Home Capital Group Inc. 2017 Annual Report

Ready to grow.

We are ready to grow.

We are inspired by a belief that every hardworking Canadian deserves a home.

We believe in the power of our people to make a difference.

For more than three decades we have helped thousands of people realize their dreams of home ownership. We are ready to be a part of your life journey. We are ready to grow with you.

Table of Contents

2 A Message from Our Chair
3 A Message from Our Chief Executive Officer
6 Our Management Team
7 Financial Highlights
8 Ready to Grow:
8 Responsibly
10 Leading With Service, Deepening Powerful Relationships
12 Improving Technology, Providing Innovative Solutions
14 Welcome to Oaken
16 Sustainably
18 Management's Discussion and Analysis
81 Consolidated Financial Statements
88 Notes to the Consolidated Financial Statements
124 Corporate Directory & Shareholder Information

One goal: leading in every sense.

Dear Fellow Shareholders,

If the events of 2017 taught us one lesson, it was that in our business, reputation is paramount. As we look ahead to 2018, your Board is focused on doing what it takes to ensure that Home Capital earns a deserved reputation as Canada's leading Alt-A lender in every sense.

To me, that means Home Capital should be recognized as having the best service, the best performance, the highest ethical standards and the best reputation for safety and risk management.

This is a lofty goal, but none of us should be satisfied with anything less.

To attain it, your revamped Board is working hard to instill a deeper sense of accountability, and to ensure the highest standards of corporate governance. The directors deserve thanks for the work they have done in 2017. I would like to say a special thank you to the five incredibly qualified and hardworking directors who joined our Board in 2017 in the midst of a very difficult time for the Company, and who did so much to help Home Capital return to the strong position it is in today.

The depth of expertise they have brought is unparalleled in our sector.

Each of our four Board committees is overseen by one of our new directors. Claude Lamoureux is chair of the Governance, Nominating and Conduct Review Committee, Alan Hibben chairs the Risk and Capital Committee, Paul Haggis chairs the Audit Committee and Sharon Sallows is chair of the Human Resources and Compensation Committee.

All of the new voices on our Board have been excellent additions, and over time I expect we will see more renewal. Ongoing board refreshment is a healthy and necessary process for any company, and we will continue to seek opportunities to add new expertise to the boardroom.

The Board has charged management with developing a strategy for the long term – one that enables the Company to grow sustainably for years to come and that puts responsible risk management front and centre at all times. We have worked closely with management to oversee development of this strategy, and we are confident in the direction the Company is taking under our renewed and revitalized senior management team.

Yousry Bissada and his team are the right group to take us forward and your Board has every confidence in their ability to deliver. When we recruited Yousry, we were excited by his track record of finding ways to ensure companies ran more smoothly, with better service and technology, his ability to balance entrepreneurial culture with operational and regulatory discipline, and his talent for building and energizing teams. I'm pleased to say that is exactly what he is doing here at Home Capital.

Add that to our strong balance sheet, excellent liquidity, dedicated employees, and great relationships out in the market and, as Yousry says, we are ready to grow.

On behalf of the Board this year, I would like to express our gratitude to all our employees, partners, customers and shareholders for their support in what was an extraordinary 2017, and in what I believe will be an exciting 2018.

Brenda Eprile

Brenda J. Eprile
Chair, Board of Directors

Our Board of Directors

Brenda J. Eprile, Chair	Alan R. Hibben
Jacqueline E. Beaurivage	Claude R. Lamoureux
Yousry Bissada	James H. Lisson
Robert J. Blowes	Sharon H. Sallows
Paul G. Haggis	Bonita J. Then

We are ready to grow.

We have the resources, the balance sheet, the relationships and the team to make it happen. We are building Home Capital to be the leader in the Alt-A lending space. The leader in service. The leader in technology. The leader in innovative solutions. And the leader in risk management, thanks to our focus on building a sustainable risk culture.

A Sustainable Risk Culture

What does that mean?

A sustainable risk culture is one that ensures that we look at everything we do through the lens of responsible risk-taking. From making a loan to taking a deposit, from launching a new mortgage product to evaluating a new line of business, the first question has to be “Is this the right decision for the long-term sustainability of the Company?”

We don’t want to do something that only has short-term benefits.

In a business where regulation is changing, and where there are understandable concerns about the ongoing strength of the housing market, it is our duty to ensure that we are a responsible lender. Protecting our reputation must be at the core of everything we do.

To that end, we are taking actions such as establishing performance objectives for all our employees that emphasize and align with our number one corporate priority which is a sustainable risk culture. As we grow, those objectives will be a constant reminder to our team not to lose sight of our commitment.

A Strong Financial Foundation

We have a lot going for us at Home Capital as we return to growth.

Over the years, Home Capital has become known for the quality of its loan portfolio. In 2017, one constant was the strong performance of our loan book.

We are focused on setting this organization on the right path for the next decade.

Entering 2018, that strong portfolio performance continues. What's more, we have momentum in the business as loan growth begins to pick up. We have excellent liquidity and stable deposit funding based on term deposits. We have one of the highest capital ratios in our sector – a competitive advantage that gives us a real margin of safety against any changes in the market as well as flexibility to invest and grow the business.

We intend to grow with an eye on building value for the long term. Markets go up and they go down. That's true of the housing and stock markets. We can't control that. What we can control is how we run the Company, by making decisions that create value through cycles.

To do that, we are focused on setting this organization on the right path for the next decade.

Leading with Service and Technology

To achieve our expected growth, we have started with a strong focus on driving leading customer service and delivering innovative solutions. That is a priority for the team. We are investing in people, process and technology for a better broker and customer experience.

Already we have ramped up important initiatives in areas such as broker education to better explain to our partners our underwriting standards and risk approach.

We have also improved efficiency in our underwriting process to ensure we are doing the very best we can to help brokers and customers.

As our environment continues to evolve, we will evolve with it to ensure we have the innovative solutions needed to attract and retain brokers and customers.

I want to thank the team at Home Capital for their hard work and dedication in making this happen.

Since my arrival at Home Capital in August of 2017, I have been so very impressed by the dedicated group that we have here at our Company. We have asked a lot of our people, and they have delivered, and they will continue to do so. We are all inspired by the important work we do at Home Capital, helping hardworking, deserving Canadians purchase homes.

I also want to say thank you to our customers and to our broker community. We appreciate the unwavering support of our broker partners who have been with us throughout the last 30 years of our growth and through 2017. And of course, thank you to our shareholders for your continued support.

I look forward to reporting to you on our progress over the years to come.

Yousry Bissada
President and Chief Executive Officer

Thank you to our customers, and to our broker community. We appreciate the unwavering support of our broker partners who have been with us throughout the last 30 years of our growth and through 2017. And of course, thank you to our shareholders for your continued support.

2017 Total Assets Under Administration

$25.04b

2017 Common Equity Tier 1 Capital Ratio

23.17%

Canadians Who Purchased or Refinanced a Home in the Last 10 Years Through Home Capital

>140,000

Introducing our Management Team.

Building a business for the long term and achieving our goal of being Canada's leading alternative lender requires the right leadership, skills and expertise. We have attracted and retained excellent leaders. Our senior management team brings deep knowledge and experience in risk management, mortgages, sales, underwriting, operations, finance, technology and capital markets.

Yousry Bissada
President and Chief Executive Officer

Brad Kotush
Executive Vice President and Chief Financial Officer

Amy Bruyea
Senior Vice President, Human Resources

David Cluff
Executive Vice President, Enterprise Risk Management and Chief Risk Officer

Donald Correia
Senior Vice President, Commercial Underwriting

Victor DiRisio
Chief Information Officer

Mike Forshee
Senior Vice President, Residential Underwriting

John Harry
Executive Vice President, Commercial Lending

Dinah Henderson
Executive Vice President, Operations

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

Ed Karthaus
Executive Vice President, Sales and Marketing

Benjy Katchen
Executive Vice President, Deposits and Consumer Lending

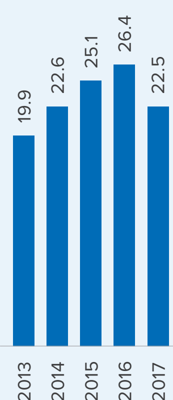
Anthony Stilo
Senior Vice President, Internal Audit

Chris Ahlvik
Executive Vice President, Corporate Counsel and Corporate Secretary

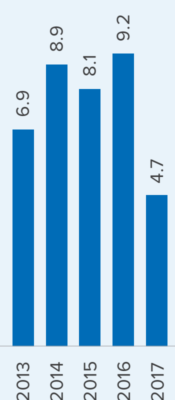
"We have a solid foundation, anchored by our capital position, which provides us with a unique value creation opportunity. We will evaluate options for capital deployment, including organic growth, dividends, share buybacks and other opportunities that may become available with a focus on the long-term growth of Home Capital."

Brad Kotush
Executive Vice President and Chief Financial Officer

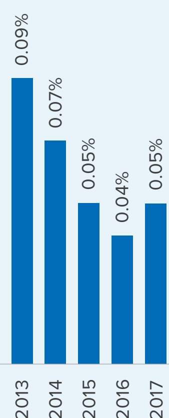
Loans Under Administration ($ billions)



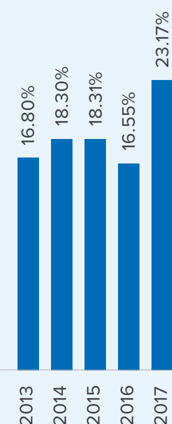
Mortgage Advances ($ billions)



Provision for Credit Losses as a % of Gross Loans



Common Equity Tier 1 Capital Ratio



Summary of Data for 10 Year Review

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

	IFRS							CGAAP	
2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total assets									
$ 17,591,143	20,528,777	20,527,062	20,082,744	20,075,850	18,800,079	17,696,471	15,518,818	7,360,874	5,809,713
Total assets under administration									
$ 25,040,182	28,917,534	27,316,476	24,281,366	21,997,781	19,681,750	17,696,471	15,518,818	11,508,585	8,423,971
Total loans									
$ 15,064,424	18,035,317	18,268,708	18,364,910	18,019,901	17,159,913	16,089,648	14,091,755	5,468,540	4,531,568
Total loans under administration									
$ 22,513,463	26,424,074	25,058,122	22,563,532	19,941,832	18,041,584	16,089,648	14,091,755	9,616,251	7,145,826
Deposits									
$ 12,170,454	15,886,030	15,665,958	13,939,971	12,765,954	10,136,599	7,922,124	6,595,979	6,409,822	5,102,781
Liquid assets									
$ 1,654,718	2,067,981	2,095,145	1,058,297	1,497,680	771,772	808,222	951,271	1,200,082	880,700
Shareholders' equity[1]									
$ 1,813,505	1,632,587	1,636,501	1,448,633	1,177,697	968,213	774,785	628,585	590,288	432,753
Net income									
$ 7,527	247,396	287,285	313,172	256,542	221,983	190,080	154,752	144,493	108,687
Book value of common shares[1,2]									
$ 22.60	25.36	23.39	20.67	16.95	13.98	11.19	9.07	8.50	6.28
Earnings per share – fully diluted[2]									
$ 0.10	3.71	4.09	4.45	3.66	3.19	2.73	2.22	2.08	1.57

In 2011, Home Capital Group Inc. implemented International Financial Reporting Standards (IFRS) with a transition date of January 1, 2010. Figures for 2010 have been restated on an IFRS basis. Figures for 2009 and 2008 are on a former Canadian Generally Accepted Accounting Principles (GAAP) basis.

1 The Company restated shareholders' equity for 2015, 2016 and 2017 reflecting an adjustment to retained earnings as described in Note 13(F) to the audited consolidated financial statements included in this report.
2 Per share amounts have been restated to reflect the stock dividend of one common share per each issued and outstanding share, paid on March 10, 2014.

Home Capital is growing, responsibly, to return to the leading alternative lender position in Canada.

We aspire to be the leading alternative lender in Canada. To achieve that, and to create meaningful, sustainable value, we must grow responsibly, within our risk framework.

We are a federally regulated financial institution. We must always be careful stewards of our depositors' savings and our investors' capital.

We are focused on growing our assets through strong broker and customer relationships, understanding the needs of those we work with and providing them with the best customer experience and solutions.

"We have incredible depth of experience and expertise across all of the major risk categories of our business, and a Risk Management Framework that is top notch for a company of our size and complexity. We must always strive to get even better. Our top priority is to further strengthen the risk culture across the Company."

David Cluff
Executive Vice President, Enterprise Risk Management and Chief Risk Officer

A bright future – growing our mortgage assets in our markets.

We know that historically about one in five Canadians may not qualify for a mortgage with the large Canadian banks. These are small business owners and professionals, or new Canadians who have limited credit history. These are our customers, and we know this segment is growing. We also know our customers take pride in home ownership. It's important that these people have the ability to participate in the housing market by obtaining a mortgage. We are proud to be there to help.

We believe today, more than ever, in the basic premise on which Home Capital was first founded more than 30 years ago – to provide residential mortgages and other financial services to a segment of the population made up of reliable borrowers. Serving that need is fundamental to the health and well-being of the Canadian economy. We are focused on this segment as we grow our mortgage assets and build our business responsibly.

2017 Total Loans Under Administration[1]

$22.51b

2017 Total Deposits

$12.17b

2017 Liquid Assets

$1.65b

Growing our business prudently, managing risk.

We have one of the strongest common equity tier 1 capital positions among regulated lenders. This provides us with an abundant layer of security and flexibility to invest in our business – a competitive advantage in our markets for many years to come. Our capital position is a key strength that, when combined with our liquid assets and stable deposit funding base, provides a unique value creation opportunity.

We are managing our liquidity prudently, ensuring we maintain an adequate level of liquidity to fund future origination growth. We are focused on a reliable base of fixed-term deposits. Our ability to raise fixed-term deposits through deposit brokers, or directly from Oaken, our direct-to-consumer channel, provides even greater flexibility and stability.

As we manage liquidity and consider ways to deploy capital, we will do so in a manner that emphasizes creating long-term value. We believe this is the right approach for shareholders.

1 Includes loans both on- and off-balance sheet.

READY TO GROW:
LEADING WITH SERVICE, DEEPENING
POWERFUL RELATIONSHIPS

Our broker origination and funding networks are strong. Now we must be service leaders.

We have built an extensive network of thousands of mortgage brokers and served generations of customers across the country over the last three decades.

We know that to be the leading alternative lender, we must also be the leader in service. We are investing in our people, our processes and our technology for a better broker and customer experience and to help us deepen our already solid broker relationships and drive growth.

“Many people forget that Home Trust helped fuel the evolution of Canada’s entire broker channel. As regulations have changed over the years, so have broker needs and wants, but throughout it all, Home Trust has been a constant.”

Mortgage Broker

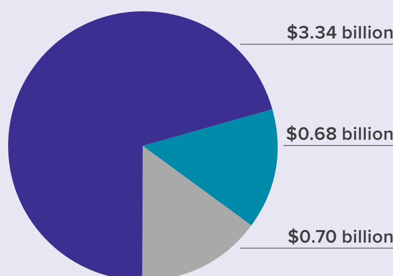
2017 Total Mortgage Advances

$4.72b

Employees Serving Thousands of Mortgage Brokers and Customers Across Canada

669

2017 Mortgage Advances by Business Line



- Single-Family Residential
- Residential Commercial
- Non-Residential Commercial

Investing in people to execute efficiently and effectively.

Mortgage brokers don’t work for Home Capital – they are independent business people. They see the value that Home Capital delivers when we are able to promptly provide a decision on a loan application or answer a product question. Although mortgage brokers and customers may have different needs, one thing is clear: they all deserve efficient and effective service. To deliver that, we recognize the need for ongoing investment in training our people, to empower them with the knowledge and skills to deliver exceptional service to brokers and customers.

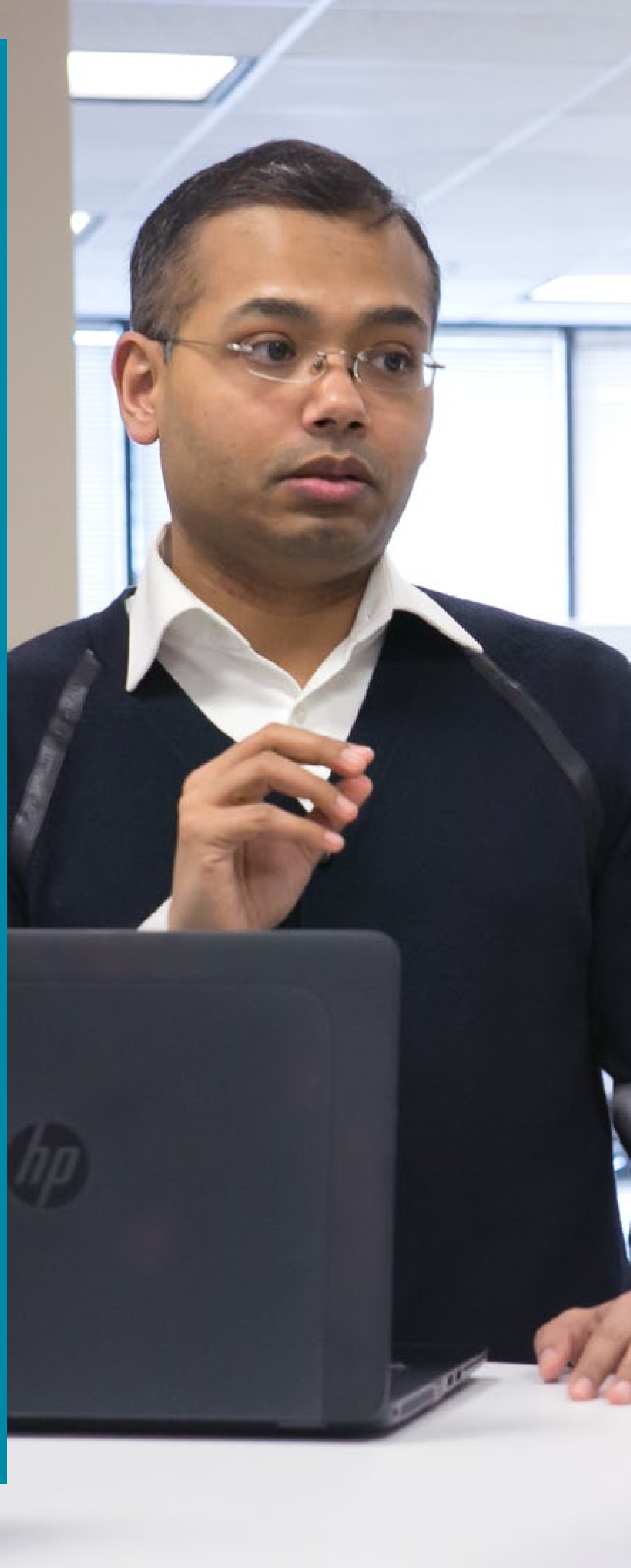
Improving service to retain existing customers longer.

Customers who renew their existing mortgage are just as important as new mortgage customers. We expect renewals to contribute meaningfully to our growth, which is why we are focusing on new initiatives to improve customer retention. A specialized retention team was put in place at the end of 2017 to actively manage customer files from the moment the loan application comes in right up until that loan matures.

“We are fortunate to have very talented and committed staff coast to coast, who have the skills, expertise and relationships to drive the business. It is our people, coupled with great products, that will allow us to grow our business and make the dream of home ownership a reality for Canadians across the country.”

Ed Karthaus
Executive Vice President,
Sales and Marketing

Technology changes everything. We're focused on meeting evolving customer needs and redefining the Home Capital experience.



Technology such as digital solutions and artificial intelligence are transforming our marketplace and fundamentally reshaping financial services.

People are changing their expectations when it comes to dealing with their financial institution. In this environment, we cannot stand still. We are looking at ways to redefine the experience that customers and brokers have with us to ensure we are keeping pace in areas such as mobile access to our products and services.

Improving technology

Technology will play a significant role in improving our day-to-day interactions with our clients, ultimately helping us provide a better experience. In the field, mortgage broker relationship teams are using new technology to be more effective. Ongoing process improvements and technology updates to Loft, our internal systems and broker submission platform, will help mortgage brokers and customers have better and more efficient access to our products. We will also improve the analytical technology used to support our retention and renewal efforts.

"The Information Technology team's top priority is to use both mature and emerging technologies to significantly improve our processes for the benefit of brokers, customers and employees. That's in addition to the work we do every day collaborating with our business partners and managing the complex technologies that it takes to run a modern financial services company."

– Victor DiRisio
Chief Information Officer

Loft is our online broker portal, designed to streamline workflow.

It's just one of the ways we are using technology to be a service leader and provide an exceptional broker and customer experience. Loft allows brokers to submit and track mortgage applications efficiently and securely. Loft's two-way communication capabilities facilitate seamless pipeline management and responsive message sharing between brokers and underwriters. The portal is easy to navigate, with 24-hour access and the use of online notifications for final approval. To ensure we meet the evolving needs of our brokers, we are committed to updating Loft with the latest features and functions to drive a superior broker and customer experience.

"At Home Capital Group we pride ourselves on providing tailored mortgage solutions for Canadians. Our focus is on strengthening our foundation where a sustainable risk culture, accountability, and efficiency are the drivers of our future success."

Mike Forshee
Senior Vice President,
Residential Underwriting

Financial solutions

As our environment evolves, we will too. We will provide new products and services to attract new brokers and customers, and retain existing ones. We have the skills, knowledge and financial strength to make it happen, and to be the provider of choice in our markets.

Home Trust launched Oaken Financial to offer Canadians a way to manage and control their savings independently.

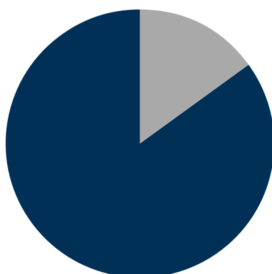
Our Oaken Financial brand and stores embody the aspirations we have for all our lines of business – providing uncomplicated, straightforward solutions that make sense for customers, and offering exceptional customer experiences.

It has been nearly six years since we launched Oaken Financial. It's a great blueprint that will be very valuable for us as we focus on becoming a service leader across all of Home Capital.

Through Oaken Financial, we are able to raise fixed-term deposits by selling Guaranteed Investment Certificates (GICs) directly to customers by phone, online or in person at our stores in Toronto and Calgary and our offices in Halifax and Vancouver. Oaken customers can seamlessly move money to and from their Oaken Savings accounts and their primary financial institution online.

At the end of 2017, Oaken deposits accounted for $2.03 billion or nearly 17% of Home Capital's total deposit base of $12.17 billion. At the end of 2017, only 4.4% of our deposits are payable on demand compared to 15.9% at the end of 2016. Oaken Financial offers deposits from both Home Trust and Home Bank, both of which are members of the Canada Deposit Insurance Corporation (CDIC).

2017 Total Deposits: $12.17 b[1]



1 Total deposits include $476 million of institutional deposit notes and $171 million of other deposits payable on demand.

At Oaken Financial, we have a Golden Rule: Treat others the way we would want to be treated ourselves.

We live and work by this rule – it colours everything we do, every day. Customers are greeted by knowledgeable and friendly staff whenever they call or visit, and we take pride in making sure they will never be surprised by the fine print. In fact, all Oaken print is deliberately kept large. Customers talk to real people who take the time to listen, understand their needs, and clearly explain all the options.

We encourage anyone to drop by our stores at any time to connect to the free Wi-Fi, have a cup of coffee or to simply relax in a quiet, comfortable setting.

> "We have built a new banking brand that truly puts the customer at the heart of everything we do. Other banks say that they do this then hide behind the fine print of teaser rate promotions or a multitude of hidden fees. The Oaken brand really has become the advocate for the Canadian banking consumer."

Benjy Katchen
Executive Vice President,
Deposits and Consumer Lending

When we think about growing responsibly, we look at what we are doing to improve the communities in which we live and work, the lives of those around us and the impact we are having on the environment.

We also look within. We are very proud of what our employees accomplish every day, and we strive to be a great place for them to work.

To grow responsibly, we must be sustainable, with every decision we make and in everything we do.

Community
We recognize the importance of contributing to our communities through corporate commitment and employee fundraising efforts. We invest in communities through a variety of charitable donations and sponsorships, and are proud to partner with organizations whose focus aligns with our principles – financial literacy, an entrepreneurial culture, serving the underserved and our belief in every Canadian's right to shelter.

People
We strive to attract top talent and create a workplace where people feel engaged, inspired, challenged, proud and respected. To that end, we focus on all aspects of the employee experience, including rewards and recognition, communication, leadership, culture, professional and personal growth, accountability and performance, and corporate social responsibility. We also work hard and have fun. Our outstanding team of employees demonstrate integrity and commitment every day.

- Providing a rewarding and engaging experience for employees
- Valuing integrity and ethical behaviour
- Ensuring a safe and healthy work environment

Some of the Organizations Supported in 2017:

SickKids Foundation
Canadian Blood Services
Covenant House
Habitat for Humanity
Junior Achievement Central Ontario
Ronald McDonald House
Canadian Cancer Society
Sunnybrook Veterans Centre
Canadian Mental Health Association

Donations to Charities in 2017

$522,000

Environment
Environmental responsibility is a vital component of being a good corporate citizen. We strive to implement environmentally sustainable business practices that reduce our impact on the environment. We achieve this through employee awareness programs, encouraging employees to make green choices, and by supporting business practices and participating in initiatives that benefit the environment in practical and meaningful ways.

- Upholding sustainable business practices
- Reducing energy consumption and greenhouse gas emissions
- Developing partnerships to conserve Canada's natural heritage

200 employees volunteered more than 1,600 hours to support our community.

