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 June 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 June 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 August 2, 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 Overview of the Second Quarter 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. Please also refer to the Overview of the Second Quarter and Outlook section of this MD&A for information on the Company's going concern assessment. The preceding list is not exhaustive of possible factors.

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

Assumptions about the performance of the Canadian economy in 2017 and its effect on Home Capital's business are material factors the Company considers when setting its performance goals, strategic priorities and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In 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 very low 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 Overview of the Second Quarter 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. At the end of the quarter, the Company determined it would exit this business and recorded provisions for loss on discontinuing this business. 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.

OVERVIEW OF THE SECOND QUARTER AND OUTLOOK

Liquidity Event

As discussed in its first quarter report, 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, as depositors withdrew most of the outstanding demand deposits in the Company's High Interest Savings Accounts and its Oaken Savings Accounts. This further resulted in downgrades to the Company's credit rating, increased scrutiny by many stakeholders and threatened the Company's ability to continue as a going concern. In response to the situation, management and the Board activated a crisis response plan that included increased rates on deposits, restriction of lending activities, partnering with other lenders, asset sales, changes to the Board and management and partnering with a widely recognized investor to restore confidence.

The Company was forced to rely on special financing from a major pension plan (Emergency Credit) that was intended to provide a short term bridge to a more sustainable solution to the Company's liquidity issues. Late in the quarter, the Company announced an arrangement for additional equity financing and a new line of credit from a wholly owned subsidiary of Berkshire Hathaway Inc. (BH), a major and well-known US investment firm. Please see Note 4(A) to the unaudited interim consolidated financial statements in this report for more details on the new line of credit facility. The arrangement was completed at the end of the quarter. The Company also reached a tentative settlement of the securities regulation and class action matters discussed in the first quarter report to shareholders. Subsequent to the announcement of the BH arrangement, the Company experienced a significant increase in deposits. The increase in deposit taking and the proceeds of asset sales, along with reduced lending outflows stabilized the Company's liquidity position. As of the end of the quarter, the Company had liquid assets of over $1.7 billion in addition to an undrawn balance of $600 million on its BH line of credit. Subsequent to the quarter end, liquidity continued to grow with strong deposit taking and completion of asset sales, and the Company fully repaid the BH line of credit. As at August 1, the Company held liquid assets of $1.94 billion and had $2 billion undrawn on its fully repaid BH line of credit.

Going Concern

The Company's business plan and cash flow forecast suggest that the current liquidity and credit facilities are sufficient to support ongoing business for the foreseeable future and management has concluded that there is no longer material uncertainty that casts significant doubt as to the ability of the Company to continue as a going concern. In the coming months, the Company will reassess its business plan and set new strategic goals and objectives. In the interim, the Company is focused on returning its lending and deposit-taking activities to more normal levels and further strengthening its financial position. The Company intends to limit demand deposits to the current low level.

Elevated Costs in the Second Quarter

The actions taken to deal with the Company's loss of liquidity resulted in significantly elevated costs in the quarter. These costs include $130.6 million in commitment fees and interest related to the Emergency Credit facility and BH line of credit, related professional and advisory fees and a loss of $72.9 million realized on the urgent sale of securities to increase liquidity. The Company recorded total costs of $213.6 million in this connection.

The Company has taken, and will continue to take, steps to focus on its core business lines and adjust its workforce and cost structure to align with the current and expected business levels. In that connection, the Company determined at the end of the quarter that it would exit its payment card and payment processing business (PsiGate). In this connection the Company recorded additional pre-tax restructuring charges of $13.1 million, reflecting the write-down of goodwill, intangible and other assets, severance expense and other costs anticipated as these initiatives are implemented. The Company will continue to execute on its expense-savings initiative, Project EXPO, in the third quarter. Please see Note 11 to the unaudited interim consolidated financial statements for more details on the restructuring provision.

In connection with the settlement of the securities regulation and class action matters, the Company incurred significant costs, including fines, a settlement amount and professional fees. A significant portion of these costs were covered by the Company's insurers. The portion that was not covered by the insurance program was recorded as a period cost in the second quarter, totalling $7.0 million.

These elevated costs in total reduced the Company's pre-tax income by $233.7 million ($173.5 million, net of tax) for the quarter. In the previous quarter, the Company recorded restructuring costs and write-downs of intangible and other assets which totalled $10.1 million, before income taxes ($7.4 million, net of taxes). The total cost per share was $2.70 ($0.12 – Q1 2017).

Actions Taken

Over the past quarter, the Company's focus has been on restoring the confidence of its stakeholders, especially depositors and investors, and rebuilding and stabilizing liquidity and funding. To that end, the Company initiated an action plan that has resulted in considerable improvement in financial condition since the last quarterly report to shareholders. Accomplishments in the quarter are summarized below.

- Obtained $2 billion in Emergency Credit facility
- Governance renewal, reducing the Board of Directors from 11 members to 9, electing 5 new independent members to the Board and appointing a new Chair
- Established an arrangement to place or sell new mortgages or renewals with a significant mortgage finance company
- Repayment of $325 million of deposit notes completed on the due date
- Negotiated an agreement to settle Ontario Securities Commission (OSC) and class action matters subject to final court approval and OSC hearing
- Reached a firm agreement to sell commercial mortgage assets valued at approximately $1.2 billion, to be executed in the 3rd quarter
- Reached an agreement with Berkshire Hathaway (BH) for investment of up to $400 million in common equity and provision for a new $2 billion credit facility, replacing the Emergency Credit facility
- Closed the agreement on the new $2 billion credit facility with an initial draw of $1.65 billion and repayment and cancellation of the Emergency Credit facility
- Sale of $300 million of residential mortgages and repayment of $249 million on BH credit facility
- Closing of commercial mortgage sales in the amount of $189 million
- Restored deposit taking to historical daily levels, but at premium interest rates
- Started to restore residential lending activity

Outlook for Remainder of 2017

Given the events of the second quarter, the Company will cautiously increase lending activity with a view to growing the mortgage origination flow in step with the growth of deposit funding and having adequate liquidity. While deposit funding has grown in recent weeks, the Company has been paying a premium rate of interest on new deposits. These rates will reduce the interest spread earned on new business and the Company will look to reduce deposit interest rates to more sustainable levels in the coming months. This may have a dampening effect on deposit growth and consequently constrain growth of mortgage originations. As discussed above, during the second quarter the Company had a very low level of new loan originations and had sales and early pay-outs of residential and commercial mortgage assets as well as consumer lending assets. The accompanying reduction in interest income is only partly reflected in the second quarter as these transactions occurred late in the quarter. The Company has also sold further commercial loan assets in the third quarter. The proceeds of assets sales have been used to repay the BH credit facility in full. Consequently, the Company will experience lower interest costs partly offset by lower interest income in the third quarter. It can be anticipated that return on shareholders' equity will be reduced by the combination of lower earnings and increased share capital.

In July, OSFI introduced for comment and consultation a revised draft of Guideline B-20 (B-20) Residential Mortgage Underwriting Practices and Procedures. The draft revisions include a qualifying stress test for uninsured mortgages, a prohibition on certain co-lending arrangements and additional guidance on income verification and expectation to account for property price inflation when determining appropriate loan to value. Based on the Company's preliminary analysis and interpretation, the revisions to B-20, if implemented as proposed, would reduce, possibly materially, the size of the uninsured mortgage market available to the Company and its federally regulated competitors. The Company also believes that the revisions, if implemented as proposed, would increase the rate of renewals of mortgage loans with the existing lenders. The draft guideline is in the consultation stage and may be further revised before implementation, and it is unclear in any event what impact the revisions to B-20 would have on the real estate and mortgage markets as a whole. If implemented as proposed, the draft guideline would be expected to have a material impact on the Company's business strategy going forward. At this time, there can be no certainty as to the final revisions of the guideline.

During the third and fourth quarters and early in the first quarter of 2018, the Company's management and Board of Directors will reassess the corporate strategy and business plan and set targets for performance for the three-year period ending in 2020.

