HOME CAPITAL GROUP INC.

2016

SECOND QUARTER REPORT

FINANCIAL HIGHLIGHTS

(Unaudited)	For the three months ended			For the six months ended	
(000s, except Percentage and Per Share Amounts)	**June 30 2016**	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
OPERATING RESULTS					
Net Income	**$ 66,252**	$ 64,248	$ 72,317	**$ 130,500**	$ 144,603
Adjusted Net Income[1]	**66,252**	67,497	72,317	**133,749**	144,603
Net Interest Income	**122,103**	122,517	117,210	**244,620**	232,734
Total Adjusted Revenue[1]	**242,526**	241,197	250,879	**483,723**	500,111
Diluted Earnings per Share	**$ 0.99**	$ 0.92	$ 1.03	**$ 1.91**	$ 2.05
Adjusted Diluted Earnings per Share[1]	**$ 0.99**	$ 0.96	$ 1.03	**$ 1.95**	$ 2.05
Return on Shareholders' Equity	**16.5%**	15.7%	19.1%	**16.4%**	19.4%
Adjusted Return on Shareholders' Equity[1]	**16.5%**	16.4%	19.1%	**16.8%**	19.4%
Return on Average Assets	**1.3%**	1.2%	1.4%	**1.3%**	1.4%
Net Interest Margin (TEB)[2]	**2.38%**	2.38%	2.29%	**2.38%**	2.28%
Provision as a Percentage of Gross Uninsured Loans (annualized)	**0.08%**	0.04%	0.07%	**0.06%**	0.07%
Provision as a Percentage of Gross Loans (annualized)	**0.06%**	0.03%	0.05%	**0.05%**	0.05%
Efficiency Ratio (TEB)[2]	**37.2%**	39.6%	32.2%	**38.4%**	31.3%
Adjusted Efficiency Ratio (TEB)[1,2]	**37.2%**	36.3%	32.2%	**36.8%**	31.3%

	As at			
	June 30 2016	March 31 2016	December 31 2015	June 30 2015
BALANCE SHEET HIGHLIGHTS				
Total Assets	**$ 20,763,147**	$ 20,687,984	$ 20,527,062	$ 20,516,247
Total Assets Under Administration[3]	**28,430,730**	27,960,592	27,316,476	25,456,212
Total Loans[4]	**18,065,074**	17,949,915	18,268,708	17,982,475
Total Loans Under Administration[3,4]	**25,732,657**	25,222,523	25,058,122	22,922,440
Liquid Assets	**2,391,225**	2,459,859	2,095,145	1,815,817
Deposits	**16,022,219**	15,824,899	15,665,958	14,966,544
Shareholders' Equity	**1,555,893**	1,661,759	1,621,106	1,536,099
FINANCIAL STRENGTH				
Capital Measures[5]				
Risk-Weighted Assets	**$ 8,310,406**	$ 8,169,818	$ 7,985,498	$ 7,634,392
Common Equity Tier 1 Capital Ratio	**16.38%**	18.28%	18.31%	18.03%
Tier 1 Capital Ratio	**16.38%**	18.28%	18.30%	18.03%
Total Capital Ratio	**16.82%**	20.63%	20.70%	20.53%
Leverage Ratio	**6.77%**	7.46%	7.36%	6.94%
Credit Quality				
Net Non-Performing Loans as a Percentage of Gross Loans	**0.33%**	0.34%	0.28%	0.33%
Allowance as a Percentage of Gross Non-Performing Loans	**66.0%**	62.9%	74.0%	62.9%
Share Information				
Book Value per Common Share	**$ 23.67**	$ 23.75	$ 23.17	$ 21.87
Common Share Price – Close	**$ 32.02**	$ 35.06	$ 26.92	$ 43.28
Dividend paid during the period ended	**$ 0.24**	$ 0.24	$ 0.22	$ 0.22
Market Capitalization	**$ 2,105,027**	$ 2,453,008	$ 1,883,808	$ 3,040,290
Number of Common Shares Outstanding	**65,741**	69,966	69,978	70,247

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

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

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

[4] Total loans include loans held for sale.

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

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

Home Trust Company www.hometrust.ca

Home Capital Group Inc. www.homecapital.com

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TO OUR SHAREHOLDERS

Home Capital today reported financial results for the second quarter ended June 30, 2016. The Company delivered solid results across its business, including strong net interest margins, a healthy loan portfolio evidenced by low non-performing loans and credit losses, year-over-year single-family mortgage originations growth, and a continued strong capital position.

"Our second-quarter operating results marked another step forward for Home Capital, building on the momentum we saw in the first quarter and showing yet again that we are on track to achieve our goal of driving origination growth," said Martin Reid, Home Capital's President and Chief Executive Officer. "In the second quarter, total originations increased 22.3% year over year to $2.47 billion. Also, we made further progress on our deposit diversification strategy, with deposits exceeding $16 billion for the first time with more than 26% of our deposits from diversified sources."

"Operating expenses reflect the significant strides we are making as we position the Company for long-term success through continued investments to improve our processes and controls, further strengthen originations and increase customer retention. In addition, over the last year we have made excellent progress on improving our risk management processes while also enhancing the safety and soundness of our portfolio as highlighted by continued low credit losses."

"In the first half of 2016 we demonstrated our commitment to creating shareholder value by maintaining excellent credit performance, maintaining the strength of our balance sheet and returning capital to shareholders through our dividend and share buybacks," Mr. Reid added. "As we enter the next stage of our evolution, we are focused on creating sustainable growth and delivering fully on the value we can create."

Martin Reid assumed his new role as President and Chief Executive Officer on May 11, 2016 following the Company's Annual General Meeting and the retirement of Gerald (Jerry) M. Soloway.

- **Second Quarter 2016, compared with the Second Quarter 2015:**
  - Reported net income was $66.3 million, compared with $72.3 million.
  - Reported diluted earnings per share were $0.99, compared with $1.03.
  - There were no adjustments to net income during Q2 2016 and Q2 2015.
- **First Six Months ended June 30, 2016, compared with First Six Months ended June 30, 2015:**
  - Reported net income was $130.5 million, compared with $144.6 million.
  - Reported diluted earnings per share were $1.91, compared with $2.05.
  - Adjusted net income was $133.7 million, compared with $144.6 million.
  - Adjusted diluted earnings per share were $1.95, compared with $2.05.
- Included in Q2 2016 reported net income of $66.3 million and reported diluted earnings per share of $0.99 is $1.4 million of losses ($1.1 million, after tax and $0.02 diluted earnings per share) from continuing operations of CFF Bank, $0.8 million ($0.6 million, after tax and $0.01 diluted earnings per share) of derivative losses related to the senior debt, which was retired early in Q2 2016 and a reduction in fee revenue of $2.0 million ($1.5 million, after tax and $0.02 diluted earnings per share) resulting from changes in the Company's fee structure. The total negative impact to reported diluted earnings per share of the above amounts is $0.05. Reported diluted earnings per share were also positively impacted by the reduction in shares resulting from the repurchase of shares following the substantial issuer bid which was completed in early Q2 2016. The impact of the share repurchase on diluted earnings per share is $0.05.
- Provision for credit losses as a percentage of gross uninsured loans was 0.08% on an annualized basis for Q2 2016 compared to 0.04% in Q1 2016 and 0.07% in Q2 2015. Net non-performing loans as a percentage of gross loans were 0.33% at the end of Q2 2016 compared to 0.34% at the end of Q1 2016 and 0.28% at the end of Q2 2015.
- Total capital ratio of 16.82% declined following the repurchase of common shares and the retirement of the subordinated debentures of Home Trust, which were retired in connection with the retirement of the Company's senior debt. However, capital ratios continue to be well in excess of regulatory minimums and internal Company targets.

Growing Our Core Business

Home Capital's second quarter results reflect the Company's continued profitability as measured by its strong net interest margin (TEB) of 2.38%, a healthy loan portfolio as evidenced by continued low non-performing loans and credit losses, and a strong capital position.

Total originations were $2.47 billion in Q2 2016 and $4.26 billion for the first six months of 2016, increases of 22.3% and 24.9% compared to the same periods from 2015. The Company reported combined traditional and ACE Plus (uninsured single-family) residential mortgage originations of $1.37 billion in Q2 2016 and $2.43 billion for the first six months of 2016, compared to $1.29 billion and $2.26 billion for the comparable periods of 2015, increases of 5.7% and 7.8% respectively. Introduced in the second half of 2015, ACE Plus is a lower rate mortgage product directed toward lower risk borrowers. Accelerator originations increased 66.3% to $464.8 million in Q2 2016 and 80.3% to $828.6 million for the first six months of 2016, from the comparable periods in 2015. Originations from all other sources increased 42.9% to $641.7 million in Q2 2016 and 44.0% to $995.7 million in the first six months of 2016 from the same periods in 2015. The Company continues to take a prudent approach to growing its traditional residential mortgage business.

The Company is over 90% of the way through its review of the impacted portfolio related to the suspension of 45 individual mortgage brokers last year, which will be completed by the end of 2016. The Company has not experienced any unusual credit issues with respect to the identified mortgages.

Home Capital's top priority continues to be growing its origination volumes, specifically to take advantage of the solid demand for its traditional mortgages within its established regions. On April 1, 2016, the Company launched its new broker partnership program, Spire, with all broker partners now participating in the program. Through the rest of 2016, the Company will continue with its roll out of its broker portal technology, Loft, in an effort to enhance the broker experience. Additionally, the Company is also focusing on growing the loan portfolio by improving retention levels of existing customers. The Company has added to its retention team with a focus on retaining these customers, especially those seeking early discharge.

The Company's commercial lending products continue to demonstrate strength in origination volumes through the second quarter of the year.

Other lending, comprising credit cards, lines of credit and other consumer retail loans, continues to be an important source of loan assets with attractive returns. While representing 4.0% of the total on-balance sheet loan portfolio, these assets generated 7.5% of the interest income from loans for the quarter.

The Company has made excellent progress on its deposit diversification strategy, with deposits exceeding $16 billion for the first time with more than 26% of our deposits from diversified sources. At the end of the quarter, the balance of Oaken deposits was $1.46 billion, up 34.2% from the end of 2015, demonstrating continued progress in the Company's efforts towards deposit diversification.

Building on Operational Excellence

Home Capital continues to experience strong credit performance, with net non-performing loans as a percentage of gross loans at 0.33%. The results reflect the high credit quality of the Company's loan portfolio, supported by the Company's continued investments in its risk management and control infrastructure.

Home Capital continued to make disciplined and measured investments related to the long-term growth of the business, including ongoing investments in information technology to move the Company towards operating as a digital enterprise. In addition, the Company incurred expenses of approximately $0.6 million during the quarter related to its efforts to realign some of its business partnerships.

In 2015, the Company, through its subsidiary Home Trust Company, acquired all of the outstanding common shares of CFF Bank for a purchase price of $23.2 million. The integration of CFF Bank is proceeding to plan, as the Company decommissions redundant systems and facilities in order to realize cost savings and to facilitate growth. The operating losses of CFF Bank reduced diluted earnings per share by $0.02 in Q2 2016. Effective August 22, 2016, CFF Bank will be renamed Home Bank. The Company is excited to welcome the Home Bank name to the Home Capital family. Home Bank is a second deposit issuer in the Company's deposit broker channel and for Oaken Financial. Home Bank represents the Company's ongoing commitment to adding new products to its existing offering and also further advances Home Trust's deposit diversification initiatives.

Solid Shareholder Returns, Strong and Conservative Financial Position

Home Capital continued to focus on maintaining its strong and conservative financial position while delivering value to shareholders in Q2 2016. Home Capital delivered a return on average shareholders' equity of 16.5% for the second quarter.

On April 18, 2016, Home Capital repurchased for cancellation 3,989,361 common shares at a price of $37.60 per share totalling $150 million under the Company's previously announced substantial issuer bid. The Company also increased normal course issuer bid activity during the quarter. In addition, on May 4, 2016, the Company repaid and retired its senior debt in the principal amount of $150 million, resulting in future savings of the related interest expense.

Subsequent to the end of the quarter, and in light of the Company's performance, profitability and strong financial position, the Board of Directors approved a quarterly dividend of $0.24 per common share, payable on September 1, 2016 to shareholders of record at the close of business on August 15, 2016.

In summary, the Company will continue to focus on delivering success over the long-term by providing the best service and support to its customers and valued partners, generating future growth that is sustainable and prudent, and making investments in the business to help achieve those goals.

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

MARTIN REID
President & Chief Executive Officer
July 27, 2016

KEVIN P.D. SMITH
Chair of the Board

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the three months ended June 30, 2016. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. Home Trust includes its wholly owned subsidiary, CFF 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, 2016 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 included in the Company's 2015 Annual Report. Except as described in this MD&A and these unaudited interim consolidated financial statements, all factors discussed and referred to in the MD&A for fiscal 2015 remain substantially unchanged. This MD&A has been prepared with reference to the unaudited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of July 27, 2016. As in prior quarters, the Company's Audit Committee reviewed this document, and prior to its release the Company's Board of Directors (Board) approved it, on the Audit Committee's recommendation. The Non-GAAP measures used in this MD&A and a glossary of terms used in this MD&A and financial statements are presented in the last section of this MD&A.

The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.homecapital.com, and on the Canadian Securities Administrators' website at www.sedar.com.

Caution Regarding Forward-Looking Statements

From time to time Home Capital Group Inc. makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail in the Risk Management section of this report, as well as its other publicly filed information, which are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, funding and liquidity risk, structural interest rate risk, operational risk, investment risk, strategic and business risk, reputational risk, compliance risk and capital adequacy risk along with additional risk factors that may affect future results. Forward-looking statements can be found in the Report to the Shareholders and the Outlook Section in this quarterly report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "intend," "should," "estimate," "plan," "forecast," "may," and "could" or other similar expressions.

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

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

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

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

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

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

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

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

BUSINESS PROFILE

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

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

As management views its business as a single segment with a variety of product and service activities, the financial statements and the MD&A are prepared on that basis.

PERFORMANCE SUMMARY

Below is a summary of the Company's performance for the second quarter of 2016 against the mid-term targets highlighted in the 2015 Annual Report. The Company will continue to focus on its medium-term objectives to guide the Company's decision-making and describe its accomplishments.

- Diluted earnings per share (adjusted) were $1.95 for the first half of the year. The Company's goal is to achieve, on average, annualized growth in diluted earnings (adjusted) per share of 8% to 13% in the three-to five-year medium term.
- Return on shareholders' equity (adjusted) was 16.8% for the first half of 2016, with the goal to achieve on average, annualized return on equity of greater than 16% in the three- to five-year medium term.
- Common Equity Tier 1 and Tier 1 Capital ratios of 16.38% and Total Capital ratio of 16.82% continue to be well in excess of regulatory minimums.
- Dividend payout ratio of 24.2% in Q2 2016, with a targeted payout on average of 19% to 26% of earnings to shareholders in the three- to five-year medium term.

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

2016 OUTLOOK

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

Market Conditions

In the Company's established regions, the Company expects that the housing market will remain active with tight supply supported by continued low interest rates, and relatively stable employment, depending on location and level of immigration. There will be moderately easing housing starts and resale activity with relatively stable prices throughout most of Canada, with continued regional disparities such as the relatively high rates of price increases being experienced in Toronto and Vancouver, which may not be sustainable for long periods of time. These conditions support continued low credit losses and stable demand for the Company's lending products in its established regions. The Company believes that the current and expected levels of housing activity indicate a healthy real estate market overall.

The Company expects to see the impact of certain positive economic forces on its established markets through 2016, including a generally positive outlook for the US economy, the Canadian dollar remaining below par, the continued low interest rate environment, stimulative impact from increased Federal Government spending, and the beneficial impact of lower oil prices on economic growth in Central Canada. This positive outlook may be tempered by the impacts of the Fort McMurray, Alberta wildfires which are expected to provide a setback to Canada's economic growth, and the uncertainty of the impact of the recent referendum results regarding Britain exiting the European Union which could lead to slower world growth including US growth harming Canadian exports. In addition, adverse effects related to the drop in oil prices and other commodity prices continue to negatively impact the economies of energy producing regions.

