HOME CAPITAL GROUP INC.

2017

THIRD QUARTER REPORT

FINANCIAL HIGHLIGHTS

(Unaudited)	For the three months ended			For the nine months ended	
(000s, except Percentage and Per Share Amounts)	**September 30 2017**	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
OPERATING RESULTS					
Net Income (Loss)	**$ 29,983**	$ (111,116)	$ 66,190	**$ (23,092)**	$ 196,690
Net Interest Income (Loss)	**88,762**	(3,407)	119,924	**211,212**	364,544
Total Revenue[1]	**95,407**	(61,293)	145,095	**181,856**	437,362
Diluted Earnings (Loss) per Share	**$ 0.37**	$ (1.73)	$ 1.01	**$ (0.33)**	$ 2.92
Return on Shareholders' Equity	**6.8%**	(25.9)%	16.7%	**(1.8)%**	16.2%
Return on Average Assets	**0.6%**	(2.2)%	1.3%	**(0.2)%**	1.3%
Net Interest Margin (TEB)[2]	**1.85%**	(0.07)%	2.34%	**1.41%**	2.37%
Provision as a Percentage of Gross Uninsured Loans (annualized)[3]	**(0.14)%**	0.07%	0.04%	**0.05%**	0.05%
Provision as a Percentage of Gross Loans (annualized)[3]	**(0.11)%**	0.05%	0.03%	**0.04%**	0.04%
Efficiency Ratio (TEB)[2]	**62.7%**	(138.9)%	37.7%	**114.5%**	38.2%

	As at			
	September 30 2017	June 30 2017	December 31 2016	September 30 2016
BALANCE SHEET HIGHLIGHTS				
Total Assets	**$ 18,856,294**	$ 20,077,150	$ 20,528,777	$ 20,317,030
Total Assets Under Administration[4]	**26,659,330**	28,292,436	28,917,534	28,327,676
Total Loans[5]	**15,429,650**	17,648,114	18,035,317	18,002,238
Total Loans Under Administration[4,5]	**23,232,686**	25,863,400	26,424,074	26,012,884
Liquid Assets	**2,657,055**	1,737,417	2,067,981	1,878,082
Deposits	**13,358,618**	13,104,606	15,886,030	15,694,102
Line of Credit Facility	**-**	1,396,959	-	-
Shareholders' Equity	**1,781,741**	1,751,087	1,632,587	1,594,873
FINANCIAL STRENGTH				
Capital Measures[6]				
Risk-Weighted Assets	**$ 6,890,938**	$ 8,328,024	$ 8,643,267	$ 8,414,960
Common Equity Tier 1 Capital Ratio	**21.25%**	17.06%	16.55%	16.54%
Tier 1 Capital Ratio	**21.25%**	17.06%	16.54%	16.53%
Total Capital Ratio	**21.74%**	17.54%	16.97%	16.97%
Leverage Ratio	**7.89%**	7.19%	7.20%	7.08%
Credit Quality				
Net Non-Performing Loans as a Percentage of Gross Loans	**0.28%**	0.23%	0.30%	0.31%
Allowance as a Percentage of Gross Non-Performing Loans	**82.6%**	100.5%	73.4%	69.3%
Share Information				
Book Value per Common Share	**$ 22.20**	$ 21.82	$ 25.36	$ 24.70
Common Share Price – Close	**$ 13.89**	$ 16.99	$ 31.34	$ 27.00
Dividend paid during the period ended	**$ -**	$ -	$ 0.26	$ 0.24
Dividend Payout Ratio	**-**	-	32.9%	23.8%
Market Capitalization	**$ 1,114,617**	$ 1,363,380	$ 2,017,920	$ 1,743,093
Number of Common Shares Outstanding	**80,246**	80,246	64,388	64,559

[1] The Company has revised its definition of Total Revenue and restated amounts in prior periods accordingly. Please see the definition under Non-GAAP Measures in this report.
[2] See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures in this report.
[3] Provision as a percentage of both gross uninsured loans and gross loans for the three months ended September 30, 2017 include a release of $6.5 million in the collective allowance (please see Note 5(G) to the unaudited interim consolidated financial statements included in this report for more information). In the absence of this release, annualized provision for credit losses was 0.07% of gross uninsured loans and 0.06% of gross loans for the three months ended September 30, 2017.
[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**

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TO OUR SHAREHOLDERS

Yousry Bissada, President and Chief Executive Officer, Home Capital said, “We achieved a number of key milestones during the third quarter to set the Company on the right course for future growth. We strengthened our liquidity position and maintained access to deposit funding which we can quickly flex up or dial back in line with seasonal demand. We made initial progress growing originations from a low base to more profitably utilize our deposits. We successfully completed Project EXPO reducing our ongoing expenses and we added experienced and capable members to our senior management team. Importantly, Home Capital returned to profitability.”

“Looking ahead, our top priority is to grow our residential and commercial business lines to more normal and sustainable levels. We are enhancing our sales and underwriting processes to improve service levels and win business. With our strong capital and liquidity base, we are well positioned to take advantage of opportunities to build our business. We will do this in the context of an evolving regulatory landscape which we are assessing to quickly adapt. All the while we will continue to prudently manage credit risk and maintain an enhanced risk management and governance framework.”

Third Quarter 2017 Financial Statement Highlights

Third Quarter 2017, compared with the Third Quarter 2016:

- Returned to profitability and reported net income of $30.0 million and $0.37 per share fully diluted, compared with net income of $66.2 million and $1.01 diluted earnings per share.
- Net income for third quarter 2017 includes the impact of reduced loan balances, increased interest expenses, elevated non-interest expenses and loss on sale of mortgage assets.
- Total loans under administration were $23.2 billion compared to $26.0 billion as a result of the sale of loans and lower originations.
- Total mortgage originations of $385 million, compared with $2.54 billion.
- Provisions for credit losses (PCL) decreased reflecting the impact of a $6.5 million release of the collective allowance due to the sale of $963 million of commercial portfolio assets. PCL as a percentage of gross uninsured loans was (0.14)%, or 0.07% if the impact of the reduction in the collective allowance was excluded for ease of comparison, compared to 0.04%.
- Robust capital position to enable future growth with CET 1 ratio at 21.25% compared to 16.54%.

First Nine Months ended September 30, 2017, compared with First Nine Months ended September 30, 2016:

- Reported net loss was $23.1 million, compared with net income of $196.7 million.
- Reported diluted loss per share was $0.33, compared with diluted earnings per share of $2.92.
- Total mortgage originations of $3.8 billion, compared with $6.8 billion.
- PCL as a percentage of gross uninsured loans was 0.05%, compared to 0.05%.

Recent Events

- Yousry Bissada named President and Chief Executive Officer, Brad Kotush named Executive Vice President and Chief Financial Officer and Edward Karthaus named Executive Vice President, Sales.
- Liquidity position of $4.66 billion including $2 billion undrawn balance of Berkshire Hathaway (BH) credit facility at end of Q3 2017.
- Announced agreement with a third party to sell the Company’s payment processing and prepaid card business including its Payment Services Interactive Gateway (PSiGate) subsidiaries.
- Project EXPO successfully completed; expected to result in future annualized cost savings of $15 million when compared to the annualized run rate of Q4 2016 expenses (excluding items of note).
- Closed final tranche of a previously announced sale of certain commercial mortgage assets, for aggregate proceeds of approximately $1.0 billion.
- Received final approval of two agreements comprising a global settlement with the Ontario Securities Commission and a class action lawsuit from Ontario Superior Court of Justice.

Strategic Update

The Company’s new Chief Executive Officer and Chief Financial Officer, along with the Board of Directors, are focused on setting a long-term strategy to grow the business and create shareholder value.

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

The Company has successfully restored ample liquidity and stabilized its deposit funding; however, third quarter performance continued to reflect a number of negative factors stemming from the liquidity event including lower residential and commercial loan assets, higher deposit interest costs and elevated non-interest costs. New loan originations were well below historical levels and are not adequate to replace loan assets reduced through sales. Although the Company successfully stabilized its liquidity position and quickly restored deposit funding, the process of restoring loan growth has been slower than planned and is management's top priority.

In addition, the Company is operating in the context of an evolving regulatory landscape that will affect its primary residential mortgage market, though the extent of any impact is not yet clear.

Against this backdrop, Management and the Board of Directors are reassessing opportunities for the business and actively updating and executing its corporate strategy during the fourth quarter 2017 and first quarter of 2018.

Third Quarter Expenses

During the third quarter, the Company's expenses were in line with management expectations. Costs were elevated following the significant liquidity event that occurred during the second quarter 2017, which required the Company to liquidate securities and sell mortgage assets and establish a $2 billion credit facility (later replaced by the $2 billion credit facility on better terms from a wholly owned subsidiary of Berkshire Hathaway).

Some expenses associated with the liquidity event declined during the third quarter, such as the interest expense on the credit facilities which were repaid by the end of July. However, other operating expenses remained elevated, as expected, compared to historical levels due to increased professional fees, and legal fees and other expenses related to the liquidity event. In addition, the Company recognized a loss of $13.2 million on the completion of the previously announced asset sales required to repay the outstanding balance on the credit facility. Project EXPO, the Company's expense savings initiative announced early in 2017, has been successfully completed and no additional severance or other expense related to Project EXPO was recognized during the third quarter.

Moving forward into Q4 2017 and the first half of 2018, the Company expects to experience some continued elevated costs associated with the liquidity event that should be partially offset by Project EXPO savings.

Fourth Quarter 2017 Outlook

During the third quarter, the Company focused on carefully increasing lending activity and growing mortgage originations in step with deposit funding growth. Origination growth was lower than anticipated and the process of growing the lending book is an ongoing priority. Based on the current rate of funding new mortgages, the Company now estimates that the balance of non-securitized single-family residential mortgages will be approximately $10 billion at the end of 2017, compared to $10.4 billion at the end of the third quarter.

Improved depositor confidence combined with premium interest rates offered on new fixed-term deposits increased net deposit inflows and stabilized the Company's deposit funding. This positioned the Company with excess liquidity and increased funding capacity to significantly increase originations and achieve higher levels of new business going forward.

A focus on deploying excess liquidity and growing the loan book is expected to have a positive effect on net interest margins going forward. During the third quarter, the growth of deposits outpaced loan growth which resulted in a substantial increase in lower yielding liquid assets and contributed to lower net interest margins. The Company was required to offer premium rates on deposits, to increase inflows, which reduced the interest spread earned. The interest spread earned was also reduced by the significant decline in lower cost demand deposits relative to higher cost fixed-term deposits. By the end of the third quarter, the Company reduced deposit interest rates on new deposits to market levels, intentionally lowering deposit growth, as efforts turned to growing mortgage balances.

In addition, because of the overhang of the liquidity event, internal management and process changes, and timing of the shift in focus to growing mortgage balances, new loan originations are expected to be well below historical levels. Furthermore, the sale of commercial and residential mortgage assets and early payouts of consumer lending assets also contributed to reduced interest earning assets.

Net interest income is also expected to improve due to the full repayment of the outstanding debt under the BH credit facility; however, interest income is expected to remain at reduced levels until the Company can grow its loan portfolios to desired levels.

Strong capital levels are expected to be maintained as management continues to review opportunities to deploy capital in the most efficient manner to maximize shareholder value. The Company anticipates that return on shareholders' equity will continue to be dampened compared to prior periods by a combination of lower earnings and the increased share capital.

Management Comments on Revisions to Guideline B-20

In October 2017, OSFI announced revisions to Guideline B-20 Residential Mortgage Underwriting Practices and Procedures (B20), effective January 1, 2018. Management is interpreting the revisions to determine what potential operational adjustments will be required to be implemented prior to the effective date. The revisions include the following new standards:

1) a qualifying stress test for uninsured mortgages;
2) guidance on co-lending and bundling arrangements and;
3) additional guidance on income verification and expectations to account for property price inflation when determining appropriate loan to value.

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

The Company has identified a number of strategies to mitigate the impact of stress testing and co-lending changes while maintaining overall credit quality. However, management will require a period of time to fully assess the market impact from the changes and what the net impact will be on the Company's addressable market and product suite offering. The Company will attend OSFI information sessions before the end of the year to receive further clarity on certain revisions such as income verification and co-lending standards.

It is unclear what impact the revisions to B-20 will have on the real estate and mortgage markets as a whole, particularly when combined with changes under the Ontario Fair Housing Plan announced by the Ontario Ministry of Finance in April 2017.

Management and Board of Directors will continue to reassess the corporate strategy and opportunities for the business during the fourth quarter 2017 and first quarter of 2018.

Governance and Risk Management

Over the past few years, the Company has worked to continuously strengthen its governance and risk management processes (Risk Framework) and has significantly invested in enhancing systems and controls throughout the organization to support responsible growth. Today the Company has a more robust Risk Framework and is well positioned to sustainably grow its business with a renewed Board of Directors. Earlier this year, five new independent Directors were appointed to the Board, adding deep governance, risk and regulatory, finance, banking and investment experience. In addition, the Company has new Board and Board Committee Chairs, a new President and Chief Executive Officer and a new Chief Financial Officer. All are focused on driving governance, risk management and strategy to enhance long-term Company performance.

Brenda Eprile, Chair, Board of Directors of Home Capital commented, "Our renewed Board of Directors and strengthened corporate governance practices are the foundation to how we will grow and win future business and will also guide our strategies in the markets we serve. I look forward to working with our management team and Board on a longer term strategy to increase our revenues, manage risk and expenses, expand our geographic footprint and build long-term shareholder value."

YOUSRY BISSADA
President & Chief Executive Officer
November 14, 2017

BRENDA EPRILE
Chair of the Board

Additional information concerning the Company's expectations for 2017, including the risks and assumptions underlying these expectations can be found in the MD&A of this quarterly report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the three months ended September 30, 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 September 30, 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 November 14, 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 Performance Overview and Outlook section in this quarterly report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "intend," "should," "estimate," "plan," "forecast," "may," and "could" or other similar expressions.

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

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

Assumptions about the performance of the Canadian economy in 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 determining the 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.
- Generally the Company expects stable employment conditions in its established regions. Also, the Company expects inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and demand for the Company's lending products in its established regions.

- The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets and further adjustments in commodity prices; as such, the Company is prepared for the variability that may result.
- The Company is assuming that interest rates will generally remain at the current rates 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 relatively stable real estate market overall. Please see Market Conditions under the Performance Overview and Outlook section for more discussion on the Company's expectations for the housing market.
- The Company expects that consumer debt levels, while elevated, will remain serviceable by Canadian households.
- The Company will have access to the mortgage and deposit markets through broker networks.

BUSINESS PROFILE

Home Capital is a holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers deposits, residential and non-residential commercial mortgage lending and consumer lending. Home Trust also conducts business through its wholly owned subsidiary, Home Bank. The Company's other subsidiary, Payment Services Interactive Gateway Inc. (PSiGate) provides payment services. On October 16, 2017, the Company announced that it had reached an agreement to sell the Company's payment processing and prepaid card business including PSiGate. The sale is expected to close in the fourth quarter of 2017, subject to receipt of necessary third party and regulatory approvals and customary closing conditions. 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 OVERVIEW AND OUTLOOK

Overview

The third quarter marked the Company's first full reporting period after experiencing a significant liquidity event that took place in the second quarter. The Company successfully restored ample liquidity and stabilized its deposit funding during the quarter. However, third quarter performance continued to reflect a number of negative factors stemming from the liquidity event including elevated costs and new loans originations well below historical levels.

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

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

Against this backdrop, Management and the Board of Directors will continue to reassess the corporate strategy and opportunities for the business during the fourth quarter 2017 and first quarter of 2018.

Recap of Liquidity Event in the Second Quarter

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

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

In the third quarter, subsequent to the announcement of the BH transactions, deposit inflows increased significantly and those inflows combined with the proceeds from asset sales and lower lending activities stabilized its liquidity position. At the end of July, the Company fully repaid the amounts drawn on the line of credit facility from BH. As of the end of the third quarter, the Company held liquid assets of $2.66 billion in addition to the undrawn balance of $2 billion on its BH line of credit. For further information on the liquidity event and actions taken, please see the Overview of the Second Quarter and Outlook section of the MD&A included in the Company's 2017 Second Quarter Report.

During the third quarter, the Company also made payments of $31.0 million ($29.0 million of which was funded by the Company's insurers) under the previously announced settlements of the Class Action and Ontario Securities Commission (OSC) proceeding discussed in the Second Quarter report.

Elevated Costs in the Second and Third Quarter

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

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

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

Moving forward into Q4 2017 and the first half of 2018, the Company expects to experience some continued elevated costs associated with the liquidity event partially offset by Project EXPO savings.

Outlook for Remainder of 2017

The Company's new Chief Executive Officer and Chief Financial Officer, along with the Board of Directors, are focused on setting a long-term strategy to grow the business and create shareholder value.

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

During the third quarter, the Company focused on carefully increasing lending activity and growing mortgage originations in step with deposit funding growth to maintain adequate liquidity. Origination growth was lower than anticipated and the process of growing the lending book is an ongoing priority. Based on the current rate of funding new mortgages, the Company now estimates that the balance of non-securitized single-family residential mortgages will be approximately $10 billion at the end of 2017, compared to $10.4 billion at the end of the third quarter.

Improved depositor confidence, combined with premium interest rates offered on new fixed-term deposits, increased net deposit inflows and stabilized the Company's deposit funding. This positioned the Company with excess liquidity and increased funding capacity to significantly increase originations going forward.

