MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MARCH 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2017 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2016. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2016 remain substantially unchanged. Information has been presented as at May 9, 2017.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this MD&A include, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

The material factors or assumptions that were identified and applied by us in drawing conclusions or making forecasts or projections set out in the forward-looking statements include, but are not limited to:

- the Company's ability to successfully implement and realize on its business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of the Company's business;
- computer failure or security breaches;
- future capital and funding requirements;
- the value of mortgage originations;
- the expected margin between interest earned on mortgage portfolios and interest paid on deposits;
- the relative continued health of real estate markets;
- acceptance of the Company's products in the marketplace;
- availability of key personnel;
- the Company's operating cost structure; and
- the current tax regime.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in Canada Mortgage Bonds ("CMB") and mortgage-backed securities ("MBS") spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers and other employees;
- litigation risk;
- relationships with our mortgage originators;
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.

ACRONYMS

ALCO	*Asset and Liability Committee*	***HELOC***	*Home Equity Line of Credit*	***MD&A***	*Management's Discussion & Analysis*
BCBS	*Basel Committee on Banking Supervision*	***IAS***	*International Accounting Standard*	***MIC***	*Mortgage Investment Corporation*
CAR	*Capital Adequacy Requirements*	***IASB***	*International Accounting Standards Board*	***NHA***	*National Housing Act*
CDIC	*Canada Deposit Insurance Corporation*	***IFRIC***	*IFRS Interpretations Committee*	***NSFR***	*Net Stable Funding Ratio*
CET 1	*Common Equity Tier 1*	***IFRS***	*International Financial Reporting Standards*	***OSFI***	*Office of the Superintendent of Financial Institutions*
CHT	*Canada Housing Trust*	***LAR***	*Liquidity Adequacy Requirements*	***RAF***	*Risk Appetite Framework*
CMB	*Canada Mortgage Bonds*	***LCR***	*Liquidity Coverage Ratio*	***RCB***	*Risk Committee of the Board*
CMHC	*Canada Mortgage and Housing Corporation*	***LP ARA***	*Limited Partner's At-Risk Amount*	***RMBS***	*Residential Mortgage Backed Securities*
DRIP	*Dividend Reinvestment Plan*	***LTV***	*Loan to Value (ratio)*	***SEDAR***	*System for Electronic Document Analysis and Retrieval*
EIM	*Effective Interest Rate Method*	***MBS***	*Mortgage Backed Securities*	***TSX***	*Toronto Stock Exchange*

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)			Change from 2016	
For the Quarters Ended March 31	**2017**	**2016**	**($)**	**(%)**
Income Statement Highlights				
Net investment income - corporate assets	$ 12,963	$ 10,625	$ 2,338	22.0%
Net investment income - securitization assets	1,291	1,244	47	3.8%
	14,254	11,869	2,385	25.8%
Other income	876	-	876	-
Operating expenses	4,617	4,519	98	2.2%
Net income before income taxes	10,513	7,350	3,163	43.0%
Provision for (recovery of) income taxes	248	(421)	669	(158.9%)
Net income	$ 10,265	$ 7,771	$ 2,494	32.1%
Basic and diluted earnings per share	$ 0.44	$ 0.34	$ 0.10	29.4%
Dividends per share	$ 0.30	$ 0.29	$ 0.01	3.4%
Return on average shareholders' equity [1]	14.37%	11.80%		2.57%
Taxable income per share [1]	$ 0.38	$ 0.41	$ (0.03)	(7.3%)
Yields				
Average mortgage portfolio yield - corporate [2]	5.12%	5.27%		(0.15%)
Term deposit average interest rate [2]	2.20%	2.25%		(0.05%)
Spread of mortgages over term deposits	2.92%	3.02%		(0.10%)
Average mortgage portfolio yield - securitized [2]	2.61%	2.69%		(0.08%)
Financial liabilities from securitization - average interest rate [2]	1.90%	2.01%		(0.11%)
Spread of mortgages over liabilities	0.71%	0.68%		0.03%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*
[2] *Refer to "Average Interest Rate" in the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	March 31 2017	December 31 2016	Change from Prior Quarter ($)	Change from Prior Quarter (%)
Balance Sheet Highlights				
Assets				
Corporate	$ 1,133,236	$ 1,188,480	$ (55,244)	(4.6%)
Securitization	1,109,217	1,092,375	16,842	1.5%
Total assets	$ 2,242,453	$ 2,280,855	$ (38,402)	(1.7%)
Mortgages - corporate	$ 861,056	$ 904,112	$ (43,056)	(4.8%)
Mortgages - securitized	$ 1,089,945	$ 1,071,849	$ 18,096	1.7%
Liabilities				
Corporate	$ 868,845	$ 927,293	$ (58,448)	(6.3%)
Securitization	1,087,898	1,071,786	16,112	1.5%
Total liabilities	$ 1,956,743	$ 1,999,079	$ (42,336)	(2.1%)
Shareholders' equity	$ 285,710	$ 281,776	$ 3,934	1.4%
Capital Ratios [1]				
Income Tax Assets to Capital Ratio	4.61	4.87		(5.3%)
Common Equity Tier 1 Capital Ratio (transitional)	22.43%	22.98%		(0.55%)
Common Equity Tier 1 Capital Ratio (all-in)	22.23%	22.55%		(0.32%)
Tier 1 Capital Ratio (transitional)	22.43%	22.98%		(0.55%)
Tier 1 Capital Ratio (all-in)	22.23%	22.55%		(0.32%)
Total Capital Ratio (transitional)	22.43%	22.98%		(0.55%)
Total Capital Ratio (all-in)	22.23%	22.55%		(0.32%)
Leverage ratio [2]	10.87%	10.46%		0.41%
Credit Quality				
Impaired mortgage ratio (total) [1]	0.19%	0.14%		0.05%
Impaired mortgage ratio (corporate) [1]	0.44%	0.31%		0.13%
Mortgage Arrears				
Corporate	$ 33,514	$ 13,041	$ 20,473	157.0%
Securitized	14,797	13,609	1,188	8.7%
Total	$ 48,311	$ 26,650	$ 21,661	81.3%
Common Share Information (end of period)				
Number of common shares outstanding	23,224	23,075		0.6%
Book value per common share [1]	$ 12.30	$ 12.21	$ 0.09	0.7%
Common share price - close	$ 14.96	$ 14.32	$ 0.64	4.5%
Market capitalization [1]	$ 347,431	$ 330,434	$ 16,997	5.1%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*

[2] *Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.*

HIGHLIGHTS

Income Statement

- We earned net income of $10.3 million in Q1 2017, an increase of $2.5 million (32%) from $7.8 million in Q1 2016.
- Earnings per share increased by $0.10 (29%) to $0.44 in Q1 2017 from $0.34 in Q1 2016.
- Return on average shareholders' equity[1] increased to 14.37% in Q1 2017 from 11.80% in Q1 2016.
- Significant gross distribution income of $3.5 million realized from Crown LP financial investment in Q1 2017 (offset by a corresponding reduction to accumulated other comprehensive income).

Corporate Activity

- Corporate assets, which totalled $1.13 billion at March 31, 2017, decreased by $55 million from December 31, 2016.
- The corporate mortgage portfolio decreased by $43 million during Q1 2017 to $861 million from $904 million, which included decreases of $29 million in insured single family, $15 million in commercial and $19 million in uninsured single family, and increases of $11 million in construction and $9 million in completed inventory loans.
- Increase of $2 million in Q1 2017 in our higher-yielding corporate non-mortgage investments, consisting of marketable securities, our equity investment in MCAP and financial investments.

Dividend

- The Board of Directors (the "Board") declared a 7% increase to the quarterly dividend from $0.30 per share to $0.32 per share effective with the 2017 second quarter dividend to be paid on June 30, 2017 to shareholders of record as of June 15, 2017.

Securitization Activity

- We securitized $48 million of insured single family mortgages in Q1 2017, primarily through the CMB program. We did not earn any income on these securitization transactions as a result of reduced spreads in the securitization market and interest rate volatility during Q1 2017.

Credit Quality

- The impaired total mortgage ratio[1] increased to 0.19% at March 31, 2017 from 0.14% at December 31, 2016.
- The impaired corporate mortgage ratio[1] increased to 0.44% at March 31, 2017 from 0.31% at December 31, 2016.
- Total mortgage arrears[1] were $48 million at March 31, 2017, up $21 million (81%) from $27 million at December 31, 2016. The increase was primarily due to two Saskatchewan-based loans totalling $19 million going into arrears during the quarter for which the borrower has filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). Both properties have been listed for sale. We do not expect to incur a loss on either loan as a result of the value of the underlying collateral, and have therefore not recorded individual allowances.
- Net write-offs were 11.9 basis points of the average corporate portfolio in Q1 2017, increased from 3.5 basis points in Q1 2016. The Q1 2017 amount includes 9.7 bps related to the write-off of capitalized legal fees on a construction loan for which an individual allowance had already been recorded, therefore there was no impact to net income. The remaining balance relates to uninsured single family write-offs.
- The average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 56.5% at March 31, 2017, unchanged from 56.5% at December 31, 2016.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 22.43% on the transitional basis and 22.23% on the "all-in" basis at March 31, 2017 compared to 22.98% and 22.55%, respectively, at December 31, 2016.
- Our leverage ratio[1] was 10.87% at March 31, 2017 compared to 10.46% at December 31, 2016.
- Income tax asset capacity[1] was $278 million at March 31, 2017 compared to $209 million at December 31, 2016. This balance represents the additional amount of corporate assets in which we could invest within the rules of the *Income Tax Act (Canada)* (the "Tax Act").

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

OUTLOOK

Market conditions

The Bank of Canada forecast for 2017 Canadian GDP growth is 2.5%, an increase over actual 1.9% growth in Q4 2016. The relatively low levels of expected economic growth continue to lessen the probability of increased interest rates for 2017. The Federal Reserve has increased the discount rate and indicated that further increases are likely in 2017, which has produced an increase in U.S. bond yields and also impacted the interest rate market in Canada. We expect housing markets to continue to benefit from historically low interest rates, but we also expect a slowdown in housing as a result of the impact of regulatory changes and new taxes recently announced in Ontario and announced last year in British Columbia.

Canadian residential real estate markets continue to have mixed performances as regional markets adjust with local economic conditions. The Prairie Provinces continue to demonstrate weakness as oil prices below $50 have a negative impact on employment. Other regional economies continue to benefit from the lower Canadian dollar which has helped to strengthen employment in the manufacturing sector. The Canadian dollar continues to trade at a discount to the U.S. dollar due to weak world-wide commodity prices, a stronger U.S. economy, higher U.S. interest rates and the potential for further U.S. rate increases.

We expect financial markets to experience increased volatility in 2017 with the U.S. potentially revisiting foreign trade policies. We have seen fluctuations in stock markets in reaction to announced policies that will impact U.S. trade. We expect to see increased volatility in international currencies as trade deals impact corporate strategies. In Canada, the impact of a weak oil sector and soft commodity prices continues to affect a significant portion of the stock market.

Ontario and British Columbia have continued to exhibit strong fundamentals and growth, with GDP growth driven by exports and immigration. In Alberta, housing markets have continued to slow as a result of lower oil prices and weakening employment. We continue to focus our origination in Ontario and British Columbia and monitor our exposure to Alberta. We are selective in our origination of new residential construction projects.

Real estate conditions

Canadian housing market conditions continue to be mixed. The Toronto housing market has experienced 31% price inflation year over year in March 2017. Price inflation in Toronto continues to be well in excess of levels supported by employment and income growth.

Vancouver has experienced a slowing of sales and price inflation following changes in mortgage underwriting rules and the 15% tax on non-resident real estate purchases enacted in mid-2016. The tax was intended to help restore housing affordability for residents in the Metro Vancouver Area by raising non-residents' cost of purchasing and, on the margin, discouraging foreign speculation. The greatest impact of this foreign buyer tax has been on homes selling above $5 million.

While some of the price inflation in both Toronto and Vancouver is driven by low mortgage rates and lot supply shortages, we believe that price inflation at these high levels increases the risk of a price correction. We have been operating with more conservative underwriting and credit policies for uninsured mortgages (especially for self-employed applicants). We have also limited our originations in insured single family as a result of narrower spreads while we closely monitor both portfolios.

