HOME CAPITAL GROUP INC.

2016

THIRD QUARTER REPORT

FINANCIAL HIGHLIGHTS

(Unaudited)	For the three months ended			For the nine months ended	
(000s, except Percentage and Per Share Amounts)	**September 30 2016**	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
OPERATING RESULTS					
Net Income	**$ 66,190**	$ 66,252	$ 72,443	**$ 196,690**	$ 217,046
Adjusted Net Income[1]	**66,190**	66,252	72,443	**199,939**	217,046
Net Interest Income	**119,924**	122,103	121,698	**364,544**	354,432
Total Adjusted Revenue[1]	**243,928**	242,526	247,194	**727,651**	747,305
Diluted Earnings per Share	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.92**	$ 3.09
Adjusted Diluted Earnings per Share[1]	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.97**	$ 3.09
Return on Shareholders' Equity	**16.9%**	16.5%	18.7%	**16.4%**	19.2%
Adjusted Return on Shareholders' Equity[1]	**16.9%**	16.5%	18.7%	**16.7%**	19.2%
Return on Average Assets	**1.3%**	1.3%	1.4%	**1.3%**	1.4%
Net Interest Margin (TEB)[2]	**2.34%**	2.38%	2.38%	**2.37%**	2.32%
Provision as a Percentage of Gross Uninsured Loans (annualized)	**0.04%**	0.08%	0.08%	**0.05%**	0.07%
Provision as a Percentage of Gross Loans (annualized)	**0.03%**	0.06%	0.06%	**0.04%**	0.06%
Efficiency Ratio (TEB)[2]	**37.7%**	37.2%	30.8%	**38.2%**	31.1%
Adjusted Efficiency Ratio (TEB)[1,2]	**37.7%**	37.2%	30.8%	**37.1%**	31.1%

				As at
	September 30 2016	June 30 2016	December 31 2015	September 30 2015
BALANCE SHEET HIGHLIGHTS				
Total Assets	**$ 20,317,030**	$ 20,763,147	$ 20,527,062	$ 20,314,220
Total Assets Under Administration[3]	**28,327,676**	28,430,730	27,316,476	25,404,219
Total Loans[4]	**18,002,238**	18,065,074	18,268,708	18,336,736
Total Loans Under Administration[3,4]	**26,012,884**	25,732,657	25,058,122	23,426,735
Liquid Assets	**1,878,082**	2,391,225	2,095,145	1,477,493
Deposits	**15,694,102**	16,022,219	15,665,958	14,949,842
Shareholders' Equity	**1,579,478**	1,555,893	1,621,106	1,569,230
FINANCIAL STRENGTH				
Capital Measures[5]				
Risk-Weighted Assets	**$ 8,414,960**	$ 8,310,406	$ 7,985,498	$ 7,797,987
Common Equity Tier 1 Capital Ratio	**16.54%**	16.38%	18.31%	18.06%
Tier 1 Capital Ratio	**16.53%**	16.38%	18.30%	18.06%
Total Capital Ratio	**16.97%**	16.82%	20.70%	20.51%
Leverage Ratio	**7.08%**	6.77%	7.36%	7.17%
Credit Quality				
Net Non-Performing Loans as a Percentage of Gross Loans	**0.31%**	0.33%	0.28%	0.30%
Allowance as a Percentage of Gross Non-Performing Loans	**69.3%**	66.0%	74.0%	69.4%
Share Information				
Book Value per Common Share	**$ 24.47**	$ 23.67	$ 23.17	$ 22.37
Common Share Price – Close	**$ 27.00**	$ 32.02	$ 26.92	$ 32.03
Dividend paid during the period ended	**$ 0.24**	$ 0.24	$ 0.22	$ 0.22
Market Capitalization	**$ 1,743,093**	$ 2,105,027	$ 1,883,808	$ 2,247,225
Number of Common Shares Outstanding	**64,559**	65,741	69,978	70,160

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

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

[3] Total assets and loans under administration include both on-and off-balance sheet amounts.

[4] Total loans include loans held for sale.

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

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

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

Table of Contents

Report to Shareholders	3	Accounting Standards and Policies	34
Management's Discussion and Analysis	6	Quarterly Financial Highlights	35
Business Profile	7	Non-GAAP Measures and Glossary	36
Performance Summary	7	Consolidated Statements of Income	39
2016 Outlook	8	Consolidated Statements of Comprehensive Income	40
Income Statement Review	10	Consolidated Statements of Balance Sheets	41
Financial Position Review	18	Consolidated Statements of Changes in Shareholders' Equity	42
Capital Management	23	Consolidated Statements of Cash Flows	43
Risk Management	25	Notes to the Interim Consolidated Financial Statements	44
		Corporate Directory & Shareholder Information	67

TO OUR SHAREHOLDERS

Home Capital today reported financial results for the third quarter ended September 30, 2016.

Third Quarter 2016 Highlights

Third Quarter 2016, compared with the Third Quarter 2015:

- Increased quarterly dividend by $0.02 to $0.26.
- Reported net income was $66.2 million, compared with $72.4 million.
- Reported diluted earnings per share were $1.01, compared with $1.03.
- Provision for credit losses as a percentage of gross uninsured loans was 0.04% on an annualized basis, compared to 0.08%.
- Net non-performing loans as a percentage of gross loans were 0.31%, compared with 0.30%.
- Total capital ratio of 16.97%. Capital ratios continue to be well in excess of regulatory minimums and internal targets.
- Total mortgage originations of $2.54 billion, compared with $2.50 billion.

First Nine Months ended September 30, 2016, compared with First Nine Months ended September 30, 2015:

- Reported net income was $196.7 million, compared with $217.0 million.
- Reported diluted earnings per share were $2.92, compared with $3.09.
- Adjusted net income was $199.9 million, compared with $217.0 million.
- Adjusted diluted earnings per share were $2.97, compared with $3.09.
- Total mortgage originations of $6.80 billion, compared with $5.91 billion.
- Repurchased a total of $43.5 million of common shares through the Normal Course Issuer Bid ("NCIB") and $150 million of common shares through the Substantial Issuer Bid. NCIB renewed through September 2017, providing option to repurchase up to 5% of outstanding shares.

Management Comments

"Our Company continues to deliver solid returns on shareholders' equity, excellent credit performance and a strong balance sheet that enables us to return capital to our investors though share buybacks and increased dividends," said Martin Reid, President and Chief Executive Officer, Home Capital Group Inc. "However, the operating results from a revenue generation and net income perspective have been disappointing to management and the Board. In response to a more challenging business environment, the Company has upgraded processes, changed business relationships, increased regulatory compliance activities and introduced additional risk management procedures. This is essential for the future health of our Company.

These changes have resulted in increased costs and strained the Company's ability to grow assets and net revenue. We are committed to addressing this concern. We are focused on increasing operating leverage by improving revenue growth from potential opportunities that the evolving housing environment presents and by taking a harder look at expenses. However, looking ahead, it's likely that the Company will reduce its mid-term targets when we provide our updated targets with our fourth quarter results."

Mr. Reid continued: "We support measures taken by the Government of Canada to ensure the stability of our financial system and the housing market. We anticipate the recent mortgage rule changes will significantly reduce the Company's ability to profitably originate and fund our Accelerator product, a relatively small portion of our overall mortgage business. Our core Traditional single-family mortgage business line remains solid and we believe the strength in our business will enable us to seize opportunities that may result."

Core Business

Home Capital's third quarter 2016 (Q3 2016) results reflect the Company's continued profitability as measured by its net interest margin (TEB) of 2.34%, a healthy loan portfolio as evidenced by continued low non-performing loans and credit losses, and a strong capital position.

The Company continues to focus on growing origination volumes, specifically for traditional mortgages across Home Capital's established regions. Total mortgage originations were $2.54 billion in Q3 2016 and $6.80 billion for the first nine months of 2016, increases of 1.7% and 15.1% respectively compared to the same periods from 2015.

Combined traditional and ACE Plus residential mortgage originations grew to $1.53 billion in Q3 2016 and $3.97 billion for the first nine months of 2016, up 1.3% and 5.2% respectively compared to $1.51 billion and $3.77 billion for the comparable periods of 2015. Sales of ACE Plus, an uninsured single-family lower-rate mortgage product, commenced in second half of 2015 and originations have risen 4.1% year over year to a total $116.7 million for the third quarter 2016.

Accelerator originations increased 7.3% to $446.7 million in Q3 2016 and 45.6% to $1.28 billion for the first nine months of 2016 from the comparable periods in 2015. Following the Government of Canada's announcement in early October 2016, which placed certain limitations on eligibility criteria for low-ratio government-backed insured mortgages ("mortgage rules"), the Company previously reported (see the Company's press release dated October 20, 2016) that it anticipates these limitations to potentially significantly reduce the Company's ability to profitably originate and fund these mortgages. Specifically, low-ratio lending for the purpose of refinancing and to rental properties will be primarily impacted within the Company's Accelerator program.

The Company also previously reported that since the Accelerator program has traditionally been a low margin product offering, as a result, it anticipates the negative impact on net income before tax to be relatively limited, approximately $6.5 million and after tax net income of approximately $4.8 million on an annualized basis. This estimate assumes that the Company sells its residual interest in fixed-rate mortgages which is an activity that the Company does from time to time.

Originations from all other sources decreased 1.2% to $560.5 million in Q3 2016 and increased 23.6% to $1.56 billion in the first nine months of 2016 from the same periods in 2015.

Looking ahead at originations for the balance of 2016, the Company does not expect any significant impact from the Government mortgage rules changes, with the exception of a reduction in Accelerator originations in the final month of the year, which is also a seasonally slow month.

The Company has reviewed all of the customer files and the income documentation submitted in relation to the mortgages referred by the 45 individual mortgage brokers previously suspended. There have been no unusual credit issues on these mortgages.

Consumer Lending

Consumer lending, comprising credit cards, lines of credit and other consumer retail loans, continues to be an important source of loan assets with attractive returns. While representing 4.1% of the total on-balance sheet loan portfolio, these assets generated 7.8% of the interest income from loans for the quarter.

Deposits

At the end of the third quarter, total deposits were $15.69 billion. Approximately 29% of deposits were from diversified sources. In addition to sourcing deposits through investment dealers and deposit brokers, the Company will continue to focus on diversification, which includes growing deposits from its direct-to-consumer business, Oaken Financial and through Home Bank. In Q3 2016, the ending balance of Oaken deposits was $1.72 billion, up 58.2% from the end of 2015, demonstrating significant progress in the Company's efforts towards deposit diversification. Also during the third quarter, the Company completed the integration of Home Bank's deposit business into the Company's infrastructure. Home Bank is now seamlessly available through both the intermediary and the Oaken channels. Deposit funding generated through Home Bank will further facilitate the Company's deposit diversification.

Operational Capabilities

Home Capital continues to experience healthy credit performance, with net non-performing loans as a percentage of gross loans at 0.31%. The results reflect the credit quality of the Company's loan portfolio, supported by the Company's continued investments in its risk management and control infrastructure.

The Company has been focusing on refining and investing in processes to improve service and retention performance levels. The Company continues to work towards reducing response times for commitments within its risk management framework. This includes enhancing processes and improving relationships and discussions with brokers to ensure the documentation process is completed quickly and accurately. Additionally, the Company continues to focus on improving retention levels of existing customers, especially those seeking early discharge. Management continues to investigate opportunities to further enhance retention as part of its strategic plans.

The Company has also invested in improving service and retention performance levels through two initiatives: Spire, a broker partnership and incentive program rolled out earlier this year, and Loft, a broker portal technology that was created to enhance the broker experience as well as improve service levels. The launch of Spire has been successful with excellent participation from all of its broker partners. The Company will continue to roll out its broker portal technology, Loft through 2017.

Shareholder Returns and Financial Position

Home Capital continued to focus on maintaining a strong and conservative financial position while delivering value to shareholders, including a return on average shareholders' equity of 16.9% for Q3 2016.

The Company has continued to return capital to shareholders through its dividends and share buybacks. For the nine months ended September 30, 2016, the Company has returned a total of $48.4 million in dividends to shareholders. Subsequent to the end of the quarter, and in light of the Company's performance, profitability and strong financial position, the Board of Directors approved a quarterly dividend increase of $0.02 to $0.26 per common share payable on December 1, 2016 to shareholders of record at the close of business on November 15, 2016.

Outlook

The magnitude of the impact of recent regulatory changes on our business and the mortgage lending market as a whole is uncertain. Management will monitor the effect on the business as more information becomes available, and will explore any opportunities that may result.

Management does not expect the current challenges in the business environment to diminish as new regulatory restrictions take effect, housing markets adjust and competition responds.

In this environment, management and the Board are reviewing the Company's strategies with a view to more stringently managing costs, reviewing product offerings and related operations, and strengthening revenue growth. This would be in addition to several initiatives that have taken place in the past nine months, including hiring new personnel at the executive levels in underwriting, operations and risk management, as well as the introduction of new programs and tools for mortgage brokers. Moreover, management and the Board continue to sharpen the focus on business and financial performance improvement and will provide updated targets with fourth quarter results.

On behalf of the Board,

MARTIN REID
President & Chief Executive Officer
November 2, 2016

KEVIN P.D. SMITH
Chair of the Board

Additional information concerning the Company's targets and related expectations for 2016, including the risks and assumptions underlying these expectations, may be found in the MD&A of this quarterly report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the three months ended September 30, 2016. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. Home Trust includes its wholly owned subsidiary, Home Bank. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2016 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 included in the Company's 2015 Annual Report. Except as described in this MD&A and these unaudited interim consolidated financial statements, all factors discussed and referred to in the MD&A for fiscal 2015 remain substantially unchanged. This MD&A has been prepared with reference to the unaudited 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 November 2, 2016. As in prior quarters, 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 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 its other publicly filed information, which are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, funding and liquidity risk, structural interest rate risk, operational risk, investment risk, strategic and business risk, reputational risk, compliance risk and capital adequacy risk along with additional risk factors that may affect future results. Forward-looking statements can be found in the Report to the Shareholders and the Outlook Section in this quarterly report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "intend," "should," "estimate," "plan," "forecast," "may," and "could" or other similar expressions.

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

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

Assumptions about the performance of the Canadian economy in 2016 and its effect on Home Capital's business are material factors the Company considers when setting its objectives, targets and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In setting and reviewing its targets, objectives and outlook for the remainder of 2016, management's expectations continue to assume:

- The Canadian economy is expected to be relatively stable in 2016, supported by expanded Federal Government spending; however, it will continue to be impacted by adverse effects related to fluctuations in oil prices and other commodities. The Company has limited exposure in energy producing regions.

- Generally the Company expects stable employment conditions, in its established regions; however, unemployment rates in energy producing regions are expected to continue to increase in 2016. Also, the Company expects inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and consistent demand for the Company's lending products in its established regions. Credit losses and delinquencies in the energy producing regions may increase, but given the Company's limited exposure, this is not expected to be significant.

- The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets and further adjustments in commodity prices; as such, the Company is prepared for the variability to plan that may result.

- The Company is assuming that overnight interest rates will remain at the current very low rate for 2016. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.

- The Company believes that the current and expected levels of housing activity indicate a stable real estate market overall. Please see Market Conditions under the 2016 Outlook for more discussion on the Company's expectations for the housing market and the impact of the recent changes unveiled by the government to the mortgage market.
- The Company expects that consumer debt levels, while elevated, will remain serviceable by Canadian households.
- The Company will have access to the mortgage and deposit markets through broker networks.

BUSINESS PROFILE

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

The Business Portfolios, Vision, Mission and Values, along with the Risk-taking Philosophy have not changed from the 2015 Annual Report. Please refer to pages 14 and 15 of the 2015 Annual Report.

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.

PERFORMANCE SUMMARY

Below is a summary of the Company's performance for the third quarter of 2016 against the mid-term targets highlighted in the 2015 Annual Report. The Company will continue to focus on its medium-term objectives to guide the Company's decision-making and assess its performance. It is expected that the recently announced Government of Canada changes to the mortgage rules will impact the Company's business performance. The Company is in the process of evaluating the impacts to its business of these new rules including the effect on borrower behaviour and competition, as well as the impact on the Company's longer- and short-term plans. Due to the current level of Company performance, the competitive business landscape and enacted and proposed changes in the regulatory environment, the Company expects it will have to lower its mid-term targets. However, as a result of the recent changes in the mortgage rules, the Company is not able to provide new guidance at this time. The Company expects to issue revised targets with the Company's fourth quarter results.

- Reported diluted earnings per share were $2.92 and adjusted diluted earnings per share were $2.97 for the first nine months of the year. The Company's goal is to achieve, on average, annualized growth in diluted earnings (adjusted) per share of 8% to 13% in the three-to five-year medium term.
- Return on shareholders' equity was 16.4% and 16.7% on an adjusted basis for the first nine months of 2016, with the goal to achieve on average, annualized return on equity of greater than 16% in the three- to five-year medium term.
- Common Equity Tier 1 and Tier 1 Capital ratios of 16.54% and 16.53%, respectively, and Total Capital ratio of 16.97% continue to be well in excess of regulatory minimums.
- Dividend payout ratio of 23.8% in Q3 2016, with a targeted payout on average of 19% to 26% of earnings to shareholders in the three- to five-year medium term.

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

2016 OUTLOOK

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

Government Changes to Mortgage Rules

Policymakers have signaled intent to control household debt and cool the housing markets. The Company is carefully watching the impact of recently announced measures to tighten mortgage rules and will evaluate and update the impact to its plans as the effects of the changes become clear. The Company believes the changes will have an impact on the housing market but does not expect the changes to have a large impact in 2016 due to the timing of their implementation. The government has signaled that further policy changes may be implemented, particularly risk-sharing on insured mortgages. The Company will carefully monitor the policy environment and adjust its market outlook as necessary.

Market Conditions

In the Company's established regions, the Company expects that the housing market will remain active with tight supply supported by continued low interest rates, and relatively stable employment, depending on location and level of immigration. There will be moderately easing housing starts and resale activity with relatively stable prices throughout most of Canada, with continued regional disparities such as the relatively high rates of price increases being experienced in Toronto and Vancouver, which may not be sustainable for long periods of time. Canada Mortgage and Housing Corporation (CMHC) has recently issued a "red alert" for the country's real estate sector with specific concern about the Toronto and Vancouver market price acceleration and its impact and spread on their surrounding areas. These conditions support continued low credit losses and stable demand for the Company's lending products in its established regions. The Company believes that the current and expected levels of housing activity indicate a stable real estate market overall.

The Company expects to see the impact of certain positive economic forces on its established markets through 2016, including a generally positive outlook for the US economy, the Canadian dollar remaining low, the continued low interest rate environment, stimulative impact from increased Federal Government spending, and the beneficial impact of lower oil prices on economic growth in Central Canada. In addition, adverse effects related to the drop in oil prices and other commodity prices continue to negatively impact the economies of energy-producing regions.

Traditional Single-family Mortgage Lending

The Company expects to see continuing demand supporting its origination volumes through 2016, building its market share through the Company's proven business model and service levels. The Company expects that the launch of certain initiatives, including both its broker portal technology, Loft and its broker partnership program, Spire, among others, will allow the Company to continue to build its origination volumes, leveraging the demand for its traditional mortgages within its established regions. The Company will continue to build its new uninsured ACE Plus product, which is a lower rate mortgage product directed towards lower risk borrowers, through 2016. The product may lower the overall uninsured single-family residential mortgage net interest margin.

The Company is waiting to determine the impact, if any, on its traditional business of the recently announced government changes. It is not expected that any significant impact will be seen in 2016.

Net interest margins in the traditional portfolio reflected both improved credit quality of borrowers and more competitive pricing. The Company expects the 2016 net interest margin to remain relatively stable, but is prepared for modest volatility as the net interest margin will be impacted by the continued improving credit quality of the overall portfolio, among other variables.

Uninsured Securitized Mortgage Lending

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

The Company is waiting to determine the impact, if any, on its ACE Plus business of the recently announced government changes. It is not expected that any significant impact will be seen in 2016.