Management's Discussion and Analysis

19 **Caution Regarding Forward-looking Statements**

20 **Business Profile**
20 Business Portfolios
20 Mortgage Lending
20 Consumer Lending
21 Deposits
21 Other Activities

21 **2017 Performance Overview**
21 Overview
21 Recap of Liquidity Event in the Second Quarter
22 Elevated Level of Expenses
22 Credit Performance and Losses

22 **2018 Overall Outlook**
22 Recent Government Changes
23 Market Conditions
23 Traditional Single-family Mortgage Lending
23 Uninsured Securitized Mortgage Lending
24 Insured Securitized Mortgage Lending
24 Commercial Mortgage Lending
24 Consumer Lending
24 Deposits
24 Credit Performance and Losses
24 Non-interest Expenses
24 Liquidity and Capital

25 **Financial Highlights**
26 Income Statement Summary for 2017
26 Financial Position Summary for 2017

27 **Financial Performance Review**
27 Net Interest Income and Margin
29 Non-interest Income (Loss)
30 Derivatives and Hedging
32 Non-interest Expenses
33 Taxes
33 Comprehensive Income

34 **Financial Position Review**
34 Assets
39 Liabilities
40 Shareholders' Equity
41 Contingencies and Contractual Obligations
41 Off-balance Sheet Arrangements
41 Related Party Transactions

42 **Quarterly Financial Highlights**

43 **Fourth Quarter 2017**
43 Income Statement Summary
44 Financial Position Summary

45 **Fourth Quarter Financial Information**

52 **Capital Management**
55 Capital Management Activity
55 Internal Capital Adequacy Assessment Process (ICAAP)
55 Credit Ratings
55 Share Information

56 **Risk Management**
56 Risk Overview
56 Risk Factors That May Affect Future Results
57 Risk Governance
60 Risk Management
62 Credit Risk
68 Market Risk
72 Liquidity and Funding Risk
74 Operational Risk
74 Compliance Risk
75 Capital Adequacy Risk
75 Strategic Risk
75 Reputational Risk

75 **Accounting Standards and Policies**
76 Future Changes in Accounting Standards

76 **Controls Over Financial Reporting**

77 **Non-GAAP Measures and Glossary**
77 Non-GAAP Measures
79 Glossary of Terms
80 Acronyms

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, 2017. 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, 2017 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 14, 2018. 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 uncertainty, 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 2018 and its effect on Home Capital's business are material factors the Company considers when setting its strategic priorities 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 strategic priorities and outlook for 2018, management's expectations continue to assume:

- The Canadian economy is expected to be relatively stable in 2018, supported by expanded Federal Government spending.
- Generally, the Company expects stable employment conditions in its established regions. 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 demand for the Company's lending products in its established regions.
- 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 that may result.

- While the Company is assuming that interest rates will experience modest increases in 2018, the impact of such increases is not expected to be material. The level of interest rates 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 relatively stable real estate market overall. Please see Market Conditions under the 2018 Overall Outlook for more discussion on the Company's expectations for the housing 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) provided payment services. On February 1, 2018, the Company closed the sale of its payment processing and prepaid card business including PSiGate. Please see Note 23 of the consolidated financial statements included in this report for more information. 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 generally funded by the Company's deposit products.

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 more than 80% of the credit card portfolio. The Company also offers cash-secured and unsecured credit card products. 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 both originated directly and as cash flow payment streams via other loans and rental contract originators. 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 growing the Oaken Financial direct-to-consumer deposit brand and an institutional deposit program. Home Trust and Home Bank deposit products are offered through both brokers and Oaken Financial. 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, the sale of which was closed subsequent to the end of 2017 as indicated above. 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.

2017 Performance Overview

Overview

As previously disclosed and discussed in more detail below, the Company experienced a significant liquidity event in the second quarter of 2017. The Company successfully restored ample liquidity and stabilized its deposit funding during the second half of 2017. However, third and fourth quarter performance continued to reflect a number of negative factors stemming from the liquidity event including elevated costs and new loans originations well below historical levels.

Because of the liquidity event, the Company was required to slow the issuing of loan commitments and funding of new loan originations for a period in the second and third quarters while it secured new sources of funding and stabilized its liquidity. Although the Company successfully stabilized its liquidity position and quickly restored deposit funding, the process of restoring loan growth is ongoing. The Company is focused on growing its residential and commercial loan balances through a combination of improving service levels, competitive product offerings and broker outreach programs. Elevated deposit balances in the third quarter, some of which were raised at premium rates in the immediate aftermath of the liquidity event, relative to a smaller loan portfolio has negatively impacted net interest margin and earnings.

In addition, the Company is operating in the context of an evolving regulatory landscape that will affect the mortgage market and the Company's business, though the extent of any impact is not yet clear.

Against this backdrop, management and the Board are reassessing the corporate strategy and are focused on finalizing the Company's long-term strategy during the first half of 2018 to help grow the business, create shareholder value and regain leadership in the Canadian alternative residential mortgage market.

Recap of Liquidity Event in the Second Quarter

As discussed in its 2017 quarterly reports, the Company faced significant uncertainty because of reputational events during the second quarter, which in turn led to a loss of the confidence of depositors, investors, customers and other stakeholders. This ultimately led to a severe loss of liquidity during the second quarter, as depositors withdrew most of the Company's outstanding demand deposits. In response, the Company was required to slow the funding of new business and manage its commitment and renewal pipeline, while it focused on activities that would quickly restore its liquidity. These activities included increasing rates on deposits, partnering with other lenders and arranging for the sale of certain commercial and residential mortgage assets.

The Company also entered into an agreement for special financing from a major pension plan (Emergency Credit) to provide a short-term bridge to a more sustainable solution to the Company's loss of liquidity. At the end of the second quarter, the Company completed an additional equity financing for proceeds of $153.2 million and obtained a new $2 billion line of credit from a wholly owned subsidiary of Berkshire Hathaway Inc. (BH) that replaced the Emergency Credit on better terms. Please see Note 4(A) to the consolidated financial statements in this report for more details on the line of credit facility from BH.

In the third quarter, subsequent to the announcement of the BH transactions, deposit inflows increased significantly and those inflows combined with the proceeds from asset sales and lower lending activities stabilized the Company's liquidity position. At the end of July, the Company fully repaid the amounts drawn on the line of credit facility from BH. As of the end of the year, the Company held liquid assets of $1.65 billion in addition to the undrawn balance of $2 billion on its BH line of credit. For further information on the liquidity event and actions taken, please see the Overview of the Second Quarter and Outlook section of the MD&A included in the Company's 2017 Second Quarter Report.

During the third quarter, the Company also made payments of $31.0 million ($29.0 million of which was funded under the Company's insurance program) under the previously announced settlements of the class action and Ontario Securities Commission (OSC) proceeding discussed in the Second Quarter Report.

Elevated Level of Expenses

The Company recorded elevated costs in line with management expectations following actions taken during the second quarter. The Company liquidated assets and established the $2 billion Emergency Credit (later replaced by the $2 billion credit facility from BH) to help restore its funding and liquidity.

Second quarter costs related to the liquidity event included $130.6 million in commitment fees and interest related to the Emergency Credit and BH line of credit facilities, professional and advisory fees, and a loss of $72.9 million realized on the liquidation of securities. The Company also recognized $13.1 million of costs, reflecting the impairment of goodwill, intangible and other assets, severance expense and other costs. Additionally, the Company recognized $7.0 million of costs in relation to the OSC and class action matters, referred to above, and not covered by the Company's insurers. For further information on elevated costs in the second quarter, please see the Overview of the Second Quarter and Outlook section of the MD&A included in the Company's 2017 Second Quarter Report.

During the third quarter, some expenses associated with the liquidity event declined, such as the interest expense on the Company's standby credit facilities, which were repaid by the end of July. However, other related operating expenses remained elevated, as expected. In addition, the Company recognized a loss of $13.2 million associated with the completion of the previously announced asset sales required to repay outstanding balances on the BH credit facility. Project EXPO, an initiative to reduce non-interest expenses, was successfully completed. The Company did not recognize any additional severance or other expense related to this project during the third quarter.

Expenses remained elevated during the fourth quarter primarily as a result of additional impairment losses of $6.3 million on intangible assets together with costs related to the exit from the PSiGate and prepaid businesses and litigation-related costs.

Credit Performance and Losses

The credit quality of the loan portfolio remained strong during the year with continued low non-performing loans and credit losses. Provisions for credit losses were 0.07% of gross uninsured loans for the year while net non-performing loans as a percentage of gross loans were 0.30% at the end of the year.

2018 Overall Outlook

In the near term, the Company's priorities are to grow residential and commercial originations, take back market share and improve retention levels. To achieve this, management is focused on improving service levels, introducing competitive product offerings and increasing outreach in the broker community.

The Company is focused on carefully increasing lending activity and growing mortgage originations in step with growth in deposit funding to maintain adequate liquidity. Management expects the balance of non-securitized single-family residential mortgages to remain stable in the first part of 2018 with growth resuming mid-year.

Recent Government Changes

In October 2017, the Office of the Superintendent of Financial Institutions Canada (OSFI) announced revisions to Guideline B-20 Residential Mortgage Underwriting Practices and Procedures (B-20), which became effective on January 1, 2018. The revisions include the following new standards:

1) a qualifying stress test for uninsured mortgages;

2) guidance on co-lending and bundling arrangements; and

3) additional guidance on income verification and expectations to account for property price inflation when determining an appropriate loan-to-value ratio.

The stress test requirement is expected to have the most material impact on the mortgage market and would result in a material portion of the Company's existing portfolio qualifying for a smaller loan size, if re-qualified under the new rules. The net impact to future originations volume will be affected by borrower behaviour with respect to loan size requested and down payments, and the potential for the Company to take on a part of the market that may no longer qualify at other federally regulated institutions. The Company also expects these revisions will increase the rate of renewals of mortgage loans with the existing lenders.

The following table provides, for illustrative purposes only, a comparison of the single-family residential mortgage continuity over the 12 months ended December 31, 2017 against two scenarios for the next 12 months. The first scenario assumes a 10% reduction in single-family residential mortgage advances resulting from the impact of the revisions to B-20, while the second scenario assumes a 20% reduction in advances. Both scenarios assume a consistent rate of discharge and repayments and exclude sales of mortgages.

(in billions, except %)	Actual 12 months ended December 31, 2017	Next 12 months with 10% reduction in Advances	Next 12 months with 20% reduction in Advances
Opening Balance	$ 14.3	$ 12.5	$ 12.5
Advances	3.3	3.0	2.7
Discharges	(4.8)	(4.2)	(4.2)
Other	(0.3)	0.3	0.3
Ending Balance	$ 12.5	$ 11.6	$ 11.3
Growth Rate	(13)%	(7)%	(10)%

It is not clear yet what net impact the revisions to B-20 will have on the real estate and mortgage markets, particularly when combined with changes under the Ontario Fair Housing Plan announced by the Ontario Ministry of Finance in April 2017. The Company has identified a number of strategies to mitigate the impact of stress testing and co-lending changes while maintaining overall credit quality. However, management will require more time to fully assess how the market responds to the changes and what the net impact will be on the Company’s addressable market and product suite offering.

Market Conditions

The Company’s established regions have observed cooling trends in the housing market since the spring, consistent with views that Canada’s housing market is adjusting to regulatory actions taken in the past year, including the Fair Housing Plan. Reductions in average sale prices were observed in many parts of the Greater Toronto Area (GTA) since April 2017, while the Greater Vancouver Area (GVA) experienced some price appreciation. By the end of the fourth quarter, sales activity in the GTA rebounded, but remained lower compared to the same period last year. It is too early to determine whether this activity is indicative of a sustained trend due to impending further rate increases by the Bank of Canada and the uncertainties around the new B-20 rules. The Company views the recent moderation of housing activity as a positive path towards a more sustainable real estate market compared to the rapid price increase conditions experienced in recent years, particularly in the GTA. The Company expects further slowing of the rate of price appreciation in 2018, reflecting the impact of rising interest rates and the new B-20 guideline which could worsen affordability, especially in the GTA and the Golden Horseshoe area. The Company expects stable employment conditions, high immigration targets (the Federal Government has maintained a target of 300,000 new permanent residents in 2018) and relatively tight housing supply to continue to provide support to the Company’s primary markets. The Company continues to closely monitor emerging real estate market trends across Canada and it will continue to apply a conservative approach to its residential lending. The expected rise in interest rates combined with the current level of competition in the deposit market could lead to an increase in the Company’s funding cost which may impact net interest margins.

Traditional Single-family Mortgage Lending

The Company expects to see continuing demand supporting its origination volumes through 2018, building its market share through the Company’s proven lending model and continued focus on improving service levels. The Company expects that focus on service, retention and product development in 2018 will allow the Company to continue to rebuild its origination volumes, leveraging the demand for its traditional mortgages within its established regions. The Company will continue to offer its uninsured ACE Plus product, which is a lower-rate mortgage product directed towards lower-risk borrowers, through 2018. The product may lower the overall uninsured single-family residential mortgage net interest margin.

The Company expects its 2018 net interest margin to be negatively impacted by the continued need for a credit facility combined with the impact of the mortgage sales in 2017. The Company is also 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 2016. The sponsor of the program is a Schedule 1 Canadian bank with which the Company entered into an agreement to assign to the conduit all of the Company’s interests in qualifying uninsured single-family residential mortgages. The Company’s participation in this program provided for cost-effective funding of its ACE Plus product. As access to this bank-sponsored securitization conduit is not available now, new ACE Plus mortgages are funded by deposits and will not be securitized into the conduit.

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 the insured multi-unit residential mortgages 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 and spreads will be impacted by this level of competition. 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, contributing high yields and providing asset diversification. The Company has been a prudent and conservative lender in this segment, experiencing low levels of losses and delinquencies. The Company plans to continue to rebuild the non-residential commercial portfolio in 2018.

Consumer Lending

Credit cards and other consumer retail loans are important complementary high-margin product offerings supporting the lending strategy through the mortgage broker channel 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 maintain its funding capability through deposit brokers and continue to enhance Oaken Financial's direct-to-consumer sales and service capabilities. The Company intends to strategically limit demand deposits to an appropriate level that is aligned with the Company's liquidity and funding limits and taking into consideration that a primary purpose of the Oaken Savings Accounts is to facilitate the seamless movement of funds to and from Oaken GICs for customers.

The Company will evaluate the deposit note market and may continue to issue deposit notes 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 in its loan portfolios. Credit losses and delinquencies are expected to remain low in 2018; however, the Company is prepared for volatility in this performance that may result from uncertainty in the macroeconomic environment. Implementing the changes to B-20 could have a negative impact on the housing market and economic growth in the Company's largest market of Ontario. This in turn could contribute to deterioration in credit performance in future quarters, if the extent of the impact is more severe than widely expected. The implementation of the new accounting standard (IFRS 9), which became effective on January 1, 2018 and requires consideration of forward-looking information, may also add volatility to reported credit losses. Please see Note 3 of the consolidated financial statements included in this report for more information on the implementation of IFRS 9.

Non-interest Expenses

Expenses are expected to remain somewhat elevated into the first half of 2018, including those related to litigation. However, these costs will be partially offset by cost savings resulting from the Project EXPO expense savings initiative that was completed in 2017. Operating costs related to the PSiGate and prepaid card business will also be lower in 2018, largely offset by lower revenue from this business.

Liquidity and Capital

The Company continues to hold high levels of capital as measured by regulatory risk-based capital ratios and leverage ratios. The Company will continue to employ robust capital adequacy stress-testing techniques to ensure that its conservative capital position is maintained, 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's normal course issuer bid expired at the end of the year. The Company opted to not renew the normal course issuer bid. Management and the Board are focused on finalizing the Company's long-term strategy and will consider share repurchases and its dividend policy as part of this process. The Company expects capital ratios to exceed both regulatory and internal capital targets while management reviews opportunities to deploy capital in the most efficient manner to maximize shareholder value. The Company anticipates that return on shareholders' equity will continue to be dampened by a combination of lower earnings and the increased share capital.

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)	**2017**	2016	2015	2014	2013
FINANCIAL PERFORMANCE MEASURES					
Total revenue[1]	**$ 291,311**	$ 581,959	$ 584,883	$ 592,888	$ 497,038
Net income	**7,527**	247,396	287,285	313,172	256,542
Net interest income	**302,930**	485,164	481,090	459,529	421,979
Earnings per share – basic[2]	**0.10**	3.71	4.09	4.48	3.70
Earnings per share – diluted[2]	**0.10**	3.71	4.09	4.45	3.66
Dividends per share[2]	**0.26**	0.98	0.88	0.70	0.54
Return on shareholders' equity	**0.4%**	15.1%	18.5%	23.8%	23.9%
Return on average assets	**0.0%**	1.2%	1.4%	1.6%	1.3%
Net interest margin (TEB)[3]	**1.55%**	2.37%	2.36%	2.25%	2.17%
Net interest margin non-securitized assets (TEB)[3]	**1.80%**	2.73%	2.83%	2.83%	3.01%
Net interest margin CMHC-sponsored securitized assets	**0.48%**	0.47%	0.49%	0.67%	0.73%
Efficiency ratio (TEB)[3]	**94.0%**	40.8%	32.4%	27.2%	28.7%
FINANCIAL CONDITION MEASURES					
Total assets	**$17,591,143**	$ 20,528,777	$ 20,527,062	$ 20,082,744	$ 20,075,850
Total assets under administration[4]	**25,040,182**	28,917,534	27,316,476	24,281,366	21,997,781
Cash and securities-to-total assets	**9.5%**	8.5%	7.8%	4.7%	5.8%
Total loans[5]	**$15,064,424**	$ 18,035,317	$ 18,268,708	$ 18,364,910	$ 18,019,901
Total loans under administration[4,5]	**22,513,463**	26,424,074	25,058,122	22,563,532	19,941,832
Common Equity Tier 1 capital ratio[6]	**23.17%**	16.55%	18.31%	18.30%	16.80%
Tier 1 capital ratio[6]	**23.17%**	16.54%	18.30%	18.30%	16.80%
Total capital ratio[6]	**23.68%**	16.97%	20.70%	20.94%	19.69%
Assets to regulatory capital multiple[6,7]	**N/A**	N/A	N/A	12.47	13.19
Leverage ratio[6,7]	**8.70%**	7.20%	7.36%	N/A	N/A
Credit quality					
Provision for credit losses as a % of gross loans	**0.05%**	0.04%	0.05%	0.07%	0.09%
Net non-performing loans as a % of gross loans	**0.30%**	0.30%	0.28%	0.30%	0.35%
Allowance as a % of gross non-performing loans	**79.5%**	73.4%	74.0%	64.4%	52.4%

1 The Company has revised its definition of Total Revenue and restated amounts in prior periods accordingly. Please see definition under Non-GAAP Measures in this report.
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 2013 figures.
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.
7 Effective Q1 2015, the Assets to Regulatory Capital Multiple was replaced with the Basel III leverage ratio. See definition of the leverage ratio under Non-GAAP Measures in this report.

Income Statement Summary for 2017

- Net income of $7.5 million in 2017, a significant decrease from net income of $247.4 million in 2016 resulting from the impact of the liquidity event that occurred in the second quarter of 2017.
- Diluted earnings per share of $0.10 decreased from $3.71 in 2016.
- Return on average shareholders' equity was 0.4% for 2017, compared to 15.1% for 2016. The decrease from last year reflects the combination of lower earnings and higher equity.
- Total net interest income decreased to $302.9 million, down $182.2 million or 37.6% from the $485.2 million earned in 2016, reflecting a decrease in the loan portfolio and lower total net interest margin (TEB) of 1.55% compared to 2.37% in 2016.
- Net interest income on non-securitized assets was $286.4 million in 2017, decreasing 39.2% from 2016. Net interest margin (TEB) on this portfolio was 1.80% for 2017, down from 2.73% in 2016 primarily as a result of interest and fees on the line of credit facilities that included a commitment fee of $100 million on the Emergency Credit along with interest expense on amounts drawn on both the Emergency Credit and the credit facility from BH.
- 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 $29.0 million for the year, compared to $47.9 million in 2016. The decrease resulted from lower securitization gains on sales.
- Non-interest loss of $11.6 million in 2017, compared to non-interest income of $96.8 million in 2016, resulted from a loss on sale of securities and loans, which were sold to provide liquidity and repay amounts drawn on the credit facility following the liquidity event.
- The credit quality of the loan portfolio remains strong with continued low non-performing loans and credit losses. Provisions for credit losses were $7.5 million for the year, a decrease from the $7.9 million recorded last year. Provisions were 0.07% of gross uninsured loans, up from 0.05% in 2016. Net non-performing loans as a percentage of gross loans were 0.30% at the end of 2017, consistent with last year.
- Non-interest expenses, which include salaries, premises and other operating expenses, were $274.9 million in 2017, up 15.0% over the $238.9 million recorded in 2016. The increase in expenses resulted from $12.8 million of impairment losses on intangible assets and goodwill, $13.2 million of restructuring provisions related to the Project EXPO expense savings initiative, $7.0 million of costs relating to the OSC and class action matters that were not covered by the Company's insurers and elevated costs associated with the liquidity event. The increased costs were partially offset by Project EXPO savings. The Company's efficiency ratio (TEB) increased to 94.0% in 2017 from 40.8% in 2016 because of the higher expenses combined with lower revenue.

Financial Position Summary for 2017

- Total assets under administration, which includes $7.45 billion of mortgages accounted for off-balance sheet, were $25.04 billion, a decrease of $3.88 billion or 13.4% from $28.92 billion in 2016, primarily reflecting asset sales in response to the liquidity event and lower mortgage advances, which declined significantly following the liquidity event. Please see Notes 4(C) and 5(H) to the consolidated financial statements included in this report for information on the asset sales.
- The Company sold residual interests in securitization transactions of $288.5 million. The decrease in sales contributed to the decline in the off-balance sheet mortgage portfolio with a resulting increase to both on-balance sheet securitized mortgages and securitization liabilities.
- Mortgage advances were $4.72 billion in 2017, compared to the $9.23 billion originated in 2016, a decrease of 48.8%. The decrease in advances reflects decreases in all mortgage products and resulted from the impact of the liquidity event. Single-family residential mortgage originations continued to represent the Company's primary focus with combined traditional and ACE Plus mortgage originations accounting for 64.8% of originations and Accelerator (insured) residential mortgage originations accounting for 6.0% of originations. Residential commercial and non-residential commercial mortgage originations make up the remaining 29.2% of the originations.
- Traditional mortgage advances were $2.88 billion, down 42.4% from originations of $4.99 billion in 2016. Accelerator (insured) residential mortgage advances were $281.8 million, down 82.6% compared to 2016 advances of $1.62 billion. ACE Plus mortgage advances were $185.3 million compared to originations of $407.8 million in 2016.
- Liquid assets at December 31, 2017 were $1.65 billion, compared to $2.07 billion at December 31, 2016. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations.

- 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%, consistent with last year.
- Deposits were $12.17 billion, down from $15.89 billion at December 31, 2016, reflecting the impact of the liquidity event and the substantial decline in demand deposits. Total deposits raised through the Company's deposit diversification efforts, Oaken Financial, high-interest savings accounts and institutional deposits now total $2.65 billion, a decrease from $4.59 billion last year.
- Securitization liabilities were $3.18 billion at the end of 2017, up from $2.65 billion last year, reflecting the decrease in sales of residual interests indicated above.
- Shareholders' equity of $1.81 billion at the end of 2017 increased from $1.63 billion at the end of last year as result of the issuance of new common shares to a wholly owned subsidiary of BH.
- Home Trust's capital levels were strong throughout 2017, as indicated by the Common Equity Tier 1 ratio of 23.17% and the Tier 1 and Total capital ratios of 23.17% and 23.68%, respectively, at December 31, 2017. Home Trust's Leverage ratio ended 2017 at 8.70%. The capital ratios increased from the end of 2016 primarily because of a decrease in risk-weighted assets. Risk-weighted assets decreased as the Company constrained mortgage advances and renewals and sold mortgage assets and securities to deal with the liquidity event.

Financial Performance Review

Table 2: Income Statement Summary

(000s, except per share amounts)	2017	2016
Net interest income non-securitized assets	**$ 286,412**	$ 471,057
Net interest income securitized loans and assets	**16,518**	14,107
Total net interest income	**302,930**	485,164
Provision for credit losses	**7,516**	7,890
	295,414	477,274
Non-interest income (loss)	**(11,619)**	96,795
Non-interest expenses	**274,880**	238,939
Income before income taxes	**8,915**	335,130
Income taxes	**1,388**	87,734
Net income	**$ 7,527**	$ 247,396
Basic earnings per share	**$ 0.10**	$ 3.71
Diluted earnings per share	**$ 0.10**	$ 3.71

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

	2017	2016
Net interest margin non-securitized interest-earning assets (non-TEB)	**1.79%**	2.71%
Net interest margin non-securitized interest-earning assets (TEB)	**1.80%**	2.73%
Net interest margin CMHC-sponsored securitized assets	**0.48%**	0.47%
Net interest margin bank-sponsored securitization conduit assets	**1.37%**	1.90%
Total net interest margin (non-TEB)	**1.54%**	2.35%
Total net interest margin (TEB)	**1.55%**	**2.37%**
Spread of non-securitized loans over deposits and credit facilities	**1.96%**	2.91%

Total net interest margin (TEB), including the securitized portfolio, was 1.55% for 2017 compared to 2.37% in 2016. The decrease in net interest margin resulted primarily from interest and fees on both the Emergency Credit and the line of credit facility from BH, which includes a $100 million commitment fee on the Emergency Credit along with interest expense on amounts drawn and the standby fees on undrawn amounts. Also contributing to the decline in total net interest margin from last year is a decrease in the proportion of the average higher-yielding non-securitized loans, which represent 71.8% of average total assets compared to 75.9% last year. The decrease in average non-securitized loans resulted from mortgage sales primarily from the non-residential commercial portfolio and the decline in single-family residential mortgages. Average lower-yielding securitized assets of $3.07 billion for the year represent 15.7% of average total assets compared to 13.4% last year. Cash resources and securities of $1.95 billion represent 10.0% of total average assets compared to 8.2% last year. The increase in proportion of cash resources and securities reflects the inflow of deposits experienced subsequent to the liquidity event which were held as liquid assets until those funds were deployed for mortgage funding. The increased proportion of average cash resources and securities combined with lower rates on those assets contributed to the decline in total net interest margin.