Regulatory Changes

On April 20, 2017 the Ontario government announced reforms to Ontario's rental and housing market in hopes of cooling the red-hot real estate market in Toronto and salvaging affordable rental options for residents. The Ontario government has put together a 16-point plan to address high home price inflation. Given the recency of the announcement, we are currently not able to determine the magnitude of the impact on MCAN. We will monitor housing and mortgage markets to quantify this impact.

Effective January 1, 2017, the Office of the Superintendent of Financial Institutions Canada ("OSFI") introduced new minimum capital adequacy requirements for mortgage insurers. These changes are expected to increase premiums on mortgage portfolio insurance paid by lenders which may impact rates charged to borrowers.

In late 2016, the Department of Finance announced new mortgage regulations.

The impact of these new regulations to date are as follows:

- Lower origination volumes of prime insured mortgages.
- Lower National Housing Act ("NHA") MBS issuance volumes, which has tightened NHA MBS spreads.
- No change to overall market CMB issuance levels.

- Mortgage funding costs through the NHA MBS program are now similar the CMB program. Historically mortgage funding costs through the CMB program have been lower than NHA MBS.
- Renewed interest in residential mortgage-backed securities ("RMBS") funding. Canadian banks have been exploring possible investor interest in RMBS. The collateral pool behind the securities would range from prime uninsurable mortgages to near prime uninsured mortgages.
- Stable to modest decline for insured mortgage rates due to increased competition amongst lenders.

We continue to evaluate the impact of regulatory changes to the market and MCAN. We believe that the effect of multiple legislative changes in a short time period will require a minimum of 6-12 months to begin providing clarity on the direction of the mortgage market in Canada.

Impact on MCAN

We will continue to monitor housing market developments as they evolve and will continue to ensure that our mortgage portfolio remains well positioned. Our corporate assets declined 4.6% during the quarter compared to our stated annual growth target of 10%. Given the noted discussion above relating to the markets, we believe there is higher uncertainty that this target will be attained in 2017. In 2017, we expect to continue to make adjustments to the composition of our balance sheet as we evaluate the risks and rewards of each of our product lines.

We believe that MCAN is well positioned to adapt to changes in mortgage and housing markets given that we, as a regulated financial institution, have access to both the insured securitization market as well as the term deposit funding market.

RESULTS OF OPERATIONS

Table 3: Net Income - For the Quarters Ended March 31

(in thousands except for per share amounts and %)	2017	2016	Change from 2016 ($)	Change from 2016 (%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 11,500	$ 12,588	$ (1,088)	(9%)
Equity income from MCAP Commercial LP	1,892	2,515	(623)	(25%)
Fees	346	553	(207)	(37%)
Marketable securities	846	709	137	19%
Financial investments and other loans	4,263	484	3,779	781%
Interest on cash and cash equivalents	158	125	33	26%
Whole loan gain on sale income	-	323	(323)	(100%)
	19,005	**17,297**	**1,708**	**10%**
Term deposit interest and expenses	5,021	5,323	(302)	(6%)
Mortgage expenses	959	953	6	1%
Interest on loans payable	32	71	(39)	(55%)
Provision for credit losses	30	325	(295)	(91%)
	6,042	**6,672**	**(630)**	**(9%)**
	12,963	**10,625**	**2,338**	**22%**
Other Income - Corporate Assets				
Gain on sale of investment in MCAP Commercial LP	785	-	785	-
Gain on dilution of investment in MCAP Commercial LP	91	-	91	-
	876	**-**	**876**	**-**
Net Investment Income - Securitization Assets				
Mortgage interest	6,772	7,005	(233)	(3%)
Other securitization income	36	7	29	414%
	6,808	7,012	(204)	(3%)
Interest on financial liabilities from securitization	5,031	5,323	(292)	(5%)
Mortgage expenses	486	445	41	9%
	5,517	5,768	(251)	(4%)
	1,291	**1,244**	**47**	**4%**
Operating Expenses				
Salaries and benefits	2,594	2,518	76	3%
General and administrative	2,023	2,001	22	1%
	4,617	4,519	98	2%
Net Income Before Income Taxes	10,513	7,350	3,163	43%
Provision for (recovery of) income taxes	248	(421)	669	(159%)
Net Income	**$ 10,265**	**$ 7,771**	**$ 2,494**	**32%**
Basic and diluted earnings per share	$ 0.44	$ 0.34	$ 0.10	29%
Dividends per share	$ 0.30	$ 0.29	$ 0.01	3%

Net Income

The $2.5 million increase in net income from Q1 2016 was primarily due to significant income from financial investments and other loans in Q1 2017, offset by lower corporate mortgage interest and equity income from MCAP Commercial LP ("MCAP").

Net Investment Income - Corporate Assets

Mortgage interest Income

Table 4: Interest Income and Average Rate by Mortgage Portfolio (Corporate) - Q1

For the Quarters Ended March 31	2017			2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 243,682	$ 2,745	4.51%	$ 356,830	$ 3,906	4.44%
- Insured	106,261	842	3.17%	83,962	769	3.72%
- Uninsured - completed inventory	21,157	305	5.84%	22,058	246	4.52%
Construction loans						
- Residential	389,383	5,157	5.38%	391,260	5,452	5.65%
- Non residential	7,860	105	5.44%	5,746	82	5.81%
Commercial loans						
- Multi family residential	34,805	386	4.50%	33,780	372	4.51%
- Other commercial	105,131	1,960	7.57%	75,074	1,761	9.50%
Mortgages - corporate portfolio	$ 908,279	$ 11,500	5.12%	$ 968,710	$ 12,588	5.27%
Term deposits	867,954	5,021	2.20%	906,678	5,323	2.25%
Spread of mortgages over term deposits			2.92%			3.02%
Mortgages - securitized portfolio	$ 1,052,243	$ 6,772	2.61%	$ 1,049,221	$ 7,005	2.69%
Financial liabilities from securitization	1,061,015	5,031	1.90%	1,056,734	5,323	2.01%
Spread of mortgages over liabilities			0.71%			0.68%

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income on impaired loans, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended March 31, 2017 and March 31, 2016. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

In recent quarters we have maintained higher average balances in the construction and commercial portfolios. We continue to lend to experienced builders in market segments where the cost to build has not followed real estate appreciation. Lending in this segment is based on specific conditions required prior to funding, which act as a risk mitigant given other concerns in the real estate market.

In Q1 2017 our construction and completed inventory arrears balances increased significantly as a result of two loans from the same borrower going into arrears, however at the current time we do not expect to incur any losses as a result of our risk mitigation and default management processes. For further details, refer to the "Corporate Mortgages" sub-section of the "Financial Position" section of this MD&A.

New uninsured single family origination volumes were similar to Q1 2016. We have observed reduced spreads from a competitive market and have maintained conservative underwriting and credit standards (especially for self-employed borrowers). As a result of our standards, we have experienced a decline in mortgage applications received from brokers. Given the significant acceleration in valuations in the single family market segment, especially the Greater Toronto Area, we have taken a more defensive approach to origination since 2016. We believe that this conservative approach to uninsured single family mortgage origination has been an appropriate course of action in the current risk environment.

Insured single family origination volumes were lower than Q1 2016. In the last quarter, market mortgage rates have become more competitive, causing spreads to tighten and reducing the overall profitability associated with this mortgage class. Given these reduced economics, we elected to not match market rates in the insured segment.

In general, the majority of our insured single family originations from the Xceed platform are destined for securitization such that the majority of the portfolio is held on a short-term basis, which can make yields and average balances volatile.

We have targeted growth in our higher-yielding commercial portfolio in recent quarters. The decrease in the yield on other commercial loans from Q1 2016 was due to a lower average rate on this component of the portfolio, which consists of loans such as second mortgages on residential construction projects. The yield on this component of the commercial portfolio can be volatile.

Average mortgage portfolio yield is considered to be a non-IFRS measure. For a definition of this measure, refer to the "Non-IFRS Measures" section of this MD&A.

Equity income from MCAP

In Q1 2017, equity income from MCAP decreased as a result of significantly lower income from whole loan sales earned by MCAP compared to Q1 2016. A decrease in Government of Canada bond yields in Q1 2016 led to unusually high mortgage selling spreads; while an increase in Q1 2017 tightened spreads and therefore reduced whole loan sale income. This decrease was partially offset by higher securitized mortgage interest income from a larger portfolio and higher servicing and administration income from an increase in assets under administration.

Other net investment income

Income from financial investments and other loans includes $3.5 million of income recognized from our investment in the Crown Realty II Limited Partnership ("Crown LP") (Q1 2016 - $nil). The recognition of income upon the receipt of partnership distributions from Crown LP is offset by a corresponding reduction to accumulated other comprehensive income. We recognized $0.8 million of income from our investment in the KingSett High Yield Fund, up from $0.4 million in Q1 2016. We increased our total investment commitment in the fund in the second half of 2016, and accordingly our investment balance has increased from the prior year.

The change in the average term deposit balance is generally similar to that of the average corporate mortgage portfolio in that we use term deposits to fund our corporate assets. We issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We currently do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor.

Mortgage expenses consist primarily of mortgage servicing fees paid to external mortgage servicers.

Details of the provision for (recovery of) credit losses are discussed in the "Credit Quality" sub-section below.

For further information on corporate and securitization net investment income, refer to the "Net Interest Income" sub-section below.

Other Income

For information on the partial gain on sale and dilution gain related to the equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program, which involve the securitization of insured mortgages through the Canada Mortgage and Housing Corporation ("CMHC") NHA MBS program. For further details on these programs, refer to the "Securitization Programs" section of this MD&A.

In Q1 2017, we securitized $42 million of insured single family mortgages through the CMB program and $6 million of insured single family mortgages through the market MBS program. We did not earn any income on these securitization transactions as a result of reduced spreads in the securitization market and interest rate volatility during Q1 2017. We did not securitize any mortgages in Q1 2016.

Our securitization volumes have decreased over the past few quarters as recently enacted changes to mortgage regulations have tightened spreads and reduced securitization economics. Accordingly, we have not matched market pricing and have experienced reduced volumes.

Market MBS Program

The average outstanding market MBS program balance decreased to $949 million in Q1 2017 from $1.05 billion in Q1 2016, while the net spread increased slightly to 0.71% from 0.68%. New market MBS securitization volumes have been low since Q1 2016 as we began to use the CMB program as our primary securitization source as of Q2 2016.

CMB Program

The average outstanding CMB program balance was $103 million in Q1 2017, while the net spread was 0.73%. As noted above, we have focused on this program for securitization activities since Q2 2016. In general, the CMB program spread is higher than the market MBS program spread due to a lower funding cost. However, the aforementioned tightening of spreads in recent CMB issuances has made its overall economics much closer to those of the market MBS program, as spreads on market MBS issuances from 2014 and 2015 were generally wider.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on certain assets and the interest paid on liabilities to fund those assets. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 5: Net Interest Income - Q1

For the Quarters Ended March 31	2017			2016		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate[3]	Average Balance [1]	Income / Expense	Average Rate[3]
Assets						
Cash and cash equivalents	$ 78,200	$ 158	0.82%	$ 70,348	$ 125	0.71%
Marketable securities	56,293	846	6.09%	42,356	709	6.73%
Mortgages - corporate	908,279	11,500	5.12%	968,710	12,588	5.27%
Financial investments	24,332	763	12.72%	14,737	432	11.79%
Other loans	3,673	46	5.08%	4,064	52	5.15%
Corporate interest earning assets	1,070,777	13,313	5.04%	1,100,215	13,906	5.08%
Cash held in trust	12,977	10	0.31%	10,525	7	0.27%
Mortgages - securitized	1,052,243	6,772	2.61%	1,049,221	7,005	2.69%
Securitization interest earning assets	1,065,220	6,782	2.58%	1,059,746	7,012	2.66%
Total interest earning assets	2,135,997	20,095	3.82%	2,159,961	20,918	3.89%
Non interest earning assets	91,035	3,454	-	81,590	-	-
Total assets	$ 2,227,032	$ 23,549	4.29%	$ 2,241,551	$ 20,918	3.75%
Liabilities and shareholders' equity						
Term deposits	$ 867,954	$ 5,021	2.20%	$ 906,678	$ 5,323	2.25%
Loans payable	3,789	32	3.43%	6,765	71	3.04%
Corporate liabilities	871,743	5,053	2.21%	913,443	5,394	2.26%
Securitization liabilities	1,061,015	5,031	1.90%	1,056,734	5,323	2.01%
Total interest bearing liabilities	1,932,758	10,084	2.06%	1,970,177	10,717	2.13%
Non interest bearing liabilities	8,613	-	-	8,011	-	-
Shareholders' equity	285,661	-	-	263,363	-	-
Total liabilities and shareholders' equity	$ 2,227,032	$ 10,084	1.84%	$ 2,241,551	$ 10,717	1.87%
Net Interest Income [2]		$ 13,465			$ 10,201	

[1] The average balances (excluding cash and cash equivalents, mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average cash and cash equivalents, mortgage and term deposit balances are calculated using daily balances.