Insured Securitized Mortgage Lending

The Company will continue to originate and securitize prime insured single-family and insured multi-unit residential mortgages and will generally sell these off-balance sheet, generating gains on sale. The market for both of these products remains very competitive and the Company expects that new origination levels, seasonality, spreads and gains on sale will be similar to levels experienced since the second half of 2015 but this is dependent on market conditions. The Company has previously disclosed that it anticipates that limitations placed by the new mortgage rules on the eligibility criteria for low-ratio government-backed insured mortgages could significantly reduce the Company's ability to profitably originate and fund these mortgages. Specifically, low-ratio lending for the purpose of refinancing and to rental properties will be primarily impacted within the Company's Accelerator program. It is not expected that any significant impact will be seen in 2016, with the exception of some reduction in originations in the final month of the year, a seasonally slow month to begin with. The Company remains committed to offering a range of mortgage products through its distribution channel to support its "one-stop" initiative.

Commercial Mortgage Lending

Commercial mortgage lending will remain an important portfolio for the Company, with high yields and providing asset diversification. The Company has been a prudent and conservative lender in this segment, experiencing very low levels of losses and delinquencies. The Company plans to continue to grow the non-residential commercial portfolio in 2016 at a rate similar to 2015 if market conditions remain favourable.

Consumer Lending

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

Deposits

The Company will continue to source deposits from the public through investment dealers and deposit brokers and will continue to emphasize growth of its direct-to-consumer business, Oaken Financial. The Company will continue to strengthen its funding capability through agreements with additional deposit brokers and the enhancement of its direct-to-consumer sales and service capabilities.

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

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

Credit Performance and Losses

The Company's prudent underwriting and collection practices are reflected in low levels of credit losses and delinquencies. Credit losses and delinquencies are expected to remain low in 2016; however, the Company is prepared for volatility in this performance that may result from uncertainty in the macroeconomic environment. Credit performance in the energy-producing regions is expected to deteriorate, but given the Company's limited exposure in these geographic areas, the effect on credit losses is not expected to be material for the Company.

Non-interest Expenses

The Company's continued focus on the growth of its business will be accompanied by commensurate strengthening of risk and compliance oversight, along with customer service platforms, involving increased spending on people and technology. Continued spending to support Oaken Financial, the Company's loans origination initiatives, and enterprise information security, as well as increasing costs associated with new accounting and regulatory requirements can also be expected. In addition, Home Bank will continue to incur operating losses, which will negatively impact earnings, until it is fully integrated. For the balance of 2016, the Company expects that it will continue to incur elevated costs due to operational changes to strengthen processes. These increased short-term costs will allow sustainable long-term growth in the business. As a result, the Company expects its non-interest expenses to continue at an elevated level through 2016.

Liquidity and Capital

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

In Q2 2016, Home Capital repurchased for cancellation 3,989,361 common shares under the Company's previously announced substantial issuer bid, resulting in a reduction in capital of $150.0 million. The Company has also increased its normal course issuer bid activity. In addition, the Company repaid and retired its senior debt in the principal amount of $150.0 million. These transactions resulted in a reduction in capital and related regulatory capital ratios. The Company expects capital ratios to continue to exceed both regulatory and internal capital targets.

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 on page 6 of this quarterly report.

INCOME STATEMENT REVIEW

Table 1: Income Statement Highlights

(000s, except % and per share amounts)	Q3 2016	Q2 2016	Change	Q3 2015	Change	2016	2015	Change
	Quarter					Year to date		
Net interest income non-securitized assets	$ 116,281	$ 118,824	(2.1)%	$ 117,211	(0.8)%	$ 354,408	$ 341,372	3.8%
Net interest income securitized loans and assets	3,643	3,279	11.1%	4,487	(18.8)%	10,136	13,060	(22.4)%
Total net interest income	119,924	122,103	(1.8)%	121,698	(1.5)%	364,544	354,432	2.9%
Provision for credit losses	1,336	2,760	(51.6)%	2,849	(53.1)%	5,490	7,518	(27.0)%
	118,588	119,343	(0.6)%	118,849	(0.2)%	359,054	346,914	3.5%
Non-interest income	25,171	24,658	2.1%	23,385	7.6%	72,818	79,538	(8.4)%
Non-interest expenses	54,982	54,912	0.1%	44,955	22.3%	167,911	135,992	23.5%
Income before income taxes	88,777	89,089	(0.4)%	97,279	(8.7)%	263,961	290,460	(9.1)%
Income taxes	22,587	22,837	(1.1)%	24,836	(9.1)%	67,271	73,414	(8.4)%
Net income	$ 66,190	$ 66,252	(0.1)%	$ 72,443	(8.6)%	$ 196,690	$ 217,046	(9.4)%
Basic earnings per share	$ 1.01	$ 0.99	2.0%	$ 1.03	(1.9)%	$ 2.92	$ 3.09	(5.5)%
Diluted earnings per share	$ 1.01	$ 0.99	2.0%	$ 1.03	(1.9)%	$ 2.92	$ 3.09	(5.5)%

Reconciliation of Net Income to Adjusted Net Income	Q3 2016	Q2 2016	Change	Q3 2015	Change	2016	2015	Change
Net income per above	$ 66,190	$ 66,252	(0.1)%	$ 72,443	(8.6)%	$ 196,690	$ 217,046	(9.4)%
Adjustment for gain recognized on acquisition of CFF Bank (net of tax)	-	-	-	-	-	(478)	-	-
Adjustment for severance and other related costs (net of tax)	-	-	-	-	-	3,727	-	-
Adjusted net income[1]	$ 66,190	$ 66,252	(0.1)%	$ 72,443	(8.6)%	$ 199,939	$ 217,046	(7.9)%
Adjusted basic earnings per share[1]	$ 1.01	$ 0.99	2.0%	$ 1.03	(1.9)%	$ 2.97	$ 3.09	(3.9)%
Adjusted diluted earnings per share[1]	$ 1.01	$ 0.99	2.0%	$ 1.03	(1.9)%	$ 2.97	$ 3.09	(3.9)%

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

Items of Note

The Company's results were not affected by any items of note during the second and third quarters of 2016.

In Q1 2016, the Company's results were affected by the following items of note that aggregated to a negative impact on after-tax net income of $3.2 million or $0.04 diluted earnings per share. The items of note for Q1 2016 identified in the above table include the following:

- Adjustment to gain recognized on the acquisition of CFF Bank in the amount of $651 thousand ($478 thousand, after tax), discussed below.
- Expenses including severance and other related costs in the amount of $5.1 million ($3.7 million, after tax), that are not expected to be indicative of future results (see the Non-Interest Expense section of this report).

The Company's results were not affected by any items of note during the first nine months of 2015.

Net Income and Earnings per Share

Q3 2016 v Q2 2016

Q3 2016 reported net income was $66.2 million, consistent with the $66.3 million reported in Q2 2016. Diluted earnings per common share were $1.01 in Q3 2016 as compared to $0.99 in Q2 2016. With relatively flat net income, the increase in diluted earnings per common share over last quarter reflects the decrease in average number of common shares outstanding. This decrease resulted from the repurchase of 1.2 million common shares under the Company's normal course issuer bid activity during the third quarter combined with a higher number of shares outstanding prior to the mid-second quarter share repurchase under the substantial issuer bid.

Q3 2016 v Q3 2015

Q3 2016 reported net income decreased 8.6% from Q3 2015. Q3 2016 diluted earnings per common share were $1.01, as compared to $1.03 in Q3 2015. The decrease in net income from last year resulted primarily from higher salaries and benefits expense reflecting an increase in the number of employees over last year, combined with higher operating expenses, reflecting the continued investment in the long-term growth of the business through process changes, enhanced sales and marketing programs and strengthening of risk management and control infrastructure (please see the Non-Interest Expense section of this MD&A for more information). The decrease in diluted earnings per common share reflects the lower net income offset partially by the reduction in average common shares outstanding resulting from the Company's second quarter substantial issuer bid and normal course issuer bid activity as discussed above.

YTD 2016 v YTD 2015

YTD 2016 reported net income of $196.7 million decreased 9.4% from the same period last year and diluted earnings per common share of $2.92 decreased from $3.09 last year. The year-over-year decrease in net income reflects the increases in salaries and benefits and operating expenses as discussed above. The decrease in diluted earnings per share resulting from the lower net income was partially offset by the share repurchase activity as discussed above.

Acquisition of CFF Bank (Home Bank)

In 2015, the Company, through its subsidiary Home Trust, acquired all of the issued and outstanding shares of CFF Bank, a Schedule 1 bank under the *Bank Act* (Canada) for a purchase price of $23.2 million. Upon acquisition, the Company acquired assets of $251.8 million and $1.49 billion of loans that are accounted for off-balance sheet, and assumed liabilities of $228.2 million. On August 22, 2016, CFF Bank changed its name to Home Bank.

Included in the Company's results for the third quarter of 2016 are the operating results of Home Bank, which include a contribution to revenue of $2.7 million (Q2 2016 - $2.4 million) and a net loss before taxes of $0.7 million and $0.01 diluted earnings per common share (Q2 2016 - $1.4 million and $0.02 diluted earnings per common share).

In Q4 2015, the Company recorded contingent consideration and an onerous lease obligation related to the Company's requirement to transfer future sublease revenue to the seller in the future. In Q1 2016, the Company settled this obligation with the seller resulting in an increase to the gain on bargain purchase recorded by the Company with a net impact of $651 thousand. There were no additional adjustments to the gain on bargain purchase in the second or third quarters of 2016.

Net Interest Income

Table 2: Net Interest Margin

	For the three months ended			For the nine months ended	
	September 30 2016	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Net interest margin non-securitized interest earning assets (non-TEB)	**2.68%**	2.74%	2.80%	**2.71%**	2.78%
Net interest margin non-securitized interest earning assets (TEB)	**2.70%**	2.76%	2.83%	**2.73%**	2.80%
Net interest margin CMHC-sponsored securitized assets	**0.45%**	0.42%	0.52%	**0.45%**	0.46%
Net interest margin bank-sponsored securitization conduit assets	**1.85%**	1.99%	-	**1.89%**	-
Total net interest margin (non-TEB)	**2.33%**	2.36%	2.36%	**2.35%**	2.30%
Total net interest margin (TEB)	**2.34%**	**2.38%**	**2.38%**	**2.37%**	**2.32%**
Spread of non-securitized loans over deposits and other	**2.89%**	2.97%	2.93%	**2.92%**	2.89%

Table 3: Net Interest Income by Product and Average Rate

	For the three months ended					
(000s, except %)	**September 30, 2016**		June 30, 2016		September 30, 2015	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 5,405**	**1.21%**	$ 5,432	1.20%	$ 4,443	1.33%
Traditional single-family residential mortgages	**133,997**	**4.84%**	137,067	4.89%	148,628	5.03%
ACE Plus single-family residential mortgages	**3,104**	**3.36%**	2,578	3.11%	317	3.03%
Accelerator single-family residential mortgages	**7,342**	**2.40%**	7,541	2.47%	6,879	2.47%
Residential commercial mortgages[2]	**4,483**	**4.26%**	4,571	4.01%	4,121	3.85%
Non-residential commercial mortgages	**26,741**	**6.08%**	23,930	5.99%	21,067	6.09%
Credit card loans and lines of credit	**8,432**	**9.03%**	8,365	8.95%	7,823	9.14%
Other consumer retail loans	**8,296**	**9.40%**	7,652	9.17%	6,216	9.96%
Total non-securitized loans	**192,395**	**4.94%**	191,704	4.94%	195,051	5.07%
Taxable equivalent adjustment	**853**	**-**	884	-	937	-
Total non-securitized interest earning assets	**198,653**	**4.58%**	198,020	4.57%	200,431	4.79%
CMHC-sponsored securitized single-family residential mortgages	**11,921**	**2.57%**	12,164	2.57%	14,524	2.85%
CMHC-sponsored securitized multi-unit residential mortgages	**7,238**	**4.61%**	7,471	4.54%	8,879	4.29%
Assets pledged as collateral for CMHC-sponsored securitization	**489**	**1.27%**	571	0.97%	912	0.62%
Total CMHC-sponsored securitized residential mortgages	**19,648**	**2.98%**	20,206	2.90%	24,315	2.81%
Bank-sponsored securitization conduit assets	**1,309**	**3.52%**	526	3.07%	-	-
Total interest-bearing assets	**$ 219,610**	**4.25%**	$ 218,752	4.23%	$ 224,746	4.36%
Interest-bearing liabilities						
Deposits and other	**$ 81,519**	**2.05%**	$ 77,847	1.97%	$ 80,771	2.14%
Senior debt	**-**	**-**	465	2.42%	1,512	3.96%
CMHC-sponsored securitization liabilities	**16,693**	**2.49%**	17,268	2.45%	19,828	2.26%
Bank-sponsored securitization conduit liabilities	**621**	**1.76%**	185	1.14%	-	-
Total interest-bearing liabilities	**$ 98,833**	**1.91%**	$ 95,765	1.85%	$ 102,111	1.98%
Net Interest Income (TEB)	**$ 120,777**		$ 122,987		$ 122,635	
Tax Equivalent Adjustment	**(853)**		(884)		(937)	
Net Interest Income per Financial Statements	**$ 119,924**		$ 122,103		$ 121,698	

Table 3: Net Interest Income by Product and Average Rate (Continued)

	For the nine months ended			
(000s, except %)	**September 30, 2016**		September 30, 2015	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]
Interest-bearing assets				
Cash resources and securities	**$ 16,057**	**1.23%**	$ 14,269	1.45%
Traditional single-family residential mortgages	**409,493**	**4.86%**	442,670	5.01%
ACE Plus single-family residential mortgages	**8,146**	**3.28%**	317	1.01%
Accelerator single-family residential mortgages	**24,430**	**2.42%**	20,126	2.56%
Residential commercial mortgages[2]	**13,323**	**4.16%**	12,017	4.25%
Non-residential commercial mortgages	**74,232**	**6.05%**	57,827	6.11%
Credit card loans and lines of credit	**25,147**	**8.99%**	23,039	9.06%
Other consumer retail loans	**22,874**	**9.19%**	16,514	9.91%
Total non-securitized loans	**577,645**	**4.91%**	572,510	5.07%
Taxable equivalent adjustment	**2,710**	**-**	2,889	-
Total non-securitized interest earning assets	**596,412**	**4.57%**	589,668	4.80%
CMHC-sponsored securitized single-family residential mortgages	**35,527**	**2.63%**	49,342	2.81%
CMHC-sponsored securitized multi-unit residential mortgages	**22,669**	**4.57%**	28,045	4.22%
Assets pledged as collateral for CMHC-sponsored securitization	**1,751**	**0.88%**	3,601	0.90%
Total CMHC-sponsored securitized residential mortgages	**59,947**	**2.93%**	80,988	2.87%
Bank-sponsored securitization conduit assets	**1,835**	**3.38%**	-	-
Total interest-bearing assets	**$ 658,194**	**4.24%**	$ 670,656	4.35%
Interest-bearing liabilities				
Deposits and other	**$ 237,051**	**1.99%**	$ 240,835	2.18%
Senior debt	**2,243**	**3.91%**	4,572	3.98%
CMHC-sponsored securitization liabilities	**50,840**	**2.45%**	67,928	2.36%
Bank-sponsored securitization conduit liabilities	**806**	**1.57%**	-	-
Total interest-bearing liabilities	**$ 290,940**	**1.87%**	$ 313,335	2.03%
Net Interest Income (TEB)	**$ 367,254**		$ 357,321	
Tax Equivalent Adjustment	**(2,710)**		(2,889)	
Net Interest Income per Financial Statements	**$ 364,544**		$ 354,432	

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

Q3 2016 v Q2 2016

Net interest income of $119.9 million was down $2.2 million or 1.8% from the $122.1 million reported last quarter, reflecting a decrease of $2.5 million in non-securitized net interest income offset partially by an increase of $0.4 million in securitized net interest income. Total net interest margin (TEB) of 2.34% was down 4 basis points from the 2.38% last quarter, reflecting a decrease in the net interest margin on the non-securitized portfolio offset partially by an increase in the net interest margin on the CMHC-sponsored securitized portfolio. The relative proportions of the higher margin non-securitized assets and the lower margin securitized assets remained fairly consistent with last quarter, representing a slight shift towards the non-securitized portfolio. Average non-securitized assets of $17.36 billion for the quarter represent 84.1% of average total assets compared to 83.8% last quarter, while average CMHC-sponsored securitized assets of $2.63 billion for the quarter represent 12.8% of average total assets compared to 13.5% last quarter. Last quarter, the Company commenced participation in a bank-sponsored securitization conduit program and began assigning ACE Plus single-family residential mortgages into the program. The ACE Plus product is a lower rate mortgage product directed toward lower risk borrowers. The bank-sponsored securitization conduit program provides for a cost-effective funding source for the ACE Plus product. At the end of the quarter, the balance of securitized ACE Plus mortgages assigned into this program was $147.1 million compared to $151.3 million last quarter, reflecting repayment of principal as no ACE Plus mortgages were securitized in the third quarter.

Net interest income of $116.3 million on the non-securitized portfolio decreased by $2.5 million or 2.1% from $118.8 million last quarter, reflecting an increase in interest expense on deposits. Net interest margin (TEB) decreased 6 basis points to 2.70% while the spread of non-securitized loans over deposits and other decreased 8 basis points to 2.89%. With relatively flat average rates earned on the assets, the decreases in margin and spread reflect the higher average rate on deposits which increased to 2.05% from 1.97% last quarter. The increase in average rate resulted from the Company's strategy to shift a greater proportion of fixed-term deposits from the lower cost broker channel to the higher cost Oaken channel.

Q3 2016 v Q3 2015

Net interest income decreased $1.8 million or 1.5% over the same quarter last year, reflecting deceases in both non-securitized and securitized net interest income. Total net interest margin (TEB) decreased 4 basis points to 2.34% while non-securitized net interest margin (TEB) decreased 13 basis points and CMHC-sponsored securitized net interest margin decreased 7 basis points. The tempered decrease in total net interest margin reflects the continued increase in the relative proportion of the higher margin non-securitized assets and the decrease in relative proportion of the lower margin CMHC-sponsored securitized assets. Average non-securitized assets for the quarter represent 84.1% of average total assets compared to 81.1% in the comparable quarter of last year, while average CMHC-sponsored securitized assets for the quarter represent 12.8% of average total assets compared to 16.8% in Q3 2015.

Non-securitized net interest income decreased $0.9 million or 0.1% from Q3 2015, primarily reflecting the decrease in the average rate earned on the traditional single-family residential mortgage portfolio. The decrease in average rates represent a combination of the improved credit quality of the portfolio and more competitive pricing.

Net interest income on the securitized portfolio declined by $0.8 million or 18.8% from last year, reflecting the continued net run-off of the portfolio.

YTD 2016 v YTD 2015

Net interest income increased $10.1 million or 2.9% over last year, reflecting overall higher average non-securitized asset balances and an increase of 5 basis points in total net interest margin (TEB) over last year. Net interest margin increased despite a decrease in net interest margin (TEB) of 7 basis points on the non-securitized portfolio and a decrease of 1 basis point in net interest margin on the CMHC-sponsored securitized portfolio due to the continued declining relative proportion of on-balance sheet securitized assets.

Non-Interest Income

Table 4: Non-Interest Income

			Quarter					Year to date
(000s, except %)	**Q3 2016**	Q2 2016	Change	Q3 2015	Change	**2016**	2015	Change
Fees and other income	**$ 17,223**	$ 17,328	(0.6)%	$ 20,096	(14.3)%	**$ 53,716**	$ 62,705	(14.3)%
Securitization income	**7,599**	9,452	(19.6)%	5,788	31.3%	**24,733**	20,448	21.0%
Gain on acquisition of CFF Bank	**-**	-	-	-	-	**651**	-	-
Net realized and unrealized (losses) gains on securities	**-**	-	-	(542)	100.0%	**(175)**	902	(119.4)%
Net realized and unrealized gains (losses) on derivatives	**349**	(2,122)	116.4%	(1,957)	117.8%	**(6,107)**	(4,517)	(35.2)%
	$ 25,171	$ 24,658	2.1%	$ 23,385	7.6%	**$ 72,818**	$ 79,538	(8.4)%

The following table presents the derivative gains and losses included in non-interest income. Please see the Derivative Financial Instruments note in the unaudited interim consolidated financial statements included in this report for further information.