Table 4: Net Interest Income by Product and Average Rate

(000s, except %)			2017			2016
	Average Balance[1]	Income/ Expense	Average Rate[1]	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	$ 1,952,735	$ 18,384	0.94%	$ 1,699,889	$ 21,185	1.25%
Traditional single-family residential mortgages	10,529,024	500,278	4.75%	11,178,997	540,522	4.84%
ACE Plus single-family residential mortgages	396,064	14,284	3.61%	347,234	11,490	3.31%
Accelerator single-family residential mortgages	498,078	13,974	2.81%	1,301,346	30,935	2.38%
Residential commercial mortgages[2]	272,029	13,173	4.84%	427,924	17,614	4.12%
Non-residential commercial mortgages	1,616,847	97,421	6.03%	1,703,572	102,465	6.01%
Credit card loans and lines of credit	373,186	33,328	8.93%	372,841	33,536	8.99%
Other consumer retail loans	380,588	38,468	10.11%	341,315	31,472	9.22%
Total non-securitized loans	14,065,816	710,926	5.05%	15,673,229	768,034	4.90%
Taxable equivalent adjustment	–	1,125	–	–	3,654	–
Total non-securitized assets	16,018,551	730,435	4.56%	17,373,118	792,873	4.56%
CMHC-sponsored securitized single-family residential mortgages	2,213,217	52,053	2.35%	1,794,437	46,642	2.60%
CMHC-sponsored securitized multi-unit residential mortgages	586,338	30,782	5.25%	651,513	29,866	4.58%
Assets pledged as collateral for CMHC-sponsored securitization	80,452	943	1.17%	234,968	2,246	0.96%
Total CMHC-sponsored securitized residential mortgages	2,880,007	83,778	2.91%	2,680,918	78,754	2.94%
Bank-sponsored securitization conduit assets	191,177	6,151	3.22%	85,983	2,951	3.43%
Other assets	498,554	–	–	498,643	–	–
Total assets	$19,588,289	$ 820,364	4.19%	$ 20,638,662	$ 874,578	4.24%
Liabilities and shareholders' equity						
Deposits and credit facilities	$14,322,507	$ 442,898	3.09%	$ 15,844,985	$ 315,919	1.99%
Senior debt	–	–	–	57,347	2,243	3.91%
CMHC-sponsored securitization liabilities	2,897,462	69,872	2.41%	2,719,469	66,278	2.44%
Bank-sponsored securitization conduit liabilities	188,500	3,539	1.88%	83,357	1,320	1.58%
Other liabilities and shareholders' equity	2,179,820	–	–	1,933,504	–	–
Total liabilities and shareholders' equity	$19,588,289	$ 516,309	2.64%	$ 20,638,662	$ 385,760	1.87%
Net Interest Income (TEB)		$ 304,055			$ 488,818	
Taxable Equivalent Adjustment		(1,125)			(3,654)	
Net Interest Income per Financial Statements		$ 302,930			$ 485,164	

1 The average is calculated with reference to opening and closing monthly asset and liability and shareholders' equity 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 $302.9 million declined 37.6% from $485.2 million last year, reflecting a decrease in the non-securitized portfolio offset partially by an increase of $2.4 million in the securitized portfolio.

Net interest income on the non-securitized portfolio of $286.4 million in 2017 decreased by $184.6 million or 39.2% from 2016, reflecting a decrease of $1.35 billion or 7.8% in average balances combined with the negative impact of interest and fees on line of credit facility of $148.2 million. The decrease in average balances reflects the sale of mortgages and decline in mortgage advances following the liquidity event. Non-securitized net interest margin (TEB) declined 93 basis points to 1.80% from 2.73% last year as a result of a combination of a decrease in the spread of non-securitized loans over deposits and credit facilities and the higher proportion of cash resources and securities and decline in the average rate earned on those assets.

The decline in the spread of non-securitized loans over deposits and credit facilities of 95 basis points to 1.96% from 2.91% last year resulted from the interest and fees on both the Emergency Credit and credit facility from BH referred to above combined with higher rates offered to attract new deposits and the significant decline in the proportion of the lower cost demand deposits relative to higher cost fixed-term deposits. Demand deposits represented 4.4% of total deposits at the end of the year compared to 15.9% at the end of 2016. The average rate of interest expense on deposits and credit facilities for the year was 3.09% compared to 1.99% last year. Interest and fees on the line of credit facilities represented 103 basis points of the total average rate of expense of 3.09% for the year. These unfavourable impacts on net interest margin were offset partially by prepayment penalty interest earned on early payouts of consumer retail loan portfolios during the year.

The increase in the relative proportion of the lower earning cash resources and securities also contributed to the decline in the non-securitized net interest margin. Average balances of cash resources and securities during the year of $1.95 billion or 12.2% of total average non-securitized assets increased from $1.70 billion or 9.8% of average non-securitized assets in the same period last year. The average rate earned on those assets also declined to 0.94% for the year from 1.25% last year, reflecting lower dividend income following the liquidation of preferred shares during the second quarter. The increase in the relative proportion of cash resources and securities reflects the inflow of deposits experienced subsequent to the liquidity event, which were held as liquid assets until they could be deployed for mortgage funding when management shifted its focus to growing mortgage balances.

The net interest income of $16.5 million on securitized assets in 2017 increased from $14.1 million last year. Net interest margin on the CMHC-sponsored securitized assets improved slightly to 0.48% from 0.47% last year, while net interest margin on the bank-sponsored securitization conduit assets decreased to 1.37% from 1.90% last year. As access to the bank-sponsored securitization conduit is not available now, new ACE Plus mortgage advances have been funded through deposits. The funding of ACE Plus mortgages through deposits has impacted overall total net interest margin.

Non-interest Income (Loss)

Table 5: Non-interest Income (Loss)

(000s)		**2017**		2016
Fees and other income	**$**	**67,932**	$	71,329
Securitization income		**12,529**		33,797
Gain on acquisition of CFF Bank		**–**		651
Net realized and unrealized losses on securities and loans		**(90,070)**		(175)
Net realized and unrealized losses on derivatives		**(2,010)**		(8,807)
	$	**(11,619)**	$	96,795

Table 6: Securitization Income

(000s)		**2017**		2016
Net gain on sale of mortgages and residual interest[1]	**$**	**5,695**	$	26,972
Net change in unrealized gain or loss on hedging activities		**(247)**		399
Servicing income		**7,081**		6,426
Total securitization income	**$**	**12,529**	$	33,797

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

The non-interest loss in 2017 resulted primarily from the recognition of $90.1 million of net losses on the sale of securities and loans during the year. The net loss on sale of securities included $72.9 million of losses on the liquidation of preferred shares in response to the liquidity event, which included $46.2 million of losses previously recognized as unrealized losses in accumulated other comprehensive income (AOCI). A loss of $18.2 million was recognized on the sale of mortgages for proceeds of $1.49 billion which were used to raise additional liquidity and repay the outstanding balance on the credit facility from BH.

Securitization income results primarily from gains recognized on the sale of insured multi-unit residential mortgages and the sale of residual interests in single-family residential mortgage securitizations along with income earned on servicing mortgages sold through securitization. In the case of single-family residential mortgage sales, the Company will service the loans and record related servicing 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 net servicing revenue or fees are recorded. Securitization income for the year resulted primarily from servicing income of $7.1 million, compared to $6.4 million last year. Securitization income also included gains of $5.7 million recorded on sales of insured multi-unit residential mortgages and residual interests in single-family residential mortgage securitizations compared to gains of $27.0 million of gains last year. Gains of $3.6 million were recognized on the sale of $510.8 million of insured multi-unit residential mortgages during the year compared to gains of $9.6 million recognized last year on sales of $1.05 billion of insured multi-unit residential mortgages. Sales of residual interests led to gains of $2.1 million on the derecognition of $288.5 million of insured single-family residential mortgages compared to gains of $17.4 million on the sale of $1.49 billion of residual interests last year. The decline in sales of residuals from last year reflects the absence of sales subsequent to the first quarter of 2017. In the near term, the Company does not expect to sell any residual interests. Please see Note 6 to the consolidated financial statements included in this report for further information.

Fees and other income decreased 4.8% from last year, reflecting the decrease in the loan portfolio.

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 18, 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)		2017		2016
Fair value hedging ineffectiveness[1]	**$**	**(1,482)**	$	(9,335)
Derivative instruments marked-to-market gains (losses)[2]		**(528)**		528
Net realized and unrealized losses on derivatives	**$**	**(2,010)**	$	(8,807)

1 Included in fair value hedging ineffectiveness in 2016 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. 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 Mortgage-Backed Securities (NHA 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 loss as at December 31, 2017 for fair value changes in both the outstanding derivatives and the loans held for sale was $247 thousand (2016 – unrealized gain of $399 thousand), which was recorded in securitization income.

Other Total Return Swaps

The Company had certain total return swaps that were not designated in hedge accounting relationships and, therefore, were adjusted to fair value without an offsetting hedged amount. These swaps were originally intended as cash flow hedges for issued restricted share units, however as the associated units were forfeited or cancelled, the swaps were left outside of hedging relationships. Therefore their fair value change is recorded in non-interest income through net realized and unrealized gain or loss on derivatives.

Please see Note 18 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 %)	2017		2016	
	Amount	**% of Gross Loans[1]**	Amount	% of Gross Loans[1]
Provision[2]				
Single-family residential mortgages	**$ 1,891**	**0.02%**	$ 3,917	0.03%
Residential commercial mortgages	**16**	**0.01%**	2	0.00%
Non-residential commercial mortgages	**3,196**	**0.31%**	246	0.01%
Credit card loans and lines of credit[3]	**5,387**	**1.53%**	2,379	0.64%
Other consumer retail loans	**526**	**0.15%**	532	0.14%
Securitized single-family residential mortgages	**–**	**–**	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–
Total individual provision	**11,016**	**0.07%**	7,076	0.04%
Total collective provision	**(3,500)**	**(0.02)%**	814	0.00%
Total provision	**$ 7,516**	**0.05%**	$ 7,890	0.04%
Net Write-offs[2]				
Single-family residential mortgages	**$ 2,467**	**0.02%**	$ 3,087	0.02%
Residential commercial mortgages	**16**	**0.01%**	2	0.00%
Non-residential commercial mortgages	**96**	**0.01%**	515	0.03%
Credit card loans and lines of credit[3]	**5,710**	**1.62%**	1,928	0.52%
Other consumer retail loans	**666**	**0.18%**	275	0.07%
Securitized single-family residential mortgages	**–**	**–**	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–
Net write-offs	**$ 8,955**	**0.06%**	$ 5,807	0.03%

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.
3 Provision and write-offs for credit card loans in 2017 includes $2.2 million related to the non-core prepaid card business recognized in provision for credit losses in the first quarter of 2017 and subsequently written off in the fourth quarter of 2017.

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.

The Company continues to have strong credit performance with total provision for credit losses of $7.5 million in 2017 compared to $7.9 million last year. Provision as a percentage of gross uninsured loans remained low at 0.07% compared to 0.05% last year. Provision for credit losses included an individual provision of $2.5 million resulting from one non-residential commercial property that is not considered to be indicative of increased credit exposure in the remainder of that portfolio.

The total provision for credit losses was favourably impacted by a reduction of $3.5 million in the Company's collective allowance to $33.6 million from $37.1 million one year ago. The reduction in the overall collective allowance resulted primarily from a reduction of $6.5 million in the collective allowance for the non-residential mortgage portfolio related to the sale of mortgages from that portfolio, offset by $3.0 million related to an increase in the construction and land segment of that portfolio. The $6.5 million reduction related to mortgage sales was offset by a corresponding increase to the loss on sale of the mortgages included in non-interest income. Please see Note 5(H) of the consolidated financial statements included in this report for more information.

The collective provision in 2017 also comprises reductions in the collective allowance for the single-family residential mortgage portfolio and the credit card loans and lines of credit portfolio of $2.7 million and $0.8 million, respectively, offset by an increase in the collective allowance for other consumer retail loans of $3.5 million. The decreases in collective allowances reflect decreases in the portfolio size, decreased loss rates and continued low levels of loans in arrears. The increase in the collective allowance for other consumer retail loans reflects recent settlement experience related to cash reserves on certain programs within that portfolio.

The current collective allowance continues to exceed the cumulative net write-offs experienced over the last 36 months.

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 $9.0 million and represented 0.06% of gross loans compared to 0.03% in 2016.

Net non-performing loans as a percentage of gross loans remained low at 0.30% at the end of 2017 consistent with last year. The Company remains satisfied with the credit performance of the portfolio, but is prepared for moderate volatility in the trend. Please see the Credit Risk section of this MD&A for more details.

The level of individual allowances at the end of 2017 increased by $2.1 million over 2016, while gross non-performing loans decreased by $6.2 million to $50.6 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.

Non-interest Expenses

Table 9: Non-interest Expenses

(000s, except % and number of employees)	**2017**	2016
Salaries and benefits	**$ 98,595**	$ 101,880
Premises	**13,878**	14,505
Other operating expenses	**162,407**	122,554
	$ 274,880	$ 238,939
Efficiency ratio (TEB)	**94.0%**	40.8%
Active employees at end of year	**669**	916

Non-interest expenses increased by $35.9 million or 15.0% from the end of 2016, resulting primarily from an increase in other operating expenses, partially offset by a decrease in salaries and benefits. The increased expenses combined with lower revenue drove the increase in the efficiency ratio (TEB).

Other operating expenses increased by $39.9 million or 32.5% from last year. The increase in expenses resulted from $12.8 million of impairment losses on intangible assets and goodwill, $7.0 million of costs relating to the OSC and class action matters that were not covered by the Company's insurers and elevated costs associated with the liquidity event.

The decrease in salaries and benefits reflects a decline in the number of active employees resulting from the expense savings initiative, Project EXPO, and voluntary attrition following the liquidity event. The decrease was offset partially by restructuring provisions related to Project EXPO.

Taxes

Table 10: Income Taxes

(000s, except %)	2017	2016
Current	$ (2,475)	$ 90,895
Deferred	3,863	(3,161)
Total income taxes	$ 1,388	$ 87,734
Effective income tax rate	15.57%	26.18%

The provision for income taxes for the year ended December 31, 2017 amounted to $1.4 million, reflecting an effective tax rate of 15.57% ($87.7 million and 26.18% in 2016). 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 $1.8 million in SR&ED tax credits in 2017 ($2.0 million in 2016). Expenses that were non-deductible for tax purposes included the goodwill impairment loss of $4.4 million and a penalty of $2.0 million.

Note 16 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 2018 will remain within the range of 25% to 26%, 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 2018 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)	2017	2016
Net income	$ 7,527	$ 247,396
Total other comprehensive income	49,171	10,479
Comprehensive income	$ 56,698	$ 257,875

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the year was $56.7 million compared to $257.9 million in 2016.

OCI for the year was $49.2 million compared to $10.5 million in 2016. The increase in OCI primarily reflects the transfer to the consolidated statements of income of previously recognized losses on the market value of available for sale securities following the liquidation of preferred shares to raise funds because of the liquidity event.

Financial Position Review

Assets

Table 12: Loan Portfolio

(000s, except % and number of loans)	2017	% of Total	2016	% of Total
CMHC-sponsored securitized single-family residential mortgages	**$ 2,291,066**	**10.2%**	$ 1,792,301	6.8%
CMHC-sponsored securitized multi-unit residential mortgages	**558,042**	**2.5%**	620,193	2.4%
Bank-sponsored securitization conduit single-family residential mortgages	**144,142**	**0.6%**	114,310	0.4%
Traditional single-family residential mortgages	**9,247,900**	**41.1%**	11,024,960	41.7%
ACE Plus single-family residential mortgages	**384,290**	**1.7%**	433,800	1.6%
Accelerator single-family residential mortgages	**403,332**	**1.8%**	963,248	3.7%
Residential commercial mortgages	**114,357**	**0.5%**	305,188	1.2%
Non-residential commercial mortgages	**1,042,853**	**4.6%**	1,954,820	7.4%
Credit card loans and lines of credit	**351,605**	**1.6%**	369,678	1.4%
Other consumer retail loans	**360,890**	**1.6%**	378,901	1.4%
Total loan portfolio	**14,898,477**	**66.2%**	17,957,399	68.0%
Loans held for sale	**165,947**	**0.7%**	77,918	0.3%
Total on-balance sheet loans	**$15,064,424**	**66.9%**	$ 18,035,317	68.3%
Off-balance sheet loans				
Single-family residential mortgages	**$ 3,972,249**	**17.7%**	$ 5,207,351	19.7%
Multi-unit residential mortgages	**3,476,790**	**15.4%**	3,181,406	12.0%
Total off-balance sheet loans	**7,449,039**	**33.1%**	8,388,757	31.7%
Total loans under administration	**$22,513,463**	**100.0%**	$ 26,424,074	100.0%
Total insured mortgages under administration	**$11,014,393**	**50.5%**	$ 11,913,490	46.4%
Total uninsured mortgages under administration	**10,786,575**	**49.5%**	13,762,005	53.6%
Total mortgages under administration	**$21,800,968**	**100.0%**	$ 25,675,495	100.0%
Number of loans outstanding under administration				
Mortgages	**54,595**		65,665	
Credit card loans and lines of credit	**41,736**		42,707	
Other consumer retail loans	**109,179**		115,244	
Total number of loans outstanding	**205,510**		223,616	

Total loans under administration were $22.51 billion at the end of 2017, a decrease of $3.91 billion or 14.8% from the end of 2016, reflecting decreases in both on- and off-balance sheet loans. On-balance sheet loans were down 16.5% from the end of 2016, while off-balance sheet loans were down 11.2% from the end of 2016. In 2017, the Company greatly reduced mortgage advances and sold loans to manage the liquidity issues experienced during the year.

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)				**2017**
	Single-family Residential Mortgages	**Residential Commercial Mortgages**	**Non-residential Commercial Mortgages**	**Total**
Balance at the beginning of the year	**$14,328,619**	**$ 1,003,299**	**$ 1,954,820**	**$17,286,738**
Advances	**3,342,591**	**678,512**	**699,746**	**4,720,849**
Renewal of mortgages previously derecognized[1]	**547,178**	**19,199**	**–**	**566,377**
Scheduled payments and prepayments[2]	**(336,610)**	**(20,826)**	**(60,783)**	**(418,219)**
Discharges	**(4,849,952)**	**(162,776)**	**(541,606)**	**(5,554,334)**
Capitalization and amortization of fees and other	**44,641**	**(1,277)**	**(1,242)**	**42,122**
Sales of mortgages and residual interests	**(605,737)**	**(677,785)**	**(1,008,082)**	**(2,291,604)**
Balance at the end of the year	**$12,470,730**	**$ 838,346**	**$ 1,042,853**	**$14,351,929**

(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
Renewal of mortgages previously derecognized[1]	62,548	14,457	–	77,005
Scheduled payments and prepayments[2]	(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	31,070	(3,354)	1,309	29,025
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

1 Represents renewals of mortgages that were previously derecognized and included in the off-balance sheet portfolio. Upon renewal, the mortgages are recognized on the balance sheet.

2 Includes regularly scheduled principal payments and unscheduled partial payments.

Table 14: Mortgage Advances by Type and Province

(000s, except %)	2017	% of Total	2016	% of Total
Single-family residential mortgages				
Traditional	**$ 2,875,535**	**60.9%**	$ 4,991,051	54.1%
ACE Plus	**185,283**	**3.9%**	407,767	4.4%
Accelerator	**281,773**	**6.0%**	1,622,003	17.6%
Residential commercial mortgages				
Multi-unit uninsured residential mortgages	**71,854**	**1.5%**	142,026	1.5%
Multi-unit insured residential mortgages	**599,843**	**12.7%**	956,406	10.4%
Other[1]	**6,815**	**0.1%**	50,772	0.5%
Non-residential commercial mortgages				
Stores and apartments	**45,499**	**1.0%**	80,888	0.9%
Commercial	**654,247**	**13.9%**	974,864	10.6%
Total mortgage advances	**$ 4,720,849**	**100.0%**	$ 9,225,777	100.0%

(000s, except %)	2017	% of Total	2016	% of Total
British Columbia	**$ 326,081**	**6.9%**	$ 721,718	7.8%
Alberta	**71,070**	**1.5%**	263,843	2.9%
Ontario	**4,057,887**	**85.9%**	7,347,408	79.6%
Quebec	**167,631**	**3.6%**	498,393	5.4%
Other	**98,180**	**2.1%**	394,415	4.3%
Total mortgage advances	**$ 4,720,849**	**100.0%**	$ 9,225,777	100.0%

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

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 2015. The Company participated in a bank-sponsored securitization conduit program and assigned select ACE Plus mortgages into this program. At the end of 2017, ACE Plus mortgages with a balance of $144.1 million have been assigned to this program and reclassified to securitized mortgages on the consolidated balance sheet. As access to the bank-sponsored securitization conduit is not available now, the Company has been funding new ACE Plus mortgage advances with deposits. Combined traditional and non-securitized ACE Plus mortgages of $9.63 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 42.8% and 63.9%, respectively. The combined portfolio decreased by 15.9% from the end of 2016 resulting from lower originations and reduced retention. Combined originations of traditional and ACE Plus mortgages of $3.06 billion for the year were down 43.3% from last year. The lower originations resulted from the Company's efforts to manage the liquidity issues experienced in the year and the time needed to restart the growth in its mortgage portfolio.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.01 billion at the end of 2017, a decrease of 7.5% from the balance of $11.91 billion at the end of 2016. Of this total, $7.45 billion were accounted for off-balance sheet, down $0.94 billion or 11.2% from the end of 2016.

The Company originated $281.8 million in insured single-family Accelerator mortgages in 2017, down 82.6% from 2016 as the Company scaled back its originations due to its liquidity needs during 2017 and continued to experience the expected impact of the government changes to insured mortgage rules announced in late 2016. The Company continued to take a conservative approach towards 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.

In 2017, the Company originated $599.8 million of insured multi-unit residential mortgages and sold $510.8 million that qualified for off-balance sheet treatment resulting in $3.6 million in gains on sale. 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. All of the Company's new 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's originations were constrained in 2017 by the liquidity event and the time needed to restart the growth in its mortgage portfolio.

Non-residential Commercial Mortgages
The decrease in the non-residential commercial mortgage portfolio reflects the asset sales from the portfolio and lower originations. Please see Note 5(H) to the consolidated financial statements included in this report for more information on the asset sales. Non-residential commercial mortgage originations were $699.7 million in 2017, a decrease of 33.7% from 2016. The slowdown in originations is reflective of the response to the liquidity event and the time needed to restart the growth in the Company's mortgage portfolio. The focus was turned toward asset sales to assist in generating liquidity out of the commercial loan portfolio.

Non-residential commercial mortgages, which include loans on office, industrial, retail and mixed-use properties as well as commercial mortgages on development projects, have been an important complementary source of loan assets and revenue. The Company expects to resume participating in appropriate commercial mortgage opportunities as they arise.

Geographic Concentration
Mortgage advances continued to favour Ontario and, in particular, the GTA, during the year. 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 included in this report for the geographic distribution of the portfolio.

Table 15: Consumer Lending Continuity

(000s)			**2017**			2016
	Credit Card Loans and Lines of Credit	**Other Consumer Retail Loans**	**Total Consumer Lending**	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total Consumer Lending
Balance at the beginning of the year	**$ 369,678**	**$ 378,901**	**$ 748,579**	$ 370,825	$ 296,857	$ 667,682
Advances and draw-downs	**218,377**	**197,962**	**416,339**	218,962	183,693	402,655
Repayments	**(274,744)**	**(270,424)**	**(545,168)**	(262,464)	(144,360)	(406,824)
Capitalization of interest and fees, and other	**38,294**	**54,451**	**92,745**	42,355	42,711	85,066
Balance at the end of the year	**$ 351,605**	**$ 360,890**	**$ 712,495**	$ 369,678	$ 378,901	$ 748,579
Authorized limit on new credit card issuances	**$ 128,897**			$ 168,087		

Consumer Lending
Consumer lending, comprising credit cards, lines of credit and other consumer retail loans, continued to be an important source of loan assets with attractive returns. While representing 4.7% of the total on-balance sheet loan portfolio, these assets generated 9.0% of the interest income from loans for the year.

Credit card and lines of credit balances decreased to $351.6 million at the end of 2017 from $369.7 million at the end of 2016. The decline in issuance of new credit cards reflects a decrease in new Equityline *Visa* accounts (Home Equity Line of Credit) consistent with the decline in residential mortgage originations. Equityline *Visa* accounts represented 87.8% of the total credit card and lines of credit balance.

The balance of other consumer retail loans decreased to $360.9 million at the end of 2017 from $378.9 million at the end of 2016. The decrease resulted from the early payout on certain portfolios of consumer retail loans, which totalled $124.5 million in 2017. These assets are typically generated through dealer programs which remain in place.

Cash Resources and Securities

Combined cash resources and securities of $1.67 billion at the end of 2017 decreased by $71.7 million from the end of 2016, reflecting a decrease in securities resulting from the liquidation of preferred shares in response to the liquidity event. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

The Company has a $2 billion line of credit facility with a wholly owned subsidiary of BH which is undrawn. The Company also has an uncommitted secured credit facility with a Canadian chartered bank in the amount of $20 million which is undrawn. The details of these facilities are disclosed in Note 4(A) 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, 2017, the preferred share portfolio was $30.9 million or 9.3% of the Company's securities compared to $193.4 million or 36.1% in 2016. Investment-grade preferred shares represented 96.9% of the preferred share portfolio (83.9% in 2016). Government bonds represented 90.4% of the securities portfolio compared to 63.0% in 2016. The entire bond portfolio of $300.6 million ($337.2 million in 2016) is investment grade. Residual interests represented 0.3% (2016 – 0.8%) 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)	2017	2016
Restricted assets		
Restricted cash	**$ 254,134**	$ 143,296
Treasury bills and other acceptable securities assigned as replacement assets	**182,877**	122,078
Derivative assets	**7,325**	37,524
Other assets		
Accrued interest receivable	**49,651**	60,314
Prepaid CMB coupon	**3,644**	3,289
Securitization receivable and retained interest	**182,930**	213,312
Capital assets	**10,431**	13,013
Income taxes recoverable	**13,340**	25,619
Other prepaid assets and deferred items	**76,774**	33,091
Deferred tax assets	**9,577**	16,914
Goodwill and intangible assets		
Goodwill	**2,324**	6,752
Intangible assets	**98,669**	115,003
	$ 891,676	$ 790,205

Total other assets increased by $101.5 million from last year primarily because of an increase in restricted assets. The increase in restricted cash of $110.8 million from last year reflects an increase in CMHC collateral requirements and increased margin call requirements related to the Company's derivative positions. The increase of $60.8 million in securities assigned as replacement assets reflects approaching CMB maturities. In general, as CMB maturities approach, the Company replaces maturing securitized mortgages with treasury bills and other acceptable securities. 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 total other assets also reflects an increase in other prepaid assets and deferred items of $43.7 million. Included in this increase is $39.5 million of continuing involvement asset and withheld proceeds related to the sale of mortgages during the year. The continuing involvement asset is offset by an equivalent continuing involvement liability included in other liabilities on the consolidated balance sheets (please see Note 5(H) to the consolidated financial statements included in this report for more information).

The increase in total other assets was offset partially by decreases in derivative assets, securitization receivable and retained interest, and goodwill and intangible assets. The decrease in derivative assets reflects changes in interest rates. Derivative assets and liabilities are discussed in the Derivatives and Hedging section of this MD&A. The decrease in securitization receivable and retained interest reflects the decrease in sales of both residual interests in single-family residential mortgage securitizations and insured multi-unit residential mortgages (please see Note 6 to the consolidated financial statements included in this report for more information). The decrease in goodwill and intangible assets reflects impairment losses recognized during the year (please see Notes 9 and 10 to the consolidated financial statements included in this report for more information).

