HOME CAPITAL GROUP INC.

2017
FIRST QUARTER REPORT
FINANCIAL HIGHLIGHTS

(Unaudited)			For the three months ended
(000s, except Percentage and Per Share Amounts)	**March 31 2017**	December 31 2016	March 31 2016
OPERATING RESULTS			
Net Income	**$ 58,041**	$ 50,706	$ 64,248
Adjusted Net Income[1]	**65,482**	63,475	67,497
Net Interest Income	**125,857**	120,620	122,517
Total Revenue[2]	**147,742**	144,597	145,506
Diluted Earnings per Share	**$ 0.90**	$ 0.79	$ 0.92
Adjusted Diluted Earnings per Share[1]	**$ 1.02**	$ 0.98	$ 0.96
Return on Shareholders' Equity	**14.1%**	12.7%	15.7%
Adjusted Return on Shareholders' Equity[1]	**16.0%**	15.9%	16.4%
Return on Average Assets	**1.1%**	1.0%	1.2%
Net Interest Margin (TEB)[3]	**2.44%**	2.38%	2.38%
Provision as a Percentage of Gross Uninsured Loans (annualized)	**0.16%**	0.07%	0.04%
Provision as a Percentage of Gross Loans (annualized)	**0.13%**	0.05%	0.03%
Efficiency Ratio (TEB)[3]	**43.4%**	48.8%	39.6%
Adjusted Efficiency Ratio (TEB)[1,3]	**36.6%**	39.1%	36.3%

			As at
	March 31 2017	December 31 2016	March 31 2016
BALANCE SHEET HIGHLIGHTS			
Total Assets	**$ 20,993,385**	$ 20,528,777	$ 20,687,984
Total Assets Under Administration[4]	**29,583,545**	28,917,534	27,960,592
Total Loans[5]	**18,573,476**	18,035,317	17,949,915
Total Loans Under Administration[4,5]	**27,163,636**	26,424,074	25,222,523
Liquid Assets	**2,098,192**	2,067,981	2,459,859
Deposits	**16,249,611**	15,886,030	15,824,899
Shareholders' Equity	**1,665,503**	1,617,192	1,661,759
FINANCIAL STRENGTH			
Capital Measures[6]			
Risk-Weighted Assets	**$ 9,086,886**	$ 8,643,267	$ 8,169,818
Common Equity Tier 1 Capital Ratio	**16.34%**	16.55%	18.28%
Tier 1 Capital Ratio	**16.34%**	16.54%	18.28%
Total Capital Ratio	**16.77%**	16.97%	20.63%
Leverage Ratio	**7.29%**	7.20%	7.46%
Credit Quality			
Net Non-Performing Loans as a Percentage of Gross Loans	**0.24%**	0.30%	0.34%
Allowance as a Percentage of Gross Non-Performing Loans	**91.8%**	73.4%	62.9%
Share Information			
Book Value per Common Share	**$ 25.94**	$ 25.12	$ 23.75
Common Share Price – Close	**$ 26.03**	$ 31.34	$ 35.06
Dividend paid during the period ended	**$ 0.26**	$ 0.26	$ 0.24
Dividend Payout Ratio	**28.9%**	32.9%	26.1%
Market Capitalization	**$ 1,671,230**	$ 2,017,920	$ 2,453,008
Number of Common Shares Outstanding	**64,204**	64,388	69,966

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

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

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

Table of Contents

Report to Shareholders	3	Accounting Standards and Policies	37
Management's Discussion and Analysis	5	Quarterly Financial Highlights	38
Business Profile	6	Non-GAAP Measures and Glossary	39
Performance Goals	6	Consolidated Statements of Income	43
2017 Strategic Priorities	7	Consolidated Statements of Comprehensive Income	44
Outlook and Going Concern Uncertainty	8	Consolidated Balance Sheets	45
Income Statement Review	12	Consolidated Statements of Changes in Shareholders' Equity	46
Financial Position Review	19	Consolidated Statements of Cash Flows	47
Capital Management	26	Notes to the Interim Consolidated Financial Statements	48
Risk Management	28	Corporate Directory & Shareholder Information	71

TO OUR SHAREHOLDERS

Home Capital today reported financial results for the first quarter ended March 31, 2017.

Brenda Eprile, Chair, Home Capital said, "Home plays a very important role in the Canadian housing market, providing financing for thousands of deserving customers, including entrepreneurs and new Canadians, and we are committed to ensuring the sustainability of this key enterprise. We are taking the steps required to regain the full confidence of Home's stakeholders, most notably by adding four outstanding new directors with considerable expertise in governance and business, and we will continue to look at every opportunity to strengthen Home as we move ahead."

Business Highlights

- Addition of four new Board members: Claude Lamoureux, Paul Haggis, Sharon Sallows and Alan Hibben; Brenda Eprile named Chair.
- Total available liquidity and credit capacity of approximately $1.61 billion as of May 9, 2017 including liquid assets of $1.01 billion and $600 million undrawn amount from the $2.0 billion syndicated credit facility.
- Non-binding agreement reached with independent third party to purchase funded mortgages or accept mortgage commitments and renewals up to a total of $1.5 billion, providing additional sources of funding as the Company repositions the business.
- Mortgage portfolio continues to perform well; maintaining low provisions for credit losses.
- The search for a new Chief Executive Officer and Chief Financial Officer are underway.
- Management continues to work with its financial advisers to identify and explore a number of permanent solutions to strengthen the Company's historically successful underlying business model.

Bonita Then, Interim Chief Executive Officer said, "Management's focus is on finding more sources of funding in the near term so we can be more active serving our customers, and on seeking longer-term solutions that put the business back on track."

First Quarter 2017 Highlights

First Quarter 2017, compared with the First Quarter 2016:

- Reported net income was $58.0 million and diluted earnings per share were $0.90, compared with $64.2 million and $0.92. Adjusted net income was $65.5 million and adjusted diluted earnings per share were $1.02, compared with $67.5 million and $0.96.
- Adjusted net income and adjusted diluted earnings per share exclude the impact of a restructuring provision related to Project Expo, the Company's expense savings initiative, of $5.5 million net of tax (or $0.09 diluted earnings per share) and an impairment loss on intangible and other assets for a non-core prepaid card business of $2.0 million net of tax (or $0.03 diluted earnings per share).
- Traditional single-family residential mortgages balance was $11.42 billion following record first quarter originations.
- Provision for credit losses as a percentage of gross uninsured loans was 0.16%, compared to 0.04%, primarily related to an increase in the collective allowance of $2.0 million due to growth in the commercial portfolio and a provision of $2.3 million for losses within the non-core prepaid card business.
- Capital position with CET 1 ratio at 16.34%, well in excess of regulatory minimums and internal targets.
- The interim consolidated financial statements for the first quarter ended March 31, 2017 were prepared on a going concern basis; however, management believes that material uncertainty exists regarding the Company's future funding capabilities as a result of reputational concerns that may cast significant doubt upon the Company's ability to continue as a going concern. Please see the Outlook and Going Concern Uncertainty section of the 2017 First Quarter Report for further information.

Dividend

Subsequent to the end of the quarter, the Company suspended its dividend to help prudently manage its liquidity position.

BONITA THEN
Interim President & Chief Executive Officer
May 11, 2017

BRENDA EPRILE
Chair of the Board

Additional information concerning the Company's performance goals and related expectations for 2017, 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 March 31, 2017. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. Home Trust includes its wholly owned subsidiary, Home Bank. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2017 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2016 included in the Company's 2016 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 2016 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 May 11, 2017. 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 the Company's other publicly filed information, which is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, liquidity and funding risk, structural interest rate risk, operational risk, investment risk, strategic risk, reputational risk, compliance risk and capital adequacy risk along with additional risk factors that may affect future results. Forward-looking statements can be found in the Report to the Shareholders and the Outlook and Going Concern Uncertainty 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 uncertainty, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. Please also refer to the Outlook and Going Concern Uncertainty section of this MD&A for risks and uncertainties related to the Company's going concern assessment. The preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company presents forward-looking statements to assist shareholders in understanding the Company's assumptions and expectations about the future that are relevant in management's setting of performance goals, strategic priorities and outlook. The Company presents its outlook to assist shareholders in understanding management's expectations on how the future will impact the financial performance of the Company. These forward-looking statements may not be appropriate for other purposes. The Company does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf, except as required by securities laws.

Assumptions about the performance of the Canadian economy in 2017 and its effect on Home Capital's business are material factors the Company considers when setting its performance goals, strategic priorities and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In setting and reviewing its performance goals, strategic priorities and outlook for the remainder of 2017, management's expectations continue to assume:

- The Canadian economy is expected to be relatively stable in 2017, supported by expanded Federal Government spending; however, it will continue to be impacted by adverse effects related to fluctuations in oil prices and other commodities. The Company has limited exposure in energy producing regions.

- Generally the Company expects stable employment conditions in its established regions; however, unemployment rates in energy-producing regions are expected to remain elevated in 2017. Also, the Company expects inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and consistent demand for the Company's lending products in its established regions. Credit losses and delinquencies in the energy producing regions may increase, but given the Company's limited exposure, this is not expected to be significant.

- The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets and further adjustments in commodity prices; as such, the Company is prepared for the variability to plan that may result.
- The Company is assuming that interest rates will remain at the current very low rate for 2017. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.
- The Company believes that the current and expected levels of housing activity indicate a stable real estate market overall. Please see Market Conditions under the Outlook and Going Concern Uncertainty section for more discussion on the Company's expectations for the housing market and the impact of the changes to the mortgage market unveiled by the government in the second half of 2016.
- 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. However, this access has been and will be reduced in light of the reputational and liquidity events that have occurred at the end of the quarter and continued into the second quarter. The degree to which such access may decline is currently uncertain. Please see the Outlook and Going Concern Uncertainty section of this MD&A for further information.

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 and Compliance Culture have not changed from the 2016 Annual Report. Please refer to pages 6 to 8 of the 2016 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 GOALS

Below is a summary of the Company's performance for the first quarter of 2017 in relation to the performance goals introduced in the Company's 2016 Annual Report. These goals are consistent with the Company's strategic plans and long-term objectives that were also introduced in the Company's 2016 Annual Report.

While performance measures against these goals are provided below for the quarter, the Company is currently re-evaluating its performance goals and strategic priorities in light of the recent liquidity events and the ongoing development of management's plans to address these events and their impact on the Company's business (please see the Outlook and Going Concern Uncertainty section of this MD&A for more information). The Company expects that it will make significant changes to its performance goals and strategic priorities during the second quarter.

Measure[1]	**Performance Goals**	**Q1 2017 Performance**[2]
Revenue Growth	5% or greater	1.5%
Diluted Earnings Per Share Growth	7% or greater	6.3%
Return on Shareholders' Equity (ROE)	15% or greater	16.0%

[1] Measures are calculated on an adjusted basis.
[2] Performance for revenue growth and diluted earnings per share growth is calculated as growth over the same period last year. ROE is calculated on an annualized basis.

2017 STRATEGIC PRIORITIES

Home Capital's foundation and culture support achievement of the Company's strategic priorities and vision of being a leader in providing financial services to underserved Canadians. The Company's foundation comprises the key strengths of Talent, Service, Technology, Agility, and Risk Management.

Beginning in 2017, Home Capital was focused on the following strategic priorities to position the Company for long-term success. However, as discussed in both the Performance Goals and Outlook and Going Concern Uncertainty sections of this MD&A, the Company is currently re-evaluating its performance goals and strategic priorities in light of the recent liquidity events and the ongoing development of management's plans to address these events and their impact on the Company's business.

The following table highlights achievements during the first quarter of 2017 in relation to the strategic priorities that were in place during the quarter:

Strategic Priority	Achievements
Prudent Growth in the Core Residential Mortgage Business	• Traditional single-family residential mortgages grew 3.6% in the quarter to $11.42 billion from $11.02 billion at the end of 2016. • Originations of traditional single-family residential mortgages of $1.46 billion for the quarter represent increases of 10.0% over last quarter and 46.6% over the same quarter last year.
Provide Innovative Products and Solutions	• The Company has continued the roll out of its broker portal technology, Loft, that was created to enhance the broker experience as well as improve service levels. During the quarter, Loft was rolled out to all front-line employees. The Company is targeting a roll out during the second quarter to a selection of brokers that represent 20% of active brokers who bring in 80% of the Company's brokered mortgage business. Availability of Loft is targeted to be available to all brokers by the end of the year. • The Company continues to originate its ACE Plus single-family residential mortgage product and increased its participation during the quarter in the bank-sponsored securitization conduit program which provides for cost-effective funding of the ACE Plus product.
Positive Operating Leverage	• The Company's expense savings initiative, Project EXPO was launched and the resulting improvement to operating leverage is starting to be realized. Operating leverage for the first quarter (calculated on the basis of change in revenue and expenses over Q1 2016, adjusted for items of note) was negative 0.6%, representing a significant improvement over the operating leverage of negative 18.1% experienced for the full year 2016.
Efficient Balance Sheet and Capital Utilization	• The Company continued to be active in its normal course issuer bid activity repurchasing a total of $6.0 million of shares during the quarter. • The Company continues to return capital to shareholders through dividends with a dividend payout ratio of 28.9% or 25.5% on an adjusted basis. • The Company maintained a strong capital position with CET 1 ratio at 16.34% at the end of the quarter.

OUTLOOK AND GOING CONCERN UNCERTAINTY

Consideration of the Company's Ability to Continue as a Going Concern

The 2017 First Quarter Report, including the unaudited consolidated interim financial statements, has been prepared on a going concern basis which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due.

Events and conditions giving rise to the going concern assessment, material uncertainty that may cast significant doubt upon the Company's ability to continue as going concern, management's assumptions and plans to reduce such uncertainty, and a summary of risk factors are discussed below.

Events Giving Rise to Going Concern Assessment

The Company has continued to face heightened scrutiny related to its compliance with disclosure requirements as it relates to the broker suspensions announced in 2015. Most recently, and as previously announced, the Ontario Securities Commission (OSC) has provided notification of its intent to pursue an administrative proceeding against the Company and three current and former officers and directors of the Company (please refer to the Company's press release dated April 19, 2017 for further information). In addition, a Statement of Claim and Notice of Action have been filed with the Ontario Superior Court of Justice against the Company and three of its officers or former officers regarding a proposed class action lawsuit. While the Company will vigorously defend these allegations, the public attention to this matter has caused damage to the Company's reputation. In addition, the current vacancies for a permanent CEO and CFO have caused concerns over the stability and capacity of the Company's management.

These reputational concerns and other recent challenges have understandably shaken the confidence of the Company's stakeholders and have also contributed to the recent downgrades in credit ratings from both DBRS and S&P. Currently, DBRS long-term rating for the Company is CCC and its short-term rating is R-5 reflecting downgrades from the ratings of BBB and R2 (middle) disclosed in the Company's 2016 Annual Report. DBRS long-term rating for the Home Trust is B and its short-term rating is R-5 reflecting downgrades from the ratings of BBB (high) and R2 (high) disclosed in the Company's 2016 Annual Report. DBRS's outlook for all ratings is "Under Review – Negative." Currently, S&P's long-term rating for the Company is B- and its short-term rating is B reflecting downgrades from the ratings of BBB- and A-3 disclosed in the Company's 2016 Annual Report. S&P's long-term rating for the Home Trust is B- and its short-term rating is B reflecting downgrades from the ratings of BBB and A-2 disclosed in the Company's 2016 Annual Report. S&P has all ratings placed on "CreditWatch Developing."

These reputational concerns began to have a significant effect on the Company's financial position at the end of the first quarter of 2017 and continuing into the second quarter, particularly as it relates to the Company's funding capabilities and liquidity position. The Company has experienced redemptions of its high-interest savings accounts immediately prior to the end of the quarter which accelerated dramatically subsequent to the end of the quarter. The balance of high-interest savings accounts at the end of the quarter was $1.90 billion, down from $2.02 billion at the end of 2016 with a further decline of $1.77 billion to $134.2 million as at May 9, 2017. The Company has also experienced a decline of $206.3 million in savings accounts through its direct-to-consumer brand, Oaken Financial and a decline of $344.0 million in cashable GIC deposits as at May 9, 2017. While the Company has not observed a significant decline in its non-cashable GIC deposits due to their fixed-term nature, the reputational concerns have negatively impacted the Company's ability to fund mortgages through GICs at historical levels. As indicated in Table 12(A), fixed-term deposits, including GICs and institutional deposit notes, totaling $7.05 billion are scheduled to mature in the next 12 months. The Company also has institutional deposit notes of $325.0 million maturing on May 24, 2017 which it intends to repay (Please see "Liquidity and Funding Risk" in the Risk Management section of this MD&A for more information).