Table 5: Derivative Gains and Losses

		For the three months ended			For the nine months ended
(000s)	**September 30 2016**	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Fair value hedging ineffectiveness[1]	**$ 355**	$ (2,212)	$ (2,056)	**$ (6,656)**	$ (4,447)
Derivative instruments marked to market[2]	**(6)**	90	99	**549**	(70)
Net realized and unrealized gains (losses) on derivatives	**$ 349**	$ (2,122)	$ (1,957)	**$ (6,107)**	$ (4,517)

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

Q3 2016 v Q2 2016

The increase in non-interest income over last quarter resulted from derivative gains in Q3 compared to derivative losses last quarter. The derivate losses from last quarter included derivative losses related to the retirement of the senior debt. The favourable impact of the derivative gains on non-interest income in Q3 was offset partially by a decrease of $1.9 million in securitization income. Fees and other income were consistent with last quarter.

Securitization income in the quarter resulted primarily from gains recognized on the sale of residual interests in single-family residential mortgage securitizations and sale of insured multi-unit residential mortgages. Securitization income primarily includes sales of underlying mortgages either newly originated or renewed during the period along with insured mortgages held in inventory from prior periods. Sales of residual interests during the quarter led to gains of $3.9 million on the derecognition of $400.8 million of insured single-family residential mortgages compared to gains of $4.4 million on the derecognition of $297.3 million of underlying mortgages last quarter. Gains of $2.2 million were recorded on sales of $242.9 million of insured multi-unit residential mortgages during the quarter compared to the gains of $3.5 million recognized last quarter on sales of $292.1 million of insured multi-unit residential mortgages. Please see the Securitization Activity note to the unaudited interim consolidated financial statements included in this report for further information.

Securitization income also includes servicing income of $1.7 million in the quarter, up 5.6% from last quarter. 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 along with any event-driven fees which are included in fee income. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further net servicing revenue or fees are recorded.

The Company did not sell any available for sale securities or recognize any impairment losses during the second and third quarters of 2016.

Q3 2016 v Q3 2015

Fees and other income decreased 14.3% compared to last year primarily reflecting changes in the portfolio mix and in the fee structure year over year as the Company adjusted certain fees in the first half of the year to be responsive to its markets.

The increase in securitization income over last year reflects increases in sales of both residual interests in single-family residential mortgage securitizations and insured multi-unit residential mortgages.

In Q3 2015, the Company redeemed $3.8 million of preferred shares realizing a loss of $82 thousand and recognized $460 thousand in impairment losses on certain available for sale securities already identified as impaired.

YTD 2016 v YTD 2015

Fees and other income decreased 14.3% from last year, primarily reflecting changes in the portfolio mix and in the fee structure year over year as discussed above.

The increase in securitization income over last year reflects increases in sales of both residual interests in single-family residential mortgage securitizations and insured multi-unit residential mortgages.

In Q1 2016, the Company recorded an increase of $651 thousand to the gain on acquisition of CFF Bank. There were no additional adjustments to the gain in Q2 or Q3 2016.

Table 6: Provision for Credit Losses and Net Write-Offs as a Percentage of Gross Loans on an Annualized Basis

	For the three months ended						For the nine months ended			
(000s, except %)	**September 30, 2016**		June 30, 2016		September 30, 2015		**September 30, 2016**		September 30, 2015	
	Amount	**% of Gross Loans [1]**	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]	**Amount**	**% of Gross Loans [1]**	Amount	% of Gross Loans[1]
Provision[2]										
Single-family residential mortgages	**$ 1,006**	**0.03%**	$ 1,215	0.04%	$ 1,805	0.06%	**$ 2,888**	**0.03%**	$ 4,429	0.05%
Residential commercial mortgages	**(128)**	**(0.19)%**	128	0.16%	-	-	**-**	**-**	4	0.00%
Non-residential commercial mortgages	**(37)**	**(0.01)%**	293	0.07%	237	0.06%	**201**	**0.01%**	760	0.07%
Credit card loans and lines of credit	**280**	**0.30%**	519	0.56%	163	0.19%	**1,215**	**0.43%**	455	0.18%
Other consumer retail loans	**215**	**0.24%**	5	0.01%	44	0.07%	**372**	**0.14%**	70	0.03%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Total individual provision	**1,336**	**0.03%**	2,160	0.05%	2,249	0.05%	**4,676**	**0.03%**	5,718	0.04%
Total collective provision	**-**	**-**	600	0.01%	600	0.01%	**814**	**0.01%**	1,800	0.01%
Total provision	**$ 1,336**	**0.03%**	$ 2,760	0.06%	$ 2,849	0.06%	**$ 5,490**	**0.04%**	$ 7,518	0.06%
Net Write-Offs[2]										
Single-family residential mortgages	**$ 664**	**0.02%**	$ 834	0.03%	$ 1,128	0.03%	**$ 2,647**	**0.03%**	$ 3,877	0.04%
Residential commercial mortgages	**-**	**-**	-	-	-	-	**-**	**-**	4	0.00%
Non-residential commercial mortgages	**100**	**0.02%**	422	0.10%	303	0.08%	**520**	**0.04%**	308	0.03%
Credit card loans and lines of credit	**397**	**0.42%**	725	0.78%	163	0.19%	**1,459**	**0.52%**	467	0.18%
Other consumer retail loans	**77**	**0.09%**	69	0.08%	29	0.04%	**227**	**0.08%**	74	0.04%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Net Write-Offs	**$ 1,238**	**0.03%**	$ 2,050	0.05%	$ 1,623	0.04%	**$ 4,853**	**0.04%**	$ 4,730	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.

The Company continues to have strong credit performance with the provision for credit losses low at $1.3 million in the quarter, or 0.04% of gross uninsured loans and 0.03% of total gross loans on an annualized basis; improvements over both last quarter and last year.

The Company continues to actively monitor the credit performance of the mortgages related to the 45 suspended brokers, described in the Mortgage Lending section of this MD&A. Consistent with 2015, no unusual credit issues have been identified in this portfolio in 2016.

The Company continues to observe strong credit profiles and stable loan to value ratios across its portfolio, which continue to support low delinquency and non-performing rates and ultimately low net write-offs. Net write-offs were $1.2 million in the quarter, or 0.03% of gross loans in the quarter; an improvement from last quarter and last year.

The Company kept its collective allowance of $37.1 million consistent with the end of last quarter. The current collective allowance exceeds the cumulative net write-offs experienced over the last 36 months. Please see Credit Risk section of this MD&A for more information.

Net non-performing loans were $56.1 million or 0.31% of gross loans at the end of the quarter compared to 0.33% last quarter and 0.30% one year ago. The Company remains satisfied with the credit performance of the portfolio and continues to expect credit performance to remain favourable and within its targets, but is prepared for moderate volatility in this trend. Please see Credit Risk section of this MD&A for more details.

Non-Interest Expenses

Table 7: Non-Interest Expenses

	Quarter					Year to Date		
(000s, except % and number of employees)	**Q3 2016**	Q2 2016	Change	Q3 2015	Change	**2016**	2015	Change
Salaries and benefits	**$ 24,350**	$ 24,685	(1.4)%	$ 19,382	25.6%	**$ 77,746**	$ 62,999	23.4%
Premises	**3,472**	3,575	(2.9)%	3,149	10.3%	**10,898**	9,543	14.2%
Other operating expenses	**27,160**	26,652	1.9%	22,424	21.1%	**79,267**	63,450	24.9%
	$ 54,982	$ 54,912	0.1%	$ 44,955	22.3%	**$ 167,911**	$ 135,992	23.5%
Adjusted efficiency ratio (TEB)	**37.7%**	37.2%	0.5%	30.8%	6.9%	**37.1%**	31.1%	6.0%
Active employees at the end of the period	**896**	881	1.7%	813	10.2%	**896**	813	10.2%

Q3 2016 v Q2 2016

Non-interest expenses were consistent with last quarter while the adjusted efficiency ratio (TEB) increased to 37.7% from 37.2% last quarter, reflecting the decrease in net interest income.

Q3 2016 v Q3 2015

The increase of $10.0 million in non-interest expenses over last year reflects increases in both salaries and benefits and other operating expenses. The increase in salaries and benefits reflects the year-over-year increase in the number of employees. The increase in other operating expenses supports the Company's strategies and plans for growth and include continued investment in technology, ongoing investment in the Company's IT security platform, and costs associated with strengthening risk management and compliance infrastructure.

YTD 2016 v YTD 2015

Non-interest expenses for the first nine months of 2016 increased $31.9 million over the same period in 2015. The higher expenses reflect increases in both salaries and benefits and other operating expenses, which increased for the reasons described above. Salaries and benefits are also higher as a result of severance and other related costs incurred in Q1 2016 in the amount of $5.1 million, which have been included in the Company's calculation of its adjusted metrics on a year-to-date basis.

Income Taxes

The provision for income taxes for Q3 2016 was $22.6 million (effective tax rate of 25.44%), compared to $22.8 million (effective tax rate of 25.63%) in Q2 2016 and $24.8 million (effective tax rate of 25.53%) in Q3 2015.

The Company's effective tax rate in Q3 2016 primarily differs from the statutory rate due to the receipt of dividends from Canadian corporations in the amount of $2.4 million ($2.4 million – Q2 2016 and $2.6 million – Q3 2015) that are not subject to tax. The effective tax rate is also lower than the statutory tax rate due to the recognition of Scientific Research and Experimental Development (SR&ED) investment tax credits.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the quarter was $72.7 million compared to $68.7 million in Q2 2016 and $51.3 million in Q3 2015.

OCI in the quarter was a gain of $6.5 million compared to a gain of $2.4 million in Q2 2016 and a loss of $21.1 million in Q3 2015. The other comprehensive gain in the quarter reflects the improvement in the fair value of the Company's preferred share holdings included in available for sale securities. Despite this improvement, the preferred share holdings remain in an unrealized loss position which is due primarily to the current interest rate environment and prevailing market sentiment relating to preferred shares. The Company has not identified any new negative credit events in relation to its preferred share holdings in Q3 2016.

FINANCIAL POSITION REVIEW

Assets

Table 8: Loan Portfolio

(000s, except % and number of loans)	September 30 2016	% of Total	June 30 2016	% of Total	December 31 2015	% of Total
						As at
CMHC-sponsored securitized single-family residential mortgages	$ 1,777,751	6.8%	$ 1,917,975	7.5%	$ 1,948,110	7.8%
CMHC-sponsored securitized multi-unit residential mortgages	624,374	2.4%	635,003	2.5%	726,365	2.9%
Bank-sponsored securitization conduit single-family residential mortgages	147,080	0.6%	151,252	0.6%	-	-
Traditional single-family residential mortgages	11,011,593	42.3%	11,124,999	43.3%	11,463,299	45.8%
ACE Plus single-family residential mortgages	404,606	1.6%	312,806	1.2%	251,411	1.0%
Accelerator single-family residential mortgages	1,108,766	4.3%	1,113,187	4.3%	1,264,708	5.0%
Residential commercial mortgages	264,215	1.0%	317,145	1.2%	321,442	1.3%
Non-residential commercial mortgages	1,854,115	7.1%	1,658,201	6.4%	1,490,648	5.9%
Credit card loans and lines of credit	374,348	1.4%	371,925	1.4%	370,825	1.5%
Other consumer retail loans	361,183	1.4%	344,890	1.3%	296,857	1.2%
Total loan portfolio	17,928,031	68.9%	17,947,383	69.7%	18,133,665	72.4%
Loans held for sale	74,207	0.3%	117,691	0.5%	135,043	0.5%
Total on-balance sheet loans	$ 18,002,238	69.2%	$ 18,065,074	70.2%	$ 18,268,708	72.9%
Off-balance sheet loans						
Single-family residential mortgages	$ 5,090,754	19.6%	$ 4,954,802	19.3%	$ 4,567,155	18.2%
Multi-unit residential mortgages	2,919,892	11.2%	2,712,781	10.5%	2,222,259	8.9%
Total off-balance sheet loans	8,010,646	30.8%	7,667,583	29.8%	6,789,414	27.1%
Total loans under administration	$ 26,012,884	100.0%	$ 25,732,657	100.0%	$ 25,058,122	100.0%
Number of loans outstanding under administration						
Mortgages	66,639		67,700		68,710	
Credit card loans and lines of credit	43,030		42,517		40,355	
Other consumer retail loans	107,164		103,678		88,226	
Total number of loans outstanding	216,833		213,895		197,291	

Table 9: Mortgage Advances

(000s)	September 30 2016	June 30 2016	September 30 2015	September 30 2016	September 30 2015
	For the three months ended			For the nine months ended	
Single-family residential mortgages					
Traditional	$ 1,416,842	$ 1,252,959	$ 1,402,348	$ 3,665,155	$ 3,658,374
ACE Plus	116,666	115,426	112,081	301,290	112,081
Accelerator	446,734	464,767	416,273	1,275,313	875,849
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	17,947	23,929	31,031	88,027	81,595
Multi-unit insured residential mortgages	194,875	338,527	298,438	663,100	587,060
Other[1]	-	19,570	18,460	26,593	35,422
Non-residential commercial mortgages					
Store and apartments	35,018	11,400	32,728	66,010	82,653
Commercial	312,618	248,292	186,598	712,441	472,208
Total mortgage advances	$ 2,540,700	$ 2,474,870	$ 2,497,957	$ 6,797,929	$ 5,905,242

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

Loans under administration were $26.01 billion at the end of the quarter, representing an increase of $280.2 million or 1.1% from last quarter and an increase of $954.8 million or 3.8% from the end of 2015. On-balance sheet loans were down 0.3% from Q2 2016, and down 1.5% from the end of 2015 while off-balance sheet loans were up 4.5% from last quarter and 18.0% from the end of 2015, driving the growth in loans under administration. Off-balance sheet loan growth arises from the sale of residual interests in single-family residential mortgages (resulting in removal of securitized mortgages from the balance sheet) and securitization of multi-unit residential mortgages qualifying for off-balance sheet accounting. The increase in loans under administration was supported by mortgage advances, as well as consumer retail, credit card loans and lines of credit production.

Mortgage Lending

Mortgage Originations and Broker Suspensions

The Company continues to monitor the uninsured and insured single-family residential mortgages originated by the 45 individual suspended mortgage brokers. The total value of the outstanding mortgages that were originated by these mortgage brokers included in the loans portfolio at the end of Q3 2016 total $1.14 billion, as compared to $1.30 billion at the end of Q2 2016 and $1.55 billion at the end of 2015.

The Company has reviewed all of the customer files and the income documentation submitted in respect of the mortgages referred by the 45 brokers. There have been no unusual credit issues on these mortgages.

To incorporate best practices, the Company revises its underwriting procedures on an ongoing basis. The Company continues to be diligent in its income verification procedures to ensure new loans continue to reflect Home Capital's risk appetite.

Uninsured Residential Mortgages – Traditional Mortgages and ACE Plus Mortgages

The Company's uninsured residential mortgage portfolio includes both its traditional mortgage portfolio and its ACE Plus mortgage portfolio. The ACE Plus product is a lower rate mortgage product directed toward lower risk borrowers which the Company began originating in the second half of 2015. Commencing in the second quarter of 2016, the Company began participating in a bank-sponsored securitization conduit program and has assigned select ACE Plus mortgages into this program. At the end of Q3 2016, ACE Plus mortgages with a balance of $147.1 million have been assigned to this program and reclassified to securitized mortgages on the consolidated balance sheet. Combined traditional and non-securitized ACE Plus mortgages of $11.42 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 43.9% and 63.4%, respectively. The combined portfolio decreased by 0.2% from the end of last quarter and 2.5% from the end of last year. Combined originations of traditional and ACE Plus mortgages of $1.53 billion in the quarter and $3.97 billion for this first nine months of the year were up 1.3% and 5.2% over the same periods last year and up 12.1% over Q2 2016. The increase over last quarter reflects seasonally expected behavior driven by demand for the Company's traditional mortgage product. Origination growth was strong in the quarter but the overall loan portfolio has not increased by a commensurate amount. The Company has identified opportunities to increase its retention of loans through additions to its retention team and continues to investigate opportunities to change its retention processes. This is expected to strengthen the growth of the loans portfolios.

On April 1, 2016, the Company launched its new broker partnership program, Spire, with all broker partners now participating in the program. Through the first nine months of 2016, supporting its efforts to enhance the broker experience, the Company continued the roll out of its broker portal technology, Loft and will continue the roll out through 2017.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.60 billion at the end of the quarter, reflecting an increase of 1.1% over the balance of $11.47 billion at Q2 2016 and 4.9% over the balance of $11.06 billion at the end of 2015. Of this total, $8.01 billion were accounted for off-balance sheet, up $343.1 million or 4.5% from the end of Q2 2016 and $1.22 billion or 18.0% from the end of 2015.

The Company originated $446.7 million in insured single-family Accelerator mortgages in the quarter and $1.28 billion for the first nine months of the year, up 7.3% and 45.6% from the comparable periods of 2015 but down 3.9% from Q2 2016. The Company continues to take a conservative approach to growing its residential mortgage business and its participation in the highly competitive market for prime insured mortgages. The Company views its Accelerator product offering as complementary to its traditional portfolio. The Company continued to sell residual interests in insured fixed-rate single-family National Housing Authority mortgage-backed securities (NHA MBS), totaling $400.8 million in the quarter in underlying outstanding principal amounts and generating gains of $3.9 million. The NHA MBS market spread remained wide in Q3 2016, maintaining the increased funding cost on NHA MBS sold in the market. The underlying mortgages included mortgages newly originated or renewed during the period along with insured mortgages held in inventory from prior periods.

In Q3 2016, the Company originated $194.9 million of insured multi-unit residential mortgages in the quarter and sold $242.9 million in the quarter that qualified for off-balance sheet treatment. The sales included mortgages that were renewed

from the on-balance sheet portfolio and resulted in $2.2 million in gains on sale in the quarter. 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 from quarter to quarter. Most 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 22: Liquidity Resources).

Residential Commercial Mortgages

Residential commercial mortgages include commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. Insured multi-unit residential mortgages are included in this portfolio until they are securitized. The Company will continue to increase these portfolios selectively, when appropriate assets are available.

Non-Residential Commercial Mortgages

Non-residential commercial originations were $347.6 million in the quarter and $778.5 million in the first nine months of 2016 reflecting increases of 58.5% and 40.3% over the same periods last year and 33.9% over last quarter. Non-residential commercial mortgages, which include store and apartments and commercial mortgages, are an important complementary source of loan assets and revenue. Non-residential mortgage advances are affected by the availability of appropriate assets and trends are variable. Through 2016, the Company will continue to participate in appropriate opportunities as they arise. The portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage advances continue to favour Ontario and, in particular, the Greater Toronto Area (GTA), during Q3 2016. The Company will continue to cautiously increase business within other markets in Ontario and the rest of Canada to the extent that market conditions remain stable. The concentration of new originations is influenced, in part, by the Company's credit experience. Please see Note 5(A) of the unaudited interim consolidated financial statements for the geographic distribution of the portfolio.