Liabilities

Deposits and Securitization Liabilities

Table 17: Deposits and Securitization Liabilities

(000s, except % and number of accounts)	2017	% of Totals	2016	% of Totals
Deposits payable on demand				
High-interest savings accounts	$ 138,948	1.1%	$ 2,016,881	12.7%
Oaken savings accounts	229,511	1.9%	340,809	2.1%
Other deposits payable on demand	170,905	1.4%	174,113	1.1%
	539,364	4.4%	2,531,803	15.9%
Deposits payable on fixed dates				
Brokered GICs	9,350,235	76.9%	11,120,107	70.0%
Oaken GICs	1,805,332	14.8%	1,429,153	9.0%
Institutional deposit notes	475,523	3.9%	804,967	5.1%
	11,631,090	95.6%	13,354,227	84.1%
Total deposits	12,170,454	100.0%	15,886,030	100.0%
Securitization liabilities				
CMHC-sponsored mortgage-backed security liabilities	1,562,152	49.1%	898,386	33.9%
CMHC-sponsored Canada Mortgage Bond liabilities	1,473,318	46.4%	1,637,117	61.8%
Bank-sponsored securitization conduit liabilities	142,279	4.5%	114,146	4.3%
Total securitization liabilities	$ 3,177,749	100.0%	$ 2,649,649	100.0%
Total number of deposit accounts	391,182		441,782	

Table 17(A): Non-Securitized Loans and Deposits by Remaining Contractual Term to Maturity

(000s)						December 31, 2017
	Payable on Demand	0–3 Months	3–12 Months	1 to 3 Years	Over 3 Years	Total
Non-securitized loans						
Single-family residential mortgages	$ –	$ 1,806,068	$ 5,871,267	$ 2,119,370	$ 238,817	$10,035,522
Residential commercial mortgages	–	38,723	36,547	33,053	6,034	114,357
Non-residential commercial mortgages	–	226,034	449,363	337,464	29,992	1,042,853
Credit card loans and lines of credit	–	351,605	–	–	–	351,605
Other consumer retail loans	–	4,149	23,096	66,046	267,599	360,890
	–	2,426,579	6,380,273	2,555,933	542,442	11,905,227
Deposits						
Demand deposits and GICs	539,364	1,431,121	3,818,779	4,150,463	1,755,204	11,694,931
Institutional deposits	–	174,972	300,551	–	–	475,523
	539,364	1,606,093	4,119,330	4,150,463	1,755,204	12,170,454
Net maturity	$ (539,364)	$ 820,486	$ 2,260,943	$ (1,594,530)	$ (1,212,762)	$ (265,227)

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio and principally comprises fixed-term deposits, which represent 95.6% 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. The above table presents the net remaining contractual term to maturity of the Company's non-securitized loans and deposits. 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 $12.17 billion decreased 23.4% from 2016. The liquidity event that occurred during the year had a significantly negative impact on the Company's funding capabilities, particularly with respect to deposits from diversified sources. Deposits from diversified sources, which comprise Oaken deposits, institutional deposit notes and Home Trust High-Interest Savings Accounts, accounted for 21.8% of total deposits at the end of 2017 compared to 28.9% at the end of 2016. The decline in balances from the end of 2016 resulted primarily from a significant level of redemptions in High-Interest Savings Accounts, which has been attributed to heightened reputational concerns faced by the Company. In addition, the Company repaid $325.0 million of institutional deposit notes in 2017 on the maturity date.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities, increased $528.1 million from the end of 2016. The increase was mainly due to the increase in MBS liabilities. MBS liabilities have increased from the end of 2016 as the Company sold MBS from its liquidity portfolio and issued new MBS in 2017 which remained on-balance sheet. New CMHC-sponsored securitization transactions related to insured fixed-rate single-family residential mortgages have primarily been sold off-balance sheet subsequent to securitization in previous years. The increase in bank-sponsored securitization liabilities from the end of 2016 resulted from the assignment of ACE Plus mortgages into the conduit during the first half of 2017. As access to the bank-sponsored securitization conduit is not available now, the Company is no longer assigning ACE Plus mortgages into the conduit. New ACE Plus mortgage advances are being funded by deposits. The increase in securitization liabilities was partially offset by a decrease in CMB liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature.

Table 18: Other Liabilities

(000s)	**2017**	2016
Derivative liabilities	**$ 38,728**	$ 3,490
Other liabilities		
Accrued interest payable	**133,888**	130,222
Securitization servicing liability	**20,924**	20,573
Other, including accounts payable and accrued liabilities	**205,665**	169,942
Deferred tax liabilities	**30,230**	36,284
	$ 429,435	$ 360,511

The increase in other liabilities resulted primarily from an increase in other, including accounts payable and accrued liabilities, which fluctuates based on timing of the payment of associated liabilities and includes the continuing involvement liability associated with mortgage sales during the year (please see Note 5(H) of the consolidated financial statements included in this report for more information on these mortgage sales). Derivative liabilities also increased, reflecting changes in interest rates.

Shareholders' Equity

Table 19: Shareholders' Equity

(000s)	**2017**	2016
Shareholders' equity at the beginning of the year	**$ 1,632,587**	$ 1,636,501
Net income	**7,527**	247,396
Other comprehensive income	**49,171**	10,479
Amounts related to stock-based compensation	**964**	2,581
Repurchase of shares	**(5,999)**	(199,196)
Issuance of shares	**145,965**	–
Dividends	**(16,710)**	(65,174)
Shareholders' equity at the end of the year	**$ 1,813,505**	$ 1,632,587

The increase of $180.9 million in total shareholders' equity since December 31, 2016 was primarily generated from the new issuance of common shares to BH, net of direct costs, for $146.0 million and internally generated comprehensive income of $56.7 million, net of $16.7 million for dividends to shareholders and $6.0 million related to the repurchase of shares. Please see Notes 13 and 14 to the consolidated financial statements included in this report for more information.

At December 31, 2017, the book value per common share was $22.60, compared to $25.36 at December 31, 2016. The decrease in book value per common share from the end of 2016 was due to the increase in the number of common shares outstanding resulting from the share issuance to BH that occurred in 2017.

In the third quarter of 2017, the Company made an adjustment to retained earnings as at December 31, 2015 that is not significant to the consolidated financial statements (please see Note 13(F) to the consolidated financial statements included in this report for more information). The book value per common share for prior periods presented above has been adjusted accordingly.

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, 2017.

Table 20: Contractual Obligations

(000s)	2018	2019	2020	2021	2022	Thereafter	**Total**
Minimum lease payments	$ 12,862	$ 7,844	$ 4,081	$ 3,925	$ 3,884	$ 21,803	**$ 54,399**

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 17 to the consolidated financial statements included in this report 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 $875.9 million at December 31, 2017 ($1.34 billion – December 31, 2016). These amounts included offers made but not yet accepted by the customer as of the reporting date. Also included within the outstanding amounts were unutilized non-residential commercial loan advances of $196.7 million at December 31, 2017 ($486.6 million – December 31, 2016). Offers for the loans remain open for various periods. As at December 31, 2017, unutilized credit card balances amounted to $145.5 million ($146.3 million – December 31, 2016). Included in the outstanding amounts for future advances of mortgage loans were outstanding future advances for the Equityline *Visa* portfolio of $16.1 million at December 31, 2017 ($28.8 million – December 31, 2016). 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. Credit commitments for mortgages are significantly lower than the levels at the end of 2016, reflecting the ongoing process to rebuild the mortgage portfolio as a result of the impact of the liquidity event on mortgage advances.

The Company has $7.45 billion (2016 – $8.39 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 included in this report 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 21 of the consolidated financial statements included in this report.

Previously, in the normal course of business, the Company referred borrowers who required loans at a higher loan-to-value ratio than the Company would provide to second mortgage lenders. All referrals were conducted at arm's length and at market terms. Second mortgage lenders independently underwrote all second mortgages with the borrowers. During the year, the Company discontinued this practice and no longer makes such referrals. One of the second mortgage lenders is related to the Company through a close family relationship with a former member of the Company's key management personnel. The amount of second mortgages referred to this lender during the years ended December 31, 2017 and 2016 was not significant.

Quarterly Financial Highlights

Table 21: Summary of Quarterly Results

(000s, except per share amounts and %)				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (loss) (TEB[1])	$ 91,818	$ 88,853	$ (3,298)	$ 126,682	$ 121,564	$ 120,777	$ 122,987	$ 123,490
Less: TEB adjustment	100	91	109	825	944	853	884	973
Net interest income (loss) per financial statements	91,718	88,762	(3,407)	125,857	120,620	119,924	122,103	122,517
Non-interest income (loss)	17,737	6,645	(57,886)	21,885	23,977	25,171	24,658	22,989
Non-interest expense	65,490	59,924	85,001	64,465	71,028	54,982	54,912	58,017
Total revenue	109,455	95,407	(61,293)	147,742	144,597	145,095	146,761	145,506
Net income (loss)	30,619	29,983	(111,116)	58,041	50,706	66,190	66,252	64,248
Return on shareholders' equity	6.8%	6.8%	(25.9)%	14.0%	12.6%	16.7%	16.3%	15.5%
Return on average total assets	0.7%	0.6%	(2.2)%	1.1%	1.0%	1.3%	1.3%	1.2%
Total assets under administration	25,040,182	26,659,330	28,292,436	29,583,545	28,917,534	28,327,676	28,430,730	27,960,592
Total loans under administration	22,513,463	23,232,686	25,863,400	27,163,636	26,424,074	26,012,884	25,732,657	25,222,523
Earnings (loss) per common share								
Basic	$ 0.38	$ 0.37	$ (1.73)	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92
Diluted	$ 0.38	$ 0.37	$ (1.73)	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92
Book value per common share	$ 22.60	$ 22.20	$ 21.82	$ 26.18	$ 25.36	$ 24.70	$ 23.90	$ 23.97
Efficiency ratio (TEB[1])	59.8%	62.7%	(138.9)%	43.4%	48.8%	37.7%	37.2%	39.6%
Common equity tier 1 ratio[2]	23.17%	21.25%	17.06%	16.34%	16.55%	16.54%	16.38%	18.28%
Tier 1 capital ratio[2]	23.17%	21.25%	17.06%	16.34%	16.54%	16.53%	16.38%	18.28%
Total capital ratio[2]	23.68%	21.74%	17.54%	16.77%	16.97%	16.97%	16.82%	20.63%
Net non-performing loans as a % of gross loans	0.30%	0.28%	0.23%	0.24%	0.30%	0.31%	0.33%	0.34%
Annualized provision as a % of gross uninsured loans	0.12%	(0.14)%	0.07%	0.16%	0.07%	0.04%	0.08%	0.04%
Annualized provision as a % of gross loans	0.09%	(0.11)%	0.05%	0.13%	0.05%	0.03%	0.06%	0.03%

1 TEB – Taxable Equivalent Basis: see definition under Non-GAAP Measures in this report.
2 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. Most of the above financial measures subsequent to Q1 2017 were significantly impacted by the liquidity event. 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 2017 over 2016).

Fourth Quarter 2017

Income Statement Summary

- Reported net income of $30.6 million in Q4 2017 was 39.6% lower than the $50.7 million net income recorded in Q4 2016 and 2.1% higher compared to $30.0 million in Q3 2017.
- Reported diluted earnings per share for the fourth quarter were $0.38, compared to $0.79 in Q4 2016 and $0.37 in Q3 2017.
- Return on shareholders' equity was 6.8% in Q4 2017, compared to 12.6% in Q4 2016 and 6.8% in Q3 2017.
- Total net interest income of $91.7 million for the quarter declined by 24.0% from Q4 2016, reflecting the decrease in total net interest margin (TEB) to 2.02% from 2.38% last year. Total net interest income for the quarter increased by 3.3% from Q3 2017, reflecting the increase in net interest margin (TEB) from 1.85% last quarter.
- Net interest income on non-securitized assets was $89.1 million for the quarter, down 23.6% from Q4 2016, reflecting the decrease in net interest margin (TEB) to 2.46% for the quarter from 2.73% last year. Net interest income on the non-securitized portfolio increased $4.2 million from the $84.9 million reported in Q3 2017, while net interest margin (TEB) improved by 25 basis points from 2.21% last quarter. The improvement over last quarter resulted primarily from prepayment penalty interest income earned in Q4 2017 on the early payment of a consumer retail loan portfolio and higher interest earned on government bonds combined with lower interest and fees on line of credit facility reflecting a full quarter with no drawn balances on the BH facility.
- 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 $4.3 million in Q4 2017, down from $13.0 million in Q4 2016 and from $6.4 million in Q3 2017.
- Fees and other income of $16.3 million in Q4 2017 were down 7.2% from the $17.6 million recorded in Q4 2016 and 9.6% from $18.1 million in Q3 2017 reflecting the decline in the mortgage portfolio.
- The credit quality of the loan portfolio remained strong in the quarter with the level of credit losses and non-performing loans remaining low. Provision for credit losses for the quarter was $3.4 million, compared to $2.4 million in Q4 2016 and a $4.3 million release in Q3 2017. The annualized credit provision as a percentage of gross uninsured loans for the quarter was 0.12%, compared to 0.07% in Q4 2016 and (0.14)% in Q3 2017. The increase in the PCL ratio over last year resulted from an individual provision of $2.2 million resulting from one non-residential commercial property that is not considered to be indicative of increased credit exposure in the remainder of that portfolio. The negative PCL ratio last quarter resulted from the reduction of $6.5 million in the collective allowance for the non-residential portfolio related to assets sales from that portfolio (see Note 5(H) of the consolidated financial statements included in this report for more information). In the absence of this reduction, the PCL ratio in Q3 2017 was 0.07%. Net non-performing loans as a percentage of gross loans ended 2017 at 0.30%, compared to 0.30% at the end of 2016 and 0.28% at the end of Q3 2017.
- Non-interest expenses were $65.5 million in the fourth quarter, down $5.5 million from Q4 2016 and up $5.6 million from last quarter. The efficiency ratio was 59.8% in the fourth quarter, up from 48.8% in Q4 2016 and down from 62.7% in Q3 2017. The decrease in non-interest expenses from last year reflects lower salaries and benefits resulting from the reduced number of employees from the impact of Project EXPO and voluntary attrition. The increase from last quarter reflects higher operating expenses which include $11.4 million of expenses comprising $6.3 million of impairment losses on intangible assets along with costs related to the exit of the PSiGate and prepaid card business and litigation-related costs. The increase was offset partially by lower salaries and benefits.

Financial Position Summary

- Total loans under administration, which includes securitized mortgages that qualify for off-balance sheet accounting, decreased by $3.91 billion in 2017 to $22.51 billion, from $26.42 billion at the end of 2016 and by 3.1% or $719.2 million from $23.23 billion at the end of Q3 2017.
- Total loans were $15.06 billion at Q4 2017, a decrease of 16.5% from $18.04 billion at the end of 2016 and 2.4% from $15.43 billion at the end of Q3 2017.
- The total value of mortgages originated in Q4 2017 was $872.1 million, compared to $2.43 billion in Q4 2016 and $385.1 million in Q3 2017.
- The Company originated $537.4 million of combined traditional and ACE Plus single-family residential mortgages in Q4 2017, compared to $1.43 billion in Q4 2016 and $202.7 million in Q3 2017.
- Accelerator (insured) single-family residential mortgage originations were $29.0 million in Q4 2017, compared to $346.7 million in Q4 2016 and $21.3 million in Q3 2017.
- Multi-unit residential originations were $194.8 million in the quarter, compared to $371.5 million in Q4 2016 and $99.1 million in Q3 2017. 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 $111.2 million in Q4 2017, compared to $277.3 million in Q4 2016 and $62.0 million in Q3 2017.
- Liquid assets at December 31, 2017 were $1.65 billion, compared to $2.07 billion at the end of 2016 and $2.66 billion at September 30, 2017. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations.
- Total deposits were $12.17 billion at the end of Q4 2017, compared to $15.89 billion at the end of 2016 and $13.36 billion at the end of Q3 2017. The decrease in deposits from the end of last year reflects the elevated level of redemptions of the Company's High-Interest Savings Accounts during the liquidity event. The decrease in deposits from the end of last quarter reflects the Company's intentional actions to slow the inflow of deposits to match expected mortgage originations. During the third quarter, the Company was required to offer premium rates on deposits to increase inflows following the liquidity event, resulting in the growth of deposits outpacing loan growth. By the end of the third quarter, the Company reduced deposit interest rates on new deposits to market levels, intentionally lowering deposit growth, as efforts turned to growing mortgage balances.
- Home Trust's Common Equity Tier 1 (CET 1) and Total capital ratios remained very strong at 23.17% and 23.68%, respectively, at December 31, 2017, and well above Company and regulatory minimum targets. Home Trust's Leverage ratio was 8.70% at December 31, 2017, also well above regulatory minimums.

Fourth Quarter Financial Information

Table 22: Fourth Quarter Review of Financial Performance

		For the three months ended	
(000s, except per share amounts)	**December 31 2017**	September 30 2017	December 31 2016
Net Interest Income Non-Securitized Assets			
Interest from loans	**$ 158,938**	$ 167,159	$ 190,389
Dividends from securities	**278**	253	2,614
Other interest	**6,417**	4,303	2,514
	165,633	171,715	195,517
Interest on deposits and other	**70,330**	75,430	78,868
Interest and fees on line of credit facility	**6,215**	11,368	–
Net interest income non-securitized assets	**89,088**	84,917	116,649
Net Interest Income Securitized Loans and Assets			
Interest income from securitized loans and assets	**22,563**	23,130	19,923
Interest expense on securitization liabilities	**19,933**	19,285	15,952
Net interest income securitized loans and assets	**2,630**	3,845	3,971
Total Net Interest Income	**91,718**	88,762	120,620
Provision for credit losses	**3,434**	(4,257)	2,400
	88,284	93,019	118,220
Non-Interest Income			
Fees and other income	**16,346**	18,087	17,613
Securitization income	**1,695**	2,525	9,064
Net realized and unrealized losses on securities	**–**	(13,155)	–
Net realized and unrealized losses on derivatives	**(304)**	(812)	(2,700)
	17,737	6,645	23,977
	106,021	99,664	142,197
Non-Interest Expenses			
Salaries and benefits	**17,063**	22,610	24,134
Premises	**3,478**	3,283	3,607
Other operating expenses	**44,949**	34,031	43,287
	65,490	59,924	71,028
Income Before Income Taxes	**40,531**	39,740	71,169
Income taxes			
Current	**8,160**	5,839	22,941
Deferred	**1,752**	3,918	(2,478)
	9,912	9,757	20,463
NET INCOME	**$ 30,619**	$ 29,983	$ 50,706
NET INCOME PER COMMON SHARE			
Basic	**$ 0.38**	$ 0.37	$ 0.79
Diluted	**$ 0.38**	$ 0.37	$ 0.79
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	**80,246**	80,246	64,479
Diluted	**80,286**	80,246	64,519
Total number of outstanding common shares	**80,246**	80,246	64,388
Book value per common share	**$ 22.60**	$ 22.20	$ 25.36

Table 23: Fourth Quarter Review of Comprehensive Income

	For the three months ended		
(000s)	**December 31 2017**	September 30 2017	December 31 2016
NET INCOME	**$ 30,619**	$ 29,983	$ 50,706
OTHER COMPREHENSIVE INCOME			
Available for Sale Securities and Retained Interests			
Net unrealized gains	**1,431**	1,483	12,774
Net losses reclassified to net income	**–**	–	–
	1,431	1,483	12,774
Income tax expense	**378**	394	3,391
	1,053	1,089	9,383
Cash Flow Hedges			
Net unrealized gains (losses)	**356**	(467)	(1,677)
Net (gains) losses reclassified to net income	**(68)**	287	174
	288	(180)	(1,503)
Income tax expense (recovery)	**78**	(50)	(398)
	210	(130)	(1,105)
Total other comprehensive income	**1,263**	959	8,278
COMPREHENSIVE INCOME	**$ 31,882**	$ 30,942	$ 58,984

Table 24: Fourth Quarter Review of Financial Position

	As at	
(000s)	**December 31 2017**	September 30 2017
ASSETS		
Cash and Cash Equivalents	**$ 1,336,138**	$ 2,337,760
Available for Sale Securities	**332,468**	331,544
Loans Held for Sale	**165,947**	40,320
Loans		
Securitized mortgages	**2,993,250**	3,133,906
Non-securitized mortgages and loans	**11,905,227**	12,255,424
	14,898,477	15,389,330
Collective allowance for credit losses	**(33,563)**	(33,563)
	14,864,914	15,355,767
Other		
Restricted assets	**437,011**	289,870
Derivative assets	**7,325**	10,177
Other assets	**336,770**	365,685
Deferred tax assets	**9,577**	15,873
Goodwill and intangible assets	**100,993**	109,298
	891,676	790,903
	$17,591,143	$ 18,856,294
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Deposits payable on demand	**$ 539,364**	$ 441,008
Deposits payable on a fixed date	**11,631,090**	12,917,610
	12,170,454	13,358,618
Securitization Liabilities		
CMHC-sponsored mortgage-backed security liabilities	**1,562,152**	1,606,818
CMHC-sponsored Canada Mortgage Bond liabilities	**1,473,318**	1,473,350
Bank-sponsored securitization conduit liabilities	**142,279**	174,511
	3,177,749	3,254,679
Other		
Derivative liabilities	**38,728**	31,192
Other liabilities	**360,477**	395,291
Deferred tax liabilities	**30,230**	34,773
	429,435	461,256
	15,777,638	17,074,553
Shareholders' Equity		
Capital stock	**231,156**	231,156
Contributed surplus	**4,978**	5,096
Retained earnings	**1,583,265**	1,552,646
Accumulated other comprehensive loss	**(5,894)**	(7,157)
	1,813,505	1,781,741
	$17,591,143	$ 18,856,294

Table 25: Fourth Quarter Net Interest Margin

	For the three months ended		
	December 31 2017	September 30 2017	December 31 2016
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.46%**	2.21%	2.71%
Net interest margin non-securitized interest-earning assets (TEB)	**2.46%**	2.21%	2.73%
Net interest margin CMHC-sponsored securitized assets	**0.30%**	0.43%	0.53%
Net interest margin bank-sponsored securitization conduit assets	**0.99%**	1.17%	1.90%
Total net interest margin (non-TEB)	**2.02%**	1.85%	2.36%
Total net interest margin (TEB)	**2.02%**	**1.85%**	**2.38%**
Spread of non-securitized loans over deposits and credit facilities	**2.84%**	2.62%	2.86%

Table 26: Fourth Quarter Net Interest Income by Product and Average Rate

	For the three months ended					
	December 31, 2017		September 30, 2017		December 31, 2016	
(000s, except %)	**Income/ Expense**	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	**$ 6,695**	**1.12%**	$ 4,556	0.75%	$ 5,128	1.31%
Traditional single-family residential mortgages	**115,118**	**4.88%**	122,489	4.82%	131,029	4.75%
ACE Plus single-family residential mortgages	**3,732**	**3.94%**	3,612	3.62%	3,344	3.38%
Accelerator single-family residential mortgages	**3,442**	**3.72%**	2,763	3.98%	6,505	2.24%
Residential commercial mortgages[2]	**1,881**	**4.98%**	2,063	5.98%	4,291	3.99%
Non-residential commercial mortgages	**16,257**	**6.25%**	18,777	6.12%	28,233	5.93%
Credit card loans and lines of credit	**8,021**	**9.03%**	8,327	8.99%	8,389	9.02%
Other consumer retail loans	**10,487**	**11.39%**	9,128	10.11%	8,598	9.32%
Total non-securitized loans	**158,938**	**5.25%**	167,159	5.16%	190,389	4.86%
Taxable equivalent adjustment	**100**	**–**	91	–	944	–
Total non-securitized assets	**165,733**	**4.57%**	171,806	4.47%	196,461	4.56%
CMHC-sponsored securitized single-family residential mortgages	**13,891**	**2.40%**	13,718	2.27%	11,115	2.50%
CMHC-sponsored securitized multi-unit residential mortgages	**7,115**	**5.04%**	7,718	5.31%	7,197	4.63%
Assets pledged as collateral for CMHC-sponsored securitization	**343**	**1.20%**	122	0.68%	495	1.35%
Total CMHC-sponsored securitized residential mortgages	**21,349**	**2.85%**	21,558	2.81%	18,807	2.96%
Bank-sponsored securitization conduit assets	**1,214**	**2.98%**	1,572	3.26%	1,116	3.53%
Total assets	**$ 188,296**	**4.15%**	$ 194,936	4.06%	$ 216,384	4.24%
Liabilities and shareholders' equity						
Deposits and credit facilities	**$ 76,545**	**2.41%**	$ 86,798	2.54%	$ 78,868	2.00%
CMHC-sponsored securitization liabilities	**19,121**	**2.51%**	18,277	2.37%	15,438	2.41%
Bank-sponsored securitization conduit liabilities	**812**	**2.04%**	1,008	2.16%	514	1.61%
Other liabilities and shareholders' equity	**–**	**–**	–	–	–	–
Total liabilities and shareholders' equity	**$ 96,478**	**2.13%**	$ 106,083	2.21%	$ 94,820	1.86%
Net Interest Income (TEB)	**$ 91,818**		$ 88,853		$ 121,564	
Taxable Equivalent Adjustment	**(100)**		(91)		(944)	
Net Interest Income per Financial Statements	**$ 91,718**		$ 88,762		$ 120,620	

1 The average is calculated with reference to opening and closing monthly asset and liability and shareholders' equity 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 2017	September 30 2017	December 31 2016
		For the three months ended	
Single-family residential mortgages			
Traditional	**$ 515,699**	$ 201,131	$ 1,325,896
ACE Plus	**21,713**	1,541	106,477
Accelerator	**28,635**	21,292	346,690
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	**17,568**	–	53,999
Multi-unit insured residential mortgages	**177,224**	99,054	293,306
Other[1]	**–**	–	24,179
Non-residential commercial mortgages			
Stores and apartments	**1,870**	–	14,878
Commercial	**109,343**	62,047	262,423
Total mortgage advances	**$ 872,052**	$ 385,065	$ 2,427,848

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, 2017		September 30, 2017		December 31, 2016	
			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	**$ 266**	**0.01%**	$ 1,165	0.04%	$ 1,029	0.03%
Residential commercial mortgages	**(9)**	**(0.03)%**	6	0.02%	2	0.00%
Non-residential commercial mortgages[3]	**2,584**	**0.99%**	202	0.08%	45	0.01%
Credit card loans and lines of credit	**485**	**0.55%**	756	0.83%	1,164	1.26%
Other consumer retail loans	**108**	**0.12%**	114	0.13%	160	0.17%
Securitized single-family residential mortgages	**–**	**–**	–	–	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–	–	–
Total individual provision	**3,434**	**0.09%**	2,243	0.06%	2,400	0.05%
Total collective provision	**–**	**–**	(6,500)	(0.17)%	–	–
Total provision	**$ 3,434**	**0.09%**	$ (4,257)	(0.11)%	$ 2,400	0.05%
Net Write-offs[2]						
Single-family residential mortgages	**$ 489**	**0.02%**	$ 506	0.02%	$ 440	0.01%
Residential commercial mortgages	**17**	**0.06%**	4	0.02%	2	0.00%
Non-residential commercial mortgages	**14**	**0.01%**	33	0.01%	(5)	(0.00)%
Credit card loans and lines of credit[4]	**3,288**	**3.74%**	637	0.70%	469	0.51%
Other consumer retail loans	**138**	**0.15%**	73	0.08%	48	0.05%
Securitized single-family residential mortgages	**–**	**–**	–	–	–	–
Securitized multi-unit residential mortgages	**–**	**–**	–	–	–	–
Net write-offs	**$ 3,946**	**0.11%**	$ 1,253	0.03%	$ 954	0.02%

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.
3 Provision for credit losses includes an individual provision of $2.2 million resulting from one non-residential commercial property that is not considered to be indicative of increased credit exposure in the remainder of the portfolio.
4 Write-offs for credit card loans for the three months ended December 31, 2017 includes $2.3 million related to the non-core prepaid card business which was recognized in provision for credit losses in the first quarter of 2017.

