments, insurance contracts and leases. In April 2016, amendments were made to IFRS 15 to clarify the principles related to identification of performance obligations, determining whether a company is a principal or agent and license revenue. 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) on January 1, 2019. IFRS 16 requires lessees to recognize right-of-use assets with corresponding lease liabilities for most leases. The accounting for lessors remains substantially unchanged from IAS 17. Management is currently evaluating the potential impact that the adoption of IFRS 16 will have on the Company's consolidated financial statements.

Amendments to IFRS 2 ***Share-based Payment***

The Company will be required to adopt narrow scope amendments to IFRS 2, *Share-based Payment* (IFRS 2) on January 1, 2018, related to the classification and measurement of share-based payment transactions. The amendments to IFRS 2 are not expected to have a material impact.

Amendments to IAS 7 ***Statement of Cash Flows***

The Company will be required to adopt narrow scope amendments related to IAS 7, *Statement of Cash Flows* (IAS 7) on January 1, 2017 related to disclosing changes in liabilities arising from financing activities. Management has determined that the amendments will not have an impact on the Company's consolidated statements of cash flows.

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars	**December 31 2016**	December 31 2015
Cash and cash equivalents	**$ 1,205,394**	$ 1,149,849

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, 2016 ($300 million and $200 million, respectively, at December 31, 2015). 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, 2016, these facilities are undrawn.

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

thousands of Canadian dollars					**December 31 2016**	December 31 2015
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value	Total Fair Value
Debt securities	**$ 1,271**	**$ 232,232**	**$ 108,071**	**$ -**	**$ 341,574**	$ 262,524
Preferred shares	**97,934**	**40,899**	**48,719**	**5,798**	**193,350**	190,706
	$ 99,205	**$ 273,131**	**$ 156,790**	**$ 5,798**	**$ 534,924**	$ 453,230

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

thousands of Canadian dollars, except %					**As at December 31, 2016**
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-Average Yield
Debt securities	**$ 341,050**	**$ 721**	**$ (197)**	**$ 341,574**	**1.0%**
Preferred shares	**269,586**	**1,707**	**(77,943)**	**193,350**	**3.6%**
	$ 610,636	**$ 2,428**	**$ (78,140)**	**$ 534,924**	

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

Net unrealized gains and losses (excluding impairment losses, which are transferred to net income) are included in AOCI 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, 2016, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events during the year in relation to its preferred share or debt holdings.

During the year, the Company recognized $204 thousand (2015 - $920 thousand) of additional impairment losses on available for sale securities previously identified as impaired.

5. LOANS

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

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
						As at December 31, 2016
Securitized single-family residential mortgages[1]	**$ 200,882**	**$ 211,131**	**$ 1,298,919**	**$ 68,229**	**$ 127,450**	**$ 1,906,611**
Securitized multi-unit residential mortgages	**86,479**	**45,819**	**281,923**	**47,638**	**158,334**	**620,193**
Total securitized mortgages	**287,361**	**256,950**	**1,580,842**	**115,867**	**285,784**	**2,526,804**
Single-family residential mortgages	**688,939**	**401,820**	**10,796,570**	**326,253**	**208,426**	**12,422,008**
Residential commercial mortgages[2]	**15,387**	**21,271**	**232,819**	**24,058**	**11,653**	**305,188**
Non-residential commercial mortgages	**48,335**	**58,688**	**1,795,461**	**35,820**	**16,516**	**1,954,820**
Credit card loans and lines of credit	**7,548**	**20,265**	**333,903**	**1,253**	**6,709**	**369,678**
Other consumer retail loans	**950**	**20,492**	**354,356**	**-**	**3,103**	**378,901**
Total non-securitized mortgages and loans[3]	**761,159**	**522,536**	**13,513,109**	**387,384**	**246,407**	**15,430,595**
	$ 1,048,520	**$ 779,486**	**$ 15,093,951**	**$ 503,251**	**$ 532,191**	**$ 17,957,399**
As a % of portfolio	**5.8%**	**4.3%**	**84.1%**	**2.8%**	**3.0%**	**100.0%**

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
						As at December 31, 2015
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[2]	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[3]	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%

[1] Securitized single-family residential mortgages include both CMHC-sponsored securitized insured mortgages and bank-sponsored securitization conduit uninsured mortgages.
[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.
[3] Loans exclude mortgages held for sale.

(B) Past Due Loans That Are Not Impaired

A loan is recognized as being impaired (non-performing) when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. An uninsured residential or commercial mortgage, 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.

thousands of Canadian dollars					**As at December 31, 2016**
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages [1]	**$ 21,253**	**$ 1,348**	**$ 252**	**$ 182** [2]	**$ 23,035**
Securitized multi-unit residential mortgages	**-**	**-**	**-**	**-**	**-**
Single-family residential mortgages	**167,408**	**27,944**	**3,644**	**5,620** [2]	**204,616**
Residential commercial mortgages	**424**	**-**	**-**	**-**	**424**
Non-residential commercial mortgages	**3,126**	**6,890**	**-**	**-**	**10,016**
Credit card loans and lines of credit	**2,882**	**611**	**823**	**316**	**4,632**
Other consumer retail loans	**221**	**106**	**103**	**-**	**430**
	$ 195,314	**$ 36,899**	**$ 4,822**	**$ 6,118**	**$ 243,153**

thousands of Canadian dollars					As at December 31, 2015
	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 [2]	$ 7,133
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	182,997	43,350	3,969	5,646 [2]	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

[1] Securitized single-family residential mortgages include CMHC-sponsored securitized insured mortgages and bank-sponsored securitization conduit uninsured mortgages.
[2] 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 CMHC-sponsored securitized residential mortgages are insured, credit losses are generally not anticipated. There were no impaired uninsured securitized mortgages or any individual allowances on such mortgages at December 31, 2016 and December 31, 2015.