As the Company focuses on deploying excess liquidity and growing the loan book, net interest margins are also expected to improve. During the third quarter, the growth of deposits outpaced loan growth which resulted in a substantial increase in lower yielding liquid assets and contributed to lower net interest margins. The Company was required to offer premium rates on deposits, to increase inflows, which reduced the interest spread earned. The interest spread earned was also reduced by the significant decline in lower cost demand deposits relative to higher cost fixed-term deposits. By the end of the third quarter, the Company reduced deposit interest rates on new deposits to market levels, intentionally lowering deposit growth, as efforts turned to growing mortgage balances. In addition, because of the overhang of the liquidity event, internal management and process changes, and timing of the shift in focus to growing mortgage balances, new loan originations are expected to be well below historical levels. Furthermore, the sale of commercial and residential mortgage assets and early payouts of consumer lending assets also contributed to reduced interest earning assets.

The Company was pleased to extinguish its outstanding debt under the BH credit facility and expects this will contribute to improved net interest income in the fourth quarter. However, interest income is expected to remain at reduced levels until the Company is able to restore growth of its loan portfolios to desired levels.

The Company expects to continue to maintain strong capital levels while management reviews opportunities to deploy capital in the most efficient manner to maximize shareholder value. The Company anticipates that return on shareholders' equity will continue to be dampened by a combination of lower earnings and the increased share capital.

Recent Government Changes

In October 2017, Office of the Superintendent of Financial Institutions Canada (OSFI) announced revisions to Guideline B-20 Residential Mortgage Underwriting Practices and Procedures (B20), effective January 1, 2018. Management is interpreting the revisions to determine what potential operational adjustments will be required to be implemented prior to the effective date. The revisions include the following new standards:

1) a qualifying stress test for uninsured mortgages;
2) guidance on co-lending and bundling arrangements and;
3) additional guidance on income verification and expectations to account for property price inflation when determining appropriate loan-to-value.

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

The following table provides a comparison of the single-family residential mortgage continuity over the trailing 12 months ended September 30, 2017 against two illustrative scenarios for the next 12 months. The first scenario assumes a 10% reduction in single-family residential mortgage advances resulting from the impact of the revisions to B20, while the second scenario assumes a 20% reduction in advances. Both scenarios assume a consistent rate of discharge and repayments and exclude sales of mortgages.

(in billions)	Actual 12 months ended September 30, 2017	Next 12 months with 10% reduction in Advances	Next 12 months with 20% reduction in Advances
Opening Balance	$ 14.4	$ 13.0	$ 13.0
Advances	4.6	4.1	3.7
Discharges	(5.2)	(4.7)	(4.7)
Other	(0.8)	0.2	0.2
Ending Balance	$ 13.0	$ 12.6	$ 12.2
Growth Rate	(10)%	(3)%	(6)%

It is unclear what impact the revisions to B-20 will have on the real estate and mortgage markets as a whole, particularly when combined with changes under the Ontario Fair Housing Plan announced by the Ontario Ministry of Finance in April 2017. The Company has identified a number of strategies to mitigate the impact of stress testing and co-lending changes while maintaining overall credit quality. However, management will require a period of time to fully assess the market impact from the changes and what the net impact will be on the Company's addressable market and product suite offering. The Company will attend OSFI information sessions before the end of the year to receive further clarity on certain revisions such as income verification and co-lending standards.

Management and the Board of Directors will continue to reassess the Company's corporate strategy and opportunities for the business during the fourth quarter 2017 and the first quarter of 2018.

Market Conditions

In the Company's established regions, it has observed cooling trends in the housing market over the second and third quarters, consistent with views that Canada's housing market is adjusting constructively to regulatory actions taken in the past year, including the Fair Housing Plan in Ontario. Reductions in average sale prices were observed in many areas throughout the Greater Toronto Area (GTA), while the Greater Vancouver Area (GVA) experienced some price appreciation at the end of the quarter due to tightened supply conditions. By the end of the third quarter, sales activity in the GTA rebounded, increasing in October over September but remaining lower compared to the same period last year. However, it is too early to determine whether this activity is indicative of a sustained trend. The Company views the recent moderation of housing activity as a positive path towards a more sustainable real estate market compared to the rapid price increase conditions experienced in recent years, particularly in the GTA. The Company expects further slowing of price appreciation over the balance of 2017 and in 2018, reflecting the impact of rising interest rates which could worsen affordability, especially in the GTA and the Golden Horseshoe area. However, stable employment conditions and high immigration targets (federal government has maintained a 300,000 target for new permanent residents in 2018), are expected to continue to provide support to our primary markets. Additionally, changes to Guideline B-20 are expected to contribute to lower levels of price appreciation. The Company continues to closely monitor any emerging real estate market trends across Canada and it will continue to apply a conservative approach to its residential lending.

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. Implementing the changes to B-20 could have a negative impact on the housing market and economic growth in the Company's largest market of Ontario. This in turn could contribute to deterioration in credit performance in future quarters, if the extent of the impact is more severe than widely expected.

Additional Risk Factors

The Company has heightened concerns regarding key employee and talent retention as the liquidity events in the second quarter have impacted employee morale. Combined with uncertainty over future strategic direction, this caused a material increase in voluntary attrition on a year-to-date basis compared to the same period in 2016, which has led to heightened operational risk. Management is addressing this risk through the deployment of key employee retention programs, increased employee communications, and an increase in talent management and recruitment activities. The Company has had demonstrable success in hiring new senior executives including a new President and Chief Executive Officer, a Chief Financial Officer and, subsequent to the end of the quarter, a new Executive Vice President of Sales and a new Senior Vice President of Human Resources. While employee retention remains a heightened concern, the Company expects that it now has an improved ability to replace management and employees who leave voluntarily and that employee attrition will return to more historical averages.

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

Table 1: Statement of Income (Loss) Highlights

(000s, except per share amounts)	Quarter			Year to date	
	Q3 2017	Q2 2017	Q3 2016	2017	2016
Net interest income (loss) non-securitized assets	$ 84,917	$ (7,982)	$ 116,281	$ 197,324	$ 354,408
Net interest income securitized loans and assets	3,845	4,575	3,643	13,888	10,136
Total net interest income (loss)	88,762	(3,407)	119,924	211,212	364,544
Provision for credit losses	(4,257)	2,420	1,336	4,082	5,490
	93,019	(5,827)	118,588	207,130	359,054
Non-interest income (loss)	6,645	(57,886)	25,171	(29,356)	72,818
Non-interest expenses	59,924	85,001	54,982	209,390	167,911
Income (loss) before income taxes	39,740	(148,714)	88,777	(31,616)	263,961
Income taxes	9,757	(37,598)	22,587	(8,524)	67,271
Net income (loss)	$ 29,983	$ (111,116)	$ 66,190	$ (23,092)	$ 196,690
Basic earnings (loss) per share	$ 0.37	$ (1.73)	$ 1.01	$ (0.33)	$ 2.92
Diluted earnings (loss) per share	$ 0.37	$ (1.73)	$ 1.01	$ (0.33)	$ 2.92

Net Income (Loss) and Earnings (Loss) per Share

Q3 2017 v Q2 2017

The Company reported a net income of $30.0 million and diluted earnings per share of $0.37 during the third quarter of 2017 compared to a net loss of $111.1 million and diluted loss per share of $1.73 last quarter. The net loss and diluted loss per share last quarter resulted from the elevated costs that resulted from the liquidity event experienced in the second quarter. While returning to positive levels in the third quarter, net income and earnings per share continued to be negatively impacted by the results of the liquidity event including reduced net interest income, realized losses on loan sales and additional professional and legal fees. Earnings per share were also negatively impacted by the increase in common shares following the share issuance at the end of the second quarter.

Q3 2017 v Q3 2016

Reported net income and diluted earnings per share were significantly lower than the net income of $66.2 million and diluted earnings per share of $1.01 reported one year ago as a result of the continued impact of the liquidity event as indicated above with earnings per share further impacted by the issuance of common shares also discussed above.

YTD 2017 v YTD 2016

The Company reported a net loss of $23.1 million and a diluted loss per share of $0.33 during the first nine months of 2017 compared to net income of $196.7 million and diluted earnings per share of $2.92 in the same period last year. The net loss and diluted loss per share in 2017 resulted from the impact of the liquidity event as discussed above.

Net Interest Income

Table 2: Net Interest Margin

	For the three months ended			For the nine months ended	
	September 30 2017	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.21%**	(0.19)%	2.68%	**1.59%**	2.71%
Net interest margin non-securitized interest-earning assets (TEB)	**2.21%**	(0.19)%	2.70%	**1.60%**	2.73%
Net interest margin CMHC-sponsored securitized assets	**0.43%**	0.50%	0.45%	**0.55%**	0.45%
Net interest margin bank-sponsored securitization conduit assets	**1.17%**	1.63%	1.85%	**1.47%**	1.89%
Total net interest margin (non-TEB)	**1.85%**	(0.07)%	2.33%	**1.40%**	2.35%
Total net interest margin (TEB)	**1.85%**	**(0.07)%**	**2.34%**	**1.41%**	**2.37%**
Spread of non-securitized loans over deposits and credit facilities	**2.62%**	(0.41)%	2.89%	**1.71%**	2.92%

Table 3: Net Interest Income by Product and Average Rate

	For the three months ended					
(000s, except %)	**September 30, 2017**		June 30, 2017		September 30, 2016	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 4,556**	**0.75%**	$ 1,927	0.62%	$ 5,405	1.21%
Traditional single-family residential mortgages	**122,489**	**4.82%**	132,378	4.69%	133,997	4.84%
ACE Plus single-family residential mortgages	**3,612**	**3.62%**	3,541	3.44%	3,104	3.36%
Accelerator single-family residential mortgages	**2,763**	**3.98%**	2,437	2.55%	7,342	2.40%
Residential commercial mortgages[2]	**2,063**	**5.98%**	4,609	5.16%	4,483	4.26%
Non-residential commercial mortgages	**18,777**	**6.12%**	32,631	6.11%	26,741	6.08%
Credit card loans and lines of credit	**8,327**	**8.99%**	8,699	8.92%	8,432	9.03%
Other consumer retail loans	**9,128**	**10.11%**	8,099	7.98%	8,296	9.40%
Total non-securitized loans	**167,159**	**5.16%**	192,394	5.01%	192,395	4.94%
Taxable equivalent adjustment	**91**	**-**	109	-	853	-
Total non-securitized interest earning assets	**171,806**	**4.47%**	194,430	4.68%	198,653	4.58%
CMHC-sponsored securitized single-family residential mortgages	**13,718**	**2.27%**	13,702	2.38%	11,921	2.57%
CMHC-sponsored securitized multi-unit residential mortgages	**7,718**	**5.31%**	7,004	4.74%	7,238	4.61%
Assets pledged as collateral for CMHC-sponsored securitization	**122**	**0.68%**	23	0.47%	489	1.27%
Total CMHC-sponsored securitized residential mortgages	**21,558**	**2.81%**	20,729	2.85%	19,648	2.98%
Bank-sponsored securitization conduit assets	**1,572**	**3.26%**	1,949	3.45%	1,309	3.52%
Total assets	**$ 194,936**	**4.06%**	$ 217,108	4.29%	$ 219,610	4.25%
Interest-bearing liabilities						
Deposits and credit facilities	**$ 86,798**	**2.54%**	$ 202,303	5.42%	$ 81,519	2.05%
CMHC-sponsored securitization liabilities	**18,277**	**2.37%**	17,073	2.34%	16,693	2.49%
Bank-sponsored securitization conduit liabilities	**1,008**	**2.16%**	1,030	1.83%	621	1.76%
Total liabilities	**$ 106,083**	**2.21%**	$ 220,406	4.36%	$ 98,833	1.91%
Net Interest Income (Loss) (TEB)	**$ 88,853**		$ (3,298)		$ 120,777	
Tax Equivalent Adjustment	**(91)**		(109)		(853)	
Net Interest Income (Loss) per Financial Statements	**$ 88,762**		$ (3,407)		$ 119,924	

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

	For the nine months ended			
(000s, except %)	**September 30, 2017**		September 30, 2016	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]
Interest-bearing assets				
Cash resources and securities	**$ 11,689**	**0.86%**	$ 16,057	1.23%
Traditional single-family residential mortgages	**385,160**	**4.72%**	409,493	4.86%
ACE Plus single-family residential mortgages	**10,552**	**3.50%**	8,146	3.28%
Accelerator single-family residential mortgages	**10,532**	**2.60%**	24,430	2.42%
Residential commercial mortgages[2]	**11,292**	**4.82%**	13,323	4.16%
Non-residential commercial mortgages	**81,164**	**5.98%**	74,232	6.05%
Credit card loans and lines of credit	**25,307**	**8.90%**	25,147	8.99%
Other consumer retail loans	**27,981**	**9.70%**	22,874	9.19%
Total non-securitized loans	**551,988**	**5.00%**	577,645	4.91%
Taxable equivalent adjustment	**1,025**	**-**	2,710	-
Total on non-securitized interest earning assets	**564,702**	**4.56%**	596,412	4.57%
CMHC-sponsored securitized single-family residential mortgages	**38,162**	**2.34%**	35,527	2.63%
CMHC-sponsored securitized multi-unit residential mortgages	**23,667**	**5.32%**	22,669	4.57%
Assets pledged as collateral for CMHC-sponsored securitization	**600**	**1.15%**	1,751	0.88%
Total CMHC-sponsored securitized residential mortgages	**62,429**	**2.93%**	59,947	2.93%
Bank-sponsored securitization conduit assets	**4,937**	**3.28%**	1,835	3.38%
Total assets	**$ 632,068**	**4.20%**	$ 658,194	4.24%
Interest-bearing liabilities				
Deposits and credit facilities	**$ 366,353**	**3.29%**	$ 237,051	1.99%
Senior debt	**-**	**-**	2,243	3.91%
CMHC-sponsored securitization liabilities	**50,751**	**2.38%**	50,840	2.45%
Bank-sponsored securitization conduit liabilities	**2,727**	**1.83%**	806	1.57%
Total liabilities	**$ 419,831**	**2.79%**	$ 290,940	1.87%
Net Interest Income (TEB)	**$ 212,237**		$ 367,254	
Tax Equivalent Adjustment	**(1,025)**		(2,710)	
Net Interest Income per Financial Statements	**$ 211,212**		$ 364,544	

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

Q3 2017 v Q2 2017

The Company recognized net interest income of $88.8 million and a net interest margin (TEB) of 1.85% during the third quarter of 2017 compared to a net interest loss of $3.4 million and a negative net interest margin (TEB) of 0.07% last quarter. The net interest loss and negative margin last quarter resulted from the recognition of $130.6 million of interest expense on the Emergency Credit that was used to provide a short term bridge to a more sustainable solution to the liquidity issues faced by the Company last quarter. The interest expense last quarter included the full $100 million commitment fee connected with this facility as well as interest and professional fees and other costs associated with the credit.

While returning to positive levels in the third quarter, net interest income and margin continued to be negatively impacted by interest expense on the BH line of credit facility which replaced the Emergency Credit at the end of the second quarter. A drawn balance on the BH facility during most of the first month of Q3 resulted in the recognition of $11.4 million in interest expense and fees during the quarter, which also includes the standby fee on undrawn amounts. Interest expense on deposits increased to $75.4 million in the quarter from $71.7 million, reflecting an increase in deposits and increased rates offered to attract new deposits following the liquidity event of the second quarter. While average rates earned on non-securitized loans increased over last quarter, the combined impact of higher rates on new deposits and the interest expense and standby fees on the line of credit facility has maintained downward pressure on net interest margins.

Q3 2017 v Q3 2016

The decline in net interest income to $88.8 million from $119.9 million and the decline of 49 basis points in total net interest margin (TEB) to 1.85% from 2.34% in the same period last year resulted from the decline in net interest income and margins in the non-securitized portfolio. Non-securitized net interest margin (TEB) declined 49 basis points to 2.21% from 2.70% last year as result of a combination of a decrease in the spread of non-securitized loans over deposits and credit facilities and the higher proportion of liquid assets and decline in the average rate earned on those liquid assets.

The decline in the spread of non-securitized loans over deposits and credit facilities of 27 basis points to 2.62% from 2.89% last year resulted from the interest expense and standby fees on the BH line of credit facility recognized during the quarter combined with higher rates offered to attract new deposits and the significant decline in the proportion of the lower cost demand deposits relative to higher cost fixed-term deposits. Demand deposits represented 3.3% of total deposits at the end of the quarter compared to 15.5% at the end of Q3 2016. The average rate of interest expense on deposits and credit facilities for the quarter was 2.54% compared to 2.05% one year ago. Interest and fees on the BH line of credit facility represents 33 basis points of the total average rate of expense of 2.54% for the quarter. A decline in the relative proportion of the higher-yielding non-residential commercial mortgage portfolio following the sale of mortgages from this portfolio during the quarter contributed to the decline in overall spread. The average balance in this portfolio during the quarter represented 9.5% of total average non-securitized loans compared to 11.3% last year. These unfavourable impacts on net interest margin were offset partially by an increase in mortgage rates and prepayment penalty interest of $2.4 million earned on the early payout of a consumer retail loan portfolio.

Net interest margin (TEB) on the non-securitized portfolio declined 49 basis points despite a decline of only 27 basis points in the spread of non-securitized loans over deposits and credit facilities as a result of an increase in the relative proportion of the lower earning liquid assets. Average balances of liquid assets during the quarter of $2.44 billion or 15.9% of total average non-securitized assets increased from $1.79 billion or 10.3% of average non-securitized assets in the same period last year. The average rate earned on those assets also declined to 0.75% for the quarter from 1.21% last year, reflecting lower dividend income following the liquidation of preferred shares during the second quarter. The increase in the relative proportion of liquid assets reflects the inflow of deposits experienced during the quarter without the deployment of those funds for mortgage funding as reflected in the decline in mortgage originations for the quarter (see Table 10).

YTD 2017 v YTD 2016

The Company recognized net interest income of $211.2 million and a net interest margin (TEB) of 1.41% for the first nine months of 2017 compared to $364.5 million and 2.37% last year, respectively. This significant decline in net interest income and margin resulted primarily from the interest expense on the Emergency Credit along with the other factors as discussed above.