Market Conditions

In the Company's established regions, the Company has seen emerging trends in the housing market over the second quarter. While generally residential real estate values have remained stable, some areas have experienced reductions in average sales prices and could continue to see further easing over the balance of the year. This however will result in a more sustainable real estate market and present more stable credit conditions for the Company, compared to the price increases seen in recent quarters, particularly in the Greater Toronto Area (GTA). The Company also expects that, near-term, the government measures implemented through Ontario's Fair Housing Plan will continue to have a cooling impact on the GTA housing market, as well as the Greater Golden Horseshoe. This should continue to place price growth on a more moderate path. The Company continues to closely monitor any emerging real estate market trends across Canada and it will continue to apply a conservative lending approach to its residential loan originations.

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. Since April there has been a decline in housing resales and a moderation in starts in the GTA. While still positive year over year, average house prices declined month over month for the last two months in the quarter. The Ontario Fair Housing Plan may have contributed to the recent trends, but it remains too early to fully assess the impact. The proposed amendments to OSFI Guideline B-20, if implemented as proposed, 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.

Additional Risk Factors

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 an increase in voluntary attrition on a year-to-date basis compared to the same period in 2016. 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.

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

INCOME STATEMENT REVIEW

Table 1: Statement of Income (Loss) Highlights

(000s, except per share amounts)	Quarter			Year to date	
	Q2 2017	Q1 2017	Q2 2016	**2017**	2016
Net interest income (loss) non-securitized assets	**$ (7,982)**	$ 120,389	$ 118,824	**$ 112,407**	$ 238,127
Net interest income securitized loans and assets	**4,575**	5,468	3,279	**10,043**	6,493
Total net interest income (loss)	**(3,407)**	125,857	122,103	**122,450**	244,620
Provision for credit losses	**2,420**	5,919	2,760	**8,339**	4,154
	(5,827)	119,938	119,343	**114,111**	240,466
Non-interest income (loss)	**(57,886)**	21,885	24,658	**(36,001)**	47,647
Non-interest expenses	**85,001**	64,465	54,912	**149,466**	112,929
Income (loss) before income taxes	**(148,714)**	77,358	89,089	**(71,356)**	175,184
Income taxes	**(37,598)**	19,317	22,837	**(18,281)**	44,684
Net income (loss)	**$ (111,116)**	$ 58,041	$ 66,252	**$ (53,075)**	$ 130,500
Basic earnings (loss) per share	**$ (1.73)**	$ 0.90	$ 0.99	**$ (0.83)**	$ 1.91
Diluted earnings (loss) per share	**$ (1.73)**	$ 0.90	$ 0.99	**$ (0.83)**	$ 1.91

Elevated Costs in the Second Quarter

The actions taken to deal with the Company's loss of liquidity resulted in significantly elevated costs in the quarter. These costs include $130.6 million in commitment fees and interest related to the Emergency Credit facility and BH line of credit, related professional and advisory fees and a loss of $72.9 million realized on the urgent sale of securities to increase liquidity. The Company recorded total costs of $213.6 million in this connection.

The Company has taken, and will continue to take, steps to focus on its core business lines and adjust its workforce and cost structure to align with the current and expected business levels. In that connection, the Company determined at the end of the quarter that it would exit its payment card and payment processing business (PsiGate). In this connection the Company recorded additional restructuring charges of $13.1 million, reflecting the write-down of goodwill, intangible and other assets, severance expense and other costs anticipated as these initiatives are implemented. The Company will continue to execute on its expense-savings initiative, Project EXPO, in the third quarter. Please see Note 11 to the unaudited interim financial statements for more details on the restructuring provision.

In connection with the settlement of the securities regulation and class action matters, the Company incurred significant costs, including fines, a settlement amount and professional fees. A significant portion of these costs were covered by the Company's insurers. The portion that was not covered by the insurance program was recorded as a period cost in the second quarter, totalling $7.0 million.

These elevated costs in total reduced the Company's pre-tax income by $233.7 million ($173.5 million, net of tax) for the quarter. In the previous quarter, the Company recorded restructuring costs and write-downs of intangible and other assets which totalled $10.1 million, before income taxes ($7.4 million, net of taxes). The total cost per share was $2.70 ($0.12 – Q1 2017).

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

Q2 2017 v Q1 2017

The Company reported a net loss of $111.1 million and a diluted loss per share of $1.73 during the second quarter of 2017 compared to a net income of $58.0 million and diluted earnings per share of $0.90 last quarter. The net loss and loss per share resulted from the elevated costs in the second quarter discussed above.

Q2 2017 v Q2 2016

The reported net loss and diluted loss per share in second quarter of 2017 compared to a net income of $66.3 million and diluted earnings per share of $0.99 in the same period last year. No restructuring charges or significant asset write-downs were recorded in Q2 2016.

YTD 2017 v YTD 2016

The Company reported a net loss of $53.1 million and a diluted loss per share of $0.83 during the first six months of 2017 compared to a net income of $130.5 million and diluted earnings per share of $1.91 in the same period last year. The net loss and diluted loss per share resulted from the elevated costs in the second quarter discussed above.

Net Interest Income

Table 2: Net Interest Margin

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	**June 30 2017**	June 30 2016
Net interest margin non-securitized interest-earning assets (non-TEB)	**(0.19) %**	2.74%	2.74%	**1.32 %**	2.73%
Net interest margin non-securitized interest-earning assets (TEB)	**(0.19) %**	2.76%	2.76%	**1.33 %**	2.75%
Net interest margin CMHC-sponsored securitized assets	**0.50 %**	0.75%	0.42%	**0.62 %**	0.44%
Net interest margin bank-sponsored securitization conduit assets	**1.63 %**	1.58%	1.99%	**1.61 %**	1.99%
Total net interest margin (non-TEB)	**(0.07) %**	2.42%	2.36%	**1.19 %**	2.36%
Total net interest margin (TEB)	**(0.07) %**	**2.44 %**	**2.38 %**	**1.20 %**	**2.38 %**
Spread of non-securitized loans over deposits and credit facilities	**(0.41) %**	2.93%	2.97%	**1.32 %**	2.94%

Table 3: Net Interest Income by Product and Average Rate

	For the three months ended					
(000s, except %)	**June 30, 2017**		March 31, 2017		June 30, 2016	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 1,927**	**0.62 %**	$ 5,206	1.19%	$ 5,432	1.20%
Traditional single-family residential mortgages	**132,378**	**4.69 %**	130,293	4.65%	137,067	4.89%
ACE Plus single-family residential mortgages	**3,541**	**3.44 %**	3,399	3.45%	2,578	3.11%
Accelerator single-family residential mortgages	**2,437**	**2.55 %**	5,332	2.21%	7,541	2.47%
Residential commercial mortgages[2]	**4,609**	**5.16 %**	4,620	4.18%	4,571	4.01%
Non-residential commercial mortgages	**32,631**	**6.11 %**	29,756	5.76%	23,930	5.99%
Credit card loans and lines of credit	**8,699**	**8.92 %**	8,281	8.79%	8,365	8.95%
Other consumer retail loans	**8,099**	**7.98 %**	10,754	11.12%	7,652	9.17%
Total non-securitized loans	**192,394**	**5.01 %**	192,435	4.86%	191,704	4.94%
Taxable equivalent adjustment	**109**	**-**	825	-	884	-
Total non-securitized interest earning assets	**194,430**	**4.68 %**	198,466	4.51%	198,020	4.57%
CMHC-sponsored securitized single-family residential mortgages	**13,702**	**2.38 %**	10,742	2.36%	12,164	2.57%
CMHC-sponsored securitized multi-unit residential mortgages	**7,004**	**4.74 %**	8,945	5.87%	7,471	4.54%
Assets pledged as collateral for CMHC-sponsored securitization	**23**	**0.47 %**	455	1.56%	571	0.97%
Total CMHC-sponsored securitized residential mortgages	**20,729**	**2.85 %**	20,142	3.17%	20,206	2.90%
Bank-sponsored securitization conduit assets	**1,949**	**3.45 %**	1,416	3.08%	526	3.07%
Total assets	**$ 217,108**	**4.29 %**	$ 220,024	4.23%	$ 218,752	4.23%
Interest-bearing liabilities						
Deposits and credit facilities	**$ 202,303**	**5.42 %**	$ 77,252	1.93%	$ 77,847	1.97%
Senior debt	**-**	**-**	-	-	465	2.42%
CMHC-sponsored securitization liabilities	**17,073**	**2.34 %**	15,401	2.42%	17,268	2.45%
Bank-sponsored securitization conduit liabilities	**1,030**	**1.83 %**	689	1.51%	185	1.14%
Total liabilities	**$ 220,406**	**4.36 %**	$ 93,342	1.79%	$ 95,765	1.85%
Net Interest Income (Loss) (TEB)	**$ (3,298)**		$ 126,682		$ 122,987	
Tax Equivalent Adjustment	**(109)**		(825)		(884)	
Net Interest Income (Loss) per Financial Statements	**$ (3,407)**		$ 125,857		$ 122,103	