To mitigate the impact of the decline in the Company's high-interest savings account balances, the Company, on April 27, 2017, announced that Home Trust secured a firm commitment for a $2 billion credit line provided by a facility led by the Healthcare of Ontario Pension Plan and retained RBC Capital Markets and BMO Capital Markets to advise on further financing and strategic options. Under the terms of the credit facility, Home Trust paid a non-refundable commitment fee of $100 million. The interest rate on the outstanding balances is 10% with a standby fee of 2.5% on undrawn credit. The facility, which is secured against a portfolio of mortgages, matures 364 days after the closing date and can be terminated early at the option of Home Trust. On May 1, 2017, the Company received its initial draw of $1 billion and has subsequently drawn an additional $400 million on May 8, 2017 bringing the outstanding balance owing to $1.4 billion. The Company also received $154.2 million of proceeds from the sale of preferred shares portfolio. The facility, combined with Home Trust's current available liquid assets of $1.01 billion, provides the Company with aggregate available liquidity and credit capacity of approximately $1.61 billion as of May 9, 2017.

Existence of Material Uncertainty – Future Funding Capabilities

The reputational concerns have had a direct and material impact on the liquidity position and future funding capabilities of the Company and the ability to fund the full level of mortgages in the Company's pipeline as well as existing mortgages as they become eligible for renewal. Until this can be reversed, this will very likely translate to reduced mortgage originations. The reputational concerns may also impact the Company's relationships with mortgage brokers which may put downward pressure on loan originations.

Management believes actions taken to date by the Company have addressed its immediate liquidity needs. However, this recent liquidity threat resulted in the disruption of normal business processes including the flow of new fixed-term deposits to the Company. As the Company depends on a consistent flow of term deposits to support its lending activities, changes to the lending activities have also occurred, such as tightening the Company's lending criteria and reducing some of the Company's broker incentive programs. These changes are expected to result in a decline in originations and renewals.

Management Assumptions and Action Plans

Management is focused on developing plans to enable the Company to return to normal operations that can be sustained by its estimated future funding capabilities. The Company is committed to protecting its core business of providing its traditional single-family residential mortgage product and is developing plans to preserve this business at levels that can be supported by expected funding capabilities while also maintaining its relationships within the mortgage broker network. Given the cost of the $2 billion credit line discussed above, repayment of amounts drawn under this facility (and the termination of the facility) in a timely fashion is an essential element of management's plans.

Management has prepared daily cash flow projections and a revised forecast of monthly income statement and balance sheet with key assumptions to support its going concern assessment for the period ending March 31, 2018. Key assumptions in these forecasts include:

- No new origination of high-interest saving demand deposits and run-off of term deposits as they mature
- A reduced level of new term deposit originations in Q2 and Q3 2017 based on recent actual term deposit origination experience, ramping up slowly but steadily over the remainder of the year and into 2018
- Sale of certain loan portfolios to pay down the $2 billion credit line
- Mortgage commitments and renewals previously committed to will continue to be funded
- New mortgages eligible for renewals, existing mortgage pipeline and future originations will be actively managed and funded based on expected forecasts of new deposit originations and the ability to realize cash flow from maturing mortgages.

Actions to execute the above plan and realize the revised forecasts include the following, some of which have already been implemented:

- Significant spend on deposit marketing campaign throughout 2017 and adjusting deposit rates appropriately to support ramp up of new deposit originations
- Engagement of external advisors to evaluate various financing and strategic options
- Discussions with potential investors on the sale of certain loan portfolios
- Negotiating agreements with industry partners to fund certain levels of mortgage commitments and renewals in the short term
- Active management of commitment pipeline and renewal portfolio based on a sustainable level of available funding
- Considerations for additional business models including originate to sell
- Addition of four new directors to the Company's Board to bring stability, rebuild confidence and return to normal operations. The search for a permanent CEO and CFO continues to be a top priority for the Company.

Management has in a very short period of time developed cash flow projections, forecasts and action plans, which will continued to be updated and refined based on the latest available information. If successfully implemented, a combination of some of these actions will enable the Company to continue as a going concern. However, the success of a number of assumptions and management actions such as new deposits origination will depend on factors that may be outside of management's control. In addition, potential future impact resulting from reputational concerns is inherently difficult to predict. Therefore management believes that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Other Risk Factors

The reputational damage and liquidity events have led to actual and potential negative effects on the Company's business, such as strained relationships with customers, brokers, employees and other business partners. In addition, the liquidity threat has led to increased regulatory monitoring which puts more pressure on internal resources and may lead to additional requirements and restrictions on Company activities. The commitment fee and interest rate on the $2 billion credit line will have a significant negative effect on the Company's financial performance in 2017. As indicated above, to increase its liquid position, the Company sold a portion of its preferred share portfolio which will result in the loss of dividend income on this portfolio going forward and has resulted in realized losses in net income which were previously recorded in accumulated other comprehensive income. The Company is currently adequately capitalized, however, any future actions the Company may take could have implications on Home Trust and Home Bank's regulatory capital and liquidity adequacy requirements. The Company has suspended payment of its regular quarterly dividend for the second quarter and may need to suspend future dividend payments to preserve capital and liquidity.

The recent reputational damage and liquidity concerns have elevated the level of certain other risks the Company is exposed to. The actions the Company has taken to address the liquidity threat will have a significant impact on the Company's financial performance in 2017 leaving the Company unable to achieve its original performance goals. This has had a negative impact on the Company's common share price. The downward pressure on the Company's financial performance in 2017 will restrict or delay business activities that the Company would otherwise engage in and contribute to a level of uncertainty as to the Company's future. This uncertainty leads to difficulties in maintaining public confidence in the Company's products and the Company's competitive position. Given the reliance on the Company's deposit products to maintain funding capabilities, one of the key risks facing the Company is the ability to restore the confidence of its deposit customers. Likewise, a decrease in confidence of the Company's ability to meet its obligations may impact the Company's relationships with other stakeholders which can lead to significant changes in the way the Company conducts its business in all areas. The inability of the Company to retain and attract key employees is also a risk that has become elevated. The decline in the Company's share price has reduced the value of equity awards previously awarded to its key employees and the impacts on the Company's financial performance places considerable uncertainty as to future compensation increases and performance bonuses. A loss of key employees could reduce the value of the Company's businesses and impair its ability to execute on its plans. Management is in the process of developing plans to retain and attract key employees.

While it is too early to determine the full degree to which the Company's performance will be impacted by liquidity events and actions taken subsequent to the end of the first quarter, they will have a material negative impact on earnings, and will leave the Company unable to meet previously announced performance goals in 2017. Furthermore, management's plans that are currently being developed to return the Company to normal operations will lead to significant changes in the Company's business and the need to revise its strategic priorities and performance goals. In addition to the impact on achieving the Company's performance goals, loan growth will be reduced. Net interest margin will be negatively impacted by the significant increase in the Company's cost of funds. Recent mortgage rate increases on our traditional single-family residential mortgages will help offset some of the negative impact.

Outlook for Remainder of 2017

Given the uncertainty as to the full impact that the recent liquidity events have had and the consequential actions the Company has taken to mitigate these impacts, and given that management is still in the process of developing its plans to return the Company to normal operations, the Company is unable at the present time to provide an outlook as to each of its product offerings and to its non-interest expense, capital, liquidity and funding plans. Accordingly, the following outlook comments are limited to recent government changes, market conditions and credit performance.

Recent Government Changes

The Company continues to watch and anticipate the impact of the recently implemented measures taken to tighten mortgage rules, which came into effect mid-October and the end of November 2016. While these rules had minimal impact on the Company's 2016 results, the impact was seen in the first quarter of 2017 with originations of the Company's lower-margin Accelerator product declining by almost 60% since the mortgage rule changes as expected. Although this decline in Accelerator volumes has been observed, the Company has also seen a marked increase in the demand for its Traditional single-family residential mortgage product as a result. These "underserved borrowers" offer excellent credit quality as the Company continues to see higher than normal beacon scores since the rule changes. It is expected that the impacts on the housing market and on consumers and competitors will become clearer further into 2017, especially as the seasonally active spring market arrives. Further policy changes, particularly as they pertain to risk sharing, are expected to become more defined further into 2017.

The recent changes implemented by the Ontario government including rent control and the introduction of the 15% "non-resident speculation tax", to name two measures, are not expected to have a meaningful negative impact on the Company's business. However it is still too early to tell.

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

Market Conditions

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

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

Credit Performance and Losses

The Company's prudent underwriting and collection practices are reflected in low levels of credit losses and delinquencies in its loan portfolios. Credit losses and delinquencies are expected to remain low in 2017; however, the Company is prepared for volatility in this performance that may result from uncertainty in the macroeconomic environment. Credit performance in the energy-producing regions is expected to deteriorate, but given the Company's limited exposure in these geographic areas, the effect on credit losses is not expected to be material for the Company.

This Outlook and Going Concern Uncertainty section contains forward-looking statements. Please see the Caution Regarding Forward-looking Statements in this report.

INCOME STATEMENT REVIEW

Table 1: Income Statement Highlights

(000s, except % and per share amounts)				Quarter	
	Q1 2017	Q4 2016	Change	Q1 2016	Change
Net interest income non-securitized assets	**$ 120,389**	$ 116,649	3.2%	$ 119,303	0.9%
Net interest income securitized loans and assets	**5,468**	3,971	37.7%	3,214	70.1%
Total net interest income	**125,857**	120,620	4.3%	122,517	2.7%
Provision for credit losses	**5,919**	2,400	146.6%	1,394	324.6%
	119,938	118,220	1.5%	121,123	(1.0)%
Non-interest income	**21,885**	23,977	(8.7)%	22,989	(4.8)%
Non-interest expenses	**64,465**	71,028	(9.2)%	58,017	11.1%
Income before income taxes	**77,358**	71,169	8.7%	86,095	(10.1)%
Income taxes	**19,317**	20,463	(5.6)%	21,847	(11.6)%
Net income	**$ 58,041**	$ 50,706	14.5%	$ 64,248	(9.7)%
Basic earnings per share	**$ 0.90**	$ 0.79	13.9%	$ 0.92	(2.2)%
Diluted earnings per share	**$ 0.90**	$ 0.79	13.9%	$ 0.92	(2.2)%

Reconciliation of Net Income to Adjusted Net Income					
Net income per above	$ 58,041	$ 50,706	14.5%	$ 64,248	(9.7)%
Adjustment for gain recognized on acquisition of CFF Bank (net of tax)	-	-	-	(478)	(100.0)%
Adjustment for severance and other related costs (net of tax)	-	-	-	3,727	(100.0)%
Adjustment for goodwill impairment loss (net of tax)	-	9,000	(100.0)%	-	-
Adjustment for impairment loss on intangible and other assets (net of tax)	1,981	3,769	(47.4)%	-	-
Adjustment for project EXPO restructuring charges (net of tax)	5,460	-	-	-	-
Adjusted net income[1]	$ 65,482	$ 63,475	3.2%	$ 67,497	(3.0)%
Adjusted basic earnings per share[1]	$ 1.02	$ 0.98	4.1%	$ 0.96	6.3%
Adjusted diluted earnings per share[1]	$ 1.02	$ 0.98	4.1%	$ 0.96	6.3%

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

Items of Note

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

The Company's results were affected by the following items of note that aggregated to a negative impact of $7.4 million, net of tax, or $0.12 diluted earnings per share in Q1 2017:

- $7.4 million of restructuring charges in relation to the Company's expense savings initiative, Project EXPO ($5.5 million net of tax and $0.09 diluted earnings per share). Please see the Non-Interest Expenses section of this report for more information.
- $2.7 million of impairment losses on intangible and other assets related to the non-core prepaid card business ($2.0 million net of tax and $0.03 diluted earnings per share). Please see the Non-Interest Expenses section of this report for more information.

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

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

The Company's results were also affected by the following items of note that aggregated to a negative impact of $3.2 million, net of tax, or $0.04 diluted earnings per share in Q1 2016:

- $5.1 million of expenses including severance and other related costs ($3.7 million net of tax and $0.05 diluted earnings per share).
- $651 thousand for a positive adjustment to the gain recognized on the acquisition of CFF Bank ($478 thousand net of tax and $0.01 diluted earnings per share).

Net Income and Earnings per Share

Q1 2017 v Q4 2016

Reported net income of $58.0 million in Q1 2017 increased by $7.3 million from the $50.7 million reported in Q4 2016. Reported diluted earnings per common share were $0.90 in Q1 2017 compared to $0.79 in Q4 2016. The increase in both reported net income and diluted earnings per share resulted primarily from a decrease of $6.6 million in non-interest expenses. Non-interest expenses in Q1 2017 include Project EXPO restructuring charges of $7.4 million and impairment losses on the non-core prepaid card business of $2.7 million while non-interest expenses in Q4 2016 include impairment losses on goodwill and intangible assets of $14.1 million. After removing these items of note, non-interest expenses in Q1 2017 were $2.6 million lower than last quarter reflecting the impact of Project EXPO. Reported net income and earnings per share also include higher net interest income which was offset by higher provision for credit losses and lower non-interest income. Net interest income was higher as result of prepayment interest recognized in Q1. The increase in provision for credit losses resulted from a collective provision of $2.0 million reflecting the increasing balance of non-residential commercial mortgages and individual provisions of $2.3 million related to the non-core prepaid card business within the credit card portfolio. The decrease in non-interest income resulted primarily from a decrease in securitization income reflecting lower volume of sales of both single-family and multi-unit residential MBS.

Q1 2017 v Q1 2016

Reported net income for Q1 2017 decreased $6.2 million from the $64.2 million reported in Q1 2016 while diluted earnings per common share decreased $0.02 from the $0.92 reported in Q1 2016. The decrease in net income from last year resulted primarily from higher provision for credit losses as discussed above, combined with higher non-interest expenses. Non-interest expenses in Q1 2017 include the $10.1 million of items of note discussed above while non-interest expenses in Q1 2016 include severance and other related costs of $5.1 million. After removing these items of note, non-interest expenses in Q1 2017 were $1.4 million higher than Q1 2016. The decrease in diluted earnings per common share reflects the lower net income offset to a large extent by the reduction in average common shares outstanding resulting from share repurchases from the Company's substantial issuer bid completed in Q2 2016 and subsequent increase in normal course issuer bid activities in 2016.

Net Interest Income

Table 2: Net Interest Margin

	For the three months ended		
	March 31 2017	December 31 2016	March 31 2016
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.74%**	2.71%	2.72%
Net interest margin non-securitized interest-earning assets (TEB)	**2.76%**	2.73%	2.74%
Net interest margin CMHC-sponsored securitized assets	**0.75%**	0.53%	0.47%
Net interest margin bank-sponsored securitization conduit assets	**1.58%**	1.90%	-
Total net interest margin (non-TEB)	**2.42%**	2.36%	2.36%
Total net interest margin (TEB)	**2.44%**	**2.38%**	**2.38%**
Spread of non-securitized loans over deposits and other	**2.93%**	2.86%	2.91%

Table 3: Net Interest Income by Product and Average Rate

(000s, except %)				For the three months ended					
	March 31, 2017			December 31, 2016			March 31, 2016		
		Income/ Expense	**Average Rate[1]**		Income/ Expense	Average Rate[1]		Income/ Expense	Average Rate[1]
Interest-bearing assets									
Cash resources and securities	**$**	**5,206**	**1.19%**	$	5,128	1.31%	$	5,220	1.28%
Traditional single-family residential mortgages		**130,293**	**4.65%**		131,029	4.75%		138,429	4.87%
ACE Plus single-family residential mortgages		**3,399**	**3.45%**		3,344	3.38%		2,464	3.38%
Accelerator single-family residential mortgages		**5,332**	**2.21%**		6,505	2.24%		9,547	2.39%
Residential commercial mortgages[2]		**4,620**	**4.18%**		4,291	3.99%		4,269	4.21%
Non-residential commercial mortgages		**29,756**	**5.76%**		28,233	5.93%		23,561	6.07%
Credit card loans and lines of credit		**8,281**	**8.79%**		8,389	9.02%		8,350	8.98%
Other consumer retail loans		**10,754**	**11.12%**		8,598	9.32%		6,926	8.95%
Total non-securitized loans		**192,435**	**4.86%**		190,389	4.86%		193,546	4.87%
Taxable equivalent adjustment		**825**	**-**		944	-		973	-
Total non-securitized interest earning assets		**198,466**	**4.51%**		196,461	4.56%		199,739	4.55%
CMHC-sponsored securitized single-family residential mortgages		**10,742**	**2.36%**		11,115	2.50%		11,442	2.76%
CMHC-sponsored securitized multi-unit residential mortgages		**8,945**	**5.87%**		7,197	4.63%		7,960	4.56%
Assets pledged as collateral for CMHC-sponsored securitization		**455**	**1.56%**		495	1.35%		691	0.69%
Total CMHC-sponsored securitized residential mortgages		**20,142**	**3.17%**		18,807	2.96%		20,093	2.92%
Bank-sponsored securitization conduit assets		**1,416**	**3.08%**		1,116	3.53%		-	-
Total assets	**$**	**220,024**	**4.23%**	$	216,384	4.24%	$	219,832	4.23%
Interest-bearing liabilities									
Deposits and other	**$**	**77,252**	**1.93%**	$	78,868	2.00%	$	77,685	1.96%
Senior debt		**-**	**-**		-	-		1,778	4.66%
CMHC-sponsored securitization liabilities		**15,401**	**2.42%**		15,438	2.41%		16,879	2.40%
Bank-sponsored securitization conduit liabilities		**689**	**1.51%**		514	1.61%		-	-
Total liabilities	**$**	**93,342**	**1.79%**	$	94,820	1.86%	$	96,342	1.85%
Net Interest Income (TEB)	**$**	**126,682**		$	121,564		$	123,490	
Tax Equivalent Adjustment		**(825)**			(944)			(973)	
Net Interest Income per Financial Statements	**$**	**125,857**		$	120,620		$	122,517	

[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.