Traditional Single-family Mortgage Lending

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

Net interest margins in the traditional portfolio reflected both improved credit quality of borrowers and lower relative cost of funds driven by lower rates and the shift to a higher proportion of lower cost demand deposit products. The Company expects the 2016 net interest margin to remain relatively stable, but is prepared for modest volatility as the net interest margin will be impacted by the continued improving credit quality of the overall portfolio, among other variables.

Uninsured Securitized Mortgage Lending

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

Insured Securitized Mortgage Lending

The Company will continue to originate and securitize prime insured single-family and insured multi-unit residential mortgages and will generally sell these off-balance sheet, generating gains on sale. The market for both of these products remains very competitive and the Company expects that new origination levels, seasonality, spreads and gains on sale will be similar to levels experienced since the second half of 2015 but this is dependent on market conditions. The Company remains committed to offering a range of mortgage products through its distribution channel to support its "one-stop" initiative.

Commercial Mortgage Lending

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

Other Lending

Credit cards and consumer lending will continue to be an important complementary product offering supporting the "one-stop" lending strategy, with high margins.

Deposits

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

Through 2016, the Company will integrate the technology platform of CFF Bank into the Company's infrastructure in order to facilitate growth in deposit funding generated through CFF Bank, which issues deposits that would be eligible for deposit insurance in an efficient and effective manner.

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

Credit Performance and Losses

The Company's prudent underwriting and collection practices are reflected in low levels of credit losses and delinquencies. Credit losses and delinquencies are expected to remain low in 2016; however, the Company is prepared for volatility in this performance that may result from uncertainty in the macroeconomic environment. Credit performance in the energy producing regions is expected to deteriorate, but given the Company's limited exposure in these geographic areas, the effect on credit losses is not expected to be material for the Company. The Company has also assessed its exposure in Fort McMurray given the severe wildfires experienced in the area. Management believes the exposure is minimal and does not expect significant credit losses.

Non-interest Expenses

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

Liquidity and Capital

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

During the quarter, Home Capital repurchased for cancellation 3,989,361 common shares under the Company's previously announced substantial issuer bid, resulting in a reduction in capital of $150.0 million. The Company has also increased its normal course issuer bid activity. In addition, on May 4, 2016, the Company repaid and retired its senior debt in the principal amount of $150.0 million. Both of these transactions resulted in a reduction in capital and related regulatory capital ratios in Q2 2016. The Company expects capital ratios to continue to exceed both regulatory and internal capital targets.

The Company will continue to diversify its funding sources and maintain a strong liquidity position by holding a sufficient stock of unencumbered high-quality liquid assets.

Strong levels of capital and liquidity provide additional safety and soundness to depositors.

This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-looking Statements on page 6 of this quarterly report.

INCOME STATEMENT REVIEW

Table 1: Income Statement Highlights

(000s, except % and per share amounts)	Quarter Q2 2016	Q1 2016	Change	Q2 2015	Change	Year to date 2016	2015	Change
Net interest income non-securitized assets	**$ 118,824**	$ 119,303	(0.4)%	$ 113,354	4.8%	**$ 238,127**	$ 224,161	6.2%
Net interest income securitized loans and assets	**3,279**	3,214	2.0%	3,856	(15.0)%	**6,493**	8,573	(24.3)%
Total net interest income	**122,103**	122,517	(0.3)%	117,210	4.2%	**244,620**	232,734	5.1%
Provision for credit losses	**2,760**	1,394	98.0%	2,266	21.8%	**4,154**	4,669	(11.0)%
	119,343	121,123	(1.5)%	114,944	3.8%	**240,466**	228,065	5.4%
Non-interest income	**24,658**	22,989	7.3%	29,061	(15.2)%	**47,647**	56,153	(15.1)%
Non-interest expenses	**54,912**	58,017	(5.4)%	47,374	15.9%	**112,929**	91,037	24.0%
Income before income taxes	**89,089**	86,095	3.5%	96,631	(7.8)%	**175,184**	193,181	(9.3)%
Income taxes	**22,837**	21,847	4.5%	24,314	(6.1)%	**44,684**	48,578	(8.0)%
Net income	**$ 66,252**	$ 64,248	3.1%	$ 72,317	(8.4)%	**$ 130,500**	$ 144,603	(9.8)%
Basic earnings per share	**$ 0.99**	$ 0.92	7.6%	$ 1.03	(3.9)%	**$ 1.91**	$ 2.06	(7.3)%
Diluted earnings per share	**$ 0.99**	$ 0.92	7.6%	$ 1.03	(3.9)%	**$ 1.91**	$ 2.05	(6.8)%

Reconciliation of Net Income to Adjusted Net Income								
Net income per above	$ 66,252	$ 64,248	3.1%	$ 72,317	(8.4)%	$ 130,500	$ 144,603	(9.8)%
Adjustment for gain recognized on acquisition of CFF Bank (net of tax)	-	(478)	(100.0)%	-	-	(478)	-	-
Adjustment for severance and other related costs (net of tax)	-	3,727	(100.0)%	-	-	3,727	-	-
Adjusted net income[1]	$ 66,252	$ 67,497	(1.8)%	$ 72,317	(8.4)%	$ 133,749	$ 144,603	(7.5)%
Adjusted basic earnings per share[1]	$ 0.99	$ 0.96	3.1%	$ 1.03	(3.9)%	$ 1.96	$ 2.06	(4.9)%
Adjusted diluted earnings per share[1]	$ 0.99	$ 0.96	3.1%	$ 1.03	(3.9)%	$ 1.95	$ 2.05	(4.9)%

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

Items of Note

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

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

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

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

Net Income and Earnings per Share

Q2 2016 v Q1 2016

Q2 2016 reported net income was $66.3 million, an increase of 3.1% compared to Q1 2016. Diluted earnings per common share were $0.99 in Q2 2016 as compared to $0.92 in Q1 2016. The quarter-over-quarter increase in net income resulted primarily from lower salaries expense. Salaries expense was higher last quarter reflecting the severance and other related costs discussed above under Items of Note. The increase in diluted earnings per common share reflects the higher net income combined with the decrease in common shares outstanding following the repurchase of shares during the quarter.

Q2 2016 v Q2 2015

Q2 2016 reported net income decreased 8.4% from Q2 2015. Q2 2016 diluted earnings per common share were $0.99, as compared to $1.03 in Q2 2015. The decrease in net income from last year resulted primarily from higher salaries and benefits expense reflecting an increase in the number of employees over last year combined with higher operating expenses reflecting the continued investment in the long-term growth of the business through process changes, enhanced sales and marketing programs and strengthening of risk management and control infrastructure. The decrease in diluted earnings per common share reflects the lower net income offset partially by the reduction in common shares outstanding as discussed above.

YTD 2016 v YTD 2015

YTD 2016 reported net income of $130.5 million decreased 9.8% from the same period last year and diluted earnings per common share of $1.91 decreased from $2.05 compared with YTD 2015. The year-over-year change is driven by the items identified above.

Acquisition of CFF Bank

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

Included in the Company's results for the second quarter of 2016 are the operating results of CFF Bank, which include a contribution to revenue of $2.4 million (Q1 2016 - $2.6 million) and a net loss before taxes of $1.4 million and $0.02 diluted earnings per common share (Q1 2016 - $2.0 million and $0.02 diluted earnings per common share).

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

Net Interest Income

Table 2: Net Interest Margin

	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Net interest margin non-securitized interest earning assets (non-TEB)	**2.74%**	2.72%	2.75%	**2.73%**	2.77%
Net interest margin non-securitized interest earning assets (TEB)	**2.76%**	2.74%	2.77%	**2.75%**	2.79%
Net interest margin CMHC-sponsored securitized assets	**0.42%**	0.47%	0.42%	**0.44%**	0.44%
Net interest margin bank-sponsored securitization conduit assets	**1.99%**	-	-	**1.99%**	-
Total net interest margin (non-TEB)	**2.36%**	2.36%	2.27%	**2.36%**	2.26%
Total net interest margin (TEB)	**2.38%**	**2.38%**	**2.29%**	**2.38%**	**2.28%**
Spread of non-securitized loans over deposits and other	**2.97%**	2.91%	2.89%	**2.94%**	2.87%

Table 3: Net Interest Income by Product and Average Rate

	For the three months ended					
(000s, except %)	**June 30, 2016**		March 31, 2016		June 30, 2015	
	Income/ Expense	**Average Rate[1]**	Income/ Expense	Average Rate[1]	Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	**$ 5,432**	**1.20%**	$ 5,220	1.28%	$ 4,980	1.39%
Traditional single-family residential mortgages	**137,067**	**4.89%**	138,429	4.87%	147,805	5.00%
ACE Plus single-family residential mortgages	**2,578**	**3.11%**	2,464	3.38%	-	-
Accelerator single-family residential mortgages	**7,541**	**2.47%**	9,547	2.39%	7,280	2.66%
Residential commercial mortgages[2]	**4,571**	**4.01%**	4,269	4.21%	3,972	4.42%
Non-residential commercial mortgages	**23,930**	**5.99%**	23,561	6.07%	18,507	5.95%
Credit card loans and lines of credit	**8,365**	**8.95%**	8,350	8.98%	7,692	9.05%
Other consumer retail loans	**7,652**	**9.17%**	6,926	8.95%	5,303	9.63%
Total non-securitized loans	**191,704**	**4.94%**	193,546	4.87%	190,559	5.06%
Taxable equivalent adjustment	**884**	**-**	973	-	965	-
Total on non-securitized interest earning assets	**198,020**	**4.57%**	199,739	4.55%	196,504	4.76%
CMHC-sponsored securitized single-family residential mortgages	**12,164**	**2.57%**	11,442	2.76%	15,610	2.78%
CMHC-sponsored securitized multi-unit residential mortgages	**7,471**	**4.54%**	7,960	4.56%	9,333	4.20%
Assets pledged as collateral for CMHC-sponsored securitization	**571**	**0.97%**	691	0.69%	1,336	0.93%
Total CMHC-sponsored securitized residential mortgages	**20,206**	**2.90%**	20,093	2.92%	26,279	2.83%
Bank-sponsored securitization conduit assets	**526**	**3.07%**	-	-	-	-
Total interest-bearing assets	**$ 218,752**	**4.23%**	$ 219,832	4.23%	$ 222,783	4.31%
Interest-bearing liabilities						
Deposits and other	**$ 77,847**	**1.97%**	$ 77,685	1.96%	$ 80,669	2.17%
Senior debt	**465**	**2.42%**	1,778	4.66%	1,516	3.96%
CMHC-sponsored securitization liabilities	**17,268**	**2.45%**	16,879	2.40%	22,423	2.35%
Bank-sponsored securitization conduit liabilities	**185**	**1.14%**	-	-	-	-
Total interest-bearing liabilities	**$ 95,765**	**1.85%**	$ 96,342	1.85%	$ 104,608	2.02%
Net Interest Income (TEB)	**$ 122,987**		$ 123,490		$ 118,175	
Tax Equivalent Adjustment	**(884)**		(973)		(965)	
Net Interest Income per Financial Statements	**$ 122,103**		$ 122,517		$ 117,210	

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

(000s, except %)		June 30, 2016			June 30, 2015	
		For the six months ended				
		Income/ Expense	Average Rate[1]		Income/ Expense	Average Rate[1]
Interest-bearing assets						
Cash resources and securities	$	10,652	1.24%	$	9,826	1.51%
Traditional single-family residential mortgages		275,496	4.88%		294,042	4.99%
ACE Plus single-family residential mortgages		5,042	3.23%		-	-
Accelerator single-family residential mortgages		17,088	2.42%		13,247	2.61%
Residential commercial mortgages[2]		8,840	4.11%		7,896	4.49%
Non-residential commercial mortgages		47,491	6.03%		36,760	6.12%
Credit card loans and lines of credit		16,715	8.96%		15,216	9.02%
Other consumer retail loans		14,578	9.07%		10,298	9.88%
Total non-securitized loans		385,250	4.90%		377,459	5.06%
Taxable equivalent adjustment		1,857	-		1,952	-
Total on non-securitized interest earning assets		397,759	4.56%		389,237	4.80%
CMHC-sponsored securitized single-family residential mortgages		23,606	2.66%		34,818	2.79%
CMHC-sponsored securitized multi-unit residential mortgages		15,431	4.55%		19,166	4.19%
Assets pledged as collateral for CMHC-sponsored securitization		1,262	0.79%		2,689	1.06%
Total CMHC-sponsored securitized residential mortgages		40,299	2.91%		56,673	2.89%
Bank-sponsored securitization conduit assets		526	3.07%		-	-
Total interest-bearing assets	$	438,584	4.23%	$	445,910	4.34%
Interest-bearing liabilities						
Deposits and other	$	155,532	1.96%	$	160,064	2.19%
Senior debt		2,243	3.91%		3,060	3.99%
CMHC-sponsored securitization liabilities		34,147	2.42%		48,100	2.40%
Bank-sponsored securitization conduit liabilities		185	1.14%		-	-
Total interest-bearing liabilities	$	192,107	1.85%	$	211,224	2.06%
Net Interest Income (TEB)	$	246,477		$	234,686	
Tax Equivalent Adjustment		(1,857)			(1,952)	
Net Interest Income per Financial Statements	$	244,620		$	232,734	

[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.

Q2 2016 v Q1 2016

Net interest income of $122.1 million was consistent with the $122.5 million reported last quarter with a slight decrease in net interest income on the non-securitized portfolio and flat net interest income on securitized assets. Total net interest margin (TEB) was flat quarter over quarter at 2.38%. The relative proportions of the higher margin non-securitized assets and the lower margin securitized assets also remained fairly consistent with last quarter. Average non-securitized assets of $17.34 billion for the quarter represent 83.8% of average total assets compared to 84.4% last quarter while average CMHC-sponsored securitized assets of $2.79 billion for the quarter represent 13.5% of average total assets compared to 13.3% last quarter. During the quarter, the Company commenced participation in a bank-sponsored securitization conduit program and began assigning ACE Plus single-family residential mortgages into the program. The ACE Plus product is a lower rate mortgage product directed toward lower risk borrowers. The bank-sponsored securitization conduit program provides for a cost-effective funding source for the ACE Plus product. At the end of the quarter, the balance of securitized ACE Plus mortgages assigned into this program was $151.3 million. The net interest margin for the quarter on these assets was 1.99%.

Net interest income of $118.8 million on the non-securitized portfolio decreased by $0.5 million or 0.4% from $119.3 million last quarter reflecting lower average non-securitized loans of $15.53 billion in the quarter compared to $15.91 billion last quarter. Non-securitized net interest margin (TEB) increased 2 basis points to 2.76% representing an increase of 6 basis points in the spread of non-securitized loans over deposits and other to 2.97%, offset by higher average liquid assets which earn lower rates. The Company is holding higher liquid assets to support seasonally higher mortgage origination volumes in the summer months. The increase in spread of non-securitized loans over deposits and other resulted primarily from a decrease in the relative proportion of the lower rate Accelerator single-family residential mortgage portfolio. Non-securitized net interest margin also benefited from lower interest expense on senior debt and institutional deposits. These decreases in interest expense resulted from the repayment of the senior debt and the maturity of $175 million of institutional deposit notes during the quarter.

Q2 2016 v Q2 2015

Net interest income increased $4.9 million or 4.2% over the same quarter last year reflecting an increase in non-securitized net interest income while total net interest margin (TEB) improved 9 basis points to 2.38% despite relatively flat net interest margins on both the non-securitized and securitized portfolios. This reflects the continued increase in the relative proportion of the higher margin non-securitized assets and the decrease in relative proportion of the lower margin securitized assets. Average non-securitized assets of $17.34 billion for the quarter represent 83.8% of average total assets compared to 79.9% in the comparable quarter of last year while average securitized assets of $2.79 billion for the quarter represent 13.5% of average total assets compared to 17.9% in Q2 2015.

Non-securitized net interest income increased $5.5 million or 4.8% from Q2 2015, primarily reflecting an increase in the non-securitized portfolio assets and consistent spreads to the overall costs of funds.

Net interest income on the securitized portfolio declined by $0.6 million or 15.0% from last year reflecting the continued net run-off of the portfolio.

YTD 2016 v YTD 2015

Net interest income increased $11.9 million or 5.1% over last year reflecting an increase of 10 basis points in total net interest margin (TEB) over last year. Net interest margin increased despite a decrease in net interest margin (TEB) of 4 basis points on the non-securitized portfolio and a flat net interest margin on the securitized portfolio due to the continued declining relative proportion of on-balance sheet securitized assets.