thousands of Canadian dollars						**As at December 31, 2016**
	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	**$ 49,834**	**$ -**	**$ 4,577**	**$ 2,049**	**$ 411**	**$ 56,871**
Individual allowances on principal	**(1,980)**	**-**	**(30)**	**(780)**	**(411)**	**(3,201)**
Net amount of impaired loans	**$ 47,854**	**$ -**	**$ 4,547**	**$ 1,269**	**$ -**	**$ 53,670**

thousands of Canadian dollars						As at December 31, 2015
	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

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $0.6 million (2015 - $2.4 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, 2016, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $367.0 million (2015 - $458.3 million). For impaired mortgages, the total appraised value of collateral at December 31, 2016 was $81.3 million (2015 - $74.5 million).

(E) Allowance for Credit Losses

thousands of Canadian dollars						**2016**
	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	**$ 1,652**	**$ -**	**$ 340**	**$ 329**	**$ 161**	**$ 2,482**
Provision for credit losses	**3,415**	**2**	**205**	**2,379**	**525**	**6,526**
Write-offs	**(3,608)**	**(2)**	**(537)**	**(2,117)**	**(519)**	**(6,783)**
Recoveries	**521**	**-**	**22**	**189**	**244**	**976**
	1,980	**-**	**30**	**780**	**411**	**3,201**
Allowance on accrued interest receivable						
Balance at the beginning of the year	**839**	**-**	**57**	**-**	**5**	**901**
Provision for credit losses	**502**	**-**	**41**	**-**	**7**	**550**
	1,341	**-**	**98**	**-**	**12**	**1,451**
Total individual allowance	**3,321**	**-**	**128**	**780**	**423**	**4,652**
Collective allowance						
Balance at the beginning of the year	**22,232**	**327**	**9,500**	**3,890**	**300**	**36,249**
Provision for credit losses	**800**	**-**	**-**	**14**	**-**	**814**
	23,032	**327**	**9,500**	**3,904**	**300**	**37,063**
Total allowance	**$ 26,353**	**$ 327**	**$ 9,628**	**$ 4,684**	**$ 723**	**$ 41,715**
Total provision	**$ 4,717**	**$ 2**	**$ 246**	**$ 2,393**	**$ 532**	**$ 7,890**

thousands of Canadian dollars						2015
	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

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

(F) Interest Income by Product

thousands of Canadian dollars	2016	2015
Traditional single-family residential mortgages	$ 540,522	$ 587,005
ACE Plus single-family residential mortgages	11,490	1,849
Accelerator single-family residential mortgages	30,935	28,777
Residential commercial mortgages	17,614	17,053
Non-residential commercial mortgages	102,465	80,032
Credit card loans and lines of credit	33,536	31,427
Other consumer retail loans	31,472	23,419
Total interest income on non-securitized loans	768,034	769,562
CMHC-sponsored securitized single-family residential mortgages	46,642	62,891
CMHC-sponsored securitized multi-unit residential mortgages	29,866	36,625
Assets pledged as collateral for CMHC-sponsored securitization	2,246	4,325
Bank-sponsored securitization conduit assets	2,951	-
Total interest income on securitized loans	81,705	103,841
	$ 849,739	$ 873,403

(G) Loans by Remaining Contractual Term to Maturity

thousands of Canadian dollars					December 31 2016	December 31 2015
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securitized single-family residential mortgages [1]	$ 122,182	$ 579,489	$ 1,204,940	$ -	$ 1,906,611	$ 1,948,110
Securitized multi-unit residential mortgages	7,585	266,830	345,778	-	620,193	726,365
Single-family residential mortgages	8,786,065	2,890,550	708,668	36,725	12,422,008	12,979,418
Residential commercial mortgages	100,739	198,552	5,897	-	305,188	321,442
Non-residential commercial mortgages	1,006,779	894,037	54,004	-	1,954,820	1,490,648
Credit card loans and lines of credit	369,678	-	-	-	369,678	370,825
Other consumer retail loans	28,480	91,370	238,269	20,782	378,901	296,857
	$ 10,421,508	$ 4,920,828	$ 2,557,556	$ 57,507	$ 17,957,399	$ 18,133,665
Collective allowance for credit losses					(37,063)	(36,249)
					$ 17,920,336	$ 18,097,416

[1] Securitized single-family residential mortgages include both CMHC-sponsored securitized insured mortgages and bank-sponsored securitization conduit uninsured mortgages.

6. SECURITIZATION ACTIVITY

(A) Assets Pledged as Collateral

As a requirement of the NHA MBS and CMB programs, the Company assigns to CMHC all of its interest in CMHC-sponsored 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.

During the second quarter of 2016, the Company commenced participation in a bank-sponsored securitization conduit program to provide for cost-effective funding of the Company's ACE Plus product. The sponsor of the program is a Schedule 1 Canadian bank with which the Company has entered into an agreement to assign to the conduit all of the Company's interests in certain uninsured single-family residential mortgages. Under the agreement, the assigned mortgages remain in the program until maturity and the sponsoring bank retains all of the refinancing risks related to the program, with the Company bearing no risk for funding the program.