Q1 2017 v Q4 2016

Net interest income of $125.9 million was up $5.2 million or 4.3% from the $120.6 million reported last quarter comprising increases of $3.7 million in non-securitized net interest income and $1.5 million in securitized net interest income. The increases over last quarter in both the non-securitized and securitized portfolios resulted primarily from the recognition of prepayment interest income in the quarter. In the non-securitized portfolio, two consumer retail loan portfolios were prepaid resulting in $3.1 million recognized in interest income as prepayment interest. In the securitized portfolio, prepayment penalty interest income was recognized on the prepayment of a large multi-unit residential property. Total net interest margin (TEB) of 2.44% increased by 6 basis points from 2.38% last quarter reflecting the prepayment interest income combined with a decrease of 7 basis points in the average rate of interest expense on deposits reflecting lower rates offered on GICs.

In the non-securitized portfolio, the spread of interest income on loans over interest expense on deposits and other increased by 7 basis points to 2.93% from 2.86% last quarter reflecting the prepayment interest income and lower rate of interest expense noted above. The improvement in spread was offset partially by a decrease in the average rate earned on the traditional single-family residential mortgage portfolio which has continued to decrease as a result of more competitive pricing and a reflection of the improved credit quality of the portfolio. Despite the larger increase in spread of loans over deposits and other, the net interest margin (TEB) on the non-securitized portfolio only increased by 3 basis points to 2.76%

from 2.73% last quarter reflecting higher average balances of cash resources and securities and lower rates earned on those assets.

The increase of 22 basis points in net interest margin on the CMHC-sponsored securitized portfolio to 0.75% from 0.53% last quarter resulted from the prepayment penalty interest income mentioned above. This portfolio continues to have a relatively minor impact on the overall net interest margin given the relative proportion of the portfolio. The average assets in the portfolio during the quarter represented only 12.2% of total average assets.

Q1 2017 v Q1 2016

Net interest income increased $3.3 million or 2.7% over the same quarter last year, reflecting increases in both non-securitized and securitized net interest income. Total net interest margin (TEB) increased 6 basis points from 2.38% while non-securitized net interest margin (TEB) increased by 2 basis points and CMHC-sponsored securitized net interest margin increased 28 basis points. Similar to the above discussion, the improvement in net interest margin over last year reflects the prepayment interest income recognized during Q1 2017 combined with the lower rate of expense on the non-securitized portfolio. The lower rate of interest expense reflects lower rates offered on deposits combined with the absence in Q1 2017 of interest expense on the higher-rate senior debt which was repaid during Q2 2016. The improvement in non-securitized net interest margin was partially offset by the decrease in the average rate earned on the traditional single-family residential mortgage portfolio which continued to decline as a result of more competitive pricing and a reflection of the improved credit quality of the portfolio as indicated above.

Non-Interest Income

Table 4: Non-Interest Income

				Quarter		
(000s, except %)	**Q1 2017**	Q4 2016	Change		Q1 2016	Change
Fees and other income	**$ 16,331**	$ 17,613	(7.3)%		$ 19,165	(14.8)%
Securitization income	**6,432**	9,064	(29.0)%		7,682	(16.3)%
Gain on acquisition of CFF Bank	**-**	-	-		651	(100.0)%
Net realized and unrealized losses on securities	**(3)**	-	-		(175)	98.3%
Net realized and unrealized losses on derivatives	**(875)**	(2,700)	67.6%		(4,334)	79.8%
	$ 21,885	$ 23,977	(8.7)%		$ 22,989	(4.8)%

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	
(000s)	**March 31 2017**	December 31 2016	March 31 2016
Fair value hedging ineffectiveness[1]	**$ (564)**	$ (2,679)	$ (4,799)
Derivative instruments marked-to-market (losses) gains[2]	**(311)**	(21)	465
Net realized and unrealized loss on derivatives	**$ (875)**	$ (2,700)	$ (4,334)

[1] Included in fair value hedging ineffectiveness in 2016 are derivative losses related to senior debt.
[2] Included in derivative instruments marked to market are swaps and bond forwards.

Q1 2017 v Q4 2016

Fees and other income decreased 7.3% from last quarter reflecting changes in portfolio mix and in the fee structure during the quarter. The Company continues to review its fee structure to be responsive to its markets.

Securitization income in the quarter resulted primarily from gains recognized on the sale of residual interests in single-family residential mortgage securitizations and the sale of insured multi-unit residential mortgages. Securitization gains primarily includes sales of underlying mortgages either newly originated or renewed during the period along with insured mortgages held in inventory from prior periods. The decrease in securitization income resulted primarily from the decrease in gains on sale of both residual interests and multi-unit residential mortgages. Sales of residual interests during the quarter led to gains of $2.1 million on the derecognition of $288.5 million of insured single-family residential mortgages compared to gains of $4.3 million on the derecognition of $392.3 million of underlying mortgages last quarter. Gains of $2.7 million were recorded on sales of $286.7 million of insured multi-unit residential mortgages during the quarter compared to the gains of $2.7 million recognized last quarter on sales of $315.0 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 $1.8 million in the quarter, consistent with last quarter. In the case of single-family residential mortgage sales, the Company will service the loans and record related fee revenue over the remaining term of the underlying mortgages. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further net servicing revenue or fees are recorded. Servicing income increases as the size of the single-family residential mortgage portfolio under administration increases.

The Company did not sell any available for sale securities during the quarter. The loss on securities of $3 thousand resulted from additional impairment losses on securities already identified as impaired. Please see Note 16 to the unaudited interim consolidated interim financial statements included in this report for sales subsequent to the end of the quarter. The Company did not sell any available for sale securities or recognize any impairment losses last quarter.

Q1 2017 v Q1 2016

Fees and other income decreased 14.8% from last year, reflecting changes in the portfolio mix and in the fee structure as the Company adjusted certain fees in the first half of 2016 to be responsive to its markets.

The decrease in securitization income over last year reflects a decrease in sales of residual interests in single-family residential mortgage securitizations partially offset by an increase in sales of insured multi-unit residential mortgages.

During the first quarter of 2016, the Company did not sell any available for sale securities, but did recognized $0.2 million of additional impairment losses on securities already identified as impaired.

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

						For the three months ended
(000s, except %)		**March 31, 2017**		December 31, 2016		March 31, 2016
	Amount	**% of Gross Loans [1]**	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]
Provision[2]						
Single-family residential mortgages	**$ 131**	**0.00%**	$ 1,029	0.03%	$ 667	0.02%
Residential commercial mortgages	**21**	**0.03%**	2	0.00%	-	-
Non-residential commercial mortgages	**69**	**0.01%**	45	0.01%	(55)	(0.01)%
Credit card loans and lines of credit[3]	**3,373**	**3.49%**	1,164	1.26%	416	0.44%
Other consumer retail loans	**325**	**0.33%**	160	0.17%	152	0.19%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-
Total individual provision	**3,919**	**0.08%**	2,400	0.05%	1,180	0.03%
Total collective provision	**2,000**	**0.04%**	-	-	214	0.00%
Total provision	**$ 5,919**	**0.13%**	$ 2,400	0.05%	$ 1,394	0.03%
Net Write-Offs[2]						
Single-family residential mortgages	**$ 200**	**0.01%**	$ 440	0.01%	$ 1,149	0.04%
Residential commercial mortgages	**-**	**-**	2	0.00%	-	-
Non-residential commercial mortgages	**1**	**0.00%**	(5)	(0.00)%	(2)	(0.00)%
Credit card loans and lines of credit	**1,133**	**1.17%**	469	0.51%	337	0.36%
Other consumer retail loans	**222**	**0.23%**	48	0.05%	81	0.10%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-
Net write-offs	**$ 1,556**	**0.03%**	$ 954	0.02%	$ 1,565	0.04%

[1]Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.
[2]There were no individual provisions, allowances or net write-offs on securitized mortgages.
[3]Provision for credit card loans and lines of credit includes $2.3 million related to the non-core prepaid card business.

The Company continues to have strong credit performance with the provision for credit losses at $5.9 million in the quarter, or 0.16% of gross uninsured loans and 0.13% of total gross loans on an annualized basis. The increase over last quarter and last year resulted from an increase in the collective allowance for non-residential commercial mortgages which increased in consideration of the growing size of this portfolio. The current collective allowance continues to exceed the cumulative net write-offs experienced over the last 36 months. The increase in the provision for credit losses also reflects an increase of $2.3 million in the individual allowance related to the non-core prepaid card business. Certain amounts due from program managers related to this non-core business were provisioned. Excluding this $2.3 million of individual provision, the provision for credit losses was 0.09% of gross uninsured loans and 0.08% of total gross loans on an annualized basis.

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 $1.6 million in the quarter, or 0.03% of gross loans in the quarter; up from 0.02% last quarter and down from 0.04% last year.

Net non-performing loans were $44.7 million or 0.24% of gross loans at the end of the quarter compared to 0.30% last quarter and 0.34% 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
(000s, except % and number of employees)	**Q1 2017**	Q4 2016	Change	Q1 2016	Change
Salaries and benefits	**$ 29,619**	$ 24,134	22.7%	$ 28,711	3.2%
Premises	**3,752**	3,607	4.0%	3,851	(2.6)%
Other operating expenses	**31,094**	43,287	(28.2)%	25,455	22.2%
	$ 64,465	$ 71,028	(9.2)%	$ 58,017	11.1%
Efficiency ratio (TEB)	**43.4%**	48.8%	(5.4)%	39.6%	3.8%
Adjusted efficiency ratio (TEB)	**36.6%**	39.1%	(2.5)%	36.3%	0.3%
Active employees at the end of period	**875**	916	(4.5)%	860	1.7%

The Company expects that it will be subject to an increase in Non-Interest Expenses as a result of the recent liquidity concerns.

Q1 2017 v Q4 2016

The decrease in non-interest expenses reflects the decrease in other operating expenses partially offset by an increase in salaries and benefits.

Salaries and benefits increased as a result of the Project EXPO restructuring charges, which primarily comprises severance and related costs. In the absence of these costs, salaries and benefits have decreased from last quarter reflecting the decrease in active employees which resulted from the Project EXPO expense savings initiative.

Other operating expenses decreased from last quarter primarily as result of the absence of the $14.1 million of impairment losses recognized last quarter in relation to goodwill for the Company's PSiGate business and deferred software development costs. Other operating expenses for Q1 2017 include an impairment loss of $2.7 million related to intangible and other assets within the non-core prepaid card business, which partially offsets the decrease in other operating expenses.

The above mentioned Project EXPO restructuring charges and impairment losses in both Q1 2017 and Q4 2016 have been identified as items of note and removed for the purpose of determining adjusted results. In the absence of these items of note, both salaries and benefits and other operating costs are lower than last quarter as reflected in the decrease in adjusted efficiency ratio (TEB).

Q1 2017 v Q1 2016

The increase in non-interest expenses over last year reflects increases in both salaries and benefits and other operating costs. As indicated above salaries and benefits for the first quarter of 2017 include Project EXPO restructuring charges. Salaries and benefits last year also included $5.1 million of severance and related costs which were identified as items of note. In the absence of these severance and related costs, salaries and benefits are 3.7% lower than last year. Other operating expenses for the quarter include the impairment loss related to assets within the non-core prepaid card business of $2.7 million mentioned above. In the absence of this item of note, other operating expenses grew in line with revenue growth as reflected in the relatively consistent adjusted efficiency ratio (TEB) of 36.6% for the quarter compared to 36.3% last quarter.

Income Taxes

The provision for income taxes for Q1 2017 was $19.3 million (effective tax rate of 24.97%), compared to $20.5 million (effective tax rate of 28.75%) in Q4 2016 and $21.8 million (effective tax rate of 25.38%) in Q1 2016.

The Company's effective tax rate in Q1 2017 primarily differs from the statutory rate due to the receipt of dividends from Canadian corporations in the amount of $2.3 million ($2.6 million – Q4 2016 and $2.7 million – Q1 2016) that are not subject to tax.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the quarter was $70.3 million compared to $59.0 million in Q4 2016 and $57.5 million in Q1 2016.

OCI in the quarter was a gain of $12.2 million compared to a gain of $8.3 million in Q4 2016 and a loss of $6.8 million in Q1 2016. The gain in OCI reflects the improvement during the quarter 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 Q1 2017. Please see Note 16 to the unaudited interim consolidated interim financial statements included in this report for sales subsequent to the end of the quarter.

FINANCIAL POSITION REVIEW

Assets

Table 8: Loan Portfolio

				As at
(000s, except % and number of loans)	**March 31 2017**	**% of Total**	December 31 2016	% of Total
CMHC-sponsored securitized single-family residential mortgages	**$ 1,803,005**	**6.6%**	$ 1,792,301	6.8%
CMHC-sponsored securitized multi-unit residential mortgages	**597,940**	**2.2%**	620,193	2.4%
Bank-sponsored securitization conduit single-family residential mortgages	**246,069**	**0.9%**	114,310	0.4%
Traditional single-family residential mortgages	**11,421,317**	**42.1%**	11,024,960	41.7%
ACE Plus single-family residential mortgages	**371,505**	**1.4%**	433,800	1.6%
Accelerator single-family residential mortgages	**826,792**	**3.0%**	963,248	3.7%
Residential commercial mortgages	**331,457**	**1.2%**	305,188	1.2%
Non-residential commercial mortgages	**2,157,013**	**7.9%**	1,954,820	7.4%
Credit card loans and lines of credit	**383,610**	**1.4%**	369,678	1.4%
Other consumer retail loans	**394,047**	**1.5%**	378,901	1.4%
Total loan portfolio	**18,532,755**	**68.2%**	17,957,399	68.0%
Loans held for sale	**40,721**	**0.2%**	77,918	0.3%
Total on-balance sheet loans	**$ 18,573,476**	**68.4%**	$ 18,035,317	68.3%
Off-balance sheet loans				
Single-family residential mortgages	**$ 5,163,935**	**19.0%**	$ 5,207,351	19.7%
Multi-unit residential mortgages	**3,426,225**	**12.6%**	3,181,406	12.0%
Total off-balance sheet loans	**8,590,160**	**31.6%**	8,388,757	31.7%
Total loans under administration	**$ 27,163,636**	**100.0%**	$ 26,424,074	100.0%
Total insured mortgages under administration	**$ 11,966,525**	**45.4%**	$ 11,913,490	46.4%
Total uninsured mortgages under administration	**14,419,454**	**54.6%**	13,762,005	53.6%
Total mortgages under administration	**$ 26,385,979**	**100.0%**	$ 25,675,495	100.0%
Number of loans outstanding under administration				
Mortgages	**65,631**		65,665	
Credit card loans and lines of credit	**43,716**		42,707	
Other consumer retail loans	**114,925**		115,244	
Total number of loans outstanding	**224,272**		223,616	

Table 9: Mortgage Continuity

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

(000s)	For the three months ended March 31, 2017			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	**$ 14,328,619**	**$ 1,003,299**	**$ 1,954,820**	**$ 17,286,738**
Advances	**1,712,370**	**294,840**	**338,429**	**2,345,639**
Scheduled payments and prepayments[1]	**(84,465)**	**(5,881)**	**(27,785)**	**(118,131)**
Discharges	**(1,127,144)**	**(35,195)**	**(106,048)**	**(1,268,387)**
Capitalization and amortization of fees and other	**127,766**	**(220)**	**(2,403)**	**125,143**
Sales of mortgages and residual interests	**(288,458)**	**(286,725)**	**-**	**(575,183)**
Balance at the end of the period	**$ 14,668,688**	**$ 970,118**	**$ 2,157,013**	**$ 17,795,819**

(000s)	For the three months ended December 31, 2016			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,449,796	$ 962,796	$ 1,854,115	$ 17,266,707
Advances	1,779,063	371,484	277,301	2,427,848
Scheduled payments and prepayments[1]	(88,355)	(5,173)	(11,499)	(105,027)
Discharges	(1,482,404)	(50,696)	(165,224)	(1,698,324)
Capitalization and amortization of fees and other	62,817	39,873	127	102,817
Sales of mortgages and residual interests	(392,298)	(314,985)	-	(707,283)
Balance at the end of the period	$ 14,328,619	$ 1,003,299	$ 1,954,820	$ 17,286,738

(000s)	For th three months ended March 31, 2016			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,927,528	$ 1,182,850	$ 1,490,648	$ 17,601,026
Advances	1,428,364	182,872	171,123	1,782,359
Scheduled payments and prepayments[1]	(84,302)	(6,935)	(5,750)	(96,987)
Discharges	(1,218,657)	(104,390)	(87,955)	(1,411,002)
Capitalization and amortization of fees and other	(7,493)	(21,887)	4,446	(24,934)
Sales of mortgages and residual interests	(400,474)	(196,468)	-	(596,942)
Balance at the end of the period	$ 14,644,966	$ 1,036,042	$ 1,572,512	$ 17,253,520

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

Table 10: Mortgage Advances

(000s)	For the three months ended March 31 2017	December 31 2016	March 31 2016
Single-family residential mortgages			
Traditional	$ 1,458,775	$ 1,325,896	$ 995,354
ACE Plus	105,950	106,477	69,198
Accelerator	147,645	346,690	363,812
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	45,005	53,999	46,151
Multi-unit insured residential mortgages	249,835	293,306	129,698
Other[1]	-	24,179	7,023
Non-residential commercial mortgages			
Store and apartments	31,763	14,878	19,592
Commercial	306,666	262,423	151,531
Total mortgage advances	$ 2,345,639	$ 2,427,848	$ 1,782,359

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

Total loans under administration were $27.16 billion at the end of the quarter, representing an increase of $739.6 million or 2.8% from the end of 2016 reflecting increases in both on- and off –balance sheet loans. On-balance sheet loans were up 3.0% from the end of 2016 while off-balance sheet loans were up 2.4% from the end of 2016. 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 advances of credit card and other lines of credit and other consumer retail loans.