[2] Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, other securitization income, mortgage expenses and provision for credit losses. Net interest income is a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

[3] Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items were immaterial for the quarters ended March 31, 2017 and March 31, 2016. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Credit Quality

Table 6: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Quarters Ended March 31	2017	2016	Change from 2016 ($)	Change from 2016 (%)
Individual provision				
Single family uninsured	$ 94	$ 62	$ 32	52%
Collective provision (recovery)				
Single family uninsured	(81)	(55)	(26)	47%
Single family uninsured - completed inventory	38	(79)	117	(148%)
Construction	81	385	(304)	(79%)
Commercial	(101)	36	(137)	(381%)
Corporate mortgages - total	(63)	287	(350)	(122%)
Other provisions (recoveries)	(1)	(24)	23	(96%)
	$ (64)	$ 263	$ (327)	(124%)
Total provision for (recovery of) credit losses	$ 30	$ 325	$ (295)	(91%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 31	$ 349	$ (318)	(91%)
Net write offs	$ 270	$ 84	$ 186	221%
Net write offs (basis points)	11.9	3.5	8.4	243%

Individual mortgage allowances are recorded to reduce a mortgage to its estimated realizable value. Collective mortgage allowances represent losses that we believe have been incurred in the mortgage portfolio but have not yet been specifically identified. The collective provisions (recoveries) recorded during both periods are consistent with the growth (reduction) in the size of the respective mortgage portfolios. For details of collective mortgage allowances, refer to Note 8 to the consolidated financial statements.

During Q1 2017, we wrote off $220,000 of capitalized legal fees on a construction loan balance for which an individual allowance had already been recorded. The write off had no impact to net income, but is reflected in the table above.

Operating Expenses

Table 7: Operating Expenses

(in thousands) For the Quarters Ended March 31	2017	2016	Change from 2016 ($)	Change from 2016 (%)
Salaries and benefits	$ 2,594	$ 2,518	$ 76	3%
General and administrative	2,023	2,001	22	1%
	$ 4,617	**$ 4,519**	**$ 98**	**2%**

Both salaries and benefits and general and administrative expenses were comparable to Q1 2016. General and administrative includes expenditures relating to the continued development of systems and processes related to single family mortgage operations. In 2016 we commenced multiple projects to improve governance and mitigate risk as part of this overall development process. This expense also includes internal audit, risk and related expenses related to the Company's procedures and controls. We have continued our focus on operations, risk management and credit to maintain a sound corporate governance environment and risk management framework.

Provision for Income Taxes

Table 8: Income Taxes

(in thousands) For the Quarters Ended March 31	2017	2016	Change from 2016 ($)	Change from 2016 (%)
Current tax provision	$ -	$ (100)	$ 100	$ (100%)
Deferred tax provision (recovery)	248	(321)	569	(177%)
	$ 248	**$ (421)**	**$ 669**	**$ (159%)**

The Q1 2017 deferred tax provision includes $417,000 of deferred tax expense incurred on the income from financial investments and other loans related to Crown LP distributions. The offsetting Q1 2017 deferred tax recovery and Q1 2016 activity were due to tax losses recognized at the subsidiary level.

As at March 31, 2017, we had $11 million of losses available for carry-forward in the MCAN mortgage investment corporation ("MIC") parent company on a non-consolidated basis (December 31, 2016 - $11 million), the benefit of which is not reflected in deferred taxes. Following the finalization of our 2016 corporate tax position later in the year, we expect our loss carry forward balance in the MIC entity to be $12 million. For further information, refer to Note 4 to the consolidated financial statements.

Taxable Income

The table below provides a reconciliation between net income for accounting purposes and taxable income. The adjustments below represent the difference between the individual components of net income for accounting and tax purposes. Taxable income is presented on a non-consolidated basis and does not incorporate taxable income from Xceed and other subsidiaries as it does not directly impact MCAN's non-consolidated taxable income.

The key differences between taxable income and pre-tax net income for accounting purposes include differences between equity income from MCAP and Xceed for accounting and tax purposes and the treatment of securitization program origination costs, securitization gains or losses, capital gains income, collective provisions for credit losses and the amortization of upfront securitization program costs for tax purposes. As a MIC, we typically pay out all of our taxable income to shareholders through dividends. In addition, our MIC status allows us to deduct dividends paid within 90 days of year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

We originate and purchase insured mortgages that are securitized through the market MBS program and CMB program and sold to third parties or retained on our balance sheet (for further details on these programs, refer to the "Securitization Programs" section of this MD&A). The purchase of mortgages involves the payment of an up-front origination fee that is deductible for income tax purposes in the period that the mortgages are securitized, while for accounting purposes this fee is capitalized and amortized over the term of the associated mortgages. In Q1 2017, we incurred $0.7 million of origination costs on securitized mortgages, including market MBS held by MCAN (Q1 2016 - $0.6 million). As at March 31, 2017, the unamortized origination fee balance was $15.1 million (December 31, 2016 - $15.6 million), which represents costs that are still to be expensed for non-consolidated accounting purposes but will be added back in the calculation of taxable income in future periods.

Taxable income is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 9: Taxable Income Reconciliation [1]

(in thousands) For the Quarters Ended March 31	2017	2016
Net income for accounting purposes	$ 10,265	$ 7,771
Adjustments:		
Equity income from MCAP	395	(95)
Gain on dilution of investment in MCAP	(91)	-
Gain on partial sale of MCAP [5]	(248)	-
Equity income from subsidiaries [2]	(1,892)	883
Provision for (recovery of) credit losses [2]	(81)	284
Amortization of upfront securitization program costs [3]	1,661	1,551
Securitization program mortgage origination costs [3]	(723)	(640)
Reorganization of investment in Xceed [6]	-	4,017
Other securitization program cash outflows	(582)	-
Other items	70	(311)
Taxable Income	**$ 8,846**	**$ 13,460**

[1] Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.
[2] Not deductible/recognizable in the calculation of taxable income. Individual mortgage allowances are 90% deductible for tax purposes.
[3] Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes, however amortization is added back in calculation of taxable income.
[4] This adjustment reverses the recognition of the non-cash component of the upfront accounting gain and accounts for spread income collected for tax purposes.
[5] For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.
[6] Subsequent to quarter end, we officially finalized the transfer value for tax purposes relating to the Q1 2016 reorganization of the holding structure of our subsidiary investment in Xceed. This transaction created a $4.6 million taxable capital gain in the MIC entity on a non-consolidated basis. The amount presented in the table above represents the difference between this taxable capital gain and the accounting gain recorded in the MIC entity on a non-consolidated basis. On finalization of the sale price for tax purposes, Q1 2016 taxable income has been retroactively restated from $9.4 million to $13.5 million and fiscal 2016 taxable income was restated from $28.4 million to $32.5 million.

Table 10: Quarterly Net Income

(in thousands except per share amounts and %) **For the Quarters Ended**	**March 31 2017**	**December 31 2016**	**Change from Prior Quarter ($)**	**(%)**
Net Investment Income - Corporate Assets				
Mortgage interest	$ 11,500	$ 11,728	$ (228)	(2%)
Equity income from MCAP Commercial LP	1,892	3,209	(1,317)	(41%)
Fees	346	638	(292)	(46%)
Marketable securities	846	889	(43)	(5%)
Financial investments and other loans	4,263	933	3,330	357%
Interest on cash and cash equivalents	158	206	(48)	(23%)
	19,005	**17,603**	**1,402**	**8%**
Term deposit interest and expenses	5,021	5,492	(471)	(9%)
Mortgage expenses	959	1,013	(54)	(5%)
Interest on loans payable	32	-	32	-
Provision for (recovery of) credit losses	30	(586)	616	(105%)
	6,042	**5,919**	**123**	**2%**
	12,963	**11,684**	**1,279**	**11%**
Other Income - Corporate Assets				
Gain on sale of investment in MCAP Commercial LP	785	-	785	-
Gain on dilution of investment in MCAP Commercial LP	91	-	91	-
	876	**-**	**876**	**-**
Net Investment Income - Securitization Assets				
Mortgage interest	6,772	7,122	(350)	(5%)
Other securitization income	36	112	(76)	(68%)
	6,808	**7,234**	**(426)**	**(6%)**
Interest on financial liabilities from securitization	5,031	5,250	(219)	(4%)
Mortgage expenses	486	465	21	5%
	5,517	**5,715**	**(198)**	**(3%)**
	1,291	**1,519**	**(228)**	**(15%)**
Operating Expenses				
Salaries and benefits	2,594	2,129	465	22%
General and administrative	2,023	2,342	(319)	(14%)
	4,617	4,471	146	3%
Net Income Before Income Taxes	10,513	8,732	1,781	20%
Provision for (recovery of) income taxes	248	(268)	516	(193%)
Net Income	**$ 10,265**	**$ 9,000**	**$ 1,265**	**14%**
Basic and diluted earnings per share	$ 0.44	$ 0.39	$ 0.05	13%
Dividends per share	$ 0.30	$ 0.30	$ -	-

Q1 2017 vs. Q4 2016

Net Investment Income - Corporate Assets

Table 11: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended	March 31, 2017			December 31, 2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 243,682	$ 2,745	4.51%	$ 271,126	$ 3,104	4.56%
- Insured	106,261	842	3.17%	125,902	755	3.12%
- Uninsured - completed inventory	21,157	305	5.84%	17,888	244	5.42%
Construction loans						
- Residential	389,383	5,157	5.38%	387,536	5,152	5.29%
- Non residential	7,860	105	5.44%	7,852	108	5.45%
Commercial loans						
- Multi family residential	34,805	386	4.50%	44,137	553	4.99%
- Other commercial	105,131	1,960	7.57%	99,706	1,812	7.31%
Mortgages - corporate portfolio	$ 908,279	$ 11,500	5.12%	$ 954,147	$ 11,728	4.99%
Term deposits	867,954	5,021	2.20%	934,475	5,492	2.20%
Spread of mortgages over term deposits			2.92%			2.79%
Mortgages - securitized portfolio	$ 1,052,243	$ 6,772	2.61%	$ 1,032,208	$ 7,122	2.74%
Financial liabilities from securitization	1,061,015	5,031	1.90%	1,046,078	5,250	2.01%
Spread of mortgages over liabilities			0.71%			0.73%

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income on impaired loans, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended March 31, 2017 and December 31, 2016. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

Yields in Q1 2017 were generally comparable to Q4 2016, however the uninsured single family portfolio continued to decline while the construction and commercial portfolio average balances have remained high. For further analysis of individual mortgage categories, please refer to the "Mortgage Interest Income" sub-section of the "Net Investment Income - Corporate Assets" section of this MD&A.

For further analysis of MCAP-related income items, please refer to the "Net Investment Income - Corporate Assets" section of this MD&A.

The significant increase in income from financial investments and other loans was primarily due to $3.5 million of income realized on the receipt of a distribution from our investment in Crown LP in Q1 2017, which was offset by a corresponding reduction to accumulated other comprehensive income.

The change in provisions for losses from Q4 2016 is due to the fact that corporate mortgages that attract a collective allowance decreased by $53 million in Q4 2016 compared to a decrease of $14 million in Q1 2017.

Additionally, in Q4 2016 we had recoveries of $379,000 as a result of mortgage settlements or litigation, included in other provisions (recoveries). These recoveries related to Xceed-originated single family mortgages that had previously been written off prior to the acquisition of Xceed in 2013.

Net Investment Income - Securitization Assets

The decrease in net investment income from securitization assets is primarily due to the fact that we had an upfront gain earned on the securitization of insured multi family loans through the CMB program in Q4 2016.

Operating Expenses and Income Taxes

The increase in salaries and benefits from Q4 2016 was due to a year-end adjustment to the variable compensation accrual in Q4 2016. General and administrative expenses activity relates to the risk and governance projects discussed in the "Operating

Expenses" sub-section of the "Results of Operations" section of this MD&A; the expenses incurred on these projects were higher in Q4 2016.