Table 29: Fourth Quarter Allowance for Credit Losses

(000s)	For the three months ended December 31, 2017					
	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	**$ 1,860**	**$ –**	**$ 300**	**$ 3,260**	**$ 304**	**$ 5,724**
Provision for credit losses	**358**	**17**	**2,464**	**485**	**110**	**3,434**
Write-offs[1]	**(760)**	**(17)**	**(21)**	**(3,366)**	**(186)**	**(4,350)**
Recoveries	**271**	**–**	**7**	**78**	**48**	**404**
	1,729	**–**	**2,750**	**457**	**276**	**5,212**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**1,108**	**26**	**358**	**–**	**9**	**1,501**
Provision for credit losses	**(92)**	**(26)**	**120**	**–**	**(2)**	**–**
	1,016	**–**	**478**	**–**	**7**	**1,501**
Total individual allowance	**2,745**	**–**	**3,228**	**457**	**283**	**6,713**
Collective allowance						
Balance at the beginning of the period	**23,032**	**327**	**6,000**	**3,904**	**300**	**33,563**
Provision for credit losses[2]	**(2,692)**	**–**	**–**	**(808)**	**3,500**	**–**
	20,340	**327**	**6,000**	**3,096**	**3,800**	**33,563**
Total allowance	**$ 23,085**	**$ 327**	**$ 9,228**	**$ 3,553**	**$ 4,083**	**$ 40,276**
Total provision	**$ (2,426)**	**$ (9)**	**$ 2,584**	**$ (323)**	**$ 3,608**	**$ 3,434**

(000s)	For the three months ended September 30, 2017					
	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	$ 1,302	$ –	$ 141	$ 3,141	$ 264	$ 4,848
Provision for credit losses	1,064	4	192	756	113	2,129
Write-offs	(651)	(4)	(33)	(705)	(136)	(1,529)
Recoveries	145	–	–	68	63	276
	1,860	–	300	3,260	304	5,724
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,007	24	348	–	8	1,387
Provision for credit losses	101	2	10	–	1	114
	1,108	26	358	–	9	1,501
Total individual allowance	2,968	26	658	3,260	313	7,225
Collective allowance						
Balance at the beginning of the period	23,032	327	12,500	3,904	300	40,063
Provision for credit losses[3]	–	–	(6,500)	–	–	(6,500)
	23,032	327	6,000	3,904	300	33,563
Total allowance	$ 26,000	$ 353	$ 6,658	$ 7,164	$ 613	$ 40,788
Total provision	$ 1,165	$ 6	$ (6,298)	$ 756	$ 114	$ (4,257)

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

(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

1 Write-offs in the credit card and line of credit portfolio include $2.3 million related to the non-core prepaid card business that was recognized as provision for credit losses in Q1 2017.
2 The following changes were recognized in the collective allowance:
- Single-family residential mortgage portfolio – reduction of $2.7 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Credit card loans and lines of credit portfolio – reduction of $0.8 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Other consumer retail loans portfolio – increase of $3.5 million reflects recent settlement experience related to cash reserves on certain programs within that portfolio.

3 Non-residential commercial mortgage portfolio – reduction of $6.5 million reflecting the sale of mortgages from this portfolio (please see Note 5(H) for more information).

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 2017	September 30 2017	December 31 2016
Net gain on sale of mortgages and residual interest[1]	**$ 163**	$ 434	$ 7,006
Net change in unrealized gain or loss on hedging activities	**(137)**	349	276
Servicing income	**1,669**	1,742	1,782
Total securitization income	**$ 1,695**	$ 2,525	$ 9,064

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, 2017			September 30, 2017
	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	**$ –**	**$ 51,869**	**$ 51,869**	$ –	$ 58,905	$ 58,905
Net gains on sale of mortgages or residual interest[1]	**–**	**163**	**163**	–	434	434
Retained interests recorded	**–**	**2,730**	**2,730**	–	2,349	2,349
Servicing liability recorded	**–**	**444**	**444**	–	480	480

(000s)			For the three months ended
			December 31, 2016
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 392,298	$ 314,985	$ 707,283
Net gains on sale of mortgages or residual interest[1]	4,284	2,722	7,006
Retained interests recorded	–	10,004	10,004
Servicing liability recorded	–	2,408	2,408

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 a 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 exposures, 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 Home Trust Company consolidated financial position)

(000s, except ratios)	**December 31 2017**	December 31 2016
	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	**1,604,357**	1,604,758
Accumulated other comprehensive loss	**(5,897)**	(55,040)
Cash flow hedge reserves	**1,189**	1,476
Regulatory deductions from CET 1[1]	**(125,768)**	(160,917)
Total CET 1 capital	**1,513,329**	1,429,725
Additional Tier 1 capital	**–**	–
Total Tier 1 capital	**1,513,329**	1,429,725
Tier 2 capital		
Collective allowance for credit losses[2]	**33,563**	37,063
Total Tier 2 capital	**33,563**	37,063
Total regulatory capital	**1,546,892**	1,466,788
Risk-weighted assets for		
Credit risk	**5,580,361**	7,578,490
Operational risk	**942,038**	1,050,888
Total risk-weighted assets, before CVA[3]	**6,522,399**	8,629,378
CVA adjustment for CET 1 capital	**8,650**	11,544
Total CET 1 capital risk-weighted assets	**6,531,049**	8,640,922
CVA adjustment for Tier 1 capital	**9,251**	12,806
Total Tier 1 capital risk-weighted assets	**6,531,650**	8,642,184
CVA adjustment for total capital	**9,731**	13,889
Total risk-weighted assets	**$ 6,532,130**	$ 8,643,267
Regulated capital to risk-weighted assets		
CET 1 ratio	**23.17%**	16.55%
Tier 1 capital ratio	**23.17%**	16.54%
Total regulatory capital ratio	**23.68%**	16.97%
Leverage ratio	**8.70%**	7.20%
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, 2017, the Company's collective allowance represented 0.60% of total credit risk-weighted assets, inclusive of total CVA.
3 CVA – Credit Valuation Adjustment.

Home Trust's regulatory "all-in" total capital ratios have increased from the end of 2016 primarily because of a decrease in risk-weighted assets. Risk-weighted assets decreased as the Company constrained mortgage originations and renewals and sold mortgage assets to deal with the liquidity event of 2017.

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 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 regulatory and internal capital targets.

Home Trust adopted certain Basel III capital requirements beginning January 1, 2013, as required by OSFI. The transitional basis allowed 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 Home Trust Company consolidated financial position)

			2017			2016
(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	**$ 1,146,147**	**20.0%**	**$ 229,229**	$ 1,145,116	20.0%	$ 229,023
Restricted assets	**437,011**	**11.6%**	**50,827**	265,374	10.8%	28,659
Available for sale securities	**331,500**	**9.3%**	**30,936**	530,594	36.4%	193,350
Insured residential mortgages	**3,565,354**	**0.5%**	**18,867**	3,524,733	0.9%	30,449
Uninsured single-family residential mortgages	**9,637,873**	**35.2%**	**3,393,375**	11,501,997	35.3%	4,057,571
Uninsured residential commercial mortgages	**105,849**	**100.0%**	**105,849**	305,188	100.3%	306,123
Non-residential commercial mortgages	**1,042,853**	**100.7%**	**1,049,722**	1,954,820	100.1%	1,957,094
Credit card loans and lines of credit	**351,605**	**42.2%**	**148,506**	369,678	43.3%	160,040
Other consumer retail loans	**360,890**	**75.0%**	**270,668**	378,901	75.0%	284,176
Other assets	**341,345**	**71.4%**	**243,844**	383,435	62.4%	239,198
Total assets subject to risk rating	**17,320,427**	**32.0%**	**5,541,823**	20,359,836	36.8%	7,485,683
Deferred tax assets for loss carryforwards	**6,390**	**–**	**–**	15,920	–	–
Intangible assets	**98,669**	**–**	**–**	115,003	–	–
Collective allowance for credit losses	**(33,563)**	**–**	**–**	(37,063)	–	–
Total assets	**17,391,923**	**31.9%**	**5,541,823**	20,453,696	36.6%	7,485,683
Off-balance sheet items						
Loan commitments	**799,892**	**4.8%**	**38,538**	1,172,628	7.9%	92,807
Total credit risk	**18,191,815**		**5,580,361**	21,626,324		7,578,490
Operational risk	**–**		**942,038**	–		1,050,888
Total risk-weighted assets, before CVA	**$18,191,815**		**$ 6,522,399**	$ 21,626,324		$ 8,629,378

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 allowed it to purchase up to 5,336,040 of the Company's common shares. The normal course issuer bid expired on December 31, 2017 and the Company opted to not renew it. 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. The Company will determine its plans for future share repurchases and whether it will file a new normal course issuer bid as part of the strategic planning process that is underway.

During 2017, the Company repurchased 203,000 common shares for $6.0 million under the normal course issuer bid thereby reducing retained earnings by $5.7 million and share capital by $0.3 million. In 2016, the Company repurchased a total of 5,660,691 common shares under both its substantial issuer bid and normal course issuer bid for $199.2 million, thereby reducing retained earnings by $191.9 million and share capital by $7.3 million. Included in the amount allocated to retained earnings in 2016 was $0.4 million (net of tax) for transaction costs associated with the substantial issuer bid.

Universal Base Shelf Prospectus

On October 18, 2017, the Company filed a short form universal base shelf prospectus (the "Prospectus") with the securities commissions in each of the provinces and territories of Canada, except for Quebec. The Prospectus qualifies offerings of up to $750 million of securities over a 25-month period. The Prospectus is not a commitment to undertake any financing, nor does the Company have any current intention of offering securities from treasury under this Prospectus. The Prospectus was filed to satisfy Home Capital's obligations under the registration rights agreement entered into with a subsidiary of Berkshire Hathaway Inc. and to provide the Company with financing flexibility going forward.

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.

Table 34: Credit Ratings

	Home Capital Group Inc.		Home Trust Company	
	DBRS	Standard & Poor's	DBRS	Standard & Poor's
Long-term rating	B (low)	B-	BB (low)	B+
Short-term rating	R-5	B	R-4	B
Outlook	Stable	Positive	Stable	Positive

Share Information

Table 35: Share Information

(000s)	**2017**		2016	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares issued and outstanding[1]	**80,246**	**$ 231,156**	64,388	$ 84,910
Employee stock options outstanding[2]	**840**	**N/A**	1,074	N/A
Employee stock options exercisable[2,3]	**511**	**18,333**	587	18,107

1 Please see Note 13(B) of the consolidated financial statements included in this report for details on shares issued during the year.
2 Please see Note 14(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, 2017.

Risk Overview

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability. 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.

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

Canadian Housing Market and Canadian Consumer Debt

The Canadian housing market, and in particular the Greater Toronto Area (GTA) and Greater Vancouver Area (GVA), remains a top concern for the Company. The Company is closely monitoring the impact of the new federal and provincial measures, designed to cool the housing market, on our mortgage originations. Risks associated with high Canadian household indebtedness remain elevated, particularly considering the rising interest rate environment. The Company expects further slowing of housing price appreciation in 2018, reflecting the impact of regulatory changes and rising interest rates which could worsen affordability, especially in the GTA and the Golden Horseshoe area. However, stable employment conditions and high levels of immigration are expected to continue to provide support to our primary markets.

The Company continues to apply conservative credit risk management practices, which includes manual adjudication of loan applications, establishing and monitoring prudent risk limits and regular performance of stress tests. The Company believes the risk of a severe housing correction in our established regions to be unlikely, and stress testing results suggest that even a severe real estate decline, coupled with high unemployment rates, would lead to manageable losses.

Regulatory and Political Risk
The Company is subject to a variety of regulations and related oversight. Regulatory reforms aimed at cooling the housing market and strengthening underwriting practices, at the federal and provincial levels of government, are a key risk for the Company. Implementation of the measures could potentially result in increased regulatory and compliance costs.

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; however, regulators or other reviewers 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 Risk
The Company recognizes the value of using third parties to support its business activities, as they provide access to an expanded customer base, specialized expertise and systems, economies of scale and operational efficiencies. However, they also create reliance on the integrity, reliability, and security of these relationships, and their associated people, processes and technology. While the Company has implemented internal controls to manage the risks associated with key vendors as well as business partners such as mortgage brokers and loan servicers, failures could result in adverse effects including service disruptions, financial loss and damage to the Company's reputation.

Other Factors That May Affect Future Results
Information Security and Privacy Risk
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 are increasing, and could result in business interruptions, service disruptions, corporate espionage, theft of private and confidential information, and reputational damage. The Company is committed to investing in defensive technology, resources and processes to prevent, detect and manage information security and privacy threats.

Ability to Attract and Retain Employees
Underlying the Company's performance is its ability to attract and retain key personnel as there is strong competition for talent in the financial services sector. The recent liquidity event highlighted the importance of employee retention. Management has been addressing this risk through key employee retention programs, increased employee communications, and focused recruitment activities. The Company believes that it is now better positioned to manage the rate of attrition and that attrition will return to more historical levels.

Change Management Risk
The Company has undergone changes to its Board and senior management team as well as enhancements to its organizational structure, processes and technology to improve service to the Company's customers and broker network, deliver efficiencies, strengthen internal controls and meet regulatory expectations. To manage the risk of change, the Company has employed structured processes such as its New Initiative Risk Assessment Process, as well as emphasizing stakeholder involvement and communication throughout the Company.

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.

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.

Risk and Compliance Culture

The Company's risk and compliance culture is influenced by many factors, and is supported by 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, reflects its 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 are 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 and 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 & 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.

Risk Governance Structure

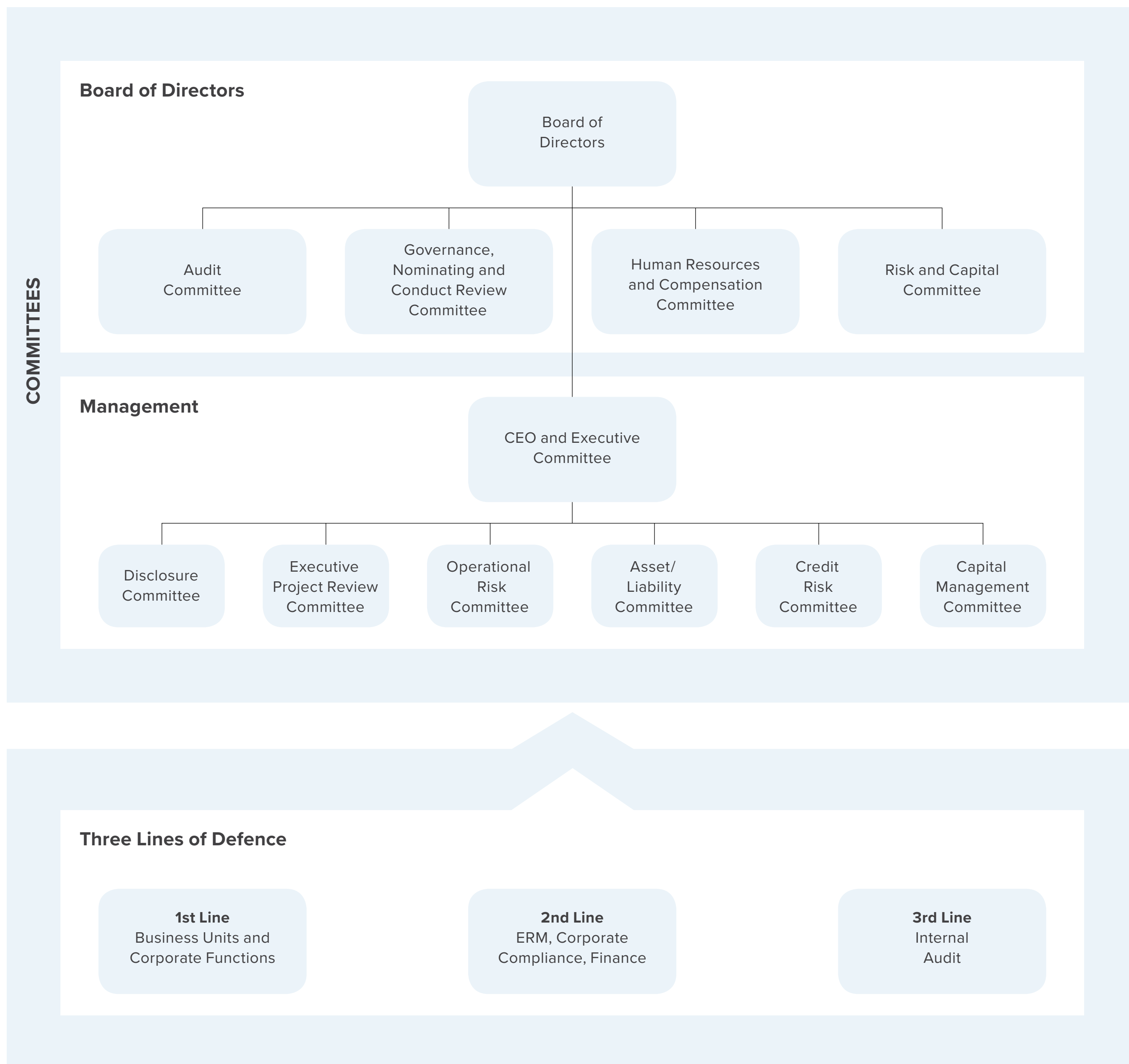
The Company's risk governance is based on a three lines of defence model:

- First 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.

- Second 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. Enterprise Risk Management and Corporate Compliance are independent from management. The Chief Risk Officer and Chief Compliance Officer are appointed by and report to the Risk and Capital Committee and Audit Committee, respectively.

- Third 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 Chief Audit executive is appointed by and reports directly to the Audit Committee.

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 its 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, and providing risk oversight for Strategic, Reputational and Compliance Risks.

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 RCC, 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 is mandated to establish and maintain a financial management framework (a set of controls and oversight processes). In addition to the first line of defence responsibilities for implementing, monitoring and reporting on controls, the Finance group has second line of defence responsibilities relating to the oversight of the effectiveness of financial controls. The Chief Financial Officer 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

Risk Appetite Statement

The Company's risk appetite statement 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, considering 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 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.

The Company has identified the following eight principal risks, as illustrated below.

Principal Risk	Key Policy / Framework	Risk Limits	Management Oversight
Credit	Credit Risk Policy Residential Mortgage Underwriting Policy	Credit Concentration Limits Delegated Lending Authorities	Credit Risk Committee
Market	Market Risk Policy	Market Risk Limits	Asset/Liability Committee
Liquidity and Funding	Liquidity and Funding Risk Policy	Liquidity and Funding Risk Limits Funding Concentration Limits	Asset/Liability Committee
Operational	Operational Risk Management Policy and Framework Internal Control Framework	Key Risk Indicators Key Control Indicators	Operational Risk Committee Disclosure Committee Executive Project Review Committee
Compliance	Corporate Compliance Policy Anti-Money Laundering and Anti-Terrorist Financing Policy	Key Risk Indicators	Executive Committee
Strategic	Strategic and Financial Planning Policy	Risk Appetite Statement	Executive Committee
Reputational	Reputational Risk Policy	Risk Appetite Statement	Executive Committee
Capital Adequacy	Capital Management Policy	Key Risk Indicators	Capital Management Committee

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 Identification and Assessment

The Company uses a range of risk tool programs 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 or technologies) by business and support groups, and other internal subject matter experts.

Risk Measurement

The ability to measure risks is a key component of the Company's risk management framework and capital management processes. 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, credit risk management and ad hoc stress testing to evaluate a range of extreme but plausible scenarios. Stress tests are conducted to determine the potential impact of these events, the effectiveness of management's contingency plans to deal with these unlikely but possible events, and management's ability to mitigate the potential risk. A common set of enterprise scenarios is developed to assess the impact on the Company's financial results, capital position, operational capabilities and the Company's ability to respond to the event. In particular, management has evaluated a range of stress scenarios, including a severe real estate price decline, interest rate shock, a reputational risk event, and a reverse stress scenario. Management analyzes the outcomes from stress testing and, where applicable, takes proactive measures to mitigate potential risks to the business.

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.

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, considering 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 allowance for credit losses 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 a detailed assessment of the borrower's ability to service the loan, credit history and underlying security. 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)	**2017**	2016	2015
Total loans balance (net of individual allowances)	**$14,898,477**	$ 17,957,399	$ 18,133,665
Mortgage Portfolio[1]			
Total mortgage portfolio balance (net of individual allowance)	**$14,185,982**	$ 17,208,820	$ 17,465,983
Residential mortgages as a percentage of total mortgages	**92.6%**	88.6%	91.5%
Non-residential mortgages as a percentage of total mortgages	**7.4%**	11.4%	8.5%
Percentage of insured residential mortgages[2]	**24.0%**	20.0%	23.7%
Percentage of mortgages current	**98.4%**	98.3%	98.2%
Percentage of mortgages over 90 days past due	**0.2%**	0.3%	0.3%
Percentage of insured residential mortgage originations	**20.3%**	27.7%	22.1%
Loan-to-value ratio of residential mortgages (current uninsured)[3]	**68.9%**	65.0%	66.4%
Credit Card and Lines of Credit Portfolio			
Total credit card and lines of credit portfolio balance	**$ 351,605**	$ 369,678	$ 370,825
Percentage of Equityline *Visa* credit cards	**87.8%**	86.6%	86.6%
Percentage of secured credit cards	**4.3%**	4.0%	3.9%
Percentage of credit cards and lines of credit current	**98.2%**	98.2%	98.5%
Percentage of credit cards and lines of credit over 90 days past due	**0.5%**	0.4%	0.4%
Loan-to-value ratio of Equityline *Visa* (current)[3]	**61.2%**	63.2%	62.9%
Visa card security deposits	**$ 21,580**	$ 21,253	$ 20,646
Total authorized limits of credit cards and lines of credit	**$ 497,475**	$ 515,947	$ 511,283
Total number of credit cards and lines of credit issued	**41,736**	42,707	40,355
Average balance authorized	**$ 12**	$ 12	$ 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.

The Company separately monitors segments of its portfolio for indications of deterioration in performance. 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 8.0% of the residential mortgage portfolio and, of these, 25.9% are insured. The average current LTV of the high-rise condominium portfolio was 54.0% at the end of 2017. The credit performance of the high-rise condominium portfolio is strong and within the Company's expectations, with 99.2% of the portfolio current and 0.1% over 90 days past due.

The level of non-residential mortgages decreased during the year following the sale of mortgages from this portfolio. Please see Note 5(H) to the consolidated financial statements included in this report for more information.

Consumer Lending
Credit card and Equityline *Visa* balances were $351.6 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 57.2% at the end of the year compared to 63.2% at the end of 2016. 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 line of credit portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of December 31, 2017, $2.3 million or 0.7% of the credit card and line of credit portfolio was over 90 days in arrears, compared to $2.4 million or 0.4% at December 31, 2016.

Other consumer retail loans are primarily secured by charges on financed assets, primarily fixtures and/or improvements to residential property. The Company has a small auto financing portfolio. These portfolios continue to perform well and within expected levels.

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 %)	2017		2016	
	Gross	**Net**[1]	Gross	Net[1]
Single-family residential mortgages	**$ 31,836**	**$ 30,107**	$ 49,834	$ 47,854
Residential commercial mortgages	**–**	**–**	–	–
Non-residential commercial mortgages	**16,489**	**13,739**	4,577	4,547
Credit card loans and lines of credit	**2,038**	**1,581**	2,049	1,269
Other consumer retail loans	**276**	**–**	411	–
Non-performing loans	**50,639**	**45,427**	56,871	53,670
Total gross loans	**$14,903,689**		$ 17,960,600	
Net non-performing loans as a % of gross loans		**0.30%**		0.30%
Total allowance for credit losses		**$ 40,276**		$ 41,715
Total allowance as a % of gross loans		**0.27%**		0.23%
Total allowance as a % of gross non-performing loans		**79.54%**		73.35%
Net write-offs as a % of gross loans		**0.06%**		0.03%

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

Net non-performing loans remain within expected and acceptable ranges. As part of the Company's ongoing business strategy, experienced employees undertake reviews of delinquent and non-performing loans to analyze patterns and drivers and then modify, where appropriate, the Company's lending guidelines. This analytical approach and attention to emerging trends have resulted in continued low write-off rates relative to the gross loans portfolio. Write-offs, net of recoveries, totalled $9.0 million or 0.06% of gross loans in 2017, compared to $5.8 million or 0.03% of gross loans in 2016. The Company continually monitors arrears and write-offs and deals quickly with non-performing loans. From time to time, the Company may sell non-performing loans to third parties. The Company has not sold any loans to such parties in 2017.

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

Table 38: Allocation of Allowance for Credit Losses

(000s)	2017 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2017 Ending Balance
Individual allowances				
Single-family residential mortgages	$ 3,321	$ (2,467)	$ 1,891	$ 2,745
Residential commercial mortgages	–	(16)	16	–
Non-residential commercial mortgages	128	(96)	3,196	3,228
Credit card loans and lines of credit	780	(5,710)	5,387	457
Other consumer retail loans	423	(666)	526	283
Total individual allowance	4,652	(8,955)	11,016	6,713
Collective allowance[1]				
Single-family residential mortgages	23,032	–	(2,692)	20,340
Residential commercial mortgages	327	–	–	327
Non-residential commercial mortgages	9,500	–	(3,500)	6,000
Credit card loans and lines of credit	3,904	–	(808)	3,096
Other consumer retail loans	300	–	3,500	3,800
Total collective allowance	37,063	–	(3,500)	33,563
Total allowances	$ 41,715	$ (8,955)	$ 7,516	$ 40,276

(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

1 The reduction in the collective allowance of $3.5 million during 2017 comprises the following:
- Single-family residential mortgage portfolio – reduction of $2.7 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Non-residential commercial mortgage portfolio – net reduction of $3.5 million comprises a reduction of $6.5 million reflecting the sale of mortgages from this portfolio (please see Note 5(H) for more information), offset partially by an increase of $3.0 million reflecting an increase in the construction and land segment of this portfolio.
- Credit card loans and lines of credit portfolio – reduction of $0.8 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Other consumer retail loans portfolio – increase of $3.5 million reflects recent settlement experience related to cash reserves on certain programs within that portfolio.