Mortgage Lending

Uninsured Residential Mortgages – Traditional Mortgages and ACE Plus Mortgages

The Company's uninsured residential mortgage portfolio includes both its traditional mortgage portfolio and its ACE Plus mortgage portfolio. The ACE Plus product is a lower-rate mortgage product directed toward lower-risk borrowers, which the Company began originating in the second half of 2015. The Company also participates in a bank-sponsored securitization conduit program and has assigned select ACE Plus mortgages into this program. At the end of Q1 2017, ACE Plus mortgages with a balance of $246.1 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 $11.79 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 43.4% and 63.5%, respectively. The combined portfolio increased by 2.9% from the end of last year. Combined originations of traditional and ACE Plus mortgages of $1.56 billion in the quarter were up 47.0% over the same period last year and up 9.2% over Q4 2016. The Company continued to improve its mortgage retention efforts which have contributed to the portfolio growth in the first quarter.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.97 billion at the end of the quarter, reflecting an increase of 0.4% over the balance of $11.91 billion at at the end of 2016. Of this total, $8.59 billion were accounted for off-balance sheet, up $201.4 million or 2.4% from the end of 2016 and $1.32 billion or 18.1% from one year ago.

The Company originated $147.6 million in insured single-family Accelerator mortgages in the quarter down 59.4% from the comparable period of 2016 and down 57.4% from Q4 2016 in line with the expected impact of the government changes to insured mortgage rules announced late last year. The Company continued 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 Act mortgage-backed securities (NHA MBS), totaling $288.5 million in the quarter in underlying outstanding principal amounts and generating gains of $2.1 million. The NHA MBS market spread tightened during the quarter as there was less supply of NHA MBS in the market. The spread tightening in NHA MBS was partially offset by yield widening on benchmark Government of Canada bonds, hence the funding cost was marginally better. The underlying mortgages included mortgages newly originated or renewed during the period along with insured mortgages held in inventory from prior periods.

In Q1 2017, the Company originated $249.8 million of insured multi-unit residential mortgages in the quarter and sold $286.7 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 $2.7 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 23: 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 $338.4 million in the quarter reflecting an increase of 97.8% over the same period last year and 22.0% 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 2017, the Company will continue to participate in appropriate opportunities as they arise. The portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage advances continue to favour Ontario and, in particular, the Greater Toronto Area (GTA), during Q1 2017. 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 11: Consumer Lending Continuity

(000s)	March 31, 2017			December 31, 2016		
	Credit Card Loans and Lines of Credit	**Other Consumer Retail Loans**	**Total Consumer Lending**	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total Consumer Lending
Balance at the beginning of the period	**$ 369,678**	**$ 378,901**	**$ 748,579**	$ 374,348	$ 361,183	$ 735,531
Advances and draw-downs	**53,628**	**39,466**	**93,094**	55,506	47,455	102,961
Repayments	**(50,389)**	**(35,405)**	**(85,794)**	(71,203)	(43,243)	(114,446)
Capitalization of interest and fees, portfolio sales and other	**10,693**	**11,085**	**21,778**	11,027	13,506	24,533
Balance at the end of the period	**$ 383,610**	**$ 394,047**	**$ 777,657**	$ 369,678	$ 378,901	$ 748,579
Authorized limit on new credit card issuances	**$ 55,200**			$ 43,469		

For the three months ended

(000s)	March 31, 2016		
	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total Consumer Lending
Balance at the beginning of the period	$ 370,825	$ 296,857	$ 667,682
Advances and draw-downs	49,413	47,477	96,890
Repayments	(56,017)	(29,477)	(85,494)
Capitalization of interest and fees, portfolio sales and other	10,437	6,880	17,317
Balance at the end of the period	$ 374,658	$ 321,737	$ 696,395
Authorized limit on new credit card issuances	$ 37,037		

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 4.2% of the total on-balance sheet loan portfolio, these assets generated 8.9% of the interest income from loans for the quarter.

Credit card and lines of credit balances increased to $383.6 million from $369.7 million from the end of 2016. Equityline *Visa* accounts (Home Equity Line of Credit) represent 88.6% of the total credit card and lines of credit balance. The growth of the Equityline *Visa* product is consistent with the increased demand for the Company's traditional single-family residential mortgage product that the Company has observed following the mortgage rule changes that came into effect in late 2016 as indicated in the Outlook section of this MD&A.

The balance of other consumer retail loans increased 4.0% during the quarter to $394.0 million from $378.9 million at the end of 2016.

Cash and Securities

Combined cash resources and securities of $1.80 billion increased $60.3 million from the end of 2016. The Company has been increasing its liquidity position in anticipation of seasonally higher mortgage origination volumes in the spring and summer months. This increase in the quarter was offset partially by the high-interest savings account redemptions at the end of the quarter resulting from the reputational concerns facing the Company as discussed in the Outlook and Going Concern Uncertainty section of this MD&A. Redemptions of the Company's high-interest savings accounts accelerated subsequent to the end of the quarter placing considerable pressure on the Company's liquidity position and funding capabilities. Please see the Outlook and Going Concern Uncertainty and Liquidity and Funding Risk sections of this MD&A for further information).

The Company has an uncommitted credit facility and a committed and uncommitted insured mortgage purchase facility with a Canadian chartered bank. The details of these facilities are disclosed in Notes 4 and 16 to the unaudited interim consolidated financial statements included in this report.

Other Assets

Total other assets of $658.3 million decreased $131.9 million from the end of 2016. The decrease from last quarter primarily reflects a decrease in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program reflecting maturities in the program. In general, as CMB maturities approach, the Company replaces maturing securitized mortgages with non-Home Trust MBS and treasury bills.

Liabilities and Shareholders' Equity

Deposits and Securitization

Table 12: Deposits and Securitization Liabilities

(000s, except % and number of accounts)	March 31 2017	% of Totals	December 31 2016	% of Totals
				As at
Deposits payable on demand				
High-interest savings accounts	$ 1,904,967	11.7%	$ 2,016,881	12.7%
Oaken savings accounts	361,664	2.2%	340,809	2.1%
Other deposits payable on demand	110,769	0.7%	174,113	1.1%
	2,377,400	14.6%	2,531,803	15.9%
Deposits payable on fixed dates				
Brokered GICs	11,650,130	71.7%	11,120,107	70.0%
Oaken GICs	1,417,612	8.7%	1,429,153	9.0%
Institutional deposit notes	804,469	5.0%	804,967	5.1%
	13,872,211	85.4%	13,354,227	84.1%
Total deposits	16,249,611	100.0%	15,886,030	100.0%
Securitization liabilities				
CMHC-sponsored mortgage-backed security liabilities	922,377	34.8%	898,386	33.9%
CMHC-sponsored Canada Mortgage Bond liabilities	1,474,539	55.7%	1,637,117	61.8%
Bank-sponsored securitization conduit liabilities	250,129	9.5%	114,146	4.3%
Total securitization liabilities	$ 2,647,045	100.0%	$ 2,649,649	100.0%
Total number of deposit accounts	457,803		441,782	

Table 12(A): Deposits by Remaining Contractual Term to Maturity

						March 31 2017	December 31 2016
	Payable on Demand	0-3 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	$ 1,767,200	2,223,245	$ 3,919,828	$ 4,553,945	$ 1,579,088	$ 14,043,306	$ 13,766,732
Businesses	610,200	198,156	206,388	262,779	124,313	1,401,836	1,314,331
Institutional deposits	-	324,947	174,855	304,667	-	804,469	804,967
	$ 2,377,400	2,746,348	$ 4,301,071	$ 5,121,391	$ 1,703,401	$ 16,249,611	$ 15,886,030

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 85.4% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The above table presents the deposit portfolio by remaining contractual term to maturity. The Company generally matches the terms of its deposits with its assets. Please see the Structural Interest Rate Risk and the Liquidity and Funding Risk sections of this MD&A for more information.

Total deposits of $16.25 billion were up 2.3% compared to the end of 2016. However, liquidity events occurring at the end of the quarter and continuing subsequent to the end of the quarter have had a significant negative impact on the Company's funding capabilities, particular with respect to deposits from diversified sources, as discussed in the Outlook and Going Concern Uncertainty section of this MD&A. Deposits from diversified sources, which comprise Home Trust high-interest savings accounts, Oaken deposits and institutional deposit notes, accounted for 27.6% of total deposits at the end of the quarter compared to 28.9% at the end of 2016 and 26.3% one year ago. The decline in balances from the end of 2016 resulted primarily from a significant level of redemptions of high-interest savings accounts at the end of the quarter, which has been attributed to the heightened reputational concerns facing the Company. Further redemptions were observed subsequent to the end of the quarter as high-interest savings account balances saw a further decline from the end of Q1 2017 of $1.77 billion to $134.2 million as of May 9, 2017. These redemptions have had a significant impact on the Company's liquidity position and funding capabilities. Please see the Outlook and Going Concern Uncertainty and Liquidity and Funding sections of this MD&A and note 16 to the unaudited interim consolidated financial statements included in this report for further information.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities decreased $2.6 million from the end of 2016 primarily due to the maturity of CMB liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. MBS liabilities have increased from the end of 2016, 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 are primarily sold off-balance sheet subsequent to securitization. Bank-sponsored securitization conduit liabilities increased $136.0 million as a result of the placement of ACE Plus mortgages into the conduit.

Other Liabilities

Other liabilities of $431.2 million increased by $55.3 million from the end of 2016. The increase in other liabilities resulted primarily from an increase in accrued interest payable and accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities.

Shareholders' Equity

The increase of $48.3 million in total shareholders' equity since December 31, 2016 was primarily internally generated from net income, net of $16.7 million for dividends to shareholders and $6.0 million related to the repurchase of shares.

At the end of the quarter, the book value per common share was $25.94, compared to $25.12 at the end of 2016. 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 mortgages which were $1.64 billion at March 31, 2017 ($1.34 billion – Q4 2016). 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 $641.5 million at March 31, 2017 ($486.6 million – Q4 2016). Offers for the loans remain open for various periods. As at March 31, 2017, unutilized credit card balances amounted to $160.1 million ($146.3 million – Q4 2016). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $37.9 million at March 31, 2017 ($28.8 million – Q4 2016). The unutilized credit and offers to extend credit are in the normal course of business and are considered through the Company's liquidity and capital management processes.

The Company has $8.59 billion ($8.39 billion – Q4 2016) 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 the business, the Company refers borrowers who require loans at a higher loan-to-value ratio than the Company will provide to second mortgage lenders. All referrals are conducted at arm's length and at market terms. Second mortgage lenders independently underwrite all second mortgages with the borrowers. One of the second mortgage lenders is related to the Company through a close family relationship with a member of the Company's key management personnel. The amount of second mortgages referred to this lender during the three months ended March 31, 2017 and the year ended December 31, 2016 is not significant.

CAPITAL MANAGEMENT

The Company's Capital Management Policy and its Capital Adequacy measurement have not changed from the descriptions provided in the 2016 Annual report. The table below provides information on Home Trust's regulatory capital position, risk-weighted assets, capital ratios and leverage ratio.

Table 13: Basel III Regulatory Capital (Based only on the consolidated subsidiary, Home Trust Company)

		As at
(000s, except ratios)	**March 31 2017**	December 31 2016
	All-In Basis	All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 38,497**	$ 38,497
Contributed surplus	**951**	951
Retained earnings	**1,645,623**	1,604,758
Accumulated other comprehensive loss	**(42,833)**	(55,040)
Cash flow hedge reserves	**1,304**	1,476
Regulatory deductions from CET 1[1]	**(158,747)**	(160,917)
Total CET 1 capital	**1,484,795**	1,429,725
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,484,795**	1,429,725
Tier 2 capital		
Collective allowance for credit losses[2]	**39,063**	37,063
Total Tier 2 capital	**39,063**	37,063
Total regulatory capital	**1,523,858**	1,466,788
Risk-weighted assets for		
Credit risk	**8,015,101**	7,578,490
Operational risk	**1,058,450**	1,050,888
Total risk-weighted assets, before CVA[3]	**9,073,551**	8,629,378
CVA adjustment for CET 1 capital	**11,853**	11,544
Total CET 1 capital risk-weighted assets	**9,085,404**	8,640,922
CVA adjustment for Tier 1 capital	**12,677**	12,806
Total Tier 1 capital risk-weighted assets	**9,086,228**	8,642,184
CVA adjustment for total capital	**13,335**	13,889
Total risk-weighted assets	**$ 9,086,886**	$ 8,643,267
Regulatory capital to risk-weighted assets		
CET 1 ratio	**16.34%**	16.55%
Tier 1 capital ratio	**16.34%**	16.54%
Total regulatory capital ratio	**16.77%**	16.97%
Leverage Ratio	**7.29%**	7.20%
National regulatory minimum		
CET 1 ratio	**7.00%**	7.00%
Tier 1 capital ratio	**8.50%**	8.50%
Total regulatory capital ratio	**10.50%**	10.50%
Leverage ratio	**3.00%**	3.00%

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

[2]The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of total credit risk-weighted assets, inclusive of total CVA before transitional phase-in adjustments, in Tier 2 capital. At March 31, 2017, the Company's collective allowance represented 0.49% of total credit risk-weighted assets, inclusive of total CVA.

[3]CVA – Credit Valuation Adjustment

Home Trust's regulatory "all-in" Total capital ratios have decreased from the end of 2016 as a result of the increase in risk-weighted assets. Risk-weighted assets increased in line with increases in the Company's uninsured mortgage portfolio.

The Leverage ratio is a non-risk adjusted view of a company's leverage. The Leverage ratio only includes Tier 1 capital. The Leverage ratio also includes some off-balance sheet exposures, including potential future exposure amounts on derivatives, credit equivalent amounts of certain commitments and securities financing transactions. The Company's Leverage ratio 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 represent a discussion of risk management policies and procedures relating to certain risks that are required under IFRS 7 *Financial Instruments: Disclosures,* which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the unaudited interim consolidated financial statements for the three months ended March 31, 2017.

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The Company continues to invest significantly in risk management practices and resources. The Company's key risk management practices, principal risks, risk appetite, risk governance and risk management tools remain in place and are continually reviewed and enhanced from those outlined on pages 41 through 60 in the MD&A section of the Company's 2016 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, risk limits, a Board-approved Credit Risk Policy, delegated lending authorities, 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 2016 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 14: Mortgage Portfolio On Balance Sheet

(000s, except %)	**March 31 2017**	December 31 2016	September 30 2016	June 30 2016	March 31 2016	December 31 2015
Total mortgage portfolio balance (net of individual allowance)	**$ 17,755,098**	$ 17,208,820	$ 17,192,500	$ 17,230,568	$ 17,183,333	$ 17,465,983
Percentage of residential mortgages	**87.9%**	88.6%	89.2%	90.4%	90.8%	91.5%
Percentage of non-residential mortgages	**12.1%**	11.4%	10.8%	9.6%	9.2%	8.5%
Percentage of mortgage portfolio insured[1]	**18.8%**	20.0%	21.1%	22.1%	22.5%	23.7%
Percentage of mortgages current	**98.8%**	98.3%	98.5%	98.4%	98.3%	98.2%
Percentage of total mortgages over 90 days past due	**0.26%**	0.33%	0.32%	0.27%	0.25%	0.29%

[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 19 and 20 for further information. In certain situations the Company may make referrals to private lenders where the loan terms and conditions requested by the client are not able to be satisfied by the Company.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. High-rise condominiums represent 8.2% of the residential mortgage portfolio and, of these, 21.4% are insured. The average current LTV of the high-rise condominium portfolio was 63.2% at the end of Q1 2017. The credit performance of the high-rise condominium portfolio is strong and within the Company's expectations with 99.2% of the portfolio current and 0.2% over 90 days past due.

The Company continues to monitor its exposure and the credit performance of mortgages in energy-producing regions, including in Alberta, Saskatchewan and Newfoundland and Labrador. At March 31, 2017, 2.5% of the uninsured mortgage portfolio was in these regions, with an average LTV of 61.1% and with 96.4% of the mortgages current.

The level of non-residential mortgages increased over the last 12 months. The proportion is well within the policy limits.