For a discussion of deferred tax activity, refer to the "Provision for Income Taxes" sub-section of the "Results of Operations" section of this MD&A.

Cash Flows

Operating activities used cash flows of $8 million in 2017 and provided $8 million in 2016. In 2017, net term deposit outflows were higher, partially offset by higher net mortgage inflows.

Investing activities provided cash flows of $3 million in 2017 and provided $2 million in 2016. In 2017, we had proceeds from a partial sale of our equity investment in MCAP of $1.9 million.

Financing activities used cash flows of $12 million in 2017 and used $7 million in 2016. In 2016, we had a net inflow from loans payable compared to no activity in 2017.

FINANCIAL POSITION

Table 12: Assets

(in thousands except %)			Change from Prior Quarter	
As at	**March 31 2017**	**December 31 2016**	**($)**	**(%)**
Corporate Assets				
Cash and cash equivalents	$ 94,724	$ 111,732	$ (17,008)	(15%)
Marketable securities	59,305	55,126	4,179	8%
Mortgages	861,056	904,112	(43,056)	(5%)
Financial investments	55,790	57,264	(1,474)	(3%)
Other loans	4,575	3,584	991	28%
Equity investment in MCAP Commercial LP	50,416	50,805	(389)	(1%)
Foreclosed real estate	435	529	(94)	(18%)
Deferred tax asset	1,986	1,782	204	11%
Other assets	4,949	3,546	1,403	40%
	1,133,236	**1,188,480**	**(55,244)**	**(5%)**
Securitization Assets				
Cash held in trust	14,425	15,724	(1,299)	(8%)
Mortgages	1,089,945	1,071,849	18,096	2%
Other assets	4,847	4,802	45	1%
	1,109,217	**1,092,375**	**16,842**	**2%**
	$ 2,242,453	**$ 2,280,855**	**$ (38,402)**	**(2%)**

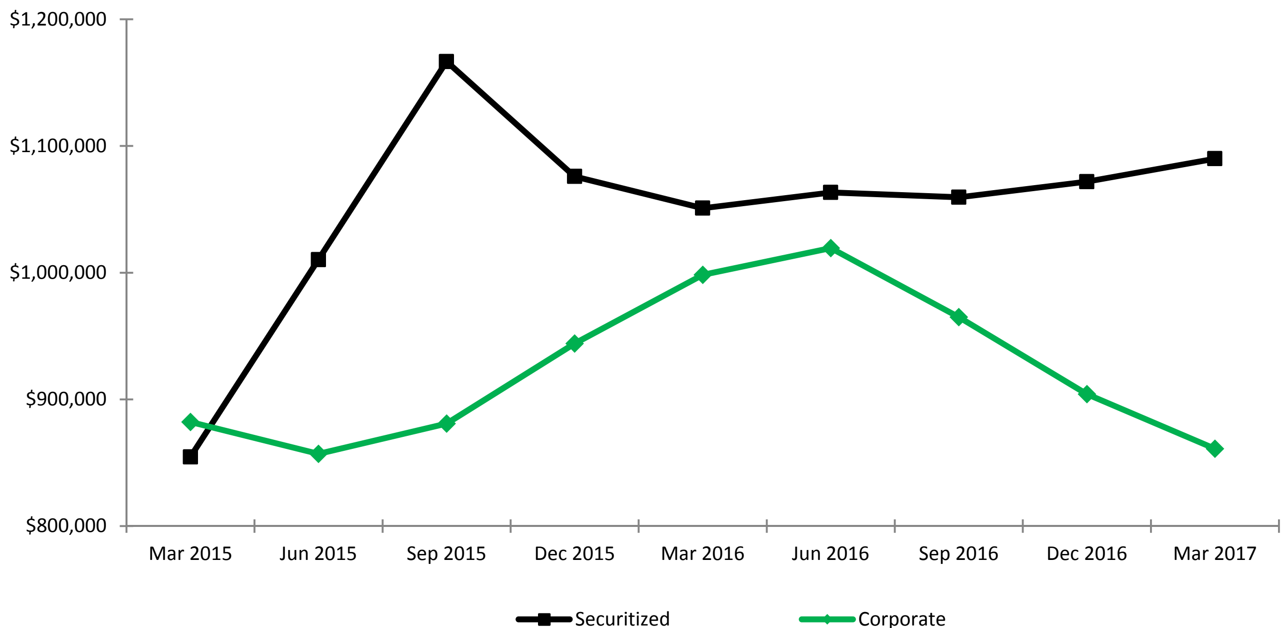
Mortgages - Corporate & Securitized

Table 13: Mortgage Summary

(in thousands) As at	March 31 2017	December 31 2016	Change from Prior Quarter ($)	(%)
Corporate portfolio:				
Single family mortgages				
- Uninsured	$ 229,092	$ 248,065	$ (18,973)	(8%)
- Insured	79,087	108,334	(29,247)	(27%)
- Uninsured - completed inventory	27,152	18,162	8,990	49%
Construction loans				
- Residential	391,287	379,212	12,075	3%
- Non-residential	7,112	7,851	(739)	(9%)
Commercial loans				
- Multi family residential	35,841	34,521	1,320	4%
- Other commercial	91,485	107,967	(16,482)	(15%)
	861,056	**904,112**	**(43,056)**	**(5%)**
Securitized portfolio:				
Single family insured - Market MBS program	949,404	971,548	(22,144)	(2%)
Single family insured - CMB program	140,541	100,301	40,240	40%
	1,089,945	**1,071,849**	**18,096**	**2%**
	$ 1,951,001	**$ 1,975,961**	**$ (24,960)**	**(1%)**

Corporate and Securitized Mortgage Portfolio Analysis

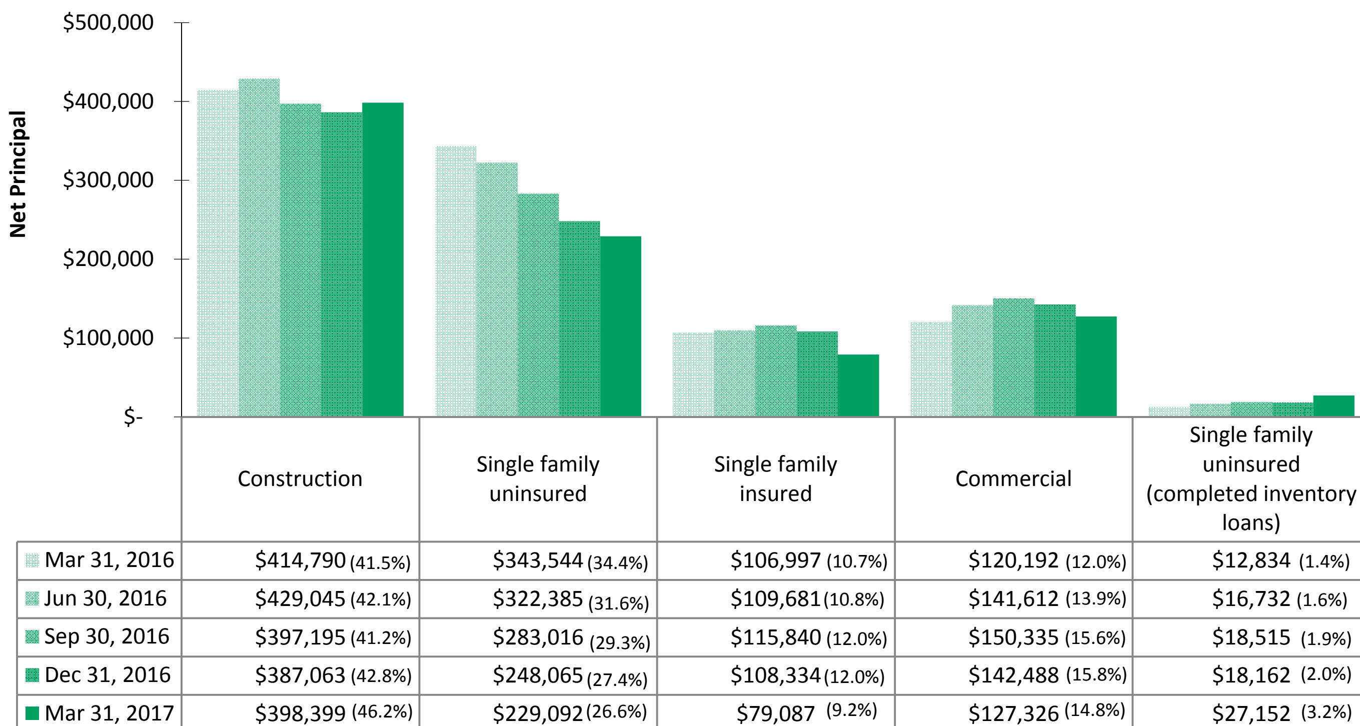
Figure 1: Total Corporate and Securitized Mortgage Portfolio (in thousands)



The decrease in the corporate mortgage portfolio since mid-2016 has been driven primarily by a reduction in uninsured single family mortgages, which is discussed further in the “Mortgage Interest Income” sub-section of the “Net Investment Income - Corporate Assets” section of this MD&A. The construction portfolio experienced significant growth in late 2015 and the first half of 2016 before experiencing seasonal repayments in the second half of 2016. We continue to focus on both construction and commercial mortgages given its differing risk profile from single family.

The securitized mortgage portfolio increased significantly throughout 2015 as a result of high securitization volumes, but has remained relatively flat since Q4 2015. Our securitization volumes have decreased since this time as a result of tighter spreads and reduced securitization economics.

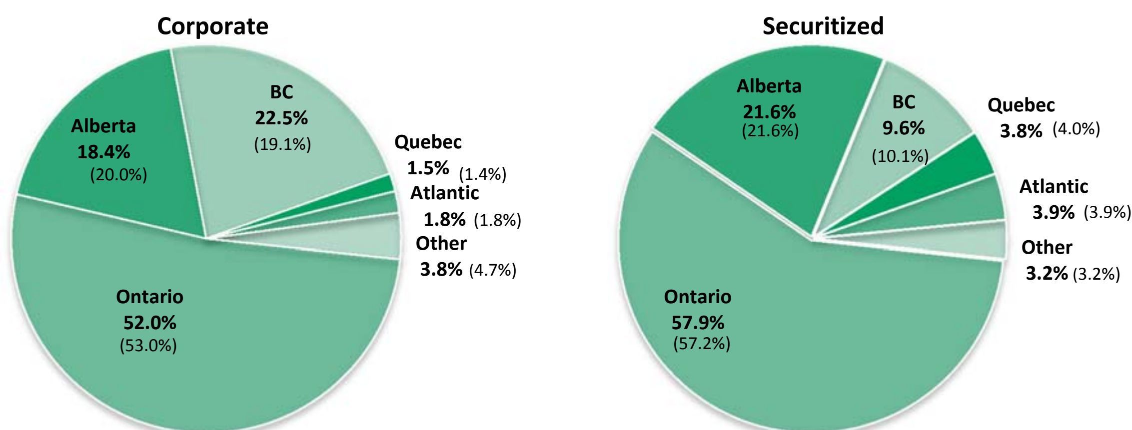
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction	Single family uninsured	Single family insured	Commercial	Single family uninsured (completed inventory loans)
Mar 31, 2016	$414,790 (41.5%)	$343,544 (34.4%)	$106,997 (10.7%)	$120,192 (12.0%)	$12,834 (1.4%)
Jun 30, 2016	$429,045 (42.1%)	$322,385 (31.6%)	$109,681 (10.8%)	$141,612 (13.9%)	$16,732 (1.6%)
Sep 30, 2016	$397,195 (41.2%)	$283,016 (29.3%)	$115,840 (12.0%)	$150,335 (15.6%)	$18,515 (1.9%)
Dec 31, 2016	$387,063 (42.8%)	$248,065 (27.4%)	$108,334 (12.0%)	$142,488 (15.8%)	$18,162 (2.0%)
Mar 31, 2017	$398,399 (46.2%)	$229,092 (26.6%)	$79,087 (9.2%)	$127,326 (14.8%)	$27,152 (3.2%)

Note: Amounts in parentheses represent the percentage of the corporate portfolio represented by the individual mortgage portfolio.

Figure 3:Mortgage Portfolio Geographic Distribution as at March 31, 2017 (December 31, 2016)



Corporate Mortgages

Single family mortgages

We invest in insured and uninsured single family mortgages in Canada, primarily originated through Xceed for our own corporate portfolio and for securitization activities. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

As we securitize mortgages that do not achieve derecognition, the assets are effectively transferred from corporate mortgages to securitized mortgages on the balance sheet. The change contributes to changes in asset levels when corporate mortgages are securitized in the following quarter.