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, 2017, the collective allowance was $33.6 million ($37.1 million – December 31, 2016), 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, 2017, the Company held total regulatory capital at 226% 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 %)							**2017**
	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	**$ 255,452**	**33.8%**	**$ 498,570**	**65.9%**	**$ 2,390**	**0.3%**	**$ 756,412**
Alberta	**387,436**	**59.3%**	**257,211**	**39.3%**	**9,049**	**1.4%**	**653,696**
Ontario	**1,834,007**	**17.2%**	**8,519,604**	**80.0%**	**294,570**	**2.8%**	**10,648,181**
Quebec	**113,804**	**33.8%**	**222,413**	**65.9%**	**1,058**	**0.3%**	**337,275**
Other	**242,158**	**63.0%**	**140,075**	**36.5%**	**1,803**	**0.5%**	**384,036**
	$ 2,832,857	**22.2%**	**$ 9,637,873**	**75.4%**	**$ 308,870**	**2.4%**	**$12,779,600**

(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

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 %)						**2017**
	≤20 Years	**> 20 and ≤ 25 Years**	**> 25 and ≤ 30 Years**	**> 30 and ≤ 35 Years**	**> 35 Years**	**Total**
Balance outstanding	**$ 882,326**	**$ 2,459,857**	**$ 9,091,672**	**$ 35,591**	**$ 1,284**	**$ 12,470,730**
Percentage of total	**7.1%**	**19.7%**	**72.9%**	**0.3%**	**0.0%**	**100.0%**

(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%

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

		2017		2016
	Uninsured Residential Mortgages[1]	**Equityline *Visa*[1]**	Uninsured Residential Mortgages[1]	EquityLine *Visa*[1]
British Columbia	**63.0%**	**47.1%**	63.6%	52.4%
Alberta	**68.8%**	**56.3%**	69.4%	44.1%
Ontario	**70.9%**	**56.6%**	72.9%	63.9%
Quebec	**69.2%**	**24.5%**	69.3%	65.3%
Other	**69.6%**	**58.6%**	72.4%	58.9%
Total	**70.3%**	**56.5%**	72.2%	63.8%

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. LTVs are calculated using appraised property values at the time of origination.

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 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 $12.78 billion as of December 31, 2017, 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, 2017, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 55.3% compared to 60.9% at the end of 2016. These average current LTVs were estimated with appraised property values adjusted for price changes by using the Teranet-National Bank House 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. 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

	2017			2016		
	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	**49.6%**	**99.5%**	**90.0%**	52.0%	98.4%	89.1%
Alberta	**63.9%**	**84.9%**	**51.3%**	65.0%	81.1%	46.8%
Ontario	**55.2%**	**96.2%**	**74.2%**	61.2%	85.7%	59.0%
Quebec	**61.4%**	**94.8%**	**60.9%**	62.8%	92.1%	53.4%
Other	**61.7%**	**87.7%**	**53.9%**	62.1%	86.4%	54.5%
Total	**55.3%**	**95.9%**	**73.8%**	60.9%	86.4%	60.1%

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 government bonds at 90.4% of the portfolio and preferred shares at 9.3% of the portfolio. The total balance was $332.5 million at December 31, 2017 compared to $534.9 million at the end of 2016. During the year, the Company liquidated the majority of its preferred share portfolio incurring a loss of $72.9 million, of which $46.2 million had previously been recognized in accumulated other comprehensive loss.

The Company's investment risk management framework is approved by the Asset/Liability Committee (ALCO) and the RCC. 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 policies, reviews procedures and guidelines, and provides enterprise-wide oversight and challenge of investment risk, including valuations.

As of December 31, 2017, 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 can realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings, and seeks to organically match liabilities to assets in terms of maturity and interest rate repricing through its actions in the deposit market in priority to accessing off-balance sheet solutions. The Company has significantly reduced the proportion of overall funding from high-interest savings demand deposits. This has significantly reduced the Company's risk of a funding mismatch. The Company has established prudent limits on the level of deposits that may comprise demand deposits.

The Company's market risk management framework includes interest rate risk policies that are approved by the ALCO and the RCC. 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 to hedge interest rate exposure resulting from outstanding loan commitments 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 because of hedging requirements under the terms of its participation in the CMB program. The Company utilizes total return swaps to hedge Restricted Share Units awarded to employees. 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 because 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, 2017 and December 31, 2016 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 because of a mortgage becoming impaired and for credit commitments. 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

(000s, except %)								As at December 31, 2017
	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	$ 562,185	$ 773,953	$ –	$ –	$ –	$ –	$ –	$ 1,336,138
Weighted-average interest rate	1.3%	1.2%	–	–	–	–	–	1.3%
Available for sale securities	–	10	–	3,147	329,311	–	–	332,468
Weighted-average interest rate	–	9.9%	–	6.4%	1.6%	–	–	1.8%
Loans held for sale	–	–	–	–	–	165,947	–	165,947
Weighted-average interest rate	–	–	–	–	–	2.9%	–	2.9%
Securitized mortgages	–	1,297,012	145,838	301,889	1,248,511	–	–	2,993,250
Weighted-average interest rate	–	2.7%	3.1%	4.7%	3.1%	–	–	3.1%
Non-securitized mortgages and loans	–	2,664,609	2,044,506	4,252,340	2,903,822	17,987	(11,600)	11,871,664
Weighted-average interest rate	–	5.0%	4.8%	5.2%	4.9%	8.7%	–	5.0%
Other assets	59,402	367,877	9,146	7,911	–	–	447,340	891,676
Weighted-average interest rate	1.0%	1.4%	0.5%	1.6%	–	–	–	0.7%
Total	$ 621,587	$ 5,103,461	$ 2,199,490	$ 4,565,287	$ 4,481,644	$ 183,934	$ 435,740	$ 17,591,143
Weighted-average interest rate	1.3%	3.6%	4.6%	5.1%	4.2%	3.5%	–	4.1%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 368,459	$ –	$ –	$ –	$ –	$ –	$ 170,905	$ 539,364
Weighted-average interest rate	1.4%	–	–	–	–	–	–	1.4%
Deposits payable at a fixed rate	–	1,606,093	1,404,164	2,715,166	5,905,667	–	–	11,631,090
Weighted-average interest rate	–	1.8%	2.2%	2.4%	2.4%	–	–	2.3%
Securitization liabilities	–	1,324,280	162,538	303,047	1,387,884	–	–	3,177,749
Weighted-average interest rate	–	1.7%	2.1%	3.7%	2.3%	–	–	2.1%
Other liabilities	–	38,728	–	–	–	–	390,707	429,435
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	1,813,505	1,813,505
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 368,459	$ 2,969,101	$ 1,566,702	$ 3,018,213	$ 7,293,551	$ –	$ 2,375,117	$ 17,591,143
Weighted-average interest rate	1.4%	1.7%	2.2%	2.5%	2.4%	–	–	1.9%
	$ 253,128	$ 2,134,360	$ 632,788	$ 1,547,074	$ (2,811,907)	$ 183,934	$ (1,939,377)	$ –
Credit commitments	–	(844,583)	18,643	25,887	773,794	26,259	–	–
Weighted-average interest rate	–	5.6%	5.7%	4.3%	4.5%	3.1%	–	–
Interest rate sensitivity gap	$ 253,128	$ 1,289,777	$ 651,431	$ 1,572,961	$ (2,038,113)	$ 210,193	$ (1,939,377)	$ –
Cumulative gap	$ 253,128	$ 1,542,905	$ 2,194,336	$ 3,767,297	$ 1,729,184	$ 1,939,377	$ –	$ –
Cumulative gap as a percentage of total assets	1.4%	8.8%	12.5%	21.4%	9.8%	11.0%	–	–

Table 43: Interest Rate Sensitivity (continued)

(000s, 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	–	–	–	–	357,021	360,511
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	1,632,587	1,632,587
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%	–	–

1 Total assets in the 0-3 month category above include $2.31 billion in variable rate mortgages (2016 – $2.00 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 many 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

(thousands of Canadian dollars)	**December 31 2017**	December 31 2016	**December 31 2017**	December 31 2016
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 2,418**	$ 4,024	**$ (2,418)**	$ (5,696)
Impact on net present value of shareholders' equity	**(2,448)**	4,438	**1,952**	(6,415)
Impact on other comprehensive income	**2,243**	3,265	**(2,243)**	(2,677)

As illustrated in the above table, a change in interest rates will have an 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 Accounts and Oaken Savings Accounts add to liquidity risk as depositors can withdraw deposits on notice in the absence of fixed contractual terms. The Company's current exposure to this risk has been reduced following the significant redemptions of High-Interest Savings Accounts in 2017, which led to the liquidity event. The Company obtained a $2 billion line of credit facility from a wholly owned subsidiary of Berkshire Hathaway Inc. at the end of June 2017 to further strengthen its liquidity position. Please see Note 4(A) to the consolidated financial statements included in this report for details on this credit facility. Also, the Company sold assets in response to the liquidity event to improve its overall liquidity position. The Company believes the current level of liquidity and credit facilities are sufficient to support ongoing business for the foreseeable future. As indicated in Table 17(A), maturities of non-securitized loans are in excess of deposit maturities for the next 12 months. The Company intends to strategically limit demand deposits to an appropriate level that is aligned with the Company's liquidity and funding limits and taking into consideration that a primary purpose of the Oaken Savings Accounts is to facilitate the seamless movement of funds to and from Oaken GICs for customers.

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 RCC. 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 RCC.

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 %)	**2017**	2016
Cash and cash equivalents per balance sheet	**$ 1,336,138**	$ 1,205,394
Available for sale securities per balance sheet	**332,468**	534,924
Add: MBS included in residential mortgages	**17,046**	521,013
	1,685,652	2,261,331
Less: securities held for investments	**(30,934)**	(193,350)
Liquid assets at carrying value	**$ 1,654,718**	$ 2,067,981
Liquid assets at fair value	**$ 1,654,665**	$ 2,142,289
Liquid assets at carrying value as a % of total assets	**9.4%**	10.1%

Certain Company-originated NHA 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 its longer-term strategy to diversify its sources of funding through its direct-to-consumer brand, Oaken Financial and its bank subsidiary, Home Bank. The Company will restrict its funding through demand deposits such as high interest savings accounts.

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 risks. 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 the deployment of risk managers into the business lines, 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 level 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 Executive Committee and senior management that require the Company to do certain things, including conducting its affairs in a particular manner, and where non-compliance could have an impact on the Company's reputation and/or safety and soundness.

While all business units and corporate functions of the Company (as the first line of defence) are responsible for ensuring that compliance risk (including but not limited to anti-money laundering, anti-fraud, ethics and conduct, privacy and sanctions) 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.

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 Executive Committee. On a regular basis, the Executive Committee 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.

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. Oversight is provided by the Executive Committee and the Risk and Capital Committee of the Board.

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 and provisions and contingent liabilities. In applying judgement in its assessment of impairment of intangible assets and goodwill, management has considered the asset usage, obsolescence and impact on that assessment of the decline in the Company's common share price to below the book value per common share. While impairments recognized on intangible assets and goodwill as a result of usage and obsolescence, management does not consider the current common share price to warrant the recognition of additional impairment in its intangible assets and goodwill as at the date of these consolidated financial statements. Management will continue to assess the implications of the common share price remaining below book value on its assessment of impairment of intangible assets and goodwill.

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 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). 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, 13, 16, 17, 18 and 20 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 (GAAP). 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, 2017. 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, 2017.

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, 2017. 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, 2017.

Changes in Internal Control over Financial Reporting

There were no significant changes in 2017 that have affected or could reasonably be expected to materially affect internal control over financial reporting.

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:

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 Company. The calculations are in accordance with guidelines issued by OSFI. Refer to the Capital Management section of this MD&A and Note 13(G) to the consolidated financial statements included in this report.

Dividend Payout Ratio
Dividend payout ratio is a measure of the proportion of a Company's earnings that is paid to shareholders in the form of dividends. The Company calculates its dividend payout ratio as the amount of dividends per share as a percentage of diluted earnings per share.

Efficiency 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. 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 Company. 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 Company 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 average total assets.

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 average total assets.

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)
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.

Risk-weighted Assets (RWA)
The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. Refer to the Capital Management section in this MD&A and Note 13(G) 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 $1.1 million for 2017 ($3.7 million – 2016) 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 TEB.

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
Total revenue is a measure of the revenue, net of interest expense, earned by the Company before non-interest expenses, provision for credit losses and income taxes. Total revenue is the sum of interest and dividend income, net of interest expense, and non-interest income.

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

82 Management's Responsibility for Financial Information

83 Independent Auditors' Report

84 Consolidated Financial Statements
84 Consolidated Balance Sheets
85 Consolidated Statements of Income
86 Consolidated Statements of Comprehensive Income
86 Consolidated Statements of Changes in Shareholders' Equity
87 Consolidated Statements of Cash Flows

Page	Notes to the Consolidated Financial Statements	Note
88	**Notes to the Consolidated Financial Statements**	
88	Corporate Information	1
88	Summary of Significant Accounting Policies	2
95	Future Changes in Accounting Policies	3
98	Cash Resources and Securities	4
99	Loans	5
104	Securitization Activity	6
106	Restricted Assets	7
107	Other Assets	8
107	Intangible Assets	9
108	Goodwill	10
108	Deposits by Remaining Contractual Term to Maturity	11
108	Other Liabilities	12
109	Capital	13
110	Employee Benefits	14
113	Accumulated Other Comprehensive Income	15
113	Income Taxes	16
115	Commitments and Contingencies	17
117	Derivative Financial Instruments	18
119	Current and Non-current Assets and Liabilities	19
119	Fair Value of Financial Instruments	20
122	Related Party Transactions	21
122	Risk Management	22
123	Subsequent Events	23

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 the Company's financial disclosures for fairness before released 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, 2017, 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 and Home Bank are in a sound financial position and that they comply 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.

Yousry Bissada
President and Chief Executive Officer
Toronto, Canada
February 14, 2018

Brad Kotush, CPA, CA
Chief Financial Officer

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, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

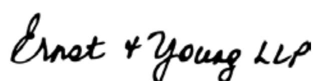
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Home Capital Group Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



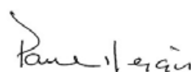
Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 14, 2018

thousands of Canadian dollars	As at December 31 2017	December 31 2016
ASSETS		
Cash and Cash Equivalents (note 4(A))	**$ 1,336,138**	$ 1,205,394
Available for Sale Securities (notes 4(B) and (C))	**332,468**	534,924
Loans Held for Sale	**165,947**	77,918
Loans (note 5)		
Securitized mortgages (note 6(A))	**2,993,250**	2,526,804
Non-securitized mortgages and loans	**11,905,227**	15,430,595
	14,898,477	17,957,399
Collective allowance for credit losses (note 5(E))	**(33,563)**	(37,063)
	14,864,914	17,920,336
Other		
Restricted assets (note 7)	**437,011**	265,374
Derivative assets (note 18)	**7,325**	37,524
Other assets (note 8)	**336,770**	348,638
Deferred tax assets (note 16(C))	**9,577**	16,914
Goodwill and intangible assets (notes 9 and 10)	**100,993**	121,755
	891,676	790,205
	$17,591,143	$ 20,528,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (note 11)		
Deposits payable on demand	**$ 539,364**	$ 2,531,803
Deposits payable on a fixed date	**11,631,090**	13,354,227
	12,170,454	15,886,030
Securitization Liabilities (note 6(B))		
CMHC-sponsored mortgage-backed security liabilities	**1,562,152**	898,386
CMHC-sponsored Canada Mortgage Bond liabilities	**1,473,318**	1,637,117
Bank-sponsored securitization conduit liabilities	**142,279**	114,146
	3,177,749	2,649,649
Other		
Derivative liabilities (note 18)	**38,728**	3,490
Other liabilities (note 12)	**360,477**	320,737
Deferred tax liabilities (note 16(C))	**30,230**	36,284
	429,435	360,511
	15,777,638	18,896,190
Shareholders' Equity		
Capital stock (note 13)	**231,156**	84,910
Contributed surplus	**4,978**	4,562
Retained earnings (note 13(F))	**1,583,265**	1,598,180
Accumulated other comprehensive loss (note 15)	**(5,894)**	(55,065)
	1,813,505	1,632,587
	$17,591,143	$ 20,528,777

Commitments and Contingencies (note 17)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

Yousry Bissada
President and Chief Executive Officer



Paul Haggis
Chair of Audit Committee

CONSOLIDATED STATEMENTS OF INCOME

thousands of Canadian dollars, except per share amounts	For the year ended December 31 2017	December 31 2016
Net Interest Income Non-Securitized Assets		
Interest from loans (note 5(F))	**$ 710,926**	$ 768,034
Dividends from securities	**3,117**	10,112
Other interest	**15,267**	11,073
	729,310	789,219
Interest on deposits and other	**294,685**	318,162
Interest and fees on line of credit facility (note 4(A))	**148,213**	–
Net interest income non-securitized assets	**286,412**	471,057
Net Interest Income Securitized Loans and Assets		
Interest income from securitized loans and assets (note 5(F))	**89,929**	81,705
Interest expense on securitization liabilities	**73,411**	67,598
Net interest income securitized loans and assets	**16,518**	14,107
Total Net Interest Income	**302,930**	485,164
Provision for credit losses (note 5(E))	**7,516**	7,890
	295,414	477,274
Non-Interest Income (Loss)		
Fees and other income	**67,932**	71,329
Securitization income (note 6(C))	**12,529**	33,797
Gain on acquisition of CFF Bank	**–**	651
Net realized and unrealized losses on securities and loans (notes 4(C) and 5(H))	**(90,070)**	(175)
Net realized and unrealized losses on derivatives (note 18)	**(2,010)**	(8,807)
	(11,619)	96,795
	283,795	574,069
Non-Interest Expenses		
Salaries and benefits (note 17(D))	**98,595**	101,880
Premises (note 17(D))	**13,878**	14,505
Other operating expenses (notes 9, 10 and 17(D))	**162,407**	122,554
	274,880	238,939
Income Before Income Taxes	**8,915**	335,130
Income taxes (note 16(A))		
Current	**(2,475)**	90,895
Deferred	**3,863**	(3,161)
	1,388	87,734
NET INCOME	**$ 7,527**	$ 247,396
NET INCOME PER COMMON SHARE (note 13(E))		
Basic	**$ 0.10**	$ 3.71
Diluted	**$ 0.10**	$ 3.71
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (note 13(E))		
Basic	**72,349**	66,601
Diluted	**72,358**	66,668
Total number of outstanding common shares (note 13(B))	**80,246**	64,388
Book value per common share	**$ 22.60**	$ 25.36

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

thousands of Canadian dollars	For the year ended December 31 2017	December 31 2016
NET INCOME	**$ 7,527**	$ 247,396
OTHER COMPREHENSIVE INCOME		
Available for Sale Securities and Retained Interests		
Net unrealized gains	**19,878**	11,852
Net losses reclassified to net income	**46,650**	204
	66,528	12,056
Income tax expense	**17,644**	3,179
	48,884	8,877
Cash Flow Hedges (note 18)		
Net unrealized (losses) gains	**(721)**	1,035
Net losses reclassified to net income	**1,120**	1,147
	399	2,182
Income tax expense	**112**	580
	287	1,602
Total other comprehensive income	**49,171**	10,479
COMPREHENSIVE INCOME	**$ 56,698**	$ 257,875

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, 2016 (note 13(F))	**$ 84,910**	**$ 4,562**	**$ 1,598,180**	**$ (53,589)**	**$ (1,476)**	**$ (55,065)**	**$ 1,632,587**
Comprehensive income	**–**	**–**	**7,527**	**48,884**	**287**	**49,171**	**56,698**
Stock options settled (notes 13(B) and 14(C))	**548**	**(141)**	**–**	**–**	**–**	**–**	**407**
Amortization of fair value of employee stock options (note 14(C))	**–**	**557**	**–**	**–**	**–**	**–**	**557**
Repurchase of shares (note 13(C))	**(267)**	**–**	**(5,732)**	**–**	**–**	**–**	**(5,999)**
Issuance of shares (note 13(D))	**145,965**	**–**	**–**	**–**	**–**	**–**	**145,965**
Dividends ($0.26 per share)	**–**	**–**	**(16,710)**	**–**	**–**	**–**	**(16,710)**
Balance at December 31, 2017	**$ 231,156**	**$ 4,978**	**$ 1,583,265**	**$ (4,705)**	**$ (1,189)**	**$ (5,894)**	**$ 1,813,505**
Balance at December 31, 2015 (note 13(F))	$ 90,247	$ 3,965	$ 1,607,833	$ (62,466)	$ (3,078)	$ (65,544)	$ 1,636,501
Comprehensive income	–	–	247,396	8,877	1,602	10,479	257,875
Stock options settled (notes 13(B) and 14(C))	1,984	(530)	–	–	–	–	1,454
Amortization of fair value of employee stock options (note 14(C))	–	1,127	–	–	–	–	1,127
Repurchase of shares (note 13(C))	(7,321)	–	(191,875)	–	–	–	(199,196)
Dividends ($0.98 per share)	–	–	(65,174)	–	–	–	(65,174)
Balance at December 31, 2016 (note 13(F))	$ 84,910	$ 4,562	$ 1,598,180	$ (53,589)	$ (1,476)	$ (55,065)	$ 1,632,587

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

thousands of Canadian dollars	December 31 2017	December 31 2016
		For the year ended
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 7,527**	$ 247,396
Adjustments to determine cash flows relating to operating activities:		
Amortization of net discount on securities	**(330)**	(458)
Provision for credit losses	**7,516**	7,890
Loss on sale of loan portfolio	**18,160**	–
Gain on sale of mortgages or residual interest	**(5,695)**	(26,972)
Net realized and unrealized losses on securities	**71,910**	175
Amortization and impairment losses[1]	**34,345**	29,686
Amortization of fair value of employee stock options	**557**	1,127
Deferred income taxes	**3,863**	(3,161)
Changes in operating assets and liabilities		
Loans, net of gains or losses on securitization and sales	**2,947,462**	253,837
Restricted assets	**(171,637)**	(69,453)
Derivative assets and liabilities	**65,836**	27,497
Accrued interest receivable	**10,613**	2,668
Accrued interest payable	**3,666**	(1,312)
Deposits	**(3,715,576)**	220,072
Securitization liabilities	**528,100**	(130,907)
Taxes receivable or payable and other	**13,086**	2,757
Cash flows (used in) provided by operating activities	**(180,597)**	560,842
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares	**145,965**	–
Repurchase of shares	**(5,999)**	(199,196)
Exercise of employee stock options	**407**	1,454
Repayment of senior debt	**–**	(150,000)
Dividends paid to shareholders	**(16,710)**	(65,174)
Cash flows provided by (used in) financing activities	**123,663**	(412,916)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(378,123)**	(203,674)
Proceeds from sales	**491,883**	–
Proceeds from maturities	**84,919**	132,932
Purchases of capital assets	**(1,715)**	(2,550)
Capitalized intangible development costs and acquisition of intangible assets	**(9,286)**	(19,089)
Cash flows provided by (used in) investing activities	**187,678**	(92,381)
Net increase in cash and cash equivalents during the year	**130,744**	55,545
Cash and cash equivalents at beginning of the year	**1,205,394**	1,149,849
Cash and Cash Equivalents at End of the Year (note 4(A))	**$ 1,336,138**	$ 1,205,394
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 4,542**	$ 10,037
Interest received	**825,030**	863,321
Interest paid	**512,643**	388,440
Income taxes paid	**3,002**	84,559

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 or Home Capital) 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. Home Bank, a wholly owned subsidiary of Home Trust, is a federally regulated retail bank offering mortgage, deposit and personal banking products. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment services. On February 1, 2018, the Company closed the sale of PSiGate. 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, 2017 were authorized for issuance by the Board of Directors (the Board) of the Company on February 14, 2018. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

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.

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. Other key areas where management has applied judgement and 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, useful lives of capital assets and intangible assets and provisions and contingent liabilities. Actual results could differ from those estimates. In applying judgement in its assessment of impairment of intangible assets and goodwill, management has considered the asset usage, obsolescence and impact on that assessment of the decline in the Company's common share price to below the book value per common share. While impairments recognized on intangible assets and goodwill as a result of usage and obsolescence, management does not consider the current common share price to warrant the recognition of additional impairment in its intangible assets and goodwill as at the date of these consolidated financial statements. Management will continue to assess the implications of the common share price remaining below book value on its assessment of impairment of intangible assets and goodwill.

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 is a wholly owned subsidiary of Home Capital Group. Home Bank is a wholly owned subsidiary of Home Trust. PSiGate was a wholly owned subsidiary of Home Capital Group prior to its sale, which closed on February 1, 2018 as described in Note 23.

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 fair value. 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 dates. 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 are accrued as earned with the passage of time and are included in dividends from securities or other interest income. Available for sale securities are measured at their fair value, using published bid prices where market value is readily available, as at the consolidated balance sheet dates. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income (AOCI) until the security is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to net income. Transaction costs are capitalized.

At the end of each reporting period, the Company conducts a review to assess whether there is any objective evidence that an available for sale security is impaired. Objective evidence of impairment results from one or more events that occur after the initial recognition of the security and which event (or events) has an impact that can be reliably estimated on the estimated future cash flows of the security. 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 18 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 and carried at fair value. 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 realized and unrealized gains or losses on the bond forwards are recognized in non-interest income on the consolidated statements of income.

Hedge Accounting

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, 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 hedging relationship and on an ongoing basis. 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

The Company's 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

The Company's 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.

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. Upon termination of the hedge relationship, any 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 14 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 18 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 20 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 20 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 14.

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 Company has historically determined the fair value of the options granted using the Black-Scholes option pricing model. In July 2017, the Company began using the binomial option pricing model as it more accurately reflects the impact of the volatility and dividend assumptions in the valuation of the options granted. The change in the valuation methodology has been applied prospectively.

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 other operating expenses 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 50% to 125% 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 14 for more information.

Earnings per Share

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

Diluted earnings 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, 2017 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 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with certain exceptions. IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and general hedge accounting. The Company, 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, if required.

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. In October 2017, the IASB published amendments to IFRS 9 relating to prepayment features with negative compensation. The amendments are to be applied retrospectively to annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. Based on preliminary assessments, the amendment is not expected to materially impact the Company.