Non-Interest Income

Table 4: Non-Interest Income

					Quarter			Year to date
(000s, except %)	**Q2 2016**	Q1 2016	Change	Q2 2015	Change	**2016**	2015	Change
Fees and other income	**$ 17,328**	$ 19,165	(9.6)%	$ 21,390	(19.0)%	**$ 36,493**	$ 42,609	(14.4)%
Securitization income	**9,452**	7,682	23.0%	9,251	2.2%	**17,134**	14,660	16.9%
Gain on acquisition of CFF Bank	**-**	651	(100.0)%	-	-	**651**	-	-
Net realized and unrealized (losses) gains on securities	**-**	(175)	100.0%	-	-	**(175)**	1,444	(112.1)%
Net realized and unrealized losses on derivatives	**(2,122)**	(4,334)	51.0%	(1,580)	(34.3)%	**(6,456)**	(2,560)	(152.2)%
	$ 24,658	$ 22,989	7.3%	$ 29,061	(15.2)%	**$ 47,647**	$ 56,153	(15.1)%

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

Table 5: Derivative Gains and Losses

		For the three months ended		For the six months ended	
(000s)	**June 30 2016**	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Fair value hedging ineffectiveness[1]	**$ (2,212)**	$ (4,799)	$ (1,718)	**$ (7,011)**	$ (2,391)
Derivative instruments marked to market[2]	**90**	465	138	**555**	(169)
Net realized and unrealized losses on derivatives	**$ (2,122)**	$ (4,334)	$ (1,580)	**$ (6,456)**	$ (2,560)

[1] Included in fair value hedging ineffectiveness are derivative losses related to senior debt.

[2] Included in derivative instruments marked to market are swaps and bond forwards.

Q2 2016 v Q1 2016

Fee income decreased from last quarter as the Company has adjusted certain fees to be responsive to its markets and may support greater retention and renewal of maturing loans. The decrease in fee income was also influenced by the overall mix of the portfolio.

Securitization income in the quarter resulted primarily from gains recognized on the sale of residual interests in single-family residential mortgage securitizations and sale of insured multi-unit residential mortgages. Securitization income primarily includes sales of underlying mortgages either newly originated or renewed during the period along with insured mortgages held in inventory from prior periods. Sales of residual interests during the quarter led to gains of $4.4 million on the derecognition of $297.3 million of insured single-family residential mortgages compared to gains of $4.7 million on the derecognition of $400.5 million of underlying mortgages last quarter. Gains of $3.5 million were recorded on sales of $292.1 million of insured multi-unit residential mortgages during the quarter compared to the gains of $1.2 million recognized last quarter on sales of $196.5 million of insured multi-unit residential mortgages. Please see the Securitization Activity note to the unaudited interim consolidated financial statements included in this report for further information.

Securitization income also includes servicing income of $1.6 million in the quarter, up 12.5% from last quarter. In the case of single-family residential mortgage sales, the Company will service the loans and record related servicing fee revenue over the remaining term of the underlying mortgages along with any event-driven fees which are included in fee income. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further net servicing revenue or fees are recorded.

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

Derivative losses in the quarter were lower than last quarter reflecting lower derivative losses related to senior debt, which was retired in early Q2 2016.

The Company did not sell any available for sale securities in the first half of 2016. No impairment losses were recognized in Q2 2016 through profit and loss (Q1 2016 - $0.2 million).

Q2 2016 v Q2 2015

Fees and other income decreased 19.0% compared to last year, primarily reflecting changes in the portfolio mix and in the fee structure year over year as discussed above.

Securitization income of $9.5 million was consistent with the $9.3 million in Q2 2015.

The Company did not sell any available for sale securities or record any impairment losses in Q2 2015.

YTD 2016 v YTD 2015

Fees and other income decreased 14.4% from last year, primarily reflecting changes in the portfolio mix and in the fee structure year over year as discussed above.

Securitization income of $17.1 million increased $2.5 million compared to $14.7 million during the same period in 2015 reflecting increased sales of both residual interests in single-family residential mortgage securitizations and insured multi-unit residential mortgages.

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, 2016**		March 31, 2016		June 30, 2015		**June 30, 2016**		June 30, 2015	
	Amount	**% of Gross Loans[1]**	Amount	% of Gross Loans[1]	Amount	% of Gross Loans[1]	**Amount**	**% of Gross Loans[1]**	Amount	% of Gross Loans[1]
Provision[2]										
Single-family residential mortgages	**$ 1,215**	**0.04%**	$ 667	0.02%	$ 1,131	0.03%	**$ 1,882**	**0.03%**	$ 2,624	0.04%
Residential commercial mortgages	**128**	**0.16%**	-	-	(4)	(0.01)%	**128**	**0.08%**	4	0.00%
Non-residential commercial mortgages	**293**	**0.07%**	(55)	(0.01)%	321	0.10%	**238**	**0.03%**	523	0.08%
Credit card loans and lines of credit	**519**	**0.56%**	416	0.44%	198	0.23%	**935**	**0.50%**	292	0.17%
Other consumer retail loans	**5**	**0.01%**	152	0.19%	20	0.03%	**157**	**0.09%**	26	0.02%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Total individual provision	**2,160**	**0.05%**	1,180	0.03%	1,666	0.04%	**3,340**	**0.04%**	3,469	0.04%
Total collective provision	**600**	**0.01%**	214	0.00%	600	0.01%	**814**	**0.01%**	1,200	0.01%
Total provision	**$ 2,760**	**0.06%**	$ 1,394	0.03%	$ 2,266	0.05%	**$ 4,154**	**0.05%**	$ 4,669	0.05%
Net Write-Offs[2]										
Single-family residential mortgages	**$ 834**	**0.03%**	$ 1,149	0.04%	$ 882	0.03%	**$ 1,983**	**0.03%**	$ 2,749	0.04%
Residential commercial mortgages	**-**	**-**	-	-	(4)	(0.01)%	**-**	**-**	4	0.00%
Non-residential commercial mortgages	**422**	**0.10%**	(2)	(0.00)%	(4)	(0.00)%	**420**	**0.05%**	5	0.00%
Credit card loans and lines of credit	**725**	**0.78%**	337	0.36%	152	0.18%	**1,062**	**0.57%**	304	0.18%
Other consumer retail loans	**69**	**0.08%**	81	0.10%	50	0.09%	**150**	**0.09%**	45	0.04%
Securitized single-family residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Securitized multi-unit residential mortgages	**-**	**-**	-	-	-	-	**-**	**-**	-	-
Net Write-Offs	**$ 2,050**	**0.05%**	$ 1,565	0.04%	$ 1,076	0.02%	**$ 3,615**	**0.04%**	$ 3,107	0.03%

[1]Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.
[2]There were no individual provisions, allowances or net write-offs on securitized mortgages.

The Company continues to have strong credit performance with the provision for credit losses low at $2.8 million in the quarter, representing 0.08% of gross uninsured loans and 0.06% of total gross loans on an annualized basis. While these results are higher compared to last quarter and the same quarter of 2015, they remain low and within the range experienced over the past two years.

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

The Company continues to observe strong credit profiles and stable loan to value ratios across its portfolio, which continue to support low delinquency and non-performing rates and ultimately low net write-offs. Net write-offs were $2.1 million in the quarter, representing 0.05% of gross loans in the quarter; an increase from last quarter and last year, but remaining within the range experienced over the past two years.

The Company increased its collective allowance by $0.6 million during the quarter to $37.1 million. The current collective allowance exceeds the cumulative net write-offs experienced over the last 36 months. Please see Credit Risk section of this MD&A for more information.

Net non-performing loans were $59.0 million or 0.33% of gross loans at the end of the quarter compared to 0.34% 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

	Quarter					Year to Date		
(000s, except % and number of employees)	**Q2 2016**	Q1 2016	Change	Q2 2015	Change	**2016**	2015	Change
Salaries and benefits	**$ 24,685**	$ 28,711	(14.0)%	$ 21,603	14.3%	**$ 53,396**	$ 43,617	22.4%
Premises	**3,575**	3,851	(7.2)%	3,260	9.7%	**7,426**	6,394	16.1%
Other operating expenses	**26,652**	25,455	4.7%	22,511	18.4%	**52,107**	41,026	27.0%
	$ 54,912	$ 58,017	(5.4)%	$ 47,374	15.9%	**$ 112,929**	$ 91,037	24.0%
Adjusted efficiency ratio (TEB)	**37.2%**	36.3%	0.9%	32.2%	5.0%	**36.8%**	31.3%	5.5%
Active employees at the end of the period	**881**	860	2.4%	789	11.7%	**881**	789	11.7%

Q2 2016 v Q1 2016

Non-interest expenses decreased 5.4% or $3.1 million over last quarter, reflecting the decrease in salaries and benefits which resulted from severance and other related costs incurred last quarter which were not incurred in the second quarter.

Other operating expenses increased 4.7% over last quarter. These expenses reflect the Company’s continued investment in areas related to the longer-term growth of the business such as continued investment in technology which includes the digitization of operating processes, ongoing investment in the Company’s IT security platform, and costs associated with strengthening risk management and compliance infrastructure.

Q2 2016 v Q2 2015

Non-interest expenses increased 15.9% or $7.5 million over Q2 2015. Salaries and benefits expense increased 14.3% primarily due to the year-over-year increase in headcount. Other operating expenses increased 18.4%, supporting the Company’s strategies and plans for growth, in addition to the expenses described above.

YTD 2016 v YTD 2015

Non-interest expenses for the first half of 2016 increased 24.0% or $21.9 million over the same period in 2015. The higher expenses reflect increases in both salaries and benefits and other operating expenses, which increased for the reasons described above.

Income Taxes

The provision for income taxes for Q2 2016 was $22.8 million (effective tax rate of 25.63%), compared to $21.8 million (effective tax rate of 25.38%) in Q1 2016 and $24.3 million (effective tax rate of 25.16%) in Q2 2015.

The Company's effective tax rate in Q2 2016 primarily differs from the statutory rate due to the receipt of dividends from Canadian corporations in the amount of $2.4 million ($2.7 million – Q1 2016 and $2.7 million – Q2 2015) that are not subject to tax.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income for the quarter was $68.7 million compared to $57.5 million in Q1 2016 and $63.4 million in Q2 2015.

OCI in the quarter was a gain of $2.4 million compared to a loss of $6.8 million in Q1 2016 and a loss of $8.9 million in Q2 2015. The other comprehensive gain in the quarter reflects the improvement in the fair value of the Company's preferred share holdings included in available for sale securities. Despite this improvement, the preferred share holdings remain in an unrealized loss position which is due primarily to the current interest rate environment and prevailing market sentiment relating to preferred shares. The Company has not identified any new negative credit events in relation to its preferred share holdings in Q2 2016.

FINANCIAL POSITION REVIEW

Assets

Table 8: Loans Portfolio

(000s, except % and number of loans)	**June 30 2016**	**% of Total**	March 31 2016	% of Total	December 31 2015	% of Total
						As at
CMHC-sponsored securitized single-family residential mortgages	**$ 1,917,975**	**7.5%**	$ 1,834,177	7.3%	$ 1,948,110	7.8%
CMHC-sponsored securitized multi-unit residential mortgages	**635,003**	**2.5%**	682,767	2.7%	726,365	2.9%
Bank-sponsored securitization conduit single-family residential mortgages	**151,252**	**0.6%**	-	-	-	-
Traditional single-family residential mortgages	**11,124,999**	**43.3%**	11,312,104	44.9%	11,463,299	45.8%
ACE Plus single-family residential mortgages	**312,806**	**1.2%**	303,486	1.2%	251,411	1.0%
Accelerator single-family residential mortgages	**1,113,187**	**4.3%**	1,195,199	4.7%	1,264,708	5.0%
Residential commercial mortgages	**317,145**	**1.2%**	283,088	1.1%	321,442	1.3%
Non-residential commercial mortgages	**1,658,201**	**6.4%**	1,572,512	6.2%	1,490,648	5.9%
Credit card loans and lines of credit	**371,925**	**1.4%**	374,658	1.5%	370,825	1.5%
Other consumer retail loans	**344,890**	**1.3%**	321,737	1.3%	296,857	1.2%
Total loan portfolio	**17,947,383**	**69.7%**	17,879,728	70.9%	18,133,665	72.4%
Loans held for sale	**117,691**	**0.5%**	70,187	0.3%	135,043	0.5%
Total on-balance sheet loans	**$ 18,065,074**	**70.2%**	$ 17,949,915	71.2%	$ 18,268,708	72.9%
Off-balance sheet loans						
Single-family residential mortgages	**$ 4,954,802**	**19.3%**	$ 4,845,316	19.2%	$ 4,567,155	18.2%
Multi-unit residential mortgages	**2,712,781**	**10.5%**	2,427,292	9.6%	2,222,259	8.9%
Total off-balance sheet loans	**7,667,583**	**29.8%**	7,272,608	28.8%	6,789,414	27.1%
Total loans under administration	**$ 25,732,657**	**100.0%**	$ 25,222,523	100.0%	$ 25,058,122	100.0%
Number of loans outstanding under administration						
Mortgages	**67,700**		68,292		68,710	
Credit card loans and lines of credit	**42,517**		41,663		40,355	
Other consumer retail loans	**103,678**		98,012		88,226	
Total number of loans outstanding	**213,895**		207,967		197,291	

Table 9: Mortgage Advances

(000s)	**June 30 2016**	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
	For the three months ended			For the six months ended	
Single-family residential mortgages					
Traditional	**$ 1,252,959**	$ 995,354	$ 1,294,697	**$ 2,248,313**	$ 2,256,026
ACE Plus	**115,426**	69,198	-	**184,624**	-
Accelerator	**464,767**	363,812	279,542	**828,579**	459,576
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**23,929**	46,151	14,780	**70,080**	50,564
Multi-unit insured residential mortgages	**338,527**	129,698	221,392	**468,225**	288,622
Other[1]	**19,570**	7,023	7,680	**26,593**	16,962
Non-residential commercial mortgages					
Store and apartments	**11,400**	19,592	27,950	**30,992**	49,925
Commercial	**248,292**	151,531	177,246	**399,823**	285,610
Total mortgage advances	**$ 2,474,870**	$ 1,782,359	$ 2,023,287	**$ 4,257,229**	$ 3,407,285

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

Loans under administration were $25.73 billion at the end of the quarter, representing an increase of $510.1 million or 2.0% from last quarter and an increase of $674.5 million or 2.7% from the end of 2015. On-balance sheet loans were up 0.6% from Q1 2016, but down 1.1% from Q4 2015 while off-balance sheet loans were up 5.4% from last quarter and 12.9% from the end of 2015, driving the growth in loans under administration. Off-balance sheet loan growth arises from the sale of residual interests in single-family residential mortgages (resulting in removal of securitized mortgages from the balance sheet) and securitization of multi-unit residential mortgages qualifying for off-balance sheet accounting. The increase in loans under administration was supported by mortgage advances, as well as consumer retail, credit card loans and lines of credit production.

Mortgage Lending

Mortgage Originations and Broker Suspensions

The Company continues to monitor the uninsured and insured single-family residential mortgages originated by the 45 individual suspended mortgage brokers. The total value of the outstanding mortgages that were originated by these mortgage brokers included in the loans portfolio at the end of Q2 2016 total $1.30 billion, as compared to $1.42 billion at the end of Q1 2016 and $1.55 billion at the end of Q4 2015.

The Company is in the process of completing its review and, where appropriate, validation of the income documentation submitted in respect of the mortgages referred by the 45 brokers. The Company is taking corrective action as appropriate. The Company is over 90% of the way through its review processes with plans to complete these efforts by the end of 2016. Of the accounts reviewed, the Company has determined that more than 90% of the mortgages reviewed to date could be eligible for renewal and there have been no unusual credit issues.