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 for both the CMHC- and bank-sponsored securitization programs. 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	**2016**	2015
Beginning balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,731,350**	$ 4,247,644
Mortgages pledged in securitization acquired on purchase of CFF Bank	**-**	19,805
Mortgages assigned in new securitizations	**3,805,816**	2,386,624
Net change in non-Home Trust MBS and treasury bills	**65,203**	(245,115)
Mortgages derecognized [2]	**(2,537,307)**	(1,897,888)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(1,416,180)**	(1,779,720)
Ending balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,648,882**	$ 2,731,350

[1] Included in the on-balance sheet assets assigned as collateral, at December 31, 2016 is $122.1 million ($56.9 million – December 31, 2015) in non-Home Trust MBS and treasury bills and $2.53 billion ($2.67 billion – December 31, 2015) 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. Please see Note 7 for more information. Additionally, off-balance sheet mortgage loans of $8.38 billion ($6.78 billion - December 31, 2015) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount is $1.23 billion ($1.44 billion – December 31, 2015) of mortgages that were sold under the whole loan sales program of CFF Bank prior to the acquisition of CFF Bank by Home Trust. These mortgages were securitized subsequent to the whole loan sales by the purchaser.

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the year that are secured by insured mortgages for CMHC-sponsored securitizations, uninsured mortgages for the bank-sponsored securitization conduit and other restricted assets. This table includes only on-balance sheet originations and discharges.

thousands of Canadian dollars	**2016**	2015
Balance at the beginning of the year	**$ 2,780,556**	$ 4,303,463
Securitization liabilities assumed on purchase of CFF Bank	**-**	19,746
Addition to securitization liabilities as a result of on-balance sheet activity	**2,654,106**	484,112
Net reduction in securitization liabilities due to maturities, amortization and sales	**(2,744,123)**	(2,033,078)
Other [1]	**(40,890)**	6,313
Securitization liability	**$ 2,649,649**	$ 2,780,556
Proceeds received for mortgages assigned in new securitizations	**$ 3,744,735**	$ 2,374,209

[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 securitization liabilities.

thousands of Canadian dollars, except %	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2016 Total Book Value	December 31 2015 Total Book Value
CMHC-sponsored mortgage-backed security liabilities	**$ 81,416**	**$ 300,620**	**$ 516,350**	**$ -**	**$ 898,386**	$ 531,326
Contractual yield	**1.5%**	**1.8%**	**1.4%**	**-**	**1.5%**	1.7%
CMHC-sponsored Canada Mortgage Bond liabilities	**162,677**	**233,666**	**1,107,904**	**132,870**	**1,637,117**	2,249,230
Contractual yield	**1.2%**	**4.2%**	**2.3%**	**1.2%**	**2.3%**	2.3%
Bank-sponsored securitization conduit liabilities	**-**	**114,146**	**-**	**-**	**114,146**	-
Contractual yield	**-**	**1.6%**	**-**	**-**	**1.6%**	-
	$ 244,093	**$ 648,432**	**$ 1,624,254**	**$ 132,870**	**$ 2,649,649**	$ 2,780,556

(C) Securitization Income

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

thousands of Canadian dollars	2016	2015
Net gain on sale of mortgages and residual interest [1]	**$ 26,972**	$ 21,412
Net change in unrealized gain or loss on hedging activities	**399**	(313)
Servicing income	**6,426**	5,109
Total securitization income	**$ 33,797**	$ 26,208

[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.

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. 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	2016			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	**$ 1,490,850**	**$ 1,046,457**	**$ 2,537,307**	$ 1,184,253	$ 713,635	$ 1,897,888
Net gains on sale of mortgages or residual interest [1]	**17,368**	**9,604**	**26,972**	15,499	5,913	21,412
Retained interests recorded	**-**	**41,900**	**41,900**	-	33,228	33,228
Servicing liability recorded	**-**	**8,955**	**8,955**	-	6,229	6,229

[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 resulted in the Company acquiring only the residual interests without acquiring either the underlying mortgages or the corresponding liabilities. At December 31, 2016, the notional amount of these instruments was $427.0 million, with $4.3 million recorded in available for sale securities (December 31, 2015 – notional amount of $520.6 million, with $9.3 million recorded in available for sale securities). No residual interests were purchased subsequent to 2014. Interest earned on these investments is recorded in other interest income on the consolidated statements of income.

7. RESTRICTED ASSETS

thousands of Canadian dollars	December 31 2016	December 31 2015
Restricted cash		
Restricted cash – CMHC- and bank-sponsored securitization programs	$ 106,616	$ 110,448
Restricted cash – derivatives	19,262	14,172
Restricted cash – other programs	17,418	14,426
Total restricted cash	143,296	139,046
Non-Home Trust MBS and treasury bills assigned as replacement assets	122,078	56,875
Total restricted assets	$ 265,374	$ 195,921

Restricted cash – CMHC- and bank-sponsored securitization programs represent deposits held as collateral by the sponsors in connection with the Company's securitization activities.

Restricted cash – derivatives are deposits held by counterparties as collateral for the Company's 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 program. 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	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2016 Total Fair Value	December 31 2015 Total Fair Value
Restricted cash	$ 143,296	$ -	$ -	$ -	$ 143,296	$ 139,046
Non-Home Trust MBS and treasury bills assigned as replacement assets	34,583	87,495	-	-	122,078	56,875
	$ 177,879	$ 87,495	$ -	$ -	$ 265,374	$ 195,921

8. OTHER ASSETS

thousands of Canadian dollars	December 31 2016	December 31 2015
Accrued interest receivable	$ 60,314	$ 63,532
Prepaid CMB coupon	3,289	3,544
Securitization receivable and retained interest	213,312	142,243
Capital assets	13,013	14,468
Income taxes recoverable	25,619	35,953
Other prepaid assets and deferred items	33,091	27,677
	$ 348,638	$ 287,417

9. INTANGIBLE ASSETS

The following table presents the net carrying amount of internally developed software costs and acquired intangible assets as at December 31, 2016 and 2015, along with the changes in net carrying amount for the years ended December 31, 2016 and 2015.