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.

The IFRS 9 classification and measurement model requires all debt instrument financial assets that do not meet the solely payment of principal and interest (SPPI) test, including those that contain embedded derivatives, to be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which the instruments are managed. Debt instruments that are managed on a hold to collect basis will be classified at amortized cost, debt instruments that are managed on a held for trading or fair value basis will be classified as FVTPL, and debt instruments that are managed on both hold to collect and held for trading basis will be classified as FVOCI.

The classification of financial liabilities is largely unchanged under IFRS 9. Equity securities are measured at FVTPL unless an irrevocable election is made for certain equity securities to be measured at FVOCI with no subsequent reclassification to profit or loss. Only interest and dividends continue to be recognized in profit or loss. The Company has assessed the cash flow characteristics for in-scope financial assets and defined its significant business models. The classification and measurement of financial assets will remain largely unchanged under IFRS 9 for the Company.

Impairment
IFRS 9 introduces a new forward-looking three-stage expected credit loss (ECL) model that requires the recognition of an unbiased and probability-weighted impairment amount reflecting a range of possible outcomes. Under IFRS 9, the ECL model could result in recognition of credit losses earlier when compared to the current incurred loss model under IAS 39.

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 (SICR), 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 about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. The Company has engaged an external service provider for forecasts of future events and economic information including macroeconomic factors. Examples of such factors include unemployment rates, housing price index, interest rates and gross domestic product. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. The SICR will be determined through changes in the lifetime probability of default (PD) since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes and relevant reasonable and supportable forward-looking information, with a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. The Company does not plan to rebut this presumption. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowance will revert back to be measured based on a 12-month ECL, and the financial asset will move from Stage 2 back to Stage 1. Stage 1 and Stage 2 comprise all non-impaired financial instruments.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows 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). Furthermore, IFRS 9 prescribes a rebuttable presumption that objective evidence of impairment exists when the contractual payments are 90 days or more past due. The Company does not plan to rebut this presumption. 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.

ECL will be measured based on three forward-looking scenarios including base, optimistic, and pessimistic, 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. The three scenarios will be updated at each reporting date. In addition, management will exercise expert credit judgements in assessing exposures that have experienced SICR and in determining the amount of ECL allowance required at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models. ECL is calculated as the product of PD, loss given default (LGD), and exposure at default (EAD), and will be calculated over the remaining expected life of the financial asset and discounted to the reporting date.

In March 2017, the Basel Committee on Banking Supervision issued its standard, *Regulatory Treatment of Accounting Provisions – Interim Approach and Transitional Arrangements*. The current regulatory treatment of accounting provisions will be retained for an interim period. Longer-term regulatory capital treatment of provisions will be considered based on quantitative impact assessments. Jurisdictions may adopt transitional arrangements to smooth any potential significant negative impact on regulatory capital arising from the introduction of ECL accounting. In August 2017, OSFI further released a consultative revision on the treatment of IFRS 9 allowances in the regulatory capital framework for implementation in the first quarter of 2018. In November 2017, OSFI released the final version of the Capital Adequacy Requirement guidelines regarding the revisions made to the capital treatment of IFRS 9 allowances.

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. Progress reporting protocols were established with regular updates provided to the key stakeholders, including the Audit Committee, on key decisions made. The Company's dedicated committee has further enhanced its governance framework to review, challenge, and approve key areas of judgement and assumptions used in forecasting multiple economic scenarios and calculating the expected credit losses.

During 2017, the Company completed the development, testing, and validation of the new ECL model and related processes and controls. The Company also completed the update of its accounting and risk policies in association with IFRS 9, and will continue to refine the remaining financial and regulatory controls and disclosures related to IFRS 9 in 2018.

As of December 31, 2017, the Company's current estimate of the impact of adoption of IFRS 9, subject to further enhancement, is not expected to be significant to retained earnings. There are changes expected to how allowance for expected credit loss will be allocated to each of the Company's underlying loan portfolios; however, these changes are not expected to be significant. The expected impact to regulatory capital is not expected to be significant.

General Hedge Accounting
IFRS 9 introduces a new general hedge accounting model that aims to better align accounting with risk management activities. The Company has an accounting policy choice to adopt the new general hedge accounting model under IFRS 9 or continue to apply the hedge accounting requirements under IAS 39. As permitted, the Company has elected to continue to apply the hedge accounting requirements under IAS 39. The Company will implement the revised hedge accounting disclosures that are required under IFRS 7 in its 2018 Annual Report.

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. IFRS 15 can be applied on a retrospective basis or using a modified retrospective approach. Given a majority of the Company's revenue qualifies for treatment under IFRS 9, the adoption of this standard is not expected to have any material impact. The Company plans to adopt IFRS 15 using the retrospective approach and enhance the prior period comparative disclosures required by IFRS 15.

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 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.

4. Cash Resources and Securities

(A) Cash Resources and Line of Credit Facility

thousands of Canadian dollars	**December 31 2017**	December 31 2016
Cash and cash equivalents	**$ 1,336,138**	$ 1,205,394

The Company has a $2 billion line of credit facility with a wholly owned subsidiary of Berkshire Hathaway Inc., a major US investment firm, which was undrawn as at December 31, 2017. The amount that may be drawn on the facility is limited to $2 billion and is subject to the Company providing acceptable collateral. As at December 31, 2017, the facility is secured against a portfolio of mortgages with a carrying value totalling $3.40 billion. The interest rate on outstanding balances is 9% and the standby fee on undrawn funds is 1%. The facility matures at the end of June 2018 and cannot be terminated prior to the maturity date. Funds drawn on the facility are repayable at any time. Interest expense on drawn amounts and the standby fee on undrawn amounts are included in interest and fees on line of credit facility in the consolidated statements of income. Transaction costs on the facility are amortized over the life of the facility and are also included in interest and fees on line of credit facility.

An initial draw of $1.65 billion on the $2 billion line of credit facility referred to above was made on June 29, 2017 and used to repay and terminate the emergency credit facility that was obtained during the liquidity event experienced in the second quarter of 2017. Under the terms of the emergency credit facility, the Company paid a non-refundable commitment fee of $100.0 million, interest at a rate of 10% on outstanding balances and a standby fee of 2.5% on undrawn balances. All interest on drawn amounts, the full $100.0 million commitment fee and other transaction costs associated with the emergency credit facility are included in interest and fees on line of credit facility in the consolidated statements of income.

The Company also has an uncommitted secured credit facility with a Canadian chartered bank in the amount of $20 million, which is 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 2017**	December 31 2016
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	Total Fair Value
Debt securities	**$ 876**	**$ 92**	**$ 300,566**	**$ –**	**$ 301,534**	$ 341,574
Preferred shares	**2,281**	**19,575**	**9,078**	**–**	**30,934**	193,350
	$ 3,157	**$ 19,667**	**$ 309,644**	**$ –**	**$ 332,468**	$ 534,924

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

thousands of Canadian dollars, except %					**As at December 31, 2017**
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Fair Value**	**Weighted-Average Yield**
Debt securities	**$ 300,037**	**$ 1,497**	**$ –**	**$ 301,534**	**1.7%**
Preferred shares	**40,340**	**–**	**(9,406)**	**30,934**	**2.7%**
	$ 340,377	**$ 1,497**	**$ (9,406)**	**$ 332,468**	

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	

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 15 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, 2017, 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 second quarter of 2017, the Company sold federal and provincial bonds for proceeds of $338.1 million resulting in the realization of gains of $1.0 million. The Company also sold preferred shares in the second quarter of 2017 for proceeds of $154.2 million resulting in the realization of losses of $72.9 million, of which $46.2 million were previously recognized as unrealized losses in AOCI as at March 31, 2017.

Included in available for sale securities are preferred shares of $28.7 million which are held as security for the $20 million uncommitted secured credit facility referred to in Note 4(A) above. The Company may at any time and at its discretion replace the preferred shares as security for the credit facility with other acceptable forms of security.

5. Loans

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

thousands of Canadian dollars, except %						As at December 31, 2017
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	$ 228,024	$ 278,110	$ 1,666,337	$ 84,977	$ 177,760	$ 2,435,208
Securitized multi-unit residential mortgages	84,860	44,728	227,686	45,664	155,104	558,042
Total securitized mortgages	312,884	322,838	1,894,023	130,641	332,864	2,993,250
Single-family residential mortgages	525,998	366,537	8,687,274	251,240	204,473	10,035,522
Residential commercial mortgages[2]	9,819	1,924	96,817	3,037	2,760	114,357
Non-residential commercial mortgages	18,853	10,638	986,723	24,190	2,449	1,042,853
Credit card loans and lines of credit	6,193	17,183	321,114	1,473	5,642	351,605
Other consumer retail loans	1,948	11,476	330,119	195	17,152	360,890
Total non-securitized mortgages and loans[3]	562,811	407,758	10,422,047	280,135	232,476	11,905,227
	$ 875,695	$ 730,596	$12,316,070	$ 410,776	$ 565,340	$14,898,477
As a % of portfolio	5.9%	4.9%	82.6%	2.8%	3.8%	100.0%

thousands of Canadian dollars, except %						As at December 31, 2016
	British Columbia	Alberta	Ontario	Quebec	Other	Total
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%

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, 2017
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	$ 7,826	$ 824	$ 172	$ –[2]	$ 8,822
Securitized multi-unit residential mortgages	–	–	–	–	–
Single-family residential mortgages	130,553	27,561	5,932	3,138[2]	167,184
Residential commercial mortgages	833	–	823	–	1,656
Non-residential commercial mortgages	9,812	2,023	–	–	11,835
Credit card loans and lines of credit	2,361	1,051	883	253	4,548
Other consumer retail loans	236	40	119	–	395
	$ 151,621	$ 31,499	$ 7,929	$ 3,391	$ 194,440

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

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, 2017 and December 31, 2016.

thousands of Canadian dollars						As at December 31, 2017
	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	$ 31,836	$ –	$ 16,489	$ 2,038	$ 276	$ 50,639
Individual allowances on principal	(1,729)	–	(2,750)	(457)	(276)	(5,212)
Net amount of impaired loans	$ 30,107	$ –	$ 13,739	$ 1,581	$ –	$ 45,427

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

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $1.5 million (2016 – $0.6 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, 2017, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $297.3 million (2016 – $367.0 million). For impaired mortgages, the total appraised value of collateral at December 31, 2017 was $76.5 million (2016 – $81.3 million).

(E) Allowance for Credit Losses

thousands of Canadian dollars						2017
	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	**$ 1,980**	**$ –**	**$ 30**	**$ 780**	**$ 411**	**$ 3,201**
Provision for credit losses	**2,216**	**16**	**2,816**	**5,387**	**531**	**10,966**
Write-offs	**(3,120)**	**(21)**	**(103)**	**(5,968)**	**(847)**	**(10,059)**
Recoveries	**653**	**5**	**7**	**258**	**181**	**1,104**
	1,729	**–**	**2,750**	**457**	**276**	**5,212**
Allowance on accrued interest receivable						
Balance at the beginning of the year	**1,341**	**–**	**98**	**–**	**12**	**1,451**
Provision for credit losses	**(325)**	**–**	**380**	**–**	**(5)**	**50**
	1,016	**–**	**478**	**–**	**7**	**1,501**
Total individual allowance	**2,745**	**–**	**3,228**	**457**	**283**	**6,713**
Collective allowance						
Balance at the beginning of the year	**23,032**	**327**	**9,500**	**3,904**	**300**	**37,063**
Provision for credit losses[1]	**(2,692)**	**–**	**(3,500)**	**(808)**	**3,500**	**(3,500)**
	20,340	**327**	**6,000**	**3,096**	**3,800**	**33,563**
Total allowance	**$ 23,085**	**$ 327**	**$ 9,228**	**$ 3,553**	**$ 4,083**	**$ 40,276**
Total provision	**$ (801)**	**$ 16**	**$ (304)**	**$ 4,579**	**$ 4,026**	**$ 7,516**

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

1 The reduction in the collective allowance of $3.5 million during 2017 comprises the following:
- Single-family residential mortgage portfolio – reduction of $2.7 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Non-residential commercial mortgages portfolio – net reduction of $3.5 million comprises a reduction of $6.5 million reflecting the sale of mortgages from this portfolio (please see Note 5(H) for more information), offset partially by an increase of $3.0 million reflecting an increase in the construction and land segment of this portfolio.
- Credit card loans and lines of credit portfolio – reduction of $0.8 million reflecting the decrease in the portfolio size, decreased loss rates and continued low levels of loans in arrears.
- Other consumer retail loans portfolio – increase of $3.5 million reflects recent settlement experience related to cash reserves on certain programs within this portfolio.

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

(F) Interest Income by Product

thousands of Canadian dollars	2017	2016
Traditional single-family residential mortgages	$ 500,278	$ 540,522
ACE Plus single-family residential mortgages	14,284	11,490
Accelerator single-family residential mortgages	13,974	30,935
Residential commercial mortgages	13,173	17,614
Non-residential commercial mortgages	97,421	102,465
Credit card loans and lines of credit	33,328	33,536
Other consumer retail loans	38,468	31,472
Total interest income on non-securitized loans	710,926	768,034
CMHC-sponsored securitized single-family residential mortgages	52,053	46,642
CMHC-sponsored securitized multi-unit residential mortgages	30,782	29,866
Assets pledged as collateral for CMHC-sponsored securitization	943	2,246
Bank-sponsored securitization conduit assets	6,151	2,951
Total interest income on securitized loans	89,929	81,705
	$ 800,855	$ 849,739

(G) Loans by Remaining Contractual Term to Maturity

thousands of Canadian dollars					December 31 2017	December 31 2016
	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]	$ 345,144	$ 1,218,625	$ 871,439	$ –	$ 2,435,208	$ 1,906,611
Securitized multi-unit residential mortgages	230,153	325,405	2,484	–	558,042	620,193
Single-family residential mortgages	7,677,335	2,119,370	232,639	6,178	10,035,522	12,422,008
Residential commercial mortgages	75,270	33,053	6,034	–	114,357	305,188
Non-residential commercial mortgages	675,397	337,464	29,778	214	1,042,853	1,954,820
Credit card loans and lines of credit	351,605	–	–	–	351,605	369,678
Other consumer retail loans	27,245	66,046	255,344	12,255	360,890	378,901
	$ 9,382,149	$ 4,099,963	$ 1,397,718	$ 18,647	$14,898,477	$ 17,957,399
Collective allowance for credit losses					(33,563)	(37,063)
					$14,864,914	$ 17,920,336

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

(H) Sale of Loan Portfolios

In July 2017, the Company sold residential commercial and non-residential commercial mortgages with a carrying value of $969.0 million for proceeds of $962.6 million. The Company analyzed each transaction under the derecognition requirements outlined in IAS 39 and concluded that the mortgages should be derecognized, except to the extent of the Company's continuing involvement. The Company's continuing involvement relates to $23.9 million of the gross sale proceeds withheld to over up to 80% of future credit losses on the commercial mortgages sold through to the maturity of the loans. The majority of the loans sold will mature before December 31, 2019, with the remainder maturing before December 31, 2021. As a result, the Company recognized a continuing involvement asset and liability of $23.9 million in other assets and other liabilities on the consolidated balance sheets, respectively.

The above sales resulted in an aggregate loss of $12.6 million, including $6.5 million released from the collective allowance on non-residential commercial mortgages to reserve against withheld proceeds of $23.9 million. The loss is included in non-interest income (loss) on the consolidated statements of income. The Company recognized a receivable for the resultant net amount of withheld proceeds of $17.4 million in other assets.

The balances of the continuing involvement asset and liability referred to above were $23.0 million as at December 31, 2017 and the receivable for withheld proceeds was $16.5 million.

During 2017, the Company sold mortgages for proceeds of $525.6 million. The Company analyzed each transaction under the derecognition requirements outlined in IAS 39 and concluded that the mortgages should be derecognized. The sales resulted in the recognition of $5.6 million of losses included in non-interest income (loss) in the consolidated statements of income.

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 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 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. As at December 31, 2017, the conduit is no longer available for new assignments of mortgages.

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	2017	2016
Beginning balance of on-balance sheet assets assigned as collateral for securitization[1]	**$ 2,648,882**	$ 2,731,350
Mortgages assigned in new securitizations	**2,007,633**	3,805,816
Net change in treasury bills and other acceptable securities	**60,799**	65,203
Mortgages derecognized[2]	**(799,271)**	(2,537,307)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(741,916)**	(1,416,180)
Ending balance of on-balance sheet assets assigned as collateral for securitization[1]	**$ 3,176,127**	$ 2,648,882

1 Included in the on-balance sheet assets assigned as collateral, at December 31, 2017, is $182.9 million (2016 – $122.1 million) in treasury bills and other acceptable securities and $2.99 billion (2016 – $2.53 billion) 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.

Treasury bills and other acceptable securities 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 $7.44 billion (2016 – $8.38 billion) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount is $0.82 billion (2016 – $1.23 billion) of mortgages that were sold under the former whole loan sales program of Home Bank. 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, which 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	2017	2016
Balance at the beginning of the year	**$ 2,649,649**	$ 2,780,556
Addition to securitization liabilities as a result of on-balance sheet activity	**1,496,819**	2,654,106
Net reduction in securitization liabilities due to maturities, amortization and sales	**(966,328)**	(2,744,123)
Other[1]	**(2,391)**	(40,890)
Securitization liability	**$ 3,177,749**	$ 2,649,649
Proceeds received for mortgages assigned in new securitizations	**$ 1,980,441**	$ 3,744,735

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 %					**December 31 2017**	December 31 2016
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Book Value**	Total Book Value
CMHC-sponsored mortgage-backed security liabilities	**$ 168,349**	**$ 662,435**	**$ 731,368**	**$ –**	**$ 1,562,152**	$ 898,386
Contractual yield	**2.1%**	**1.4%**	**1.7%**	**–**	**1.6%**	1.5%
CMHC-sponsored Canada Mortgage Bond liabilities	**231,886**	**636,972**	**604,460**	**–**	**1,473,318**	1,637,117
Contractual yield	**4.2%**	**3.3%**	**1.7%**	**–**	**2.8%**	2.3%
Bank-sponsored securitization conduit liabilities	**97,828**	**43,099**	**1,352**	**–**	**142,279**	114,146
Contractual yield	**2.1%**	**2.1%**	**2.1%**	**–**	**2.1%**	1.6%
	$ 498,063	**$ 1,342,506**	**$ 1,337,180**	**$ –**	**$ 3,177,749**	$ 2,649,649

(C) Securitization Income

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

thousands of Canadian dollars	**2017**	2016
Net gain on sale of mortgages and residual interest[1]	**$ 5,695**	$ 26,972
Net change in unrealized gain or loss on hedging activities	**(247)**	399
Servicing income	**7,081**	6,426
Total securitization income	**$ 12,529**	$ 33,797

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 residential 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			2017			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	$ 288,458	$ 510,813	$ 799,271	$ 1,490,850	$ 1,046,457	$ 2,537,307
Net gains on sale of mortgages or residual interest[1]	2,084	3,611	5,695	17,368	9,604	26,972
Retained interests recorded	–	20,815	20,815	–	41,900	41,900
Servicing liability recorded	–	4,943	4,943	–	8,955	8,955

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

7. Restricted Assets

thousands of Canadian dollars	December 31 2017	December 31 2016
Restricted cash		
Restricted cash – CMHC- and bank-sponsored securitization programs	$ 158,569	$ 106,616
Restricted cash – derivatives	59,391	19,262
Restricted cash – other programs	36,174	17,418
Total restricted cash	254,134	143,296
Treasury bills and other acceptable securities assigned as replacement assets	182,877	122,078
Total restricted assets	$ 437,011	$ 265,374

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 certain portfolios included in other consumer retail loans. 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, treasury bills and other acceptable securities assigned as CMB replacement assets. Please see Note 6(A) for more information.

thousands of Canadian dollars					December 31 2017	December 31 2016
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value	Total Fair Value
Restricted cash	$ 254,134	$ –	$ –	$ –	$ 254,134	$ 143,296
Treasury bills and other acceptable securities assigned as replacement assets	182,877	–	–	–	182,877	122,078
	$ 437,011	$ –	$ –	$ –	$ 437,011	$ 265,374

8. Other Assets

thousands of Canadian dollars	**December 31 2017**	December 31 2016
Accrued interest receivable	**$ 49,651**	$ 60,314
Prepaid CMB coupon	**3,644**	3,289
Securitization receivable and retained interest	**182,930**	213,312
Capital assets	**10,431**	13,013
Income taxes recoverable	**13,340**	25,619
Other prepaid assets and deferred items	**76,774**	33,091
	$ 336,770	$ 348,638

9. Intangible Assets

The following table presents the net carrying amount of internally developed software costs and acquired intangible assets as at December 31, 2017 and 2016, along with the changes in net carrying amount for the years ended December 31, 2017 and 2016.

thousands of Canadian dollars				**2017**				2016
	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	**$ 113,722**	**$ 45,444**	**$ 2,260**	**$ 161,426**	$ 110,397	$ 37,067	$ –	$ 147,464
Additions from internal development	**211**	**8,741**	**–**	**8,952**	8,452	8,377	–	16,829
Acquisition of intangible assets	**–**	**–**	**334**	**334**	–	–	2,260	2,260
Impairment loss	**(5,088)**	**(1,202)**	**(2,059)**	**(8,349)**	(5,127)	–	–	(5,127)
Balance at the end of the year	**108,845**	**52,983**	**535**	**162,363**	113,722	45,444	2,260	161,426
Accumulated amortization								
Balance at the beginning of the year	**40,153**	**6,232**	**38**	**46,423**	31,889	2,980	–	34,869
Amortization expense	**9,559**	**7,215**	**497**	**17,271**	8,264	3,252	38	11,554
Balance at the end of the year	**49,712**	**13,447**	**535**	**63,694**	40,153	6,232	38	46,423
Carrying amount at the end of the year	**$ 59,133**	**$ 39,536**	**$ –**	**$ 98,669**	$ 73,569	$ 39,212	$ 2,222	$ 115,003

1 As at December 31, 2017, there was $nil ($12.1 million – December 31, 2016) in work in progress related to the core banking system that was not being amortized.
2 As at December 31, 2017, there was $7.0 million ($13.0 million – December 31, 2016) in work in progress related to other software costs that was not being amortized.

During 2017, the Company recognized a total impairment loss on intangible assets of $8.3 million. An impairment loss of $6.3 million was recognized on components of the core banking system and other software costs that have become obsolete. It has been determined that the benefits from these components may not be realized and the capitalized amount is not recoverable. The impairment of these components does not impact the functionality of the systems currently in use. The remaining $2.0 million of impairment loss was recognized on other acquired intangible assets within the prepaid card business. The $8.3 million impairment loss is included in other operating expenses on the consolidated statements of income. The Company also revised the estimated useful life of the core banking system from 15 to 14 years as a result of expected future upgrades, and this change in estimate has been applied prospectively.

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 was 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 did not impact the functionality of the core banking system currently in use. The $5.1 million impairment loss was 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 2017	December 31 2016
Home Trust	$ 2,324	$ 2,324
PSiGate	–	4,428
	$ 2,324	$ 6,752

During the second quarter of 2017, the Company determined that it would exit its payment processing and prepaid card business through a sale transaction. This includes the Company's subsidiary PSiGate. In connection with this decision, the Company recorded a write-down of the remaining goodwill related to PSiGate in the amount of $4.4 million, based on the estimated fair value less costs to sell. The write-down is included in other operating expenses under non-interest expenses in the consolidated statements of income. Subsequent to the end of 2017, the Company completed its sale of PSiGate. See Note 23 for more information.

During the fourth quarter of 2016, goodwill in the PSiGate business was initially determined to be impaired. An impairment loss of $9.0 million was recorded as part of other operating expenses in 2016 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, 2017.

11. Deposits by Remaining Contractual Term to Maturity

thousands of Canadian dollars, except %					December 31 2017	December 31 2016
	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	$ 475,361	$ 4,887,744	$ 3,835,665	$ 1,581,976	$ 10,780,746	$ 13,766,732
Businesses	64,003	362,156	314,798	173,228	914,185	1,314,331
Institutional deposits	–	475,523	–	–	475,523	804,967
	$ 539,364	$ 5,725,423	$ 4,150,463	$ 1,755,204	$ 12,170,454	$ 15,886,030
Average contractual yield	1.0%	2.1%	2.3%	2.5%	2.2%	1.9%

12. Other Liabilities

thousands of Canadian dollars	December 31 2017	December 31 2016
Accrued interest payable on deposits	$ 125,965	$ 122,905
Accrued interest payable on securitization liabilities	7,923	7,317
Securitization servicing liability	20,924	20,573
Other, including accounts payable and accrued liabilities	205,665	169,942
	$ 360,477	$ 320,737

13. 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	2017			2016		
	Number of Shares		**Amount**	Number of Shares		Amount
Outstanding at the beginning of the year	**64,388**	**$**	**84,910**	69,978	$	90,247
Options exercised	**16**		**548**	71		1,984
Repurchase of shares	**(203)**		**(267)**	(5,661)		(7,321)
Issuance of shares	**16,045**		**145,965**	–		–
Outstanding at the end of the year	**80,246**	**$**	**231,156**	64,388	$	84,910

The Company has no preferred shares outstanding.

(C) Repurchase of Shares

During the year, the Company repurchased 203,000 common shares under its normal course issuer bid (NCIB) for $6.0 million. The purchase price of shares acquired through the NCIB is allocated between capital stock and retained earnings. The reduction to capital stock for the year ended December 31, 2017 was $0.3 million. The balance of the purchase price of $5.7 million was charged to retained earnings.

In the second quarter of 2016, the Company repurchased for cancellation 3,989,361 common shares at a price of $37.60 per share totalling $150.0 million under the Company's substantial issuer bid (SIB). In addition, the Company continued to repurchase shares under its NCIB. In 2016, the Company repurchased a total of 5,660,691 common shares under the SIB and NCIB for $199.2 million which was allocated between share capital and retained earnings. The reduction to share capital was $7.3 million. The balance of the purchase price of $191.9 million was charged to retained earnings. Included in the amount allocated to retained earnings was $0.4 million (net of tax) for transaction costs associated with the SIB.

(D) Issuance of Shares

On June 29, 2017, the Company issued 16,044,580 new common shares at a price of $9.55 per share to Columbia Insurance Company, a wholly owned subsidiary of Berkshire Hathaway Inc., for proceeds of $153.2 million. The amount recorded in capital stock in 2017 reflects the proceeds received net of $9.8 million ($7.3 million, net of tax) of associated professional fees and other transaction costs.