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

	For the six months ended			
(000s, except %)	**June 30, 2017**		June 30, 2016	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]
Interest-bearing assets				
Cash resources and securities	**$ 7,133**	**0.96%**	$ 10,652	1.24%
Traditional single-family residential mortgages	**262,671**	**4.67%**	275,496	4.88%
ACE Plus single-family residential mortgages	**6,940**	**3.44%**	5,042	3.23%
Accelerator single-family residential mortgages	**7,769**	**2.31%**	17,088	2.42%
Residential commercial mortgages[2]	**9,229**	**4.62%**	8,840	4.11%
Non-residential commercial mortgages	**62,387**	**5.94%**	47,491	6.03%
Credit card loans and lines of credit	**16,980**	**8.86%**	16,715	8.96%
Other consumer retail loans	**18,853**	**9.51%**	14,578	9.07%
Total non-securitized loans	**384,829**	**4.93%**	385,250	4.90%
Taxable equivalent adjustment	**934**	**-**	1,857	-
Total on non-securitized interest earning assets	**392,896**	**4.60%**	397,759	4.56%
CMHC-sponsored securitized single-family residential mortgages	**24,444**	**2.37%**	23,606	2.66%
CMHC-sponsored securitized multi-unit residential mortgages	**15,949**	**5.32%**	15,431	4.55%
Assets pledged as collateral for CMHC-sponsored securitization	**478**	**1.40%**	1,262	0.79%
Total CMHC-sponsored securitized residential mortgages	**40,871**	**3.00%**	40,299	2.91%
Bank-sponsored securitization conduit assets	**3,365**	**3.29%**	526	3.07%
Total assets	**$ 437,132**	**4.26%**	$ 438,584	4.23%
Interest-bearing liabilities				
Deposits and credit facilities	**$ 279,555**	**3.61%**	$ 155,532	1.96%
Senior debt	**-**	**-**	2,243	3.91%
CMHC-sponsored securitization liabilities	**32,474**	**2.38%**	34,147	2.42%
Bank-sponsored securitization conduit liabilities	**1,719**	**1.69%**	185	1.14%
Total liabilities	**$ 313,748**	**3.06%**	$ 192,107	1.85%
Net Interest Income (TEB)	**$ 123,384**		$ 246,477	
Tax Equivalent Adjustment	**(934)**		(1,857)	
Net Interest Income per Financial Statements	**$ 122,450**		$ 244,620	

[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.

The decline of deposits experienced during the liquidity event of the second quarter resulted in a reduction in interest expense on deposits of $5.6 million to $71.7 million in the second quarter from $77.3 million last quarter and a decline of $6.6 million from $78.3 million in Q2 2016. This decline in interest expense on deposits was replaced by the substantially higher interest expense and fees on line of credit facilities of $130.6 million in the second quarter which includes the interest expense and full $100 million commitment fee on the Emergency Credit. The impact of this replacement of deposits with the Emergency Credit resulted in an increase in the combined average rate of expense on deposits and credit facilities to 5.42% in the quarter from 1.93% last quarter and 1.97% in Q2 2016, which had a significant impact on net interest margin.

Q2 2017 v Q1 2017

The Company recognized a net interest loss of $3.4 million and a negative net interest margin (TEB) of 0.07% during the second quarter of 2017 compared to net interest income of $125.9 million and a net interest margin (TEB) of 2.44% last quarter. The net interest loss and negative margin resulted from the recognition of $130.6 million of interest expense on the Emergency Credit facility discussed previously, which 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. Dividend and other interest income decreased in the quarter reflecting the urgent sale of securities to improve liquidity.

Q2 2017 v Q2 2016

The net interest loss and negative interest margin (TEB) recognized in the second quarter of 2017 compared to net interest income of $122.1 million and net interest margin (TEB) of 2.38% last year. The interest and commitment fees associated with the Emergency Credit facility account for the net interest loss and negative interest margin experienced in the current quarter.

YTD 2017 v YTD 2016

The Company recognized net interest income of $122.5 million and a net interest margin (TEB) of 1.20% for the first six months of 2017 compared to $244.6 million and 2.38% last year, respectively. This significant decline in net interest income and margin resulted from the interest expense on the Emergency Credit facility as discussed above.

Non-Interest Income (Loss)

Table 4: Non-Interest Income (Loss)

(000s)	Q2 2017	Q1 2017	Q2 2016	Year to date 2017	Year to date 2016
Fees and other income	**$ 17,168**	$ 16,331	$ 17,328	**$ 33,499**	$ 36,493
Securitization income	**1,877**	6,432	9,452	**8,309**	17,134
Gain on acquisition of CFF Bank	**-**	-	-	**-**	651
Net realized and unrealized losses on securities and loans	**(76,912)**	(3)	-	**(76,915)**	(175)
Net realized and unrealized losses on derivatives	**(19)**	(875)	(2,122)	**(894)**	(6,456)
	$ (57,886)	$ 21,885	$ 24,658	**$ (36,001)**	$ 47,647

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

(000s)	For the three months ended June 30 2017	March 31 2017	June 30 2016	For the six months ended June 30 2017	June 30 2016
Fair value hedging ineffectiveness[1]	**$ (8)**	$ (564)	$ (2,212)	**$ (572)**	$ (7,011)
Derivative instruments marked-to-market (losses) gains[2]	**(11)**	(311)	90	**(322)**	555
Net realized and unrealized loss on derivatives	**$ (19)**	$ (875)	$ (2,122)	**$ (894)**	$ (6,456)

[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.

Q2 2017 v Q1 2017

The non-interest loss in the second quarter of 2017 resulted from the recognition of $72.9 million of losses on the urgent sale of preferred shares in response to the liquidity event experienced in the quarter. Included in these losses was $46.2 million of losses previously recognized as unrealized losses in accumulated other comprehensive income (AOCI) as at the end of last quarter. The Company also sold federal and provincial bonds in response to the liquidity event realizing a gain of $1.0 million on the sale, which was also previously recognized in AOCI. The Company also sold $488.8 million of residential and commercial mortgages 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 residual interests in single-family residential mortgage securitizations and sale of insured multi-unit residential mortgages along with income earned on servicing mortgages sold through securitization. Securitization income in the quarter was lower than last quarter as the Company did not sell residual interests during the quarter. Sales of residual interests last quarter led to gains of $2.1 million on the derecognition of $288.5 million of insured single-family residential mortgages. Gains of $0.4 million were recorded on sales of $113.3 million of insured multi-unit residential mortgages during the quarter compared to the gains of $2.7 million recognized last quarter on sales of $286.7 million of insured multi-unit residential mortgages. 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.

Securitization income includes servicing income of $1.9 million in the quarter, up 3.1% from last quarter, and also includes hedging losses. 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.