Consumer Lending

Credit card loans and line of credit balances were $383.6 million at the end of Q1 2017, most of which are secured by either cash deposits or residential property. Within the credit card and line 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 62.9% at the end of Q1 2017, compared to 63.2% at the end of 2016 and 63.2% at the end of Q1 2016. 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 line of credit portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of March 31, 2017, $4.1 million or 1.1% of the credit card and line of credit portfolio was over 90 days in arrears, compared to $2.4 million or 0.4% at December 31, 2016 and $2.2 million or 0.6% at March 31, 2016. Included in the balance over 90 days in arrears are $2.1 million of amounts receivable on the Company's non-core prepaid card business, all of which has been individually provided for.

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

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.

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 15: Net Non-Performing Loans by Product

		As at
(000s, except %)	**March 31 2017**	December 31 2016
Single-family residential mortgages	**$ 35,123**	$ 47,854
Residential commercial mortgages	**337**	-
Non-residential commercial mortgages	**7,945**	4,547
Credit card loans and lines of credit	**1,295**	1,269
Other consumer retail loans	**-**	-
Securitized single-family residential mortgages	**-**	-
Securitized multi-unit residential mortgages	**-**	-
Net non-performing loans	**$ 44,700**	$ 53,670
Percentage of gross loans	**0.24%**	0.30%

Write-offs, net of recoveries, during the quarter totaled $1.6 million or 0.03% of gross loans on an annualized basis. The Company continually monitors arrears and write-offs and deals quickly with non-performing loans. From time to time, the Company may sell non-performing loans for work out to third parties. The Company has not sold any loans to such parties in 2017.

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

Table 16: Allowance for Credit Losses by Product

(000s)		As at
	March 31 2017	December 31 2016
Individual allowances		
Single-family residential mortgages	**$ 3,252**	$ 3,321
Residential commercial mortgages	**21**	-
Non-residential commercial mortgages	**196**	128
Credit card loans and lines of credit	**3,020**	780
Other consumer retail loans	**526**	423
Total individual allowance	**7,015**	4,652
Collective allowance		
Single-family residential mortgages	**23,032**	23,032
Residential commercial mortgages	**327**	327
Non-residential commercial mortgages	**11,500**	9,500
Credit card loans and lines of credit	**3,904**	3,904
Other consumer retail loans	**300**	300
Total collective allowance	**39,063**	37,063
Total allowances	**$ 46,078**	$ 41,715

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 March 31, 2017, the collective allowance was $39.1 million ($37.1 million – December 31, 2016), representing more than the cumulative total net write-offs over the past 36 months.

Current accounting standards do not permit the Company to carry allowances for possible or future losses. This risk is considered in the determination of the appropriate level of capital supporting the Company's operations. The Company holds capital for possible further credit losses. This includes capital required by regulation (See Table 13) 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 March 31, 2017, the Company held total regulatory capital at 160% 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 17: Single-family Residential Loans by Province

(000s, except %)							**As at March 31, 2017**
	Insured Residential Mortgages[1]	**Percentage of Total for Province**	**Uninsured Residential Mortgages**	**Percentage of Total for Province**	**Equityline *Visa*[2]**	**Percentage of Total for Province**	**Total**
British Columbia	**$ 271,659**	**30.5%**	**$ 616,062**	**69.2%**	**$ 2,514**	**0.3%**	**$ 890,235**
Alberta	**314,956**	**49.0%**	**318,665**	**49.5%**	**9,861**	**1.5%**	**643,482**
Ontario	**1,864,826**	**14.6%**	**10,569,011**	**82.9%**	**324,186**	**2.5%**	**12,758,023**
Quebec	**96,735**	**25.2%**	**286,324**	**74.5%**	**1,267**	**0.3%**	**384,326**
Other	**189,528**	**57.0%**	**140,922**	**42.3%**	**2,203**	**0.7%**	**332,653**
	$ 2,737,704	**18.2%**	**$ 11,930,984**	**79.5%**	**$ 340,031**	**2.3%**	**$ 15,008,719**

(000s, except %)							As at December 31, 2016
	Insured Residential Mortgages[1]	Percentage of Total for Province	Uninsured Residential Mortgages	Percentage of Total for Province	Equityline *Visa*[2]	Percentage of Total for Province	Total
British Columbia	$ 286,444	32.1%	$ 603,377	67.6%	$ 2,585	0.3%	$ 892,406
Alberta	298,432	47.9%	314,519	50.5%	10,347	1.6%	623,298
Ontario	1,950,188	15.7%	10,145,301	81.8%	304,468	2.5%	12,399,957
Quebec	99,465	25.1%	295,017	74.6%	1,217	0.3%	395,699
Other	192,093	56.8%	143,783	42.5%	2,268	0.7%	338,144
	$ 2,826,622	19.3%	$ 11,501,997	78.5%	$ 320,885	2.2%	$ 14,649,504

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

Table 18: Insured and Uninsured Single-family Residential Mortgages by Effective Remaining Amortization Period

(000s, except %)						**As at March 31, 2017**
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	**$ 754,754**	**$ 2,321,725**	**$ 11,543,915**	**$ 45,891**	**$ 2,403**	**$ 14,668,688**
Percentage of total	**5.2%**	**15.8%**	**78.7%**	**0.3%**	**0.0%**	**100.0%**

(000s, except %)						As at December 31, 2016
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 696,937	$ 2,329,016	$ 11,227,579	$ 72,348	$ 2,739	$ 14,328,619
Percentage of total	4.9%	16.3%	78.3%	0.5%	0.0%	100.0%

Table 19: Weighted-average Loan-to-Value Ratios for Uninsured Single-family Residential Mortgages Originated During the Quarter

	For the three months ended					
	March 31 2017		December 31 2016		March 31 2016	
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline Visa[1]
British Columbia	**62.4%**	**47.5%**	63.1%	56.8%	64.6%	57.1%
Alberta	**68.9%**	**65.2%**	67.4%	32.3%	72.1%	68.6%
Ontario	**71.6%**	**61.6%**	71.9%	63.3%	73.0%	66.4%
Quebec	**67.6%**	**24.5%**	70.3%	64.0%	69.4%	60.4%
Other	**69.8%**	**62.7%**	72.7%	67.6%	71.7%	50.5%
Total	**71.1%**	**61.5%**	71.4%	63.2%	72.3%	66.4%

[1]Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances. LTVs are calculated using appraised property values at the time of origination.

The Company actively manages the mortgage portfolio and performs regular and ad-hoc stress testing. Stress testing includes scenarios that are based on a combination of increasing unemployment, rising interest rates, and a decline in real estate values, as well as specific operational, market and single-factor stress tests. The probability of default in the residential mortgage portfolio is most closely correlated with changes in employment rates. Consequently, during an economic downturn, either regionally or nationally, the Company would expect an increased rate of default and also an increase in credit losses arising from lower real estate values. The Company's stress tests related to either regional or national economic downturns, which include declining housing prices and increased unemployment, indicate that the Company has sufficient capital to absorb such events, albeit with increases to credit losses. The total single-family residential mortgage portfolio including HELOC was $15.01 billion as of March 31, 2017, of which $2.74 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 March 31, 2017, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 60.4% compared to 60.9% at the end of 2016. These average current LTVs were estimated with appraised property values adjusted for price changes by using the Teranet-National Bank home price index. This index provides changes in prices for all of Canada by region using the first three digits of the postal code in which the property is located. The Company began using this index for reporting LTVs as at December 31, 2016. For previous periods, the Company had used Teranet's publicly available 11-city composite index for property price adjustment. The new index provides more granular adjustments in property prices and where those property price adjustments have resulted in increased prices, the reported LTVs have decreased with use of the new index accordingly. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The weighted-average LTV for each significant market is indicated below.

Table 20: Weighted-Average Loan-to-Value Ratios for Uninsured Residential Mortgages

	As at March 31, 2017			As at December 31, 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	**53.7%**	**96.6%**	**82.9%**	52.0%	98.4%	89.1%
Alberta	**65.2%**	**80.9%**	**47.0%**	65.0%	81.1%	46.8%
Ontario	**60.6%**	**86.7%**	**61.1%**	61.2%	85.7%	59.0%
Quebec	**63.3%**	**89.8%**	**51.4%**	62.8%	92.1%	53.4%
Other	**62.0%**	**87.1%**	**54.0%**	62.1%	86.4%	54.5%
Total	**60.4%**	**87.1%**	**61.5%**	60.9%	86.4%	60.1%

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

Market Risk

Market Risk is the potential for adverse changes in the value of assets, liabilities or earnings resulting from changes in market variables such as interest rates, equity prices and counterparty credit spreads. For the Company, Market Risk consists primarily of Investment Risk and Structural Interest Rate Risk. A summary of these risks is as follows:

Investment Risk

Investment risk is the risk of loss of earnings and capital from changes in security prices and dividends in the investment portfolio, whether they arise from macroeconomic factors, the economic prospects of the issuer, or the availability of liquid markets among other factors. The Company's investment portfolio consists primarily of preferred shares at 37.9% of the portfolio and corporate and governments bonds at 61.5% of the portfolio. The total balance was $549.5 million at the end of Q1 2017 compared to $534.9 million at the end of 2016 and $488.2 million at the end of Q1 2016.

As of March 31, 2017, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events during the quarter in relation to its preferred share or debt holdings (Refer to Note 4(B) of the unaudited interim consolidated financial statements as well as Note 16 for sales of securities subsequent to the end of the quarter).

There have been no changes to the Company's investment risk management framework since the end of 2016. Please see page 51 of the 2016 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 2016. Please see page 52 of the 2016 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, deposits, and CMB liabilities. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. 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 March 31, 2017 and December 31, 2016 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date 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 21: Interest Rate Sensitivity

(000s), except % (Unaudited)							**As at March 31, 2017**
	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	**$ 619,108**	**$ 5,590,917**	**$ 7,959,984**	**$ 6,277,367**	**$ 69,784**	**$ 476,225**	**$ 20,993,385**
Total liabilities and equity	**(2,266,631)**	**(3,621,643)**	**(4,327,265)**	**(8,573,219)**	**-**	**(2,204,627)**	**(20,993,385)**
Off-balance sheet items	**-**	**(1,565,149)**	**100,453**	**1,352,733**	**111,963**	**-**	**-**
Interest rate sensitive gap	**$ (1,647,523)**	**$ 404,125**	**$ 3,733,172**	**$ (943,119)**	**$ 181,747**	**$ (1,728,402)**	**$ -**
Cumulative gap	**$ (1,647,523)**	**$ (1,243,398)**	**$ 2,489,774**	**$ 1,546,655**	**$ 1,728,402**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**(7.8)%**	**(5.9)%**	**11.9%**	**7.4%**	**8.2%**	**-**	**-**

(000s), except % (Unaudited)							As at December 31, 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	$ 505,649	$ 5,347,430	$ 7,765,217	$ 6,311,564	$ 121,675	$ 477,242	$ 20,528,777
Total liabilities and equity	(2,358,084)	(2,671,185)	(5,390,888)	(7,945,293)	-	(2,163,327)	(20,528,777)
Off-balance sheet items	-	(1,282,939)	90,645	1,179,369	12,925	-	-
Interest rate sensitive gap	$ (1,852,435)	$ 1,393,306	$ 2,464,974	$ (454,360)	$ 134,600	$ (1,686,085)	$ -
Cumulative gap	$ (1,852,435)	$ (459,129)	$ 2,005,845	$ 1,551,485	$ 1,686,085	$ -	$ -
Cumulative gap as a percentage of total assets	(9.0)%	(2.2)%	9.8%	7.6%	8.2%	-	-

[1] Total assets in the 0-3 month category above include $2.15 billion in variable rate mortgages ($2.00 billion – Q4 2016)

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

Table 22: Impact of Interest Rate Shifts

(000s)	**March 31 2017**	December 31 2016	**March 31 2017**	December 31 2016
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 5,485**	$ 4,024	**$ (8,072)**	$ (5,696)
Impact on net present value of shareholders' equity	**4,099**	4,438	**(5,682)**	(6,415)
Impact on other comprehensive income	**3,325**	3,265	**(2,711)**	(2,677)

Liquidity and Funding Risk

This is the risk that the Company is unable to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its financial obligations (both on- and off-balance sheet) as they fall due. This risk will arise from fluctuations in the Company's cash flows associated with lending, securitization, deposit-taking, investing and other business activities. The high-interest savings demand deposit product adds to liquidity risk as depositors are allowed to withdraw deposits on notice in the absence of fixed contractual terms. There have been no significant changes to the Company's liquidity and funding risks, policies, guidelines or the measurement and management of the risks since the end of 2016. Please refer to page 56 of the 2016 Annual Report for more information. However, as discussed in the Outlook and Going Concern Uncertainty section of this MD&A, reputational concerns the Company is currently facing has put increasing pressure on the Company's liquidity requirements. The Company is monitoring and actively managing its liquidity position. As indicated in the Outlook and Going Concern Uncertainty section of this MD&A, the Company has secured a $2 billion credit line to mitigate the decline in high-interest savings account balances that have occurred subsequent to the end of the quarter. The Company has also sold preferred shares from its available for sale securities portfolio for proceeds of $154.2 million subsequent to the end of the quarter. Please see note 16 to the unaudited interim consolidated financial statement included in this report for further information on events that have taken place subsequent to the end of the quarter.

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

Table 23: Liquidity Resources

(000s, except %)	**March 31 2017**	December 31 2016
Cash and cash equivalents per balance sheet	**$ 1,251,190**	$ 1,205,394
Available for sale securities per balance sheet	**549,456**	534,924
Add: MBS included in residential mortgages	**505,956**	521,013
	2,306,602	2,261,331
Less: securities held for investment	**(208,410)**	(193,350)
Liquid assets at carrying value	**$ 2,098,192**	$ 2,067,981
Liquid assets at fair value	**$ 2,194,566**	$ 2,142,289
Liquid assets at carrying value as a % of total assets	**10.0%**	10.1%

Certain Company-originated MBS are held as liquid assets, but are classified in residential mortgages on the balance sheet, as required by IFRS. The underlying mortgages are insured and the securities are stamped by the CMHC. On an overall basis, liquidity resources fluctuate as the Company's future cash requirements change. As indicated above, redemptions of high-interest savings accounts subsequent to the end of the quarter have led to a significant decline in the Company's liquid assets. Liquid assets as at May 9, 2017 were $1.01 billion. Combined with the undrawn amount of $0.60 billion from the facility led by HOOPP, the Company's aggregate available liquidity and credit capacity totaled approximately $1.61 billion

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The impact of operational risk may include financial loss, reputational harm, or regulatory enforcement actions, among others. Operational risk is inherent in every business and support activity, including the practices for managing other risks such as credit, compliance and liquidity and funding risk. The strategies to manage operational risk, key components of the Company's operational risk framework and oversight of the framework have not changed significantly from the description provided on page 58 of the 2016 Annual Report.

Compliance Risk

Compliance risk for the Company has not changed from the descriptions provided in the 2016 Annual report. Please refer to page 58 of the 2016 Annual Report.

Capital Adequacy Risk

Capital Adequacy risk for the Company has not changed from the descriptions provided in the 2016 Annual report. Please refer to page 58 of the 2016 Annual Report.

Reputational Risk

Reputational risk for the Company has not changed from the descriptions provided in the 2016 Annual report. Please refer to page 59 of the 2016 Annual Report. However, the degree of reputational risk that the Company is currently facing has increased during the quarter as discussed in the Outlook and Going Concern Uncertainty section of this MD&A.

Risk Factors That May Affect Future Results

Risk factors that may affect future results have not changed from the descriptions provided in the 2016 Annual report other than the risks and uncertainty regarding the Company's ability to continue as a going concern as discussed in the Outlook and Going Concern Uncertainty section of this MD&A. Please refer to pages 59 and 60 of the 2016 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 2016 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.