Non-Interest Income (Loss)

Table 4: Non-Interest Income (Loss)

	Quarter			Year to date	
(000s)	**Q3 2017**	Q2 2017	Q3 2016	**2017**	2016
Fees and other income	**$ 18,087**	$ 17,168	$ 17,223	**$ 51,586**	$ 53,716
Securitization income	**2,525**	1,877	7,599	**10,834**	24,733
Gain on acquisition of CFF Bank	**-**	-	-	**-**	651
Net realized and unrealized losses on securities and loans	**(13,155)**	(76,912)	-	**(90,070)**	(175)
Net realized and unrealized gains (losses) on derivatives	**(812)**	(19)	349	**(1,706)**	(6,107)
	$ 6,645	$ (57,886)	$ 25,171	**$ (29,356)**	$ 72,818

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

Table 5: Derivative Gains and Losses

	For the three months ended			For the nine months ended	
(000s)	**September 30 2017**	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Fair value hedging ineffectiveness[1]	**$ (770)**	$ (8)	$ 355	**$ (1,342)**	$ (6,656)
Derivative instruments marked-to-market gains (losses)[2]	**(42)**	(11)	(6)	**(364)**	549
Net realized and unrealized gains (losses) on derivatives	**$ (812)**	$ (19)	$ 349	**$ (1,706)**	$ (6,107)

[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.

Q3 2017 v Q2 2017

While returning to a positive level in the third quarter compared to a loss last quarter, non-interest income was unfavourably impacted by $13.2 million of losses recognized on the sale of mortgages during the quarter. The Company sold mortgages for proceeds of $1.00 billion during the quarter to raise the liquidity needed to repay the drawn balance on the BH line of credit facility. The non-interest loss in the second quarter of 2017 resulted from the recognition of $72.9 million of losses on the liquidation of preferred shares in response to the liquidity event experienced last quarter, which included $46.2 million of losses previously recognized as unrealized losses in accumulated other comprehensive income (AOCI). The Company also sold $488.8 million of residential and commercial mortgages last quarter to raise additional liquidity, resulting in the recognition of $5.0 million of losses.

Securitization income results primarily from gains recognized on the sale of insured multi-unit residential mortgages and the sale of residual interests in single-family residential mortgage securitizations along with income earned on servicing mortgages sold through securitization. In the case of single-family residential mortgage sales, the Company will service the loans and record related servicing fee revenue over the remaining term of the underlying mortgages. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further net servicing revenue or fees are recorded. Securitization income in the quarter resulted primarily from servicing income of $1.7 million, compared to $1.9 million last quarter. Securitization income also includes gains of $0.4 million recorded on sales of $58.9 million of insured multi-unit residential mortgages during the quarter compared to the gains of $0.4 million recognized last quarter on sales of $113.3 million of insured multi-unit residential mortgages. There were no sales of residual interests in the second and third quarters and the Company does not expect to sell any residual interests in future quarters due to the lower returns earned on these transactions compared to income earned when retaining the assets on balance sheet. Please see the Securitization Activity note to the unaudited interim consolidated financial statements included in this report for further information.

Q3 2017 v Q3 2016

In addition to the loss of the sale of mortgages recognized in the quarter indicated above, the decrease in non-interest income from the same quarter last year reflects a decrease in securitization income. The decrease resulted from the absence of sales of residual interests in single-family residential mortgage securitizations in the quarter as noted above and a decrease in sales of insured multi-unit residential mortgages.

YTD 2017 v YTD 2016

The non-interest loss in the first nine months of 2017 resulted from the recognition of the losses on the liquidation of preferred shares in the second quarter along with the losses recognized on the sale of mortgages in the second and third quarters as indicated above. Securitization income was also lower than last year for the reasons indicated above.

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

(000s, except %)	For the three months ended						For the nine months ended			
	September 30, 2017		June 30, 2017		September 30, 2016		**September 30, 2017**		September 30, 2016	
	Amount	**% of Gross Loans [1]**	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]	**Amount**	**% of Gross Loans [1]**	Amount	% of Gross Loans[1]
Provision[2]										
Single-family residential mortgages	**$ 1,165**	**0.04%**	$ 329	0.01%	$ 1,006	0.03%	**$ 1,625**	**0.02%**	$ 2,888	0.03%
Residential commercial mortgages	**6**	**0.02%**	(2)	(0.00)%	(128)	(0.19)%	**25**	**0.03%**	-	-
Non-residential commercial mortgages	**202**	**0.08%**	341	0.07%	(37)	(0.01)%	**612**	**0.08%**	201	0.01%
Credit card loans and lines of credit[3]	**756**	**0.83%**	773	0.80%	280	0.30%	**4,902**	**1.79%**	1,215	0.43%
Other consumer retail loans	**114**	**0.13%**	(21)	(0.02)%	215	0.24%	**418**	**0.15%**	372	0.14%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Total individual provision	**2,243**	**0.06%**	1,420	0.03%	1,336	0.03%	**7,582**	**0.07%**	4,676	0.03%
Total collective provision	**(6,500)**	**(0.17)%**	1,000	0.02%	-	-	**(3,500)**	**(0.03)%**	814	0.01%
Total provision	**$ (4,257)**	**(0.11)%**	$ 2,420	0.05%	$ 1,336	0.03%	**$ 4,082**	**0.04%**	$ 5,490	0.04%
Net Write-Offs[2]										
Single-family residential mortgages	**$ 506**	**0.02%**	$ 1,272	0.04%	$ 664	0.02%	**$ 1,978**	**0.03%**	$ 2,647	0.03%
Residential commercial mortgages	**4**	**0.02%**	(5)	(0.01)%	-	-	**(1)**	**(0.00)%**	-	-
Non-residential commercial mortgages	**33**	**0.01%**	48	0.01%	100	0.02%	**82**	**0.01%**	520	0.04%
Credit card loans and lines of credit	**637**	**0.70%**	652	0.68%	397	0.42%	**2,422**	**0.88%**	1,459	0.52%
Other consumer retail loans	**73**	**0.08%**	233	0.22%	77	0.09%	**528**	**0.19%**	227	0.08%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Net Write-Offs	**$ 1,253**	**0.03%**	$ 2,200	0.05%	$ 1,238	0.03%	**$ 5,009**	**0.04%**	$ 4,853	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 for nine months ended September 30, 2017 includes $2.3 million recognized in the first quarter of 2017 related to the non-core prepaid card business.

The Company continues to have strong credit performance with the total provision for credit losses in the quarter comprising an individual provision expense of $2.2 million and a release of $6.5 million in the collective allowance resulting in a combined favourable impact to income before tax of $4.3 million, or 0.14% of gross uninsured loans and 0.11% of total gross loans on an annualized basis. The entire release in the collective allowance was from the non-residential commercial portfolio and resulted from the sale of mortgages in that portfolio. The release in the collective allowance was offset by a corresponding increase to the loss on sale of the mortgages included in non-interest income. Please see Note 5(G) of the unaudited interim consolidated financial statements included in this report for more information. In the absence of this release of $6.5 million in the collective allowance, provision for credit losses was 0.07% of gross uninsured loans for the quarter consistent with 0.07% last quarter.

The decrease in the Company's collective allowance to $33.6 million resulted from the release of $6.5 million indicated above. There were no increases in the collective allowance during the quarter. Last quarter, the collective allowance for the non-residential commercial mortgage portfolio was increased by $1.0 million, reflecting the increase in the construction and land segment of this portfolio. The current collective allowance continues to exceed the cumulative net write-offs experienced over the last 36 months.

The Company continues to observe strong credit profiles and stable loan-to-value ratios across its portfolio, which continue to support low delinquency and non-performing rates and ultimately low net write-offs. Net write-offs were $1.3 million in the quarter, or 0.03% of gross loans in the quarter; down from 0.05% last quarter and consistent with the same period last year.

Net non-performing loans were $43.6 million or 0.28% of gross loans at the end of the quarter compared to 0.23% last quarter and 0.31% 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

(000s, except % and number of employees)	Quarter			Year to Date	
	Q3 2017	Q2 2017	Q3 2016	**2017**	2016
Salaries and benefits	**$ 22,610**	$ 29,303	$ 24,350	**$ 81,532**	$ 77,746
Premises	**3,283**	3,365	3,472	**10,400**	10,898
Other operating expenses	**34,031**	52,333	27,160	**117,458**	79,267
	$ 59,924	$ 85,001	$ 54,982	**$ 209,390**	$ 167,911
Efficiency ratio (TEB)	**62.7%**	(138.9)%	37.7%	**114.5%**	38.2%
Active employees at the end of the period	**733**	816	896	**733**	896

Q3 2017 v Q2 2017

Non-interest expenses decreased by $25.1 million or 29.5% from last quarter, with decreases in both salaries and benefits and other operating expenses.

The decrease in salaries and benefits reflects the decrease in number of active employees and the related impact of the Company's Project EXPO expense savings initiative. Last quarter, salaries and benefits included severance expense of $5.6 million in connection with Project EXPO. There was no additional severance expense in the third quarter related to Project EXPO and, with the completion of Project EXPO, no further charges are expected.

Other operating expenses decreased from the second quarter as other operating expenses last quarter included $7.3 million of write-downs related to goodwill, intangible and other assets within the payment card and payment processing business. In addition, while legal and other professional expenses connected with the liquidity event of the second quarter and the OSC and class action matter continued into the third quarter, these expenses began to diminish in the latter part of the quarter (please see Note 11 to the unaudited consolidated financial statements for more information on the OSC and class action matter).

Q3 2017 v Q3 2016

The increase in non-interest expense over last year represents an increase in other operating expenses, offset to some extent by a decrease in salaries and benefits.

The decrease in salaries and benefits reflects the decline in number of active employees resulting from the impact of Project EXPO and voluntary attrition following the liquidity event of the second quarter. The increase in other operating expenses resulted from the elevated legal and other professional expenses connected with the liquidity event experienced during the second quarter and the OSC and class action matter.

YTD 2017 v YTD 2016

The increase in non-interest expenses in the first nine months of 2017 over last year reflects an increase in both salaries and benefits and other operating expenses, which increased for the reasons discussed above.

Income Taxes

In Q3 2017 the Company recorded an expense of $9.8 million (effective tax rate of 24.55%), compared to a recovery of $37.6 million (effective tax rate of 25.28%) in Q2 2017 and an expense of $22.6 million (effective tax rate of 25.44%) in Q3 2016.

The Company's effective tax rate in Q3 2017 differs from the statutory rate primarily due to the recognition of Scientific Research and Experimental Development (SR&ED) investment tax credits. The Q2 2017 effective tax rate differed from the statutory rate primarily due to non-deductible expenses for fines and penalties related to the OSC settlement in the amount of $2.0 million and impairment charges for goodwill in the amount of $4.4 million. In Q3 2016, the effective tax rate differed from the statutory rate primarily due to the receipt of dividends from Canadian corporations in the amount of $2.4 million, that are not subject to tax. Please see Note 10 of the unaudited interim consolidated financial statements included in this report for more information.

Comprehensive Income (Loss)

Comprehensive income (loss) is the aggregate of net income (loss) and other comprehensive income (loss) (OCI). Comprehensive income for the quarter was $30.9 million compared to comprehensive loss of $76.4 million in Q2 2017 and comprehensive income of $72.7 million in Q3 2016.

OCI in the quarter was $1.0 million compared to $34.7 million in Q2 2017 and $6.5 million in Q3 2016. The OCI in the third quarters of both 2017 and 2016 resulted primarily from improvements in the market value of the Company's available for sale securities portfolio. The higher OCI last quarter reflects the transfer to the consolidated statements of income (loss) of previously recognized losses on the market value of available for sale securities following the liquidation of preferred shares to raise funds in connection with the liquidity event experienced in Q2 2017.

FINANCIAL POSITION REVIEW

Table 8: Loan Portfolio

						As at
	September 30	**%**	June 30	%	December 31	%
(000s, except % and number of loans)	**2017**	**of Total**	2017	of Total	2016	of Total
CMHC-sponsored securitized single-family residential mortgages	**$ 2,383,025**	**10.3%**	$ 2,463,884	9.5%	$ 1,792,301	6.8%
CMHC-sponsored securitized multi-unit residential mortgages	**570,637**	**2.5%**	587,391	2.3%	620,193	2.4%
Bank-sponsored securitization conduit single-family residential mortgages	**180,244**	**0.8%**	205,829	0.8%	114,310	0.4%
Traditional single-family residential mortgages	**9,712,620**	**41.8%**	10,698,051	41.4%	11,024,960	41.7%
ACE Plus single-family residential mortgages	**384,491**	**1.7%**	416,195	1.6%	433,800	1.6%
Accelerator single-family residential mortgages	**302,158**	**1.3%**	232,907	0.9%	963,248	3.7%
Residential commercial mortgages	**99,687**	**0.4%**	264,077	1.0%	305,188	1.2%
Non-residential commercial mortgages	**1,032,949**	**4.4%**	1,981,911	7.6%	1,954,820	7.4%
Credit card loans and lines of credit	**361,787**	**1.5%**	381,169	1.5%	369,678	1.4%
Other consumer retail loans	**361,732**	**1.5%**	416,700	1.6%	378,901	1.4%
Total loan portfolio	**15,389,330**	**66.2%**	17,648,114	68.2%	17,957,399	68.0%
Loans held for sale	**40,320**	**0.2%**	-	-	77,918	0.3%
Total on-balance sheet loans	**$ 15,429,650**	**66.4%**	$ 17,648,114	68.2%	$ 18,035,317	68.3%
Off-balance sheet loans						
Single-family residential mortgages	**$ 4,328,439**	**18.6%**	$ 4,759,070	18.4%	$ 5,207,351	19.7%
Multi-unit residential mortgages	**3,474,597**	**15.0%**	3,456,216	13.4%	3,181,406	12.0%
Total off-balance sheet loans	**7,803,036**	**33.6%**	8,215,286	31.8%	8,388,757	31.7%
Total loans under administration	**$ 23,232,686**	**100.0%**	$ 25,863,400	100.0%	$ 26,424,074	100.0%
Total insured mortgages under administration	**$ 11,230,350**	**49.9%**	$ 11,626,101	46.4%	$ 11,913,490	46.4%
Total uninsured mortgages under administration	**11,278,817**	**50.1%**	13,439,430	53.6%	13,762,005	53.6%
Total mortgages under administration	**$ 22,509,167**	**100.0%**	$ 25,065,531	100.0%	$ 25,675,495	100.0%
Number of loans outstanding under administration						
Mortgages	**57,174**		61,716		65,665	
Credit card loans and lines of credit	**41,187**		41,387		42,707	
Other consumer retail loans	**108,355**		121,861		115,244	
Total number of loans outstanding	**206,716**		224,964		223,616	

Total loans under administration were $23.23 billion at the end of the quarter, representing a decrease of $2.63 billion or 10.2% from the end of last quarter and a decrease of $3.19 billion or 12.1% from the end of 2016, reflecting decreases in both on- and off–balance sheet loans. On-balance sheet loans were down 12.6% from the end of Q2 2017 and down 14.4% from the end of 2016 while off-balance sheet loans were down 5.0% from the end of Q2 2017 and down 7.0% from the end of 2016. During the second and third quarters, the Company greatly reduced mortgage advances and sold loans to manage the liquidity issues experienced during the second quarter.

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 September 30, 2017			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,016,866	$ 851,468	$ 1,981,911	$ 16,850,245
Advances	223,964	99,054	62,047	385,065
Scheduled payments and prepayments[1]	(84,277)	(4,923)	(8,829)	(98,029)
Discharges	(1,359,977)	(53,960)	(144,550)	(1,558,487)
Capitalization and amortization of fees and other[2]	184,135	190	5,215	189,540
Sales of mortgages and residual interests	(18,173)	(181,185)	(862,845)	(1,062,203)
Balance at the end of the period	$ 12,962,538	$ 710,644	$ 1,032,949	$ 14,706,131

(000s)	For the three months ended June 30, 2017			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,668,688	$ 970,118	$ 2,157,013	$ 17,795,819
Advances	840,210	89,826	188,057	1,118,093
Scheduled payments and prepayments[1]	(86,552)	(4,206)	(16,976)	(107,734)
Discharges	(1,271,510)	(53,847)	(195,800)	(1,521,157)
Capitalization and amortization of fees and other[2]	165,136	7,583	(5,146)	167,573
Sales of mortgages and residual interests	(299,106)	(158,006)	(145,237)	(602,349)
Balance at the end of the period	$ 14,016,866	$ 851,468	$ 1,981,911	$ 16,850,245

(000s)	For the three months ended September 30, 2016			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,620,219	$ 1,069,839	$ 1,658,201	$ 17,348,259
Advances	1,980,242	212,822	347,636	2,540,700
Scheduled payments and prepayments[1]	(88,630)	(4,085)	(5,937)	(98,652)
Discharges	(1,677,574)	(71,271)	(143,576)	(1,892,421)
Capitalization and amortization of fees and other[2]	16,303	(1,615)	(2,209)	12,479
Sales of mortgages and residual interests	(400,764)	(242,894)	-	(643,658)
Balance at the end of the period	$ 14,449,796	$ 962,796	$ 1,854,115	$ 17,266,707

(000s)	For the nine months ended September 30, 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	**2,776,544**	**483,720**	**588,533**	**3,848,797**
Scheduled payments and prepayments[1]	**(255,294)**	**(15,010)**	**(53,590)**	**(323,894)**
Discharges	**(3,758,631)**	**(143,002)**	**(446,398)**	**(4,348,031)**
Capitalization and amortization of fees and other[2]	**477,037**	**7,553**	**(2,334)**	**482,256**
Sales of mortgages and residual interests	**(605,737)**	**(625,916)**	**(1,008,082)**	**(2,239,735)**
Balance at the end of the period	**$ 12,962,538**	**$ 710,644**	**$ 1,032,949**	**$ 14,706,131**

(000s)	For the nine months ended September 30, 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	5,241,758	777,720	778,451	6,797,929
Scheduled payments and prepayments[1]	(258,640)	(16,802)	(14,196)	(289,638)
Discharges	(4,393,099)	(220,728)	(401,971)	(5,015,798)
Capitalization and amortization of fees and other[2]	30,801	(28,772)	1,183	3,212
Sales of mortgages and residual interests	(1,098,552)	(731,472)	-	(1,830,024)
Balance at the end of the period	$ 14,449,796	$ 962,796	$ 1,854,115	$ 17,266,707

[1]Includes regularly scheduled principal payments and unscheduled partial payments.
[2]Included in other are renewals of single-family residential mortgages that were previously securitized and derecognized. Upon renewal, the mortgages are recognized on the balance sheet and totaled $184.4 million during the quarter and $433.0 million for the first nine months of 2017 (Q2 2017 - $141.5 million, Q3 2016 - $12.3 million, first nine months of 2016 - $22.6 million).