Q2 2017 v Q2 2016

In addition to the loss of the sale of preferred shares recognized in the quarter indicated above, the non-interest loss in the quarter reflects a decrease in securitization income compared to last year. 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 six months of 2017 resulted from the recognition of the losses on the urgent sale of preferred shares in the second quarter 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

	For the three months ended						For the six months ended			
(000s, except %)	**June 30, 2017**		March 31, 2017		June 30, 2016		**June 30, 2017**		June 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	**$ 329**	**0.01%**	$ 131	0.00%	$ 1,215	0.04%	**$ 460**	**0.01%**	$ 1,882	0.03%
Residential commercial mortgages	**(2)**	**(0.00)%**	21	0.03%	128	0.16%	**19**	**0.01%**	128	0.08%
Non-residential commercial mortgages	**341**	**0.07%**	69	0.01%	293	0.07%	**410**	**0.04%**	238	0.03%
Credit card loans and lines of credit[3]	**773**	**0.80%**	3,373	3.49%	519	0.56%	**4,146**	**2.16%**	935	0.50%
Other consumer retail loans	**(21)**	**(0.02)%**	325	0.33%	5	0.01%	**304**	**0.15%**	157	0.09%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Total individual provision	**1,420**	**0.03%**	3,919	0.08%	2,160	0.05%	**5,339**	**0.06%**	3,340	0.04%
Total collective provision	**1,000**	**0.02%**	2,000	0.04%	600	0.01%	**3,000**	**0.03%**	814	0.01%
Total provision	**$ 2,420**	**0.05%**	$ 5,919	0.13%	$ 2,760	0.06%	**$ 8,339**	**0.09%**	$ 4,154	0.05%
Net Write-Offs[2]										
Single-family residential mortgages	**$ 1,272**	**0.04%**	$ 200	0.01%	$ 834	0.03%	**$ 1,472**	**0.03%**	$ 1,983	0.03%
Residential commercial mortgages	**(5)**	**(0.01)%**	-	-	-	-	**(5)**	**(0.00)%**	-	-
Non-residential commercial mortgages	**48**	**0.01%**	1	0.00%	422	0.10%	**49**	**0.00%**	420	0.05%
Credit card loans and lines of credit	**652**	**0.68%**	1,133	1.17%	725	0.78%	**1,785**	**0.93%**	1,062	0.57%
Other consumer retail loans	**233**	**0.22%**	222	0.23%	69	0.08%	**455**	**0.22%**	150	0.09%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Net Write-Offs	**$ 2,200**	**0.05%**	$ 1,556	0.03%	$ 2,050	0.05%	**$ 3,756**	**0.04%**	$ 3,615	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 in Q1 2017 includes $2.3 million related to the non-core prepaid card business.

The Company continues to have strong credit performance with the provision for credit losses at $2.4 million in the quarter, or 0.07% of gross uninsured loans and 0.05% of total gross loans on an annualized basis. Provision for credit losses in the quarter were $3.5 million lower than last quarter as last quarter the provision included $2.3 million related to the non-core prepaid card business included in credit card loans and lines of credit. In addition, the Company increased its collective allowance for non-residential commercial mortgages by $2.0 million last quarter compared to the $1.0 million increase this quarter.

The increase in the Company's collective allowance to $40.1 million resulted from the $1.0 million increase on the non-residential commercial mortgage portfolio noted above, which reflects 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 $2.2 million in the quarter, or 0.05% of gross loans in the quarter; up from 0.03% last quarter and consistent with last year.

Net non-performing loans were $41.2 million or 0.23% of gross loans at the end of the quarter compared to 0.24% last quarter and 0.33% 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	
	Q2 2017	Q1 2017	Q2 2016	**2017**	2016
Salaries and benefits	**$ 29,303**	$ 29,619	$ 24,685	**$ 58,922**	$ 53,396
Premises	**3,365**	3,752	3,575	**7,117**	7,426
Other operating expenses	**52,333**	31,094	26,652	**83,427**	52,107
	$ 85,001	$ 64,465	$ 54,912	**$ 149,466**	$ 112,929
Efficiency ratio (TEB)	**(138.9)%**	43.4%	37.2%	**171.0%**	38.4%
Active employees at the end of the period	**816**	875	881	**816**	881

Q2 2017 v Q1 2017

The increase in non-interest expenses reflects the increase in other operating expenses discussed earlier with salaries and benefits remaining fairly consistent with last quarter.

Salaries and benefits includes severance expenses of $5.6 million ($6.8 million – Q1 2017) in connection with the Company's Project EXPO expense savings initiative.

Other operating expenses increased from last quarter primarily as a result of $7.3 million write-down related to goodwill, intangible and other assets within the payment card and payment processing business and elevated legal and other professional expenses connected with the liquidity event and OSC and class action matter. Please see the Overview of the Second Quarter and Outlook section of this MD&A for more information.

Q2 2017 v Q2 2016

The increase in non-interest expense over last year reflects an increase in both salaries and benefits and other operating costs.

The increase in salaries and benefits resulted from the severance expenses noted above in connection with the Company's Project EXPO expense savings initiative. The increase in other operating expenses resulted from the elevated costs connected with the liquidity events experienced during the quarter as indicated above.

YTD 2017 v YTD 2016

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

Income Taxes

In Q2 2017 the Company recorded a recovery of $37.6 million (effective tax rate of 25.28%), compared to an expense of $19.3 million (effective tax rate of 24.97%) in Q1 2017 and an expense of $22.8 million (effective tax rate of 25.63%) in Q2 2016.

The Company's effective tax rate in Q2 2017 differs 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 Q1 2017 and Q2 2016, the effective tax rate differed from the statutory rate primarily due to the receipt of dividends from Canadian corporations in the amount of $2.3 million and $2.4 million, respectively, that are not subject to tax.

Comprehensive Income (Loss)

Comprehensive income (loss) is the aggregate of net income (loss) and other comprehensive income (loss) (OCI). Comprehensive loss for the quarter was $76.4 million compared to comprehensive income of $70.3 million in Q1 2017 and $68.7 million in Q2 2016.

OCI in the quarter was $34.7 million compared to $12.2 million in Q1 2017 and $2.4 million in Q2 2016. The increase in OCI 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 urgent sale of preferred shares to raise funds in connection with the liquidity event experienced in the quarter. OCI last quarter and last year primarily reflected a recovery in the market value of available for sale securities.

FINANCIAL POSITION REVIEW

Table 8: Loan Portfolio

									As at
		June 30	**%**		March 31	%		December 31	%
(000s, except % and number of loans)		**2017**	**of Total**		2017	of Total		2016	of Total
CMHC-sponsored securitized single-family residential mortgages	$	**2,463,884**	**9.5%**	$	1,803,005	6.6%	$	1,792,301	6.8%
CMHC-sponsored securitized multi-unit residential mortgages		**587,391**	**2.3%**		597,940	2.2%		620,193	2.4%
Bank-sponsored securitization conduit single-family residential mortgages		**205,829**	**0.8%**		246,069	0.9%		114,310	0.4%
Traditional single-family residential mortgages		**10,698,051**	**41.4%**		11,421,317	42.1%		11,024,960	41.7%
ACE Plus single-family residential mortgages		**416,195**	**1.6%**		371,505	1.4%		433,800	1.6%
Accelerator single-family residential mortgages		**232,907**	**0.9%**		826,792	3.0%		963,248	3.7%
Residential commercial mortgages		**264,077**	**1.0%**		331,457	1.2%		305,188	1.2%
Non-residential commercial mortgages		**1,981,911**	**7.6%**		2,157,013	7.9%		1,954,820	7.4%
Credit card loans and lines of credit		**381,169**	**1.5%**		383,610	1.4%		369,678	1.4%
Other consumer retail loans		**416,700**	**1.6%**		394,047	1.5%		378,901	1.4%
Total loan portfolio		**17,648,114**	**68.2%**		18,532,755	68.2%		17,957,399	68.0%
Loans held for sale		**-**	**-**		40,721	0.2%		77,918	0.3%
Total on-balance sheet loans	$	**17,648,114**	**68.2%**	$	18,573,476	68.4%	$	18,035,317	68.3%
Off-balance sheet loans									
Single-family residential mortgages	$	**4,759,070**	**18.4%**	$	5,163,935	19.0%	$	5,207,351	19.7%
Multi-unit residential mortgages		**3,456,216**	**13.4%**		3,426,225	12.6%		3,181,406	12.0%
Total off-balance sheet loans		**8,215,286**	**31.8%**		8,590,160	31.6%		8,388,757	31.7%
Total loans under administration	$	**25,863,400**	**100.0%**	$	27,163,636	100.0%	$	26,424,074	100.0%
Total insured mortgages under administration	$	**11,626,101**	**46.4%**	$	11,966,525	45.4%	$	11,913,490	46.4%
Total uninsured mortgages under administration		**13,439,430**	**53.6%**		14,419,454	54.6%		13,762,005	53.6%
Total mortgages under administration	$	**25,065,531**	**100.0%**	$	26,385,979	100.0%	$	25,675,495	100.0%
Number of loans outstanding under administration									
Mortgages		**61,716**			65,631			65,665	
Credit card loans and lines of credit		**41,387**			43,716			42,707	
Other consumer retail loans		**121,861**			114,925			115,244	
Total number of loans outstanding		**224,964**			224,272			223,616	