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 24: Summary of Quarterly Results

(000s, except per share and %)	**2017**	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net interest income (TEB[1])	**$ 126,682**	$ 121,564	$ 120,777	$ 122,987	$ 123,490	$ 127,599	$ 122,635	$ 118,175
Less: TEB adjustment	**825**	944	853	884	973	941	937	965
Net interest income per financial statements	**125,857**	120,620	119,924	122,103	122,517	126,658	121,698	117,210
Non-interest income	**21,885**	23,977	25,171	24,658	22,989	24,255	23,385	29,061
Non-interest expense	**64,465**	71,028	54,982	54,912	58,017	54,681	44,955	47,374
Total revenue	**147,742**	144,597	145,095	146,761	145,506	150,913	145,083	146,271
Net income	**58,041**	50,706	66,190	66,252	64,248	70,239	72,443	72,317
Adjusted net income[2]	**65,482**	63,475	66,190	66,252	67,497	71,811	72,443	72,317
Return on shareholders' equity	**14.1%**	12.7%	16.9%	16.5%	15.7%	17.6%	18.7%	19.1%
Adjusted return on shareholders' equity[2]	**16.0%**	15.9%	16.9%	16.5%	16.4%	18.0%	18.7%	19.1%
Return on average total assets	**1.1%**	1.0%	1.3%	1.3%	1.2%	1.4%	1.4%	1.4%
Total assets under administration	**29,583,545**	28,917,534	28,327,676	28,430,730	27,960,592	27,316,476	25,404,219	25,456,212
Total loans under administration	**27,163,636**	26,424,074	26,012,884	25,732,657	25,222,523	25,058,122	23,426,735	22,922,440
Earnings per common share								
Basic	**$ 0.90**	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03
Diluted	**$ 0.90**	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03	$ 1.03
Adjusted earnings per common share[2]								
Basic	**$ 1.02**	$ 0.98	$ 1.01	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03
Diluted	**$ 1.02**	$ 0.98	$ 1.01	$ 0.99	$ 0.96	$ 1.02	$ 1.03	$ 1.03
Book value per common share	**$ 25.94**	$ 25.12	$ 24.47	$ 23.67	$ 23.75	$ 23.17	$ 22.37	$ 21.87
Efficiency ratio (TEB[1])	**43.4%**	48.8%	37.7%	37.2%	39.6%	36.0%	30.8%	32.2%
Adjusted efficiency ratio (TEB[1,2])	**36.6%**	39.1%	37.7%	37.2%	36.3%	33.7%	30.8%	32.2%
Common equity tier 1 ratio[3]	**16.34%**	16.55%	16.54%	16.38%	18.28%	18.31%	18.06%	18.03%
Tier 1 capital ratio[3]	**16.34%**	16.54%	16.53%	16.38%	18.28%	18.30%	18.06%	18.03%
Total capital ratio[3]	**16.77%**	16.97%	16.97%	16.82%	20.63%	20.70%	20.51%	20.53%
Net non-performing loans as a % of gross loans	**0.24%**	0.30%	0.31%	0.33%	0.34%	0.28%	0.30%	0.33%
Annualized provision as a % of gross uninsured loans	**0.16%**	0.07%	0.04%	0.08%	0.04%	0.04%	0.08%	0.07%
Annualized provision as a % of gross loans	**0.13%**	0.05%	0.03%	0.06%	0.03%	0.03%	0.06%	0.05%

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

2 See definition 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.

3 These figures relate to the Company's operating subsidiary, Home Trust Company.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, efficiency measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions while the second and third quarters have traditionally experienced higher levels of advances. First-quarter credit statistics may experience decline reflecting post-holiday arrears increases. Non-interest expenses and the efficiency ratio generally tend to increase in the third quarter, reflecting increased lending activity through the summer period (Please see the Non-Interest Expenses section of this MD&A for discussion on the higher levels of non-interest expenses in Q1 2017 and Q4 2016).

The Company continues to achieve positive financial results driven by strong net interest margins and favourable non-interest income, tempered by increased expenses as discussed in this report. Capital ratios over the last eight quarters reflect the Company's 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 Net Income and Adjusted Earnings per Share

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

The Company presents adjusted net income and adjusted earnings per share. The adjusted results remove items of note, net of income taxes, from reported results for items which management does not believe are indicative of future results. The items of note for Q1 2017 include an adjustment for Project EXPO restructuring charges and an adjustment for impairment loss on intangible and other assets. The items of note for Q4 2016 included an adjustment for a goodwill impairment loss and an adjustment for intangible assets impairment loss. The items of note for Q1 2016 included an additional gain recognized on acquisition of CFF Bank and certain severance and other related costs. Please see the Items of Note in the Income Statement Review section of this MD&A for more information. Total revenue, return on shareholders' equity, efficiency ratio, dividend payout ratio and operating leverage are also presented on an adjusted basis.

Reconciliation of Net Income to Adjusted Net Income

(000s, except and per share amounts)	**Q1 2017**	Q4 2016	Q1 2016
Net income	**$ 58,041**	$ 50,706	$ 64,248
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
Adjustment for goodwill impairment loss (net of tax)	**-**	9,000	-
Adjustment for impairment loss on intangible and other assets (net of tax)	**1,981**	3,769	-
Adjustment for project EXPO restructuring charges (net of tax)	**5,460**	-	-
Adjusted net income	**$ 65,482**	$ 63,475	$ 67,497
Adjusted basic earnings per share	**$ 1.02**	$ 0.98	$ 0.96
Adjusted diluted earnings per share	**$ 1.02**	$ 0.98	$ 0.96

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 the Capital Management section of this MD&A and Note 8(C) to the unaudited interim consolidated financial statements included in this report.

Dividend Payout Ratio and Adjusted Dividend Payout Ratio

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

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.

Operating Leverage

The operating leverage used in this MD&A is a measure used to relate non-interest expense growth to revenue growth. The Company calculates operative leverage as the difference, expressed as a percentage, between the percentage change in total revenue (see definition below) and percentage change in non-interest expenses in the period over the same period in the previous year. The Company presents its operating leverage on an adjusted basis by removing items of note from total revenue and non-interest expenses. A positive operating leverage indicates a trend of an improving relationship of total revenue to non-interest expense.

Provision as a Percentage of Gross Loans (PCL Ratio)

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

Provision as a Percentage of Gross Uninsured Loans

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

Return on Assets (ROA)

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

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

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

Risk-weighted Assets (RWA)

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust. The calculations are in accordance with guidelines issued by OSFI. Refer to the Capital Management section in this MD&A and Note 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 $0.8 million for Q1 2017 ($0.9 million – Q4 2016; $1.0 million – Q1 2016) increased interest income as used in the calculation of net interest margin. Net interest margin is discussed on a TEB throughout this MD&A. See Table 3 for the calculation of net interest income on a taxable equivalent basis.

Total Assets under Administration (AUA)

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

Total Loans under Administration (LUA)

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

Total Revenue and Adjusted Total Revenue

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

Glossary of Terms

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

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

Basis Point is one-hundredth of a percentage point.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

CVA – Credit Valuation Adjustment

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

HELOC – Home Equity Line of Credit

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

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

MBS – Mortgage-Backed Security

MD&A – Management's Discussion and Analysis

NCCF – Net Cumulative Cash Flow

NHA – National Housing Act

OCI – Other Comprehensive Income

OSFI – Office of the Superintendent of Financial Institutions Canada

TEB – Taxable Equivalent Basis

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts			For the three months ended	
	March 31		December 31	March 31
(Unaudited)	**2017**		2016	2016
Net Interest Income Non-Securitized Assets				
Interest from loans (note 5(F))	**$ 192,435**		$ 190,389	$ 193,546
Dividends from securities	**2,286**		2,614	2,692
Other interest	**2,920**		2,514	2,528
	197,641		195,517	198,766
Interest on deposits and other	**77,252**		78,868	77,685
Interest on senior debt	**-**		-	1,778
Net interest income non-securitized assets	**120,389**		116,649	119,303
Net Interest Income Securitized Loans and Assets				
Interest income from securitized loans and assets (note 5(F))	**21,558**		19,923	20,093
Interest expense on securitization liabilities	**16,090**		15,952	16,879
Net interest income securitized loans and assets	**5,468**		3,971	3,214
Total Net Interest Income	**125,857**		120,620	122,517
Provision for credit losses (note 5(E))	**5,919**		2,400	1,394
	119,938		118,220	121,123
Non-Interest Income				
Fees and other income	**16,331**		17,613	19,165
Securitization income (note 6(C))	**6,432**		9,064	7,682
Gain on acquisition of CFF Bank	**-**		-	651
Net realized and unrealized losses on securities	**(3)**		-	(175)
Net realized and unrealized losses on derivatives (note 12)	**(875)**		(2,700)	(4,334)
	21,885		23,977	22,989
	141,823		142,197	144,112
Non-Interest Expenses				
Salaries and benefits	**29,619**		24,134	28,711
Premises	**3,752**		3,607	3,851
Other operating expenses	**31,094**		43,287	25,455
	64,465		71,028	58,017
Income Before Income Taxes	**77,358**		71,169	86,095
Income taxes (note 10)				
Current	**23,142**		22,941	20,086
Deferred	**(3,825)**		(2,478)	1,761
	19,317		20,463	21,847
NET INCOME	**$ 58,041**		$ 50,706	$ 64,248
NET INCOME PER COMMON SHARE				
Basic	**$ 0.90**		$ 0.79	$ 0.92
Diluted	**$ 0.90**		$ 0.79	$ 0.92
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	**64,263**		64,479	69,972
Diluted	**64,294**		64,519	70,047
Total number of outstanding common shares (note 8(A))	**64,204**		64,388	69,966
Book value per common share	**$ 25.94**		$ 25.12	$ 23.75

The accompanying notes including Note 2: Basis of Presentation and Going Concern Considerations and Uncertainty, are an integral part of these unaudited interim consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the three months ended		
thousands of Canadian dollars (Unaudited)	**March 31 2017**	December 31 2016	March 31 2016
NET INCOME	**$ 58,041**	$ 50,706	$ 64,248
OTHER COMPREHENSIVE INCOME (LOSS)			
Available for Sale Securities and Retained Interests			
Net unrealized gains (losses)	**16,414**	12,774	(13,014)
Net losses reclassified to net income	**3**	-	204
	16,417	12,774	(12,810)
Income tax expense (recovery)	**4,358**	3,391	(3,421)
	12,059	9,383	(9,389)
Cash Flow Hedges (note 12)			
Net unrealized (losses) gains	**(85)**	(1,677)	3,221
Net losses reclassified to net income	**329**	174	364
	244	(1,503)	3,585
Income tax expense (recovery)	**72**	(398)	951
	172	(1,105)	2,634
Total other comprehensive income (loss)	**12,231**	8,278	(6,755)
COMPREHENSIVE INCOME	**$ 70,272**	$ 58,984	$ 57,493

The accompanying notes including Note 2: Basis of Presentation and Going Concern Considerations and Uncertainty, are an integral part of these unaudited interim consolidated financial statements.

Consolidated Balance Sheets

	As at	
	March 31	December 31
thousands of Canadian dollars (Unaudited)	**2017**	2016
ASSETS		
Cash and Cash Equivalents (note 4(A))	**$ 1,251,190**	$ 1,205,394
Available for Sale Securities (note 4(B))	**549,456**	534,924
Loans Held for Sale	**40,721**	77,918
Loans (note 5)		
Securitized mortgages (note 6(A))	**2,647,014**	2,526,804
Non-securitized mortgages and loans	**15,885,741**	15,430,595
	18,532,755	17,957,399
Collective allowance for credit losses (note 5(E))	**(39,063)**	(37,063)
	18,493,692	17,920,336
Other		
Restricted assets (note 7)	**140,325**	265,374
Derivative assets (note 12)	**33,480**	37,524
Other assets	**347,477**	348,638
Deferred tax assets (note 10)	**18,048**	16,914
Goodwill and intangible assets	**118,996**	121,755
	658,326	790,205
	$ 20,993,385	$ 20,528,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Deposits payable on demand	**$ 2,377,400**	$ 2,531,803
Deposits payable on a fixed date	**13,872,211**	13,354,227
	16,249,611	15,886,030
Securitization Liabilities (note 6(B))		
CMHC-sponsored mortgage-backed security liabilities	**922,377**	898,386
CMHC-sponsored Canada Mortgage Bond liabilities	**1,474,539**	1,637,117
Bank-sponsored securitization conduit liabilities	**250,129**	114,146
	2,647,045	2,649,649
Other		
Derivative liabilities (note 12)	**2,871**	3,490
Other liabilities	**394,762**	336,132
Deferred tax liabilities (note 10)	**33,593**	36,284
	431,226	375,906
	19,327,882	18,911,585
Shareholders' Equity		
Capital stock (note 8)	**85,194**	84,910
Contributed surplus	**4,725**	4,562
Retained earnings	**1,618,418**	1,582,785
Accumulated other comprehensive loss (note 9)	**(42,834)**	(55,065)
	1,665,503	1,617,192
	$ 20,993,385	$ 20,528,777

Provisions and Contingencies (note 11)

The accompanying notes including Note 2: Basis of Presentation and Going Concern Considerations and Uncertainty, 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, 2016	**$ 84,910**	**$ 4,562**	**$ 1,582,785**	**$ (53,589)**	**$ (1,476)**	**$ (55,065)**	**$ 1,617,192**
Comprehensive income	**-**	**-**	**58,041**	**12,059**	**172**	**12,231**	**70,272**
Stock options settled (note 8(A))	**548**	**(141)**	**-**	**-**	**-**	**-**	**407**
Amortization of fair value of employee stock options (note 8(B))	**-**	**304**	**-**	**-**	**-**	**-**	**304**
Repurchase of shares (note 8(A))	**(264)**	**-**	**(5,698)**	**-**	**-**	**-**	**(5,962)**
Dividends ($0.26 per share)	**-**	**-**	**(16,710)**	**-**	**-**	**-**	**(16,710)**
Balance at March 31, 2017	**$ 85,194**	**$ 4,725**	**$ 1,618,418**	**$ (41,530)**	**$ (1,304)**	**$ (42,834)**	**$ 1,665,503**
Balance at December 31, 2015	$ 90,247	$ 3,965	$ 1,592,438	$ (62,466)	$ (3,078)	$ (65,544)	$ 1,621,106
Comprehensive income	-	-	64,248	(9,389)	2,634	(6,755)	57,493
Stock options settled (note 8(A))	53	(12)	-	-	-	-	41
Amortization of fair value of employee stock options (note 8(B))	-	277	-	-	-	-	277
Repurchase of shares (note 8(A))	(17)	-	(346)	-	-	-	(363)
Dividends ($0.24 per share)	-	-	(16,795)	-	-	-	(16,795)
Balance at March 31, 2016	$ 90,283	$ 4,230	$ 1,639,545	$ (71,855)	$ (444)	$ (72,299)	$ 1,661,759

The accompanying notes including Note 2: Basis of Presentation and Going Concern Considerations and Uncertainty, 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 March 31 2017	March 31 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 58,041**	$ 64,248
Adjustments to determine cash flows relating to operating activities:		
Amortization of net discount on securities	**(86)**	(135)
Provision for credit losses	**5,919**	1,394
Gain on sale of mortgages or residual interest	**(4,738)**	(5,935)
Net realized and unrealized losses on securities	**3**	175
Amortization and impairment losses[1]	**6,219**	3,646
Amortization of fair value of employee stock options	**304**	277
Deferred income taxes	**(3,825)**	1,761
Changes in operating assets and liabilities		
Loans, net of securitization and sales	**(537,269)**	323,494
Restricted assets	**125,049**	(97,716)
Derivative assets and liabilities	**3,669**	43
Accrued interest receivable	**(512)**	1,493
Accrued interest payable	**19,648**	17,779
Deposits	**363,581**	158,941
Securitization liabilities	**(2,604)**	(46,724)
Taxes receivable or payable and other	**33,807**	(47,225)
Cash flows provided by operating activities	**67,206**	375,516
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(5,962)**	(363)
Exercise of employee stock options	**407**	41
Dividends paid to shareholders	**(16,710)**	(16,795)
Cash flows used in financing activities	**(22,265)**	(17,117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(5,803)**	(85,419)
Proceeds from maturities	**9,051**	37,171
Purchases of capital assets	**(56)**	(224)
Capitalized intangible development costs	**(2,337)**	(5,024)
Cash flows provided by (used in) investing activities	**855**	(53,496)
Net increase in cash and cash equivalents during the period	**45,796**	304,903
Cash and cash equivalents at beginning of the period	**1,205,394**	1,149,849
Cash and Cash Equivalents at End of the Period (note 4(A))	**$ 1,251,190**	$ 1,454,752
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 3,028**	$ 2,779
Interest received	**215,644**	217,384
Interest paid	**73,694**	76,619
Income taxes paid	**20,222**	27,479

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

The accompanying notes including Note 2: Basis of Presentation and Going Concern Considerations and Uncertainty, 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 mortgage products and consumer lending. Home Trust also offers deposits via brokers and financial planners, and through its direct-to-consumer deposit brand, Oaken Financial. Home Bank, a wholly owned subsidiary of Home Trust, is a federally regulated retail bank offering mortgage, deposit and personal banking products. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment services. 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 March 31, 2017 were authorized for issuance by the Board of Directors (the Board) of the Company on May 11, 2017. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

2. BASIS OF PRESENTATION AND GOING CONCERN CONSIDERATIONS AND UNCERTAINTY

The unaudited consolidated interim financial statements have been prepared on a going concern basis which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due. These financial statements do not include adjustments to the carrying values of the assets and liabilities that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

The Company has continued to face heightened scrutiny related to its compliance with disclosure requirement regarding the broker suspensions announced in 2015. Recent notification from the Ontario Securities Commission of its intent to pursue an administrative proceeding against the Company and three current and former officers and directors of the Company, as well as a Statement of Claim and Notice of Action filed with the Ontario Superior Court of Justice against the Company and three of its officers or former officers regarding a proposed class action suit contributed to reputation concerns over the Company. In addition, the current vacancies for a permanent CEO and CFO have caused concerns over the stability of the Company's management. These concerns began to have a significant effect on the Company's financial position at the end of the first quarter of 2017 and continuing into the second quarter, particularly as it relates to the Company's funding capabilities and liquidity positions. The Company has observed increased redemption of its high-interest savings accounts immediately prior to the end of the quarter which accelerated dramatically subsequent to the end of the quarter. Management was able to obtain additional funding in the short term by securing a $2 billion credit facility and selling its portfolio of liquid assets and other market securities.