Table 10: Mortgage Advances

	For the three months ended			For the nine months ended	
(000s)	**September 30 2017**	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Single-family residential mortgages					
Traditional	**$ 201,131**	$ 699,930	$ 1,416,842	**$ 2,359,836**	$ 3,665,155
ACE Plus	**1,541**	56,079	116,666	**163,570**	301,290
Accelerator	**21,292**	84,201	446,734	**253,138**	1,275,313
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**-**	9,281	17,947	**54,286**	88,027
Multi-unit insured residential mortgages	**99,054**	73,730	194,875	**422,619**	663,100
Other[1]	**-**	6,815	-	**6,815**	26,593
Non-residential commercial mortgages					
Store and apartments	**-**	11,866	35,018	**43,629**	66,010
Commercial	**62,047**	176,191	312,618	**544,904**	712,441
Total mortgage advances	**$ 385,065**	$ 1,118,093	$ 2,540,700	**$ 3,848,797**	$ 6,797,929

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

Mortgage Lending

Uninsured Residential Mortgages – Traditional Mortgages and ACE Plus Mortgages

The Company's uninsured residential mortgage portfolio includes both its traditional mortgage portfolio and its ACE Plus mortgage portfolio. The ACE Plus product is a lower-rate mortgage product directed toward lower-risk borrowers, which the Company began originating in 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 Q3 2017, ACE Plus mortgages with a balance of $180.2 million have been assigned to this program and reclassified to securitized mortgages on the consolidated balance sheet. Following the liquidity events in the second quarter, the Company discontinued its ACE Plus product, as access to the bank-sponsored securitization conduit was no longer available. Combined traditional and non-securitized ACE Plus mortgages of $10.10 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 43.5% and 65.4%, respectively. The combined portfolio decreased by 9.2% from the end of Q2 2017 and 11.9% from the end of 2016 resulting from lower originations and reduced retention. Combined originations of traditional and ACE Plus mortgages of $202.7 million in the quarter and $2.52 billion for the first nine months of 2017 were down 86.8% and 36.4% over the same periods last year and 73.2% over Q2 2017. The lower originations resulted from the Company's efforts to manage the liquidity issues experienced in the second quarter and the consequential time needed to restart the growth in its mortgage portfolio.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.23 billion at the end of the quarter, reflecting a decrease of 3.4% from the balance of $11.63 billion at the end of Q2 2017 and 5.7% from the balance of $11.91 billion at the end of 2016. Of this total, $7.80 billion were accounted for off-balance sheet, down $412.3 million or 5.0% from the end of Q2 2017 and $585.7 million or 7.0% from the end of 2016.

The Company originated $21.3 million in insured single-family Accelerator mortgages in the quarter and $253.1 million for the first nine months of 2017, down 95.2% and 80.2% from the same periods last year and down 74.7% from Q2 2017 as the Company scaled back its originations due to its liquidity needs during Q2 and continued to experience 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.

During the quarter, the Company originated $99.1 million of insured multi-unit residential mortgages and sold $58.9 million that qualified for off-balance sheet treatment resulting in $434 thousand in gains on sale. The multi-unit residential mortgage market is relatively limited and the Company participates in appropriate transactions as they become available through various origination channels. As a result, origination volumes, sales and resultant securitization gains can vary significantly from quarter to quarter. All of the Company's new insured multi-unit residential originations qualify for off-balance sheet treatment, and the on-balance sheet securitized multi-unit residential portfolio is declining through amortization and maturities.

From time to time, the Company pools mortgages and may hold the related Mortgage-Backed Security (MBS) as liquid assets or inventory for replacement assets for the Canada Mortgage Bond (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's originations were constrained by the lack of liquidity in the second quarter and the consequential time needed to restart the growth in its mortgage portfolio.

Non-Residential Commercial Mortgages

Non-residential commercial originations were $62.0 million in the quarter and $588.5 million for the first nine months of 2017 down 82.2% and 24.4% from the same periods last year and down 67.0% from Q2 2017. The slowdown in originations is reflective of the response to the Company's liquidity event experienced in the second quarter and the consequential time needed to restart the growth in its mortgage portfolio. The focus was turned toward asset sales to assist in generating liquidity out of the commercial loan portfolio.

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

Geographic Concentration

Mortgage advances continue to favour Ontario and, in particular, the GTA, during the quarter. 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

						For the three months ended
(000s)			**September 30, 2017**			June 30, 2017
	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	**$ 381,169**	**$ 416,700**	**$ 797,869**	$ 383,610	$ 394,047	$ 777,657
Advances and draw-downs	**50,378**	**52,079**	**102,457**	64,236	52,675	116,911
Repayments	**(79,534)**	**(120,925)**	**(200,459)**	(74,113)	(45,132)	(119,245)
Capitalization of interest and fees, portfolio sales and other	**9,774**	**13,878**	**23,652**	7,436	15,110	22,546
Balance at the end of the period	**$ 361,787**	**$ 361,732**	**$ 723,519**	$ 381,169	$ 416,700	$ 797,869
Authorized limit on new credit card issuances	**$ 13,050**			$ 37,073		

			For the three months ended
(000s)			September 30, 2016
	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total Consumer Lending
Balance at the beginning of the period	$ 371,925	$ 344,890	$ 716,815
Advances and draw-downs	56,892	43,781	100,673
Repayments	(66,008)	(37,659)	(103,667)
Capitalization of interest and fees, portfolio sales and other	11,539	10,171	21,710
Balance at the end of the period	$ 374,348	$ 361,183	$ 735,531
Authorized limit on new credit card issuances	$ 47,977		

						For the nine months ended
(000s)			**September 30, 2017**			September 30, 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**	$ 370,825	$ 296,857	$ 667,682
Advances and draw-downs	**168,242**	**144,220**	**312,462**	163,456	136,238	299,694
Repayments	**(204,036)**	**(201,462)**	**(405,498)**	(191,261)	(101,117)	(292,378)
Capitalization of interest and fees, portfolio sales and other	**27,903**	**40,073**	**67,976**	31,328	29,205	60,533
Balance at the end of the period	**$ 361,787**	**$ 361,732**	**$ 723,519**	$ 374,348	$ 361,183	$ 735,531
Authorized limit on new credit card issuances	**$ 105,323**			$ 124,618		

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 4.7% of the total on-balance sheet loan portfolio, these assets generated 9.2% of the interest income from loans for the quarter.

Credit card and lines of credit balances decreased to $361.8 million from $381.2 million at the end of last quarter and from $369.7 million at the end of 2016. The decline in issuance of new credit cards reflects a decrease in new Equityline *Visa* accounts consistent with the decline in residential mortgage originations. Equityline *Visa* accounts (Home Equity Line of Credit) represent 88.2% of the total credit card and lines of credit balance.

The balance of other consumer retail loans decreased to $361.7 million from $416.7 million at the end of Q2 2017 and from $378.9 million at the end of 2016. The decrease resulted from the early payout on certain portfolios of consumer retail loans, which totaled $99.7 million for the nine months ended September 30, 2017. These assets are typically generated through dealer programs which continue to be in place.

Cash and Securities

Combined cash resources and securities stood at $2.67 billion at the end of Q3 2017 compared to $1.71 billion at the end of Q2 2017 and $1.74 billion at the end of 2016. The increase in liquid assets reflects an increase in deposit inflows following rate increases that attracted the new deposits along with the asset sales, particularly from the non-residential commercial mortgage portfolio, that were completed in the quarter. The Company's liquid assets has remained at elevated levels to support the resumption of mortgage origination growth.

During the quarter, the Company repaid all balances drawn on its $2 billion line of credit facility. The Company also has an uncommitted credit facility. The details of these credit facilities are disclosed in Note 4(A) to the unaudited interim consolidated financial statements included in this report.

Other Assets

Total other assets of $790.9 million increased $36.3 million from the end of Q2 2017 and increased $0.7 million from the end of 2016. The increase from last quarter primarily reflects an increase in restricted cash related to the Company's swap and bond forward contracts and an increase in treasury bills and other acceptable securities assigned as replacement assets in the CMB program. In general, as CMB maturities approach, the Company replaces maturing securitized mortgages with treasury bills or other acceptable securities.

Liabilities and Shareholders' Equity

Deposits, Line of Credit Facility and Securitization

Table 12: Deposits, Line of Credit Facility and Securitization Liabilities

						As at
(000s, except % and number of accounts)	**September 30 2017**	**% of Totals**	June 30 2017	% of Totals	December 31 2016	% of Totals
Deposits payable on demand						
High-interest savings accounts	**$ 175,637**	**1.3%**	$ 114,346	0.8%	$ 2,016,881	12.7%
Oaken savings accounts	**179,052**	**1.3%**	154,056	1.2%	340,809	2.1%
Other deposits payable on demand	**86,319**	**0.7%**	104,510	0.8%	174,113	1.1%
	441,008	**3.3%**	372,912	2.8%	2,531,803	15.9%
Deposits payable on fixed dates						
Brokered GICs	**10,466,410**	**78.3%**	10,558,640	80.6%	11,120,107	70.0%
Oaken GICs	**1,975,357**	**14.8%**	1,695,454	12.9%	1,429,153	9.0%
Institutional deposit notes	**475,843**	**3.6%**	477,600	3.7%	804,967	5.1%
	12,917,610	**96.7%**	12,731,694	97.2%	13,354,227	84.1%
Total deposits	**13,358,618**	**100.0%**	13,104,606	100.0%	15,886,030	100.0%
Line of credit facility	**-**	**-**	1,396,959	100.0%	-	-
Securitization liabilities						
CMHC-sponsored mortgage-backed security liabilities	**1,606,818**	**49.4%**	1,649,637	49.6%	898,386	33.9%
CMHC-sponsored Canada Mortgage Bond liabilities	**1,473,350**	**45.2%**	1,474,001	44.3%	1,637,117	61.8%
Bank-sponsored securitization conduit liabilities	**174,511**	**5.4%**	203,991	6.1%	114,146	4.3%
Total securitization liabilities	**$ 3,254,679**	**100.0%**	$ 3,327,629	100.0%	$ 2,649,649	100.0%
Total number of deposit accounts	**423,598**		410,630		441,782	

Table 12(A): Non-Securitized Loans and Deposits by Remaining Contractual Term to Maturity

(000s)						September 30 2017
	Payable on Demand	0-3 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Total
Non-securitized loans						
Single-family residential mortgages	$ -	$ 2,066,012	$ 5,973,877	$ 2,156,176	$ 203,204	$ 10,399,269
Residential commercial mortgages	-	16,072	56,483	25,442	1,690	99,687
Non-residential commercial mortgages	-	220,366	465,710	328,496	18,377	1,032,949
Credit card loans and lines of credit	-	361,787	-	-	-	361,787
Other consumer retail loans	-	6,849	27,685	105,501	221,697	361,732
	-	2,671,086	6,523,755	2,615,615	444,968	12,255,424
Deposits						
Demand deposits and GICs	441,008	1,781,829	4,080,347	4,750,999	1,828,592	12,882,775
Institutional deposits	-	-	174,932	300,911	-	475,843
	441,008	1,781,829	4,255,279	5,051,910	1,828,592	13,358,618
Net maturity	$ (441,008)	$ 889,257	$ 2,268,476	$ (2,436,295)	$ (1,383,624)	$ (1,103,194)

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio and principally comprises fixed-term deposits, which represent 96.7% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company generally matches the terms of its deposits with its assets. The above table presents the net remaining contractual term to maturity of the Company's non-securitized loans and deposits. Please see the Structural Interest Rate Risk and the Liquidity and Funding Risk sections of this MD&A for more information.

Total deposits of $13.36 billion were up 1.9% from the end of Q2 2017 and were down 15.9% from the end of 2016. Liquidity events occurring during the second quarter had a significantly negative impact on the Company's funding capabilities, particularly with respect to deposits from diversified sources. Deposits from diversified sources, which comprise Oaken deposits, institutional deposit notes and Home Trust High-Interest Savings Accounts, accounted for 21.0% of total deposits at the end of the quarter compared to 18.6% at the end of Q2 2017 and 28.9% at the end of 2016. The decline in balances from the end of 2016 occurred mainly in the second quarter and resulted primarily from a significant level of redemptions of High-Interest Savings Accounts, which has been attributed to heightened reputational concerns faced by the Company. In addition, during the second quarter of 2017, the Company repaid $325.0 million of institutional deposit notes on the maturity date.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities, decreased $73.0 million from the end of Q2 2017 and increased $605.0 million from the end of 2016. The decline from last quarter primarily reflects amortization and maturities. The increase from the end of 2016 was mainly due to the increase in MBS liabilities. MBS liabilities have increased from the end of 2016 as the Company sold MBS from its liquidity portfolio and issued new MBS in the second quarter which remained on-balance sheet. New CMHC-sponsored securitization transactions related to insured fixed-rate single-family residential mortgages have primarily been sold off-balance sheet subsequent to securitization in previous quarters. The increase in bank-sponsored securitization liabilities from the end of 2016 resulted from the assignment of ACE Plus mortgages into the conduit during the first quarter of 2017. The increase in securitization liabilities was partially offset by a decrease in CMB liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature.

Other Liabilities

Other liabilities of $461.3 million decreased by $35.6 million from the end of last quarter and increased $100.7 million from the end of 2016. The change in other liabilities from last quarter and the end of last year resulted primarily from changes in accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities.

Shareholders' Equity

The increase of $149.2 million in total shareholders' equity since December 31, 2016 was primarily generated from the new issuance of common shares, net of direct costs, for $146.0 million and internally generated comprehensive income of $24.8 million, 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 $22.20, compared to $21.82 at the end of Q2 2017 and $25.36 at the end of 2016. The increase in book value per common share in Q3 2017 from the end of Q2 2017 resulted primarily from net income earned in the third quarter. The decrease in book value per common share from the end of 2016 is due to the increase in the number of common shares outstanding resulting from the share issuance in Q2 2017 to BH.

During the quarter, the Company made an adjustment to retained earnings as at December 31, 2015 that is not significant to the consolidated financial statements (please see Note 8(D) to the unaudited interim consolidated financial statements for more information). The book value per common share for prior periods presented above have been adjusted accordingly.

Off-balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding amounts for future advances on mortgage loans which were $393.8 million at September 30, 2017 ($358.1 million – Q2 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 $143.6 million at September 30, 2017 ($259.3 million – Q2 2017; $486.6 million – Q4 2016). Offers for the loans remain open for various periods. As at September 30, 2017, unutilized credit card balances amounted to $142.7 million ($148.6 million – Q2 2017; $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 $9.2 million at September 30, 2017 ($2.5 million – Q2 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 credit commitments declined significantly from the levels at the end of 2016 as a result of the Company's curtailment of new commitments in response to its liquidity and funding issues experienced in the second quarter of 2017.

The Company has $7.80 billion ($8.22 billion – Q2 2017; $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 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 former member of the Company's key management personnel. There were no second mortgages referred to this lender during the three months ended September 30, 2017 and June 30, 2017. The amount of second mortgages referred to this lender during the three months ended March 31, 2017 and the year ended December 31, 2016 were 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)	**September 30 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	**1,572,711**	1,604,758
Accumulated other comprehensive loss	**(7,210)**	(55,040)
Cash flow hedge reserves	**1,399**	1,476
Regulatory deductions from CET 1[1]	**(141,925)**	(160,917)
Total CET 1 capital	**1,464,423**	1,429,725
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,464,423**	1,429,725
Tier 2 capital		
Collective allowance for credit losses[2]	**33,563**	37,063
Total Tier 2 capital	**33,563**	37,063
Total regulatory capital	**1,497,986**	1,466,788
Risk-weighted assets for		
Credit risk	**5,919,221**	7,578,490
Operational risk	**963,100**	1,050,888
Total risk-weighted assets, before CVA[3]	**6,882,321**	8,629,378
CVA adjustment for CET 1 capital	**7,659**	11,544
Total CET 1 capital risk-weighted assets	**6,889,980**	8,640,922
CVA adjustment for Tier 1 capital	**8,191**	12,806
Total Tier 1 capital risk-weighted assets	**6,890,512**	8,642,184
CVA adjustment for total capital	**8,617**	13,889
Total risk-weighted assets	**$ 6,890,938**	$ 8,643,267
Regulatory capital to risk-weighted assets		
CET 1 ratio	**21.25%**	16.55%
Tier 1 capital ratio	**21.25%**	16.54%
Total regulatory capital ratio	**21.74%**	16.97%
Leverage Ratio	**7.89%**	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 September 30, 2017, the Company's collective allowance represented 0.57% of total credit risk-weighted assets, inclusive of total CVA.

[3]CVA – Credit Valuation Adjustment

Home Trust's regulatory "all-in" Total capital ratios have increased from the end of 2016 as a result of a decrease in risk-weighted assets. Risk-weighted assets decreased as the Company constrained mortgage originations and renewals and sold mortgage assets to deal with the liquidity and funding issues experienced in the second quarter of 2017.

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

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

Home Trust adopted certain Basel III capital requirements beginning January 1, 2013, as required by OSFI. The transitional basis 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.