Table 10: Credit Card, Lines of Credit and Other Consumer Retail Loan Production

For the three months ended

(000s, except number of accounts)	**September 30, 2016**		June 30, 2016		September 30, 2015	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]	Number of New Accounts	Amount[1]
Credit card loans and lines of credit						
Equityline *Visa* credit cards	**693**	**$ 41,744**	600	$ 33,711	900	$ 40,166
Other credit cards and lines of credit	**2,180**	**6,233**	2,484	5,893	1,879	3,282
Other consumer retail loans						
Water heaters	**6,415**	**26,203**	7,357	29,813	9,002	42,115
Other retail lending	**2,251**	**17,578**	3,337	15,167	2,239	14,953

For the nine months ended

(000s, except number of accounts)	**September 30, 2016**		September 30, 2015	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]
Credit card loans and lines of credit				
Equityline *Visa* credit cards	**1,879**	**$ 105,104**	2,521	$ 105,692
Other credit cards and lines of credit	**7,562**	**19,514**	6,066	10,322
Other consumer retail loans				
Water heaters	**24,723**	**91,770**	23,484	98,739
Other retail lending	**7,337**	**44,468**	5,634	34,910

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

Consumer Lending

Other lending, comprising credit cards, lines of credit and other consumer retail loans, continues to be an important source of loan assets with attractive returns. While representing 4.1% of the total on-balance sheet loan portfolio, these assets generated 7.8% of the interest income from loans for the quarter.

Credit card and lines of credit balances increased to $374.3 million from $371.9 million last quarter and increased from $370.8 million at the end of 2015. Equityline *Visa* accounts (Home Equity Line of Credit) represent 86.4% of the total credit card and lines of credit balance.

The balance of other consumer retail loans increased 4.7% during the quarter to $361.2 million from $344.9 million at the end of Q2 2016 and increased 21.7% from $296.9 million at the end of 2015.

Cash and Securities

Cash resources and securities of $1.58 billion decreased $385.2 million from the end of Q2 2016 and $20.7 million from the end of 2015. The decrease over last quarter resulted from the funding of seasonally higher summer origination volumes. Please see the Funding and Liquidity Risk section of this MD&A for further information. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

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

Other Assets

Total other assets of $769.4 million increased $1.9 million from the end of Q2 2016 and increased $77.9 million from the end of 2015. These increases include increases in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program reflecting maturities in the program. In general, as CMB maturities approach, the Company has been replacing maturing securitized mortgages with non-Home Trust MBS and treasury bills. The increases over last quarter and the end of 2015 also include increases in securitization receivables and retained interest, reflecting the Company's securitization and sale of insured multi-unit residential mortgages and sales of residual interests in insured single-family residential mortgages.

Liabilities and Shareholders' Equity

Table 11: Deposits, Senior Debt and Securitization Liabilities

As at

(000s, except % and number of accounts)	**September 30 2016**	**% of Totals**	June 30 2016	% of Totals	December 31 2015	% of Totals
Deposits payable on demand						
High-interest savings accounts	**$ 2,037,149**	**13.0%**	$ 1,901,981	11.9%	$ 1,576,536	10.1%
Oaken savings accounts	**314,616**	**2.0%**	272,337	1.7%	242,124	1.5%
Other deposits payable on demand	**80,518**	**0.5%**	100,259	0.6%	167,476	1.1%
	2,432,283	**15.5%**	2,274,577	14.2%	1,986,136	12.7%
Deposits payable on fixed dates						
Brokered GICs	**11,048,564**	**70.4%**	11,752,129	73.4%	11,850,238	75.6%
Oaken GICs	**1,406,399**	**9.0%**	1,187,779	7.4%	846,085	5.4%
Institutional deposit notes	**806,856**	**5.1%**	807,734	5.0%	983,499	6.3%
	13,261,819	**84.5%**	13,747,642	85.8%	13,679,822	87.3%
Total deposits	**15,694,102**	**100.0%**	16,022,219	100.0%	15,665,958	100.0%
Senior debt	**-**	**-**	-	-	151,480	100.0%
Securitization liabilities						
CMHC-sponsored mortgage-backed security liabilities	**930,614**	**34.7%**	928,312	32.7%	531,326	19.1%
CMHC-sponsored Canada Mortgage Bond liabilities	**1,610,482**	**60.1%**	1,766,143	62.3%	2,249,230	80.9%
Bank-sponsored securitization conduit liabilities	**139,115**	**5.2%**	143,024	5.0%	-	-
Total securitization liabilities	**$ 2,680,211**	**100.0%**	$ 2,837,479	100.0%	$ 2,780,556	100.0%
Total number of deposit accounts	**443,389**		450,218		433,373	

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio. The Company's deposit portfolio principally comprises fixed-term deposits, which represent 84.5% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company generally matches the terms of its deposits with its assets. Please see the Structural Interest Rate Risk and the Funding and Liquidity Risk sections of this MD&A for more information.

Total deposits of $15.69 billion were down 2.0% compared to the end of Q2 2016 and were up 0.2% from the end of 2015. The Company continues its efforts to diversify its sources of funding. The balance of Oaken deposits at the end of the quarter was $1.72 billion, reflecting an increase of 17.9% over the balance at the end of last quarter and 58.2% over the end of 2015. Home Trust high-interest savings accounts grew in the quarter to a balance of $2.04 billion at the end of the quarter, an increase of 7.1% over the $1.90 billion last quarter and an increase of 29.2% over the $1.58 billion at the end of 2015. In addition, the Company's institutional deposit note funding was $806.9 million at the end of Q3 2016, compared to $807.7 million last quarter and $983.5 million at the end of last year. The decrease in institutional deposit notes over the end of 2015 reflects the maturity of deposit notes with a principal amount of $175 million in Q2 2016.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities decreased $157.3 million from Q2 2016 and $100.3 million from the end of 2015 primarily due to the maturity of CMB liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. MBS liabilities have increased over the quarter and from the end of 2015, reflecting the issuance of new MBS in the quarter which remained on-balance sheet. New CMHC-sponsored securitization transactions related to insured fixed-rate single-family residential mortgages insured are primarily sold off-balance sheet subsequent to securitization.

Other Liabilities

Other liabilities of $363.2 million increased by $15.7 million from the end of last quarter and by $55.3 million from the end of 2015. The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities.

Shareholders' Equity

The decrease of $41.6 million in total shareholders' equity since December 31, 2015 reflects the $193.5 million reduction on repurchase of shares combined with $48.4 million of dividends to shareholders offset partially by the internal generation of net income. The significant increase in repurchase of shares is mostly attributable to the substantial issuer bid completed last quarter and also includes increased normal course issuer bid activity. Please see Note 8(A) of the unaudited interim consolidated financial statements included in this report for more information.

At the end of the quarter, the book value per common share was $24.47, compared to $23.67 at the end of Q2 2016 and $22.37 at the end of Q3 2015. The Company has consistently increased the net book value per share through a combination of earnings and share repurchase.

Off-balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding amounts for future advances on mortgage loans which were $1.32 billion at September 30, 2016 ($1.45 billion – Q2 2016; $1.14 billion – Q4 2015). These amounts include offers made but not yet accepted by the customer as of the reporting date. Also, included within the outstanding amounts are unutilized non-residential commercial loan advances of $455.4 million at September 30, 2016 ($437.8 million – Q2 2016; $303.9 million – Q4 2015). Offers for the loans remain open for various periods. As at September 30, 2016, unutilized credit card balances amounted to $140.0 million ($134.3 million – Q2 2016; $118.8 million – Q4 2015). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $18.0 million at September 30, 2016 ($23.1 million – Q2 2016; $11.6 million – Q4 2015). The unutilized credit and offers to extend credit are in the normal course of business and are considered through the Company's liquidity and capital management processes.

The Company has $8.01 billion ($7.67 billion – Q2 2016; $6.79 billion – Q4 2015) of loans under administration that are accounted for off-balance sheet (see Table 8). Please refer to Note 2 and Note 6 of the unaudited interim consolidated financial statements for details of the Company's securitization activities.

Related Party Transactions

IFRS considers key management personnel to be related parties. Compensation of key management personnel is disclosed in the Company's Annual Report.

In the normal course of business, the Company refers borrowers who require loans at a higher loan-to-value ratio than the Company will provide to second mortgage lenders. All referrals are conducted at arm's length and at market terms. Second mortgage lenders independently underwrite all second mortgages with the borrowers. One of the second mortgage lenders is related to the Company through a close family relationship with a member of the Company's key management personnel. The amount of second mortgages referred to this lender during the nine months ended September 30, 2016 and 2015 are not significant.

CAPITAL MANAGEMENT

The Company's Capital Management Policy and its Capital Adequacy measurement have not changed from the descriptions provided in the 2015 Annual report. The table below provides information on Home Trust's regulatory capital position, risk-weighted assets, capital ratios and leverage ratio.

Table 12: Basel III Regulatory Capital (Based only on the consolidated subsidiary, Home Trust Company)

		As at
(000s, except ratios)	**September 30 2016**	December 31 2015
	All-In Basis	All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 38,497**	$ 38,497
Contributed surplus	**951**	951
Retained earnings	**1,578,567**	1,614,491
Accumulated other comprehensive loss	**(63,362)**	(65,851)
Cash flow hedge reserves	**371**	3,078
Regulatory deductions from CET 1[1]	**(164,083)**	(130,163)
Total CET 1 capital	**1,390,941**	1,461,003
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,390,941**	1,461,003
Tier 2 capital		
Collective allowance for credit losses[2]	**37,063**	36,249
Subordinated debentures	**-**	156,000
Total Tier 2 capital	**37,063**	192,249
Total regulatory capital	**1,428,004**	1,653,252
Risk-weighted assets for		
Credit risk	**7,355,731**	6,962,984
Operational risk	**1,042,250**	996,488
Total risk-weighted assets, before CVA[3]	**8,397,981**	7,959,472
CVA adjustment for CET 1 capital	**14,112**	21,632
Total CET 1 capital risk-weighted assets	**8,412,093**	7,981,104
CVA adjustment for Tier 1 capital	**15,655**	23,998
Total Tier 1 capital risk-weighted assets	**8,413,636**	7,983,470
CVA adjustment for total capital	**16,979**	26,026
Total risk-weighted assets	**$ 8,414,960**	$ 7,985,498
Regulatory capital to risk-weighted assets		
CET 1 ratio	**16.54%**	18.31%
Tier 1 capital ratio	**16.53%**	18.30%
Total regulatory capital ratio	**16.97%**	20.70%
Leverage Ratio	**7.08%**	7.36%
National regulatory minimum		
CET 1 ratio	**7.00%**	7.00%
Tier 1 capital ratio	**8.50%**	8.50%
Total regulatory capital ratio	**10.50%**	10.50%
Leverage ratio	**3.00%**	3.00%

[1]Regulatory deductions on the all-in basis include intangible assets related to software development, deferred tax assets related to loss carry forwards from Home Bank and unrealized mortgage securitization gains, net of deferred taxes.

[2]The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of total credit risk-weighted assets, inclusive of total CVA before transitional phase-in adjustments, in Tier 2 capital. At September 30, 2016, the Company's collective allowance represented 0.50% 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 decreased from the end of 2015 as a result of the decrease in both Tier 1 and Tier 2 regulatory capital combined with an increase in risk-weighted assets. Tier 1 capital decreased as a result of the Home Trust dividends funding Home Capital’s repurchase of 3,989,361 common shares under the Company’s previously announced substantial issuer bid which reduced capital by $150.0 million. Tier 2 capital decreased as a result of Home Trust repaying and retiring the subordinated debentures, with the funds used by Home Capital to retire $150 million of senior debt. Risk-weighted assets increased in line with increases in the Company’s uninsured non-residential commercial loan portfolio.

The leverage ratio is a non-risk adjusted view of a company’s leverage. The leverage ratio only includes Tier 1 capital. The leverage ratio also includes some off-balance sheet exposures, including potential future exposure amounts on derivatives, credit equivalent amounts of certain commitments and securities financing transactions. The leverage ratio of 7.08% (December 31, 2015 – 7.36%) is in excess of OSFI’s established minimum target of 3%, as well as the minimum ratio assigned to the Company by OSFI and the Company’s internal targets. The Company has disclosed the leverage ratio and its components under “Regulatory Disclosures” on the Home Trust website.

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

Home Trust adopted certain Basel III capital requirements beginning January 1, 2013, as required by OSFI. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For Home Trust, the transitional basis is applied to the deduction from capital of intangible assets related to development costs. Deductions for transitional calculations commenced in 2014. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required.

RISK MANAGEMENT

The shaded areas of this section of the MD&A form an integral part of the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2016.

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and return on equity. The Company continues to invest in risk management practices and resources. The Company's key risk management practices remain in place and are continually reviewed and enhanced from those outlined on pages 52 through 70 in the MD&A section of the Company's 2015 Annual Report.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company's overall exposure to credit risk is governed by a defined credit-specific risk appetite, limits, a Board-approved Credit Risk Policy and regular independent monitoring and reporting. The Company's approach to establishing, implementing and monitoring credit risk policies and guidelines has not changed significantly from the description provided in the 2015 Annual Report.

Mortgage Lending

As part of credit risk management of the mortgage portfolio, senior management and the Enterprise Risk Management (ERM) group monitor various portfolio characteristics, including the characteristics in the following table. Total mortgage loan exposures are presented in Table 8.

Table 13: Mortgage Portfolio On Balance Sheet

(000s, except %)	**September 30 2016**	June 30 2016	March 31 2016	December 31 2015	September 30 2015	June 30 2015
Total mortgage portfolio balance (net of individual allowance)	**$ 17,192,500**	$ 17,230,568	$ 17,183,333	$ 17,465,983	$ 17,563,776	$ 17,387,281
Percentage of residential mortgages	**89.2%**	90.4%	90.8%	91.5%	91.7%	92.4%
Percentage of non-residential mortgages	**10.8%**	9.6%	9.2%	8.5%	8.3%	7.6%
Percentage of mortgage portfolio insured[1]	**21.1%**	22.1%	22.5%	23.7%	23.5%	24.0%
Percentage of mortgages current	**98.5%**	98.4%	98.3%	98.2%	98.2%	98.0%
Percentage of total mortgages over 90 days past due	**0.32%**	0.27%	0.25%	0.29%	0.32%	0.28%

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

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 18 and 19 for further information.

Due to the level of activity in the condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. Condominiums represent 8.7% of the residential mortgage portfolio and, of these, 22.6% are insured. The average current LTV of the condominium portfolio was 62.5% at the end of Q3 2016. The credit performance of the condominium portfolio is strong and within the Company's expectations with 99.2% of the portfolio current and 0.3% over 90 days.

The Company continues to closely monitor its exposure and the credit performance of mortgages in energy producing regions, including in Alberta, Saskatchewan and Newfoundland and Labrador. At September 30, 2016, 2.6% of the uninsured mortgage portfolio was in these regions, with an average LTV of 63.4%, and 96.0% were current.

The level of non-residential mortgages increased over the last 12 months and the Company anticipates that the non-residential portfolio will continue to grow.

Consumer Lending

Credit card and line of credit balances were $374.3 million at the end of Q3 2016, most of which are secured by either cash deposits or residential property. Within the credit card and lines of credit portfolios, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 63.3% at the end of Q3 2016, compared to 63.4% at the end of Q2 2016 and 62.8% at the end of Q3 2015. The LTV includes both the first mortgage and the secured Equityline *Visa* balances.

Senior management and the ERM group closely monitor the credit performance of the credit card and lines of credit portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of September 30, 2016, $2.1 million or 0.6% of the credit card and lines of credit portfolio was over 90 days in arrears, compared to $1.8 million or 0.5% at June 30, 2016 and $1.5 million or 0.4% at September 30, 2015.

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

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

Non-Performing Loans, Credit Provisions and Allowances

Net non-performing loans remain within expected and acceptable ranges. The table below provides the breakdown on non-performing loans by product type.

Table 14: Net Non-Performing Loans by Product

			As at
(000s, except %)	**September 30 2016**	June 30 2016	December 31 2015
Single-family residential mortgages	**$ 50,712**	$ 49,748	$ 47,633
Residential commercial mortgages	**-**	4,000	-
Non-residential commercial mortgages	**3,368**	3,684	2,218
Credit card loans and lines of credit	**2,006**	1,547	1,189
Other consumer retail loans	**-**	-	-
Securitized single-family residential mortgages	**-**	-	-
Securitized multi-unit residential mortgages	**-**	-	-
Net non-performing loans	**$ 56,086**	$ 58,979	$ 51,040
Percentage of gross loans	**0.31%**	0.33%	0.28%

Write-offs, net of recoveries, during the quarter totaled $1.2 million or 0.03% of gross loans on an annualized basis. The Company continually monitors arrears and write-offs, and deals effectively with non-performing loans. From time to time, the Company may sell non-performing loans for work out to third parties. The Company has not sold any loans to such parties in 2016.

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 risk-sensitive pricing, strong earnings and a strong capital position.

Table 15: Allowance for Credit Losses by Product

(000s)			As at
	September 30 2016	June 30 2016	December 31 2015
Individual allowances			
Single-family residential mortgages	**$ 2,732**	$ 2,390	$ 2,491
Residential commercial mortgages	**-**	128	-
Non-residential commercial mortgages	**78**	215	397
Credit card loans and lines of credit	**85**	202	329
Other consumer retail loans	**311**	173	166
Total individual allowance	**3,206**	3,108	3,383
Collective allowance			
Single-family residential mortgages	**23,032**	23,032	22,232
Residential commercial mortgages	**327**	327	327
Non-residential commercial mortgages	**9,500**	9,500	9,500
Credit card loans and lines of credit	**3,904**	3,904	3,890
Other consumer retail loans	**300**	300	300
Total collective allowance	**37,063**	37,063	36,249
Total allowance	**$ 40,269**	$ 40,171	$ 39,632

There were no individual allowances on securitized mortgages.

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 which 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 and general economic conditions. As at September 30, 2016, the collective credit allowance was $37.1 million ($36.2 million – December 31, 2015), representing more than the cumulative total net write-offs over the past 36 months.

Current accounting standards do not permit the Company to carry allowances for possible or future losses. This risk is considered in the determination of the appropriate level of capital supporting the Company's operations. The Company holds capital for possible further credit losses. This includes capital required by regulation (See Table 12) 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 September 30, 2016, the Company held total regulatory capital at 161% 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 unaudited interim 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 16: Single-family Residential Loans by Province

(000s, except %)							**As at September 30, 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	**$ 288,519**	**32.3% $**	**601,440**	**67.4% $**	**2,796**	**0.3% $**	**892,755**
Alberta	**297,659**	**47.1%**	**323,514**	**51.2%**	**10,966**	**1.7%**	**632,139**
Ontario	**2,101,869**	**16.8%**	**10,072,902**	**80.7%**	**306,118**	**2.5%**	**12,480,889**
Quebec	**108,459**	**26.0%**	**307,320**	**73.7%**	**1,326**	**0.3%**	**417,105**
Other	**204,044**	**58.2%**	**144,070**	**41.1%**	**2,235**	**0.7%**	**350,349**
	$ 3,000,550	**20.3% $**	**11,449,246**	**77.5% $**	**323,441**	**2.2% $**	**14,773,237**

(000s, except %)							As at June 30, 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	$ 307,520	35.1% $	566,569	64.6% $	2,971	0.3% $	877,060
Alberta	299,463	46.5%	333,469	51.7%	11,290	1.8%	644,222
Ontario	2,223,867	17.6%	10,101,956	80.0%	301,253	2.4%	12,627,076
Quebec	120,323	27.1%	321,930	72.6%	1,332	0.3%	443,585
Other	193,540	55.7%	151,582	43.6%	2,302	0.7%	347,424
	$ 3,144,713	21.0% $	11,475,506	76.9% $	319,148	2.1% $	14,939,367

(000s, except %)							As at December 31, 2015
	Insured Residential Mortgages[1]	Percentage of Total for Province	Uninsured Residential Mortgages	Percentage of Total for Province	Equityline *Visa*[2]	Percentage of Total for Province	Total
British Columbia	$ 294,117	35.2% $	537,677	64.4% $	3,408	0.4% $	835,202
Alberta	270,146	41.4%	370,645	56.8%	11,824	1.8%	652,615
Ontario	2,467,766	19.1%	10,152,664	78.6%	301,869	2.3%	12,922,299
Quebec	149,504	29.8%	350,833	69.9%	1,469	0.3%	501,806
Other	174,123	51.7%	160,053	47.6%	2,380	0.7%	336,556
	$ 3,355,656	22.0% $	11,571,872	75.9% $	320,950	2.1% $	15,248,478

[1]See definition of Insured Loans under the Glossary of Terms in this report.
[2]Equityline *Visa* is an uninsured product.