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

Uninsured Residential Mortgages – "Traditional Mortgages and ACE Plus Mortgages"

The Company's uninsured residential mortgage portfolio includes both its traditional mortgage portfolio and its ACE Plus mortgage portfolio. The ACE Plus product is a lower rate mortgage product directed toward lower risk borrowers, which the Company began originating in the second half of 2015. Commencing in the second quarter of 2016, the Company began participating in a bank-sponsored securitization conduit program and has assigned select ACE Plus mortgages into this program. At the end of Q2 2016, ACE Plus mortgages with a balance of $151.3 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 $11.44 billion represent the largest portfolio within loans under administration and on-balance sheet loans at 44.4% and 63.3%, respectively. The combined portfolio decreased by 1.5% from the end of last quarter and 2.4% from the end of last year. Combined originations of traditional and ACE Plus mortgages of $1.37 billion in the quarter and $2.43 billion for this first six months of the year were up 5.7% and 7.8% over the same periods last year and up 28.5% over Q1 2016. The increase over last quarter reflects seasonally expected behavior. Origination growth was strong in the quarter but the loan portfolio has not increased by a commensurate amount. The Company has identified opportunities to increase its retention of loans through additions to its retention team. This is expected to strengthen the growth of the loans portfolios.

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

Insured Residential Mortgages

Insured residential loans under administration, which include both insured single-family and multi-unit residential mortgages, were $11.47 billion at the end of the quarter, reflecting an increase of 2.3% over the balance of $11.21 billion at Q1 2016 and 3.7% over the balance of $11.06 billion at the end of 2015. Of this total, $7.67 billion were accounted for off-balance sheet, up $395.0 million or 5.4% from the end of Q1 2016 and $878.2 million or 12.9% from the end of 2015.

The Company originated $464.8 million in insured single-family Accelerator mortgages in the quarter and $828.6 million for the first half of the year, up 66.3% and 80.3% from the comparable periods of 2015 and 27.7% from Q1 2016. The Company continues to take a conservative approach to growing its residential mortgage business, and its participation in the highly competitive market for prime insured mortgages. The Company views its Accelerator product offering as complementary to its traditional portfolio. The Company continued to sell residual interests in insured fixed-rate single-family National Housing Authority mortgage-backed securities (NHA MBS), totaling $297.3 million in the quarter in underlying outstanding principal amounts and generating gains of $4.4 million. The NHA MBS market spread remained wide in Q2 2016, maintaining the increased funding cost on NHA MBS sold in the market. The underlying mortgages included mortgages newly originated or renewed during the period along with insured mortgages held in inventory from prior periods.

In Q2 2016, the Company originated $338.5 million of insured multi-unit residential mortgages in the quarter and sold $292.2 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 $3.5 million in gains on sale in the quarter. The multi-unit residential mortgage market is relatively limited and the Company participates in appropriate transactions as they become available through various origination channels. As a result, origination volumes, sales and resultant securitization gains can vary significantly from quarter to quarter. Most of the Company's new insured multi-unit residential originations qualify for off-balance sheet treatment, and the on-balance sheet securitized multi-unit residential portfolio is declining through amortization and maturities.

From time to time, the Company pools mortgages and may hold the related MBS as liquid assets or inventory for replacement assets for the CMB program. These MBS are carried on the balance sheet at amortized cost as part of residential mortgage loans (see Table 22: Liquidity Resources).

Residential Commercial Mortgages

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

Non-Residential Commercial Mortgages

Non-residential commercial originations were $259.7 million in the quarter and $430.8 million in the first half of 2016 reflecting increases of 26.6% and 28.4% over the same periods last year and 51.8% over last quarter. Non-residential commercial mortgages, which include store and apartments and commercial mortgages, are an important complementary source of loan assets and revenue. Non-residential mortgage advances are affected by the availability of appropriate assets and trends are variable. Through 2016, the Company will continue to participate in appropriate opportunities as they arise. The portfolio will continue to be managed conservatively by the Company.

Geographic Concentration

Mortgage advances continue to favour Ontario and, in particular, the Greater Toronto Area (GTA), during Q2 2016. The Company will continue to cautiously increase business within other markets in Ontario and the rest of Canada to the extent that market conditions remain stable. The concentration of new originations is influenced, in part, by the Company's credit experience. Please see Note 5(A) of the unaudited interim consolidated financial statements for the geographic distribution of the portfolio.

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

	For the three months ended					
(000s, except number of accounts)	**June 30, 2016**		March 31, 2016		June 30, 2015	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]	Number of New Accounts	Amount[1]
Credit card loans and lines of credit						
Equityline *Visa* credit cards	**600**	**$ 33,711**	586	$ 29,649	790	$ 34,694
Other credit cards and lines of credit	**2,484**	**5,893**	2,898	7,388	2,117	3,427
Other consumer retail loans						
Water heaters	**7,357**	**29,813**	10,951	35,754	7,136	28,929
Other retail lending	**3,337**	**15,167**	1,749	11,723	2,017	12,121

	For the six months ended			
(000s, except number of accounts)	**June 30, 2016**		June 30, 2015	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]
Credit card loans and lines of credit				
Equityline *Visa* credit cards	**1,186**	**$ 63,360**	1,621	$ 65,526
Other credit cards and lines of credit	**5,382**	**13,281**	4,187	7,040
Other consumer retail loans				
Water heaters	**18,308**	**65,567**	14,482	56,624
Other retail lending	**5,086**	**26,890**	3,395	19,957

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

Other Lending

Other lending, comprising credit cards, lines of credit and other consumer retail loans, continues to be an important source of loan assets with attractive returns. While representing 4.0% of the total on-balance sheet loan portfolio, these assets generated 7.5% of the interest income from loans for the quarter.

Credit card and lines of credit balances decreased to $371.9 million from $374.7 million last quarter and increased from $370.8 million at the end of 2015. Equityline *Visa* accounts (Home Equity Line of Credit) represent 85.8% of the total credit card and lines of credit balance. Equityline *Visa* originations decreased 2.8% in the quarter and 3.3% year to date as compared to the same periods last year; however, originations were up 13.7% over the last quarter.

The balance of other consumer retail loans increased 7.2% during the quarter to $344.9 million from $321.7 million at the end of Q1 2016 and increased 16.2% from $296.9 million at the end of 2015.

Cash and Securities

Cash resources and securities of $1.97 billion increased $24.7 million from the end of Q1 2016 and $364.5 million from the end of 2015. The Company continues to hold a relatively high liquidity position to support seasonally high summer mortgage originations. Please see the Funding and Liquidity Risk section of this MD&A for further information. The Company maintains sufficient liquidity to meet its future commitments and expected business volumes.

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

Other Assets

Total other assets of $767.5 million decreased $64.0 million from the end of Q1 2016 and increased $76.0 million from the end of 2015. The decrease from last quarter primarily reflects the decrease in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program reflecting maturities in the program. In general, as CMB maturities approach, the Company has been replacing maturing securitized mortgages with non-Home Trust MBS and treasury bills. The increase from the end of 2015 primarily resulted from increases in securitization receivables and retained interest, reflecting the Company's securitization and sale of insured multi-unit residential mortgages and sales of residual interests in insured single-family residential mortgages.

Liabilities and Shareholders' Equity

Table 11: Deposits, Senior Debt and Securitization Liabilities

						As at
(000s, except % and number of accounts)	**June 30 2016**	**% of Totals**	March 31 2016	% of Totals	December 31 2015	% of Totals
Deposits payable on demand						
High-interest savings account	**$ 1,901,981**	**11.9%**	$ 1,949,789	12.3%	$ 1,576,536	10.1%
Oaken savings account	**272,337**	**1.7%**	270,559	1.7%	242,124	1.5%
Other deposits payable on demand	**100,259**	**0.6%**	100,745	0.7%	167,476	1.1%
	2,274,577	**14.2%**	2,321,093	14.7%	1,986,136	12.7%
Deposits payable on fixed dates						
Brokered GICs	**11,752,129**	**73.4%**	11,565,611	73.1%	11,850,238	75.6%
Oaken GICs	**1,187,779**	**7.4%**	954,978	6.0%	846,085	5.4%
Institutional deposit notes	**807,734**	**5.0%**	983,217	6.2%	983,499	6.3%
	13,747,642	**85.8%**	13,503,806	85.3%	13,679,822	87.3%
Total deposits	**16,022,219**	**100.0%**	15,824,899	100.0%	15,665,958	100.0%
Senior debt	**-**	**-**	153,283	100.0%	151,480	100.0%
Securitization liabilities						
CMHC-sponsored mortgage-backed security liabilities	**928,312**	**32.7%**	863,284	31.6%	531,326	19.1%
CMHC-sponsored Canada Mortgage Bond liabilities	**1,766,143**	**62.3%**	1,870,548	68.4%	2,249,230	80.9%
Bank-sponsored securitization conduit liabilities	**143,024**	**5.0%**	-	-	-	-
Total securitization liabilities	**$ 2,837,479**	**100.0%**	$ 2,733,832	100.0%	$ 2,780,556	100.0%
Total number of deposit accounts	**450,218**		435,281		433,373	

The Company's deposit portfolio primarily provides funding for the non-securitized loan portfolio. The Company's deposit portfolio principally comprises fixed-term deposits, which represent 85.8% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company generally matches the terms of its deposits with its assets. Please see the Structural Interest Rate Risk and the Funding and Liquidity Risk sections of this MD&A for more information.

Total deposits of $16.02 billion were up 1.2% compared to the end of Q1 2016 and 2.3% from the end of 2015. The Company continues to see success in its longer-term strategy to diversify its sources of funding. The balance of Oaken deposits at the end of the quarter was $1.46 billion, reflecting an increase of 19.1% over the balance at the end of last quarter and 34.2% over the end of 2015. Home Trust high-interest savings accounts declined in the quarter to a balance of $1.90 billion at the end of the quarter, a decrease of 2.5% over the $1.95 billion last quarter and increased 20.6% over the $1.58 billion at the end of Q4 2015. In addition, the Company's institutional deposit note funding was $807.7 million at the end of Q2 2016, compared to $983.2 million last quarter, and $983.5 million at the end of last year. The decrease in institutional deposit notes over last quarter and the end of 2015 reflects the maturity of deposit notes with a principal amount of $175 million during the quarter.

Securitization liabilities, including both CMHC- and bank-sponsored liabilities increased $103.7 million from Q1 2016 and $56.9 million from the end of 2015 due to the introduction of bank-sponsored securitization conduit liabilities and increases in MBS liabilities. MBS liabilities have increased over the quarter and from the end of 2015 reflecting the issuance of new MBS in the quarter which remained on-balance sheet. CMB liabilities have decreased from last quarter and from the end of 2015 reflecting maturities. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. New securitization transactions have been primarily off-balance sheet transactions.

Other Liabilities

Other liabilities of $347.6 million increased by $33.3 million from the end of last quarter and by $39.6 million from the end of 2015. The increase in other liabilities resulted primarily from an increase in accounts payable and accrued liabilities, which fluctuate between quarters based on timing of the payment of associated liabilities.

Shareholders' Equity

The decrease of $65.2 million in total shareholders' equity since December 31, 2015 reflects the $159.8 million reduction on repurchase of shares combined with $33.0 million of dividends to shareholders offset partially by the internal generation of net income.

At the end of the quarter, the book value per common share was $23.67, compared to $23.75 at the end of Q1 2016 and $21.87 at the end of Q2 2015. The Company has consistently increased the net book value per share through earnings. The decrease in book value per common share from last quarter resulted from the repurchase of shares following the completion of the substantial issuer bid early in Q2 2016.

Off-balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding amounts for future advances on mortgage loans which were $1.45 billion at June 30, 2016 ($1.29 billion – Q1 2016; $1.14 billion – Q4 2015). These amounts include offers made but not yet accepted by the customer as of the reporting date. Also, included within the outstanding amounts are unutilized non-residential commercial loan advances of $437.8 million at June 30, 2016 ($359.9 million – Q1 2016; $303.9 million – Q4 2015). Offers for the loans remain open for various periods. As at June 30, 2016, unutilized credit card balances amounted to $134.3 million ($123.3 million – Q1 2016; $118.8 million – Q4 2015). In addition, other lines of credit have unutilized balances in the amount of $nil ($7.0 million – Q1 2016; $21.5 million – Q4 2015). Included in the outstanding amounts for future advances of mortgage loans are outstanding future advances for the Equityline *Visa* portfolio of $23.1 million at June 30, 2016 ($14.5 million – Q1 2016; $11.6 million – Q4 2015). The unutilized credit and offers to extend credit are in the normal course of business and are considered through the Company's liquidity and capital management processes.

The Company has $7.67 billion ($7.27 billion – Q1 2016; $6.79 billion – Q4 2015) of loans under administration that are accounted for off-balance sheet (see Table 8). Please refer to Note 2 and Note 6 of the unaudited interim consolidated financial statements for details of the Company's securitization activities.

Related Party Transactions

The Company had no material related party transactions in the six months ended June 30, 2016, other than key management personnel compensation.

CAPITAL MANAGEMENT

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

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

(000s, except ratios)	**June 30 2016 All-In Basis**	As at December 31 2015 All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 38,497**	$ 38,497
Contributed surplus	**951**	951
Retained earnings	**1,549,126**	1,614,491
Accumulated other comprehensive loss	**(70,002)**	(65,851)
Cash flow hedge reserves	**1,158**	3,078
Regulatory deductions from CET 1[1]	**(159,112)**	(130,163)
Total CET 1 capital	**1,360,618**	1,461,003
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**1,360,618**	1,461,003
Tier 2 capital		
Collective allowance for credit losses[2]	**37,063**	36,249
Subordinated debentures	**-**	156,000
Total Tier 2 capital	**37,063**	192,249
Total regulatory capital	**1,397,681**	1,653,252
Risk-weighted assets for		
Credit risk	**7,257,233**	6,962,984
Operational risk	**1,032,325**	996,488
Total risk-weighted assets, before CVA[3]	**8,289,558**	7,959,472
CVA adjustment for CET 1 capital	**17,328**	21,632
Total CET 1 capital risk-weighted assets	**8,306,886**	7,981,104
CVA adjustment for Tier 1 capital	**19,223**	23,998
Total Tier 1 capital risk-weighted assets	**8,308,781**	7,983,470
CVA adjustment for total capital	**20,848**	26,026
Total risk-weighted assets	**$ 8,310,406**	$ 7,985,498
Regulatory capital to risk-weighted assets		
CET 1 ratio	**16.38%**	18.31%
Tier 1 capital ratio	**16.38%**	18.30%
Total regulatory capital ratio	**16.82%**	20.70%
Leverage Ratio	**6.77%**	7.36%
National regulatory minimum		
CET 1 ratio	**7.00%**	7.00%
Tier 1 capital ratio	**8.50%**	8.50%
Total regulatory capital ratio	**10.50%**	10.50%
Leverage ratio	**3.00%**	3.00%

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

[2]The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of total credit risk-weighted assets, inclusive of total CVA before transitional phase-in adjustments, in Tier 2 capital. At June 30, 2016, the Company's collective allowance represented 0.51% of total credit risk-weighted assets, inclusive of total CVA.

[3]CVA – Credit Valuation Adjustment

Home Trust's regulatory "all-in" Total capital ratios have decreased from the end of 2015 as a result of the decrease in both Tier 1 and Tier 2 regulatory capital combined with an increase in risk-weighted assets. Tier 1 capital decreased as a result of the Home Trust dividends funding Home Capital's repurchase of 3,989,361 common shares under the Company's previously announced substantial issuer bid which reduced capital by $150.0 million. Tier 2 capital decreased as a result of Home Trust repaying and retiring the subordinated debentures, with the funds used by Home Capital to retire $150 million of senior debt. Risk-weighted assets increased in line with increases in the Company's uninsured non-residential commercial loan portfolio.

The leverage ratio is a non-risk adjusted view of a company's leverage. The leverage ratio only includes Tier 1 capital. The leverage ratio also includes some off-balance sheet exposures, including potential future exposure amounts on derivatives, credit equivalent amounts of certain commitments and securities financing transactions. The leverage ratio of 6.77% (December 31, 2015 – 7.36%) is in excess of OSFI's established minimum target of 3%, as well as the minimum ratio assigned to the Company by OSFI and the Company's internal targets. The Company has disclosed the leverage ratio and its components under "Regulatory Disclosures" on the Home Trust website.