thousands of Canadian dollars			**2016**					2015
	Core Banking System [1]	Other Software Costs[2]	Acquired Intangible Assets	Total	Core Banking System [1]	Other Software Costs[2]	Acquired Intangible Assets	Total
Cost								
Balance at the beginning of the year	**$ 110,397**	**$ 37,067**	**$ -**	**$ 147,464**	$ 95,660	$ 26,557	$ -	$ 122,217
Additions from internal development	**8,452**	**8,377**	**-**	**16,829**	14,737	10,510	-	25,247
Acquisition of intangible assets	**-**	**-**	**2,260**	**2,260**	-	-	-	-
Impairment loss	**(5,127)**	**-**	**-**	**(5,127)**	-	-	-	-
Balance at the end of the year	**113,722**	**45,444**	**2,260**	**161,426**	110,397	37,067	-	147,464
Accumulated amortization								
Balance at the beginning of the year	**31,889**	**2,980**	**-**	**34,869**	24,287	546	-	24,833
Amortization expense	**8,264**	**3,252**	**38**	**11,554**	7,602	2,434	-	10,036
Balance at the end of the year	**40,153**	**6,232**	**38**	**46,423**	31,889	2,980	-	34,869
Carrying amount at the end of the year	**$ 73,569**	**$ 39,212**	**$ 2,222**	**$ 115,003**	$ 78,508	$ 34,087	$ -	$ 112,595

[1] As at December 31, 2016, there was $12.1 million ($14.6 million – December 31, 2015) in work in progress related to the core banking system that was not being amortized.
[2] As at December 31, 2016, there was $13.0 million ($8.4 million – December 31, 2015) in work in progress related to other software costs that was not being amortized.

During 2016, the Company recognized an impairment loss of $5.1 million on a component for its core banking system that was in the process of being developed. The development of this component has been deferred indefinitely leading to the determination that the benefits from this software development may not be realized and the capitalized amount is not recoverable. The deferral of development on this component does not impact the functionality of the core banking system currently in use. The $5.1 million impairment loss is included in other operating expenses on the consolidated statements of income.

10. GOODWILL

The following table presents the carrying amount of goodwill.

thousands of Canadian dollars	**December 31 2016**	December 31 2015
Home Trust	**$ 2,324**	$ 2,324
PSiGate	**4,428**	13,428
	$ 6,752	$ 15,752

During the fourth quarter of 2016, goodwill in the PSiGate business was determined to be impaired. An impairment loss of $9.0 million was recorded as part of other operating expenses, under non-interest expense in the consolidated statements of income. This impairment reflected revised expectations of revenues due to a reduction in business development activities, as well as increased operating expenses. There were no additions, disposals or other impairments of goodwill for the year ended December 31, 2016.

The recoverable amount of the PSiGate business was determined as fair value, less costs of disposal. A discounted cash flow assessment was performed, valuing the estimated future cash flows based on the Company's internal forecast as well as assumptions about purchaser considerations in an open market transaction. A discount rate of 15.15% was used (2015 – 15.15%), which management believes to be a risk-adjusted rate reflecting current market assessments of the risks specific to the business. A terminal growth rate of 3.0% (2015 – 3.0%) was applied to the years after the three-year forecast, reflecting management's expectations of growth and inflation rates. This fair value measurement of the PSiGate business is categorized as level 3 in the fair value hierarchy as certain significant inputs are not observable.

The calculation of recoverable amount is an area of significant management judgement, and changes in assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill. Management believes that the assumptions and estimates used are reasonable and supportable, and where possible inputs are compared to relevant market information.

11. DEPOSITS BY REMAINING CONTRACTUAL TERM TO MATURITY

thousands of Canadian dollars, except %					**December 31 2016**	December 31 2015
	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	**$ 1,920,063**	**$ 6,238,856**	**$ 4,055,233**	**$ 1,552,580**	**$ 13,766,732**	$ 13,493,695
Businesses	**611,740**	**371,860**	**200,097**	**130,634**	**1,314,331**	1,188,764
Institutional deposits	**-**	**324,858**	**480,109**	**-**	**804,967**	983,499
	$ 2,531,803	**$ 6,935,574**	**$ 4,735,439**	**$ 1,683,214**	**$ 15,886,030**	$ 15,665,958
Average contractual yield	**1.3%**	**1.9%**	**2.3%**	**2.3%**	**1.9%**	2.0%

12. SENIOR DEBT

The Company issued $150.0 million principal amount of 5.20% debentures on May 4, 2011. The debentures paid interest semi-annually on May 4 and November 4 of each year. The debentures matured on May 4, 2016. The carrying amount included unamortized issue costs and fair value adjustments related to interest rate hedging. The Company repaid and retired the senior debt in the principal amount of $150.0 million on the maturity date.

13. OTHER LIABILITIES

thousands of Canadian dollars	**December 31 2016**	December 31 2015
Accrued interest payable on deposits	**$ 122,905**	$ 124,068
Accrued interest payable on securitization liabilities	**7,317**	7,466
Securitization servicing liability	**20,573**	15,234
Other, including accounts payable and accrued liabilities	**185,337**	118,173
	$ 336,132	$ 264,941

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	**2016**		2015	
	Number of Shares	**Amount**	Number of Shares	Amount
Outstanding at the beginning of the year	**69,978**	**$ 90,247**	70,096	$ 84,687
Options exercised	**71**	**1,984**	227	6,002
Repurchase of shares	**(5,661)**	**(7,321)**	(345)	(442)
Outstanding at the end of the year	**64,388**	**$ 84,910**	69,978	$ 90,247

The Company has no preferred shares outstanding.