Table 17: Insured and Uninsured Single-family Residential Mortgages by Effective Remaining Amortization Period

(000s, except %)						**As at September 30, 2016**
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	**$ 719,488**	**$ 2,311,337**	**$ 11,296,041**	**$ 120,205**	**$ 2,725**	**$ 14,449,796**
Percentage of total	**5.0%**	**16.0%**	**78.2%**	**0.8%**	**0.0%**	**100.0%**

(000s, except %)						As at June 30, 2016
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 708,930	$ 2,329,388	$ 11,392,113	$ 186,475	$ 3,313	$ 14,620,219
Percentage of total	4.8%	15.9%	78.0%	1.3%	0.0%	100.0%

(000s, except %)						As at December 31, 2015
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 704,369	$ 2,312,993	$ 11,379,663	$ 525,518	$ 4,985	$ 14,927,528
Percentage of total	4.7%	15.5%	76.3%	3.5%	0.0%	100.0%

Table 18: Weighted-average Loan to Value Ratios for Uninsured Single-family Residential Mortgages Originated During the Quarter

						For the three months ended
		September 30 2016		June 30 2016		September 30 2015
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]
British Columbia	**63.7%**	**45.8%**	63.1%	56.1%	66.9%	54.9%
Alberta	**66.8%**	**60.3%**	70.8%	28.2%	73.3%	55.9%
Ontario	**73.3%**	**64.2%**	73.6%	62.0%	74.4%	65.4%
Quebec	**66.5%**	**68.8%**	71.2%	45.0%	69.3%	62.5%
Other	**70.8%**	**35.6%**	73.5%	66.1%	71.0%	60.8%
Total	**72.4%**	**64.1%**	72.7%	62.0%	73.7%	65.3%

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

The Company actively manages the mortgage portfolio and performs regular and ad-hoc stress testing. Stress testing includes scenarios that are based on a combination of increasing unemployment, rising interest rates, and a downturn in real estate markets, as well as specific operational, market and single factor stress tests. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn either regionally or nationally, the Company would expect an increased rate of delinquency and also an increase in credit losses. The Company's stress tests related to either regional or national economic downturns, which include declining housing prices and increased unemployment, indicate that the Company has sufficient capital to absorb such events, albeit with increases to credit losses. The total single-family residential mortgage portfolio including HELOC was $14.77 billion as of September 30, 2016, of which $3.00 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 September 30, 2016, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 63.6% compared to 65.1% at the end of Q2 2016 and 66.6% at the end of Q3 2015. These LTVs were estimated using the Teranet-National Bank National Composite House Price Index. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The average LTV for each significant market is indicated below.

Table 19: Weighted-Average Loan to Value Ratios for Uninsured Residential Mortgages

	As at September 30, 2016			As at June 30, 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	**58.1%**	**95.3%**	**79.7%**	60.1%	94.2%	71.1%
Alberta	**65.9%**	**77.4%**	**43.5%**	65.5%	82.5%	46.5%
Ontario	**63.8%**	**74.8%**	**50.4%**	65.4%	73.8%	44.1%
Quebec	**64.8%**	**90.4%**	**46.5%**	65.0%	90.2%	45.5%
Other	**64.6%**	**87.3%**	**50.2%**	66.5%	75.2%	40.4%
Total	**63.6%**	**76.5%**	**51.6%**	65.1%	75.5%	45.5%

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

Market Risk

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

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company's investment portfolio consists primarily of preferred shares at 34.5% of the portfolio, and corporate and governments bonds at 64.4% of the portfolio. The total balance was $523.5 million at the end of Q3 2016 compared to $519.1 million at the end of Q2 2016 and $413.4 million at the end of Q3 2015. The Company has determined that there have been no negative credit events in relation to its preferred share holdings (Refer to Note 4(B) of the unaudited interim consolidated financial statements).

There have been no changes to the Company's investment risk management framework since the end of 2015. Please see page 62 of the 2015 Annual Report for more details.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. There have been no significant changes to the Company's market risk management framework, interest rate risk policies, guidelines and procedures since the end of 2015. Please see page 63 of the 2015 Annual Report for more details.

From time to time, the Company enters into derivative transactions in order to hedge interest rate exposure resulting from outstanding loan commitments and requirements to replace assets in the CMB program, as well as interest rate risk on fixed-rate mortgages, debt and deposits, such as CMB liabilities and senior debt. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. Please see the Non-Interest Income section of this MD&A and Note 12 to the unaudited interim consolidated financial statements included in this report for further information.

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at September 30, 2016, June 30, 2016 and December 31, 2015 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

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

Table 20: Interest Rate Sensitivity

(000s), except % (Unaudited)							**As at September 30, 2016**
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Total assets	**$ 348,159**	**$ 6,033,639**	**$ 7,417,202**	**$ 5,931,658**	**$ 110,576**	**$ 475,796**	**$ 20,317,030**
Total liabilities and equity	**(2,352,167)**	**(2,786,445)**	**(5,196,184)**	**(7,956,305)**	**(4,056)**	**(2,021,873)**	**(20,317,030)**
Off-balance sheet items	**-**	**(1,261,785)**	**65,741**	**1,107,482**	**88,562**	**-**	**-**
Interest rate sensitive gap	**$ (2,004,008)**	**$ 1,985,409**	**$ 2,286,759**	**$ (917,165)**	**$ 195,082**	**$ (1,546,077)**	**$ -**
Cumulative gap	**$ (2,004,008)**	**$ (18,599)**	**$ 2,268,160**	**$ 1,350,995**	**$ 1,546,077**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**(9.9)%**	**(0.1)%**	**11.2%**	**6.6%**	**7.6%**	**-**	**-**

(000s), except % (Unaudited)							As at June 30, 2016
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Total assets	$ 349,498	$ 6,705,659	$ 7,754,043	$ 5,239,297	$ 245,975	$ 468,675	$ 20,763,147
Total liabilities and equity	(2,175,520)	(3,036,705)	(5,789,688)	(7,756,683)	(4,818)	(1,999,733)	(20,763,147)
Off-balance sheet items	-	(1,407,153)	67,817	1,314,838	24,498	-	-
Interest rate sensitive gap	$ (1,826,022)	$ 2,261,801	$ 2,032,172	$ (1,202,548)	$ 265,655	$ (1,531,058)	$ -
Cumulative gap	$ (1,826,022)	$ 435,779	$ 2,467,951	$ 1,265,403	$ 1,531,058	$ -	$ -
Cumulative gap as a percentage of total assets	(8.8)%	2.1%	11.9%	6.1%	7.4%	-	-

(000s), except % (Unaudited)							As at December 31, 2015
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Total assets	$ 266,767	$ 5,795,193	$ 8,548,453	$ 5,178,456	$ 315,120	$ 423,073	$ 20,527,062
Total liabilities and equity	(1,819,881)	(2,385,079)	(6,646,785)	(7,585,441)	-	(2,089,876)	(20,527,062)
Off-balance sheet items	-	(1,121,096)	66,856	1,054,070	170	-	-
Interest rate sensitive gap	$ (1,553,114)	$ 2,289,018	$ 1,968,524	$ (1,352,915)	$ 315,290	$ (1,666,803)	$ -
Cumulative gap	$ (1,553,114)	$ 735,904	$ 2,704,428	$ 1,351,513	$ 1,666,803	$ -	$ -
Cumulative gap as a percentage of total assets	(7.6)%	3.6%	13.2%	6.6%	8.1%	-	-

[1] Total assets in the 0-3 month category above include $2.02 billion in variable rate mortgages ($2.13 billion – Q2 2016; $2.01 billion in Q4 2015)

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 economic value of shareholders' equity. The Company measures these metrics over a number of different yield curve scenarios.

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

Table 21: Impact of Interest Rate Shifts

(000s)	September 30 2016	June 30 2016	December 31 2015	September 30 2016	June 30 2016	December 31 2015
		Increase in interest rates			Decrease in interest rates	
100 basis point shift						
Impact on net interest income, after tax						
(for the next 12 months)	**$ 7,993**	$ 13,947	$ 11,052	**$ (8,721)**	$ (13,003)	$ (9,525)
Impact on net present value of shareholders' equity	**25,129**	31,633	25,913	**(26,300)**	(31,076)	(29,092)
Impact on other comprehensive income	**3,201**	3,156	2,571	**(2,486)**	(2,432)	(2,007)

Funding and Liquidity Risk

This is the risk that the Company is unable to generate or obtain cash or equivalents in a timely manner and at a reasonable cost to meet its commitments (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Company's cash flows associated with lending, securitization, deposit-taking, investing and other business activities. There have been no significant changes to the Company's funding and liquidity risks, policies, guidelines or the measurement and management of the risks since the end of 2015. Please refer to pages 66 through 67 of the 2015 Annual Report for more information.

The Company's liquid assets are presented in the table below.

Table 22: Liquidity Resources

(000s, except %)	September 30 2016	June 30 2016	December 31 2015
Cash and cash equivalents per balance sheet	**$ 1,058,940**	$ 1,448,548	$ 1,149,849
Available for sale securities per balance sheet	**523,482**	519,067	453,230
Add: MBS included in residential mortgages	**476,450**	599,175	682,772
	2,058,872	2,566,790	2,285,851
Less: securities held for investment	**(180,790)**	(175,565)	(190,706)
Liquid assets at carrying value	**$ 1,878,082**	$ 2,391,225	$ 2,095,145
Liquid assets at fair value	**$ 1,900,506**	$ 2,413,233	$ 2,092,390
Liquid assets at carrying value as a % of total assets	**9.2%**	11.5%	10.2%

Certain Company-originated MBS are held as liquid assets, but are classified in residential mortgages on the balance sheet, as required by IFRS. The underlying mortgages are insured and the securities are stamped by the CMHC. On an overall basis, liquidity resources fluctuate as the Company's future cash requirements change.

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. Operational risk includes legal risk, but excludes strategic and reputational risk. The key elements of the Company's operational risk framework including governance, risk identification and assessment, risk measurement, risk monitoring and reporting, business continuity and crisis management and corporate insurance have not changed significantly from the description provided on pages 68 to 69 of the 2015 Annual Report.

The financial services sector, including the Company, remains exposed to cyber-crime risk. Threats are increasing in scale, scope and complexity. The Company continues to enhance and strengthen its information security program. In addition to cyber-crime, the Company is continuously exposed to other various types of fraud stemming from the nature of the Company's business. For example, the Company must often rely on information provided by customers and other third parties in its decisions to enter into transactions such as extending credit. The recent increasing pace of advancement in available technology has increased the sophistication and complexity of potential fraud crimes to which the Company is exposed. The Company continues to introduce and enhance processes to defend against more sophisticated and complex fraud. Despite the Company's commitment to information and cyber security and fraud prevention, the Company and its third-party service providers may not be able to fully mitigate all risks associated with the increased complexity and high rate of change in the threat landscape. Furthermore, to the extent that the Company encounters events that impact its relationships with its third-party service providers, the Company may be exposed to service disruptions, regulatory action, financial loss, litigation or reputational damage. These complex relationships continue to receive increased oversight from regulators and attention from the media. As part of the Company's ongoing reviews of its operating procedures, the

Company evaluates the alignment of all of its business partners' processes and controls with the Company's own processes and controls, and changes relationships as appropriate. As part of its process, the Company actively maintains a list of third party service providers, whose use is prohibited.

Compliance Risk

Compliance risk for the Company has not changed from the descriptions provided in the 2015 Annual report. Please refer to page 69 of the 2015 Annual Report.

Capital Adequacy Risk

Capital Adequacy risk for the Company has not changed from the descriptions provided in the 2015 Annual report. Please refer to page 69 of the 2015 Annual Report.

Reputational Risk

Reputational risk for the Company has not changed from the descriptions provided in the 2015 Annual report. Please refer to page 69 of the 2015 Annual Report.

ACCOUNTING STANDARDS AND POLICIES

The significant accounting policies and critical accounting estimates are outlined in Note 2 to the audited consolidated financial statements included in the Company's 2015 Annual Report. These policies are critical as they refer to material amounts and require management to make estimates.

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 unaudited interim consolidated financial statements.

Controls over Financial Reporting

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the 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 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.

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

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

QUARTERLY FINANCIAL HIGHLIGHTS

Table 23: Summary of Quarterly Results

(000s, except per share and %)			**2016**				2015	2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net interest income (TEB[1])	**$ 120,777**	$ 122,987	$ 123,490	$ 127,599	$ 122,635	$ 118,175	$ 116,511	$ 117,440
Less: TEB adjustment	**853**	884	973	941	937	965	987	1,024
Net interest income per financial statements	**119,924**	122,103	122,517	126,658	121,698	117,210	115,524	116,416
Non-interest income[2]	**25,171**	24,658	22,989	24,255	23,385	29,061	27,092	56,437
Non-interest expense	**54,982**	54,912	58,017	54,681	44,955	47,374	43,633	39,889
Total revenue	**243,928**	242,526	241,848	248,462	247,194	250,879	249,232	284,592
Total adjusted revenue[3]	**243,928**	242,526	241,197	246,406	247,194	250,879	249,232	251,917
Net income	**66,190**	66,252	64,248	70,239	72,443	72,317	72,286	95,936
Adjusted net income[3]	**66,190**	66,252	67,497	71,811	72,443	72,317	72,286	71,917
Return on shareholders' equity	**16.9%**	16.5%	15.7%	17.6%	18.7%	19.1%	19.7%	27.2%
Adjusted return on shareholders' equity[3]	**16.9%**	16.5%	16.4%	18.0%	18.7%	19.1%	19.7%	20.4%
Return on average total assets	**1.3%**	1.3%	1.2%	1.4%	1.4%	1.4%	1.4%	1.9%
Total assets under administration	**28,327,676**	28,430,730	27,960,592	27,316,476	25,404,219	25,456,212	25,066,234	24,281,366
Total loans under administration	**26,012,884**	25,732,657	25,222,523	25,058,122	23,426,735	22,922,440	22,742,462	22,563,532
Earnings per common share								
Basic	**$ 1.01**	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03	$ 1.37
Diluted	**$ 1.01**	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03	$ 1.36
Adjusted earnings per common share[3]								
Basic	**$ 1.01**	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03	$ 1.03
Diluted	**$ 1.01**	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03	$ 1.02
Book value per common share	**$ 24.47**	$ 23.67	$ 23.75	$ 23.17	$ 22.37	$ 21.87	$ 21.18	$ 20.67
Efficiency ratio (TEB[1])	**37.7%**	37.2%	39.6%	36.0%	30.8%	32.2%	30.4%	22.9%
Adjusted efficiency ratio (TEB[1,3])	**37.7%**	37.2%	36.3%	33.7%	30.8%	32.2%	30.4%	28.2%
Common equity tier 1 ratio[4]	**16.54%**	16.38%	18.28%	18.31%	18.06%	18.03%	17.95%	18.30%
Tier 1 capital ratio[4]	**16.53%**	16.38%	18.28%	18.30%	18.06%	18.03%	17.94%	18.30%
Total capital ratio[4]	**16.97%**	16.82%	20.63%	20.70%	20.51%	20.53%	20.50%	20.94%
Net non-performing loans as a % of gross loans	**0.31%**	0.33%	0.34%	0.28%	0.30%	0.33%	0.25%	0.30%
Annualized provision as a % of gross uninsured loans	**0.04%**	0.08%	0.04%	0.04%	0.08%	0.07%	0.07%	0.09%
Annualized provision as a % of gross loans	**0.03%**	0.06%	0.03%	0.03%	0.06%	0.05%	0.05%	0.07%

1 TEB - Taxable Equivalent Basis: see definition under Non-GAAP Measures in this report.
2 Q4 2014 included a gain on sale of a retail lending portfolio.
3 See definition of Total Adjusted Revenue, Adjusted Net Income, Adjusted Return on Shareholders' Equity, Adjusted Earnings per Common Share, and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the reconciliation of net income to adjusted net income in Table 1 of this report.
4 These figures relate to the Company's operating subsidiary, Home Trust Company.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, efficiency measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions while the second and third quarters have traditionally experienced higher levels of advances. First quarter credit statistics may experience 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 non-interest expenses in Q3 2016).

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

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

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

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

The Company presents adjusted revenue, adjusted net income and adjusted earnings per share. The adjusted results remove items of note, net of income taxes, from reported results for items which management does not believe are indicative of future results. The items of note for Q1 2016 include an additional gain recognized on acquisition of CFF Bank and certain severance and other related costs. There were no items of note for Q3 2016 or in the first nine months of 2015. Return on shareholders' equity and efficiency ratios are also presented on an adjusted basis. Adjusted revenue is the sum of gross interest income and non-interest income adjusted for the items of note referred to above.

Reconciliation of Net Income to Adjusted Net Income

	Quarter			Year to date	
(000s, except per share amounts)	**Q3 2016**	Q2 2016	Q3 2015	**2016**	2015
Net income	**$ 66,190**	$ 66,252	$ 72,443	**$ 196,690**	$ 217,046
Adjustment for gain recognized on acquisition of CFF Bank (net of tax)	**-**	-	-	**(478)**	-
Adjustment for certain severance and other related costs (net of tax)	**-**	-	-	**3,727**	-
Adjusted Net Income	**$ 66,190**	$ 66,252	$ 72,443	**$ 199,939**	$ 217,046
Adjusted Basic Earnings per Share	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.97**	$ 3.09
Adjusted Diluted Earnings per Share	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.97**	$ 3.09

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.

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

The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Home Trust. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 8(C) to the unaudited interim consolidated financial statements included in this report.

Efficiency or Productivity Ratio and Adjusted Efficiency or Productivity Ratio

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

Leverage Ratio

The Leverage ratio provided in this MD&A is that of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. The Leverage ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage. The Capital Measure is the all-in Tier 1 capital of Home Trust. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures.

Liquid Assets

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

Market Capitalization

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

Net Interest Margin (Non-TEB)

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

Net Interest Margin (TEB)

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

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

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

Provision as a Percentage of Gross Loans (PCL Ratio)

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

Provision as a Percentage of Gross Uninsured Loans

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

Return on Assets (ROA)

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

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

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

Risk-weighted Assets (RWA)

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 8(C) to the unaudited interim 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 $0.9 million for Q3 2016 ($0.9 million – Q2 2016; $0.9 million – Q3 2015) increased interest income as used in the calculation of net interest margin. Net interest margin is discussed on a TEB throughout this MD&A. See Table 3 for the calculation of net interest income on a tax equivalent basis.

Total Assets under Administration (AUA)

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

Total Loans under Administration (LUA)

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

Glossary of Terms

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

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

Basis Point is one-hundredth of a percentage point.

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

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

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

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

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

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

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

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

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

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

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

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

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

Swaps are contractual agreements between two parties to exchange a series of cash flows. The swap agreements used by the Company include interest rate swaps where counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency and total return swaps to hedge the risk of changes in future cash flows due to changes in market value of the Company's common shares related to the Company's restricted share unit plan.