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

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

RISK MANAGEMENT

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

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

Credit Risk

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

Mortgage Lending

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

Table 13: Mortgage Portfolio On Balance Sheet

(000s, except %)	**June 30 2016**	March 31 2016	December 31 2015	September 30 2015	June 30 2015	March 31 2015
Total mortgage portfolio balance (net of individual allowance)	**$ 17,230,568**	$ 17,183,333	$ 17,465,983	$ 17,563,776	$ 17,387,281	$ 17,589,031
Percentage of residential mortgages	**90.4%**	90.8%	91.5%	91.7%	92.4%	93.2%
Percentage of non-residential mortgages	**9.6%**	9.2%	8.5%	8.3%	7.6%	6.8%
Percentage of mortgage portfolio insured[1]	**22.1%**	22.5%	23.7%	23.5%	24.0%	25.7%
Percentage of mortgages current	**98.4%**	98.3%	98.2%	98.2%	98.0%	98.1%
Percentage of total mortgages over 90 days past due	**0.27%**	0.25%	0.29%	0.32%	0.28%	0.29%

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

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

The Company mitigates credit risk by ensuring borrowers have the capacity and willingness to pay as well as through collateral in the form of real property. Loan to value (LTV) is a key credit risk indicator. Please see Tables 18 and 19 for further information.

The Company continues to actively monitor the mortgages associated with 45 suspended individual mortgage brokers as previously disclosed and there have been no unusual credit issues.

Due to the level of activity in the condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. Condominiums represent 9.0% of the residential mortgage portfolio and, of these, 22.6% are insured. The average current LTV of the condominium portfolio was 65.2% at the end of Q2 2016. The credit performance of the condominium portfolio is strong and within the Company's expectations with 98.4% of the portfolio current and 0.2% over 90 days.

The Company continues to closely monitor its exposure and the credit performance of mortgages in energy producing regions, including in Alberta, Saskatchewan and Newfoundland and Labrador. At June 30, 2016, 2.6% of the uninsured mortgage portfolio was in these regions, with an average LTV of 63.1%, and 96.9% were current. The Company has also assessed its exposure in Fort McMurray given the severe wildfires experienced in the area. Management believes the exposure is minimal and does not expect significant credit losses.

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

Other Lending

Credit card and line of credit balances were $371.9 million at the end of Q2 2016, most of which are secured by either cash deposits or residential property. Within the credit card and lines of credit portfolios, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 63.4% at the end of Q2 2016, compared to 63.2% at the end of Q1 2016 and 62.2% at the end of Q2 2015. The LTV includes both the first mortgage and the secured Equityline *Visa* balances.

Senior management and the ERM group closely monitor the credit performance of the credit card and lines of credit portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of June 30, 2016, $1.8 million or 0.5% of the credit card and lines of credit portfolio was over 90 days in arrears, compared to $2.2 million or 0.6% at March 31, 2016 and $2.0 million or 0.6% at June 30, 2015.

Retail credit is secured by charges on financed assets, primarily improvements to residential property or fixtures.

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

Non-Performing Loans, Credit Provisions and Allowances

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

Table 14: Net Non-Performing Loans by Product

			As at
(000s, except %)	**June 30 2016**	March 31 2016	December 31 2015
Single-family residential mortgages	**$ 49,748**	$ 48,388	$ 47,633
Residential commercial mortgages	**4,000**	4,000	-
Non-residential commercial mortgages	**3,684**	6,521	2,218
Credit card loans and lines of credit	**1,547**	1,709	1,189
Other consumer retail loans	**-**	-	-
Securitized single-family residential mortgages	**-**	-	-
Securitized multi-unit residential mortgages	**-**	-	-
Net non-performing loans	**$ 58,979**	$ 60,618	$ 51,040
Percentage of gross loans	**0.33%**	0.34%	0.28%

Write-offs, net of recoveries, during the quarter totaled $2.1 million or 0.05% of gross loans on an annualized basis. The Company continually monitors arrears and write-offs, and deals effectively with non-performing loans.

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

Table 15: Allowance for Credit Losses by Product

(000s)			As at
	June 30 2016	March 31 2016	December 31 2015
Individual allowance			
Single-family residential mortgages	**$ 2,390**	$ 2,009	$ 2,491
Residential commercial mortgages	**128**	-	-
Non-residential commercial mortgages	**215**	344	397
Credit card loans and lines of credit	**202**	408	329
Other consumer retail loans	**173**	237	166
Total individual allowance	**3,108**	2,998	3,383
Collective allowance			
Single-family residential mortgages	**23,032**	22,432	22,232
Residential commercial mortgages	**327**	327	327
Non-residential commercial mortgages	**9,500**	9,500	9,500
Credit card loans and lines of credit	**3,904**	3,904	3,890
Other consumer retail loans	**300**	300	300
Total collective allowance	**37,063**	36,463	36,249
Total allowances	**$ 40,171**	$ 39,461	$ 39,632

There were no individual allowances on securitized mortgages.

The Company has security in the form of real property or cash deposits for virtually the entire loans 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 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, loan to value and general economic conditions. As at June 30, 2016, the collective credit allowance was $37.1 million ($36.2 million – December 31, 2015), representing more than the cumulative total net write-offs over the past 36 months.

Current accounting standards do not permit the Company to carry allowances for possible or future losses. This risk is considered in the determination of the appropriate level of capital supporting the Company's operations. The Company holds capital for possible further credit losses. This includes capital required by regulation (See Table 12) and additional capital amounts as recommended by management and approved by the Board. The Company uses stress testing and scenario analysis to challenge the adequacy of the capital appropriated for credit risk. As at June 30, 2016, the Company held total regulatory capital at 160% of the regulatory minimum. A substantial portion of this is appropriated for credit risk.

Additional Information: Residential Loans and Equityline Visa Home Equity Line of Credit (HELOC)

The tables below provide additional information on the composition of the Company's single-family residential mortgage portfolio by province and insured status, as well as by remaining effective amortization periods and loan-to-value ratios by province.

Table 16: Single-family Residential Loans by Province

(000s, except %)								**As at June 30, 2016**
		Insured Residential Mortgages[1]	**Percentage of Total for Province**	**Uninsured Residential Mortgages**	**Percentage of Total for Province**	**Equityline *Visa*[2]**	**Percentage of Total for Province**	**Total**
British Columbia	**$**	**307,520**	**35.1% $**	**566,569**	**64.6% $**	**2,971**	**0.3% $**	**877,060**
Alberta		**299,463**	**46.5%**	**333,469**	**51.7%**	**11,290**	**1.8%**	**644,222**
Ontario		**2,223,867**	**17.6%**	**10,101,956**	**80.0%**	**301,253**	**2.4%**	**12,627,076**
Quebec		**120,323**	**27.1%**	**321,930**	**72.6%**	**1,332**	**0.3%**	**443,585**
Other		**193,540**	**55.7%**	**151,582**	**43.6%**	**2,302**	**0.7%**	**347,424**
	$	**3,144,713**	**21.0% $**	**11,475,506**	**76.9% $**	**319,148**	**2.1% $**	**14,939,367**

(000s, except %)								As at March 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	$	292,421	34.7% $	547,026	64.9% $	3,202	0.4% $	842,649
Alberta		286,100	44.3%	347,722	53.9%	11,639	1.8%	645,461
Ontario		2,297,005	18.1%	10,086,925	79.5%	304,313	2.4%	12,688,243
Quebec		124,637	27.0%	335,142	72.7%	1,329	0.3%	461,108
Other		173,836	52.6%	154,152	46.7%	2,339	0.7%	330,327
	$	3,173,999	21.2% $	11,470,967	76.6% $	322,822	2.2% $	14,967,788

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

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

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

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

(000s, except %)						As at March 31, 2016
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 706,031	$ 2,304,349	$ 11,314,175	$ 317,068	$ 3,343	$ 14,644,966
Percentage of total	4.8%	15.7%	77.3%	2.2%	0.0%	100.0%

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

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

						For the three months ended
		June 30 2016		March 31 2016		June 30 2015
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline Visa[1]
British Columbia	**63.1%**	**56.1%**	64.6%	57.1%	67.3%	64.3%
Alberta	**70.8%**	**28.2%**	72.1%	68.6%	69.6%	53.5%
Ontario	**73.6%**	**62.0%**	73.0%	66.4%	74.3%	64.3%
Quebec	**71.2%**	**45.0%**	69.4%	60.4%	70.0%	55.4%
Other	**73.5%**	**66.1%**	71.7%	50.5%	69.5%	55.5%
Total	**72.7%**	**62.0%**	72.3%	66.4%	73.4%	64.3%

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

The Company actively manages the entire mortgage portfolio and performs both regular and ad-hoc stress testing. Stress testing includes scenarios that are based on a combination of increasing unemployment, rising interest rates, and a downturn in real estate markets, as well as specific operational, market and single factor stress tests. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn either regionally or nationally, the Company would expect an increased rate of delinquency and also an increase in credit losses. The Company's stress tests related to either regional or national economic downturns, which include declining housing prices and increased unemployment, indicate that the Company has sufficient capital to absorb such events, albeit with increases to credit losses. The total single-family residential mortgage portfolio including HELOC was $14.94 billion as of June 30, 2016, of which $3.14 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, 2016, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 65.1% compared to 65.8% at the end of Q1 2016 and 67.2% at the end of Q2 2015. These LTVs were estimated using the Teranet-National Bank National Composite House Price Index. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The distribution of LTV around the mean for each significant market is indicated below.

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

	As at June 30, 2016			As at March 31, 2016		
	Weighted-Average Current LTV[1]	Percentage of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to		Weighted-Average Current LTV[1]	Percentage of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to	
		75%	65%		75%	65%
British Columbia	**60.1%**	**94.2%**	**71.1%**	61.4%	93.0%	67.2%
Alberta	**65.5%**	**82.5%**	**46.5%**	65.8%	77.6%	45.3%
Ontario	**65.4%**	**73.8%**	**44.1%**	66.0%	74.8%	40.3%
Quebec	**65.0%**	**90.2%**	**45.5%**	66.0%	89.3%	42.3%
Other	**66.5%**	**75.2%**	**40.4%**	64.7%	86.6%	48.9%
Total	**65.1%**	**75.5%**	**45.5%**	65.8%	76.3%	41.9%

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

Market Risk

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

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company's investment portfolio consists primarily of preferred shares at 33.8% of the portfolio, and corporate and governments bonds at 64.9% of the portfolio. The total balance was $519.1 million at the end of Q2 2016 compared to $488.2 million at the end of Q1 2016 and $449.2 million at the end of Q2 2015. The Company has determined that there have been no negative credit events in relation to its preferred share holdings (Refer to Note 4(B) of the unaudited interim consolidated financial statements).

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

Structural Interest Rate Risk

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

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

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

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

Table 20: Interest Rate Sensitivity

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

(000s), except % (Unaudited)							As at March 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	$ 252,190	$ 6,348,386	$ 8,222,623	$ 5,208,022	$ 193,381	$ 463,382	$ 20,687,984
Total liabilities and equity	(2,221,738)	(3,289,852)	(5,774,737)	(7,325,386)	(496)	(2,075,775)	(20,687,984)
Off-balance sheet items	-	(1,260,566)	45,981	1,214,220	365	-	-
Interest rate sensitive gap	$ (1,969,548)	$ 1,797,968	$ 2,493,867	$ (903,144)	$ 193,250	$ (1,612,393)	$ -
Cumulative gap	$ (1,969,548)	$ (171,580)	$ 2,322,287	$ 1,419,143	$ 1,612,393	$ -	$ -
Cumulative gap as a percentage of total assets	(9.5)%	(0.8)%	11.2%	6.9%	7.8%	-	-

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

[1] Total assets in the 0-3 month category above include $2.13 billion in variable rate mortgages ($2.05 billion – Q1 2016; $2.01 billion in Q4 2015)

To assist in matching assets and liabilities, the Company utilizes a variety of metrics, including two interest rate risk sensitivity metrics that measure the relationship between changes in interest rates and the resulting estimated impact on both the Company's future net interest income and economic value of shareholders' equity. The Company measures these metrics over a number of different yield curve scenarios.

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

Table 21: Impact of Interest Rate Shifts

(000s)	June 30 2016	March 31 2016	December 31 2015	June 30 2016	March 31 2016	December 31 2015
		Increase in interest rates			Decrease in interest rates	
100 basis point shift						
Impact on net interest income, after tax (for the next 12 months)	**$ 13,947**	$ 11,277	$ 11,052	**$ (13,003)**	$ (11,684)	$ (9,525)
Impact on net present value of shareholders' equity	**31,633**	11,778	25,913	**(31,076)**	(13,210)	(29,092)
Impact on other comprehensive income	**3,156**	2,871	2,571	**(2,432)**	(2,283)	(2,007)

Funding and Liquidity Risk

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

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

Table 22: Liquidity Resources

(000s, except %)	June 30 2016	March 31 2016	December 31 2015
Cash and cash equivalents per balance sheet	**$ 1,448,548**	$ 1,454,752	$ 1,149,849
Available for sale securities per balance sheet	**519,067**	488,211	453,230
Add: MBS included in residential mortgages	**599,175**	694,829	682,772
	2,566,790	2,637,792	2,285,851
Less: securities held for investment	**(175,565)**	(177,933)	(190,706)
Liquid assets at carrying value	**$ 2,391,225**	$ 2,459,859	$ 2,095,145
Liquid assets at fair value	**$ 2,413,233**	$ 2,474,113	$ 2,092,390
Liquid assets at carrying value as a % of total assets	**11.5%**	11.9%	10.2%

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

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The key elements of the Company's operational risk framework including governance, risk identification and assessment, risk measurement, risk monitoring and reporting, business continuity and crisis management and corporate insurance have not changed significantly from the description provided on pages 68 to 69 of the 2015 Annual Report.

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

Compliance Risk

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

Capital Adequacy Risk

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

Reputational Risk

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

ACCOUNTING STANDARDS AND POLICIES

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

Future Changes in Accounting Standards

The new IFRS pronouncements that have been issued but are not yet effective and may have a future impact on the Company are discussed in Note 3 of the unaudited interim consolidated financial statements.

Controls over Financial Reporting

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

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

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

QUARTERLY FINANCIAL HIGHLIGHTS

Table 23: Summary of Quarterly Results

(000s, except per share and %)	**2016**		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income (TEB[1])	**$ 122,987**	$ 123,490	$ 127,599	$ 122,635	$ 118,175	$ 116,511	$ 117,440	$ 118,648
Less: TEB adjustment	**884**	973	941	937	965	987	1,024	1,065
Net interest income per financial statements	**122,103**	122,517	126,658	121,698	117,210	115,524	116,416	117,583
Non-interest income[2]	**24,658**	22,989	24,255	23,385	29,061	27,092	56,437	24,972
Non-interest expense	**54,912**	58,017	54,681	44,955	47,374	43,633	39,889	42,901
Total revenue	**242,526**	241,848	248,462	247,194	250,879	249,232	284,592	255,046
Total adjusted revenue[3]	**242,526**	241,197	246,406	247,194	250,879	249,232	251,917	255,046
Net income	**66,252**	64,248	70,239	72,443	72,317	72,286	95,936	73,755
Adjusted net income[3]	**66,252**	67,497	71,811	72,443	72,317	72,286	71,917	73,755
Return on shareholders' equity	**16.5%**	15.7%	17.6%	18.7%	19.1%	19.7%	27.2%	22.0%
Adjusted return on shareholders' equity[3]	**16.5%**	16.4%	18.0%	18.7%	19.1%	19.7%	20.4%	22.0%
Return on average total assets	**1.3%**	1.2%	1.4%	1.4%	1.4%	1.4%	1.9%	1.4%
Total assets under administration	**28,430,730**	27,960,592	27,316,476	25,404,219	25,456,212	25,066,234	24,281,366	24,226,114
Total loans under administration	**25,732,657**	25,222,523	25,058,122	23,426,735	22,922,440	22,742,462	22,563,532	22,153,408
Earnings per common share								
Basic	**$ 0.99**	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03	$ 1.37	$ 1.05
Diluted	**$ 0.99**	$ 0.92	$ 1.00	$ 1.03	$ 1.03	$ 1.03	$ 1.36	$ 1.05
Adjusted earnings per common share[3]								
Basic	**$ 0.99**	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03	$ 1.03	$ 1.05
Diluted	**$ 0.99**	$ 0.96	$ 1.02	$ 1.03	$ 1.03	$ 1.03	$ 1.02	$ 1.05
Book value per common share	**$ 23.67**	$ 23.75	$ 23.17	$ 22.37	$ 21.87	$ 21.18	$ 20.67	$ 19.57
Efficiency ratio (TEB[1])	**37.2%**	39.6%	36.0%	30.8%	32.2%	30.4%	22.9%	29.9%
Adjusted efficiency ratio (TEB[1,3])	**37.2%**	36.3%	33.7%	30.8%	32.2%	30.4%	28.2%	29.9%
Common equity tier 1 ratio[4]	**16.38%**	18.28%	18.31%	18.06%	18.03%	17.95%	18.30%	17.58%
Tier 1 capital ratio[4]	**16.38%**	18.28%	18.30%	18.06%	18.03%	17.94%	18.30%	17.58%
Total capital ratio[4]	**16.82%**	20.63%	20.70%	20.51%	20.53%	20.50%	20.94%	20.24%
Net non-performing loans as a % of gross loans	**0.33%**	0.34%	0.28%	0.30%	0.33%	0.25%	0.30%	0.27%
Annualized provision as a % of gross uninsured loans	**0.08%**	0.04%	0.04%	0.08%	0.07%	0.07%	0.09%	0.11%
Annualized provision as a % of gross loans	**0.06%**	0.03%	0.03%	0.06%	0.05%	0.05%	0.07%	0.08%

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

2 Q4 2014 included a gain on sale of a retail lending portfolio.

3 See definition of Total Adjusted Revenue, Adjusted Net Income, Adjusted Return on Shareholders' Equity, Adjusted Earnings per Common Share, and Adjusted Efficiency Ratio under Non-GAAP Measures in this report and the reconciliation of net income to adjusted net income in Table 1 of this report.