(E) Earnings per Common Share (EPS)

Basic earnings per common share of $0.10 (2016 – $3.71) is determined as net income for the year divided by the average number of common shares outstanding of 72,348,998 (2016 – 66,601,374).

Diluted earnings per common share of $0.10 (2016 – $3.71) is determined as net income for the year divided by the average number of common shares outstanding of 72,348,998 (2016 – 66,601,374) plus the stock options potentially exercisable, as determined under the treasury stock method, of 8,871 (2016 – 66,264) for a total of 72,357,869 (2016 – 66,667,638) diluted common shares.

Diluted earnings per common share exclude employee stock options which are anti-dilutive for the periods presented.

(F) Retained Earnings

During the third quarter of 2017, the Company made an adjustment to retained earnings and other liabilities as it was determined that a dividend recognized in a prior period was accrued prior to being declared by the Company. This adjustment is not significant to the consolidated financial statements of the Company. As a result of the adjustment, retained earnings increased by $15.4 million and other liabilities decreased by a corresponding amount as at December 31, 2015.

(G) 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 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 2017	December 31 2016	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets			
Common equity tier 1 ratio	**23.17%**	16.55%	7.00%
Tier 1 capital ratio	**23.17%**	16.54%	8.50%
Total regulatory capital ratio	**23.68%**	16.97%	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, 2017, the Leverage ratio was 8.70% (December 31, 2016 – 7.20%), which exceeds OSFI's minimum requirements.

Home Trust's Common Equity Tier 1, Total Tier 1, and Total capital ratios have exceeded OSFI's regulatory targets, as well as Home Trust's internal capital targets. The capital position was further enhanced through the issuance of new common shares in the second quarter of 2017 (please see Note 13(D)).

14. 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 $1.3 million for 2017 (2016 – $1.7 million).

(B) Employee Retirement Savings Plan

During the year, Home Trust contributed $1.3 million (2016 – $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	2017		2016	
	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at the beginning of the year	**1,074**	**$ 32.73**	1,208	$ 32.45
Granted	**160**	**22.79**	25	31.95
Exercised	**(16)**	**25.03**	(71)	20.62
Forfeited	**(142)**	**32.58**	(88)	38.41
Expired	**(236)**	**24.21**	–	–
Outstanding at the end of the year	**840**	**$ 33.40**	1,074	$ 32.73
Exercisable at the end of the year	**511**	**$ 35.85**	587	$ 30.86
Weighted-average market price per share at date of exercise		**$ 26.37**		$ 31.44
Weighted-average remaining contractual life in years		**2.8**		2.9

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 2017 or 2016.

As at December 31, 2017, the maximum number of options on common shares that could be issued was 10,670,396, representing approximately 13.3% 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, based on predetermined conditions including vesting conditions, such as earnings per share targets, are achieved for each year as established by the Board at the time of the grant.

As at December 31, 2017, the weighted-average exercise prices for stock options outstanding to acquire common shares ranged from $14.06 to $46.96. 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, 2017				
	Stock options outstanding			Stock options exercisable	
	Number Outstanding	Weighted-average Contractual Life Remaining in Years	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
Range of exercise prices					
Less than $20.00	**57,129**	**4.7**	**$ 14.06**	**–**	**$ –**
$20.01 – $25.00	**46,500**	**1.4**	**20.84**	**46,500**	**23.25**
$25.01 – $30.00	**361,688**	**2.9**	**28.77**	**172,038**	**29.30**
$30.01 – $35.00	**50,000**	**3.0**	**31.98**	**31,250**	**32.00**
$35.01 – $40.00	**139,500**	**1.2**	**39.65**	**139,500**	**17.90**
$40.01 – $45.01	**14,000**	**2.2**	**43.05**	**13,500**	**43.06**
Over $45.01	**170,861**	**2.0**	**46.96**	**108,600**	**46.92**
	839,678	**2.8**	**$ 33.40**	**511,388**	**$ 35.85**

The Company determined the fair value of options granted prior to the September 2017 grant using the Black-Scholes option pricing model. Starting with the September 2017 grant, the Company began using the binomial option pricing model, prospectively, as it more accurately reflects the impact of the volatility and dividend assumptions in the valuation of options granted. The weighted-average fair value of the options granted during the year was $4.67 (2016 – $5.76).

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

Canadian dollars, except % and years		December 2017		September 2017		February 2017		May 2016
Fair value of options granted	$	**4.40**	$	**4.23**	$	**4.94**	$	5.76
Share price	$	**16.85**	$	**14.00**	$	**27.65**	$	31.95
Exercise price	$	**17.36**	$	**13.90**	$	**27.65**	$	31.95
Expected share price volatility		**38.7%**		**42.7%**		**32.7%**		30.8%
Expected period until exercise in years[1]		**3.8**		**3.8**		**3.8**		3.8
Forfeiture rate		**–**		**–**		**5.0%**		5.0%
Expected dividend yield		**3.53%**		**3.60%**		**3.95%**		2.95%
Risk-free rate of return		**2.05%**		**2.15%**		**1.01%**		0.64%
Valuation model		**Binomial**		**Binomial**		**Black-Scholes**		Black-Scholes

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 (2017 – $0.6 million; 2016 – $1.1 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 (2017 – $0.4 million; 2016 – $1.5 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, 2017 was $4.0 million (2016 – $3.5 million). As of December 31, 2017, there were 217,791 DSUs outstanding (2016 – 103,368).

(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, 2017 was $277 thousand (2016 – $443 thousand). As of December 31, 2017, there were 60,705 RSUs outstanding (2016 – 34,794 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 50% to 125%. The fair value of the PSU liability as at December 31, 2017 was $1.2 million and there were 76,598 PSUs outstanding (2016 – $2.0 million and 87,787 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		2017		2016
Expense arising from equity-settled share-based payment transactions	$	**557**	$	1,127
DSUs, RSUs and PSUs (representing all expenses arising from cash-settled share-based payment transactions)		**2,065**		2,328
	$	**2,622**	$	3,455

15. Accumulated Other Comprehensive Income

thousands of Canadian dollars	December 31 2017	December 31 2016
Unrealized losses on		
Available for sale securities and retained interests	**$ (6,425)**	$ (72,953)
Income tax recovery	**(1,720)**	(19,364)
	(4,705)	(53,589)
Unrealized losses on		
Cash flow hedges	**(1,606)**	(2,005)
Income tax recovery	**(417)**	(529)
	(1,189)	(1,476)
Accumulated other comprehensive loss	**$ (5,894)**	$ (55,065)

16. 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% (2016 – 26.50%) due to various permanent differences.

thousands of Canadian dollars	2017	2016
Income before income taxes	**$ 8,915**	$ 335,130
Income taxes at statutory combined federal and provincial income tax rates	**$ 2,362**	$ 88,810
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	**(873)**	(2,683)
Non-deductible expenses	**2,085**	2,867
Scientific research and experimental development investment tax credits	**(1,483)**	(1,516)
Other	**(703)**	256
Income tax	**$ 1,388**	$ 87,734

(B) Reconciliation of Income Tax Rates

	2017	2016
Statutory income tax rate	**26.50%**	26.50%
Increase (reduction) in income tax rate resulting from		
Tax-exempt income	**(9.79)%**	(0.80)%
Non-deductible expenses	**23.39%**	0.86%
Scientific research and experimental development investment tax credits	**(16.63)%**	(0.45)%
Other	**(7.90)%**	0.07%
Effective income tax rate	**15.57%**	26.18%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars	December 31 2017	December 31 2016
Deferred tax liabilities		
Commissions	$ 6,690	$ 8,517
Finders' fees, net of commitment fees	3,693	2,557
Securitization transaction costs	4,659	3,160
Swaps	541	1,123
Development costs	26,244	29,916
Other	607	633
	42,434	45,906
Deferred tax assets		
Allowance for credit losses	9,432	9,046
Loss carryforwards	8,341	15,920
Deferred share unit plan expenses	1,448	1,570
Deferred financing costs	2,040	–
Capital assets	520	–
	21,781	26,536
Net deferred tax liability	$ 20,653	$ 19,370

Net deferred tax liabilities on the consolidated balance sheets were $30.2 million (December 31, 2016 – $36.3 million) and deferred tax assets were $9.6 million (December 31, 2016 – $16.9 million). The deferred tax liability comprises deferred tax on commissions, finders' fees, transaction costs, development costs and tax credits. The deferred tax liability is presented net of certain deferred tax assets, primarily attributed to allowance for credit losses. The deferred tax asset presented on the consolidated balance sheets results primarily from $31.3 million of loss carryforwards of Home Bank. Deferred tax assets also include deferred financing costs which primarily relate to share issuance costs, which were accounted for as a deduction from shareholders' equity. The losses generated in Home Bank begin to expire after 2033. The Company continues to generate sufficient income in Home Bank to be able to utilize the losses recognized as a deferred tax asset.

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.

During the year, the Company also 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.

17. 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 2017**		December 31 2016
Within one year	**$**	**12,862**	$	16,923
After one year but not more than five years		**19,734**		27,869
More than five years		**21,803**		6,471
	$	**54,399**	$	51,263

Lease payments recognized as an expense in the consolidated statements of income amounted to $25.3 million in 2017 (2016 – $25.6 million).

(B) Credit Commitments

Outstanding amounts for future advances on mortgage loans amounted to $875.9 million as at December 31, 2017 (2016 – $1.34 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 $196.7 million at December 31, 2017 (2016 – $486.6 million). Offers for loans remain open for various periods. The average rate on mortgage offers is 4.57% (2016 – 4.48%).

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, 2017, these contractual amounts in aggregate were $497.5 million (2016 – $515.9 million), of which $145.5 million (2016 – $146.3 million) had not been drawn by customers. Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $16.1 million at December 31, 2017 (2016 – $28.8 million).

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

(C) Directors' and Officers' Indemnification

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

(D) Provisions and Contingencies

Restructuring Provision

For the year ended December 31, 2017, the Company recorded total restructuring charges of $13.2 million in relation to its expense savings initiative, Project EXPO, which commenced in the first quarter of 2017. This restructuring initiative was intended to result in cost savings while positioning the Company to meet its strategic goals. These measures included organizational review, process redesign and premise optimization. The restructuring charges recorded relate primarily to employee severance and other related costs and are included in salaries and benefits. The remaining restructuring charges are included in premises and other operating expenses. The Company announced on October 2, 2017 that it has completed Project EXPO and does not expect further charges.

The following table provides a continuity of the Company's restructuring provision in 2017.

thousands of Canadian dollars		2017
Balance at the beginning of the year	$	–
Additions		13,197
Amounts used		(8,406)
Balance at the end of the year	$	4,791

Contingencies
In the ordinary course of business, the Company and its subsidiaries are involved in various legal actions. The Company establishes legal provisions when it becomes probable that the Company will incur a loss and the amount can be reliably estimated.

In management's opinion, based on its current knowledge and after consultation with counsel, the ultimate disposition of these actions, individually or in the aggregate, will not have a material adverse effect on the consolidated financial position of the Company. However, as there are uncertainties inherent in litigation advice, there is a possibility that the ultimate resolution of these actions may be material to the Company's consolidated results of operations for any particular reporting period.

The following is a description of the Company's material legal actions.

Claims by Shareholders Who Opted out of Securities Class Action Settlement Related to Disclosure
The Company has been served with three claims by shareholders who opted out of the securities class action settlement previously disclosed in Q3 2017. Together these claims are advanced on behalf of shareholders holding 1,717,400 shares out of 1,717,600 shares that were opted out of the class action settlement.

The claim filed on behalf of West Face Long Term Opportunities Global Master LP ("West Face"), a Caymans Island limited partnership is based on allegations of misrepresentation and seeks $70 million in damages. West Face alleges that it built a significant short position in Home Capital in the spring and summer of 2013. It then reversed its investment strategy, covering its short position between the fall of 2013 and the spring of 2015.

The claim filed by Roland Keiper and Brian Chapman is based on allegations of common law and statutory misrepresentation and oppressive conduct and seeks $2 million in damages.

The claim filed by Marc Cohodes is based on allegations of misrepresentation and oppressive conduct and seeks $4 million in damages. Mr. Cohodes claims to have altered his investment strategy, covering at least some of his short position between March and June of 2015.

Management's current assessment is that it has good and valid defences to all three claims and the Company intends to fully defend its conduct. The costs incurred by the Company in the defence of each proceeding will be expensed in the period in which they are incurred.

Putative Class Action Related to Consumer HVAC Equipment Financing
A claim has been filed with the Ontario Superior Court of Justice against Home Trust Company, and co-defendants MDG Newmarket Inc. doing business as Ontario Energy Group (OEG) and Eugene Farber. In that matter Home Trust is a defendant in a putative class action brought on behalf of persons who purchased consumer HVAC equipment financed by Home Trust from OEG, an entity arms-length from Home Trust. In May 2016, Home Trust ceased purchasing income streams arising out of contracts with new customers of OEG and in September 2016 provided notice that it will no longer accept any rental agreement from OEG under the income-stream purchase program. In May of 2017, the plaintiff served motions for certification and summary judgement which are scheduled to proceed in May 2018. Home Trust considers that it has good defences to the action.

18. 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. Over time, redemptions and cancellations of the RSUs may result in unhedged derivative positions. These unhedged derivatives are not designated as hedges for accounting purposes, and as such the changes in fair value do not flow through AOCI and compensation expense. The changes in fair value of such derivatives flow directly to the consolidated statements of income within derivative gain or loss. Net losses of $528 thousand (2016 – net gains of $528 thousand) were recorded in income through net realized and unrealized gain or loss on derivatives.

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

thousands of Canadian dollars		**2017**		2016
Fair value gains (losses) recorded in OCI	**$**	**(721)**	$	1,035
Reclassification from OCI to net income		**(1,120)**		(1,147)

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 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		**2017**		2016
Fair value changes recorded on interest rate swaps[1]	**$**	**(63,975)**	$	(30,794)
Fair value changes of hedged items for interest rate risk[2]		**62,493**		21,459
Hedge ineffectiveness losses recognized in non-interest income[3]	**$**	**(1,482)**	$	(9,335)

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 in 2016 are derivative losses related to senior debt.

Other Derivative Gains and Losses

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, 2017 and 2016, the outstanding swaps and bond forward contract positions were as follows:

thousands of Canadian dollars							As at December 31, 2017
Term (years)	Notional Amount	Current Replacement Cost[1]	Credit Equivalent Amount[1]	Risk-weighted Balance[1]	Derivative Asset	Derivative Liability	Net Fair Market Value
Swaps designated as accounting hedges							
< 1 year	$ 739,206	$ 2,584	$ 2,615	$ 523	$ 2,584	$ (303)	$ 2,281
1 to 5 years	3,231,323	3,530	19,710	9,641	3,530	(38,425)	(34,895)
	3,970,529	6,114	22,325	10,164	6,114	(38,728)	(32,614)
Bond forwards not designated as accounting hedges[2]							
1 to 5 years	28,600	224	367	367	224	–	224
> 5 years	130,400	987	2,943	2,943	987	–	987
	159,000	1,211	3,310	3,310	1,211	–	1,211
Total	$4,129,529	$ 7,325	$ 25,635	$ 13,474	$ 7,325	$ (38,728)	$ (31,403)

thousands of Canadian dollars							As at December 31, 2016
Term (years)	Notional Amount	Current Replacement Cost[1]	Credit Equivalent Amount[1]	Risk-weighted Balance[1]	Derivative Asset	Derivative Liability	Net Fair Market 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

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.

19. 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, 2017 and 2016.

thousands of Canadian dollars	As at December 31, 2017			As at December 31, 2016		
	Within 1 Year	After 1 Year	Total	Within 1 Year	After 1 Year	Total
Assets						
Cash and cash equivalents	$ 1,336,138	$ –	$ 1,336,138	$ 1,205,394	$ –	$ 1,205,394
Available for sale securities	3,157	329,311	332,468	99,205	435,719	534,924
Loans held for sale	165,947	–	165,947	77,918	–	77,918
Securitized mortgages	841,273	2,151,977	2,993,250	378,962	2,147,842	2,526,804
Non-securitized mortgages and loans	9,110,971	2,794,256	11,905,227	10,780,371	4,650,224	15,430,595
Collective allowance for credit losses	(22,375)	(11,188)	(33,563)	(24,708)	(12,355)	(37,063)
Restricted assets	437,011	–	437,011	177,879	87,495	265,374
Derivative assets	2,584	4,741	7,325	1,816	35,708	37,524
Other assets	220,811	115,959	336,770	227,672	120,966	348,638
Deferred tax assets	–	9,577	9,577	–	16,914	16,914
Goodwill and intangible assets	–	100,993	100,993	–	121,755	121,755
Total assets	$ 12,095,517	$ 5,495,626	$ 17,591,143	$ 12,924,509	$ 7,604,268	$ 20,528,777
Liabilities						
Deposits payable on demand	$ 539,364	$ –	$ 539,364	$ 2,531,803	$ –	$ 2,531,803
Deposits payable on a fixed date	5,725,423	5,905,667	11,631,090	6,935,574	6,418,653	13,354,227
CMHC-sponsored mortgage-backed security liabilities	321,667	1,240,485	1,562,152	156,979	741,407	898,386
CMHC-sponsored Canada Mortgage Bond liabilities	231,886	1,241,432	1,473,318	162,677	1,474,440	1,637,117
Bank-sponsored securitization conduit liabilities	102,718	39,561	142,279	12,556	101,590	114,146
Derivative liabilities	303	38,425	38,728	–	3,490	3,490
Other liabilities	339,553	20,924	360,477	300,164	20,573	320,737
Deferred tax liabilities	–	30,230	30,230	–	36,284	36,284
Total liabilities	$ 7,260,914	$ 8,516,724	$ 15,777,638	$ 10,099,753	$ 8,796,437	$ 18,896,190
Net	$ 4,834,603	$ (3,021,098)	$ 1,813,505	$ 2,824,756	$ (1,192,169)	$ 1,632,587

20. 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 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 government-backed debt instruments, loans held for sale, interest rate swaps, total return swaps, bond forwards, certain corporate debt instruments.

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, 2017
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,336,138	$ –	$ –	$ 1,336,138	$ 1,336,138
Loans held for sale	–	165,947	–	165,947	165,947
Derivative assets	–	7,325	–	7,325	7,325
Restricted assets	254,134	–	–	254,134	254,134
Total financial assets held for trading	1,590,272	173,272	–	1,763,544	1,763,544
Financial assets available for sale					
Debt securities	–	300,566	968	301,534	301,534
Equity securities	30,934	–	–	30,934	30,934
Restricted assets	–	182,877	–	182,877	182,877
Retained interest owned	–	–	105,528	105,528	105,528
Total financial assets available for sale	30,934	483,443	106,496	620,873	620,873
Loans and receivables					
Securitized mortgages	–	–	3,005,970	3,005,970	2,993,250
Non-securitized mortgages and loans	–	–	11,958,552	11,958,552	11,871,664
Securitization receivables	–	–	81,046	81,046	81,046
Other	–	–	62,991	62,991	62,991
Total loans and receivables	–	–	15,108,559	15,108,559	15,008,951
Total	$ 1,621,206	$ 656,715	$15,215,055	$17,492,976	$17,393,368
Financial liabilities at amortized cost					
Deposits	$ –	$ –	$12,432,343	$12,432,343	$12,170,454
Securitization liabilities	–	–	3,174,786	3,174,786	3,177,749
Other	–	–	360,477	360,477	360,477
Total financial liabilities carried at amortized cost	–	–	15,967,606	15,967,606	15,708,680
Financial liabilities at fair value					
Derivative liabilities	–	38,728	–	38,728	38,728
Total	$ –	$ 38,728	$15,967,606	$16,006,334	$15,747,408

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	–	122,078	–	122,078	122,078
Retained interest owned	–	–	107,953	107,953	107,953
Total financial assets available for sale	193,350	459,322	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	$ 1,542,040	$ 574,764	$ 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	–	–	320,737	320,737	320,737
Total financial liabilities at amortized cost	–	–	19,114,297	19,114,297	18,856,416
Financial liabilities at fair value					
Derivative liabilities	–	3,490	–	3,490	3,490
Total	$ –	$ 3,490	$ 19,114,297	$ 19,117,787	$ 18,859,906

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, 2017 or December 31, 2016.

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 18.
- 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.

21. 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	**2017**	2016
Short-term employee benefits[1]	**$ 7,057**	$ 8,580
Share-based payment[2]	**1,275**	216
Other long-term benefits[3]	**183**	324
	$ 8,515	$ 9,120

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.

Previously, in the normal course of business, the Company referred borrowers who required loans at a higher loan-to-value ratio than the Company would provide to second mortgage lenders. All referrals were conducted at arm's length and at market terms. Second mortgage lenders independently underwrote all second mortgages with the borrowers. During the year, the Company discontinued this practice and no longer makes such referrals. One of the second mortgage lenders is related to the Company through a close family relationship with a former member of the Company's key management personnel. The amount of second mortgages referred to this lender during the years ended December 31, 2017 and 2016 was not significant.

22. 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 capital adequacy, credit, market, liquidity and funding, operational, compliance, strategic 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 18.

23. Subsequent Events

On February 1, 2018, the Company completed the previously announced sale of the Company's payment processing and prepaid card business including its Payment Services Interactive Gateway subsidiaries. As part of the agreement, Home Capital and Home Trust Company have entered into a transition services agreement and will continue to provide services for certain clients for up to a year, at which time the Company will have completely exited this business line. The Company does not expect the sale to have a material impact on its financial position or performance.

In addition, the Company received a claim in January 2018 filed by Marc Cohodes based on allegations of misrepresentation and oppressive conduct and seeks $4 million in damages. Please see Note 17(D) for further information.

Corporate Directory & Shareholder Information

BRANCHES

Toronto
145 King Street West, Suite 2300
Toronto, Ontario M5H IJ8
Tel: (416) 360-4663
1-800-990-7881
Fax: (416) 363-7611
1-888-470-2092

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

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

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

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

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

OAKEN FINANCIAL STORES

Toronto
145 King Street West, Concourse Level
Toronto, Ontario M5H IJ8

Calgary
517-10th Avenue SW
Calgary, Alberta T2R 0A8

Tel:
1-855-OAKEN-22 (625-3622)

Email:
service@oaken.com

HOME CAPITAL GROUP INC.

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

Auditors
Ernst & Young LLP
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, 2017 there were 80,246,349 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

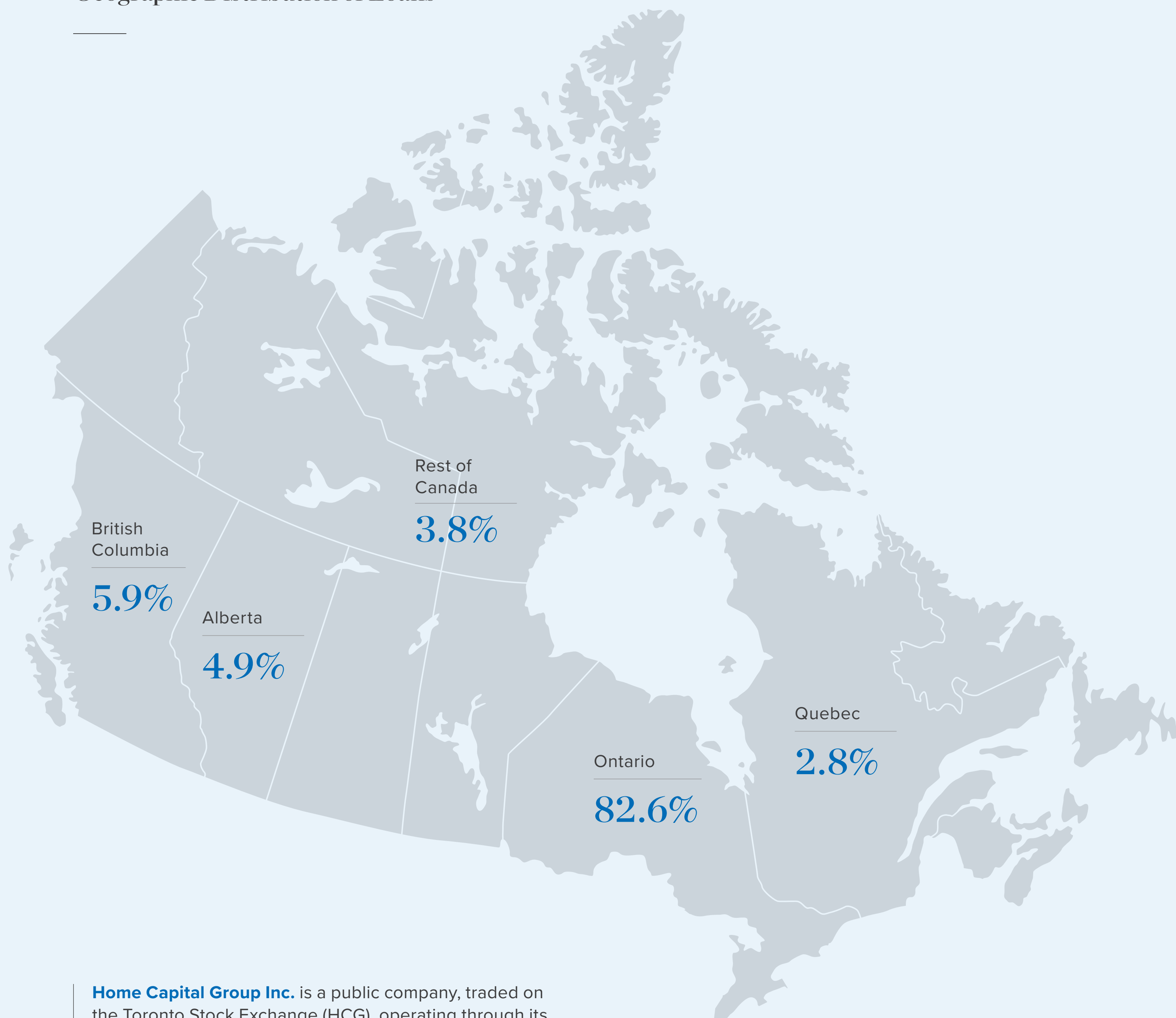
For Shareholder Information, Please Contact:
Corporate Counsel and Corporate Secretary
Home Capital Group Inc.
145 King Street West, Suite 2300
Toronto, Ontario M5H 1J8
Tel: (416) 360-4663
Fax: (416) 363-7611

Websites
Home Capital Group Inc.
www.homecapital.com
Home Trust Company
www.hometrust.ca

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.

Printed in Canada
Design: Craib Design & Communications

Geographic Distribution of Loans[1]



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 offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

Ticker Symbol: HCG

Thank you.

1 Loans exclude mortgages held for sale and are net of individual allowances for credit losses.

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

Home Capital Group Inc.

MIX
Paper from responsible sources
FSC www.fsc.org
FSC® C012048