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

CVA – Credit Valuation Adjustment

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

HELOC – Home Equity Line of Credit

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

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

MBS – Mortgage-Backed Security

MD&A – Management's Discussion and Analysis

NCCF – Net Cumulative Cash Flow

NHA – National Housing Authority

OCI – Other Comprehensive Income

OSFI – Office of the Superintendent of Financial Institutions Canada

TEB – Taxable Equivalent Basis

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts	For the three months ended			For the nine months ended	
	September 30	June 30	September 30	**September 30**	September 30
(Unaudited)	**2016**	2016	2015	**2016**	2015
Net Interest Income Non-Securitized Assets					
Interest from loans (note 5(F))	**$ 192,395**	$ 191,704	$ 195,051	**$ 577,645**	$ 572,510
Dividends from securities	**2,359**	2,447	2,597	**7,498**	8,012
Other interest	**3,046**	2,985	1,846	**8,559**	6,257
	197,800	197,136	199,494	**593,702**	586,779
Interest on deposits and other	**81,519**	77,847	80,771	**237,051**	240,835
Interest on senior debt	**-**	465	1,512	**2,243**	4,572
Net interest income non-securitized assets	**116,281**	118,824	117,211	**354,408**	341,372
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets (note 5(F))	**20,957**	20,732	24,315	**61,782**	80,988
Interest expense on securitization liabilities	**17,314**	17,453	19,828	**51,646**	67,928
Net interest income securitized loans and assets	**3,643**	3,279	4,487	**10,136**	13,060
Total Net Interest Income	**119,924**	122,103	121,698	**364,544**	354,432
Provision for credit losses (note 5(E))	**1,336**	2,760	2,849	**5,490**	7,518
	118,588	119,343	118,849	**359,054**	346,914
Non-Interest Income					
Fees and other income	**17,223**	17,328	20,096	**53,716**	62,705
Securitization income (note 6(C))	**7,599**	9,452	5,788	**24,733**	20,448
Gain on acquisition of CFF Bank (note 15)	**-**	-	-	**651**	-
Net realized and unrealized (losses) gains on securities	**-**	-	(542)	**(175)**	902
Net realized and unrealized gains (losses) on derivatives (note 12)	**349**	(2,122)	(1,957)	**(6,107)**	(4,517)
	25,171	24,658	23,385	**72,818**	79,538
	143,759	144,001	142,234	**431,872**	426,452
Non-Interest Expenses					
Salaries and benefits	**24,350**	24,685	19,382	**77,746**	62,999
Premises	**3,472**	3,575	3,149	**10,898**	9,543
Other operating expenses	**27,160**	26,652	22,424	**79,267**	63,450
	54,982	54,912	44,955	**167,911**	135,992
Income Before Income Taxes	**88,777**	89,089	97,279	**263,961**	290,460
Income taxes (note 10)					
Current	**22,957**	24,911	23,189	**67,954**	72,933
Deferred	**(370)**	(2,074)	1,647	**(683)**	481
	22,587	22,837	24,836	**67,271**	73,414
NET INCOME	**$ 66,190**	$ 66,252	$ 72,443	**$ 196,690**	$ 217,046
NET INCOME PER COMMON SHARE					
Basic	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.92**	$ 3.09
Diluted	**$ 1.01**	$ 0.99	$ 1.03	**$ 2.92**	$ 3.09
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**65,386**	66,663	70,218	**67,326**	70,195
Diluted	**65,435**	66,798	70,380	**67,413**	70,337
Total number of outstanding common shares (note 8(A))	**64,559**	65,741	70,160	**64,559**	70,160
Book value per common share	**$ 24.47**	$ 23.67	$ 22.37	**$ 24.47**	$ 22.37

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

Consolidated Statements of Comprehensive Income

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended	
	September 30 2016	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
NET INCOME	**$ 66,190**	$ 66,252	$ 72,443	**$ 196,690**	$ 217,046
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities and Retained Interests					
Net unrealized gains (losses)	**7,820**	4,272	(29,730)	**(922)**	(68,162)
Net losses (gains) reclassified to net income	**-**	-	460	**204**	(983)
	7,820	4,272	(29,270)	**(718)**	(69,145)
Income tax expense (recovery)	**2,075**	1,134	(7,760)	**(212)**	(18,338)
	5,745	3,138	(21,510)	**(506)**	(50,807)
Cash Flow Hedges (note 12)					
Net unrealized gains (losses)	**803**	(1,312)	130	**2,712**	(339)
Net losses reclassified to net income	**268**	341	369	**973**	1,105
	1,071	(971)	499	**3,685**	766
Income tax expense (recovery)	**284**	(257)	133	**978**	202
	787	(714)	366	**2,707**	564
Total other comprehensive income (loss)	**6,532**	2,424	(21,144)	**2,201**	(50,243)
COMPREHENSIVE INCOME	**$ 72,722**	$ 68,676	$ 51,299	**$ 198,891**	$ 166,803

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

Consolidated Balance Sheets

		As at	
thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	December 31 2015
ASSETS			
Cash and Cash Equivalents (note 4(A))	**$ 1,058,940**	$ 1,448,548	$ 1,149,849
Available for Sale Securities (note 4(B))	**523,482**	519,067	453,230
Loans Held for Sale	**74,207**	117,691	135,043
Loans (note 5)			
Securitized mortgages (note 6(A))	**2,549,205**	2,704,230	2,674,475
Non-securitized mortgages and loans	**15,378,826**	15,243,153	15,459,190
	17,928,031	17,947,383	18,133,665
Collective allowance for credit losses (note 5(E))	**(37,063)**	(37,063)	(36,249)
	17,890,968	17,910,320	18,097,416
Other			
Restricted assets (note 7)	**231,235**	232,000	195,921
Derivative assets (note 12)	**52,178**	58,086	64,796
Other assets	**336,077**	329,009	287,417
Deferred tax assets (note 10)	**16,362**	15,798	15,043
Goodwill and intangible assets	**133,581**	132,628	128,347
	769,433	767,521	691,524
	$ 20,317,030	$ 20,763,147	$ 20,527,062
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 2,432,283**	$ 2,274,577	$ 1,986,136
Deposits payable on a fixed date	**13,261,819**	13,747,642	13,679,822
	15,694,102	16,022,219	15,665,958
Senior Debt (note 11)	**-**	-	151,480
Securitization Liabilities (note 6(B))			
CMHC-sponsored mortgage-backed security liabilities	**930,614**	928,312	531,326
CMHC-sponsored Canada Mortgage Bond liabilities	**1,610,482**	1,766,143	2,249,230
Bank-sponsored securitization conduit liabilities	**139,115**	143,024	-
	2,680,211	2,837,479	2,780,556
Other			
Derivative liabilities (note 12)	**959**	3,145	5,447
Other liabilities	**324,070**	306,395	264,941
Deferred tax liabilities (note 10)	**38,210**	38,016	37,574
	363,239	347,556	307,962
	18,737,552	19,207,254	18,905,956
Shareholders' Equity			
Capital stock (note 8)	**83,975**	85,513	90,247
Contributed surplus	**4,588**	4,255	3,965
Retained earnings	**1,554,258**	1,536,000	1,592,438
Accumulated other comprehensive loss (note 9)	**(63,343)**	(69,875)	(65,544)
	1,579,478	1,555,893	1,621,106
	$ 20,317,030	$ 20,763,147	$ 20,527,062

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

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts (Unaudited)	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized Losses on Securities and Retained Interests Available for Sale, after Tax	Net Unrealized Losses on Cash Flow Hedges, after Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2015	**$ 90,247**	**$ 3,965**	**$ 1,592,438**	**$ (62,466)**	**$ (3,078)**	**$ (65,544)**	**$ 1,621,106**
Comprehensive income	**-**	**-**	**196,690**	**(506)**	**2,707**	**2,201**	**198,891**
Stock options settled (note 8(A))	**780**	**(182)**	**-**	**-**	**-**	**-**	**598**
Amortization of fair value of employee stock options (note 8(B))	**-**	**805**	**-**	**-**	**-**	**-**	**805**
Repurchase of shares (note 8(A))	**(7,052)**	**-**	**(186,466)**	**-**	**-**	**-**	**(193,518)**
Dividends ($0.72 per share)	**-**	**-**	**(48,404)**	**-**	**-**	**-**	**(48,404)**
Balance at September 30, 2016	**$ 83,975**	**$ 4,588**	**$ 1,554,258**	**$ (62,972)**	**$ (371)**	**$ (63,343)**	**$ 1,579,478**
Balance at December 31, 2014	$ 84,687	$ 3,989	$ 1,378,562	$ (16,242)	$ (2,363)	$ (18,605)	$ 1,448,633
Comprehensive income	-	-	217,046	(50,807)	564	(50,243)	166,803
Stock options settled (note 8(A))	5,136	(1,377)	-	-	-	-	3,759
Amortization of fair value of employee stock options (note 8(B))	-	1,163	-	-	-	-	1,163
Repurchase of shares (note 8(A))	(140)	-	(3,238)	-	-	-	(3,378)
Dividends ($0.66 per share)	-	-	(47,750)	-	-	-	(47,750)
Balance at September 30, 2015	$ 89,683	$ 3,775	$ 1,544,620	$ (67,049)	$ (1,799)	$ (68,848)	$ 1,569,230

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

Consolidated Statements of Cash Flows

thousands of Canadian dollars (Unaudited)	For the three months ended		For the nine months ended	
	September 30 2016	September 30 2015	**September 30 2016**	September 30 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 66,190**	$ 72,443	**$ 196,690**	$ 217,046
Adjustments to determine cash flows relating to operating activities:				
Amortization of net (discount) premium on securities	**(62)**	29	**(379)**	52
Provision for credit losses	**1,336**	2,849	**5,490**	7,518
Gain on sale of mortgages or residual interest	**(6,055)**	(4,453)	**(19,966)**	(16,684)
Net realized and unrealized losses (gains) on securities	**-**	542	**175**	(902)
Amortization of capital and intangible assets	**4,109**	3,657	**11,582**	10,004
Amortization of fair value of employee stock options	**333**	355	**805**	1,163
Deferred income taxes	**(370)**	1,647	**(683)**	481
Changes in operating assets and liabilities				
Loans, net of securitization and sales	**67,496**	(351,858)	**282,021**	39,651
Restricted assets	**765**	239,052	**(35,314)**	(73,050)
Derivative assets and liabilities	**4,793**	(14,390)	**11,815**	(37,919)
Accrued interest receivable	**456**	(496)	**3,174**	824
Accrued interest payable	**(5,117)**	(6,235)	**543**	14,545
Deposits	**(328,117)**	(16,702)	**28,144**	1,009,871
Securitization liabilities	**(157,268)**	(192,726)	**(100,345)**	(985,345)
Taxes receivable or payable and other	**12,087**	(15,737)	**4,246**	31,430
Cash flows (used in) provided by operating activities	**(339,424)**	(282,023)	**387,998**	218,685
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of shares	**(33,695)**	(3,250)	**(193,518)**	(3,378)
Exercise of employee stock options	**-**	162	**598**	3,759
Repayment of senior debt	**-**	-	**(150,000)**	-
Dividends paid to shareholders	**(15,775)**	(15,454)	**(48,404)**	(46,334)
Cash flows used in financing activities	**(49,470)**	(18,542)	**(391,324)**	(45,953)
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in securities				
Purchases	**(11,335)**	-	**(200,696)**	-
Proceeds from sales	**-**	-	**-**	76,924
Proceeds from maturities	**14,836**	4,139	**128,940**	23,732
Purchases of capital assets	**(771)**	(981)	**(2,090)**	(3,674)
Capitalized intangible development costs	**(3,444)**	(6,048)	**(13,737)**	(18,241)
Cash flows (used in) provided by investing activities	**(714)**	(2,890)	**(87,583)**	78,741
Net (decrease) increase in cash and cash equivalents during the period	**(389,608)**	(303,455)	**(90,909)**	251,473
Cash and cash equivalents at beginning of the period	**1,448,548**	915,674	**1,149,849**	360,746
Cash and Cash Equivalents at End of the Period (note 4(A))	**$ 1,058,940**	$ 612,219	**$ 1,058,940**	$ 612,219
Supplementary Disclosure of Cash Flow Information				
Dividends received on investments	**$ 2,588**	$ 2,366	**$ 8,139**	$ 7,314
Interest received	**216,504**	220,343	**650,401**	660,962
Interest paid	**103,950**	106,381	**291,765**	296,857
Income taxes paid	**24,119**	26,883	**68,245**	102,389

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

1. CORPORATE INFORMATION

Home Capital Group Inc. (the Company) is a public corporation traded on the Toronto Stock Exchange. The Company is incorporated and domiciled in Canada with its registered and principal business offices located at 145 King Street West, Suite 2300, Toronto, Ontario. The Company operates primarily through its federally regulated subsidiary, Home Trust Company (Home Trust), which offers residential and non-residential mortgage lending, securitization of insured residential first mortgage products and consumer lending. Home Trust also offers deposits via brokers and financial planners, and through its direct to consumer deposit brand, Oaken Financial. In addition, on October 1, 2015, Home Trust acquired CFF Bank, which is a federally regulated retail bank offering mortgage, deposit and personal banking products, as a wholly-owned subsidiary. On August 22, 2016, CFF Bank changed its name to Home Bank. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba. The Company is the ultimate parent of the group.

These unaudited interim consolidated financial statements for the period ended September 30, 2016 were authorized for issuance by the Board of Directors (the Board) of the Company on November 2, 2016. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

Subsequent to the end of the third quarter and before the date these financial statements were authorized for issuance, the Board of Directors declared a quarterly cash dividend of $16.8 million or $0.26 per common share payable on December 1, 2016 to shareholders of record at the close of business on November 15, 2016.

2. ACCOUNTING POLICIES USED TO PREPARE THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB).

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2015 as set out in the 2015 Annual Report, on pages 75 through 113. Those audited consolidated financial statements were 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 IASB.

The significant accounting policies used in the preparation of these unaudited interim consolidated financial statements are summarized on pages 82 through 88 of the 2015 Annual Report or provided below.

Comparative Consolidated Financial Statements

The comparative unaudited interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2016 unaudited interim consolidated financial statements.

Bank-Sponsored Securitization Conduit Program

During the second quarter of 2016, the Company commenced participation in a securitization conduit program sponsored by a Schedule 1 Canadian bank (please see Note 6 for more information). The transfer of mortgages to this bank-sponsored securitization conduit does not result in derecognition of the mortgages as the Company does not transfer substantially all of the risks and rewards of ownership of the mortgages. As such, the transferred mortgages are recorded as securitized mortgages on the consolidated balance sheets and continue to be accounted for as loans. These transactions result in the recognition of securitization liabilities when cash is received from the conduit after the transfer of mortgages. The accounting policies used for such loans and securitization liabilities are summarized on pages 84 and 85 of the 2015 Annual Report.

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

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at September 30, 2016 and therefore have not been applied in preparing these unaudited interim 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 the annual period beginning on or after January 1, 2018 and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and general hedge accounting.

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 on *IFRS 9 Financial Instruments and Disclosures*. The guideline sets out OSFI's expectations on the application of IFRS 9 and includes supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks.

Classification and Measurement

Financial assets will be classified and measured based on the Company's business models and the nature of its contractual cash flows. These factors will determine whether financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss. The classification of financial liabilities is largely unchanged.

Impairment

IFRS 9 introduces a forward-looking three stage expected credit loss (ECL) model. Upon initial recognition, entities are required to recognize a 12-month ECL allowance resulting from default events that are possible within the next 12 months (Stage 1). If there has been a significant increase in credit risk, an entity is required to recognize a lifetime ECL allowance resulting from possible default events over the expected life of the financial instrument (Stage 2). Financial assets with objective evidence of impairment are considered to be impaired requiring the recognition of a lifetime ECL allowance with interest revenue recognized based on the carrying amount of the asset, net of the allowance, rather than its gross carrying amount (Stage 3). This new impairment model will apply to all loans and debt securities measured at amortized cost and FVOCI, as well as loan commitments and guarantees that are not measured at fair value through profit or loss.

General Hedge Accounting

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

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 project team is focused on making initial accounting policy decisions, developing risk impairment models and determining business and technology requirements. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

The Company will be required to adopt IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), which provides a single-principle based framework that applies to contracts with customers, for annual periods beginning on or after January 1, 2018. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

IFRS 16 *Leases*

The Company will be required to adopt IFRS 16, *Leases* (IFRS 16), which will require companies to report all leases on its balance sheet as assets and liabilities for annual periods beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS 16 will have on the Company's consolidated financial statements.

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	December 31 2015
Cash and cash equivalents	**$ 1,058,940**	$ 1,448,548	$ 1,149,849

The Company has an uncommitted credit facility with a Canadian chartered bank in the amount of $20 million, which is undrawn.

The Company also has two insured mortgage purchase facilities, one committed and one uncommitted, with a Canadian chartered bank in the amounts of $300 million and $200 million, respectively, at September 30, 2016 (June 30, 2016 and December 31, 2015 - $300 million and $200 million). Both facilities can be used by the Company to fund insured mortgage loans until such time as they can be securitized. Proceeds from securitized loans are used to pay down the facility. As at September 30, 2016, these facilities are undrawn.

(B) Available for Sale Securities - Net Unrealized Losses

thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	December 31 2015
Debt securities	**$ 512**	$ 143	$ (632)
Equity securities	**(88,602)**	(96,088)	(85,751)
Net unrealized loss	**$ (88,090)**	$ (95,945)	$ (86,383)

Net unrealized losses (excluding impairment losses which are transferred to net income) are included in accumulated other comprehensive income and presented in the table above. These unrealized losses are not included in net income. Please see Note 9 for more information.

The unrealized 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 September 30, 2016, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events in relation to its preferred share holdings.

For the three months ended September 30, 2016, the Company recognized $nil with a year-to-date total of $204 thousand ($nil – Q2 2016; $460 thousand – Q3 2015; $854 thousand – nine months of 2015) of additional impairment losses on available for sale securities previously identified as impaired.