For further information on MCAN-issued market MBS retained for liquidity purposes and included in corporate insured single family mortgages, refer to the "Securitization Programs" section of this MD&A.

Completed inventory loans

Completed inventory loans are credit facilities extended to developers to provide interim mortgage financing on residential units (condominium or freehold) where all construction has been completed and therefore no further construction risk exists. Satisfactory confirmation that all units are substantially complete is required prior to funding all completed inventory loans. Final occupancy permits, condominium corporation registration and/or written confirmation by the cost consultant as to the completion of the units are examples of verification measures.

Construction loans

Residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating interest rate and terms of one to two years. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

Commercial loans

Commercial loans include multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of commercial term mortgages (e.g. loans secured by apartment buildings) and high ratio mortgage loans (e.g. second mortgages on residential construction projects).

Other items

While MCAN has exposure to real estate in the Fort McMurray area, we have no existing commercial lending or construction projects in the region. In regards to our single family mortgage exposure, we had $1.1 million and $8.9 million of outstanding corporate and securitized single family mortgages, respectively, and $2.2 million of off-balance sheet mortgages as at March 31, 2017. All of the aforementioned mortgages have mortgage insurance except for $117,000 of the corporate portfolio, for which no damage or loss was incurred. We are continuing to work with our borrowers and business partners to resolve any insurance claims. The fire in the Fort McMurray region has not had a material impact on net income to date and is not expected to have a future material impact on net income.

In 2016, the Canadian mortgage industry experienced an increase in the awareness of falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed this activity in our own underwriting processes. In response, we have enhanced and continue to enhance our underwriting processes, including engaging independent third party consultants to assist us.

To date, the impact of this document falsification in the market and in our own operations has not had a material impact on MCAN or its financial position or performance. Based on the results of the work of our third party consultants and our own in-depth investigations we do not expect to experience any material impact to our financial position or performance in the future relating to such document falsification.

We continue to monitor our corporate mortgage portfolio based in the Prairie Provinces. We are very diligent and selective in our mortgage funding opportunities and work with seasoned borrowers.

Mortgage renewal rights

Through Xceed, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At renewal, we may be able to renew these mortgages by offering clients attractive renewal options, thereby contributing to future revenues.

As at March 31, 2017, we had the renewal rights to $1.0 billion of single family mortgages (December 31, 2016 - $1.1 billion). The majority of these renewal rights relate to mortgages held on the consolidated balance sheet as corporate or securitized mortgages, while $110 million relates to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2016 - $130 million).

Arrears and Impaired Mortgages

Table 14: Arrears and Impaired Mortgages

(in thousands except %) As at	March 31 2017	December 31 2016	Change from Prior Quarter ($)	Change from Prior Quarter (%)
Corporate impaired mortgages				
Single family - uninsured	$ 3,777	$ 2,759	$ 1,018	36.9%
Single family - insured	1,813	1,118	695	62.2%
	5,590	3,877	1,713	44.2%
Securitized impaired mortgages	425	587	(162)	(27.6%)
Total impaired mortgages	$ 6,015	$ 4,464	$ 1,551	34.7%
Impaired mortgage ratio (total) [1]	0.19%	0.14%		0.05%
Impaired mortgage ratio (corporate) [1]	0.44%	0.31%		0.13%
Total corporate mortgage arrears [1]				
Single family - uninsured	$ 11,749	$ 8,878	$ 2,871	32.3%
Single family - uninsured completed inventory	9,228	-	9,228	-
Single family - insured	2,754	4,163	(1,409)	(33.8%)
Residential construction	9,783	-	9,783	-
	33,514	13,041	20,473	157.0%
Total securitized mortgage arrears [1]	14,797	13,609	1,188	8.7%
Total mortgage arrears [1]	$ 48,311	$ 26,650	$ 21,661	81.3%
Collective allowance	$ 4,795	$ 4,859	$ (64)	(1.3%)
Individual allowance	215	390	(175)	(44.9%)
Total allowance	$ 5,010	$ 5,249	$ (239)	(4.6%)

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

The significant increase in corporate mortgage arrears in Q1 2017 is driven by two Saskatchewan-based loans from the same borrower totalling $19 million which comprise the entire residential construction and completed inventory arrears balances. The borrower has filed for protection under the CCAA and both properties have been listed for sale. At this time we do not expect to incur any losses of principal and therefore have not recorded individual allowances.

Economic volatility and continued weakness in commodity prices continue to affect housing markets in impacted provinces such as Alberta and Saskatchewan where job losses have impacted industry mortgage arrears. We continue to be diligent in monitoring the local housing markets in which we lend and will closely monitor our mortgage portfolio for early indicators of potential performance concerns.

Subsequent to quarter end, a land developer in Western Canada filed for CCAA protection. The borrower legal entity from whom we have $16 million of outstanding mortgages is controlled by the developer but is not part of the bankruptcy proceedings, therefore the loans are not expected to go into default. In the event that these loans become impaired, based on the value of the underlying collateral we currently do not believe that we would incur a loss. At the current time we do not expect to record an individual allowance on these loans.

Figure 4: Impaired Corporate Mortgage Ratio

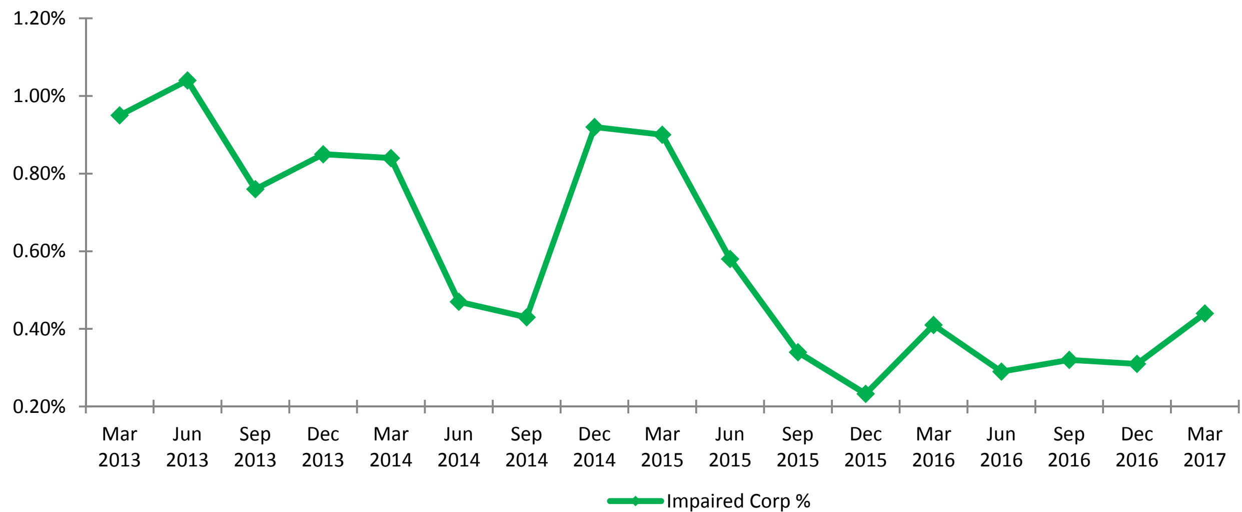


Table 15: Mortgage Originations

(in thousands) For the Quarters Ended March 31	2017	2016
Single family - insured	$ 10,063	$ 23,862
Single family - uninsured	6,561	6,571
Single family - uninsured completed inventory	-	3,040
Residential construction	39,668	31,514
Commercial	3,229	13,549
	$ 59,521	**$ 78,536**

Uninsured single family origination volumes were comparable to Q1 2016. We have observed reduced spreads from a competitive market and have maintained conservative underwriting and credit standards (especially for self-employed borrowers). As a result of these standards, we have experienced a decline in mortgage applications received from brokers. Given the significant acceleration in valuations in the single family market segment, especially the Greater Toronto Area, we have taken a more defensive approach to origination since 2016. We believe that this conservative approach to uninsured single family mortgage origination was an appropriate course of action given the current risk environment.

Construction and commercial originations represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio.

Table 16: Average Mortgage Loan to Value (LTV) Ratios

As at	March 31 2017	December 31 2016
Corporate portfolio:		
Single family mortgages		
- Uninsured	71.7%	72.2%
- Uninsured completed inventory	57.4%	63.8%
- Insured	78.3%	77.9%
Construction loans		
- Residential	60.1%	58.8%
- Non-residential	59.0%	58.4%
Commercial loans		
- Multi family residential	72.2%	70.2%
- Other commercial	66.7%	66.3%
	66.0%	66.2%
Securitized portfolio:		
Single family insured - Market MBS Program	86.2%	86.2%
Single family insured - CMB Program	81.2%	83.1%
	85.5%	85.9%
	76.8%	76.8%

Additional Information on Residential Mortgages and Home Equity Lines of Credit ("HELOCs")

In accordance with OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, additional information is provided on the composition of MCAN's single family mortgage portfolio by insurance status and province, as well as amortization periods and LTV by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

Insured mortgages include mortgages insured by CMHC or other approved insurers at origination and mortgages that are portfolio insured after origination.

The HELOC balances displayed below relate to insured single family mortgages that have been acquired by MCAN. We do not originate HELOCs.

Table 17: Single Family Mortgages by Province as at March 31, 2017

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 43,556	55.2%	$ 158,608	61.8%	$ 157	64.1%	$ 631,052	57.9%	$ 833,373	58.5%
Alberta	16,056	20.4%	44,275	17.3%	49	20.0%	235,592	21.6%	295,972	20.8%
British Columbia	2,925	3.7%	24,026	9.4%	39	15.9%	104,819	9.6%	131,809	9.2%
Quebec	6,059	7.7%	6,429	2.5%	-	-	41,939	3.8%	54,427	3.8%
Atlantic Provinces	8,007	10.2%	7,888	3.1%	-	-	41,970	3.9%	57,865	4.1%
Other	2,239	2.8%	15,018	5.9%	-	-	34,573	3.2%	51,830	3.6%
Total	**$ 78,842**	**100.0%**	**$ 256,244**	**100.0%**	**$ 245**	**100.0%**	**$ 1,089,945**	**100.0%**	**$ 1,425,276**	**100.0%**

Table 18: Single Family Mortgages by Province as at December 31, 2016

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 68,374	63.2%	$ 173,246	65.1%	$ 160	63.2%	$ 613,036	57.1%	$ 854,816	59.1%
Alberta	20,311	18.8%	47,312	17.8%	51	20.2%	231,027	21.6%	298,701	20.7%
British Columbia	2,953	2.7%	24,947	9.4%	42	16.6%	107,980	10.1%	135,922	9.4%
Quebec	5,495	5.1%	6,777	2.5%	-	-	42,715	4.0%	54,987	3.8%
Atlantic Provinces	8,616	8.0%	8,103	3.0%	-	-	41,407	3.9%	58,126	4.0%
Other	2,332	2.2%	5,842	2.2%	-	-	35,684	3.3%	43,858	3.0%
Total	**$ 108,081**	**100.0%**	**$ 266,227**	**100.0%**	**$ 253**	**100.0%**	**$ 1,071,849**	**100.0%**	**$ 1,446,410**	**100.0%**

Table 19: Single Family Mortgages by Amortization Period as at March 31, 2017

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 73,773	$ 70,535	$ 184,490	$ 6,533	$ -	$ 335,331
	22.0%	21.0%	55.0%	2.0%	0.0%	100.0%
Securitized	$ 187,262	$ 563,163	$ 248,542	$ 90,633	$ 345	$ 1,089,945
	17.2%	51.7%	22.8%	8.3%	0.0%	100.0%
Total	**$ 261,035**	**$ 633,698**	**$ 433,032**	**$ 97,166**	**$ 345**	**$ 1,425,276**
	18.3%	**44.5%**	**30.4%**	**6.8%**	**0.0%**	**100.0%**

Table 20: Single Family Mortgages by Amortization Period as at December 31, 2016

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 67,175	$ 88,400	$ 211,956	$ 6,924	$ 106	$ 374,561
	17.9%	23.6%	56.6%	1.9%	0.0%	100.0%
Securitized	$ 164,923	$ 568,428	$ 247,246	$ 90,905	$ 347	$ 1,071,849
	15.4%	53.0%	23.1%	8.5%	0.0%	100.0%
Total	**$ 232,098**	**$ 656,828**	**$ 459,202**	**$ 97,829**	**$ 453**	**$ 1,446,410**
	16.1%	**45.4%**	**31.7%**	**6.8%**	**0.0%**	**100.0%**

Table 21: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except for %) For the Quarters Ended March 31	2017	Average LTV	2016	Average LTV
Ontario	$ 6,169	69.8%	$ 8,047	71.9%
Alberta	-	-	908	76.5%
British Columbia	225	50.6%	502	80.0%
Other	167	66.8%	154	57.7%
	$ 6,561	**69.0%**	**$ 9,611**	**72.5%**

Based on past experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn, for example, could include changes to employment and unemployment rates, income levels and consumer spending which would have the above noted impact on our single family mortgage portfolio. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages. In addition, MCAN's corporate uninsured single family mortgage portfolio is also secured with an average LTV at origination of 70.2% as at March 31, 2017 (December 31, 2016 - 71.6%). Based on an industry index that incorporates current real estate values, the ratios would be 56.5% and 56.5%, respectively.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, decreased by $17 million in Q1 2017. The December 31, 2016 balance was higher than usual as a result of certain early construction loan payouts. Cash and cash equivalents provide liquidity to meet maturing term deposit and new mortgage funding commitments and are considered to be Tier 1 liquid assets. For further information, refer to the "Liquidity Management" section of this MD&A.