Universal Base Shelf Prospectus

On October 19, 2017, the Company filed a final short form universal base shelf prospectus (the "Prospectus") with the Securities Commissions in each of the provinces and territories of Canada, with the exception of Quebec. The Prospectus qualifies offerings of up to $750 million of securities over a 25-month period. The Prospectus is not a commitment to undertake any financing, nor does the Company have any current intention of offering securities from treasury under this Prospectus. The Prospectus was filed to satisfy Home Capital's obligations under the registration rights agreement entered into with a subsidiary of Berkshire Hathaway Inc. and to provide the Company with financing flexibility going forward.

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 September 30, 2017.

Risk management is an essential component of the Company's strategy, directly affecting the Company's profitability and 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 %)	**September 30 2017**	June 30 2017	March 31 2017	December 31 2016	September 30 2016	June 30 2016
Total mortgage portfolio balance (net of individual allowance)	**$ 14,665,811**	$ 16,850,245	$ 17,755,098	$ 17,208,820	$ 17,192,500	$ 17,230,568
Percentage of residential mortgages	**93.0%**	88.2%	87.9%	88.6%	89.2%	90.4%
Percentage of non-residential mortgages	**7.0%**	11.8%	12.1%	11.4%	10.8%	9.6%
Percentage of mortgage portfolio insured[1]	**23.1%**	20.2%	18.8%	20.0%	22.1%	22.1%
Percentage of mortgages current	**98.5%**	98.7%	98.8%	98.3%	98.5%	98.4%
Percentage of total mortgages over 90 days past due	**0.31%**	0.22%	0.26%	0.33%	0.32%	0.27%

[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 below the Company's maximum limits.

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 8.1% of the residential mortgage portfolio and, of these, 25.1% are insured. The average current LTV of the high-rise condominium portfolio was 54.8% at the end of Q3 2017. The credit performance of the high-rise condominium portfolio is strong and within the Company's expectations with 99.1% of the portfolio current and 0.2% over 90 days past due.

The level of non-residential mortgages decreased during the quarter following the sale of mortgages in this portfolio. Please see Note 5(G) to the unaudited interim unconsolidated financial statements included in this report for more information. The proportion is well within the policy limits.

Consumer Lending

Credit card loans and line of credit balances were $361.8 million at the end of Q3 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 60.6% at the end of Q3 2017, compared to 62.0% at the end of Q2 2017 and 63.3% at the end of Q3 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 September 30, 2017, $4.4 million or 1.2% of the credit card and line of credit portfolio was over 90 days in arrears, compared to $4.8 million or 1.3% at June 30, 2017 and $2.1 million or 0.6% at September 30, 2016.

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 %)	**September 30 2017**	June 30 2017	December 31 2016
Single-family residential mortgages	**$ 36,118**	$ 32,321	$ 47,854
Residential commercial mortgages	**337**	337	-
Non-residential commercial mortgages	**6,221**	7,144	4,547
Credit card loans and lines of credit	**970**	1,420	1,269
Other consumer retail loans	**-**	-	-
Securitized single-family residential mortgages	**-**	-	-
Securitized multi-unit residential mortgages	**-**	-	-
Net non-performing loans	**$ 43,646**	$ 41,222	$ 53,670
Percentage of gross loans	**0.28%**	0.23%	0.30%

Write-offs, net of recoveries, during the quarter totaled $1.3 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 loan-to-values, risk-sensitive pricing, strong earnings and a strong capital position.

Table 16: Allowance for Credit Losses by Product

(000s)			As at
	September 30 2017	June 30 2017	December 31 2016
Individual allowances			
Single-family residential mortgages	**$ 2,968**	$ 2,309	$ 3,321
Residential commercial mortgages	**26**	24	-
Non-residential commercial mortgages	**658**	489	128
Credit card loans and lines of credit	**3,260**	3,141	780
Other consumer retail loans	**313**	272	423
Total individual allowance	**7,225**	6,235	4,652
Collective allowance			
Single-family residential mortgages	**23,032**	23,032	23,032
Residential commercial mortgages	**327**	327	327
Non-residential commercial mortgages	**6,000**	12,500	9,500
Credit card loans and lines of credit	**3,904**	3,904	3,904
Other consumer retail loans	**300**	300	300
Total collective allowance	**33,563**	40,063	37,063
Total allowance	**$ 40,788**	$ 46,298	$ 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 September 30, 2017, the collective allowance was $33.6 million ($40.1 million – June 30, 2017; $37.1 million – December 31, 2016), representing more than the cumulative total net write-offs over the past 36 months. The decline in collective allowance from June 30, 2017 reflects the release of $6.5 million in the non-residential commercial portfolio resulting from the sale of mortgages from this portfolio. Please see Note 5(G) to the unaudited interim consolidated financial statements included in this report for more information.

Current accounting standards do not permit the Company to carry allowances for possible or future expected 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 September 30, 2017, the Company held total regulatory capital at 207% 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 September 30, 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	**$ 267,425**	**33.4% $**	**531,212**	**66.3% $**	**2,473**	**0.3% $**	**801,110**
Alberta	**365,424**	**56.5%**	**271,877**	**42.1%**	**9,205**	**1.4%**	**646,506**
Ontario	**1,852,848**	**16.7%**	**8,967,923**	**80.6%**	**304,512**	**2.7%**	**11,125,283**
Quebec	**112,732**	**32.0%**	**238,514**	**67.7%**	**1,209**	**0.3%**	**352,455**
Other	**217,928**	**61.2%**	**136,655**	**38.3%**	**1,831**	**0.5%**	**356,414**
	$ 2,816,357	**21.2% $**	**10,146,181**	**76.4% $**	**319,230**	**2.4% $**	**13,281,768**

(000s, except %)							As at June 30, 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	$ 278,794	31.8% $	596,604	67.9% $	2,520	0.3% $	877,918
Alberta	342,295	52.7%	297,863	45.8%	9,694	1.5%	649,852
Ontario	1,879,462	15.5%	9,897,369	81.8%	321,175	2.7%	12,098,006
Quebec	110,765	29.3%	265,650	70.4%	1,218	0.3%	377,633
Other	205,821	58.8%	142,243	40.6%	2,168	0.6%	350,232
	$ 2,817,137	19.6% $	11,199,729	78.0% $	336,775	2.4% $	14,353,641

(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 %)	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
						As at September 30, 2017
Balance outstanding	**$ 979,256**	**$ 2,449,834**	**$ 9,485,918**	**$ 45,336**	**$ 2,194**	**$ 12,962,538**
Percentage of total	**7.6%**	**18.9%**	**73.2%**	**0.3%**	**0.0%**	**100.0%**

(000s, except %)	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
						As at June 30, 2017
Balance outstanding	$ 731,535	$ 2,392,365	$ 10,848,210	$ 42,348	$ 2,408	$ 14,016,866
Percentage of total	5.2%	17.1%	77.4%	0.3%	0.0%	100.0%

(000s, except %)	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
						As at December 31, 2016
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
		September 30 2017		June 30 2017		September 30 2016
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]
British Columbia	**65.1%**	**42.3%**	63.1%	51.3%	63.7%	45.8%
Alberta	**64.1%**	**-**	71.3%	44.3%	66.8%	60.3%
Ontario	**69.2%**	**55.2%**	70.5%	48.9%	73.3%	64.2%
Quebec	**72.8%**	**-**	70.0%	-	66.5%	68.8%
Other	**70.9%**	**-**	69.4%	71.6%	70.8%	35.6%
Total	**68.9%**	**54.8%**	70.0%	48.9%	72.4%	64.1%

[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. 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 $13.28 billion as of September 30, 2017, of which $2.82 billion was insured against credit losses. The Company would expect to recover any lost principal, interest and direct collection costs associated with this insured portion of the portfolio.

The Company's key mitigant against credit losses in the event of default in the uninsured portfolio is the excess of the value of the collateral over the outstanding loan amount (expressed as LTV ratio). As at September 30, 2017, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 53.7% compared to 59.3% at the end of Q2 2017 and 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. 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 September 30, 2017			As at June 30, 2017		
	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	**51.7%**	**98.3%**	**87.1%**	55.0%	95.8%	79.4%
Alberta	**64.3%**	**83.2%**	**49.6%**	65.3%	80.1%	44.7%
Ontario	**53.2%**	**96.4%**	**82.3%**	59.3%	89.4%	64.4%
Quebec	**61.5%**	**94.8%**	**59.3%**	63.1%	90.1%	52.4%
Other	**61.8%**	**86.1%**	**53.7%**	62.9%	81.7%	50.2%
Total	**53.7%**	**95.9%**	**80.8%**	59.3%	89.4%	64.2%

[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 9.2% of the portfolio and debt securities at 90.8% of the portfolio. The total balance was $331.5 million at the end of Q3 2017 compared to $31.5 million at the end of Q2 2017 and $534.9 million at the end of 2016. During Q2 2017, the Company liquidated the majority of its preferred share portfolio incurring a loss of $72.9 million, of which $46.2 million had previously been recognized in accumulated other comprehensive loss as at March 31, 2017.

As of September 30, 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).

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 (Loss) section of this MD&A and Note 12 to the unaudited interim consolidated financial statements included in this report for further information.

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at September 30, 2017, June 30, 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 September 30, 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	**$ 661,026**	**$ 6,186,484**	**$ 6,716,769**	**$ 4,747,729**	**$ 59,456**	**$ 484,830**	**$ 18,856,294**
Total liabilities and equity	**(354,689)**	**(3,175,379)**	**(4,418,674)**	**(8,609,428)**	**-**	**(2,298,124)**	**(18,856,294)**
Off-balance sheet items	**-**	**(374,350)**	**36,716**	**313,892**	**23,742**	**-**	**-**
Interest rate sensitive gap	**$ 306,337**	**$ 2,636,755**	**$ 2,334,811**	**$ (3,547,807)**	**$ 83,198**	**$ (1,813,294)**	**$ -**
Cumulative gap	**$ 306,337**	**$ 2,943,092**	**$ 5,277,903**	**$ 1,730,096**	**$ 1,813,294**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**1.6%**	**15.6%**	**28.0%**	**9.2%**	**9.6%**	**-**	**-**

(000s), except % (Unaudited)							As at June 30, 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	$ 1,304,737	$ 5,581,440	$ 7,501,305	$ 5,154,990	$ 23,404	$ 511,274	$ 20,077,150
Total liabilities and equity	(268,403)	(3,016,050)	(5,916,261)	(8,535,293)	-	(2,341,143)	(20,077,150)
Off-balance sheet items	-	(326,297)	96,586	217,037	12,674	-	-
Interest rate sensitive gap	$ 1,036,334	$ 2,239,093	$ 1,681,630	$ (3,163,266)	$ 36,078	$ (1,829,869)	$ -
Cumulative gap	$ 1,036,334	$ 3,275,427	$ 4,957,057	$ 1,793,791	$ 1,829,869	$ -	$ -
Cumulative gap as a percentage of total assets	5.2%	16.3%	24.7%	8.9%	9.1%	-	-

(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 $1.50 billion in variable rate mortgages ($1.98 billion – Q2 2017; $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)	**September 30 2017**	June 30 2017	December 31 2016	**September 30 2017**	June 30 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)	**$ 9,190**	$ 22,641	$ 4,024	**$ (9,190)**	$ (15,681)	$ (5,696)
Impact on net present value of shareholders' equity	**17,742**	36,916	4,438	**(18,911)**	(38,885)	(6,415)
Impact on other comprehensive income	**2,083**	196	3,265	**(2,083)**	(196)	(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 Accounts and Oaken Savings Accounts add to liquidity risk as depositors are allowed to withdraw deposits on notice in the absence of fixed contractual terms. The Company's current exposure to this risk has been reduced following the significant redemptions of High-Interest Savings Accounts in the second quarter of 2017, which led to the liquidity event experienced in that quarter. The Company obtained a $2 billion line of credit facility from a wholly owned subsidiary of Berkshire Hathaway Inc. at the end of the second quarter to further strengthen its liquidity position. Please see Note 4(A) to the unaudited interim consolidated financial statements included in this report for details on this credit facility. Also during the second and third quarters, the Company sold assets in order to improve its overall liquidity position. The Company believes the current level of liquidity and credit facilities are sufficient to support ongoing business for the foreseeable future. As indicated in Table 12(A), maturities of non-securitized loans are in excess of deposit maturities for the next 12 months. The Company intends to strategically limit demand deposits to an appropriate level that is aligned with the Company's liquidity and funding limits and taking into consideration that a primary purpose of the Oaken Savings Accounts is to facilitate the seamless movement of funds to and from Oaken GICs for customers. There have been no other 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.

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

Table 23: Liquidity Resources

(000s, except %)	**September 30 2017**	June 30 2017	December 31 2016
Cash and cash equivalents per balance sheet	**$ 2,337,760**	$ 1,682,982	$ 1,205,394
Available for sale securities per balance sheet	**331,544**	31,495	534,924
Add: MBS included in residential mortgages	**18,313**	52,098	521,013
	2,687,617	1,766,575	2,261,331
Less: securities held for investment	**(30,562)**	(29,158)	(193,350)
Liquid assets at carrying value	**$ 2,657,055**	$ 1,737,417	$ 2,067,981
Liquid assets at fair value	**$ 2,656,875**	$ 1,737,835	$ 2,142,289
Liquid assets at carrying value as a % of total assets	**14.1%**	8.7%	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 CMHC. On an overall basis, liquidity resources fluctuate as the Company's future cash requirements change.

Operational Risk

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

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

- Risk and control self-assessments are applied at the line of business and business unit levels as well as for significant processes in the Company. Business process mapping supports the analysis of risks and controls at the process level.
- The new initiative risk assessment process requires risks to be identified and assessed for new initiatives including new or changed products, processes and systems, joint ventures and other corporate development activities.
- Subject-matter experts with expertise in privacy, security, data governance, legal, and other areas have been designated to assist in risk assessments.
- Risks are monitored on an ongoing basis through the use of key risk indicators which have established limits and thresholds aligned with the Company's risk appetite.
- Internal and external operational risk events are regularly reported along with root cause analysis and action plans as required.
- Risk mitigation action plans established for identified risks are regularly tracked and reported.
- Stress testing and scenario analysis have included scenarios such as earthquakes, pandemics, cyber-attacks, active shooters, and fraud scenarios.

- Information/Cyber Security, Business Continuity Management and Data Recovery programs have been established and are subject to regular testing.
- Through the model risk management program, key models are independently vetted and validated before use, and model performance is monitored on an ongoing basis.
- The Data Governance program is focused on providing accurate, complete and timely information to support decision-making.
- Third-party risk management programs require that appropriate risk assessment and due diligence be performed before engaging in business with third-party service providers and on a periodic basis going forward.

The Company manages a portfolio of insurance and other risk mitigating arrangements. The insurance terms and provisions, including types and amounts of coverage in the portfolio, are continually assessed to ensure that both the Company's tolerance for risk and, where applicable, statutory requirements are satisfied.

Risk of Accuracy and Completeness of Borrower Information

Within operational risk, the Company relies on information provided by potential borrowers and other third parties, including mortgage brokers. While the Company has a variety of controls designed to prevent and detect misrepresentations of borrower information, the Company's financial position and performance may be negatively impacted if this information is intentionally misleading or does not fairly represent the financial condition of the potential borrower and is not detected by the Company's internal controls.

Employee Retention Risk

The Company has heightened concerns regarding key employee and talent retention as the recent liquidity events have had a negative impact on employee morale. Combined with uncertainty over future strategic direction, this has caused a material increase in voluntary attrition on a year-to-date basis compared to the same period in 2016 which has led to heightened operational risk. Management is addressing this risk through the deployment of key employee retention programs, increased employee communications, and an increase in talent management and recruitment activities.

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 reputation risk facing the Company increased significantly in the second quarter and led to a loss of liquidity. The Company has taken a number of steps to address the underlying factors and mitigate the increased degree of risk, as described in the Overview of the Second Quarter and Outlook section of the second quarter MD&A included in the 2017 Second Quarter Report. The Company will continue to take steps to ease its reputational risk.

Risk Factors That May Affect Future Results

Risk factors that may affect future results have not changed from the descriptions provided on pages 59 and 60 in the 2016 Annual Report other than the risks and uncertainty described in this MD&A, the Overview of the Second Quarter and Outlook section of the second quarter MD&A included in the 2017 Second Quarter Report and below.

Regulatory and Political Risk

The price of homes in some of Canada's major markets and the level of consumer debt in Canada are matters of considerable discussion and concern amongst a variety of commentators and observers. There is a risk that governments and regulators will respond further to those concerns and accompanying pressure and intervene further in the housing and mortgage markets. While such interventions may well have positive outcomes, there is a risk that intended or unintended consequences of such interventions may significantly impact the real estate and mortgage markets in a manner that is contrary to the future performance of the Company.