Table 9: Mortgage Continuity

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

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

(000s)	For the three months ended June 30, 2016			
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	$ 14,644,966	$ 1,036,042	$ 1,572,512	$ 17,253,520
Advances	1,833,152	382,026	259,692	2,474,870
Scheduled payments and prepayments[1]	(85,708)	(5,782)	(2,509)	(93,999)
Discharges	(1,496,868)	(45,067)	(170,440)	(1,712,375)
Capitalization and amortization of fees and other[2]	21,991	(5,270)	(1,054)	15,667
Sales of mortgages and residual interests	(297,314)	(292,110)	-	(589,424)
Balance at the end of the period	$ 14,620,219	$ 1,069,839	$ 1,658,201	$ 17,348,259

(000s)				**For the six months ended June 30, 2017**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Total
Balance at the beginning of the period	**$ 14,328,619**	**$ 1,003,299**	**$ 1,954,820**	**$ 17,286,738**
Advances	**2,552,580**	**384,666**	**526,486**	**3,463,732**
Scheduled payments and prepayments[1]	**(171,017)**	**(10,087)**	**(44,761)**	**(225,865)**
Discharges	**(2,398,654)**	**(89,042)**	**(301,848)**	**(2,789,544)**
Capitalization and amortization of fees and other[2]	**292,902**	**7,363**	**(7,549)**	**292,716**
Sales of mortgages and residual interests	**(587,564)**	**(444,731)**	**(145,237)**	**(1,177,532)**
Balance at the end of the period	**$ 14,016,866**	**$ 851,468**	**$ 1,981,911**	**$ 16,850,245**

(000s)				For the six months ended June 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	3,261,516	564,898	430,815	4,257,229
Scheduled payments and prepayments[1]	(170,010)	(12,717)	(8,259)	(190,986)
Discharges	(2,715,525)	(149,457)	(258,395)	(3,123,377)
Capitalization and amortization of fees and other[2]	14,498	(27,157)	3,392	(9,267)
Sales of mortgages and residual interests	(697,788)	(488,578)	-	(1,186,366)
Balance at the end of the period	$ 14,620,219	$ 1,069,839	$ 1,658,201	$ 17,348,259

[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 $119.4 million during the quarter and $207.4 million for the first six months of 2017 (Q1 2017 - $88.0 million, Q2 2016 – $2.2 million, first six months of 2016 – $10.3 million).

Table 10: Mortgage Advances

	For the three months ended			For the six months ended	
(000s)	**June 30 2017**	March 31 2017	June 30 2016	**June 30 2017**	June 30 2016
Single-family residential mortgages					
Traditional	**$ 699,930**	$ 1,458,775	$ 1,252,959	**$ 2,158,705**	$ 2,248,313
ACE Plus	**56,079**	105,950	115,426	**162,029**	184,624
Accelerator	**84,201**	147,645	464,767	**231,846**	828,579
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**9,281**	45,005	23,929	**54,286**	70,080
Multi-unit insured residential mortgages	**73,730**	249,835	338,527	**323,565**	468,225
Other[1]	**6,815**	-	19,570	**6,815**	26,593
Non-residential commercial mortgages					
Store and apartments	**11,866**	31,763	11,400	**43,629**	30,992
Commercial	**176,191**	306,666	248,292	**482,857**	399,823
Total mortgage advances	**$ 1,118,093**	$ 2,345,639	$ 2,474,870	**$ 3,463,732**	$ 4,257,229

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

Total loans under administration were $25.86 billion at the end of the quarter, representing a decrease of $1.30 billion or 4.8% from last quarter and a decrease of $560.7 million or 2.1% from the end of 2016, reflecting decreases in both on- and off-balance sheet loans. On-balance sheet loans were down 5.0% from the end of Q1 2017 and down 2.1% from the end of 2016 while off-balance sheet loans were down 4.4% from the end of Q1 2017 and down 2.1% from the end of 2016. During the second quarter, the Company greatly reduced mortgage advances and sold loans to manage its liquidity issues.

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 Q2 2017, ACE Plus mortgages with a balance of $205.8 million have been assigned to this program and reclassified to securitized mortgages on the consolidated balance sheet. Combined traditional and non-securitized ACE Plus mortgages of $11.11 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 43.0% and 63.0%, respectively. The combined portfolio decreased by 5.8% from the end of Q1 2017 and 3.0% from the end of 2016 resulting from lower originations and reduced retention. Combined originations of traditional and ACE Plus mortgages of $756.0 million in the quarter and $2.32 billion for the first half of 2017 were down 44.8% and 4.6% over the same periods last year and 51.7% over Q1 2017. The lower retention and originations resulted from the Company's efforts to manage its liquidity issues as indicated above. Following the liquidity events in the second quarter, the Company has discontinued its ACE Plus product, as access to the bank-sponsored securitization conduit was no longer available.

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.62 billion at the end of the quarter, reflecting a decrease of 2.8% over the balance of $11.97 billion at the end of Q1 2017 and 2.4% over the balance of $11.91 billion at the end of 2016. Of this total, $8.22 billion were accounted for off-balance sheet, down $374.9 million or 4.4% from the end of Q1 2017 and $173.5 million or 2.1% from the end of 2016.

The Company originated $84.2 million in insured single-family Accelerator mortgages in the quarter and $231.8 million for the first half of 2017, down 81.9% and 72.0% from the same periods last year and down 43.0% from Q1 2017 as the Company scaled back its originations due to its liquidity needs 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.

In Q2 2017, the Company originated $73.7 million of insured multi-unit residential mortgages in the quarter and sold $113.3 million in the quarter that qualified for off-balance sheet treatment. The sales included mortgages that were renewed from the on-balance sheet portfolio and resulted in $360 thousand in gains on sale in the quarter. The multi-unit residential mortgage market is relatively limited and the Company participates in appropriate transactions as they become available through various origination channels. As a result, origination volumes, sales and resultant securitization gains can vary significantly from quarter to quarter. Most of the Company's new insured multi-unit residential originations qualify for off-balance sheet treatment, and the on-balance sheet securitized multi-unit residential portfolio is declining through amortization and maturities.

From time to time, the Company pools mortgages and may hold the related MBS as liquid assets or inventory for replacement assets for the CMB program. These MBS are carried on the balance sheet at amortized cost as part of residential mortgage loans (see Table 23: Liquidity Resources).

Residential Commercial Mortgages

Residential commercial mortgages include commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. Insured multi-unit residential mortgages are included in this portfolio until they are securitized. The Company's originations were constrained by the lack of liquidity.

Non-Residential Commercial Mortgages

Non-residential commercial originations were $188.1 million in the quarter and $526.5 million in the first half of 2017 representing decreases of 44.4% from last quarter and 27.6% from the second quarter of 2016 and an increase of 22.2% over the first half of 2016. The slowdown in originations is reflective of the response to the Company's liquidity event experienced in the second quarter. 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. As the Company's funding capacity and liquidity continue to stabilize going forward, it 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 Q2 2017. The Company will continue to cautiously increase business within other markets in Ontario and the rest of Canada to the extent that market conditions remain stable. The concentration of new originations is influenced, in part, by the Company's credit experience. Please see Note 5(A) of the unaudited interim consolidated financial statements for the geographic distribution of the portfolio.

Table 11: Consumer Lending Continuity

						For the three months ended
(000s)			**June 30, 2017**			March 31, 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	**$ 383,610**	**$ 394,047**	**$ 777,657**	$ 369,678	$ 378,901	$ 748,579
Advances and draw-downs	**64,236**	**52,675**	**116,911**	53,628	39,466	93,094
Repayments	**(74,113)**	**(45,132)**	**(119,245)**	(50,389)	(35,405)	(85,794)
Capitalization of interest and fees, portfolio sales and other	**7,436**	**15,110**	**22,546**	10,693	11,085	21,778
Balance at the end of the period	**$ 381,169**	**$ 416,700**	**$ 797,869**	$ 383,610	$ 394,047	$ 777,657
Authorized limit on new credit card issuances	**$ 37,073**			$ 55,200		

			For the three months ended
(000s)			June 30, 2016
	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total Consumer Lending
Balance at the beginning of the period	$ 374,658	$ 321,737	$ 696,395
Advances and draw-downs	57,151	44,980	102,131
Repayments	(69,236)	(33,981)	(103,217)
Capitalization of interest and fees, portfolio sales and other	9,352	12,154	21,506
Balance at the end of the period	$ 371,925	$ 344,890	$ 716,815
Authorized limit on new credit card issuances	$ 39,604		

						For the six months ended
(000s)			**June 30, 2017**			June 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	**117,864**	**92,141**	**210,005**	106,564	92,457	199,021
Repayments	**(124,502)**	**(80,537)**	**(205,039)**	(125,253)	(63,458)	(188,711)
Capitalization of interest and fees, portfolio sales and other	**18,129**	**26,195**	**44,324**	19,789	19,034	38,823
Balance at the end of the period	**$ 381,169**	**$ 416,700**	**$ 797,869**	$ 371,925	$ 344,890	$ 716,815
Authorized limit on new credit card issuances	**$ 92,273**			$ 76,641		

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 4.5% of the total on-balance sheet loan portfolio, these assets generated 7.9% of the interest income from loans for the quarter.