Marketable securities

Marketable securities, consisting of corporate bonds and real estate investment trusts ("REITs"), increased by $4 million in Q1 2017, which included a $1.2 million increase in the net unrealized gain on the portfolio that was reflected in accumulated other comprehensive income. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets. For further details, refer to the "Liquidity Management" section of this MD&A.

Financial investments

Corporate financial investments include a $31 million investment in Crown LP, in which we have a 14.1% equity interest (December 31, 2016 - $33 million). Crown LP invests primarily in commercial office buildings and classifies them into its core fund, which represents buildings expected to provide stable cash flows over a longer time horizon, and its opportunity fund, which represents buildings with medium term capital appreciation. Its fair value is driven primarily by independent appraisals of the buildings, which occur annually at year-end. As property acquisitions are made by Crown LP, we advance our proportionate share to finance the acquisitions.

During Q1 2017, we recorded a $0.3 million gross increase in the unrealized gain on the investment (Q1 2016 - $0.9 million), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. Additionally, we recognized $3.5 million of gross income from the Crown LP investment in Q1 2017 (Q1 2016 - $nil), which is reflected in income from financial investments and other loans, with a corresponding deferred tax expense recorded. The recognition of income upon the receipt of partnership distributions from Crown LP is offset by a corresponding reduction to accumulated other comprehensive income.

We hold a $25 million investment in the KingSett High Yield Fund, in which we have a 9% equity interest (December 31, 2016 - $24 million). The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages and is carried at fair value. As mortgage advances are made by the fund, we advance our proportionate share. The fund pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. Our Q1 2017 return was 12.6% (Q1 2016 - 12.4%). Our total funding commitment is $63 million, which consists of $42 million of capital advances for the fund and $21 million that supports credit facilities.

Equity investment in MCAP

We hold a 14.35% equity interest in MCAP, which represents 4.2 million units held by MCAN of the 29.3 million total outstanding MCAP partnership units. The investment had a net book value of $50 million as at March 31, 2017 (December 31, 2016 - $51 million). The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was $39 million as at March 31, 2017 (December 31, 2016 - $39 million). For further information on the LP ARA, refer to the "Non-IFRS Measures" section of this MD&A.

During Q1 2017, we sold 100,000 partnership units in MCAP at a price of $19.47 per unit (compared to a net book value of $11.62 per unit), recognizing a gain on sale of $785,000. MCAP also issued additional class B units to other partners of MCAP which decreased our equity interest from 14.74% to 14.35%. As a result of the issuance of the new units at a price in excess of the carrying value per unit, we recorded a dilution gain of $91,000.

Our investment in MCAP creates a deduction from Total Capital under Basel III (refer to the "Capital Management" section of this MD&A), which is measured on an accounting basis and is phased in by 20% on an annual basis to 2018 such that the deduction is 80% in 2017. We have managed our investment in MCAP in line with our Risk Appetite Framework ("RAF") and regulatory requirements in order to minimize this deduction from Total Capital under Basel III while optimizing the economic benefits of the investment.

MCAP is an originator and servicer of mortgages for third party investors in Canada and securitizes mortgages on its own behalf. MCAP's origination volumes were $3.0 billion in Q1 2017 (Q1 2016 - $2.3 billion). MCAP had $61.3 billion of assets under administration as at February 28, 2017 (November 30, 2016 - $60.6 billion).

We currently use the equity basis of accounting for our investment in MCAP as per International Accounting Standard ("IAS") 28, *Investments in Associates and Joint Ventures*, as we have significant influence in MCAP through our entitlement to a position on MCAP's Board of Directors. If we experience further dilution we may no longer qualify for the equity basis of accounting. In that case, we would not recognize our pro-rata share of MCAP's net income as equity income, but would instead recognize distributions received from MCAP as income and would carry the investment as available for sale with changes in fair value recognized through accumulated other comprehensive income.

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program and CMB program. During Q1 2017 we recognized $48 million of new securitized mortgages on our balance sheet, primarily from our participation in the CMB program.

For further information, refer to the "Securitization Programs" section of this MD&A.

Table 22: Liabilities and Shareholders' Equity

(in thousands) As at	March 31 2017	December 31 2016	Change from Prior Quarter ($)	(%)
Corporate Liabilities				
Term deposits	$ 861,673	$ 911,866	$ (50,193)	(6%)
Deferred tax liabilities	3,090	3,050	40	1%
Other liabilities	4,082	12,377	(8,295)	(67%)
	868,845	**927,293**	**(58,448)**	**(6%)**
Securitization Liabilities				
Financial liabilities from securitization	1,087,898	1,071,786	16,112	2%
	1,087,898	**1,071,786**	**16,112**	**2%**
	1,956,743	**1,999,079**	**(42,336)**	**(2%)**
Shareholders' Equity				
Share capital	212,379	210,239	2,140	1%
Contributed surplus	510	510	-	-
Retained earnings	59,242	55,923	3,319	6%
Accumulated other comprehensive income	13,579	15,104	(1,525)	(10%)
	285,710	**281,776**	**3,934**	**1%**
	$ 2,242,453	**$ 2,280,855**	**$ (38,402)**	**(2%)**

To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We currently do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. The role of term deposits in managing liquidity risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Financial liabilities from securitization relate to our participation in the market MBS program and CMB program, representing MBS that we have sold to third parties but have not been derecognized from our balance sheet. Activity in Q1 2017 consists of the creation of $48 million of new liabilities, primarily from our participation in the CMB program, less $32 million of net repayments. For further information on the market MBS program and CMB program, refer to the "Securitization Programs" section of this MD&A.

Share capital activity for Q1 2017 reflects new common shares issued through the Dividend Reinvestment Plan ("DRIP") and the Executive Share Purchase Plan. For further information, refer to Note 15 to the consolidated financial statements.

Retained earnings activity for Q1 2017 consists of net income of $10.3 million less dividends of $6.9 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. Activity in Q1 2017 includes a $3.0 million net decrease related to distributions received from Crown LP (net of deferred taxes); on receipt of the distribution we transferred this balance from accumulated other comprehensive income to net income. Additionally, we recorded a $1.2 million net increase in the unrealized gain on the marketable securities portfolio and a $0.3 million increase in the unrealized gain on financial investments.

SELECTED QUARTERLY FINANCIAL DATA

Table 23: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Net investment income - corporate assets	$ 12,963	$ 11,684	$ 12,396	$ 16,996	$ 10,625	$ 12,602	$ 8,996	$ 13,745
Other income - corporate assets	876	-	-	-	-	-	-	68
Net investment income - securitization assets	1,291	1,519	1,594	1,421	1,244	1,469	1,246	1,058
	15,130	13,203	13,990	18,417	11,869	14,071	10,242	14,871
Operating expenses	4,617	4,471	4,323	4,650	4,519	4,224	3,577	3,136
Net income before income taxes	10,513	8,732	9,667	13,767	7,350	9,847	6,665	11,735
Provision for (recovery of) income taxes	248	(268)	(108)	131	(421)	397	(528)	(183)
Net income	$ 10,265	$ 9,000	$ 9,775	$ 13,636	$ 7,771	$ 9,450	$ 7,193	$ 11,918
Basic and diluted earnings per share	$ 0.44	$ 0.39	$ 0.43	$ 0.59	$ 0.34	$ 0.42	$ 0.32	$ 0.56
Dividends per share	$ 0.30	$ 0.30	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.28	$ 0.28
Return on average shareholders' equity [1]	14.37%	12.94%	14.08%	20.10%	11.80%	14.66%	11.36%	20.16%
Average mortgage portfolio yield - corporate [1]	5.12%	4.99%	5.14%	5.21%	5.27%	5.31%	5.25%	5.34%
Average term deposit interest rate [1]	2.20%	2.20%	2.22%	2.22%	2.25%	2.27%	2.32%	2.38%

[1] *Refer to the “Non-IFRS Measures” section of this MD&A for a definition of these measures.*

Net investment income from corporate assets has been consistent since Q2 2015 with the exception of significant increases in Q4 2015 and Q2 2016 from income recognized upon the receipt of distributions from Crown LP. Q2 2015 and Q2 2016 also had substantial equity income from MCAP.

Net investment income from securitization assets has remained steady as we have continued our securitization activities through the market MBS program and CMB program.

SECURITIZATION PROGRAMS

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. We issue MBS through our internal market MBS program and the Canada Housing Trust (“CHT”) CMB program. In both programs, we leverage our regulatory asset capacity by originating or purchasing insured single family mortgages for securitization and sale to third parties, thus providing us with a reliable source of incremental income.

Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment obligation to investors. In instances where we have sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. Each of the programs noted below provide for many responsibilities that are linked to the issuer of these MBS instruments. We do not transfer program oversight or these specific responsibilities when selling MBS to other parties.

Market MBS Program

As part of the market MBS program, we may sell MBS to third parties and may also sell the interest-only strips to third parties. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing. As part of this program, we originate and purchase insured single family mortgages to sell as MBS.

During Q1 2017, we pooled and sold $6 million of MBS to third parties (Q1 2016 - $nil). The majority of our previous mortgage sales have not achieved derecognition as we retained significant continuing involvement with the assets such that the associated mortgages remained on the balance sheet while a corresponding liability was incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages are recognized on the accrual basis over the term of the mortgages.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security instead of selling it to a third party. As at March 31, 2017, we held $35 million of retained MBS on our balance sheet (December 31, 2016 - $37 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

The CMB program involves the sale of MBS to CHT who in turn issues a non-amortizing bullet bond to external investors. The CMB program generally includes the reinvestment of mortgage principal repayments by the issuer into certain permitted assets, however we have transferred the benefits and obligations associated with the principal reinvestment function to a third party such that we only earn spread income on the amortizing mortgage balance. The third party is responsible for sourcing assets in which to reinvest and any associated obligations. This transfer has no net ongoing financial impact on MCAN.

We securitized $42 million of insured single family mortgages during Q1 2017 (Q1 2016 - $nil). Similar to the market MBS program transaction, we did not derecognize the mortgages from the consolidated balance sheet as we retained significant continuing involvement with the assets such that the associated mortgages remained on the consolidated balance sheet while a corresponding liability was incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages is recognized on the accrual basis over the term of the mortgages.

Other Accounting Considerations

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment (discussed below in the "Timely Payment" sub-section). Prepayment risk includes the acceleration of the amortization of mortgage premiums as a result of early payouts.

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio. A corresponding liability is also recognized on the balance sheet for mortgage securitizations that fail derecognition. However, for income tax purposes, all mortgages securitized by MCAN are considered to be true mortgage sales and therefore are not included in income tax assets. For further details on total exposures, regulatory capital and income tax assets and capital, refer to the "Capital Management" and "Non-IFRS Measures" sections of this MD&A.

MCAN has capitalized certain mortgage acquisition costs. These costs are amortized using the effective interest rate method ("EIM"), which incorporates mortgage prepayment assumptions.