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net interest income (loss) (TEB[1])	**$ 88,853**	$ (3,298)	$ 126,682	$ 121,564	$ 120,777	$ 122,987	$ 123,490	$ 127,599
Less: TEB adjustment	**91**	109	825	944	853	884	973	941
Net interest income (loss) per financial statements	**88,762**	(3,407)	125,857	120,620	119,924	122,103	122,517	126,658
Non-interest income (loss)	**6,645**	(57,886)	21,885	23,977	25,171	24,658	22,989	24,255
Non-interest expense	**59,924**	85,001	64,465	71,028	54,982	54,912	58,017	54,681
Total revenue	**95,407**	(61,293)	147,742	144,597	145,095	146,761	145,506	150,913
Net income (loss)	**29,983**	(111,116)	58,041	50,706	66,190	66,252	64,248	70,239
Return on shareholders' equity	**6.8%**	(25.9)%	14.0%	12.6%	16.7%	16.3%	15.5%	17.5%
Return on average total assets	**0.6%**	(2.2)%	1.1%	1.0%	1.3%	1.3%	1.2%	1.4%
Total assets under administration	**26,659,330**	28,292,436	29,583,545	28,917,534	28,327,676	28,430,730	27,960,592	27,316,476
Total loans under administration	**23,232,686**	25,863,400	27,163,636	26,424,074	26,012,884	25,732,657	25,222,523	25,058,122
Earnings (loss) per common share								
Basic	**$ 0.37**	$ (1.73)	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00
Diluted	**$ 0.37**	$ (1.73)	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00
Book value per common share	**$ 22.20**	$ 21.82	$ 26.18	$ 25.36	$ 24.70	$ 23.90	$ 25.51	$ 23.39
Efficiency ratio (TEB[1])	**62.7%**	(138.9)%	43.4%	48.8%	37.7%	37.2%	39.6%	36.0%
Common equity tier 1 ratio[2]	**21.25%**	17.06%	16.34%	16.55%	16.54%	16.38%	18.28%	18.31%
Tier 1 capital ratio[2]	**21.25%**	17.06%	16.34%	16.54%	16.53%	16.38%	18.28%	18.30%
Total capital ratio[2]	**21.74%**	17.54%	16.77%	16.97%	16.97%	16.82%	20.63%	20.70%
Net non-performing loans as a % of gross loans	**0.28%**	0.23%	0.24%	0.30%	0.31%	0.33%	0.34%	0.28%
Annualized provision as a % of gross uninsured loans	**(0.14)%**	0.07%	0.16%	0.07%	0.04%	0.08%	0.04%	0.04%
Annualized provision as a % of gross loans	**(0.11)%**	0.05%	0.13%	0.05%	0.03%	0.06%	0.03%	0.03%

[1]TEB - Taxable Equivalent Basis: see definition under Non-GAAP Measures in this report.
[2]These figures relate to the Company's operating subsidiary, Home Trust Company.

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

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

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

Allowance as a Percentage of Gross Loans

Allowance as a percentage of gross loans is calculated as the total allowance divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans except for loans held for sale.

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

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

Efficiency 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. A lower ratio indicates better efficiency.

Leverage Ratio

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

Liquid Assets

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

Market Capitalization

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

Net Interest Margin (Non-TEB)

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

Net Interest Margin (TEB)

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

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

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

Provision as a Percentage of Gross Loans (PCL Ratio)

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

Provision as a Percentage of Gross Uninsured Loans

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

Return on Assets (ROA)

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

Return on Shareholders' Equity (ROE)

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

Risk-weighted Assets (RWA)

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust. 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 (loss)) 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 $0.1 million for Q3 2017 ($0.1 million – Q2 2017; $0.9 million – Q3 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

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.

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 (Loss)

thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended September 30 2017	June 30 2017	September 30 2016	For the nine months ended September 30 2017	September 30 2016
Net Interest Income (Loss) Non-Securitized Assets					
Interest from loans (note 5(F))	**$ 167,159**	$ 192,394	$ 192,395	**$ 551,988**	$ 577,645
Dividends from securities	**253**	300	2,359	**2,839**	7,498
Other interest	**4,303**	1,627	3,046	**8,850**	8,559
	171,715	194,321	197,800	**563,677**	593,702
Interest on deposits and other	**75,430**	71,673	81,519	**224,355**	239,294
Interest and fees on line of credit facility (note 4(A))	**11,368**	130,630	-	**141,998**	-
Net interest income (loss) non-securitized assets	**84,917**	(7,982)	116,281	**197,324**	354,408
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets (note 5(F))	**23,130**	22,678	20,957	**67,366**	61,782
Interest expense on securitization liabilities	**19,285**	18,103	17,314	**53,478**	51,646
Net interest income securitized loans and assets	**3,845**	4,575	3,643	**13,888**	10,136
Total Net Interest Income (Loss)	**88,762**	(3,407)	119,924	**211,212**	364,544
Provision for credit losses (note 5(E))	**(4,257)**	2,420	1,336	**4,082**	5,490
	93,019	(5,827)	118,588	**207,130**	359,054
Non-Interest Income (Loss)					
Fees and other income	**18,087**	17,168	17,223	**51,586**	53,716
Securitization income (note 6(C))	**2,525**	1,877	7,599	**10,834**	24,733
Gain on acquisition of CFF Bank	**-**	-	-	**-**	651
Net realized and unrealized losses on securities and loans (notes 4(B) & 5(G))	**(13,155)**	(76,912)	-	**(90,070)**	(175)
Net realized and unrealized gains (losses) on derivatives (note 12)	**(812)**	(19)	349	**(1,706)**	(6,107)
	6,645	(57,886)	25,171	**(29,356)**	72,818
	99,664	(63,713)	143,759	**177,774**	431,872
Non-Interest Expenses					
Salaries and benefits (note 11)	**22,610**	29,303	24,350	**81,532**	77,746
Premises (note 11)	**3,283**	3,365	3,472	**10,400**	10,898
Other operating expenses (notes 11 & 15)	**34,031**	52,333	27,160	**117,458**	79,267
	59,924	85,001	54,982	**209,390**	167,911
Income (Loss) Before Income Taxes	**39,740**	(148,714)	88,777	**(31,616)**	263,961
Income taxes (note 10)					
Current	**5,839**	(39,616)	22,957	**(10,635)**	67,954
Deferred	**3,918**	2,018	(370)	**2,111**	(683)
	9,757	(37,598)	22,587	**(8,524)**	67,271
NET INCOME (LOSS)	**$ 29,983**	$ (111,116)	$ 66,190	**$ (23,092)**	$ 196,690
NET INCOME (LOSS) PER COMMON SHARE					
Basic	**$ 0.37**	$ (1.73)	$ 1.01	**$ (0.33)**	$ 2.92
Diluted	**$ 0.37**	$ (1.73)	$ 1.01	**$ (0.33)**	$ 2.92
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**80,246**	64,378	65,386	**69,621**	67,326
Diluted	**80,246**	64,378	65,435	**69,621**	67,413
Total number of outstanding common shares (note 8(A))	**80,246**	80,246	64,559	**80,246**	64,559
Book value per common share	**$ 22.20**	$ 21.82	$ 24.70	**$ 22.20**	$ 24.70

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

Consolidated Statements of Comprehensive Income (Loss)

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended	
	September 30 2017	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
NET INCOME (LOSS)	**$ 29,983**	$ (111,116)	$ 66,190	**$ (23,092)**	$ 196,690
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities and Retained Interests					
Net unrealized gains (losses)	**1,483**	550	7,820	**18,447**	(922)
Net losses reclassified to net income	**-**	46,647	-	**46,650**	204
	1,483	47,197	7,820	**65,097**	(718)
Income tax expense (recovery)	**394**	12,514	2,075	**17,266**	(212)
	1,089	34,683	5,745	**47,831**	(506)
Cash Flow Hedges (note 12)					
Net unrealized gains (losses)	**(467)**	(525)	803	**(1,077)**	2,712
Net losses reclassified to net income	**287**	572	268	**1,188**	973
	(180)	47	1,071	**111**	3,685
Income tax expense (recovery)	**(50)**	12	284	**34**	978
	(130)	35	787	**77**	2,707
Total other comprehensive income	**959**	34,718	6,532	**47,908**	2,201
COMPREHENSIVE INCOME (LOSS)	**$ 30,942**	$ (76,398)	$ 72,722	**$ 24,816**	$ 198,891

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

Consolidated Balance Sheets

		As at	
thousands of Canadian dollars (Unaudited)	**September 30 2017**	June 30 2017	December 31 2016
ASSETS			
Cash and Cash Equivalents (note 4(A))	**$ 2,337,760**	$ 1,682,982	$ 1,205,394
Available for Sale Securities (note 4(B))	**331,544**	31,495	534,924
Loans Held for Sale	**40,320**	-	77,918
Loans (note 5)			
Securitized mortgages (note 6(A))	**3,133,906**	3,257,104	2,526,804
Non-securitized mortgages and loans	**12,255,424**	14,391,010	15,430,595
	15,389,330	17,648,114	17,957,399
Collective allowance for credit losses (note 5(E))	**(33,563)**	(40,063)	(37,063)
	15,355,767	17,608,051	17,920,336
Other			
Restricted assets (note 7)	**289,870**	216,596	265,374
Derivative assets (note 12)	**10,177**	21,804	37,524
Other assets	**365,685**	384,676	348,638
Deferred tax assets (note 10)	**15,873**	19,510	16,914
Goodwill and intangible assets (note 15)	**109,298**	112,036	121,755
	790,903	754,622	790,205
	$ 18,856,294	$ 20,077,150	$ 20,528,777
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 441,008**	$ 372,912	$ 2,531,803
Deposits payable on a fixed date	**12,917,610**	12,731,694	13,354,227
	13,358,618	13,104,606	15,886,030
Line of Credit Facility (note 4(A))	**-**	1,396,959	-
Securitization Liabilities (note 6(B))			
CMHC-sponsored mortgage-backed security liabilities	**1,606,818**	1,649,637	898,386
CMHC-sponsored Canada Mortgage Bond liabilities	**1,473,350**	1,474,001	1,637,117
Bank-sponsored securitization conduit liabilities	**174,511**	203,991	114,146
	3,254,679	3,327,629	2,649,649
Other			
Derivative liabilities (note 12)	**31,192**	11,322	3,490
Other liabilities (note 8(D))	**395,291**	450,925	320,737
Deferred tax liabilities (note 10)	**34,773**	34,622	36,284
	461,256	496,869	360,511
	17,074,553	18,326,063	18,896,190
Shareholders' Equity			
Capital stock (note 8(D))	**231,156**	231,618	84,910
Contributed surplus	**5,096**	4,922	4,562
Retained earnings (note 8(D))	**1,552,646**	1,522,663	1,598,180
Accumulated other comprehensive loss (note 9)	**(7,157)**	(8,116)	(55,065)
	1,781,741	1,751,087	1,632,587
	$ 18,856,294	$ 20,077,150	$ 20,528,777

Provisions and Contingencies (note 11)

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

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts (Unaudited)	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized Losses on Securities and Retained Interests Available for Sale, after Tax	Net Unrealized Losses on Cash Flow Hedges, after Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2016 (note 8(D))	**$ 84,910**	**$ 4,562**	**$ 1,598,180**	**$ (53,589)**	**$ (1,476)**	**$ (55,065)**	**$ 1,632,587**
Comprehensive income (loss)	**-**	**-**	**(23,092)**	**47,831**	**77**	**47,908**	**24,816**
Stock options settled (note 8(A))	**548**	**(141)**	**-**	**-**	**-**	**-**	**407**
Amortization of fair value of employee stock options (note 8(B))	**-**	**675**	**-**	**-**	**-**	**-**	**675**
Repurchase of shares (note 8(A))	**(267)**	**-**	**(5,732)**	**-**	**-**	**-**	**(5,999)**
Issuance of shares (note 8(A))	**145,965**	**-**	**-**	**-**	**-**	**-**	**145,965**
Dividends ($0.26 per share)	**-**	**-**	**(16,710)**	**-**	**-**	**-**	**(16,710)**
Balance at September 30, 2017	**$ 231,156**	**$ 5,096**	**$ 1,552,646**	**$ (5,758)**	**$ (1,399)**	**$ (7,157)**	**$ 1,781,741**
Balance at December 31, 2015 (note 8(D))	$ 90,247	$ 3,965	$ 1,607,833	$ (62,466)	$ (3,078)	$ (65,544)	$ 1,636,501
Comprehensive income	-	-	196,690	(506)	2,707	2,201	198,891
Stock options settled (note 8(A))	780	(182)	-	-	-	-	598
Amortization of fair value of employee stock options (note 8(B))	-	805	-	-	-	-	805
Repurchase of shares (note 8(A))	(7,052)	-	(186,466)	-	-	-	(193,518)
Dividends ($0.72 per share)	-	-	(48,404)	-	-	-	(48,404)
Balance at September 30, 2016 (note 8(D))	$ 83,975	$ 4,588	$ 1,569,653	$ (62,972)	$ (371)	$ (63,343)	$ 1,594,873

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

Consolidated Statements of Cash Flows

thousands of Canadian dollars (Unaudited)	For the three months ended September 30 2017	For the three months ended September 30 2016	For the nine months ended September 30 2017	For the nine months ended September 30 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 29,983**	$ 66,190	**$ (23,092)**	$ 196,690
Adjustments to determine cash flows relating to operating activities:				
Amortization of net discount on securities	**(107)**	(62)	**(330)**	(379)
Provision for credit losses	**(4,257)**	1,336	**4,082**	5,490
Loss on sale of loan portfolios	**13,155**	-	**18,160**	-
Gain on sale of mortgages or residual interest	**(434)**	(6,055)	**(5,532)**	(19,966)
Net realized and unrealized losses on securities	**-**	-	**71,910**	175
Amortization and impairment losses[1]	**5,565**	4,109	**22,310**	11,582
Amortization of fair value of employee stock options	**174**	333	**675**	805
Deferred income taxes	**3,918**	(370)	**2,111**	(683)
Changes in operating assets and liabilities				
Loans, net of gains or losses on securitization and sales	**2,203,614**	67,496	**2,585,507**	282,021
Restricted assets	**(73,274)**	765	**(24,496)**	(35,314)
Derivative assets and liabilities	**31,317**	4,793	**55,160**	11,815
Accrued interest receivable	**7,477**	456	**9,228**	3,174
Accrued interest payable	**6,787**	(5,117)	**(1,769)**	543
Deposits	**254,012**	(328,117)	**(2,527,412)**	28,144
Line of credit facility	**(1,396,959)**	-	**-**	-
Securitization liabilities	**(72,950)**	(157,268)	**605,030**	(100,345)
Taxes receivable or payable and other	**(52,054)**	12,087	**27,009**	4,246
Cash flows provided by (used in) operating activities	**955,967**	(339,424)	**818,551**	387,998
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of shares	**(462)**	-	**145,965**	-
Repurchase of shares	**-**	(33,695)	**(5,999)**	(193,518)
Exercise of employee stock options	**-**	-	**407**	598
Repayment of senior debt	**-**	-	**-**	(150,000)
Dividends paid to shareholders	**-**	(15,775)	**(16,710)**	(48,404)
Cash flows (used in) provided by financing activities	**(462)**	(49,470)	**123,663**	(391,324)
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in securities				
Purchases	**(299,152)**	(11,335)	**(304,955)**	(200,696)
Proceeds from sales	**-**	-	**491,883**	-
Proceeds from maturities	**947**	14,836	**11,218**	128,940
Purchases of capital assets	**(815)**	(771)	**(1,401)**	(2,090)
Capitalized intangible development costs	**(1,707)**	(3,444)	**(6,593)**	(13,737)
Cash flows (used in) provided by investing activities	**(300,727)**	(714)	**190,152**	(87,583)
Net increase (decrease) in cash and cash equivalents during the period	**654,778**	(389,608)	**1,132,366**	(90,909)
Cash and cash equivalents at beginning of the period	**1,682,982**	1,448,548	**1,205,394**	1,149,849
Cash and Cash Equivalents at End of the Period (note 4(A))	**$ 2,337,760**	$ 1,058,940	**$ 2,337,760**	$ 1,058,940
Supplementary Disclosure of Cash Flow Information				
Dividends received on investments	**$ 232**	$ 2,588	**$ 4,268**	$ 8,139
Interest received	**203,957**	216,504	**635,723**	650,401
Interest paid	**94,926**	103,950	**417,230**	291,765
Income taxes (received) paid	**(30,854)**	24,119	**(3,986)**	68,245

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

The accompanying notes are an integral part of these 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 September 30, 2017 were authorized for issuance by the Board of Directors (the Board) of the Company on November 14, 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. 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 particular, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Certain securitized loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred through the two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

The preparation of these unaudited interim consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Other key areas where management has applied judgement and made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options, useful lives of capital assets and intangible assets and provisions and contingent liabilities. Actual results could differ from those estimates. In applying judgement in its assessment of impairment of intangible assets and goodwill, management has considered the impact on that assessment of the decline in the Company's common share price to below the book value per common share. While management does not consider the current common share price to warrant the recognition of an impairment in its intangible assets and goodwill as at the date of these unaudited interim consolidated financial statements, management will continue to assess the implications of the common share price remaining below book value on its assessment of impairment of intangible assets and goodwill.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at September 30, 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 has assessed the cash flow characteristics for in-scope financial assets and is in the process of documenting its business models and finalizing classification.

Impairment

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

Upon initial recognition of financial assets, entities are required to recognize a 12-month ECL allowance resulting from default events that are possible within the next 12 months (Stage 1). If there has been a significant increase in credit risk, an entity is required to recognize a lifetime ECL allowance resulting from possible default events over the expected life of the financial instrument (Stage 2). This assessment must consider all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. The Company has engaged an external service provider for forecasts of future events and economic information including macroeconomic factors such as unemployment rates, housing price index, interest rates and gross domestic product. The significant increase in credit risk will be determined through changes in probability of default (PD) since initial recognition of the financial asset, using a combination of reasonable and supportable information, with a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. The Company does not plan to rebut this presumption.

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). Furthermore, IFRS 9 prescribes a rebuttable presumption that objective evidence of impairment exists when the contractual payments are more than 90 days past due. The Company does not plan to rebut this presumption. This new impairment model will apply to all loans and debt securities measured at amortized cost and FVOCI, as well as loan commitments and guarantees that are not measured at FVTPL.

ECL will be measured based on three forward-looking scenarios including base, optimistic, and pessimistic, that will be probability-weighted with an expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions. In addition, management will exercise expert credit judgements in assessing exposures that have experienced significant increase in credit risk and in determining the amount of ECL allowance required at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models. ECL is calculated as the product of PD, loss given default, and exposure at default, and will be calculated over the remaining expected life of the financial asset at each reporting date.

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. In August 2017, OSFI further released a consultative revision on the treatment of IFRS 9 allowances in the regulatory capital framework for implementation in the first quarter of 2018.