(C) Repurchase of Shares

On April 18, 2016, the Company repurchased for cancellation 3,989,361 common shares at a price of $37.60 per share totaling $150.0 million under the Company's previously announced substantial issuer bid. In addition, the Company continued to repurchase shares under its normal course issuer bid.

During the year, 5,660,961 (2015 – 344,700) common shares were purchased under the substantial issuer bid and normal course issuer bid for $199.2 million (2015 - $10.7 million). The purchase price of shares acquired through the substantial issuer bid and the normal course issuer bid is allocated between share capital and retained earnings. The reduction to share capital for the year ended December 31, 2016 was $7.3 million (2015 - $442 thousand). The balance of the purchase price of $191.9 million (2015 - $10.3 million) was charged to retained earnings. Included in the amount allocated to retained earnings is $0.4 million (net of tax) for transaction costs associated with the substantial issuer bid.

(D) Earnings per Common Share (EPS)

Basic earnings per common share of $3.71 (2015 - $4.09) is determined as net income for the year divided by the average number of common shares outstanding of 66,601,374 (2015 - 70,169,686).

Diluted earnings per common share of $3.71 (2015 - $4.09) is determined as net income for the year divided by the average number of common shares outstanding of 66,601,374 (2015 - 70,169,686) plus the stock options potentially exercisable, as determined under the treasury stock method, of 66,264 (2015 - 153,763) for a total of 66,667,638 (2015 - 70,323,449) diluted common shares.

Diluted income per common share excludes contingently assumable average options outstanding of 487,634 with a weighted-average exercise price of $34.97 for December 31, 2016 and contingently assumable average options outstanding of 696,847 with a weighted-average exercise price of $36.15 for December 31, 2015, 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 2016	December 31 2015	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets			
Common equity tier 1 ratio	**16.55%**	18.31%	7.00%
Tier 1 capital ratio	**16.54%**	18.30%	8.50%
Total regulatory capital ratio	**16.97%**	20.70%	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. As at December 31, 2016, the Leverage ratio was 7.20% (December 31, 2015 – 7.36%), which exceeds OSFI's minimum requirements.

Subordinated debt advanced by Home Capital to Home Trust was included in Total capital as Tier 2 capital. Under Basel III, this subordinated debt would be subject to straight-line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt were scheduled to mature in 2021 and 2022 in the amounts of $100 million and $56 million, respectively. Home Trust repaid and retired the subordinated debt in the amount of $156.0 million on May 4, 2016.

In addition, on April 18, 2016 the Company repurchased common shares as part of its previously announced substantial issuer bid. Please refer to Note 14(C) for further information. The funding for this repurchase was provided by a dividend paid by Home Trust, which reduced its regulatory capital and capital ratios.

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 2016.

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 $1.7 million for 2016 (2015 - $1.5 million).

(B) Employee Retirement Savings Plan

During the year, Home Trust contributed $1.3 million (2015 - $1.3 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:

thousands, except per share amounts and years		**2016**		2015
	Number of Shares	**Weighted-average Exercise Price**	Number of Shares	Weighted-average Exercise Price
Outstanding at the beginning of the year	**1,208**	**$ 32.45**	1,235	$ 31.00
Granted	**25**	**31.95**	257	30.61
Exercised	**(71)**	**20.62**	(227)	19.42
Forfeited	**(88)**	**38.41**	(57)	44.49
Outstanding at the end of the year	**1,074**	**$ 32.73**	1,208	$ 32.45
Exercisable at the end of the year	**587**	**$ 30.86**	511	$ 27.39
Weighted-average market price per share at date of exercise		**$ 31.44**		$ 39.69
Weighted-average remaining contractual life in years		**2.9**		3.7

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 2016 or 2015.

As at December 31, 2016, 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 five and 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, 2016, the weighted-average exercise prices for stock options outstanding to acquire common shares ranged from $23.84 to $46.95. The weighted-average range of exercise prices for stock options outstanding and exercisable are presented below along with the number of options outstanding and exercisable and the weighted-average contractual life remaining.

				As at December 31, 2016	
	Stock options outstanding			Stock options exercisable	
	Number Outstanding	Weighted-average Contractual Life Remaining in Years	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
Range of exercise prices					
$20.01 - $25.00	**280,250**	**1.2**	**$ 23.84**	**264,750**	**$ 23.88**
$25.01 - $30.00	**343,136**	**3.4**	**28.76**	**115,500**	**29.06**
$30.01 - $35.00	**88,500**	**3.9**	**31.91**	**26,250**	**32.01**
$35.01 - $40.00	**155,000**	**3.9**	**39.65**	**115,750**	**39.65**
$40.01 - $45.01	**27,000**	**3.2**	**43.07**	**7,250**	**43.05**
Over $45.01	**180,534**	**3.0**	**46.95**	**57,286**	**46.92**
	1,074,420	**2.9**	**$ 32.73**	**586,786**	**$ 30.86**

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 $5.76 (2015 - $4.82).

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	May 2016	December 2015	September 2015	August 2015	February 2015
Fair value of options granted	**$ 5.76**	$ 4.55	$ 5.26	$ 3.94	$ 6.38
Share price	**$ 31.95**	$ 26.83	$ 32.30	$ 27.50	$ 43.08
Exercise price	**$ 31.95**	$ 28.84	$ 31.76	$ 25.98	$ 43.09
Expected share price volatility	**30.8%**	28.4%	27.9%	27.3%	23.5%
Expected period until exercise in years [1]	**3.8**	3.8	3.8	3.8	3.8
Forfeiture rate	**5.0%**	5.0%	5.0%	5.0%	5.0%
Expected dividend yield	**2.95%**	3.28%	2.72%	3.20%	0.80%
Risk-free rate of return	**0.64%**	0.60%	0.68%	0.59%	0.54%

[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 (2016 - $1.1 million; 2015 - $1.6 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 (2016 - $1.5 million; 2015 - $4.4 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, 2016 was $3.5 million (2015 – $2.1 million). As of December 31, 2016, there were 103,368 DSUs outstanding (2015 – 72,691).