Credit card and lines of credit balances decreased to $381.2 million from $383.6 million at the end of last quarter and increased from $369.7 million at the end of 2016. Equityline *Visa* accounts (Home Equity Line of Credit) represent 88.4% of the total credit card and lines of credit balance.

The balance of other consumer retail loans increased 5.7% during the quarter to $416.7 million from $394.0 million at the end of Q1 2017 and $378.9 million at the end of 2016. These assets are typically generated through dealer programs which continue to be in place.

Cash and Securities

Combined cash resources and securities stood at $1.71 billion at the end of Q2 2017 compared to $1.80 billion at the end of Q1 2017 and $1.74 billion at the end of 2016. While the Company's cash resources were under significant pressure as a result of the liquidity event in late April, the Company was able to restore its cash resources through the Emergency Credit facility discussed below, and through asset sales.

During the quarter, the Company arranged the $2 billion Emergency Credit facility, bearing interest at 10% and a $100 million commitment fee. The Company drew $1.65 billion on this facility during the quarter. At the end of the quarter, the Emergency Credit facility was replaced by the BH line of credit with interest at 9% and no commitment fee. On June 30, 2017, the line of credit was paid down to $1.40 billion. 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 $754.6 million increased $96.3 million from the end of Q1 2017 and decreased $35.6 million from the end of 2016. The increase from last quarter primarily reflects an increase in income taxes receivable, restricted assets and insurance proceeds recoverable in connection with the OSC and class action matters. The decrease from the end of 2016 resulted from a decrease in treasury bills and other acceptable securities assigned as replacement assets in the CMB program reflecting maturities in the program. In general, as CMB maturities approach, the Company replaces maturing securitized mortgages with 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)	**June 30 2017**	**% of Totals**	March 31 2017	% of Totals	December 31 2016	% of Totals
Deposits payable on demand						
High-interest savings accounts	**$ 114,346**	**0.8%**	$ 1,904,967	11.7%	$ 2,016,881	12.7%
Oaken savings accounts	**154,056**	**1.2%**	361,664	2.2%	340,809	2.1%
Other deposits payable on demand	**104,510**	**0.8%**	110,769	0.7%	174,113	1.1%
	372,912	**2.8%**	2,377,400	14.6%	2,531,803	15.9%
Deposits payable on fixed dates						
Brokered GICs	**10,558,640**	**80.6%**	11,650,130	71.7%	11,120,107	70.0%
Oaken GICs	**1,695,454**	**12.9%**	1,417,612	8.7%	1,429,153	9.0%
Institutional deposit notes	**477,600**	**3.7%**	804,469	5.0%	804,967	5.1%
	12,731,694	**97.2%**	13,872,211	85.4%	13,354,227	84.1%
Total deposits	**13,104,606**	**100.0%**	16,249,611	100.0%	15,886,030	100.0%
Line of credit facility	**1,396,959**	**100.0%**	-	-	-	-
Securitization liabilities						
CMHC-sponsored mortgage-backed security liabilities	**1,649,637**	**49.6%**	922,377	34.8%	898,386	33.9%
CMHC-sponsored Canada Mortgage Bond liabilities	**1,474,001**	**44.3%**	1,474,539	55.7%	1,637,117	61.8%
Bank-sponsored securitization conduit liabilities	**203,991**	**6.1%**	250,129	9.5%	114,146	4.3%
Total securitization liabilities	**$ 3,327,629**	**100.0%**	$ 2,647,045	100.0%	$ 2,649,649	100.0%
Total number of deposit accounts	**410,630**		457,803		441,782	

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

(000s)						June 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	$ -	$ 2,188,445	$ 6,524,324	$ 2,428,952	$ 205,432	$ 11,347,153
Residential commercial mortgages	-	41,942	137,405	82,794	1,936	264,077
Non-residential commercial mortgages	-	333,040	779,349	826,460	43,062	1,981,911
Credit card loans and lines of credit	-	381,169	-	-	-	381,169
Other consumer retail loans	-	4,594	25,699	120,908	265,499	416,700
	-	2,949,190	7,466,777	3,459,114	515,929	14,391,010
Deposits						
Demand deposits and GICs	372,912	1,603,072	4,198,910	4,730,228	1,721,884	12,627,006
Institutional deposits	-	-	174,894	302,706	-	477,600
	372,912	1,603,072	4,373,804	5,032,934	1,721,884	13,104,606
Net maturity	$ (372,912)	$ 1,346,118	$ 3,092,973	$ (1,573,820)	$ (1,205,955)	$ 1,286,404

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio and principally comprises fixed-term deposits, which represent 97.2% 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 $13.10 billion were down 19.4% from the end of Q1 2017 and were down 17.5% 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, as discussed in the Overview of the Second Quarter and Outlook section of this MD&A. Deposits from diversified sources, which comprise Oaken deposits, institutional deposit notes and Home Trust high-interest savings accounts, accounted for 18.6% of total deposits at the end of the quarter compared to 27.6% at the end of Q1 2017 and 28.9% at the end of 2016. The decline in balances from the end of Q1 2017 resulted primarily from a significant level of redemptions of high-interest savings accounts in the quarter, which has been attributed to heightened reputational concerns faced by the Company. In addition, during the quarter, the Company repaid $325.0 million of institutional deposit notes on the maturity date.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities increased $680.6 million from the end of Q1 2017 and $678.0 million from the end of 2016 due to the increase in MBS liabilities. MBS liabilities have increased over the quarter and from the end of 2016, as the Company sold MBS from its liquidity portfolio and issued new MBS in the 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 securitization liabilities was partially offset by a decrease in both the CMB liabilities and bank-sponsored securitization conduit liabilities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature.

Other Liabilities

Other liabilities of $512.3 million increased by $81.0 million from the end of last quarter and $136.4 million from the end of 2016. The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities and include the gross liability recognized in connection with the OSC and class action matters as well as accrued professional fees and other costs related to the liquidity event in the quarter.

Shareholders' Equity

The increase of $118.5 million in total shareholders' equity since December 31, 2016 was primarily generated from the new issuance of common shares, net of direct costs, for $146.4 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 $21.63, compared to $25.94 at the end of Q1 2017 and $25.12 at the end of 2016. The decrease in book value in Q2 2017 compared to Q1 2017 and Q4 2016 is primarily due to increase in the number of common shares outstanding resulting from the share issuance in Q2 2017 to a wholly owned subsidiary of Berkshire Hathaway Inc.

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 $358.1 million at June 30, 2017 ($1.64 billion – Q1 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 $259.3 million at June 30, 2017 ($641.5 million – Q1 2017; $486.6 million – Q4 2016). Offers for the loans remain open for various periods. As at June 30, 2017, unutilized credit card balances amounted to $148.6 million ($160.1 million – Q1 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 $2.5 million at June 30, 2017 ($37.9 million – Q1 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 as a result of the Company's curtailment of new commitments during the quarter in response to its liquidity and funding issues.