Management is focused on developing plans to enable the Company to return to normal operations that can be sustained by its estimated future funding capabilities. The Company is committed to protecting its core business of providing its traditional single-family residential mortgage product and is developing plans to preserve this business at levels that can be supported by expected funding capabilities while also maintaining its relationships within the mortgage broker network. Key assumptions of management in developing its revised forecasts and plans include:

- No new origination of high-interest saving demand deposits and run-off of term deposits as they mature
- A reduced level of new term deposit originations in Q2 and Q3 2017 based on recent actual deposit origination experience, ramping up slowly but steadily over the remainder of the year and into 2018
- Sale of certain loan portfolios to pay down the $2 billion credit line
- Mortgage commitments and renewals previously committed to will continue to be funded
- New mortgages eligible for renewals, existing mortgage pipeline and future originations will be actively managed and funded based on expected forecasts of new deposit originations and the ability to realize cash flow from maturing mortgages

To address the material uncertainty over future funding capabilities and to execute management's plans, actions include the following, some of which have already been implemented:

- Significant budget spend on deposit marketing campaign throughout 2017 and adjusting deposit rates appropriately to support ramp up of new deposit originations
- Engagement of external advisors to evaluate various financing and strategic options
- Discussions with potential investors on the sale of certain loan portfolios
- Negotiating agreements with industry partners to fund certain levels of mortgage commitments and renewals in the short term
- Active management of commitment pipeline and renewal portfolio based on a sustainable level of available funding
- Considerations for additional business models including originate to sell
- Addition of four new directors to the Company's Board to bring stability, help the Company deal with its operational challenges, rebuild confidence and return to normal operations. The search for a permanent CEO and CFO continues to be a top priority for the Company.

Management has in a very short period of time developed cash flow projections, forecasts and action plans, which will continued to be updated and refined based on the latest available information. If successfully implemented, the plans will enable the Company to continue as a going concern. However, the success of a number of assumptions and management actions such as new deposits origination will depend on market factors that may be outside of management's control. In addition, potential future impact resulting from reputational concerns is inherently difficult to predict. Therefore management believes that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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, 2016 as set out in the 2016 Annual Report, on pages 67 through 107. 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 74 through 81 of the 2016 Annual Report or provided below.

Use of Judgement and Estimates

Management has exercised judgement in the process of applying the Company's accounting policies. In addition to judgement applied to the assessment of going concern as discussed above, management has also 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. Other key areas where management has applied judgement and made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options, useful lives of capital assets and intangible assets and provisions and contingent liabilities. Actual results could differ from those estimates.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at March 31, 2017 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 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and general hedge accounting. The Company will be required to adopt IFRS 9 on January 1, 2018 and, as permitted, will not restate comparative period financial information. An adjustment to opening retained earnings will be made upon adoption of IFRS 9 on January 1, 2018.

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

Classification and Measurement

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

Impairment

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

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

In March 2017, the Basel Committee on Banking Supervision issued its standard on the Regulatory Treatment of Accounting Provisions – Interim Approach and Transitional Arrangements. The current regulatory treatment of accounting provisions will be retained for an interim period. Longer-term regulatory capital treatment of provisions will be considered based on quantitative impact assessments. Jurisdictions may adopt transitional arrangements to smooth any potential significant negative impact on regulatory capital arising from the introduction of ECL accounting.

General Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that aims to better align accounting with risk management activities. As permitted, the Company has elected to continue to apply the hedging requirements under IAS 39. New hedge accounting disclosure requirements were introduced under IFRS 7 and will be effective on January 1, 2018 regardless of whether the Company adopts the new general hedge accounting model.

Transition

To manage the transition to IFRS 9, the Company established an enterprise-wide program sponsored by the Chief Financial Officer including establishing a formal governance structure supported by a Project Steering Committee comprising senior management representatives from Finance, Enterprise Risk Management, Information Technology, Operations and Treasury. The Company has also retained the services of external consultants with proven IFRS 9 expertise. During 2016, the project team focused on making initial accounting policy decisions, developing risk impairment models, determining business and technology requirements, and providing education sessions and updates to key stakeholders including the Audit Committee. The planning phase of the project has been completed and the project is currently in the implementation phase. During 2017, the Company will validate, test and refine its impairment models, develop and integrate the technology solution, update internal controls and policies and perform a parallel run. The project team is focused on implementing changes to financial and operational processes, assessing and updating accounting and risk policies and developing IFRS 7 disclosures. Management is currently evaluating the potential quantitative impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

The Company will be required to adopt IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) on January 1, 2018. IFRS 15 provides a principles-based five-step framework that applies to contracts with customers, except for revenue arising from financial instruments, insurance contracts and leases. In April 2016, amendments were made to IFRS 15 to clarify the principles related to identification of performance obligations, determining whether a company is a principal or agent and license revenue. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

IFRS 16 *Leases*

The Company will be required to adopt IFRS 16, *Leases* (IFRS 16) on January 1, 2019. IFRS 16 requires lessees to recognize right-of-use assets with corresponding lease liabilities for most leases. The accounting for lessors remains substantially unchanged from IAS 17. Management is currently evaluating the potential impact that the adoption of IFRS 16 will have on the Company's consolidated financial statements.

Amendments to IFRS 2 *Share-based Payment*

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

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars (Unaudited)	**March 31 2017**	December 31 2016
Cash and cash equivalents	**$ 1,251,190**	$ 1,205,394

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 March 31, 2017 (December 31, 2016 - $300 million and $200 million). Both facilities are used by the Company to fund insured mortgage loans until such time as they can be securitized. Proceeds from securitized loans are used to pay down the facility. As at March 31, 2017, these facilities are undrawn.

As indicated in note 16, subsequent to the end of the quarter, the Company drew $264.7 million from the committed facility. The uncommitted facilities remain undrawn. In consideration of the events that have unfolded subsequent to March 31, 2017, the ability to draw on these facilities are likely to be restricted.

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

thousands of Canadian dollars (Unaudited)	**March 31 2017**	December 31 2016
Debt securities	**$ 1,015**	$ 524
Preferred shares	**(59,099)**	(76,236)
Net unrealized loss	**$ (58,084)**	$ (75,712)

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

The unrealized gains and 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 March 31, 2017, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events during the quarter in relation to its preferred share or debt holdings.

For the three months ended March 31, 2017, the Company recognized $3 thousand ($nil – Q4 2016; $204 thousand – Q1 2016) 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 March 31, 2017**
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	**$ 209,613**	**$ 224,164**	**$ 1,415,168**	**$ 65,753**	**$ 134,376**	**$ 2,049,074**
Securitized multi-unit residential mortgages	**86,085**	**45,554**	**261,599**	**47,155**	**157,547**	**597,940**
Total securitized mortgages	**295,698**	**269,718**	**1,676,767**	**112,908**	**291,923**	**2,647,014**
Single-family residential mortgages	**678,108**	**409,457**	**11,018,669**	**317,306**	**196,074**	**12,619,614**
Residential commercial mortgages[2]	**20,437**	**21,195**	**256,047**	**21,027**	**12,751**	**331,457**
Non-residential commercial mortgages	**101,406**	**54,809**	**1,946,717**	**34,492**	**19,589**	**2,157,013**
Credit card loans and lines of credit	**7,098**	**19,162**	**349,559**	**1,387**	**6,404**	**383,610**
Other consumer retail loans	**1,080**	**21,986**	**365,106**	**-**	**5,875**	**394,047**
Total non-securitized mortgages and loans[3]	**808,129**	**526,609**	**13,936,098**	**374,212**	**240,693**	**15,885,741**
	$ 1,103,827	**$ 796,327**	**$ 15,612,865**	**$ 487,120**	**$ 532,616**	**$ 18,532,755**
As a % of portfolio	**6.0%**	**4.3%**	**84.2%**	**2.6%**	**2.9%**	**100.0%**

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

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

(B) Past Due Loans that are not Impaired

A loan is recognized as being impaired (non-performing) when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. An uninsured residential or commercial mortgage, 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 March 31, 2017**
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	**$ 5,797**	**$ 1,080**	**$ -**	**$ 63** [2]	**$ 6,940**
Securitized multi-unit residential mortgages	**-**	**-**	**-**	**-**	**-**
Single-family residential mortgages	**119,535**	**18,030**	**13,787**	**4,762** [2]	**156,114**
Residential commercial mortgages	**-**	**-**	**-**	**-**	**-**
Non-residential commercial mortgages	**4,940**	**1,449**	**304**	**-**	**6,693**
Credit card loans and lines of credit	**2,615**	**949**	**363**	**134**	**4,061**
Other consumer retail loans	**286**	**87**	**100**	**-**	**473**
	$ 133,173	**$ 21,595**	**$ 14,554**	**$ 4,959**	**$ 174,281**

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

[1]Securitized single-family residential mortgages include 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 March 31, 2017 and December 31, 2016.

thousands of Canadian dollars (Unaudited)						**As at March 31, 2017**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	**$ 37,000**	**$ 337**	**$ 8,033**	**$ 4,315**	**$ 508**	**$ 50,193**
Individual allowances on principal	**(1,877)**	**-**	**(88)**	**(3,020)**	**(508)**	**(5,493)**
Net amount of impaired loans	**$ 35,123**	**$ 337**	**$ 7,945**	**$ 1,295**	**$ -**	**$ 44,700**

thousands of Canadian dollars (Unaudited)						As at December 31, 2016
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 49,834	$ -	$ 4,577	$ 2,049	$ 411	$ 56,871
Individual allowances on principal	(1,980)	-	(30)	(780)	(411)	(3,201)
Net amount of impaired loans	$ 47,854	$ -	$ 4,547	$ 1,269	$ -	$ 53,670

(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 March 31, 2017, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $489.8 million ($367.0 million – December 31, 2016). For impaired mortgages, the total appraised value of collateral at March 31, 2017 was $68.7 million ($81.3 million – December 31, 2016).

(E) Allowance for Credit Losses

thousands of Canadian dollars (Unaudited)						**For the three months ended March 31, 2017**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,980**	**$ -**	**$ 30**	**$ 780**	**$ 411**	**$ 3,201**
Provision for credit losses	**97**	**-**	**59**	**3,373**	**319**	**3,848**
Write-offs	**(314)**	**-**	**(1)**	**(1,167)**	**(245)**	**(1,727)**
Recoveries	**114**	**-**	**-**	**34**	**23**	**171**
	1,877	**-**	**88**	**3,020**	**508**	**5,493**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**1,341**	**-**	**98**	**-**	**12**	**1,451**
Provision for credit losses	**34**	**21**	**10**	**-**	**6**	**71**
	1,375	**21**	**108**	**-**	**18**	**1,522**
Total individual allowance	**3,252**	**21**	**196**	**3,020**	**526**	**7,015**
Collective allowance						
Balance at the beginning of the period	**23,032**	**327**	**9,500**	**3,904**	**300**	**37,063**
Provision for credit losses	**-**	**-**	**2,000**	**-**	**-**	**2,000**
	23,032	**327**	**11,500**	**3,904**	**300**	**39,063**
Total allowance	**$ 26,284**	**$ 348**	**$ 11,696**	**$ 6,924**	**$ 826**	**$ 46,078**
Total provision	**$ 131**	**$ 21**	**$ 2,069**	**$ 3,373**	**$ 325**	**$ 5,919**

thousands of Canadian dollars (Unaudited)						For the three months ended December 31, 2016
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,637	$ -	$ 20	$ 85	$ 302	$ 2,044
Provision for credit losses	783	2	5	1,164	157	2,111
Write-offs	(619)	(2)	(5)	(493)	(126)	(1,245)
Recoveries	179	-	10	24	78	291
	1,980	-	30	780	411	3,201
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,095	-	58	-	9	1,162
Provision for credit losses	246	-	40	-	3	289
	1,341	-	98	-	12	1,451
Total individual allowance	3,321	-	128	780	423	4,652
Collective allowance						
Balance at the beginning of the period	23,032	327	9,500	3,904	300	37,063
Provision for credit losses	-	-	-	-	-	-
	23,032	327	9,500	3,904	300	37,063
Total allowance	$ 26,353	$ 327	$ 9,628	$ 4,684	$ 723	$ 41,715
Total provision	$ 1,029	$ 2	$ 45	$ 1,164	$ 160	$ 2,400

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)	For the three months ended March 31, 2016					
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,652	$ -	$ 340	$ 329	$ 161	$ 2,482
Provision for credit losses	683	-	(17)	416	152	1,234
Write-offs	(1,218)	-	(6)	(452)	(135)	(1,811)
Recoveries	69	-	8	115	54	246
	1,186	-	325	408	232	2,151
Allowance on accrued interest receivable						
Balance at the beginning of the period	839	-	57	-	5	901
Provision for credit losses	(16)	-	(38)	-	-	(54)
	823	-	19	-	5	847
Total individual allowance	2,009	-	344	408	237	2,998
Collective allowance						
Balance at the beginning of the period	22,232	327	9,500	3,890	300	36,249
Provision for credit losses	200	-	-	14	-	214
	22,432	327	9,500	3,904	300	36,463
Total allowance	$ 24,441	$ 327	$ 9,844	$ 4,312	$ 537	$ 39,461
Total provision	$ 867	$ -	$ (55)	$ 430	$ 152	$ 1,394

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 March 31 2017	December 31 2016	March 31 2016
Traditional single-family residential mortgages	**$ 130,293**	$ 131,029	$ 138,429
ACE Plus single-family residential mortgages	**3,399**	3,344	2,464
Accelerator single-family residential mortgages	**5,332**	6,505	9,547
Residential commercial mortgages	**4,620**	4,291	4,269
Non-residential commercial mortgages	**29,756**	28,233	23,561
Credit card loans and lines of credit	**8,281**	8,389	8,350
Other consumer retail loans	**10,754**	8,598	6,926
Total interest income on non-securitized loans	**192,435**	190,389	193,546
CMHC-sponsored securitized single-family residential mortgages	**10,742**	11,115	11,442
CMHC-sponsored securitized multi-unit residential mortgages	**8,945**	7,197	7,960
Assets pledged as collateral for CMHC-sponsored securitization	**455**	495	691
Bank-sponsored securitization conduit assets	**1,416**	1,116	-
Total interest income on securitized loans	**21,558**	19,923	20,093
	$ 213,993	$ 210,312	$ 213,639

6. SECURITIZATION ACTIVITY

(A) Assets Pledged as Collateral

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

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

	For the three months ended		
thousands of Canadian dollars (Unaudited)	**March 31 2017**	December 31 2016	March 31 2016
Beginning balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,648,882**	$ 2,654,482	$ 2,731,350
Mortgages assigned in new securitizations	**802,081**	933,054	1,087,040
Net change in non-Home Trust MBS and treasury bills	**(122,078)**	16,801	110,900
Mortgages derecognized [2]	**(575,183)**	(707,283)	(596,942)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(106,688)**	(248,172)	(647,629)
Ending balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,647,014**	$ 2,648,882	$ 2,684,719

[1]Included in the on-balance sheet assets assigned as collateral at March 31, 2017 is $nil ($122.1 million – December 31, 2016) in non-Home Trust MBS and treasury bills and $2.65 billion ($2.53 billion – December 31, 2016) 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 $8.58 billion ($8.38 billion – December 31, 2016) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount are $1.15 billion ($1.23 billion – December 31, 2016) of mortgages that were sold under the former whole loan sales program of Home Bank. These mortgages were securitized subsequent to the whole loan sales by the purchaser.

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the 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		
thousands of Canadian dollars (Unaudited)	**March 31 2017**	December 31 2016	March 31 2016
Balance at the beginning of the period	**$ 2,649,649**	$ 2,680,211	$ 2,780,556
Addition to securitization liabilities as a result of on-balance sheet activity	**515,355**	537,604	890,173
Net reduction in securitization liabilities due to maturities, amortization and sales	**(507,500)**	(537,132)	(929,109)
Other[1]	**(10,459)**	(31,034)	(7,788)
Securitization liability	**$ 2,647,045**	$ 2,649,649	$ 2,733,832
Proceeds received for mortgages assigned in new securitizations	**$ 785,031**	$ 911,419	$ 1,081,818

[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.

thousands of Canadian dollars (Unaudited)	For the three months ended March 31 2017	December 31 2016	March 31 2016
Net gain on sale of mortgages and residual interest[1]	**$ 4,738**	$ 7,006	$ 5,935
Net change in unrealized gain or loss on hedging activities	**(113)**	276	345
Servicing income	**1,807**	1,782	1,402
Total securitization income	**$ 6,432**	$ 9,064	$ 7,682

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

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

During the 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 March 31 2017			December 31 2016		
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 288,458**	**$ 286,725**	**$ 575,183**	$ 392,298	$ 314,985	$ 707,283
Net gains on sale of mortgages or residual interest[1]	**2,084**	**2,654**	**4,738**	4,284	2,722	7,006
Retained interests recorded	**-**	**10,253**	**10,253**	-	10,004	10,004
Servicing liability recorded	**-**	**2,905**	**2,905**	-	2,408	2,408

thousands of Canadian dollars (Unaudited)	For the three months ended March 31 2016		
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 400,474	$ 196,468	$ 596,942
Net gains on sale of mortgages or residual interest[1]	4,733	1,202	5,935
Retained interests recorded	-	9,870	9,870
Servicing liability recorded	-	1,568	1,568

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

(D) Purchased Residual Interests

In 2014, the Company purchased from certain counterparties, residual interests of underlying insured fixed-rate residential mortgages that have been securitized. The purchase resulted in the Company acquiring only the residual interests without acquiring either the underlying mortgages or the corresponding liabilities. At March 31, 2017, the notional amount of these instruments was $406.5 million, with $3.3 million recorded in available for sale securities (December 31, 2016 – notional amount of $427.0 million, with $4.3 million recorded in available for sale securities). No residual interests were purchased subsequent to 2014. Interest earned on these investments is recorded in other interest income on the consolidated statements of income.