(E) Restricted Share Units (RSUs)

The Company grants RSUs to certain key members of management. The RSUs generally vest over three years and 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, 2016 was $443 thousand (2015 – $389 thousand). As of December 31, 2016, there were 34,794 RSUs outstanding (2015 – 69,105 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, 2016 was $2.0 million and there were 87,787 PSUs outstanding (2015 - $1.3 million and 131,799 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	**2016**	2015
Expense arising from equity-settled share-based payment transactions	**$ 1,127**	$ 1,581
DSUs, RSUs and PSUs (representing all expenses arising from cash-settled share-based payment transactions)	**2,328**	(738)
	$ 3,455	$ 843

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars		**December 31 2016**		December 31 2015
Unrealized losses on				
Available for sale securities and retained interests	**$**	**(72,953)**	$	(85,009)
Income tax recovery		**(19,364)**		(22,543)
		(53,589)		(62,466)
Unrealized losses on				
Cash flow hedges		**(2,005)**		(4,187)
Income tax recovery		**(529)**		(1,109)
		(1,476)		(3,078)
Accumulated other comprehensive loss	**$**	**(55,065)**	$	(65,544)

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 26.50% (2015 – 26.51%) due to various permanent differences.

thousands of Canadian dollars		**2016**		2015
Income before income taxes	**$**	**335,130**	$	385,277
Income taxes at statutory combined federal and provincial income tax rates	**$**	**88,810**	$	102,148
Increase (decrease) in income taxes at statutory income tax rates resulting from				
Tax-exempt income		**(2,683)**		(2,816)
Non-deductible expenses		**2,867**		465
Scientific research and experimental development investment tax credits		**(1,516)**		(1,837)
Other		**256**		32
Income tax	**$**	**87,734**	$	97,992

(B) Reconciliation of Income Tax Rates

	2016	2015
Statutory income tax rate	**26.50%**	26.51%
Increase (reduction) in income tax rate resulting from		
Tax-exempt income	**(0.80)%**	(0.73)%
Non-deductible expenses	**0.86%**	0.12%
Scientific research and experimental development investment tax credits	**(0.45)%**	(0.48)%
Other	**0.07%**	0.01%
Effective income tax rate	**26.18%**	25.43%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars	December 31 2016	December 31 2015
Deferred tax liabilities		
Commissions	$ 8,517	$ 9,110
Finders' fees, net of commitment fees	2,557	3,281
Securitization transaction costs	3,160	1,820
Swaps	1,123	2,851
Development costs	29,916	29,880
Other	633	344
	45,906	47,286
Deferred tax assets		
Allowance for credit losses	9,046	8,464
Loss carryforwards	15,920	15,043
Other	1,570	1,248
	26,536	24,755
Net deferred tax liability	$ 19,370	$ 22,531

Certain deferred tax assets presented in the table above are netted against the deferred tax liability presented on the consolidated balance sheets based on the right to offset taxes owing to the tax authorities.

Capital losses totalling $2.7 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.

As of December 31, 2016, Home Bank had $59.7 million in non-capital losses, which may be used to reduce future taxable income. These losses begin to expire after 2029. The Company plans to be able to generate sufficient income 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 internally generated software. The investment tax credits are recorded as a reduction of tax provisions, net of any tax that would be eligible on such benefit.

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 2016	December 31 2015
Within one year	$ 16,923	$ 18,846
After one year but not more than five years	27,869	36,488
More than five years	6,471	11,220
	$ 51,263	$ 66,554

Lease payments recognized as an expense in the consolidated statements of income amounted to $25.6 million in 2016 (2015 - $26.4 million).

(B) Credit Commitments

Outstanding amounts for future advances on mortgage loans amounted to $1.34 billion as at December 31, 2016 (2015 - $1.14 billion). 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 $486.6 million at December 31, 2016 (2015 - $303.9 million). Offers for loans remain open for various periods. The average rate on mortgage offers is 4.48% (2015 – 4.26%).

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, 2016, these contractual amounts in aggregate were $515.9 million (2015 - $461.3 million), of which $146.3 million (2015 - $118.8 million) had not been drawn by customers. Outstanding amounts for future advances for the Equityline *Visa* portfolio were $28.8 million at December 31, 2016 (2015 - $11.6 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 2016.

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. The fair value of 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 income in net realized and unrealized gain or loss on derivatives.

Cash Flow Hedging Relationships

The Company uses bond forward contracts to hedge the 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 Company uses total return swaps to hedge the variability in cash flows associated with forecasted future obligations to eligible employees on vesting of RSUs attributable to changes in the Company's stock price.

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

thousands of Canadian dollars		**2016**		2015
Fair value gains (losses) recorded in OCI	**$**	**1,035**	$	(2,449)
Reclassification from OCI to net interest income and securitization income		**(1,147)**		(1,474)

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		**2016**		2015
Fair value changes recorded on interest rate swaps [1]	**$**	**(30,794)**	$	24,737
Fair value changes of hedged items for interest rate risk [2]		**21,459**		(32,534)
Hedge ineffectiveness losses recognized in non-interest income [3]	**$**	**(9,335)**	$	(7,797)

[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.
[3] Included in fair value hedging ineffectiveness are derivative losses related to senior debt.

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 gains of $528 thousand (2015 - net realized and unrealized losses of $142 thousand) were recorded in income through net realized and unrealized gain or loss on derivatives.