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 has been focusing on validating, testing and refining its impairment models, developing and integrating the technology solution, updating internal controls and policies and performing 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. The adoption of IFRS 15 is not expected to have a material impact on the Company’s consolidated financial statements.

IFRS 16 *Leases*

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

Amendments to IFRS 2 *Share-based Payment*

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

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Company will be required to adopt IFRIC 23 *Uncertainty over Income Tax Treatments* (IFRIC 23) on January 1, 2019. IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Management is currently evaluating the potential impact that the adoption of IFRIC 23 will have on the Company’s consolidated financial statements.

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources and Line of Credit Facility

thousands of Canadian dollars (Unaudited)	September 30 2017	June 30 2017	December 31 2016
Cash and cash equivalents	$ 2,337,760	$ 1,682,982	$ 1,205,394

The Company has a $2 billion line of credit facility with a wholly owned subsidiary of Berkshire Hathaway Inc., a major US investment firm, which was undrawn as at September 30, 2017. The facility is secured against a portfolio of mortgages totaling $3.91 billion as at September 30, 2017. The interest rate on outstanding balances is 9% and the standby fee on undrawn funds is 1%. The facility matures on June 28, 2018 and cannot be terminated prior to the maturity date. Funds drawn on the facility are repayable at any time. Interest expense on drawn amounts and the standby fee on undrawn amounts are included in interest and fees on line of credit facility in the consolidated statements of income (loss). Transaction costs on the facility are amortized over the life of the facility and are also included in interest and fees on line of credit.

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

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

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

thousands of Canadian dollars (Unaudited)	September 30 2017	June 30 2017	December 31 2016
Debt securities	$ 235	$ 125	$ 524
Preferred shares	(9,781)	(11,195)	(76,236)
Net unrealized loss	$ (9,546)	$ (11,070)	$ (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 (loss). 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 September 30, 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.

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

Included in available for sale securities are preferred shares of $28.3 million which are held as security for the $20 million uncommitted secured credit facility referred to in Note 4(A) above. The Company may at any time and at its discretion replace the preferred shares as security for the credit facility with other acceptable forms of security.

5. LOANS

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

thousands of Canadian dollars, except % (Unaudited)						As at September 30, 2017
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	$ 243,686	$ 278,181	$ 1,776,505	$ 89,518	$ 175,379	$ 2,563,269
Securitized multi-unit residential mortgages	85,277	45,009	238,250	46,168	155,933	570,637
Total securitized mortgages	328,963	323,190	2,014,755	135,686	331,312	3,133,906
Single-family residential mortgages	554,951	359,120	9,044,266	261,728	179,204	10,399,269
Residential commercial mortgages[2]	9,751	3,789	83,033	3,039	75	99,687
Non-residential commercial mortgages	3,783	13,631	997,287	15,738	2,510	1,032,949
Credit card loans and lines of credit	6,515	17,674	330,256	1,549	5,793	361,787
Other consumer retail loans	2,088	16,963	330,142	218	12,321	361,732
Total non-securitized mortgages and loans[3]	577,088	411,177	10,784,984	282,272	199,903	12,255,424
	$ 906,051	$ 734,367	$ 12,799,739	$ 417,958	$ 531,215	$ 15,389,330
As a % of portfolio	5.9%	4.8%	83.2%	2.7%	3.4%	100.0%

thousands of Canadian dollars, except % (Unaudited)						As at June 30, 2017
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages[1]	$ 261,798	$ 277,196	$ 1,865,323	$ 89,797	$ 175,599	$ 2,669,713
Securitized multi-unit residential mortgages	85,682	45,282	253,013	46,672	156,742	587,391
Total securitized mortgages	347,480	322,478	2,118,336	136,469	332,341	3,257,104
Single-family residential mortgages	613,600	362,962	9,911,508	286,618	172,465	11,347,153
Residential commercial mortgages[2]	14,314	6,889	211,051	22,723	9,100	264,077
Non-residential commercial mortgages	93,554	41,814	1,796,823	41,692	8,028	1,981,911
Credit card loans and lines of credit	6,764	18,627	348,143	1,439	6,196	381,169
Other consumer retail loans	1,642	22,717	383,207	109	9,025	416,700
Total non-securitized mortgages and loans[3]	729,874	453,009	12,650,732	352,581	204,814	14,391,010
	$ 1,077,354	$ 775,487	$ 14,769,068	$ 489,050	$ 537,155	$ 17,648,114
As a % of portfolio	6.1%	4.4%	83.7%	2.8%	3.0%	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 September 30, 2017**
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	**$ 18,769**	**$ 1,003**	**$ -**	**$ 421** [2]	**$ 20,193**
Securitized multi-unit residential mortgages	**-**	**-**	**-**	**-**	**-**
Single-family residential mortgages	**117,076**	**23,877**	**3,829**	**2,241** [2]	**147,023**
Residential commercial mortgages	**420**	**-**	**-**	**-**	**420**
Non-residential commercial mortgages	**5,050**	**-**	**-**	**-**	**5,050**
Credit card loans and lines of credit	**2,632**	**1,371**	**810**	**212**	**5,025**
Other consumer retail loans	**319**	**179**	**204**	**-**	**702**
	$ 144,266	**$ 26,430**	**$ 4,843**	**$ 2,874**	**$ 178,413**

thousands of Canadian dollars (Unaudited)					As at June 30, 2017
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages[1]	$ 6,765	$ 1,623	$ 212	$ - [2]	$ 8,600
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	123,644	20,278	5,914	4,693 [2]	154,529
Residential commercial mortgages	-	-	-	-	-
Non-residential commercial mortgages	5,660	2,571	584	-	8,815
Credit card loans and lines of credit	1,880	843	1,000	217	3,940
Other consumer retail loans	128	80	115	-	323
	$ 138,077	$ 25,395	$ 7,825	$ 4,910	$ 176,207

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 September 30, 2017, June 30, 2017 and December 31, 2016.

thousands of Canadian dollars (Unaudited)						**As at September 30, 2017**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	**$ 37,978**	**$ 337**	**$ 6,521**	**$ 4,230**	**$ 304**	**$ 49,370**
Individual allowances on principal	**(1,860)**	**-**	**(300)**	**(3,260)**	**(304)**	**(5,724)**
Net amount of impaired loans	**$ 36,118**	**$ 337**	**$ 6,221**	**$ 970**	**$ -**	**$ 43,646**

thousands of Canadian dollars (Unaudited)						As at June 30, 2017
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 33,623	$ 337	$ 7,285	$ 4,561	$ 264	$ 46,070
Individual allowances on principal	(1,302)	-	(141)	(3,141)	(264)	(4,848)
Net amount of impaired loans	$ 32,321	$ 337	$ 7,144	$ 1,420	$ -	$ 41,222

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 September 30, 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 $266.7 million ($285.7 million - June 30, 2017; $367.0 million – December 31, 2016). For impaired mortgages, the total appraised value of collateral at September 30, 2017 was $67.6 million ($64.0 million - June 30, 2017; $81.3 million – December 31, 2016).

(E) Allowance for Credit Losses

thousands of Canadian dollars (Unaudited)					For the three months ended September 30, 2017	
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,302	$ -	$ 141	$ 3,141	$ 264	$ 4,848
Provision for credit losses	1,064	4	192	756	113	2,129
Write-offs	(651)	(4)	(33)	(705)	(136)	(1,529)
Recoveries	145	-	-	68	63	276
	1,860	-	300	3,260	304	5,724
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,007	24	348	-	8	1,387
Provision for credit losses	101	2	10	-	1	114
	1,108	26	358	-	9	1,501
Total individual allowance	2,968	26	658	3,260	313	7,225
Collective allowance						
Balance at the beginning of the period	23,032	327	12,500	3,904	300	40,063
Provision for credit losses (note 5(G))	-	-	(6,500)[1]	-	-	(6,500)
	23,032	327	6,000	3,904	300	33,563
Total allowance	$ 26,000	$ 353	$ 6,658	$ 7,164	$ 613	$ 40,788
Total provision	$ 1,165	$ 6	$ (6,298)	$ 756	$ 114	$ (4,257)

thousands of Canadian dollars (Unaudited)					For the three months ended June 30, 2017	
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,877	$ -	$ 88	$ 3,020	$ 508	$ 5,493
Provision for credit losses	697	(5)	101	773	(11)	1,555
Write-offs	(1,395)	-	(48)	(730)	(280)	(2,453)
Recoveries	123	5	-	78	47	253
	1,302	-	141	3,141	264	4,848
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,375	21	108	-	18	1,522
Provision for credit losses	(368)	3	240	-	(10)	(135)
	1,007	24	348	-	8	1,387
Total individual allowance	2,309	24	489	3,141	272	6,235
Collective allowance						
Balance at the beginning of the period	23,032	327	11,500	3,904	300	39,063
Provision for credit losses	-	-	1,000	-	-	1,000
	23,032	327	12,500	3,904	300	40,063
Total allowance	$ 25,341	$ 351	$ 12,989	$ 7,045	$ 572	$ 46,298
Total provision	$ 329	$ (2)	$ 1,341	$ 773	$ (21)	$ 2,420

(E) Allowance for Credit Losses (Continued)

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

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)						For the nine months ended September 30, 2017
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,980	$ -	$ 30	$ 780	$ 411	$ 3,201
Provision for credit losses	1,858	(1)	352	4,902	421	7,532
Write-offs	(2,360)	(4)	(82)	(2,602)	(661)	(5,709)
Recoveries	382	5	-	180	133	700
	1,860	-	300	3,260	304	5,724
Allowance on accrued interest receivable						
Balance at the beginning of the period	1,341	-	98	-	12	1,451
Provision for credit losses	(233)	26	260	-	(3)	50
	1,108	26	358	-	9	1,501
Total individual allowance	2,968	26	658	3,260	313	7,225
Collective allowance						
Balance at the beginning of the period	23,032	327	9,500	3,904	300	37,063
Provision for credit losses (note 5(G))	-	-	(3,500)[1]	-	-	(3,500)
	23,032	327	6,000	3,904	300	33,563
Total allowance	$ 26,000	$ 353	$ 6,658	$ 7,164	$ 613	$ 40,788
Total provision	$ 1,625	$ 25	$ (2,888)	$ 4,902	$ 418	$ 4,082

thousands of Canadian dollars (Unaudited)						For the nine months ended September 30, 2016
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,652	$ -	$ 340	$ 329	$ 161	$ 2,482
Provision for credit losses	2,632	-	200	1,215	368	4,415
Write-offs	(2,989)	-	(532)	(1,624)	(393)	(5,538)
Recoveries	342	-	12	165	166	685
	1,637	-	20	85	302	2,044
Allowance on accrued interest receivable						
Balance at the beginning of the period	839	-	57	-	5	901
Provision for credit losses	256	-	1	-	4	261
	1,095	-	58	-	9	1,162
Total individual allowance	2,732	-	78	85	311	3,206
Collective allowance						
Balance at the beginning of the period	22,232	327	9,500	3,890	300	36,249
Provision for credit losses	800	-	-	14	-	814
	23,032	327	9,500	3,904	300	37,063
Total allowance	$ 25,764	$ 327	$ 9,578	$ 3,989	$ 611	$ 40,269
Total provision	$ 3,688	$ -	$ 201	$ 1,229	$ 372	$ 5,490

[1]The reduction in the collective allowance on the non-residential commercial mortgage portfolio reflects the sale of mortgages from this portfolio. Please see Note 5(G) for more information.

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

(F) Interest Income by Product

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended	
	September 30 2017	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Traditional single-family residential mortgages	**$ 122,489**	$ 132,378	$ 133,997	**$ 385,160**	$ 409,493
ACE Plus single-family residential mortgages	**3,612**	3,541	3,104	**10,552**	8,146
Accelerator single-family residential mortgages	**2,763**	2,437	7,342	**10,532**	24,430
Residential commercial mortgages	**2,063**	4,609	4,483	**11,292**	13,323
Non-residential commercial mortgages	**18,777**	32,631	26,741	**81,164**	74,232
Credit card loans and lines of credit	**8,327**	8,699	8,432	**25,307**	25,147
Other consumer retail loans	**9,128**	8,099	8,296	**27,981**	22,874
Total interest income on non-securitized loans	**167,159**	192,394	192,395	**551,988**	577,645
CMHC-sponsored securitized single-family residential mortgages	**13,718**	13,702	11,921	**38,162**	35,527
CMHC-sponsored securitized multi-unit residential mortgages	**7,718**	7,004	7,238	**23,667**	22,669
Assets pledged as collateral for CMHC-sponsored securitization	**122**	23	489	**600**	1,751
Bank-sponsored securitization conduit assets	**1,572**	1,949	1,309	**4,937**	1,835
Total interest income on securitized loans	**23,130**	22,678	20,957	**67,366**	61,782
	$ 190,289	$ 215,072	$ 213,352	**$ 619,354**	$ 639,427

(G) Sale of Loan Portfolios

During the third quarter, the Company sold residential commercial and non-residential commercial mortgages for proceeds of $962.6 million. The Company analyzed each transaction under the derecognition requirements outlined in IAS 39 and concluded that the mortgages should be derecognized, except to the extent of the Company's continuing involvement. The Company's continuing involvement relates to $23.9 million of the gross sale proceeds withheld to cover up to 80% of future credit losses on the commercial mortgages sold. As a result, the Company recognized a continuing involvement asset and liability of $23.9 million in other assets and liabilities on the consolidated balance sheets, respectively.

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

During the third quarter, the Company also sold mortgages for proceeds of $36.8 million and concluded that these mortgages should be derecognized based on its analysis of the requirements of IAS 39. The sales resulted in the recognition of $0.6 million of losses included in non-interest loss in the consolidated statements of income (loss).

During the second quarter, the Company sold mortgages for proceeds of $488.8 million. The Company analyzed each transaction under the derecognition requirements outlined in IAS 39 and concluded that the mortgages should be derecognized. The sales resulted in the recognition of $5.0 million of losses included in non-interest loss in the consolidated statements of income (loss).

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 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			For the nine months ended	
thousands of Canadian dollars (Unaudited)	**September 30 2017**	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Beginning balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 3,313,892**	$ 2,647,014	$ 2,794,737	**$ 2,648,882**	$ 2,731,350
Mortgages assigned in new securitizations	**119,796**	984,731	700,065	**1,906,608**	2,872,762
Net change in treasury bills and other acceptable securities	**48,419**	56,788	14,770	**(16,871)**	48,402
Mortgages derecognized [2]	**(58,905)**	(113,314)	(643,658)	**(747,402)**	(1,830,024)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(184,089)**	(261,327)	(211,432)	**(552,104)**	(1,168,008)
Ending balance of on-balance sheet assets assigned as collateral for securitization [1]	**$ 3,239,113**	$ 3,313,892	$ 2,654,482	**$ 3,239,113**	$ 2,654,482

[1]Included in the on-balance sheet assets assigned as collateral at September 30, 2017 is $105.2 million ($56.8 - June 30, 2017; $122.1 million – December 31, 2016) in treasury bills and other acceptable securities and $3.13 billion ($3.26 billion - June 30, 2017; $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.

Treasury bills and other acceptable securities assigned as collateral are accounted for as available for sale assets and included in restricted assets on the consolidated balance sheets. Please see Note 7 for more information. Additionally, off-balance sheet mortgage loans of $7.80 billion ($8.21 billion - June 30, 2017; $8.38 billion – December 31, 2016) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount are $0.93 billion ($1.06 billion - June 30, 2017; $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			For the nine months ended	
thousands of Canadian dollars (Unaudited)	**September 30 2017**	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Balance at the beginning of the period	**$ 3,327,629**	$ 2,647,045	$ 2,837,479	**$ 2,649,649**	$ 2,780,556
Addition to securitization liabilities as a result of on-balance sheet activity	**60,891**	871,417	457,171	**1,447,663**	2,116,502
Net reduction in securitization liabilities due to maturities, amortization and sales	**(134,311)**	(180,104)	(614,887)	**(821,915)**	(2,206,991)
Other[1]	**470**	(10,729)	448	**(20,718)**	(9,856)
Securitization liability	**$ 3,254,679**	$ 3,327,629	$ 2,680,211	**$ 3,254,679**	$ 2,680,211
Proceeds received for mortgages assigned in new securitizations	**$ 117,579**	$ 976,815	$ 696,327	**$ 1,879,425**	$ 2,833,316

[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			For the nine months ended	
	September 30 2017	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Net gain on sale of mortgages and residual interest[1]	**$ 434**	$ 360	$ 6,055	**$ 5,532**	$ 19,966
Net change in unrealized gain or loss on hedging activities	**349**	(346)	(121)	**(110)**	123
Servicing income	**1,742**	1,863	1,665	**5,412**	4,644
Total securitization income	**$ 2,525**	$ 1,877	$ 7,599	**$ 10,834**	$ 24,733

[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.

The Company securitizes and sells 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 sells residual interests in certain pools of insured single-family mortgages securitized through the NHA MBS program. The sales result 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 (loss).