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

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, efficiency measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions while the second and third quarters have traditionally experienced higher levels of advances. First quarter credit statistics may experience decline reflecting post-holiday arrears increases. Non-interest expenses and the efficiency ratio generally tend to increase in the third quarter, reflecting increased lending activity through the summer period (Please see the Non-Interest Expense section of this MD&A for discussion on non-interest expenses in Q2 2016).

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

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

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

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

The Company presents adjusted revenue, adjusted net income and adjusted earnings per share. The adjusted results remove items of note, net of income taxes, from reported results for items which management does not believe are indicative of future results. The items of note for Q1 2016 include an additional gain recognized on acquisition of CFF Bank and certain severance and other related costs. There were no items of note for Q2 2016 or in the first six months of 2015. Return on shareholders' equity and efficiency ratios are also presented on an adjusted basis.

Reconciliation of Net Income to Adjusted Net Income

	Quarter			Year to date	
(000s, except per share amounts)	**Q2 2016**	Q1 2016	Q2 2015	**2016**	2015
Net income	**$ 66,252**	$ 64,248	$ 72,317	**$ 130,500**	$ 144,603
Adjustment for gain recognized on acquisition of CFF Bank (net of tax)	**-**	(478)	-	**(478)**	-
Adjustment for certain severance and other related costs (net of tax)	**-**	3,727	-	**3,727**	-
Adjusted Net Income	**$ 66,252**	$ 67,497	$ 72,317	**$ 133,749**	$ 144,603
Adjusted Basic Earnings per Share	**$ 0.99**	$ 0.96	$ 1.03	**$ 1.96**	$ 2.06
Adjusted Diluted Earnings per Share	**$ 0.99**	$ 0.96	$ 1.03	**$ 1.95**	$ 2.05

Allowance as a Percentage of Gross Loans

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

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

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

Efficiency or Productivity Ratio and Adjusted Efficiency or Productivity Ratio

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

Leverage Ratio

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

Liquid Assets

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

Market Capitalization

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

Net Interest Margin (Non-TEB)

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

Net Interest Margin (TEB)

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

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

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

Provision as a Percentage of Gross Loans (PCL Ratio)

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

Provision as a Percentage of Gross Uninsured Loans

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

Return on Assets (ROA)

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

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

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

Risk-weighted Assets (RWA)

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

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and discuss their financial results on a taxable equivalent basis (TEB) to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income principally from preferred and common equity securities. The adjustment to TEB used in this MD&A increases income and the provision for income taxes to what they would have been had the income from tax-exempt securities been taxed at the statutory tax rate. TEB adjustments of $0.9 million for Q2 2016 ($1.0 million – Q1 2016; $1.0 million – Q2 2015) increased interest income as used in the calculation of net interest margin. Net interest margin is discussed on a TEB throughout this MD&A. See Table 3 for the calculation of net interest income on a tax equivalent basis.

Total Assets under Administration (AUA)

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

Total Loans under Administration (LUA)

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

Glossary of Terms

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

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

Basis Point is one-hundredth of a percentage point.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

CVA – Credit Valuation Adjustment

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

HELOC – Home Equity Line of Credit

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

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

MBS – Mortgage-Backed Security

MD&A – Management's Discussion and Analysis

NCCF – Net Cumulative Cash Flow

NHA – National Housing Authority

OCI – Other Comprehensive Income

OSFI – Office of the Superintendent of Financial Institutions Canada

TEB – Taxable Equivalent Basis

Consolidated Statements of Income

	For the three months ended			For the six months ended	
thousands of Canadian dollars, except per share amounts	**June 30**	March 31	June 30	**June 30**	June 30
(Unaudited)	**2016**	2016	2015	**2016**	2015
Net Interest Income Non-Securitized Assets					
Interest from loans (note 5(F))	**$ 191,704**	$ 193,546	$ 190,559	**$ 385,250**	$ 377,459
Dividends from securities	**2,447**	2,692	2,677	**5,139**	5,415
Other interest	**2,985**	2,528	2,303	**5,513**	4,411
	197,136	198,766	195,539	**395,902**	387,285
Interest on deposits and other	**77,847**	77,685	80,669	**155,532**	160,064
Interest on senior debt	**465**	1,778	1,516	**2,243**	3,060
Net interest income non-securitized assets	**118,824**	119,303	113,354	**238,127**	224,161
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets (note 5(F))	**20,732**	20,093	26,279	**40,825**	56,673
Interest expense on securitization liabilities	**17,453**	16,879	22,423	**34,332**	48,100
Net interest income securitized loans and assets	**3,279**	3,214	3,856	**6,493**	8,573
Total Net Interest Income	**122,103**	122,517	117,210	**244,620**	232,734
Provision for credit losses (note 5(E))	**2,760**	1,394	2,266	**4,154**	4,669
	119,343	121,123	114,944	**240,466**	228,065
Non-Interest Income					
Fees and other income	**17,328**	19,165	21,390	**36,493**	42,609
Securitization income (note 6(C))	**9,452**	7,682	9,251	**17,134**	14,660
Gain on acquisition of CFF Bank (note 14)	**-**	651	-	**651**	-
Net realized and unrealized (losses) gains on securities	**-**	(175)	-	**(175)**	1,444
Net realized and unrealized losses on derivatives (note 12)	**(2,122)**	(4,334)	(1,580)	**(6,456)**	(2,560)
	24,658	22,989	29,061	**47,647**	56,153
	144,001	144,112	144,005	**288,113**	284,218
Non-Interest Expenses					
Salaries and benefits	**24,685**	28,711	21,603	**53,396**	43,617
Premises	**3,575**	3,851	3,260	**7,426**	6,394
Other operating expenses	**26,652**	25,455	22,511	**52,107**	41,026
	54,912	58,017	47,374	**112,929**	91,037
Income Before Income Taxes	**89,089**	86,095	96,631	**175,184**	193,181
Income taxes (note 10)					
Current	**24,911**	20,086	25,193	**44,997**	49,744
Deferred	**(2,074)**	1,761	(879)	**(313)**	(1,166)
	22,837	21,847	24,314	**44,684**	48,578
NET INCOME	**$ 66,252**	$ 64,248	$ 72,317	**$ 130,500**	$ 144,603
NET INCOME PER COMMON SHARE					
Basic	**$ 0.99**	$ 0.92	$ 1.03	**$ 1.91**	$ 2.06
Diluted	**$ 0.99**	$ 0.92	$ 1.03	**$ 1.91**	$ 2.05
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**66,663**	69,972	70,230	**68,324**	70,184
Diluted	**66,798**	70,047	70,488	**68,420**	70,488
Total number of outstanding common shares (note 8(A))	**65,741**	69,966	70,247	**65,741**	70,247
Book value per common share	**$ 23.67**	$ 23.75	$ 21.87	**$ 23.67**	$ 21.87

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

Consolidated Statements of Comprehensive Income

		For the three months ended		For the six months ended	
	June 30	March 31	June 30	**June 30**	June 30
thousands of Canadian dollars (Unaudited)	**2016**	2016	2015	**2016**	2015
NET INCOME	**$ 66,252**	$ 64,248	$ 72,317	**$ 130,500**	$ 144,603
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities and Retained Interests					
Net unrealized gains (losses)	**4,272**	(13,014)	(12,860)	**(8,742)**	(38,432)
Net losses (gains) reclassified to net income	**-**	204	-	**204**	(1,443)
	4,272	(12,810)	(12,860)	**(8,538)**	(39,875)
Income tax expense (recovery)	**1,134**	(3,421)	(3,422)	**(2,287)**	(10,578)
	3,138	(9,389)	(9,438)	**(6,251)**	(29,297)
Cash Flow Hedges (note 12)					
Net unrealized (losses) gains	**(1,312)**	3,221	345	**1,909**	(469)
Net losses reclassified to net income	**341**	364	370	**705**	736
	(971)	3,585	715	**2,614**	267
Income tax (recovery) expense	**(257)**	951	188	**694**	69
	(714)	2,634	527	**1,920**	198
Total other comprehensive income (loss)	**2,424**	(6,755)	(8,911)	**(4,331)**	(29,099)
COMPREHENSIVE INCOME	**$ 68,676**	$ 57,493	$ 63,406	**$ 126,169**	$ 115,504

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

Consolidated Balance Sheets

thousands of Canadian dollars (Unaudited)	**June 30 2016**	March 31 2016	December 31 2015
			As at
ASSETS			
Cash and Cash Equivalents (note 4(A))	**$ 1,448,548**	$ 1,454,752	$ 1,149,849
Available for Sale Securities (note 4(B))	**519,067**	488,211	453,230
Loans Held for Sale	**117,691**	70,187	135,043
Loans (note 5)			
Securitized mortgages (note 6(A))	**2,704,230**	2,516,944	2,674,475
Non-securitized mortgages and loans	**15,243,153**	15,362,784	15,459,190
	17,947,383	17,879,728	18,133,665
Collective allowance for credit losses (note 5(E))	**(37,063)**	(36,463)	(36,249)
	17,910,320	17,843,265	18,097,416
Other			
Restricted assets (note 7)	**232,000**	293,637	195,921
Derivative assets (note 12)	**58,086**	63,931	64,796
Other assets	**329,009**	328,013	287,417
Deferred tax assets (note 10)	**15,798**	15,562	15,043
Goodwill and intangible assets	**132,628**	130,426	128,347
	767,521	831,569	691,524
	$ 20,763,147	$ 20,687,984	$ 20,527,062
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 2,274,577**	$ 2,321,093	$ 1,986,136
Deposits payable on a fixed date	**13,747,642**	13,503,806	13,679,822
	16,022,219	15,824,899	15,665,958
Senior Debt (note 11)	**-**	153,283	151,480
Securitization Liabilities (note 6(B))			
CMHC-sponsored mortgage-backed security liabilities	**928,312**	863,284	531,326
CMHC-sponsored Canada Mortgage Bond liabilities	**1,766,143**	1,870,548	2,249,230
Bank-sponsored securitization conduit liabilities	**143,024**	-	-
	2,837,479	2,733,832	2,780,556
Other			
Derivative liabilities (note 12)	**3,145**	1,040	5,447
Other liabilities	**306,395**	273,317	264,941
Deferred tax liabilities (note 10)	**38,016**	39,854	37,574
	347,556	314,211	307,962
	19,207,254	19,026,225	18,905,956
Shareholders' Equity			
Capital stock (note 8)	**85,513**	90,283	90,247
Contributed surplus	**4,255**	4,230	3,965
Retained earnings	**1,536,000**	1,639,545	1,592,438
Accumulated other comprehensive loss (note 9)	**(69,875)**	(72,299)	(65,544)
	1,555,893	1,661,759	1,621,106
	$ 20,763,147	$ 20,687,984	$ 20,527,062

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

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts (Unaudited)	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized Losses on Securities and Retained Interests Available for Sale, after Tax	Net Unrealized Losses on Cash Flow Hedges, after Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2015	**$ 90,247**	**$ 3,965**	**$ 1,592,438**	**$ (62,466)**	**$ (3,078)**	**$ (65,544)**	**$ 1,621,106**
Comprehensive income	**-**	**-**	**130,500**	**(6,251)**	**1,920**	**(4,331)**	**126,169**
Stock options settled (note 8(A))	**780**	**(182)**	**-**	**-**	**-**	**-**	**598**
Amortization of fair value of employee stock options (note 8(B))	**-**	**472**	**-**	**-**	**-**	**-**	**472**
Repurchase of shares (note 8(A))	**(5,514)**	**-**	**(154,309)**	**-**	**-**	**-**	**(159,823)**
Dividends ($0.48 per share)	**-**	**-**	**(32,629)**	**-**	**-**	**-**	**(32,629)**
Balance at June 30, 2016	**$ 85,513**	**$ 4,255**	**$ 1,536,000**	**$ (68,717)**	**$ (1,158)**	**$ (69,875)**	**$ 1,555,893**
Balance at December 31, 2014	$ 84,687	$ 3,989	$ 1,378,562	$ (16,242)	$ (2,363)	$ (18,605)	$ 1,448,633
Comprehensive income	-	-	144,603	(29,297)	198	(29,099)	115,504
Stock options settled (note 8(A))	4,920	(1,323)	-	-	-	-	3,597
Amortization of fair value of employee stock options (note 8(B))	-	808	-	-	-	-	808
Repurchase of shares (note 8(A))	(4)	-	(124)	-	-	-	(128)
Dividends ($0.44 per share)	-	-	(32,315)	-	-	-	(32,315)
Balance at June 30, 2015	$ 89,603	$ 3,474	$ 1,490,726	$ (45,539)	$ (2,165)	$ (47,704)	$ 1,536,099

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

Consolidated Statements of Cash Flows

thousands of Canadian dollars (Unaudited)	For the three months ended June 30 2016	June 30 2015	For the six months ended June 30 2016	June 30 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 66,252**	$ 72,317	**$ 130,500**	$ 144,603
Adjustments to determine cash flows relating to operating activities:				
Amortization of net (discount) premium on securities	**(182)**	29	**(317)**	23
Provision for credit losses	**2,760**	2,266	**4,154**	4,669
Gain on sale of mortgages or residual interest	**(7,976)**	(7,804)	**(13,911)**	(12,231)
Net realized and unrealized gains (losses) on securities	**-**	-	**175**	(1,444)
Amortization of capital and intangible assets	**3,827**	3,423	**7,473**	6,347
Amortization of fair value of employee stock options	**195**	389	**472**	808
Deferred income taxes	**(2,074)**	(879)	**(313)**	(1,166)
Changes in operating assets and liabilities				
Loans, net of securitization and sales	**(108,969)**	214,733	**214,525**	391,509
Restricted assets	**61,637**	(194,152)	**(36,079)**	(312,102)
Derivative assets and liabilities	**6,979**	19,525	**7,022**	(23,529)
Accrued interest receivable	**1,225**	1,274	**2,718**	1,320
Accrued interest payable	**(12,119)**	(15,426)	**5,660**	20,780
Deposits	**197,320**	224,642	**356,261**	1,026,573
Securitization liabilities	**103,647**	(313,346)	**56,923**	(792,619)
Taxes receivable or payable and other	**39,384**	46,108	**(7,841)**	47,167
Cash flows provided by operating activities	**351,906**	53,099	**727,422**	500,708
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of shares	**(159,460)**	(43)	**(159,823)**	(128)
Exercise of employee stock options	**557**	543	**598**	3,597
Repayment of senior debt	**(150,000)**	-	**(150,000)**	-
Dividends paid to shareholders	**(15,834)**	(15,450)	**(32,629)**	(30,880)
Cash flows used in financing activities	**(324,737)**	(14,950)	**(341,854)**	(27,411)
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in securities				
Purchases	**(103,942)**	-	**(189,361)**	-
Proceeds from sales	**-**	-	**-**	76,924
Proceeds from maturities	**76,933**	2,932	**114,104**	19,593
Purchases of capital assets	**(1,095)**	(870)	**(1,319)**	(2,693)
Capitalized intangible development costs	**(5,269)**	(6,789)	**(10,293)**	(12,193)
Cash flows (used in) provided by investing activities	**(33,373)**	(4,727)	**(86,869)**	81,631
Net (decrease) increase in cash and cash equivalents during the period	**(6,204)**	33,422	**298,699**	554,928
Cash and cash equivalents at beginning of the period	**1,454,752**	882,252	**1,149,849**	360,746
Cash and Cash Equivalents at End of the Period (note 4(A))	**$ 1,448,548**	$ 915,674	**$ 1,448,548**	$ 915,674
Supplementary Disclosure of Cash Flow Information				
Dividends received on investments	**$ 2,772**	$ 2,463	**$ 5,551**	$ 4,948
Interest received	**216,513**	220,829	**433,897**	440,619
Interest paid	**111,196**	121,989	**187,815**	190,476
Income taxes paid	**16,647**	27,351	**44,126**	75,506

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

1. CORPORATE INFORMATION

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

These unaudited interim consolidated financial statements for the period ended June 30, 2016 were authorized for issuance by the Board of Directors (the Board) of the Company on July 27, 2016. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

Subsequent to the end of the second quarter and before the date these financial statements were authorized for issuance, the Board of Directors declared a quarterly cash dividend of $15.8 million or $0.24 per common share payable on September 1, 2016 to shareholders of record at the close of business on August 15, 2016.