The Company enters into bond forwards to economically 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, 2016 and 2015, the outstanding swaps and bond forward contract positions were as follows:

thousands of Canadian dollars							**As at December 31, 2016**
		Current	Credit	Risk-			Net
	Notional	Replacement	Equivalent	weighted	Derivative	Derivative	Fair Market
Term (years)	Amount	Cost[1]	Amount[1]	Balance[1]	Asset	Liability	Value
Swaps designated as accounting hedges							
< 1 year	**$ 298,680**	**$ 1,816**	**$ 1,816**	**$ 363**	**$ 1,816**	**$ -**	**$ 1,816**
1 to 5 years	**2,263,045**	**34,622**	**45,938**	**9,187**	**34,622**	**(3,366)**	**31,256**
	2,561,725	**36,438**	**47,754**	**9,550**	**36,438**	**(3,366)**	**33,072**
Bond forwards designated as accounting hedges[2]							
1 to 5 years	**85,000**	**677**	**1,102**	**220**	**677**	**(50)**	**627**
	85,000	**677**	**1,102**	**220**	**677**	**(50)**	**627**
Bond forwards not designated as accounting hedges[2]							
1 to 5 years	**72,100**	**392**	**752**	**506**	**392**	**(19)**	**373**
> 5 years	**9,400**	**17**	**158**	**158**	**17**	**(55)**	**(38)**
	81,500	**409**	**910**	**664**	**409**	**(74)**	**335**
Total	**$ 2,728,225**	**$ 37,524**	**$ 49,766**	**$ 10,434**	**$ 37,524**	**$ (3,490)**	**$ 34,034**

thousands of Canadian dollars							As at December 31, 2015
		Current	Credit	Risk-			Net
	Notional	Replacement	Equivalent	weighted	Derivative	Derivative	Fair Market
Term (years)	Amount	Cost[1]	Amount[1]	Balance[1]	Asset	Liability	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[2]							
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[2]							
< 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

[1] The values are calculated based on the capital adequacy requirements required by OSFI.
[2] The term of the bond forward contracts is based on the term of the underlying bonds.

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

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, 2016 and 2015.

thousands of Canadian dollars	**As at December 31, 2016**			As at December 31, 2015		
	Within 1 Year	After 1 Year	Total	Within 1 Year	After 1 Year	Total
Assets						
Cash and cash equivalents	**$ 1,205,394**	**$ -**	**$ 1,205,394**	$ 1,149,849	$ -	$ 1,149,849
Available for sale securities	**99,205**	**435,719**	**534,924**	80,132	373,098	453,230
Loans held for sale	**77,918**	**-**	**77,918**	135,043	-	135,043
Securitized mortgages	**378,962**	**2,147,842**	**2,526,804**	962,649	1,711,826	2,674,475
Non-securitized mortgages and loans	**10,780,371**	**4,650,224**	**15,430,595**	11,389,911	4,069,279	15,459,190
Collective allowance for credit losses	**(24,708)**	**(12,355)**	**(37,063)**	(24,166)	(12,083)	(36,249)
Restricted assets	**177,879**	**87,495**	**265,374**	195,921	-	195,921
Derivative assets	**1,816**	**35,708**	**37,524**	2,370	62,426	64,796
Other assets	**227,672**	**120,966**	**348,638**	191,862	95,555	287,417
Deferred tax assets	**-**	**16,914**	**16,914**	-	15,043	15,043
Goodwill and intangible assets	**-**	**121,755**	**121,755**	-	128,347	128,347
Total assets	**$ 12,924,509**	**$ 7,604,268**	**$ 20,528,777**	$ 14,083,571	$ 6,443,491	$ 20,527,062
Liabilities						
Deposits payable on demand	**$ 2,531,803**	**$ -**	**$ 2,531,803**	$ 1,986,136	$ -	$ 1,986,136
Deposits payable on a fixed date	**6,935,574**	**6,418,653**	**13,354,227**	7,236,932	6,442,890	13,679,822
Senior debt	**-**	**-**	**-**	151,480	-	151,480
CMHC-sponsored mortgage-backed security liabilities	**156,979**	**741,407**	**898,386**	58,829	472,497	531,326
CMHC-sponsored Canada Mortgage Bond liabilities	**162,677**	**1,474,440**	**1,637,117**	1,104,177	1,145,053	2,249,230
Bank-sponsored securitization conduit liabilities	**12,556**	**101,590**	**114,146**	-	-	-
Derivative liabilities	**-**	**3,490**	**3,490**	728	4,719	5,447
Other liabilities	**315,559**	**20,573**	**336,132**	249,707	15,234	264,941
Deferred tax liabilities	**-**	**36,284**	**36,284**	-	37,574	37,574
Total liabilities	**$ 10,115,148**	**$ 8,796,437**	**$ 18,911,585**	$ 10,787,989	$ 8,117,967	$ 18,905,956
Net	**$ 2,809,361**	**$ (1,192,169)**	**$ 1,617,192**	$ 3,295,582	$ (1,674,476)	$ 1,621,106

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following tables 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 consolidated balance sheet date in the principal or most advantageous market that 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, total return swaps, bond forwards, 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.