7. RESTRICTED ASSETS

thousands of Canadian dollars (Unaudited)	March 31 2017	December 31 2016
Restricted cash		
Restricted cash – CMHC- and bank-sponsored securitization programs	**$ 99,839**	$ 106,616
Restricted cash – derivatives	**17,076**	19,262
Restricted cash – other programs	**23,410**	17,418
Total restricted cash	**140,325**	143,296
Non-Home Trust MBS and treasury bills assigned as replacement assets	**-**	122,078
Total restricted assets	**$ 140,325**	$ 265,374

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

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

Restricted cash – other programs include reserve accounts held in trust for certain portfolios included in other consumer retail loans. These amounts are held as cash collateral against potential credit losses. In addition, other programs include account balances held in trust for the whole loan sales program.

8. CAPITAL

(A) Common Shares Issued and Outstanding

The following table summarizes the shares issued and outstanding held at March 31, 2017, December 31, 2016 and March 31, 2016.

thousands (Unaudited)	For the three months ended					
	March 31, 2017		December 31, 2016		March 31, 2016	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	**64,388**	**$ 84,910**	64,559	$ 83,975	69,978	$ 90,247
Options exercised	**16**	**548**	37	1,204	1	53
Repurchase of shares	**(200)**	**(264)**	(208)	(269)	(13)	(17)
Outstanding at end of period	**64,204**	**$ 85,194**	64,388	$ 84,910	69,966	$ 90,283

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 charge to retained earnings of $5.7 million.

The Company has no preferred shares outstanding.

(B) Share Purchase Options

thousands, except per share amounts (Unaudited)						For the three months ended
	March 31, 2017		December 31, 2016		March 31, 2016	
	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	1,074	$ 32.72	1,113	$ 32.44	1,208	$ 32.45
Granted	103	27.65	-	-	-	-
Exercised	(16)	25.03	(37)	23.96	(1)	27.61
Forfeited	(99)	-	(2)	32.02	(17)	38.42
Outstanding at end of period	1,062	$ 32.43	1,074	$ 32.72	1,190	$ 32.37
Exercisable at end of period	700	$ 31.75	584	$ 29.85	633	$ 29.40

During the first quarter of 2017, $304 thousand was recorded as a compensation expense ($322 thousand – Q4 2016; $277 thousand – Q1 2016) 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)	March 31 2017	December 31 2016	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets			
Common equity tier 1 ratio	16.34%	16.55%	7.00%
Tier 1 capital ratio	16.34%	16.54%	8.50%
Total regulatory capital ratio	16.77%	16.97%	10.50%

Home Trust adopted certain Basel III capital requirements, as required by OSFI, beginning January 1, 2013. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. Home Trust is required to meet a minimum Leverage ratio determined by OSFI. As at March 31, 2017, the Leverage ratio was 7.30% (December 31, 2016 – 7.20%), which exceeds OSFI's minimum requirements.

Currently, Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios significantly exceed OSFI's regulatory targets, as well as Home Trust's internal capital targets. No new capital was raised in the first three months of 2017.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars (Unaudited)	March 31 2017	December 31 2016
Unrealized losses on		
Available for sale securities and retained interests	$ (56,536)	$ (72,953)
Income tax recovery	(15,006)	(19,364)
	(41,530)	(53,589)
Unrealized losses on		
Cash flow hedges	(1,761)	(2,005)
Income tax recovery	(457)	(529)
	(1,304)	(1,476)
Accumulated other comprehensive loss	$ (42,834)	$ (55,065)

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 26.50% (Q4 2016 – 26.50%; Q1 2016 – 26.54%).

(Unaudited)	For the three months ended		
	March 31 2017	December 31 2016	March 31 2016
Statutory income tax rate	26.50%	26.50%	26.54%
Increase (reduction) in income tax rate resulting from			
Tax-exempt income	(0.78)%	(0.97)%	(0.83)%
Non-deductible expenses	0.18%	3.70%	0.09%
Scientific research and experimental development investment tax credits	-	(0.68)%	(0.42)%
Other	(0.93)%	0.20%	0.00%
Effective income tax rate	24.97%	28.75%	25.38%

Net deferred tax liabilities on the consolidated balance sheets were $33.6 million (December 31, 2016 - $36.3 million) and deferred tax assets were $18.0 million (December 31, 2016 - $16.9 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 results primarily from 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. PROVISIONS AND CONTINGENCIES

Restructuring Provision

During the quarter, Company recorded restructuring charges of $7.4 million in relation to its expense savings initiative, Project EXPO, which commenced earlier in the quarter. This restructuring initiative is intended to result in cost savings while positioning the Company to meet its strategic goals in a manner that results in future costs rising in a more measured way. These measures include organizational review, process redesign and premise optimization. The restructuring charges primarily relate to employee severance and other related costs as well as renegotiation of lease and other contractual arrangements which will impact premises and other operating expenses. Most of the restructuring charge recorded in the quarter was included in salaries and benefits.

Contingencies

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

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

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

OSC Proceedings and Proposed Class Action Related to Disclosure

The Company now faces a proposed class action and regulatory proceeding with respect to allegations as to the Company's disclosure in 2014 and 2015. The Company has obtained the advice of counsel with respect to both proceedings. In addition the Company has insurance which will at least defray portions of the costs with respect to one or both proceedings and the Company is in discussions with the insurer as to coverage under the applicable policy. Management's current assessment is that it has good and valid defenses to the class action and regulatory proceedings. As with any litigation there is uncertainty in this regard and both matters will be assessed on an ongoing basis. The class action seeks damages for alleged misrepresentations in the Company's disclosure from November 5, 2014 to July 10, 2015 in the amount of $100 million or such other amount as may be determined by the Court. The OSC proceeding alleges the Company breached Ontario securities law by failing to satisfy continuous disclosure obligations in the Company's 2014 Annual Filing, Q1 2015 Interim Filing and a July 10, 2015 news release and that the Company made materially misleading statements in its May 7, 2015 earnings call and July 10, 2015 press release. Under the Securities Act, if a person or company has not complied with Ontario securities law then the OSC may order not more than $1 million for each failure to comply. It is not possible at present to make a reasonable estimate of the outflow of resources (if any, depending on the resolution of the insurance matters addressed above) that might occur if there were a final determination adverse to the Company in or a settlement of either or both proceedings. It is expected that both proceedings could well be ongoing past the current fiscal year and potentially for a considerable length of time. Subject to insurance coverage, the costs incurred by the Company in the defense of each proceeding will be expensed in the period in which they are incurred.

Putative Class Action Related to Consumer HVAC Equipment Financing

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Cash Flow Hedging Relationships

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

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

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

thousands of Canadian dollars (Unaudited)	For the three months ended		
	March 31 2017	December 31 2016	March 31 2016
Fair value (losses) gains recorded in OCI	**$ (85)**	$ (1,677)	$ 3,221
Reclassification from OCI to net income	**(329)**	(174)	(364)

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		
	March 31 2017	December 31 2016	March 31 2016
Fair value changes recorded on interest rate swaps[1]	**$ (2,412)**	$ (19,104)	$ (1,532)
Fair value changes of hedged items for interest rate risk[2]	**1,848**	16,425	(3,267)
Hedge ineffectiveness losses recognized in non-interest income[3]	**$ (564)**	$ (2,679)	$ (4,799)

[1] Unrealized gains and losses on hedging derivatives (interest rate swaps) are recorded as derivative assets or liabilities, as appropriate, on the consolidated balance sheets.
[2] Unrealized gains and losses on fixed-rate hedged items for the risk being hedged are recorded as part of the associated fixed-rate asset or liability on the consolidated balance sheets.
[3] Included in fair value hedging ineffectiveness in 2016 are derivative losses related to senior debt.

Other Derivative Gains and Losses

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 $311 thousand for Q1 2017 ($21 thousand net realized and unrealized losses – Q4 2016; $465 thousand net realized and unrealized gains – Q1 2016) were recorded in income through net realized and unrealized gain or losses on derivatives.

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

As at March 31, 2017 and December 31, 2016, the outstanding swaps and bond forward contract positions were as follows:

thousands of Canadian dollars (Unaudited)				**As at March 31, 2017**
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	**$ 218,842**	**$ 944**	**$ (57)**	**$ 887**
1 to 5 years	**2,522,368**	**32,534**	**(2,576)**	**29,958**
> 5 years	**15,000**	**-**	**(12)**	**(12)**
	2,756,210	**33,478**	**(2,645)**	**30,833**
Bond forwards designated as accounting hedges [1]				
1 to 5 years	**25,000**	**-**	**(36)**	**(36)**
	25,000	**-**	**(36)**	**(36)**
Bond forwards not designated as accounting hedges [1]				
1 to 5 years	**12,100**	**-**	**(33)**	**(33)**
> 5 years	**34,200**	**2**	**(157)**	**(155)**
	46,300	**2**	**(190)**	**(188)**
Total	**$ 2,827,510**	**$ 33,480**	**$ (2,871)**	**$ 30,609**

thousands of Canadian dollars (Unaudited)				As at December 31, 2016
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	$ 298,680	$ 1,816	$ -	$ 1,816
1 to 5 years	2,263,045	34,622	(3,366)	31,256
	2,561,725	36,438	(3,366)	33,072
Bond forwards designated as accounting hedges [1]				
1 to 5 years	85,000	677	(50)	627
	85,000	677	(50)	627
Bond forwards not designated as accounting hedges [1]				
1 to 5 years	72,100	392	(19)	373
> 5 years	9,400	17	(55)	(38)
	81,500	409	(74)	335
Total	$ 2,728,225	$ 37,524	$ (3,490)	$ 34,034

[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 consolidated 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 and certain corporate debt instruments.

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

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

thousands of Canadian dollars (Unaudited)					As at March 31, 2017
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,251,190	$ -	$ -	$ 1,251,190	$ 1,251,190
Loans held for sale	-	40,721	-	40,721	40,721
Derivative assets	-	33,480	-	33,480	33,480
Restricted assets	140,325	-	-	140,325	140,325
Total financial assets held for trading	1,391,515	74,201	-	1,465,716	1,465,716
Financial assets available for sale					
Debt securities	337,729	-	3,317	341,046	341,046
Equity securities	208,410	-	-	208,410	208,410
Retained interest owned	-	-	111,868	111,868	111,868
Total financial assets available for sale	546,139	-	115,185	661,324	661,324
Loans and receivables					
Securitized mortgages	-	-	2,682,305	2,682,305	2,647,014
Non-securitized mortgages and loans	-	-	15,941,434	15,941,434	15,846,678
Securitization receivables	-	-	113,542	113,542	113,542
Other	-	-	81,367	81,367	81,367
Total loans and receivables	-	-	18,818,648	18,818,648	18,688,601
Total	$ 1,937,654	$ 74,201	$ 18,933,833	$ 20,945,688	$ 20,815,641
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 16,377,664	$ 16,377,664	$ 16,249,611
Securitization liabilities	-	-	2,685,111	2,685,111	2,647,045
Other	-	-	394,762	394,762	394,762
Total financial liabilities carried at amortized cost	-	-	19,457,537	19,457,537	19,291,418
Financial liabilities at fair value					
Derivative liabilities	-	2,871	-	2,871	2,871
Total	$ -	$ 2,871	$ 19,457,537	$ 19,460,408	$ 19,294,289

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

The Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy during the quarters ended March 31, 2017, December 31, 2016 or March 31, 2016.

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

- The fair value of cash and cash equivalents, restricted cash (included in restricted assets), other assets and other liabilities approximate their carrying values due to their short-term nature.
- Available for sale securities are valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices. The fair value of the acquired residual interests of underlying securitized insured fixed-rate residential mortgages is calculated by modelling the future net cash flows. The cash flows are calculated as the difference between the expected cash flow from the underlying mortgages and payment to NHA MBS holders, discounted at the appropriate rate of return.
- Fair value of loans held for sale, all of which are insured, is determined by discounting the expected future cash flows of the loans at current market rates imputed by the realized sale of loans with similar terms.
- The fair value of the retained interest is determined by discounting the expected future cash flows using the current MBS spread over Government of Canada Bonds imputed from recent sale transactions.
- The fair value of securitization receivables is determined by discounting the expected future cash flows using current interest rate swap rates.
- Restricted assets include both securities valued based on quoted bid prices and securities where fair value is determined using average dealer quoted prices.
- Securitized and non-securitized mortgages and loans are carried at amortized cost in the financial statements. For fair value disclosures, the fair value is estimated by discounting the expected future cash flows of the loans, adjusting for credit risk and prepayment assumptions at current market rates for offered loans with similar terms.
- Fair value of derivative financial instruments is calculated as described in Note 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.

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 three months ended March 31, 2017 and the year ended December 31, 2016 are not significant.

15. RISK MANAGEMENT

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

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

16. SUBSEQUENT EVENTS

As described in note 2 under "Going Concern," management is aware of material uncertainty related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern, particularly in light of the level of uncertainty as to the Company's future funding capabilities. Such events or conditions have primarily arisen subsequent to March 31, 2017. The Company has experienced reputational damage which is largely attributable to the matters discussed in note 11. This reputational damage has caused a significant level of redemptions in the Company's high-interest savings account portfolio. Subsequent to the end of the quarter, the balance of high-interest savings accounts has declined by $1.77 billion to $134.2 million as of May 9, 2017 from $1.90 billion at March 31, 2017. The Company has also observed a decline of $206.3 million in savings accounts through its direct-to-consumer brand, Oaken Financial and a decline of $344.0 million in cashable GIC deposits.

To mitigate the impact of these redemptions on the Company's liquidity and funding position, the Company, on April 27, 2017, announced that Home Trust secured a firm commitment for a $2.00 billion credit line provided by a facility led by the Healthcare of Ontario Pension Plan (HOOPP). Under the terms of the credit facility, Home Trust paid a non-refundable commitment fee of $100.0 million and made an initial draw of $1.00 billon. As of May 9, 2017, the Company has drawn $1.40 billion on this credit line. The interest rate on the outstanding balances is 10.0% with a standby fee of 2.5%. The facility, which is secured against a portfolio of mortgages totaling $5.40 billion as of May 9, 2017, matures 364 days after the closing date and can be terminated early at the option of Home Trust.

In late April, the Company sold federal and provincial bonds from its available for sale securities portfolio for proceeds of $338.1 million resulting in the realization of gains of $1.0 million, which were previously recognized as unrealized gains in AOCI as at March 31, 2017. On May 1, 2017, the Company sold preferred shares from its available for sale securities portfolio for proceeds of $154.2 million resulting in the realization of losses of $72.9 million, of which $46.2 million were previously recognized as unrealized losses in AOCI as at March 31, 2017.

As disclosed in note 4(A), the Company has an uncommitted credit facility of $20 million and two insured mortgage purchase facilities, one committed and one uncommitted, in the amounts of $300 million and $200 million, respectively. As at March 31, 2017, each of these facilities were undrawn. Subsequent to the end of the quarter, the Company drew $264.7 million from the committed facility. The uncommitted facilities remain undrawn. In consideration of the events that have unfolded subsequent to March 31, 2017, the ability to draw on these facilities are likely to be restricted.

As of May 9, 2017, the Company's liquid assets were $1.01 billion. Combined with the undrawn amount of $0.60 billion from the facility led by HOOPP, the Company's aggregate available liquidity and credit capacity totaled approximately $1.61 billion. (Please see "Liquidity and Funding Risk" in the Risk Management section of the MD&A included in this for more information).

In light of the Company's uncertainty as to future funding capabilities, the Company has suspended the declaration of dividends to shareholders.

On May 9, 2017, the Company announced that Home Trust has entered into an agreement with an independent third party whereby this party has indicated its non-binding intention to purchase as much as $1 billion in qualifying uninsured mortgages, with an immediate interest in purchasing or accepting commitments and/or renewals for up to half of that amount, or $500 million; and purchase or accept commitments for up to $500 million in insured mortgages, subject to appropriate documentation. The Third Party has also indicated an interest in further expansion of this arrangement at a later date.

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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

Auditors
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Principal Bankers
Bank of Montreal
Bank of Nova Scotia

Transfer Agent
Computershare Investor
Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Capital Stock
As at March 31, 2017 there
were 64,203,769 Common
Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

BRANCHES

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

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

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

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

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

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

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

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

Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Friday, May 12, 2017 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.