Timely Payment

Consistent with all issuers of MBS, we are required to remit scheduled mortgage principal and interest payments to CMHC, even if these mortgage payments have not been collected from mortgagors, to ensure that the Timely Payment of principal and interest to MBS investors is effected. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to CMHC. We maintain the Timely Payment obligation in our role as MBS issuer until the maturity of the security. If we fail to make a scheduled principal and interest payment to CMHC, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued.

If mortgage payments have not been collected from mortgagors or mortgagors are unable to renew their mortgages at their scheduled maturities, we will be required to use our own financial resources to fund our pro-rata share of these obligations until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

As part of our participation in the market MBS program and CMB program, we are required to fund 100% of any cash shortfall unless we have sold the interest-only strip, in which case the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall. If the interest-only strip purchaser is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund our 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

In the case of mortgage defaults, we are required to make scheduled principal and interest payments to investors as part of the Timely Payment and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

CAPITAL MANAGEMENT

Our primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns for our shareholders. Through our risk management and corporate governance framework, we assess current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. We typically pay out all taxable income by way of dividends. Capital growth is achieved through retained earnings, public share offerings, rights offerings and the DRIP. Our capital management is driven by the guidelines set out by the Tax Act and OSFI.

Income Tax Capital

As a MIC under the Tax Act, we are limited to an income tax liabilities to capital ratio of 5:1 (or an income tax assets to capital ratio of 6:1), based on our non-consolidated balance sheet in the MIC entity measured at its tax value. Securitization assets and liabilities (less accrued interest) are both excluded from the calculation of the income tax assets to capital ratio.

We manage our income tax assets to a level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets. Income tax asset capacity represents additional asset growth available to yield a 5.75 income tax assets to income tax capital ratio.

Table 24: Income Tax Capital [1]

(in thousands except ratios) As at	March 31 2017	December 31 2016
Income tax assets [1]		
Consolidated assets	$ 2,242,453	$ 2,280,855
Adjust for assets in subsidiaries	19,006	6,918
Non-consolidated assets in MIC entity	2,261,459	2,287,773
Add: mortgage allowances	4,816	4,897
Less: securitization assets [2]	(1,105,103)	(1,089,358)
Less: equity investments in MCAP and subsidiaries [3]	(35,318)	(37,049)
Other adjustments	(6,687)	(5,605)
	$ 1,119,167	$ 1,160,658
Income tax liabilities [1]		
Consolidated liabilities	$ 1,956,743	$ 1,999,079
Adjust for liabilities in subsidiaries	5,765	(6,500)
Non-consolidated liabilities in MIC entity	1,962,508	1,992,579
Less: securitization liabilities [2]	(1,086,258)	(1,070,117)
	$ 876,250	$ 922,462
Income tax capital [1]	$ 242,917	$ 238,196
Income tax asset capacity [1]	$ 277,607	$ 208,970
Income tax capital ratios [1]		
Income tax assets to capital ratio	4.61	4.87
Income tax liabilities to capital ratio	3.61	3.87

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[2] The majority of securitization assets and liabilities per balance sheet are excluded from income tax assets, liabilities and capital to the extent that they are held in the MIC entity.

Regulatory Capital

As a Loan Company under the *Trust and Loan Companies Act* (the "Trust Act"), OSFI oversees the adequacy of our capital. For this purpose, OSFI has imposed minimum capital-to-regulatory (or risk-weighted) assets ratios and a minimum leverage ratio which is calculated on a different basis from the income tax assets to capital ratio discussed in the "Income Tax Capital" sub-section.

Since the financial crisis, OSFI and the Basel Committee on Banking Supervision ("BCBS") have taken measures to promote a more resilient banking sector and strengthen global capital standards. Changes from Basel III that impact MCAN through the Capital Adequacy Requirements ("CAR") Guideline, Leverage Ratio and other items are listed below. We expect to be able to meet OSFI's requirements and expectations without materially adversely affecting the Company's business plan.

- OSFI requires all federally regulated financial institutions to meet the minimum Common Equity Tier 1 ("CET 1"), Total Tier 1 and Total Capital requirements set out therein. The minimum capital ratios are 4.5% for CET 1, 6% for Total Tier 1 and 8% for Total Capital (with the phase-in of certain regulatory adjustments and phase-out of non-qualifying capital instruments by 2022).

- The regulatory adjustments to be phased into the calculation of the capital ratios of a federally regulated financial institution include the deduction of certain significant investments in the capital of banking, financial and insurance entities above 10% of the institution's CET 1 Capital (after certain prescribed regulatory adjustments), which incorporates an adjustment for the equity investment in MCAP into CET 1 capital. For 2017, the "transitional" basis phases the adjustment in by a factor of 80%, while the "all-in" basis incorporates the entire adjustment. The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.

- In 2016, OSFI implemented the requirement for all federally regulated financial institutions to maintain a capital conservation buffer. The buffer will be phased in over time and will reach its final level of 2.5% in 2019.

- In addition to the minimum capital requirements and capital conservation buffer to be maintained by all federally regulated institutions, OSFI expects all such institutions to attain target capital ratios equal to or greater than the 2019 minimum capital ratios and the 2019 capital conservation buffer well in advance of the phase-in period. Accordingly, OSFI expects all federally regulated institutions to have a CET 1 ratio of 7% and a Total Tier 1 ratio of 8.5% and a Total Capital ratio of 10.5% (in each case, calculated on an "all in" basis giving effect to all regulatory adjustments that will be required by 2019 and including the 2019 capital conservation buffer). Failure to achieve such targets will serve as triggers for supervisory intervention.

OSFI began the phase-in of the Credit Valuation Adjustment ("CVA") risk capital charge in 2014. The CVA risk capital charge applicable to CET 1 Capital is 72% in 2017. This will increase annually until it reaches 100% by 2019. The implementation of the CVA risk capital charge has had an insignificant impact on MCAN.

Our internal target minimum CET 1, Tier 1 and Total Capital ratios are 20%. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

OSFI and the BCBS are finalizing consultations for an update to the regulatory capital framework for loans secured by residential real estate properties. The potential impact to MCAN will largely be in changes to the risk weighting of mortgages as calculated in the standardized approach and a new capital charge for insured mortgages.

OSFI has enacted revisions to the CAR Guideline effective January 1, 2017. The key revisions that relate to MCAN are as follows:

- An explicit requirement that institutions have appropriate policies and procedures in place to originate, underwrite and administer insured single family mortgages so as to receive a 0% risk-weighting for these assets; otherwise they would attract a 35% or 75% risk weighting similar to uninsured single family mortgages. This revision has not impacted the risk-weighting of MCAN's insured single family mortgage portfolio.

- A revision to the risk-weighting of equity investments in funds. MCAN has adopted the "look through" approach that incorporates the risk-weighting of assets held inside the fund and the leverage used by the fund. This revision has impacted the risk-weighting of the financial investments in Crown LP and the KingSett High Yield Fund and caused decreases in the capital to risk-weighted assets ratios of 0.91% and 0.91% on the all-in and transitional bases, respectively, at March 31, 2017.

Table 25: Regulatory Capital

(in thousands except %) As at	March 31 2017	December 31 2016
Regulatory Ratios (OSFI)		
Share capital	$ 212,379	$ 210,239
Contributed surplus	510	510
Retained earnings	59,242	55,923
Accumulated other comprehensive income	13,579	15,104
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(17,476)	(13,576)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 268,234	$ 268,200
Deduction for equity investment in MCAP (All-in adjustment) [1]	(4,369)	(9,051)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 263,865	$ 259,149
Total Exposures/Regulatory Assets [2]		
Consolidated assets	$ 2,242,453	$ 2,280,855
Less: deductions from all-in Tier 1 Capital [1]	(21,845)	(22,627)
Other adjustments [3]	1,561	1,489
Total On-Balance Sheet Exposures	2,222,169	2,259,717
Mortgage and investment funding commitments	381,595	402,861
Less: conversion to credit equivalent amount (50%)	(190,798)	(201,431)
Letters of credit	29,068	30,537
Less: conversion to credit equivalent amount (50%)	(14,534)	(15,269)
Total Off-Balance Sheet Items	205,331	216,698
Total Exposures/Regulatory Assets	$ 2,427,500	$ 2,476,415
Leverage ratio [2]	10.87%	10.46%
Risk weighted assets (transitional) [2]	$ 1,195,769	$ 1,167,226
Risk weighted assets (all-in) [2]	$ 1,187,031	$ 1,149,124
Regulatory Capital Ratios [2]		
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	22.43%	22.98%
Tier 1 capital to risk-weighted assets ratio (transitional)	22.43%	22.98%
Total capital to risk-weighted assets ratio (transitional)	22.43%	22.98%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	22.23%	22.55%
Tier 1 capital to risk-weighted assets ratio (all-in)	22.23%	22.55%
Total capital to risk-weighted assets ratio (all-in)	22.23%	22.55%

[1] The deduction for the equity investment in MCAP on an all-in basis is equal to the equity investment balance less 10% of the Company's shareholders' equity. In 2017, the deduction on the transitional basis is equal to 80% of the all-in adjustment (2016 - 60%). The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[3] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

Table 26: Regulatory Risk-Weighted Assets

(in thousands except %)	March 31, 2017			December 31, 2016		
As at	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 94,724	20%	$ 19,257	$ 111,732	20%	$ 22,644
Cash held in trust	14,425	20%	2,885	15,724	20%	3,145
Marketable securities	59,305	100%	59,305	55,126	100%	55,126
Mortgages - corporate	861,056	74%	635,085	904,112	71%	637,871
Mortgages - securitized	1,089,945	3%	37,056	1,071,849	3%	37,432
Financial investments	55,790	184%	102,538	57,264	100%	57,264
Other loans	4,575	100%	4,575	3,584	100%	3,584
Equity investment in MCAP (all-in) [1]	50,416	57%	28,570	50,805	55%	28,177
Foreclosed real estate	435	100%	435	529	100%	529
Deferred tax asset	1,986	100%	1,986	1,782	100%	1,782
Other assets	9,796	100%	9,796	8,348	100%	8,348
			901,488			855,902
Off-Balance Sheet Items						
Letters of credit	29,068	50%	14,534	30,537	50%	15,269
Commitments	381,595	46%	174,421	402,861	46%	184,378
			188,955			199,647
Charge for operational risk			96,588			93,575
Risk-Weighted Assets (all-in)			1,187,031			1,149,124
Equity investment in MCAP (transitional adjustment) [1]			8,738			18,102
Risk-Weighted Assets (transitional)			**$ 1,195,769**			**$ 1,167,226**

[1] In calculating risk-weighted assets on the "all-in" basis, the capital deduction related to the investment in MCAP is risk weighted at 0%, while the component not deducted from capital is risk weighted at 100%. In calculating risk-weighted assets on the transitional basis, the difference between the all-in deduction and the transitional deduction is risk weighted at 200%.

Other Capital Management Activity

In conjunction with the annual strategic planning and budgeting process, we complete an Internal Capital Adequacy Assessment Process (“ICAAP”) in order to ensure that we have the capital adequacy to support our business plan and risk appetite. The ICAAP assesses the capital necessary to support the various inherent risks that we face, including credit, liquidity, interest rate, market, geographic concentration and reputational risks. Our business plan is also stress-tested under various adverse scenarios in order to determine the impact on our results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. In addition, the Company performs stress testing on our internal forecasts for capital adequacy on a quarterly basis, and the results of such testing are reported to the Board.

LIQUIDITY MANAGEMENT

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the Risk Committee of the Board ("RCB") on a quarterly basis.

For further information on how we manage liquidity risk, refer to the "Liquidity and Funding Risk" sub-section of the "Risk Governance & Management" section of this MD&A. For information on our credit facilities refer to Note 22 to the consolidated financial statements.

OSFI's Liquidity Adequacy Requirements ("LAR") guideline establishes three minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metric, which both became effective January 1, 2015, and the Net Stable Funding Ratio ("NSFR"), which is effective January 1, 2018.

As at March 31, 2017, we were in compliance with the LCR and NCCF and we believe that we will be able to comply with the NSFR requirements once enacted. As at March 31, 2017, we were also in compliance with our internal liquidity ratios.

These requirements are supplemented by additional supervisory monitoring metrics including the liquidity monitoring tools and the intraday liquidity monitoring tools as considered in the Basel III framework.