thousands of Canadian dollars					**As at December 31, 2016**
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	**$ 1,205,394**	**$ -**	**$ -**	**$ 1,205,394**	**$ 1,205,394**
Loans held for sale	**-**	**77,918**	**-**	**77,918**	**77,918**
Derivative assets	**-**	**37,524**	**-**	**37,524**	**37,524**
Restricted assets	**143,296**	**-**	**-**	**143,296**	**143,296**
Total financial assets held for trading	**1,348,690**	**115,442**	**-**	**1,464,132**	**1,464,132**
Financial assets available for sale					
Debt securities	**337,244**	**-**	**4,330**	**341,574**	**341,574**
Equity securities	**193,350**	**-**	**-**	**193,350**	**193,350**
Restricted assets	**81,530**	**40,548**	**-**	**122,078**	**122,078**
Retained interest owned	**-**	**-**	**107,953**	**107,953**	**107,953**
Total financial assets available for sale	**612,124**	**40,548**	**112,283**	**764,955**	**764,955**
Loans and receivables					
Securitized mortgages	**-**	**-**	**2,545,281**	**2,545,281**	**2,526,804**
Non-securitized mortgages and loans	**-**	**-**	**15,490,078**	**15,490,078**	**15,393,532**
Securitization receivables	**-**	**-**	**105,359**	**105,359**	**105,359**
Other	**-**	**-**	**89,222**	**89,222**	**89,222**
Total loans and receivables	**-**	**-**	**18,229,940**	**18,229,940**	**18,114,917**
Total	**$ 1,960,814**	**$ 155,990**	**$ 18,342,223**	**$ 20,459,027**	**$ 20,344,004**
Financial liabilities at amortized cost					
Deposits	**$ -**	**$ -**	**$ 16,096,097**	**$ 16,096,097**	**$ 15,886,030**
Securitization liabilities	**-**	**-**	**2,697,463**	**2,697,463**	**2,649,649**
Other	**-**	**-**	**336,132**	**336,132**	**336,132**
Total financial liabilities carried at amortized cost	**-**	**-**	**19,129,692**	**19,129,692**	**18,871,811**
Financial liabilities at fair value					
Derivative liabilities	**-**	**3,490**	**-**	**3,490**	**3,490**
Total	**$ -**	**$ 3,490**	**$ 19,129,692**	**$ 19,133,182**	**$ 18,875,301**

thousands of Canadian dollars					As at December 31, 2015
	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 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 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

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, 2016 or December 31, 2015.

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

- The fair value of 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 acquired 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 their correspondent current market rates including market rates for MBS, CMB and interest rate swap curve.
- Fair value of the senior debt was determined using current market rates of Government of Canada Bonds, plus a spread. The rates reflected the credit risks of similar instruments.

22. RELATED PARTY TRANSACTIONS

IFRS considers key management personnel to be related parties. Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly. The Company considers certain of its officers and Directors to be key management personnel. Compensation of key management personnel of the Company is as follows:

thousands of Canadian dollars		**2016**		2015
Short-term employee benefits [1]	**$**	**8,580**	$	8,930
Share-based payment [2]		**216**		2,987
Other long-term benefits [3]		**324**		350
	$	**9,120**	$	12,267

[1] Short-term employee benefits include salary, benefits and accrued cash bonuses for officers and fees for non-executive Directors including fees elected to be received in the form of DSUs.
[2] Share-based payment includes fair value of stock options, RSUs and PSUs granted during the year to officers.
[3] Other long-term benefits include the Company's contribution to officers' Employee Share Purchase Plan and Employee Retirement Savings Plan and other long-term benefits.

In the normal course of business, the Company refers borrowers who require loans at a higher loan-to-value ratio than the Company will provide to second mortgage lenders. All referrals are conducted at arm's length and at market terms. Second mortgage lenders independently underwrite all second mortgages with the borrowers. One of the second mortgage lenders is related to the Company through a close family relationship with a member of the Company's key management personnel. The amount of second mortgages referred to this lender during the years ended December 31, 2016 and 2015 is not significant.

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 $23.2 million. Upon acquisition, 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. On August 22, 2016, CFF Bank changed its name to Home Bank. Home Bank is a Schedule 1 Bank under the *Bank Act* (Canada).

The excess fair value of net assets acquired over the purchase consideration resulted in a gain on acquisition recognized in the consolidated statements of income. The gain primarily represented the fair value of deferred tax assets in the amount of $13.5 million. A gain of $2.1 million was recognized in 2015 and an additional gain of $651 thousand was recognized in 2016, reflecting final adjustments.

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 & SHAREHOLDER INFORMATION

HOME CAPITAL GROUP INC.
145 King Street West,
Suite 2300
Toronto, Ontario M5H 1J8

Directors
Kevin P.D. Smith
Chairman of the Board

Jacqueline E. Beaurivage
Robert J. Blowes
Brenda J. Eprile
William Falk
James E. Keohane
John M.E. Marsh
Robert A. Mitchell, CPA, CA
Martin Reid
Gerald M. Soloway
Bonita Then
William J. Walker

William A. Dimma
Chairman Emeritus

Officers
Martin Reid
President and Chief Executive Officer

Robert Morton, CPA, CMA
Chief Financial Officer
and Executive Vice President

Chris Whyte
Chief Operating 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

Greg Parker
Chief Risk Officer
and Executive Vice President

Dinah Henderson
Executive Vice President,
Operations

Benjy Katchen
Executive Vice President,
Deposits and Consumer Lending

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

Anthony Stilo, FCPA, FCGA
Senior Vice President,
Internal Audit

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

Capital Stock
As at December 31, 2016 there were 64,387,519 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

HOME TRUST COMPANY
145 King Street West,
Suite 2300
Toronto, Ontario M5H 1J8

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John M.E. Marsh
Robert A. Mitchell, CPA, CA
Martin Reid
Gerald M. Soloway
Bonita Then
William J. Walker

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

BRANCHES

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For Shareholder Information, Please Contact:
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Websites
Home Capital Group Inc.
www.homecapital.com
Home Trust Company
www.hometrust.ca

Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Thursday, February 9, 2016 at 8:00 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

Investor Information Service
Home Capital Group Inc. has established an e-mail investor information service. Sign up at www.homecapital.com to receive quarterly reports, press releases, the annual report, the management information circular, and other information pertaining to the Company.