The Company has $8.22 billion ($8.59 billion – Q1 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 June 30, 2017 and 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)

(000s, except ratios)	**June 30 2017 All-In Basis**	As at December 31 2016 All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 38,497**	$ 38,497
Contributed surplus	**951**	951
Retained earnings	**1,541,070**	1,604,758
Accumulated other comprehensive loss	**(8,190)**	(55,040)
Cash flow hedge reserves	**1,269**	1,476
Regulatory deductions from CET 1[1]	**(153,043)**	(160,917)
Total CET 1 capital	**1,420,554**	1,429,725
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,420,554**	1,429,725
Tier 2 capital		
Collective allowance for credit losses[2]	**40,063**	37,063
Total Tier 2 capital	**40,063**	37,063
Total regulatory capital	**1,460,617**	1,466,788
Risk-weighted assets for		
Credit risk	**7,339,189**	7,578,490
Operational risk	**979,975**	1,050,888
Total risk-weighted assets, before CVA[3]	**8,319,164**	8,629,378
CVA adjustment for CET 1 capital	**7,875**	11,544
Total CET 1 capital risk-weighted assets	**8,327,039**	8,640,922
CVA adjustment for Tier 1 capital	**8,422**	12,806
Total Tier 1 capital risk-weighted assets	**8,327,586**	8,642,184
CVA adjustment for total capital	**8,860**	13,889
Total risk-weighted assets	**$ 8,328,024**	$ 8,643,267
Regulatory capital to risk-weighted assets		
CET 1 ratio	**17.06%**	16.55%
Tier 1 capital ratio	**17.06%**	16.54%
Total regulatory capital ratio	**17.54%**	16.97%
Leverage ratio	**7.19%**	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 June 30, 2017, the Company's collective allowance represented 0.55% 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 its liquidity and funding issues.

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

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

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

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to certain risks that are required under IFRS 7 *Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the unaudited interim consolidated financial statements for the three months ended June 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 %)	**June 30 2017**	March 31 2017	December 31 2016	September 30 2016	June 30 2016	March 31 2016
Total mortgage portfolio balance (net of individual allowance)	**$ 16,850,245**	$ 17,755,098	$ 17,208,820	$ 17,192,500	$ 17,230,568	$ 17,183,333
Percentage of residential mortgages	**88.2%**	87.9%	88.6%	89.2%	90.4%	90.8%
Percentage of non-residential mortgages	**11.8%**	12.1%	11.4%	10.8%	9.6%	9.2%
Percentage of mortgage portfolio insured[1]	**20.2%**	18.8%	20.0%	22.1%	22.1%	22.5%
Percentage of mortgages current	**98.7%**	98.8%	98.3%	98.5%	98.4%	98.3%
Percentage of total mortgages over 90 days past due	**0.22%**	0.26%	0.33%	0.32%	0.27%	0.25%

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

Credit risk mitigation is a key component of the Company's approach to credit risk management. The composition of the mortgage portfolio is well within the Company's risk appetite. Senior management and the ERM group closely monitor credit metrics and the performance of the mortgage loan portfolio. The portfolio continues to perform well, with arrears and net write-offs that are well within expected levels.

The Company mitigates credit risk by ensuring borrowers have the capacity and willingness to pay as well as through collateral in the form of real property. Loan to value (LTV) is a key credit risk indicator. Please see Tables 19 and 20 for further information. In certain situations the Company may make referrals to private lenders where the loan terms and conditions requested by the client are not able to be satisfied by the Company.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. High-rise condominiums represent 8.1% of the residential mortgage portfolio and, of these, 23.6% are insured. The average current LTV of the high-rise condominium portfolio was 61.4% at the end of Q2 2017. The credit performance of the high-rise condominium portfolio is strong and within the Company's expectations with 99.3% of the portfolio current and 0.2% over 90 days past due.

The level of non-residential mortgages increased over the last 12 months, with a small decline in the second quarter. The proportion is well within the policy limits.

Consumer Lending

Credit card loans and line of credit balances were $381.2 million at the end of Q2 2017, most of which are secured by either cash deposits or residential property. Within the credit card and line of credit portfolios, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 62.0% at the end of Q2 2017, compared to 62.9% at the end of Q1 2017 and 63.4% at the end of Q2 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 June 30, 2017, $4.8 million or 1.3% of the credit card and line of credit portfolio was over 90 days in arrears, compared to $4.1 million or 1.1% at March 31, 2017 and $1.8 million or 0.5% at June 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 %)	**June 30 2017**	March 31 2017	December 31 2016
Single-family residential mortgages	**$ 32,321**	$ 35,123	$ 47,854
Residential commercial mortgages	**337**	337	-
Non-residential commercial mortgages	**7,144**	7,945	4,547
Credit card loans and lines of credit	**1,420**	1,295	1,269
Other consumer retail loans	**-**	-	-
Securitized single-family residential mortgages	**-**	-	-
Securitized multi-unit residential mortgages	**-**	-	-
Net non-performing loans	**$ 41,222**	$ 44,700	$ 53,670
Percentage of gross loans	**0.23%**	0.24%	0.30%

Write-offs, net of recoveries, during the quarter totaled $2.2 million or 0.05% of gross loans on an annualized basis. The Company continually monitors arrears and write-offs and deals quickly with non-performing loans. From time to time, the Company may sell non-performing loans for work out to third parties. The Company has not sold any loans to such parties in 2017.

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

Table 16: Allowance for Credit Losses by Product

(000s)		As at	
	June 30 2017	March 31 2017	December 31 2016
Individual allowances			
Single-family residential mortgages	**$ 2,309**	$ 3,252	$ 3,321
Residential commercial mortgages	**24**	21	-
Non-residential commercial mortgages	**489**	196	128
Credit card loans and lines of credit	**3,141**	3,020	780
Other consumer retail loans	**272**	526	423
Total individual allowance	**6,235**	7,015	4,652
Collective allowance			
Single-family residential mortgages	**23,032**	23,032	23,032
Residential commercial mortgages	**327**	327	327
Non-residential commercial mortgages	**12,500**	11,500	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	**40,063**	39,063	37,063
Total allowance	**$ 46,298**	$ 46,078	$ 41,715

There were no individual allowances on securitized mortgages.

The Company has security in the form of real property or cash deposits for virtually the entire loan portfolio. The Company maintains an allowance for credit losses in accordance with IFRS which represents management's best estimate of impairment incurred in the loan portfolio. The allowance is reviewed quarterly at a minimum. The Company records individual allowances for credit losses for loans which are specifically identified as impaired based on factors such as borrower performance. In addition, the Company records a collective allowance to estimate incurred credit losses inherent in the portfolio but not yet individually identified. Key factors in determining these estimates are credit scores, past loss experience, delinquency trends, loan-to-value and general economic conditions. As at June 30, 2017, the collective allowance was $40.1 million ($39.1 million – March 31, 2017; $37.1 million – December 31, 2016), representing more than the cumulative total net write-offs over the past 36 months.

Current accounting standards do not permit the Company to carry allowances for possible or future losses. This risk is considered in the determination of the appropriate level of capital supporting the Company's operations. The Company holds capital for possible further credit losses. This includes capital required by regulation (See Table 13) and additional capital amounts as recommended by management and approved by the Board. The Company uses stress testing and scenario analysis to challenge the adequacy of the capital appropriated for credit risk. As at June 30, 2017, the Company held total regulatory capital at 167% 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 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	**$ 279,796**	**31.8% $**	**596,604**	**67.9% $**	**2,520**	**0.3% $**	**878,920**
Alberta	**373,507**	**54.9%**	**297,863**	**43.7%**	**9,694**	**1.4%**	**681,064**
Ontario	**1,778,968**	**14.8%**	**9,897,369**	**82.5%**	**321,175**	**2.7%**	**11,997,512**
Quebec	**168,475**	**38.7%**	**265,650**	**61.0%**	**1,218**	**0.3%**	**435,343**
Other	**216,391**	**60.0%**	**142,243**	**39.4%**	**2,168**	**0.6%**	**360,802**
	$ 2,817,137	**19.6% $**	**11,199,729**	**78.0% $**	**336,775**	**2.4% $**	**14,353,641**

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

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

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

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

(000s, except %)	≤ 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 March 31, 2017
Balance outstanding	$ 754,754	$ 2,321,725	$ 11,543,915	$ 45,891	$ 2,403	$ 14,668,688
Percentage of total	5.2%	15.8%	78.7%	0.3%	0.0%	100.0%

(000s, except %)	≤ 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
		June 30 2017		March 31 2017		June 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	**63.1%**	**51.3%**	62.4%	47.5%	63.1%	56.1%
Alberta	**71.3%**	**44.3%**	68.9%	65.2%	70.8%	28.2%
Ontario	**70.5%**	**48.9%**	71.6%	61.6%	73.6%	62.0%
Quebec	**70.0%**	**-**	67.6%	24.5%	71.2%	45.0%
Other	**69.4%**	**71.6%**	69.8%	62.7%	73.5%	66.1%
Total	**70.0%**	**48.9%**	71.1%	61.5%	72.7%	62.0%