5. LOANS

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

thousands of Canadian dollars, except % (Unaudited)						**As at September 30, 2016**
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	**$ 196,176**	**$ 211,470**	**$ 1,323,658**	**$ 69,580**	**$ 123,947**	**$ 1,924,831**
Securitized multi-unit residential mortgages	**86,877**	**46,086**	**284,161**	**48,122**	**159,128**	**624,374**
Total securitized mortgages	**283,053**	**257,556**	**1,607,819**	**117,702**	**283,075**	**2,549,205**
Single-family residential mortgages	**693,783**	**409,703**	**10,851,113**	**346,199**	**224,167**	**12,524,965**
Residential commercial mortgages[2]	**13,737**	**7,026**	**208,049**	**25,440**	**9,963**	**264,215**
Non-residential commercial mortgages	**28,572**	**56,701**	**1,705,435**	**47,354**	**16,053**	**1,854,115**
Credit card loans and lines of credit	**8,392**	**21,431**	**336,348**	**1,326**	**6,851**	**374,348**
Other consumer retail loans	**954**	**18,299**	**340,307**	**-**	**1,623**	**361,183**
Total non-securitized mortgages and loans[3]	**745,438**	**513,160**	**13,441,252**	**420,319**	**258,657**	**15,378,826**
	$ 1,028,491	**$ 770,716**	**$ 15,049,071**	**$ 538,021**	**$ 541,732**	**$ 17,928,031**
As a % of portfolio	**5.7%**	**4.3%**	**84.0%**	**3.0%**	**3.0%**	**100.0%**

thousands of Canadian dollars, except % (Unaudited)						As at June 30, 2016
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	$ 210,861	$ 209,618	$ 1,452,282	$ 74,584	$ 121,882	$ 2,069,227
Securitized multi-unit residential mortgages	93,786	46,348	286,364	48,598	159,907	635,003
Total securitized mortgages	304,647	255,966	1,738,646	123,182	281,789	2,704,230
Single-family residential mortgages	663,228	423,314	10,873,541	367,669	223,240	12,550,992
Residential commercial mortgages[2]	4,241	7,106	238,593	52,703	14,502	317,145
Non-residential commercial mortgages	25,270	55,348	1,550,405	16,517	10,661	1,658,201
Credit card loans and lines of credit	9,298	22,375	331,879	1,332	7,041	371,925
Other consumer retail loans	815	15,973	327,412	-	690	344,890
Total non-securitized mortgages and loans[3]	702,852	524,116	13,321,830	438,221	256,134	15,243,153
	$ 1,007,499	$ 780,082	$ 15,060,476	$ 561,403	$ 537,923	$ 17,947,383
As a % of portfolio	5.6%	4.3%	84.0%	3.1%	3.0%	100.0%

thousands of Canadian dollars, except % (Unaudited)						As at December 31, 2015
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 125,239	$ 114,807	$ 1,559,536	$ 81,262	$ 67,266	$ 1,948,110
Securitized multi-unit residential mortgages	94,676	46,848	372,141	51,309	161,391	726,365
Total securitized mortgages	219,915	161,655	1,931,677	132,571	228,657	2,674,475
Single-family residential mortgages	706,555	525,984	11,060,894	419,075	266,910	12,979,418
Residential commercial mortgages[2]	21,128	14,215	216,407	27,265	42,427	321,442
Non-residential commercial mortgages	25,157	59,861	1,358,295	14,505	32,830	1,490,648
Credit card loans and lines of credit	9,598	22,709	330,188	1,489	6,841	370,825
Other consumer retail loans	783	11,090	284,231	-	753	296,857
Total non-securitized mortgages and loans[3]	763,221	633,859	13,250,015	462,334	349,761	15,459,190
	$ 983,136	$ 795,514	$ 15,181,692	$ 594,905	$ 578,418	$ 18,133,665
As a % of portfolio	5.4%	4.4%	83.7%	3.3%	3.2%	100.0%

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

(B) Past Due Loans that are not Impaired

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

thousands of Canadian dollars (Unaudited)					**As at September 30, 2016**
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	**$ 6,028**	**$ 634**	**$ 549**	**$ 304** [2]	**$ 7,515**
Securitized multi-unit residential mortgages	**-**	**-**	**-**	**-**	**-**
Single-family residential mortgages	**146,087**	**30,578**	**3,920**	**3,351** [2]	**183,936**
Residential commercial mortgages	**-**	**-**	**-**	**-**	**-**
Non-residential commercial mortgages	**3,074**	**1,169**	**1,486**	**-**	**5,729**
Credit card loans and lines of credit	**2,443**	**1,318**	**1,098**	**79**	**4,938**
Other consumer retail loans	**310**	**105**	**23**	**-**	**438**
	$ 157,942	**$ 33,804**	**$ 7,076**	**$ 3,734**	**$ 202,556**

thousands of Canadian dollars (Unaudited)					As at June 30, 2016
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	$ 5,372	$ 762	$ 116	$ 212 [2]	$ 6,462
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	148,274	33,617	5,849	3,686 [2]	191,426
Residential commercial mortgages	886	-	-	-	886
Non-residential commercial mortgages	14,585	1,443	-	-	16,028
Credit card loans and lines of credit	1,891	837	482	236	3,446
Other consumer retail loans	98	107	56	-	261
	$ 171,106	$ 36,766	$ 6,503	$ 4,134	$ 218,509

thousands of Canadian dollars (Unaudited)					As at December 31, 2015
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 5,779	$ 672	$ 336	$ 346 [2]	$ 7,133
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	182,997	43,350	3,969	5,646 [2]	235,962
Residential commercial mortgages	-	4,000	-	-	4,000
Non-residential commercial mortgages	12,780	5,379	286	-	18,445
Credit card loans and lines of credit	2,246	889	814	49	3,998
Other consumer retail loans	104	42	65	-	211
	$ 203,906	$ 54,332	$ 5,470	$ 6,041	$ 269,749

[1]Securitized single-family residential mortgages include both 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 nor any individual allowances on such mortgages at September 30, 2016, June 30, 2016, and December 31, 2015.

thousands of Canadian dollars (Unaudited)						**As at September 30, 2016**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	**$ 52,349**	**$ -**	**$ 3,388**	**$ 2,091**	**$ 302**	**$ 58,130**
Individual allowances on principal	**(1,637)**	**-**	**(20)**	**(85)**	**(302)**	**(2,044)**
Net amount of impaired loans	**$ 50,712**	**$ -**	**$ 3,368**	**$ 2,006**	**$ -**	**$ 56,086**

thousands of Canadian dollars (Unaudited)						As at June 30, 2016
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 51,106	$ 4,000	$ 3,844	$ 1,749	$ 167	$ 60,866
Individual allowances on principal	(1,358)	-	(160)	(202)	(167)	(1,887)
Net amount of impaired loans	$ 49,748	$ 4,000	$ 3,684	$ 1,547	$ -	$ 58,979

thousands of Canadian dollars (Unaudited)						As at December 31, 2015
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 49,285	$ -	$ 2,558	$ 1,518	$ 161	$ 53,522
Individual allowances on principal	(1,652)	-	(340)	(329)	(161)	(2,482)
Net amount of impaired loans	$ 47,633	$ -	$ 2,218	$ 1,189	$ -	$ 51,040

(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 September 30, 2016, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $319.5 million ($359.5 million - June 30, 2016; $458.3 million – December 31, 2015). For impaired mortgages, the total appraised value of collateral at September 30, 2016 was $82.1 million ($86.9 million - June 30, 2016; $74.5 million – December 31, 2015).

(E) Allowance for Credit Losses

thousands of Canadian dollars (Unaudited)	**For the three months ended September 30, 2016**					
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,358**	**$ -**	**$ 160**	**$ 202**	**$ 167**	**$ 1,887**
Provision for credit losses	**943**	**-**	**(40)**	**280**	**212**	**1,395**
Write-offs	**(745)**	**-**	**(104)**	**(420)**	**(127)**	**(1,396)**
Recoveries	**81**	**-**	**4**	**23**	**50**	**158**
	1,637	**-**	**20**	**85**	**302**	**2,044**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**1,032**	**128**	**55**	**-**	**6**	**1,221**
Provision for credit losses	**63**	**(128)**	**3**	**-**	**3**	**(59)**
	1,095	**-**	**58**	**-**	**9**	**1,162**
Total individual allowance	**2,732**	**-**	**78**	**85**	**311**	**3,206**
Collective allowance						
Balance at the beginning of the period	**23,032**	**327**	**9,500**	**3,904**	**300**	**37,063**
Provision for credit losses	**-**	**-**	**-**	**-**	**-**	**-**
	23,032	**327**	**9,500**	**3,904**	**300**	**37,063**
Total allowance	**$ 25,764**	**$ 327**	**$ 9,578**	**$ 3,989**	**$ 611**	**$ 40,269**
Total provision	**$ 1,006**	**$ (128)**	**$ (37)**	**$ 280**	**$ 215**	**$ 1,336**

thousands of Canadian dollars (Unaudited)	For the three months ended June 30, 2016					
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,186	$ -	$ 325	$ 408	$ 232	$ 2,151
Provision for credit losses	1,006	-	257	519	4	1,786
Write-offs	(1,026)	-	(422)	(752)	(131)	(2,331)
Recoveries	192	-	-	27	62	281
	1,358	-	160	202	167	1,887
Allowance on accrued interest receivable						
Balance at the beginning of the period	823	-	19	-	5	847
Provision for credit losses	209	128	36	-	1	374
	1,032	128	55	-	6	1,221
Total individual allowance	2,390	128	215	202	173	3,108
Collective allowance						
Balance at the beginning of the period	22,432	327	9,500	3,904	300	36,463
Provision for credit losses	600	-	-	-	-	600
	23,032	327	9,500	3,904	300	37,063
Total allowance	$ 25,422	$ 455	$ 9,715	$ 4,106	$ 473	$ 40,171
Total provision	$ 1,815	$ 128	$ 293	$ 519	$ 5	$ 2,760

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)					For the three months ended September 30, 2015	
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,463	$ -	$ 480	$ 68	$ 142	$ 2,153
Provision for credit losses	1,617	-	228	163	42	2,050
Write-offs	(1,417)	-	(309)	(166)	(78)	(1,970)
Recoveries	289	-	6	3	49	347
	1,952	-	405	68	155	2,580
Allowance on accrued interest receivable						
Balance at the beginning of the period	780	-	150	-	2	932
Provision for credit losses	188	-	9	-	2	199
	968	-	159	-	4	1,131
Total individual allowance	2,920	-	564	68	159	3,711
Collective allowance						
Balance at the beginning of the period	21,632	327	9,500	3,541	300	35,300
Provision for credit losses	600	-	-	-	-	600
	22,232	327	9,500	3,541	300	35,900
Total allowance	$ 25,152	$ 327	$ 10,064	$ 3,609	$ 459	$ 39,611
Total provision	$ 2,405	$ -	$ 237	$ 163	$ 44	$ 2,849

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)				For the nine months ended September 30, 2016		
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,652**	**$ -**	**$ 340**	**$ 329**	**$ 161**	**$ 2,482**
Provision for credit losses	**2,632**	**-**	**200**	**1,215**	**368**	**4,415**
Write-offs	**(2,989)**	**-**	**(532)**	**(1,624)**	**(393)**	**(5,538)**
Recoveries	**342**	**-**	**12**	**165**	**166**	**685**
	1,637	**-**	**20**	**85**	**302**	**2,044**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**839**	**-**	**57**	**-**	**5**	**901**
Provision for credit losses	**256**	**-**	**1**	**-**	**4**	**261**
	1,095	**-**	**58**	**-**	**9**	**1,162**
Total individual allowance	**2,732**	**-**	**78**	**85**	**311**	**3,206**
Collective allowance						
Balance at the beginning of the period	**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	**$ 25,764**	**$ 327**	**$ 9,578**	**$ 3,989**	**$ 611**	**$ 40,269**
Total provision	**$ 3,688**	**$ -**	**$ 201**	**$ 1,229**	**$ 372**	**$ 5,490**

thousands of Canadian dollars (Unaudited)				For the nine months ended September 30, 2015		
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,808	$ -	$ 55	$ 80	$ 160	$ 2,103
Provision for credit losses	4,021	4	658	455	69	5,207
Write-offs	(4,826)	(9)	(319)	(486)	(319)	(5,959)
Recoveries	949	5	11	19	245	1,229
	1,952	-	405	68	155	2,580
Allowance on accrued interest receivable						
Balance at the beginning of the period	560	-	57	-	3	620
Provision for credit losses	408	-	102	-	1	511
	968	-	159	-	4	1,131
Total individual allowance	2,920	-	564	68	159	3,711
Collective allowance						
Balance at the beginning of the period	20,632	327	9,300	3,541	300	34,100
Provision for credit losses	1,600	-	200	-	-	1,800
	22,232	327	9,500	3,541	300	35,900
Total allowance	$ 25,152	$ 327	$ 10,064	$ 3,609	$ 459	$ 39,611
Total provision	$ 6,029	$ 4	$ 960	$ 455	$ 70	$ 7,518

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

(F) Interest Income by Product

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended	
	September 30 2016	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Traditional single-family residential mortgages	**$ 133,997**	$ 137,067	$ 148,628	**$ 409,493**	$ 442,670
ACE Plus single-family residential mortgages	**3,104**	2,578	317	**8,146**	317
Accelerator single-family residential mortgages	**7,342**	7,541	6,879	**24,430**	20,126
Residential commercial mortgages	**4,483**	4,571	4,121	**13,323**	12,017
Non-residential commercial mortgages	**26,741**	23,930	21,067	**74,232**	57,827
Credit card loans and lines of credit	**8,432**	8,365	7,823	**25,147**	23,039
Other consumer retail loans	**8,296**	7,652	6,216	**22,874**	16,514
Total interest income on non-securitized loans	**192,395**	191,704	195,051	**577,645**	572,510
CMHC-sponsored securitized single-family residential mortgages	**11,921**	12,164	14,524	**35,527**	49,342
CMHC-sponsored securitized multi-unit residential mortgages	**7,238**	7,471	8,879	**22,669**	28,045
Assets pledged as collateral for CMHC-sponsored securitization	**489**	571	912	**1,751**	3,601
Bank-sponsored securitization conduit assets	**1,309**	526	-	**1,835**	-
Total interest income on securitized loans	**20,957**	20,732	24,315	**61,782**	80,988
	$ 213,352	$ 212,436	$ 219,366	**$ 639,427**	$ 653,498

6. SECURITIZATION ACTIVITY

(A) Assets Pledged as Collateral

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

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

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

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended	
	September 30 2016	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Beginning balance on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,794,737**	$ 2,684,719	$ 3,416,511	**$ 2,731,350**	$ 4,247,644
Mortgages assigned in new securitizations	**700,065**	1,085,657	556,659	**2,872,762**	1,559,915
Net change in non-Home Trust MBS and treasury bills	**14,770**	(77,268)	(229,002)	**48,402**	71,218
Mortgages derecognized [2]	**(643,658)**	(589,424)	(365,867)	**(1,830,024)**	(1,364,658)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(211,432)**	(308,947)	(104,507)	**(1,168,008)**	(1,240,325)
Ending balance on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,654,482**	$ 2,794,737	$ 3,273,794	**$ 2,654,482**	$ 3,273,794

[1]Included in the on-balance sheet assets assigned as collateral at September 30, 2016 is $105.3 million ($90.5 million – June 30, 2016, $56.9 million – December 31, 2015) in non-Home Trust MBS and treasury bills and $2.55 billion ($2.70 billion – June 30, 2016, $2.67 billion – December 31, 2015) of securitized mortgages.
[2]Mortgages are derecognized upon the sale of residual interests in insured single-family residential mortgages and the securitization and sale of multi-unit residential mortgages.

Non-Home Trust MBS and treasury bills assigned as collateral are accounted for as available for sale assets and included in restricted assets on the consolidated balance sheets. Please see Note 7 for more information. Additionally, off-balance sheet mortgage loans of $8.00 billion ($7.66 billion – June 30, 2016, $6.78 billion – December 31, 2015) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount are $1.29 billion ($1.36 billion – June 30, 2016, $1.44 billion – December 31, 2015) of mortgages that were sold under the whole loan sales program of CFF Bank prior to the acquisition of CFF Bank by Home Trust. These mortgages were securitized subsequent to the whole loan sales by the purchaser.

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the period, 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.

	For the three months ended			For the nine months ended	
thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Balance at the beginning of the period	**$ 2,837,479**	$ 2,733,832	$ 3,510,844	**$ 2,780,556**	$ 4,303,463
Addition to securitization liabilities as a result of on-balance sheet activity	**457,171**	769,158	163,514	**2,116,502**	165,835
Net reduction in securitization liabilities due to maturities, amortization and sales	**(614,887)**	(662,995)	(350,140)	**(2,206,991)**	(1,152,653)
Other[1]	**448**	(2,516)	(6,100)	**(9,856)**	1,473
Securitization liability	**$ 2,680,211**	$ 2,837,479	$ 3,318,118	**$ 2,680,211**	$ 3,318,118
Proceeds received for mortgages assigned in new securitizations	**$ 696,327**	$ 1,055,171	$ 411,214	**$ 2,833,316**	$ 1,408,432

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

(C) Securitization Income

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

	For the three months ended			For the nine months ended	
thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Net gain on sale of mortgages and residual interest[1]	**$ 6,055**	$ 7,976	$ 4,453	**$ 19,966**	$ 16,684
Net change in unrealized gain or loss on hedging activities	**(121)**	(101)	(39)	**123**	(81)
Servicing income	**1,665**	1,577	1,374	**4,644**	3,845
Total securitization income	**$ 7,599**	$ 9,452	$ 5,788	**$ 24,733**	$ 20,448

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

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

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

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

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

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

thousands of Canadian dollars (Unaudited)						For the three months ended
			September 30 2016			June 30 2016
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 400,764**	**$ 242,894**	**$ 643,658**	$ 297,314	$ 292,110	$ 589,424
Net gains on sale of mortgages or residual interest[1]	**3,904**	**2,151**	**6,055**	4,447	3,529	7,976
Retained interests recorded	**-**	**10,077**	**10,077**	-	11,949	11,949
Servicing liability recorded	**-**	**2,313**	**2,313**	-	2,666	2,666

thousands of Canadian dollars (Unaudited)			For the three months ended
			September 30 2015
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 210,881	$ 154,986	$ 365,867
Net gains on sale of mortgages or residual interest[1]	3,183	1,270	4,453
Retained interests recorded	-	16,398	16,398
Servicing liability recorded	-	2,427	2,427

thousands of Canadian dollars (Unaudited)						For the nine months ended
			September 30 2016			September 30 2015
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 1,098,552**	**$ 731,472**	**$ 1,830,024**	$ 812,780	$ 551,878	$ 1,364,658
Net gains on sale of mortgages or residual interest[1]	**13,084**	**6,882**	**19,966**	12,137	4,547	16,684
Retained interests recorded	**-**	**31,896**	**31,896**	-	34,783	34,783
Servicing liability recorded	**-**	**6,547**	**6,547**	-	5,692	5,692

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

(D) Purchased Residual Interests

In 2014, the Company purchased from certain counterparties, residual interests of underlying insured fixed-rate residential mortgages that have been securitized. The purchase results in the Company acquiring only the residual interests without acquiring either the underlying mortgages or the corresponding liabilities. At September 30, 2016, the notional amount of these instruments was $451.8 million, with $5.5 million recorded in available for sale securities (June 30, 2016 – notional amount of $478.2 million, with $6.8 million recorded in available for sale securities, December 31, 2015 – notional amount of $520.6 million, with $9.3 million recorded in available for sale securities). No residual interests were purchased prior or subsequent to 2014. Interest earned on these investments is recorded in other interest income on the consolidated statements of income.

7. RESTRICTED ASSETS

thousands of Canadian dollars (Unaudited)		September 30 2016		June 30 2016		December 31 2015
Restricted cash						
Restricted cash – CMHC- and bank-sponsored securitization programs	**$**	**93,947**	$	108,306	$	110,448
Restricted cash – derivatives		**15,753**		14,916		14,172
Restricted cash – other programs		**16,258**		18,271		14,426
Total restricted cash		**125,958**		141,493		139,046
Non-Home Trust MBS and treasury bills assigned as replacement assets		**105,277**		90,507		56,875
Total restricted assets	**$**	**231,235**	$	232,000	$	195,921

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

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

Restricted cash – other programs include reserve accounts held in trust for the water heater financing. 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.

8. CAPITAL

(A) Common Shares Issued and Outstanding

The following table summarizes the shares issued and outstanding held at September 30, 2016, June 30, 2016 and September 30, 2015.

thousands (Unaudited)	For the three months ended								
	September 30, 2016			June 30, 2016			September 30, 2015		
	Number of Shares		**Amount**	Number of Shares		Amount	Number of Shares		Amount
Outstanding at beginning of period	**65,741**	**$**	**85,513**	69,966	$	90,283	70,247	$	89,603
Options exercised	**-**		**-**	33		727	20		216
Repurchase of shares	**(1,182)**		**(1,538)**	(4,258)		(5,497)	(107)		(136)
Outstanding at end of period	**64,559**	**$**	**83,975**	65,741	$	85,513	70,160	$	89,683

thousands (Unaudited)	For the nine months ended					
	September 30, 2016			September 30, 2015		
	Number of Shares		**Amount**	Number of Shares		Amount
Outstanding at beginning of period	**69,978**	**$**	**90,247**	70,096	$	84,687
Options exercised	**34**		**780**	174		5,136
Repurchase of shares	**(5,453)**		**(7,052)**	(110)		(140)
Outstanding at end of period	**64,559**	**$**	**83,975**	70,160	$	89,683

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

The purchase cost of shares acquired through the repurchase of shares is allocated between capital stock and retained earnings with a total charge to retained earnings of $186.5 million. Included in the amount allocated to retained earnings is $0.4 million (net of tax) for transaction costs associated with the substantial issuer bid.

The Company has no preferred shares outstanding.