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

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

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2015 as set out in the 2015 Annual Report, on pages 75 through 113. Those audited consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises which are International Financial Reporting Standards (IFRS) as issued by the IASB.

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

Comparative Consolidated Financial Statements

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

Bank-Sponsored Securitization Conduit Program

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

Use of Judgement and Estimates

Management has exercised judgement in the process of applying the Company's accounting policies. In particular, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Certain securitized loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred through the two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

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

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at June 30, 2016 and therefore have not been applied in preparing these unaudited interim consolidated financial statements.

IFRS 9 *Financial Instruments*

The Company will be required to adopt IFRS 9, *Financial Instruments* (IFRS 9), including classification and measurement, impairment and hedge accounting for annual periods beginning on or after January 1, 2018. In June 2016, the Office of the Superintendent of Financial Institutions Canada (OSFI) issued its final guideline on *IFRS 9 Financial Instruments and Disclosures*. The guideline sets out OSFI's expectations on the application of IFRS 9 and includes supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

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

IFRS 16 *Leases*

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

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars (Unaudited)		June 30 2016		March 31 2016		December 31 2015
Cash and cash equivalents						
Deposits with regulated financial institutions	$	**1,448,548**	$	1,454,752	$	1,149,849
Cash resources unrestricted to Company use	$	**1,448,548**	$	1,454,752	$	1,149,849

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

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

(B) Available for Sale Securities - Net Unrealized Losses

thousands of Canadian dollars (Unaudited)		June 30 2016		March 31 2016		December 31 2015
Debt securities	$	**143**	$	(793)	$	(632)
Equity securities		**(96,088)**		(98,818)		(85,751)
Net unrealized loss	$	**(95,945)**	$	(99,611)	$	(86,383)

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

The unrealized losses included above represent the differences between the cost of a security and its current fair value. The Company regularly monitors its investments and market conditions for indications of impairment. As of June 30, 2016, the Company assessed its securities portfolio for evidence of impairment and has not identified any negative credit events in relation to its preferred share holdings.

For the three months ended June 30, 2016, the Company recognized $nil with a year-to-date total of $204 thousand ($204 thousand – Q1 2016; $nil – Q2 2015; $394 thousand – six months of 2015) of additional impairment losses on available for sale securities previously identified as impaired.

5. LOANS

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

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

thousands of Canadian dollars, except % (Unaudited)						As at March 31, 2016
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 155,555	$ 161,669	$ 1,368,855	$ 67,152	$ 80,946	$ 1,834,177
Securitized multi-unit residential mortgages	94,246	46,606	331,428	49,812	160,675	682,767
Total securitized mortgages	249,801	208,275	1,700,283	116,964	241,621	2,516,944
Single-family residential mortgages	683,892	472,153	11,015,075	392,627	247,042	12,810,789
Residential commercial mortgages[2]	6,053	6,437	227,539	28,454	14,605	283,088
Non-residential commercial mortgages	25,152	64,771	1,448,205	14,799	19,585	1,572,512
Credit card loans and lines of credit	9,678	22,709	333,921	1,349	7,001	374,658
Other consumer retail loans	801	13,053	307,167	-	716	321,737
Total non-securitized mortgages and loans[3]	725,576	579,123	13,331,907	437,229	288,949	15,362,784
	$ 975,377	$ 787,398	$ 15,032,190	$ 554,193	$ 530,570	$ 17,879,728
As a % of portfolio	5.5%	4.4%	84.0%	3.1%	3.0%	100.0%

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

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

(B) Past Due Loans that are not Impaired

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

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

thousands of Canadian dollars (Unaudited)					As at March 31, 2016
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 5,458	$ 576	$ -	$ 1,183 [2]	$ 7,217
Securitized multi-unit residential mortgages	-	-	-	-	-
Single-family residential mortgages	169,987	33,550	4,682	4,777 [2]	212,996
Residential commercial mortgages	-	-	-	-	-
Non-residential commercial mortgages	7,330	2,144	158	-	9,632
Credit card loans and lines of credit	2,093	986	801	73	3,953
Other consumer retail loans	109	32	65	-	206
	$ 184,977	$ 37,288	$ 5,706	$ 6,033	$ 234,004

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

[1]Securitized single-family residential mortgages include both CMHC-sponsored securitized insured mortgages and bank-sponsored securitization conduit uninsured mortgages.
[2]Insured residential mortgages are considered impaired when they are 365 days past due.

(C) Impaired Loans and Individual Allowances for Credit Losses

Residential mortgages guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. As CMHC-sponsored securitized residential mortgages are insured, credit losses are generally not anticipated. There were no impaired uninsured securitized mortgages nor any individual allowances on such mortgages at June 30, 2016, March 31, 2016, and December 31,2015.

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

thousands of Canadian dollars (Unaudited)	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	As at March 31, 2016 Total
Gross amount of impaired loans	$ 49,574	$ 4,000	$ 6,846	$ 2,117	$ 232	$ 62,769
Individual allowances on principal	(1,186)	-	(325)	(408)	(232)	(2,151)
Net amount of impaired loans	$ 48,388	$ 4,000	$ 6,521	$ 1,709	$ -	$ 60,618

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

(D) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant. At June 30, 2016, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $359.5 million ($359.6 million - March 31, 2016; $458.3 million – December 31, 2015). For impaired mortgages, the total appraised value of collateral at June 30, 2016 was $86.9 million ($99.6 million - March 31, 2016; $74.5 million – December 31, 2015).

(E) Allowance for Credit Losses

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

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

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)	For the three months ended June 30, 2015					
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,400	$ -	$ 200	$ 22	$ 170	$ 1,792
Provision for credit losses	945	(4)	276	198	22	1,437
Write-offs	(1,253)	(1)	(1)	(164)	(119)	(1,538)
Recoveries	371	5	5	12	69	462
	1,463	-	480	68	142	2,153
Allowance on accrued interest receivable						
Balance at the beginning of the period	594	-	105	-	4	703
Provision for credit losses	186	-	45	-	(2)	229
	780	-	150	-	2	932
Total individual allowance	2,243	-	630	68	144	3,085
Collective allowance						
Balance at the beginning of the period	21,232	327	9,300	3,541	300	34,700
Provision for credit losses	400	-	200	-	-	600
	21,632	327	9,500	3,541	300	35,300
Total allowance	$ 23,875	$ 327	$ 10,130	$ 3,609	$ 444	$ 38,385
Total provision	$ 1,531	$ (4)	$ 521	$ 198	$ 20	$ 2,266

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)						**For the six months ended June 30, 2016**
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,652**	**$ -**	**$ 340**	**$ 329**	**$ 161**	**$ 2,482**
Provision for credit losses	**1,689**	**-**	**240**	**935**	**156**	**3,020**
Write-offs	**(2,244)**	**-**	**(428)**	**(1,204)**	**(266)**	**(4,142)**
Recoveries	**261**	**-**	**8**	**142**	**116**	**527**
	1,358	**-**	**160**	**202**	**167**	**1,887**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**839**	**-**	**57**	**-**	**5**	**901**
Provision for credit losses	**193**	**128**	**(2)**	**-**	**1**	**320**
	1,032	**128**	**55**	**-**	**6**	**1,221**
Total individual allowance	**2,390**	**128**	**215**	**202**	**173**	**3,108**
Collective allowance						
Balance at the beginning of the period	**22,232**	**327**	**9,500**	**3,890**	**300**	**36,249**
Provision for credit losses	**800**	**-**	**-**	**14**	**-**	**814**
	23,032	**327**	**9,500**	**3,904**	**300**	**37,063**
Total allowance	**$ 25,422**	**$ 455**	**$ 9,715**	**$ 4,106**	**$ 473**	**$ 40,171**
Total provision	**$ 2,682**	**$ 128**	**$ 238**	**$ 949**	**$ 157**	**$ 4,154**

thousands of Canadian dollars (Unaudited)						For the six months ended June 30, 2015
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans and Lines of Credit	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,808	$ -	$ 55	$ 80	$ 160	$ 2,103
Provision for credit losses	2,404	4	430	292	27	3,157
Write-offs	(3,409)	(9)	(10)	(320)	(241)	(3,989)
Recoveries	660	5	5	16	196	882
	1,463	-	480	68	142	2,153
Allowance on accrued interest receivable						
Balance at the beginning of the period	560	-	57	-	3	620
Provision for credit losses	220	-	93	-	(1)	312
	780	-	150	-	2	932
Total individual allowance	2,243	-	630	68	144	3,085
Collective allowance						
Balance at the beginning of the period	20,632	327	9,300	3,541	300	34,100
Provision for credit losses	1,000	-	200	-	-	1,200
	21,632	327	9,500	3,541	300	35,300
Total allowance	$ 23,875	$ 327	$ 10,130	$ 3,609	$ 444	$ 38,385
Total provision	$ 3,624	$ 4	$ 723	$ 292	$ 26	$ 4,669

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

(F) Interest Income by Product

thousands of Canadian dollars (Unaudited)	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Traditional single-family residential mortgages	**$ 137,067**	$ 138,429	$ 147,805	**$ 275,496**	$ 294,042
ACE Plus single-family residential mortgages	**2,578**	2,464	-	**5,042**	-
Accelerator single-family residential mortgages	**7,541**	9,547	7,280	**17,088**	13,247
Residential commercial mortgages	**4,571**	4,269	3,972	**8,840**	7,896
Non-residential commercial mortgages	**23,930**	23,561	18,507	**47,491**	36,760
Credit card loans and lines of credit	**8,365**	8,350	7,692	**16,715**	15,216
Other consumer retail loans	**7,652**	6,926	5,303	**14,578**	10,298
Total interest income on non-securitized loans	**191,704**	193,546	190,559	**385,250**	377,459
CMHC-sponsored securitized single-family residential mortgages	**12,164**	11,442	15,610	**23,606**	34,818
CMHC-sponsored securitized multi-unit residential mortgages	**7,471**	7,960	9,333	**15,431**	19,166
Assets pledged as collateral for CMHC-sponsored securitization	**571**	691	1,336	**1,262**	2,689
Bank-sponsored securitization conduit assets	**526**	-	-	**526**	-
Total interest income on securitized loans	**20,732**	20,093	26,279	**40,825**	56,673
	$ 212,436	$ 213,639	$ 216,838	**$ 426,075**	$ 434,132

6. SECURITIZATION ACTIVITY

(A) Assets Pledged as Collateral

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

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

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

thousands of Canadian dollars (Unaudited)	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Beginning balance on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,684,719**	$ 2,731,350	$ 3,734,590	**$ 2,731,350**	$ 4,247,644
Mortgages assigned in new securitizations	**1,085,657**	1,087,040	570,380	**2,172,697**	1,003,256
Net (reduction) addition of non-Home Trust MBS and treasury bills	**(77,268)**	110,900	181,187	**33,632**	300,220
Mortgages derecognized [2]	**(589,424)**	(596,942)	(569,071)	**(1,186,366)**	(998,791)
Maturity, amortization and changes in mortgages assigned as CMB replacement assets	**(308,947)**	(647,629)	(500,575)	**(956,576)**	(1,135,818)
Ending balance on-balance sheet assets assigned as collateral for securitization [1]	**$ 2,794,737**	$ 2,684,719	$ 3,416,511	**$ 2,794,737**	$ 3,416,511

[1]Included in the on-balance sheet assets assigned as collateral at June 30, 2016 is $90.5 million ($167.8 million – March 31, 2016, $56.9 million – December 31, 2015) in non-Home Trust MBS and treasury bills and $2.70 billion ($2.52 billion – March 31, 2016, $2.67 billion – December 31, 2015) of securitized mortgages.
[2]Mortgages are derecognized upon the sale of residual interests in insured single-family residential mortgages and the securitization and sale of multi-unit residential mortgages.

Non-Home Trust MBS and treasury bills assigned as collateral are accounted for as available for sale assets and included in restricted assets on the consolidated balance sheets. Please see Note 7 for more information. Additionally, off-balance sheet mortgage loans of $7.66 billion ($7.26 billion – March 31, 2016; $6.78 billion – December 31, 2015) are assigned as collateral related to CMHC for sponsored securitization programs. Included in this amount are $1.36 billion ($1.41 billion – March 31, 2016, $1.44 billion – December 31, 2015) of mortgages that were sold under the whole loan sales program of CFF Bank prior to the acquisition of CFF Bank by Home Trust. These mortgages were securitized subsequent to the whole loan sales by the purchaser.

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the period, which are secured by insured mortgages for CMHC-sponsored securitizations, uninsured mortgages for the bank-sponsored securitization conduit and other restricted assets. This table includes only on-balance sheet originations and discharges.

	For the three months ended			For the six months ended	
thousands of Canadian dollars (Unaudited)	**June 30 2016**	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Balance at the beginning of the period	**$ 2,733,832**	$ 2,780,556	$ 3,824,190	**$ 2,780,556**	$ 4,303,463
Addition to securitization liabilities as a result of on-balance sheet activity	**769,158**	890,173	-	**1,659,331**	2,321
Net reduction in securitization liabilities due to maturities, amortization and sales	**(662,995)**	(929,109)	(313,264)	**(1,592,104)**	(802,513)
Other[1]	**(2,516)**	(7,788)	(82)	**(10,304)**	7,573
Securitization liability	**$ 2,837,479**	$ 2,733,832	$ 3,510,844	**$ 2,837,479**	$ 3,510,844
Proceeds received for mortgages assigned in new securitizations	**$ 1,055,171**	$ 1,081,818	$ 562,398	**$ 2,136,989**	$ 997,218

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

(C) Securitization Income

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

	For the three months ended			For the six months ended	
thousands of Canadian dollars (Unaudited)	**June 30 2016**	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Net gain on sale of mortgages and residual interest[1]	**$ 7,976**	$ 5,935	$ 7,804	**$ 13,911**	$ 12,231
Net change in unrealized gain or loss on hedging activities	**(101)**	345	200	**244**	(42)
Servicing income	**1,577**	1,402	1,247	**2,979**	2,471
Total securitization income	**$ 9,452**	$ 7,682	$ 9,251	**$ 17,134**	$ 14,660

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

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

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

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

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

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

thousands of Canadian dollars (Unaudited)						For the three months ended
			June 30 2016			March 31 2016
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 297,314**	**$ 292,110**	**$ 589,424**	$ 400,474	$ 196,468	$ 596,942
Net gains on sale of mortgages or residual interest[1]	**4,447**	**3,529**	**7,976**	4,733	1,202	5,935
Retained interests recorded	**-**	**11,949**	**11,949**	-	9,870	9,870
Servicing liability recorded	**-**	**2,666**	**2,666**	-	1,568	1,568

thousands of Canadian dollars (Unaudited)			For the three months ended
			June 30 2015
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 306,500	$ 262,571	$ 569,071
Net gains on sale of mortgages or residual interest[1]	5,239	2,565	7,804
Retained interests recorded	-	10,005	10,005
Servicing liability recorded	-	2,091	2,091

thousands of Canadian dollars (Unaudited)						For the six months ended
			June 30 2016			June 30 2015
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 697,788**	**$ 488,578**	**$ 1,186,366**	$ 601,899	$ 396,892	$ 998,791
Net gains on sale of mortgages or residual interest[1]	**9,180**	**4,731**	**13,911**	8,954	3,277	12,231
Retained interests recorded	**-**	**21,819**	**21,819**	-	18,385	18,385
Servicing liability recorded	**-**	**4,234**	**4,234**	-	3,265	3,265

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

(D) Purchased Residual Interests

In 2014, the Company purchased from certain counterparties, residual interests of underlying insured fixed-rate residential mortgages that have been securitized. The purchase results in the Company acquiring only the residual interests without acquiring either the underlying mortgages or the corresponding liabilities. At June 30, 2016, the notional amount of these instruments was $478.2 million, with $6.8 million recorded in available for sale securities (March 31, 2016 – notional amount of $499.3 million, with $8.0 million recorded in available for sale securities, December 31, 2015 – notional amount of $520.6 million, with $9.3 million related to the purchased residual interests recorded in available for sale securities). No residual interests were purchased prior or subsequent to 2014. Interest earned on these investments is recorded in other interest income on the consolidated statements of income.