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

thousands of Canadian dollars (Unaudited)	For the three months ended					
	September 30 2017			June 30 2017		
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ -**	**$ 58,905**	**$ 58,905**	$ -	$ 113,314	$ 113,314
Net gains on sale of mortgages or residual interest[1]	**-**	**434**	**434**	-	360	360
Retained interests recorded	**-**	**2,349**	**2,349**	-	5,483	5,483
Servicing liability recorded	**-**	**480**	**480**	-	1,114	1,114

thousands of Canadian dollars (Unaudited)	For the three months ended		
	September 30 2016		
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 400,764	$ 242,894	$ 643,658
Net gains on sale of mortgages or residual interest[1]	3,904	2,151	6,055
Retained interests recorded	-	10,077	10,077
Servicing liability recorded	-	2,313	2,313

thousands of Canadian dollars (Unaudited)	For the nine months ended					
	September 30 2017			September 30 2016		
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 288,458**	**$ 458,944**	**$ 747,402**	$ 1,098,552	$ 731,472	$ 1,830,024
Net gains on sale of mortgages or residual interest[1]	**2,084**	**3,448**	**5,532**	13,084	6,882	19,966
Retained interests recorded	**-**	**18,085**	**18,085**	-	31,896	31,896
Servicing liability recorded	**-**	**4,499**	**4,499**	-	6,547	6,547

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

7. RESTRICTED ASSETS

thousands of Canadian dollars (Unaudited)		**September 30 2017**		June 30 2017		December 31 2016
Restricted cash						
Restricted cash – CMHC- and bank-sponsored securitization programs	**$**	**100,001**	$	111,003	$	106,616
Restricted cash – derivatives		**55,201**		22,543		19,262
Restricted cash – other programs		**29,461**		26,262		17,418
Total restricted cash		**184,663**		159,808		143,296
Treasury bills and other acceptable securities assigned as replacement assets		**105,207**		56,788		122,078
Total restricted assets	**$**	**289,870**	$	216,596	$	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 September 30, 2017, June 30, 2017 and September 30, 2016.

thousands (Unaudited)									For the three months ended
	September 30, 2017			June 30, 2017			September 30, 2016		
	Number of Shares		**Amount**	Number of Shares		Amount	Number of Shares		Amount
Outstanding at beginning of period	**80,246**	**$**	**231,618**	64,204	$	85,194	65,741	$	85,513
Options exercised	**-**		**-**	-		-	-		-
Repurchase of shares	**-**		**-**	(3)		(3)	(1,182)		(1,538)
Issuance of shares	**-**		**(462)**	16,045		146,427	-		-
Outstanding at end of period	**80,246**	**$**	**231,156**	80,246	$	231,618	64,559	$	83,975

thousands (Unaudited)						For the nine months ended
	September 30, 2017			September 30, 2016		
	Number of Shares		**Amount**	Number of Shares		Amount
Outstanding at beginning of period	**64,388**	**$**	**84,910**	69,978	$	90,247
Options exercised	**16**		**548**	34		780
Repurchase of shares	**(203)**		**(267)**	(5,453)		(7,052)
Issuance of shares	**16,045**		**145,965**	-		-
Outstanding at end of period	**80,246**	**$**	**231,156**	64,559	$	83,975

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

The Company repurchased shares under its normal course issuer bid (NCIB). 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 for the nine months ended September 30, 2017.

In the second quarter of 2016, the Company repurchased for cancellation 3,989,361 common shares at a price of $37.60 per share totaling $150.0 million under the Company's substantial issuer bid (SIB). In addition, the Company repurchased shares under its NCIB during the first nine months of 2016. The total charge to retained earnings for the nine months ended September 30, 2016, including both the SIB and NCIB activity was $186.5 million. Included in this amount was $0.4 million (net of tax) for transaction costs associated with the SIB.

The Company has no preferred shares outstanding.

(B) Share Purchase Options

thousands, except per share amounts (Unaudited)			For the three months ended					
	September 30, 2017			June 30, 2017			September 30, 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	**1,062**	**$**	**32.43**	1,062	$	32.43	1,118	$	32.40
Granted	**55**		**13.90**	-		-	-		-
Exercised	**-**		**-**	-		-	-		-
Forfeited	**(2)**		**39.65**	-		-	(5)		23.96
Outstanding at end of period	**1,115**	**$**	**31.51**	1,062	$	32.43	1,113	$	32.44
Exercisable at end of period	**715**	**$**	**31.79**	708	$	31.79	584	$	29.85

thousands, except per share amounts (Unaudited)		For the nine months ended			
	September 30, 2017			September 30, 2016	
	Number of Shares		**Weighted-average Exercise Price**	Number of Shares		Weighted-average Exercise Price
Outstanding at beginning of period	**1,074**	**$**	**32.73**	1,208	$	32.45
Granted	**158**		**22.88**	25		31.95
Exercised	**(16)**		**25.03**	(34)		17.19
Forfeited	**(101)**		**32.04**	(86)		38.52
Outstanding at end of period	**1,115**	**$**	**31.51**	1,113	$	32.44
Exercisable at end of period	**715**	**$**	**31.79**	584	$	29.85

During the third quarter of 2017, $174 thousand was recorded as compensation expense for a year-to-date total of $675 thousand ($197 thousand – Q2 2017; $333 thousand – Q3 2016; $805 thousand – nine months of 2016) for stock option awards in the consolidated statements of income (loss), with an offsetting credit to contributed surplus.

(C) Capital Management

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

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

The regulatory capital position of Home Trust was as follows:

(Unaudited)	**September 30 2017**	June 30 2017	December 31 2016	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets				
Common equity tier 1 ratio	**21.25%**	17.06%	16.55%	7.00%
Tier 1 capital ratio	**21.25%**	17.06%	16.54%	8.50%
Total regulatory capital ratio	**21.74%**	17.54%	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 September 30, 2017, the Leverage ratio was 7.89% (June 30, 2017 – 7.19%; December 31, 2016 – 7.20%), which exceeds OSFI's minimum requirements.

Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios have exceeded OSFI's regulatory targets, as well as Home Trust's internal capital targets. The capital position was further enhanced through the issuance of new common shares in the second quarter of 2017 (please see Note 8(A)).

(D) Retained Earnings

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

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

thousands of Canadian dollars (Unaudited)	**September 30 2017**	June 30 2017	December 31 2016
Net unrealized losses on			
Available for sale securities and retained interests	**$ (7,856)**	$ (9,339)	$ (72,953)
Income tax recovery	**(2,098)**	(2,492)	(19,364)
	(5,758)	(6,847)	(53,589)
Unrealized losses on			
Cash flow hedges	**(1,894)**	(1,714)	(2,005)
Income tax recovery	**(495)**	(445)	(529)
	(1,399)	(1,269)	(1,476)
Accumulated other comprehensive loss	**$ (7,157)**	$ (8,116)	$ (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 (loss) from the combined statutory federal and provincial income tax rate of 26.50% (Q2 2017 – 26.50%; Q3 2016 – 26.54%).

(Unaudited)	For the three months ended			For the nine months ended	
	September 30 2017	June 30 2017	September 30 2016	**September 30 2017**	September 30 2016
Statutory income tax rate	**26.50%**	26.50%	26.54%	**26.50%**	26.54%
Increase (reduction) in income tax rate resulting from					
Tax-exempt income	**(0.18)%**	0.08%	(0.71)%	**2.53%**	(0.75)%
Non-deductible expenses	**0.60%**	(1.16)%	0.11%	**(6.64)%**	0.09%
Scientific research and experimental development investment tax credits	**(1.67)%**	-	(0.50)%	**2.10%**	(0.39)%
Other	**(0.70)%**	(0.14)%	0.00%	**2.47%**	0.00%
Effective income tax rate	**24.55%**	25.28%	25.44%	**26.96%**	25.49%

Net deferred tax liabilities on the consolidated balance sheets were $34.8 million (June 30, 2017 - $34.6 million; December 31, 2016 - $36.3 million) and deferred tax assets were $15.9 million (June 30, 2017 - $19.5 million; December 31, 2016 - $16.9 million). The deferred tax liability comprises deferred tax on commissions, finders' fees, transaction costs, development costs and tax credits. The deferred tax liability is presented net of certain deferred tax assets, primarily attributed to allowance for credit losses. The deferred tax asset presented on the consolidated balance sheets results primarily from 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

For the nine months ended September 30, 2017, the Company recorded total restructuring charges of $13.2 million ($5.8 million – Q2 2017; $7.4 million – Q1 2017) in relation to its expense savings initiative, Project EXPO, which commenced in the first quarter of 2017. No further charges were recorded during the three months ended September 30, 2017. This restructuring initiative was intended to result in cost savings while positioning the Company to meet its strategic goals. These measures include organizational review, process redesign and premise optimization. The restructuring charges recorded relate primarily to employee severance and other related costs and are included in salaries and benefits. The remaining restructuring charges are included in premises and other operating expenses. The Company announced on October 2, 2017 that it has completed Project EXPO and does not expect further charges.

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

thousands of Canadian dollars (Unaudited)	For the three months ended			For the nine months ended
	September 30 2017	June 30 2017	March 31 2017	September 30 2017
Balance at the beginning of the period	**$ 8,601**	$ 6,143	$ -	$ -
Additions	**-**	5,768	7,429	13,197
Amounts used	**(2,073)**	(3,310)	(1,286)	(6,669)
Balance at the end of the period	**$ 6,528**	$ 8,601	$ 6,143	$ 6,528

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

As previously disclosed in the first quarter 2017, the Company faced a proposed class action commenced in February 2017 by Claire R. McDonald, Action No. 349/17CP (the "Class Action") and a regulatory proceeding by the Ontario Securities Commission (OSC) commenced in April 2017 (the "OSC Proceeding") with respect to allegations regarding the Company's disclosure in 2014 and 2015. On June 14, 2017, the Company announced that it had reached two agreements which together comprise a global settlement of the Class Action and OSC Proceeding. The settlement of the OSC Proceeding was approved on August 9, 2017. The Ontario Superior Court of Justice issued an order approving the Class Action settlement on August 21, 2017. Under the settlements, the Company made payments of $31.0 million, of which $29.0 million was funded by the Company's insurers, the net of which was recorded in other operating expense during the second quarter 2017.

Putative Class Action Related to Consumer HVAC Equipment Financing

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

Action Relating to Consumer Financing Arrangements

A claim has been filed with the Ontario Superior Court of Justice against Home Trust Company by MDG Newmarket Inc., doing business as OEG. The claim alleges damages against Home Trust in the amount of $65.0 million for breach of contract, plus punitive damages of $5.0 million, arising out of alleged breaches by Home Trust of certain consumer financing contracts between OEG and Home Trust. Home Trust has filed a defence and counterclaim. Subsequent to the end of the third quarter on October 19, 2017, the legal disputes between Home Trust and OEG were settled. The impact of the settlement is not significant to the financial position of the Company.

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		
	September 30 2017	June 30 2017	September 30 2016
Fair value gains (losses) recorded in OCI	**$ (467)**	$ (525)	$ 803
Reclassification from OCI to net income	**(287)**	(572)	(268)

thousands of Canadian dollars (Unaudited)	For the nine months ended	
	September 30 2017	September 30 2016
Fair value gains (losses) recorded in OCI	**$ (1,077)**	$ 2,712
Reclassification from OCI to net income	**(1,188)**	(973)

Fair Value Hedging Relationships

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

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

thousands of Canadian dollars (Unaudited)			For the three months ended
	September 30 2017	June 30 2017	September 30 2016
Fair value changes recorded on interest rate swaps[1]	**$ (31,087)**	$ (19,956)	$ (5,780)
Fair value changes of hedged items for interest rate risk[2]	**30,317**	19,948	6,135
Hedge ineffectiveness gains (losses) recognized in non-interest income[3]	**$ (770)**	$ (8)	$ 355

thousands of Canadian dollars (Unaudited)		For the nine months ended
	September 30 2017	September 30 2016
Fair value changes recorded on interest rate swaps[1]	**$ (53,455)**	$ (11,690)
Fair value changes of hedged items for interest rate risk[2]	**52,113**	5,034
Hedge ineffectiveness losses recognized in non-interest income[3]	**$ (1,342)**	$ (6,656)

[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 (loss). Net realized and unrealized losses of $42 thousand for Q3 2017 and net realized and unrealized losses of $364 thousand year to date 2017 ($11 thousand net realized and unrealized losses – Q2 2017; $6 thousand net realized and unrealized losses – Q3 2016; $549 thousand net realized and unrealized gains year to date 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 (loss). Please see Note 6 for more information.

As at September 30, 2017, June 30, 2017 and December 31, 2016, the outstanding swaps and bond forward contract positions were as follows:

thousands of Canadian dollars (Unaudited)				**As at September 30, 2017**
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	**$ 300,342**	**$ 848**	**$ (570)**	**$ 278**
1 to 5 years	**3,637,868**	**9,315**	**(30,192)**	**(20,877)**
> 5 years	**15,000**	**-**	**(387)**	**(387)**
	3,953,210	**10,163**	**(31,149)**	**(20,986)**
Bond forwards not designated as accounting hedges [1]				
> 5 years	**46,100**	**14**	**(43)**	**(29)**
	46,100	**14**	**(43)**	**(29)**
Total	**$ 3,999,310**	**$ 10,177**	**$ (31,192)**	**$ (21,015)**

thousands of Canadian dollars (Unaudited)				As at June 30, 2017
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	$ 265,842	$ 772	$ (381)	$ 391
1 to 5 years	2,505,368	21,032	(10,778)	10,254
> 5 years	15,000	-	(163)	(163)
	2,786,210	21,804	(11,322)	10,482
Total	$ 2,786,210	$ 21,804	$ (11,322)	$ 10,482

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, deposits and line of credit facility.

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

thousands of Canadian dollars (Unaudited)					As at September 30, 2017
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 2,337,760	$ -	$ -	$ 2,337,760	$ 2,337,760
Loans held for sale	-	40,320	-	40,320	40,320
Derivative assets	-	10,177	-	10,177	10,177
Restricted assets	184,663	-	-	184,663	184,663
Total financial assets held for trading	2,522,423	50,497	-	2,572,920	2,572,920
Financial assets available for sale					
Debt securities	299,471	-	1,511	300,982	300,982
Equity securities	30,562	-	-	30,562	30,562
Restricted assets	105,207	-	-	105,207	105,207
Retained interest owned	-	-	108,160	108,160	108,160
Total financial assets available for sale	435,240	-	109,671	544,911	544,911
Loans and receivables					
Securitized mortgages	-	-	3,155,030	3,155,030	3,133,906
Non-securitized mortgages and loans	-	-	12,329,686	12,329,686	12,221,861
Securitization receivables	-	-	83,105	83,105	83,105
Other	-	-	66,038	66,038	66,038
Total loans and receivables	-	-	15,633,859	15,633,859	15,504,910
Total	$ 2,957,663	$ 50,497	$ 15,743,530	$ 18,751,690	$ 18,622,741
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 13,553,883	$ 13,553,883	$ 13,358,618
Securitization liabilities	-	-	3,278,623	3,278,623	3,254,679
Other	-	-	395,291	395,291	395,291
Total financial liabilities carried at amortized cost	-	-	17,227,797	17,227,797	17,008,588
Financial liabilities at fair value					
Derivative liabilities	-	31,192	-	31,192	31,192
Total	$ -	$ 31,192	$ 17,227,797	$ 17,258,989	$ 17,039,780

thousands of Canadian dollars (Unaudited)					As at June 30, 2017
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,682,982	$ -	$ -	$ 1,682,982	$ 1,682,982
Derivative assets	-	21,804	-	21,804	21,804
Restricted assets	159,808	-	-	159,808	159,808
Total financial assets held for trading	1,842,790	21,804	-	1,864,594	1,864,594
Financial assets available for sale					
Debt securities	-	-	2,337	2,337	2,337
Equity securities	29,158	-	-	29,158	29,158
Restricted assets	56,788	-	-	56,788	56,788
Retained interest owned	-	-	112,122	112,122	112,122
Total financial assets available for sale	85,946	-	114,459	200,405	200,405
Loans and receivables					
Securitized mortgages	-	-	3,289,316	3,289,316	3,257,104
Non-securitized mortgages and loans	-	-	14,474,582	14,474,582	14,350,947
Securitization receivables	-	-	97,984	97,984	97,984
Other	-	-	110,488	110,488	110,488
Total loans and receivables	-	-	17,972,370	17,972,370	17,816,523
Total	$ 1,928,736	$ 21,804	$ 18,086,829	$ 20,037,369	$ 19,881,522
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 13,110,995	$ 13,110,995	$ 13,104,606
Line of credit facility	-	-	1,396,959	1,396,959	1,396,959
Securitization liabilities	-	-	3,430,533	3,430,533	3,327,629
Other	-	-	450,925	450,925	450,925
Total financial liabilities carried at amortized cost	-	-	18,389,412	18,389,412	18,280,119
Financial liabilities at fair value					
Derivative liabilities	-	11,322	-	11,322	11,322
Total	$ -	$ 11,322	$ 18,389,412	$ 18,400,734	$ 18,291,441

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	-	-	320,737	320,737	320,737
Total financial liabilities at amortized cost	-	-	19,114,297	19,114,297	18,856,416
Financial liabilities at fair value					
Derivative liabilities	-	3,490	-	3,490	3,490
Total	$ -	$ 3,490	$ 19,114,297	$ 19,117,787	$ 18,859,906

The Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy during the quarters ended September 30, 2017, June 30, 2017 or September 30, 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. The fair value of the line of credit facility at June 30, 2017 approximated its carrying value as the initial draw occurred at the end of the second quarter.
- 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 former member of the Company's key management personnel. There were no second mortgages referred to this lender during the three months ended September 30, 2017 and June 30, 2017. The amount of second mortgages referred to this lender during the three months ended March 31, 2017 and the year ended December 31, 2016 were not significant.

15. DISPOSAL OF PSIGATE AND PREPAID CARD BUSINESS

During the second quarter, Company determined that it will exit its payment processing and prepaid card business through a sale transaction. This includes the Company's subsidiary PSiGate. In connection with this decision, the Company recorded a write-down of goodwill, intangible and other assets of $7.3 million in Q2 2017, based on estimated fair value less costs to sell. The write-down is included in other operating expenses in the consolidated statements of income (loss). On October 16, 2017, the Company announced that it had reached an agreement to sell the Company's payment processing and prepaid card business including PSiGate. The sale is expected to close in the fourth quarter of 2017, subject to receipt of necessary third party and regulatory approvals and customary closing conditions.

16. RISK MANAGEMENT

The Company is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include 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.

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Capital Stock
As at September 30, 2017 there were 80,246,349 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

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Home Trust Company
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Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Wednesday, November 15, 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.