(B) Share Purchase Options

thousands, except per share amounts (Unaudited)					For the three months ended	
	September 30, 2016		June 30, 2016		September 30, 2015	
	Number of Shares	**Weighted-average Exercise Price**	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of period	**1,118**	**$ 32.40**	1,190	$ 32.37	1,101	$ 32.28
Granted	**-**	**-**	25	31.95	48	29.41
Exercised	**-**	**-**	(33)	16.72	(20)	8.14
Forfeited	**(5)**	**23.96**	(64)	39.66	(44)	45.76
Outstanding at end of period	**1,113**	**$ 32.44**	1,118	$ 32.40	1,085	$ 32.06
Exercisable at end of period	**584**	**$ 29.85**	580	$ 29.76	519	$ 24.75

thousands, except per share amounts (Unaudited)			For the nine months ended	
	September 30, 2016		September 30, 2015	
	Number of Shares	**Weighted-average Exercise Price**	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of period	**1,208**	**$ 32.45**	1,235	$ 31.00
Granted	**25**	**31.95**	78	34.67
Exercised	**(34)**	**17.19**	(174)	21.69
Forfeited	**(86)**	**38.52**	(54)	44.95
Outstanding at end of period	**1,113**	**$ 32.44**	1,085	$ 32.06
Exercisable at end of period	**584**	**$ 29.85**	519	$ 24.75

During the third quarter of 2016, $333 thousand was recorded as compensation expense for a year-to-date total of $805 thousand ($195 thousand – Q2 2016; $355 thousand – Q3 2015; $1.2 million – nine months of 2015) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus.

(C) Capital Management

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

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

The regulatory capital position of Home Trust was as follows:

(Unaudited)	**September 30 2016**	June 30 2016	December 31 2015	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets				
Common equity tier 1 ratio	**16.54%**	16.38%	18.31%	7.00%
Tier 1 capital ratio	**16.53%**	16.38%	18.30%	8.50%
Total regulatory capital ratio	**16.97%**	16.82%	20.70%	10.50%

Home Trust adopted certain Basel III capital requirements, as required by OSFI, beginning January 1, 2013. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. Home Trust is required to meet a minimum Leverage ratio determined by OSFI. As at

September 30, 2016, the Leverage ratio was 7.08% (June 30, 2016 – 6.77%; December 31, 2015 – 7.36%), which exceeds OSFI's minimum requirements.

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

In addition, on April 18, 2016 the Company repurchased common shares as part of its previously announced substantial issuer bid. Please refer to Note 8(A) for further information. The funding for this repurchase was provided by a dividend paid by Home Trust Company which reduced its regulatory capital and capital ratios.

Currently, Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios significantly exceed OSFI's regulatory targets, as well as Home Trust's internal capital targets. No new capital was raised for the first nine months of 2016.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars (Unaudited)	**September 30 2016**	June 30 2016	December 31 2015
Unrealized losses on			
Available for sale securities and retained interests	**$ (85,727)**	$ (93,547)	$ (85,009)
Income tax recovery	**(22,755)**	(24,830)	(22,543)
	(62,972)	(68,717)	(62,466)
Unrealized losses on			
Cash flow hedges	**(502)**	(1,573)	(4,187)
Income tax recovery	**(131)**	(415)	(1,109)
	(371)	(1,158)	(3,078)
Accumulated other comprehensive loss	**$ (63,343)**	$ (69,875)	$ (65,544)

10. INCOME TAXES

The table below indicates the difference in the effective rate of income tax in the unaudited interim consolidated statements of income from the combined statutory federal and provincial income tax rate of 26.54% (Q2 2016 - 26.54%; Q3 2015 – 26.51%).

(Unaudited)	For the three months ended			For the nine months ended	
	September 30 2016	June 30 2016	September 30 2015	**September 30 2016**	September 30 2015
Statutory income tax rate	**26.54%**	26.54%	26.51%	**26.54%**	26.51%
Increase (reduction) in income tax rate resulting from					
Tax-exempt income	**(0.71)%**	(0.73)%	(0.71)%	**(0.75)%**	(0.73)%
Non-deductible expenses	**0.11%**	0.07%	0.10%	**0.09%**	0.12%
Scientific research and experimental development investment tax credits	**(0.50)%**	(0.25)%	(0.37)%	**(0.39)%**	(0.63)%
Other	**0.00%**	(0.00)%	0.00%	**0.00%**	0.01%
Effective income tax rate	**25.44%**	25.63%	25.53%	**25.49%**	25.28%

Net deferred tax liabilities on the consolidated balance sheets were $38.2 million (June 30, 2016 - $38.0 million; December 31, 2015 - $37.6 million) and deferred tax assets were $16.4 million (June 30, 2016- $15.8 million; December 31, 2015 - $15.0 million). The deferred tax liability comprises deferred tax on commissions, finders' fees, transaction costs, and development costs and tax credits. The deferred tax liability is presented net of certain deferred tax assets, primarily attributed to allowances for credit losses. The deferred tax asset presented on the consolidated balance sheets comprises the loss carryforwards of Home Bank. The losses generated in Home Bank begin to expire after 2029. The Company plans to generate sufficient income in Home Bank to be able to utilize the losses recognized as a deferred tax asset.

11. SENIOR DEBT

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and bond forward contracts to hedge exposures to interest rate risk, and total return swaps to hedge changes in the market value of the Company's common shares. The Company generally uses its derivative instruments in hedge accounting relationships to minimize volatility in earnings caused by changes in interest rates and to reduce volatility in the share-based compensation expense. 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.

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

Cash Flow Hedging Relationships

The Company uses bond forward contracts to hedge the economic value exposure to movements in interest rates between the time that the Company determines that it will likely incur liabilities pursuant to asset securitization, and the time the securitization transaction is complete and the liabilities are incurred. The Company also uses total return swaps to hedge the risk of changes in future cash flows due to changes in the market value of the Company's common shares related to the restricted share unit (RSU) plan between the time the grant of RSUs is approved and the time when the RSUs vest.

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

thousands of Canadian dollars (Unaudited)	For the three months ended		
	September 30 2016	June 30 2016	September 30 2015
Fair value gains (losses) recorded in OCI	**$ 803**	$ (1,312)	$ 130
Reclassification from OCI to net interest income and securitization gains	**(268)**	(341)	(369)

thousands of Canadian dollars (Unaudited)	For the nine months ended	
	September 30 2016	September 30 2015
Fair value gains (losses) recorded in OCI	**$ 2,712**	$ (339)
Reclassification from OCI to net interest income and securitization gains	**(973)**	(1,105)

Fair Value Hedging Relationships

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

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

thousands of Canadian dollars (Unaudited)			For the three months ended
	September 30 2016	June 30 2016	September 30 2015
Fair value changes recorded on interest rate swaps[1]	**$ (5,780)**	$ (4,378)	$ 9,887
Fair value changes of hedged items for interest rate risk[2]	**6,135**	2,166	(11,943)
Hedge ineffectiveness gains (losses) recognized in non-interest income[3]	**$ 355**	$ (2,212)	$ (2,056)

thousands of Canadian dollars (Unaudited)		For the nine months ended
	September 30 2016	September 30 2015
Fair value changes recorded on interest rate swaps[1]	**$ (11,690)**	$ 33,359
Fair value changes of hedged items for interest rate risk[2]	**5,034**	(37,806)
Hedge ineffectiveness losses recognized in non-interest income[3]	**$ (6,656)**	$ (4,447)

[1] Unrealized gains and losses on hedging derivatives (interest rate swaps) are recorded as derivative assets or liabilities, as appropriate, on the consolidated balance sheets.
[2] Unrealized gains and losses on fixed-rate hedged items for the risk being hedged are recorded as part of the associated fixed-rate asset or liability on the consolidated balance sheets.
[3] Included in fair value hedging ineffectiveness are derivative losses related to senior debt.

Other Derivative Gains and Losses

From time to time, the Company enters into derivative positions to hedge interest rate risk, and such derivatives are not designated as hedges for accounting purposes. The changes in fair value of such derivatives flow directly to the consolidated statements of income. Net realized and unrealized losses of $6 thousand for Q3 2016 and net realized and unrealized gains of $549 thousand year to date 2016 ($90 thousand net realized and unrealized gains – Q2 2016; $99 thousand net realized and unrealized gains – Q3 2015; $70 thousand net realized and unrealized losses year to date 2015) were recorded in income through net realized and unrealized gain or losses on derivatives.

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

As at September 30, 2016, June 30, 2016 and December 31, 2015, the outstanding swaps and bond forward contracts positions were as follows:

thousands of Canadian dollars (Unaudited)				**As at September 30, 2016**
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	**$ 278,944**	**$ 1,643**	**$ (145)**	**$ 1,498**
1 to 5 years	**1,642,725**	**50,469**	**(144)**	**50,325**
	1,921,669	**52,112**	**(289)**	**51,823**
Bond forwards designated as accounting hedges [1]				
1 to 5 years	**65,000**	**-**	**(134)**	**(134)**
	65,000	**-**	**(134)**	**(134)**
Bond forwards not designated as accounting hedges [1]				
1 to 5 years	**42,900**	**-**	**(95)**	**(95)**
> 5 years	**126,350**	**66**	**(441)**	**(375)**
	169,250	**66**	**(536)**	**(470)**
Total	**$ 2,155,919**	**$ 52,178**	**$ (959)**	**$ 51,219**

thousands of Canadian dollars (Unaudited)				As at June 30, 2016
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	$ 235,944	$ 986	$ -	$ 986
1 to 5 years	1,792,325	56,057	-	56,057
> 5 years	18,400	985	-	985
	2,046,669	58,028	-	58,028
Swaps not designated as accounting hedges				
< 1 year	25,000	-	(92)	(92)
	25,000	-	(92)	(92)
Bond forwards designated as accounting hedges [1]				
< 1 year	10,000	-	(151)	(151)
1 to 5 years	200,000	-	(1,111)	(1,111)
	210,000	-	(1,262)	(1,262)
Bond forwards not designated as accounting hedges [1]				
1 to 5 years	116,000	58	(870)	(812)
> 5 years	44,900	-	(921)	(921)
	160,900	58	(1,791)	(1,733)
Total	$ 2,442,569	$ 58,086	$ (3,145)	$ 54,941

thousands of Canadian dollars (Unaudited)				As at December 31, 2015
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	$ 317,100	$ 2,370	$ -	$ 2,370
1 to 5 years	1,889,700	62,332	-	62,332
	2,206,800	64,702	-	64,702
Swaps not designated as accounting hedges				
< 1 year	50,000	-	(407)	(407)
	50,000	-	(407)	(407)
Bond forwards designated as accounting hedges [1]				
1 to 5 years	475,000	91	(3,226)	(3,135)
	475,000	91	(3,226)	(3,135)
Bond forwards not designated as accounting hedges [1]				
< 1 year	47,000	-	(321)	(321)
> 5 years	122,950	3	(1,493)	(1,490)
	169,950	3	(1,814)	(1,811)
Total	$ 2,901,750	$ 64,796	$ (5,447)	$ 59,349

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

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

thousands of Canadian dollars (Unaudited)					As at September 30, 2016
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,058,940	$ -	$ -	$ 1,058,940	$ 1,058,940
Loans held for sale	-	74,207	-	74,207	74,207
Derivative assets	-	52,178	-	52,178	52,178
Restricted assets	125,958	-	-	125,958	125,958
Total financial assets held for trading	1,184,898	126,385	-	1,311,283	1,311,283
Financial assets available for sale					
Debt securities	337,184	-	5,508	342,692	342,692
Equity securities	180,790	-	-	180,790	180,790
Restricted assets	57,208	48,069	-	105,277	105,277
Retained interest owned	-	-	102,213	102,213	102,213
Total financial assets available for sale	575,182	48,069	107,721	730,972	730,972
Loans and receivables					
Securitized mortgages	-	-	2,602,293	2,602,293	2,549,205
Non-securitized mortgages and loans	-	-	15,356,463	15,356,463	15,341,763
Securitization receivables	-	-	96,586	96,586	96,586
Other	-	-	98,313	98,313	98,313
Total loans and receivables	-	-	18,153,655	18,153,655	18,085,867
Total	$ 1,760,080	$ 174,454	$ 18,261,376	$ 20,195,910	$ 20,128,122
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 15,875,309	$ 15,875,309	$ 15,694,102
Securitization liabilities	-	-	2,755,083	2,755,083	2,680,211
Other	-	-	324,070	324,070	324,070
Total financial liabilities carried at amortized cost	-	-	18,954,462	18,954,462	18,698,383
Financial liabilities at fair value					
Derivative liabilities	-	959	-	959	959
Total	$ -	$ 959	$ 18,954,462	$ 18,955,421	$ 18,699,342

thousands of Canadian dollars (Unaudited)					As at June 30, 2016
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,448,548	$ -	$ -	$ 1,448,548	$ 1,448,548
Loans held for sale	-	117,691	-	117,691	117,691
Derivative assets	-	58,086	-	58,086	58,086
Restricted assets	141,493	-	-	141,493	141,493
Total financial assets held for trading	1,590,041	175,777	-	1,765,818	1,765,818
Financial assets available for sale					
Debt securities	336,676	-	6,826	343,502	343,502
Equity securities	175,565	-	-	175,565	175,565
Restricted assets	65,816	24,691	-	90,507	90,507
Retained interest owned	-	-	96,844	96,844	96,844
Total financial assets available for sale	578,057	24,691	103,670	706,418	706,418
Loans and receivables					
Securitized mortgages	-	-	2,763,009	2,763,009	2,704,230
Non-securitized mortgages and loans	-	-	15,223,659	15,223,659	15,206,090
Securitization receivables	-	-	93,483	93,483	93,483
Other	-	-	100,260	100,260	100,260
Total loans and receivables	-	-	18,180,411	18,180,411	18,104,063
Total	$ 2,168,098	$ 200,468	$ 18,284,081	$ 20,652,647	$ 20,576,299
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 16,203,836	$ 16,203,836	$ 16,022,219
Securitization liabilities	-	-	2,913,409	2,913,409	2,837,479
Other	-	-	306,395	306,395	306,395
Total financial liabilities carried at amortized cost	-	-	19,423,640	19,423,640	19,166,093
Financial liabilities at fair value					
Derivative liabilities	-	3,145	-	3,145	3,145
Total	$ -	$ 3,145	$ 19,423,640	$ 19,426,785	$ 19,169,238

thousands of Canadian dollars (Unaudited)				As at December 31, 2015	
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,149,849	$ -	$ -	$ 1,149,849	$ 1,149,849
Loans held for sale	-	135,043	-	135,043	135,043
Derivative assets	-	64,796	-	64,796	64,796
Restricted assets	139,046	-	-	139,046	139,046
Total financial assets held for trading	1,288,895	199,839	-	1,488,734	1,488,734
Financial assets available for sale					
Debt securities	253,185	-	9,339	262,524	262,524
Equity securities	190,706	-	-	190,706	190,706
Restricted assets	56,875	-	-	56,875	56,875
Retained interest owned	-	-	81,087	81,087	81,087
Total financial assets available for sale	500,766	-	90,426	591,192	591,192
Loans and receivables					
Securitized mortgages	-	-	2,734,862	2,734,862	2,674,475
Non-securitized mortgages and loans	-	-	15,485,471	15,485,471	15,422,941
Securitization receivables	-	-	61,156	61,156	61,156
Other	-	-	103,029	103,029	103,029
Total loans and receivables	-	-	18,384,518	18,384,518	18,261,601
Total	$ 1,789,661	$ 199,839	$ 18,474,944	$ 20,464,444	$ 20,341,527
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 15,807,316	$ 15,807,316	$ 15,665,958
Senior debt	-	151,402	-	151,402	151,480
Securitization liabilities	-	-	2,868,419	2,868,419	2,780,556
Other	-	-	264,941	264,941	264,941
Total financial liabilities at amortized cost	-	151,402	18,940,676	19,092,078	18,862,935
Financial liabilities at fair value					
Derivative liabilities	-	5,447	-	5,447	5,447
Total	$ -	$ 156,849	$ 18,940,676	$ 19,097,525	$ 18,868,382

The Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy during the quarter ended September 30, 2016, June 30, 2016 or September 30, 2015.

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

- The fair value of cash and cash equivalents, restricted cash (included in restricted assets), other assets and other liabilities approximate their carrying values due to their short-term nature.
- Available for sale securities are valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices. The fair value of the 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 12.
- Retail deposits are not transferable by the deposit holders. In the absence of such transfer transactions, fair value of deposits is determined by discounting the expected future cash flows of the deposits at offered rates for deposits with similar terms. The fair value of the institutional deposit notes is determined using current rates of Government of Canada Bonds, plus a spread. The rates reflect the credit risks of similar instruments.
- Fair value of securitization liabilities is determined using their correspondent current market rates including market rates for MBS, CMB and interest rate swap curve.
- Fair value of the senior debt was determined using current market rates of Government of Canada Bonds, plus a spread. The rates reflected the credit risks of similar instruments.

14. RELATED PARTY TRANSACTIONS

IFRS considers key management personnel to be related parties. Compensation of key management personnel is disclosed in the Company's Annual Report.

In the normal course of business, the Company refers borrowers who require loans at a higher loan-to-value ratio than the Company will provide to second mortgage lenders. All referrals are conducted at arm's length and at market terms. Second mortgage lenders independently underwrite all second mortgages with the borrowers. One of the second mortgage lenders is related to the Company through a close family relationship with a member of the Company's key management personnel. The amount of second mortgages referred to this lender during the nine months ended September 30, 2016 and 2015 are not significant.

15. BUSINESS ACQUISITION

On October 1, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of CFF Bank through its wholly owned subsidiary, Home Trust Company for cash consideration of $23.2 million. On August 22, 2016, CFF Bank changed its name to Home Bank. Home Bank is a Schedule 1 Bank under the *Bank Act* (Canada) offering deposit, mortgage and personal banking products through a number of channels. The acquisition provides the Company the addition of a bank license to support the Company's long-term plan to achieve funding diversification and add new banking products.

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

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

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

In Q4 2015, the Company recorded contingent consideration in the amount of $1.9 million and an onerous lease obligation in the amount of $2.8 million related to the Company's requirement to transfer future sublease revenue to the seller in the future. In Q1 2016, the Company settled this obligation with the seller resulting in an increase to the gain on bargain purchase recorded by the Company with a net impact of $651 thousand. This adjustment includes an immaterial downward fair value adjustment to the Company's capital assets as a result of the transaction.

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

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

- The fair value of deposits is based on the discounted expected cash flow at offered rates for deposits with similar terms

Home Bank contributed $2.7 million in Q3 2016 and $7.6 million for the first nine months of 2016 (Q2 2016 - $2.4 million; Q1 2016 - $2.6 million; Q4 2015 - $2.0 million) to the Company's revenue and incurred a loss before taxes of $0.7 million in Q3 2016 and $4.1 million for the first nine months of 2016 (Q2 2016 - $1.4 million; Q1 2016 - $2.0 million; Q4 2015 - $5.7 million).

16. RISK MANAGEMENT

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

A description of the Company's risk management policies and procedures is included in the shaded text of the Risk Management section of the Management's Discussion and Analysis included in this report. Significant exposures to credit and liquidity risks are described in Notes 4, 5, and 12 of this report.

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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Kevin P.D. Smith
Chairman of the Board

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

William A. Dimma
Chairman Emeritus

Officers
Martin Reid
President and Chief Executive Officer

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

Chris Whyte
Chief Operating Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

John R. K. Harry
Executive Vice President, Commercial Mortgage Lending

Chris Ahlvik, LL.B.
Executive Vice President, Corporate Counsel

Greg Parker
Chief Risk Officer and Executive Vice President

Fariba Rawhani
Executive Vice President, Chief Information Officer

Dinah Henderson
Executive Vice President, Operations

Gary Wilson
Executive Vice President, Underwriting

Benjy Katchen
Executive Vice President, Deposits and Consumer Lending

Marie Holland
Senior Vice President, Enterprise Risk Management

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

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

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Chartered Accountants
Toronto, Ontario

Principal Bankers
Bank of Montreal
Bank of Nova Scotia

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Capital Stock
As at September 30, 2016 there were 64,559,369 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

HOME TRUST COMPANY
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John M.E. Marsh
Robert A. Mitchell, CPA, CA
Martin Reid
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Hon. William G. Davis
P.C., C.C., Q.C.
Chairman Emeritus

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Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Thursday, November 3, 2016 at 8:00 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

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