[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 $14.35 billion as of June 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 June 30, 2017, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 59.3% compared to 60.4% at the end of Q1 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 June 30, 2017			As at March 31, 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	**55.0%**	**95.8%**	**79.4%**	53.7%	96.6%	82.9%
Alberta	**65.3%**	**80.1%**	**44.7%**	65.2%	80.9%	47.0%
Ontario	**59.3%**	**89.4%**	**64.4%**	60.6%	86.7%	61.1%
Quebec	**63.1%**	**90.1%**	**52.4%**	63.3%	89.8%	51.4%
Other	**62.9%**	**81.7%**	**50.2%**	62.0%	87.1%	54.0%
Total	**59.3%**	**89.4%**	**64.2%**	60.4%	87.1%	61.5%

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

Market Risk

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 92.6% of the portfolio and debt securities at 7.4% of the portfolio. The total balance was $31.5 million at the end of Q2 2017 compared to $549.5 million at the end of Q1 2017 and $534.9 million at the end of 2016. During Q2 2017, the Company liquidated the majority of its preferred share portfolio on an urgent basis 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 June 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 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 June 30, 2017, March 31, 2017 and December 31, 2016 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

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

Table 21: Interest Rate Sensitivity

(000s), except % (Unaudited)							**As at 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 March 31, 2017
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Total assets	$ 619,108	$ 5,590,917	$ 7,959,984	$ 6,277,367	$ 69,784	$ 476,225	$ 20,993,385
Total liabilities and equity	(2,266,631)	(3,621,643)	(4,327,265)	(8,573,219)	-	(2,204,627)	(20,993,385)
Off-balance sheet items	-	(1,565,149)	100,453	1,352,733	111,963	-	-
Interest rate sensitive gap	$ (1,647,523)	$ 404,125	$ 3,733,172	$ (943,119)	$ 181,747	$ (1,728,402)	$ -
Cumulative gap	$ (1,647,523)	$ (1,243,398)	$ 2,489,774	$ 1,546,655	$ 1,728,402	$ -	$ -
Cumulative gap as a percentage of total assets	(7.8)%	(5.9)%	11.9%	7.4%	8.2%	-	-

(000s), except % (Unaudited)							As at December 31, 2016
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Total assets	$ 505,649	$ 5,347,430	$ 7,765,217	$ 6,311,564	$ 121,675	$ 477,242	$ 20,528,777
Total liabilities and equity	(2,358,084)	(2,671,185)	(5,390,888)	(7,945,293)	-	(2,163,327)	(20,528,777)
Off-balance sheet items	-	(1,282,939)	90,645	1,179,369	12,925	-	-
Interest rate sensitive gap	$ (1,852,435)	$ 1,393,306	$ 2,464,974	$ (454,360)	$ 134,600	$ (1,686,085)	$ -
Cumulative gap	$ (1,852,435)	$ (459,129)	$ 2,005,845	$ 1,551,485	$ 1,686,085	$ -	$ -
Cumulative gap as a percentage of total assets	(9.0)%	(2.2)%	9.8%	7.6%	8.2%	-	-

[1] Total assets in the 0-3 month category above include $1.98 billion in variable rate mortgages ($2.15 billion – Q1 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)	**June 30 2017**	March 31 2017	December 31 2016	**June 30 2017**	March 31 2017	December 31 2016
		Increase in interest rates				Decrease in interest rates
100 basis point shift						
Impact on net interest income, after tax (for the next 12 months)	**$ 22,641**	$ 5,485	$ 4,024	**$ (15,681)**	$ (8,072)	$ (5,696)
Impact on net present value of shareholders' equity	**36,916**	4,099	4,438	**(38,885)**	(5,682)	(6,415)
Impact on other comprehensive income	**196**	3,325	3,265	**(196)**	(2,711)	(2,677)

Liquidity and Funding Risk

This is the risk that the Company is unable to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its financial obligations (both on- and off-balance sheet) as they fall due. This risk will arise from fluctuations in the Company's cash flows associated with lending, securitization, deposit-taking, investing and other business activities. The high-interest savings demand deposit product adds to liquidity risk as depositors are allowed to withdraw deposits on notice in the absence of fixed contractual terms. 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 discussed in the Overview of the Second Quarter and Outlook section of this MD&A. As indicated in that section, the Company obtained a $2 billion line of credit facility from a wholly owned subsidiary of Berkshire Hathaway 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 quarter, 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 limit demand deposits to the current low level. 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 %)	**June 30 2017**	March 31 2017	December 31 2016
Cash and cash equivalents per balance sheet	**$ 1,682,982**	$ 1,251,190	$ 1,205,394
Available for sale securities per balance sheet	**31,495**	549,456	534,924
Add: MBS included in residential mortgages	**52,098**	505,956	521,013
	1,766,575	2,306,602	2,261,331
Less: securities held for investment	**(29,158)**	(208,410)	(193,350)
Liquid assets at carrying value	**$ 1,737,417**	$ 2,098,192	$ 2,067,981
Liquid assets at fair value	**$ 1,737,835**	$ 2,194,566	$ 2,142,289
Liquid assets at carrying value as a % of total assets	**8.7%**	10.0%	10.1%

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

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 an increase in voluntary attrition on a year-to-date basis compared to the same period in 2016. 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 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 this MD&A. 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, primarily in the Overview of the Second Quarter and Outlook section 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
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income (loss) (TEB[1])	**$ (3,298)**	$ 126,682	$ 121,564	$ 120,777	$ 122,987	$ 123,490	$ 127,599	$ 122,635
Less: TEB adjustment	**109**	825	944	853	884	973	941	937
Net interest income (loss) per financial statements	**(3,407)**	125,857	120,620	119,924	122,103	122,517	126,658	121,698
Non-interest income (loss)	**(57,886)**	21,885	23,977	25,171	24,658	22,989	24,255	23,385
Non-interest expense	**85,001**	64,465	71,028	54,982	54,912	58,017	54,681	44,955
Total revenue	**(61,293)**	147,742	144,597	145,095	146,761	145,506	150,913	145,083
Net income (loss)	**(111,116)**	58,041	50,706	66,190	66,252	64,248	70,239	72,443
Return on shareholders' equity	**(26.1)%**	14.1%	12.7%	16.9%	16.5%	15.7%	17.6%	18.7%
Return on average total assets	**(2.2)%**	1.1%	1.0%	1.3%	1.3%	1.2%	1.4%	1.4%
Total assets under administration	**28,292,436**	29,583,545	28,917,534	28,327,676	28,430,730	27,960,592	27,316,476	25,404,219
Total loans under administration	**25,863,400**	27,163,636	26,424,074	26,012,884	25,732,657	25,222,523	25,058,122	23,426,735
Earnings (loss) per common share								
Basic	**$ (1.73)**	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03
Diluted	**$ (1.73)**	$ 0.90	$ 0.79	$ 1.01	$ 0.99	$ 0.92	$ 1.00	$ 1.03
Book value per common share	**$ 21.63**	$ 25.94	$ 25.12	$ 24.47	$ 23.67	$ 23.75	$ 23.17	$ 22.37
Efficiency ratio (TEB[1])	**(138.9)%**	43.4%	48.8%	37.7%	37.2%	39.6%	36.0%	30.8%
Common equity tier 1 ratio[2]	**17.06%**	16.34%	16.55%	16.54%	16.38%	18.28%	18.31%	18.06%
Tier 1 capital ratio[2]	**17.06%**	16.34%	16.54%	16.53%	16.38%	18.28%	18.30%	18.06%
Total capital ratio[2]	**17.54%**	16.77%	16.97%	16.97%	16.82%	20.63%	20.70%	20.51%
Net non-performing loans as a % of gross loans	**0.23%**	0.24%	0.30%	0.31%	0.33%	0.34%	0.28%	0.30%
Annualized provision as a % of gross uninsured loans	**0.07%**	0.16%	0.07%	0.04%	0.08%	0.04%	0.04%	0.08%
Annualized provision as a % of gross loans	**0.05%**	0.13%	0.05%	0.03%	0.06%	0.03%	0.03%	0.06%

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 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 two quarters of 2017 and last quarter of 2016).