7. RESTRICTED ASSETS

thousands of Canadian dollars (Unaudited)	June 30 2016	March 31 2016	December 31 2015
Restricted cash			
Restricted cash – CMHC- and bank-sponsored securitization programs	$ 108,306	$ 94,985	$ 110,448
Restricted cash – derivatives	14,916	16,799	14,172
Restricted cash – other programs	18,271	14,078	14,426
Total restricted cash	141,493	125,862	139,046
Non-Home Trust MBS and treasury bills assigned as replacement assets	90,507	167,775	56,875
Total restricted assets	$ 232,000	$ 293,637	$ 195,921

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

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

Restricted cash – other programs include reserve accounts held in trust for the water heater financing and lines of credit through CFF Bank. These amounts are held as cash collateral against potential credit losses. In addition, other programs include account balances held in trust for the whole loan sales program.

8. CAPITAL

(A) Common Shares Issued and Outstanding

The following table summarizes the shares issued and outstanding held at June 30, 2016, March 31, 2016 and June 30, 2015.

thousands (Unaudited)						For the three months ended
	June 30, 2016		March 31, 2016		June 30, 2015	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	69,966	$ 90,283	69,978	$ 90,247	70,226	$ 88,862
Options exercised	33	727	1	53	22	743
Repurchase of shares	(4,258)	(5,497)	(13)	(17)	(1)	(2)
Outstanding at end of period	65,741	$ 85,513	69,966	$ 90,283	70,247	$ 89,603

thousands (Unaudited)				For the six months ended
	June 30, 2016		June 30, 2015	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	69,978	$ 90,247	70,096	$ 84,687
Options exercised	34	780	154	4,920
Repurchase of shares	(4,271)	(5,514)	(3)	(4)
Outstanding at end of period	65,741	$ 85,513	70,247	$ 89,603

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

The purchase cost of shares acquired through the repurchase of shares is allocated between capital stock and retained earnings. Included in the amount allocated to retained earnings is $0.4 million (net of tax) for transaction costs associated with the substantial issuer bid for a total charge to retained earnings of $154.3 million.

The Company has no preferred shares outstanding.

(B) Share Purchase Options

thousands, except per share amounts (Unaudited)						For the three months ended
	June 30, 2016		March 31, 2016		June 30, 2015	
	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of period	1,190	$ 32.37	1,208	$ 32.45	1,133	$ 32.21
Granted	25	31.95	-	-	-	-
Exercised	(33)	16.72	(1)	27.61	(22)	24.69
Forfeited	(64)	39.66	(17)	38.42	(10)	41.49
Outstanding at end of period	1,118	$ 32.40	1,190	$ 32.37	1,101	$ 32.28
Exercisable at end of period	580	$ 29.76	633	$ 29.40	531	$ 24.02

thousands, except per share amounts (Unaudited)				For the six months ended
	June 30, 2016		June 30, 2015	
	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of period	1,208	$ 32.45	1,235	$ 31.00
Granted	25	31.95	30	43.09
Exercised	(34)	17.19	(154)	23.46
Forfeited	(81)	39.41	(10)	41.49
Outstanding at end of period	1,118	$ 32.40	1,101	$ 32.28
Exercisable at end of period	580	$ 29.76	531	$ 24.02

During the second quarter of 2016, $195 thousand was recorded as compensation expense for a year-to-date total of $472 thousand ($277 thousand – Q1 2016; $389 thousand – Q2 2015; $808 thousand – six months of 2015) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus.

(C) Capital Management

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

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

The regulatory capital position of Home Trust was as follows:

(Unaudited)	June 30 2016	March 31 2016	December 31 2015	National Regulatory Minimum
	All-In Basis	All-In Basis	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets				
Common equity tier 1 ratio	16.38%	18.28%	18.31%	7.00%
Tier 1 capital ratio	16.38%	18.28%	18.30%	8.50%
Total regulatory capital ratio	16.82%	20.63%	20.70%	10.50%

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

30, 2016, the Leverage ratio was 6.77% (March 31, 2016 – 7.46%; December 31, 2015 – 7.36%), which exceeds OSFI's minimum requirements.

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

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

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

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars (Unaudited)	**June 30 2016**	March 31 2016	December 31 2015
Unrealized losses on			
Available for sale securities and retained interests	**$ (93,547)**	$ (97,819)	$ (85,009)
Income tax recovery	**(24,830)**	(25,964)	(22,543)
	(68,717)	(71,855)	(62,466)
Unrealized losses on			
Cash flow hedges	**(1,573)**	(602)	(4,187)
Income tax recovery	**(415)**	(158)	(1,109)
	(1,158)	(444)	(3,078)
Accumulated other comprehensive loss	**$ (69,875)**	$ (72,299)	$ (65,544)

10. INCOME TAXES

The table below indicates the difference in the effective rate of income tax in the unaudited interim consolidated statements of income from the combined statutory federal and provincial income tax rate of 26.54% (Q1 2016 - 26.54%; Q2 2015 – 26.54%).

(Unaudited)	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	**June 30 2016**	June 30 2015
Statutory income tax rate	**26.54%**	26.54%	26.54%	**26.54%**	26.51%
Increase (reduction) in income tax rate resulting from					
Tax-exempt income	**(0.73)%**	(0.83)%	(0.74)%	**(0.78)%**	(0.74)%
Non-deductible expenses	**0.07%**	0.09%	0.12%	**0.08%**	0.12%
Scientific research and experimental development investment tax credits	**(0.25)%**	(0.42)%	(0.76)%	**(0.34)%**	(0.76)%
Other	**(0.00)%**	0.00%	0.00%	**0.01%**	0.02%
Effective income tax rate	**25.63%**	25.38%	25.16%	**25.51%**	25.15%

Net deferred tax liabilities on the consolidated balance sheets were $38.0 million (March 31, 2016 - $39.9 million; December 31, 2015 - $37.6 million) and deferred tax assets were $15.8 million (March 31, 2016 - $15.6 million; December 31, 2015 - $15.0 million). The deferred tax liability comprises deferred tax on commissions, finders' fees, transaction costs, and development costs and tax credits. The deferred tax liability is presented net of certain deferred tax assets, primarily attributed to allowances for credit losses. The deferred tax asset balance comprises the loss carryforwards of CFF Bank. The losses generated in CFF Bank expire after 2029. The Company plans to generate sufficient income in CFF Bank to be able to utilize the losses recognized as a deferred tax asset.

11. SENIOR DEBT

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and bond forward contracts to hedge exposures to interest rate risk, and total return swaps to hedge changes in the market value of the Company's common shares. The Company generally uses its derivative instruments in hedge accounting relationships to minimize volatility in earnings caused by changes in interest rates and to reduce volatility in the share-based compensation expense. When a hedging derivative functions effectively, gains, losses, revenues or expenses of the hedging derivative will offset the gains, losses, revenues or expenses of the hedged item.

Cash Flow Hedging Relationships

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

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

thousands of Canadian dollars (Unaudited)	For the three months ended		
	June 30 2016	March 31 2016	June 30 2015
Fair value (losses) gains recorded in OCI	**$ (1,312)**	$ 3,221	$ 345
Reclassification from OCI to net interest income and securitization gains	**(341)**	(364)	(370)

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2016	June 30 2015
Fair value gains (losses) recorded in OCI	**$ 1,909**	$ (469)
Reclassification from OCI to net interest income and securitization gains	**(705)**	(736)

Fair Value Hedging Relationships

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

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

thousands of Canadian dollars (Unaudited)			For the three months ended
	June 30 2016	March 31 2016	June 30 2015
Fair value changes recorded on interest rate swaps[1]	**$ (4,378)**	$ (1,532)	$ (16,513)
Fair value changes of hedged fixed-rate liabilities for interest rate risk[2]	**2,166**	(3,267)	14,795
Hedge ineffectiveness loss recognized in non-interest income[3]	**$ (2,212)**	$ (4,799)	$ (1,718)

thousands of Canadian dollars (Unaudited)		For the six months ended
	June 30 2016	June 30 2015
Fair value changes recorded on interest rate swaps[1]	**$ (5,910)**	$ 23,472
Fair value changes of hedged items for interest rate risk[2]	**(1,101)**	(25,863)
Hedge ineffectiveness gain recognized in non-interest income[3]	**$ (7,011)**	$ (2,391)

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

Other Derivative Gains and Losses

From time to time, the Company enters into derivative positions to hedge interest rate risk, and such derivatives are not designated as hedges for accounting purposes. The changes in fair value of such derivatives flow directly to the consolidated statements of income. Net realized and unrealized gains of $90 thousand for Q2 2016 and net realized and unrealized gains of $555 thousand year to date 2016 ($465 thousand net realized and unrealized gains – Q1 2016; $138 thousand net realized and unrealized gains – Q2 2015; $169 thousand net realized and unrealized losses year-to-date 2015) were recorded in income through net realized and unrealized gain or losses on derivatives.

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

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

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

thousands of Canadian dollars (Unaudited)				As at March 31, 2016
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as accounting hedges				
< 1 year	$ 398,144	$ 2,552	$ -	$ 2,552
1 to 5 years	1,810,725	61,263	-	61,263
	2,208,869	63,815	-	63,815
Swaps not designated as accounting hedges				
< 1 year	50,000	-	(283)	(283)
	50,000	-	(283)	(283)
Bond forwards designated as accounting hedges [1]				
1 to 5 years	205,000	115	(240)	(125)
	205,000	115	(240)	(125)
Bond forwards not designated as accounting hedges [1]				
> 5 years	75,225	1	(517)	(516)
	75,225	1	(517)	(516)
Total	$ 2,539,094	$ 63,931	$ (1,040)	$ 62,891

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

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

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

thousands of Canadian dollars (Unaudited)					As at March 31, 2016
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets held for trading					
Cash and cash equivalents	$ 1,454,752	$ -	$ -	$ 1,454,752	$ 1,454,752
Loans held for sale	-	70,187	-	70,187	70,187
Derivative assets	-	63,931	-	63,931	63,931
Restricted assets	125,862	-	-	125,862	125,862
Total financial assets held for trading	1,580,614	134,118	-	1,714,732	1,714,732
Financial assets available for sale					
Debt securities	302,304	-	7,974	310,278	310,278
Equity securities	177,933	-	-	177,933	177,933
Restricted assets	167,775	-	-	167,775	167,775
Retained interest owned	-	-	87,954	87,954	87,954
Total financial assets available for sale	648,012	-	95,928	743,940	743,940
Loans and receivables					
Securitized mortgages	-	-	2,577,989	2,577,989	2,516,944
Non-securitized mortgages and loans	-	-	15,419,814	15,419,814	15,326,321
Securitization receivables	-	-	88,755	88,755	88,755
Other	-	-	113,038	113,038	113,038
Total loans and receivables	-	-	18,199,596	18,199,596	18,045,058
Total	$ 2,228,626	$ 134,118	$ 18,295,524	$ 20,658,268	$ 20,503,730
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 15,978,585	$ 15,978,585	$ 15,824,899
Senior debt	-	153,283	-	153,283	153,283
Securitization liabilities	-	-	2,814,754	2,814,754	2,733,832
Other	-	-	273,317	273,317	273,317
Total financial liabilities carried at amortized cost	-	153,283	19,066,656	19,219,939	18,985,331
Financial liabilities at fair value					
Derivative liabilities	-	1,040	-	1,040	1,040
Total	$ -	$ 154,323	$ 19,066,656	$ 19,220,979	$ 18,986,371

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

The Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy during the quarter ended June 30, 2016, March 31, 2016 or June 30, 2015.

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

- The fair value of cash and cash equivalents, restricted cash (included in restricted assets), other assets and other liabilities approximate their carrying values due to their short-term nature.
- Available for sale securities are valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices. The fair value of the residual interests of underlying securitized insured fixed-rate residential mortgages is calculated by modelling the future net cash flows. The cash flows are calculated as the difference between the expected cash flow from the underlying mortgages and payment to NHA MBS holders, discounted at the appropriate rate of return.
- Fair value of loans held for sale, all of which are insured, is determined by discounting the expected future cash flows of the loans at current market rates imputed by the realized sale of loans with similar terms.
- The fair value of the retained interest is determined by discounting the expected future cash flows using the current MBS spread over Government of Canada Bonds imputed from recent sale transactions.
- The fair value of securitization receivables is determined by discounting the expected future cash flows using current interest rate swap rates.
- Restricted assets include both securities valued based on quoted bid prices and securities where fair value is determined using average dealer quoted prices.
- Securitized and non-securitized mortgages and loans are carried at amortized cost in the financial statements. For fair value disclosures, the fair value is estimated by discounting the expected future cash flows of the loans, adjusting for credit risk and prepayment assumptions at current market rates for offered loans with similar terms.
- Fair value of derivative financial instruments is calculated as described in Note 12.
- Retail deposits are not transferable by the deposit holders. In the absence of such transfer transactions, fair value of deposits is determined by discounting the expected future cash flows of the deposits at offered rates for deposits with similar terms. The fair value of the institutional deposit notes is determined using current rates of Government of Canada Bonds, plus a spread. The rates reflect the credit risks of similar instruments.
- Fair value of securitization liabilities is determined using their correspondent current market rates including market rates for MBS, CMB and interest rate swap curve.
- Fair value of the senior debt was determined using current market rates of Government of Canada Bonds, plus a spread. The rates reflected the credit risks of similar instruments.

14. BUSINESS ACQUISITION

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

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

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

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

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

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

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

CFF Bank contributed $2.4 million in Q2 2016 and $5.0 million for the first six months of 2016 (Q1 2016 - $2.6 million; Q4 2015 - $2.0 million) to the Company's revenue and incurred a loss before taxes of $1.4 million in Q2 2016 and $3.4 million for the first six months of 2016 (Q1 2016 - $2.0 million; Q4 2015 - $5.7 million).

15. RISK MANAGEMENT

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

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

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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

Directors

Kevin P.D. Smith
Chairman of the Board

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

William A. Dimma
Chairman Emeritus

Officers
Martin Reid
President and Chief Executive Officer

Chris Whyte
Chief Operating Officer and Executive Vice President

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

Pino Decina
Executive Vice President, Residential Mortgage Lending

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

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

Greg Parker
Chief Risk Officer and Executive Vice President

Fariba Rawhani
Executive Vice President, Chief Information Officer

Dinah Henderson
Executive Vice President, Operations

Gary Wilson
Executive Vice President, Underwriting

Benjy Katchen
Executive Vice President, Deposits and Credit Cards

Marie Holland
Senior Vice President, Enterprise Risk Management

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

Anthony Stilo FCPA, FCGA
Senior Vice President, Internal Audit

Auditors
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Principal Bankers
Bank of Montreal
Bank of Nova Scotia

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

Capital Stock
As at June 30, 2016 there were 65,741,369 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

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

Directors
Kevin P.D. Smith
Chairman of the Board

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

Hon. William G. Davis, P.C., C.C., Q.C.
Chairman Emeritus

BRANCHES

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

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

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

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

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

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

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

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

Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Thursday, July 28, 2016 at 10:30 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

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