The following table shows the composition of our internal liquidity ratios. These internal ratios include assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. We manage our Tier 1 & 2 and Total liquid assets to a minimum of 60% and 100% of term deposit liabilities maturing within 100 days, respectively. The December 31, 2016 cash balance was higher than usual as a result of certain early construction loan payouts, which caused the decrease in the balance in Q1 2017.

Table 27: Liquidity Ratios

(in thousands except %) As at	March 31 2017	December 31 2016
Tier 1 liquid assets [1]		
Cash and cash equivalents	$ 94,724	$ 111,732
Tier 2 liquid assets [1]		
Marketable securities	59,305	55,126
Less: marketable securities adjustment [2]	(13,924)	(13,007)
Market MBS retained by MCAN [3]	35,339	36,606
	80,720	78,725
Tier 3 liquid assets [1]		
Single family insured mortgages [4]	39,672	69,899
Less: single family insured mortgages adjustment [4]	(12,271)	(24,293)
	27,401	45,606
Total liquid assets [1]	$ 202,845	$ 236,063
100 day term deposit maturities	$ 127,234	$ 130,357
Liquidity ratios [1]		
Tier 1 & 2 liquid assets to 100 day term deposit maturities	138%	146%
Total liquid assets to 100 day term deposit maturities	159%	181%

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[2] Adjusted to reflect estimated impact to fair market value in a stressed scenario. Corporate bonds are reduced as follows: BBB- or higher (30%); below BBB- (45%). REITs are reduced as follows: constituent in TSX/S&P Composite Index (20%); not a constituent in TSX/S&P Composite Index (40%).
[3] Included in corporate mortgages - insured single family. For further information, refer to the "Securitization Programs" section of this MD&A.
[4] Single family insured mortgages exclude mortgages pledged as collateral and second mortgages not insured by CMHC. The adjustment reflects lower liquidity than Tier 1 and Tier 2 liquidity, as follows: CMHC insured (25%), CMHC insured second mortgages (50%), privately insured (50%).

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above.

Table 28: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	March 31 2017	December 31 2016
Sources of liquidity							
Cash and cash equivalents	$ 94,724	$ -	$ -	$ -	$ -	$ 94,724	$ 111,732
Marketable securities	58,666	523	89	-	27	59,305	55,126
Mortgages - corporate	168,100	393,074	275,572	21,442	2,868	861,056	904,112
Financial investments	-	-	-	-	55,790	55,790	57,264
Other loans	1,466	1,217	-	1,892	-	4,575	3,584
	322,956	394,814	275,661	23,334	58,685	1,075,450	1,131,818
Uses of liquidity							
Term deposits	117,965	307,516	305,099	131,093	-	861,673	911,866
Other liabilities	4,082	-	-	-	-	4,082	12,377
	122,047	307,516	305,099	131,093	-	865,755	924,243
Net liquidity surplus (deficit)	**$ 200,909**	**$ 87,298**	**$ (29,438)**	**$ (107,759)**	**$ 58,685**	**$ 209,695**	**$ 207,575**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 217,464	$ 125,971	$ -	$ -	$ -	$ 343,435	$ 364,161
Commitment - KingSett High Yield Fund	-	-	-	-	38,160	38,160	38,700
	$ 217,464	$ 125,971	$ -	$ -	$ 38,160	$ 381,595	$ 402,861

Note: The above table excludes securitized assets and liabilities and pledged assets as their use is restricted to securitization program operations.

RISK GOVERNANCE AND MANAGEMENT

We are exposed to a number of risks, including credit risk, liquidity and funding risk, operational risk, strategic and business risk, reputational risk, interest rate risk, market risk and cyber risk, that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital and/or damage to our reputation. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the diligent management of assets and liabilities.

We operate in changing regulatory and economic environments. As a result, we believe that our management team and the Board are particularly diligent in their consideration of all identified and emerging risks. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value.

The risks that have been identified may not be the only risks that we face. Other risks of which we are not aware of or which we currently deem to be immaterial may surface and have a material adverse impact on our business, results from operations and financial condition.

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to credit, liquidity, interest rate and market risks as required under IFRS 7, *Financial Instruments: Disclosures*. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of the consolidated financial statements.

For a detailed discussion of risks that the Company is exposed to, refer to the "Risk Governance and Management" section of the 2016 Annual MD&A.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that we may eventually collect the amounts outstanding, which may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

For information on the contractual maturities of certain obligations of the Company, refer to notes 12, 14 and 21 to the consolidated financial statements.

Reputational Risk

Reputational risk is the negative consequence of the occurrence of other risks and can occur from an activity undertaken by the Company, its affiliated companies, or its representatives. The loss of reputation can greatly affect shareholder value through reduced public confidence, a loss of business, legal action, or increased regulatory oversight. Reputation refers to the perception of the enterprise by various stakeholders. Typically, key stakeholder groups include investors, customers, employees, suppliers and regulators. Perceptions may be impacted by various events including financial performance, specific adverse occurrences from events such as cyber security issues, unfavourable media coverage, and changes or actions of the corporation's leadership. Failure to effectively manage reputation risk can result in reduced market capitalization, loss of client loyalty, and the inability to achieve our strategic objectives.

Strategic and Business Risk

Strategic and business risk is the risk of loss due to fluctuations in the external business environment, the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response to those changes.

Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events. The risk of loss from people includes internal or external fraud, non-adherence to internal procedures/values/objectives or unethical behaviour. The largest components of this risk for MCAN have been separately identified as outsourcing risk and cyber risk. The remaining risks arise from the small size and entrepreneurial nature of MCAN, and the legacy systems used within it. The exposure to financial misreporting, inaccurate financial models, fraud, breaches in privacy, information security, attraction and retention of employees, and business continuity and recovery are included within operational risk.

Outsourcing Risk

Within operational risk, outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource the majority of our mortgage and loan origination, servicing and collections to MCAP and other third parties.

Risk of Accuracy and Completeness of Borrower Information

Within operational risk, in the single family mortgage underwriting process, we rely on information provided by potential borrowers and other third parties, including mortgage brokers. We may also rely on the representations of potential borrowers and third parties as to the accuracy and completeness of that information. Our financial position and performance may be negatively impacted if this information is intentionally misleading or does not fairly represent the financial condition of the potential borrower and is not detected by our internal controls.

Cyber Risk

We collect and store confidential and personal information to the extent needed for operational purposes. Unauthorized access to the Company's computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in the Company's operations. In addition, despite the Company's implementation of security measures, its systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's delivery of services and make the Company's applications unavailable or cause similar disruptions to the Company's operations. If a person penetrates the Company's network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on the Company's business, results of operations and financial condition.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counter party fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Our exposure to interest rate risk is discussed further in Note 23 to the consolidated financial statements.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Our market risk factors include price risk on marketable securities, interest rates, real estate values and commodity prices, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Risk Management

For a detailed discussion of how we manage the risks noted above, refer to the "Risk Governance and Management" section of the 2016 Annual MD&A.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2017, there were 23,223,955 common shares outstanding (December 31, 2016 - 23,075,227). As at May 9, 2017, there were 23,223,955 common shares outstanding.

During Q1 2017, we issued 142,019 new common shares under the DRIP (Q1 2016 - 150,379), which provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%. Additionally, in Q1 2017 we issued 6,709 common shares through the Executive Share Purchase Plan (Q1 2016 - nil).

For additional information related to share capital, refer to Note 15 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KingSett High Yield Fund.

We outsource the majority of our mortgage servicing and continue to pay servicing expenses as long as the mortgages remain on our balance sheet.

Table 29: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	March 31 2017	December 31 2016
Mortgage funding commitments	$ 343,435	$ -	$ -	$ -	$ 343,435	$ 364,161
Commitment - KingSett High Yield Fund	-	-	-	38,160	38,160	38,700
Operating lease	575	1,163	1,194	1,492	4,424	4,569
	$ 344,010	**$ 1,163**	**$ 1,194**	**$ 39,652**	**$ 386,019**	**$ 407,430**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information, refer to Note 6 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. For further information, refer to Note 22 to the consolidated financial statements.

As at March 31, 2017, of our total single family mortgage renewal rights of $1.0 billion (December 31, 2016 - $1.3 billion), $110 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2016 - $130 million).

DIVIDENDS

The Board declared an increase to the quarterly dividend from $0.30 per share to $0.32 per share effective with the 2017 second quarter dividend to be paid on June 30, 2017 to shareholders of record as of June 15, 2017.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2017 and March 31, 2016 and related party balances as at March 31, 2017 are discussed in Note 20 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, cash held in trust, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and loans payable, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is found in the “Risk Governance and Management” section of this MD&A.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instruments are located in the “Results from Operations” and “Financial Position” sections of this MD&A. Information on the determination of the fair value of financial instruments is located in the “Critical Accounting Estimates and Judgments” section of this MD&A.

PEOPLE

As at March 31, 2017, we had 61 employees.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company’s financial statements requires management to make judgments and estimations and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates are considered carefully and reviewed at an appropriate level within MCAN. We believe that our estimates of the value of our assets and liabilities are appropriate. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Critical Accounting Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified. The collective allowance is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current year, and there could be a need to increase or decrease the allowance for credit losses.

We review our individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups). There have been no recent changes to the methodology, nor are any expected in the foreseeable future. No trends, events or uncertainties exist that may affect the methodology and assumptions used.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

In addition to considering current economic conditions, we assessed the probability of default, expected loss as a result of default and the mortgage exposure at the time of default when establishing our collective allowance. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the EIM.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income in the subsidiaries of the Company. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded in the subsidiaries of the Company.

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used in the subsidiaries of the Company. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the subsidiaries of the Company, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Impairment of financial assets

As applicable, the Company reviews financial assets at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the fair value of the asset.

Critical Accounting Judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Significant influence

In determining whether it has significant influence over an entity, the Company makes certain judgments based on the applicable accounting standards. These judgments form the basis for the Company's policies in accounting for its equity investments.

Taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current and deferred taxes within the MIC entity; however provisions are recorded as applicable in all subsidiaries of MCAN.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This listing is of standards and interpretations issued, which we reasonably expect to be applicable at a future date. We intend to adopt these standards when they become effective.

IFRS 9, *Financial Instruments*

In July 2014, the International Accounting Standards Board ("IASB") issued a final revised IFRS 9 standard, which addresses impairment, classification and measurement, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Project Plan/Implementation
We have established an IFRS 9 Committee which includes representatives of finance, risk and other executives. The Committee is responsible for the overall implementation of IFRS 9, ensuring proper integration throughout the Company and providing review and approval of key decisions. We continue to analyze the impact of the IFRS 9 changes on our consolidated financial statements and will continue to provide details as the project progresses.

Impairment
IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets, with the most significant impact on the Company's mortgage portfolio. The new ECL model will result in a collective allowance being recorded on financial assets regardless of whether there has been an actual loss event. The expected credit loss model requires the recognition of 12-month expected credit losses at origination and the recognition of expected lifetime losses on financial assets that have experienced a

significant increase in credit risk since origination. IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. We are in the process of developing our IFRS 9 models and we have not yet quantified the impact on our collective allowance.

Classification and Measurement

IFRS 9 requires that debt instruments are classified based on the business model for managing the assets and the contractual cash flow characteristics of the asset. The business model test determines classification based on the business purpose for holding the asset. Our debt instruments that have contractual cash flows representing only payments of principal and interest will be eligible for classification as fair value reported through other comprehensive income ("FVOCI") or amortized cost. Our equity instruments would generally be measured at FVOCI with unrealized gains and losses recognized in other comprehensive income. We are currently analyzing our business models and contractual cash flow characteristics.

Hedge Accounting

IFRS 9 has new hedge accounting principles that are aimed to align hedge accounting more closely with risk management. We currently do not have any hedging relationships eligible for hedge accounting under IFRS 9 and therefore we do not expect any impact from the introduction of IFRS 9 hedge accounting rules.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. We are in the process of assessing the impact of IFRS 15 on our consolidated financial statements.

IFRS 16, *Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective for annual periods beginning on or after January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, *Leases* and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. We have not yet determined the impact of IFRS 16 on our consolidated financial statements.

IFRS 2, *Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2, which clarify how to classify and measure certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018 and can be applied prospectively. We have not yet determined the impact of IFRS 2 on our consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2017, the CEO and CFO of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

NON IFRS MEASURES

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

Return on Average Shareholders' Equity
Return on average shareholders' equity is a profitability measure that presents the annualized net income available to shareholders' equity as a percentage of the capital deployed to earn the income. We calculate return on average shareholders' equity as a monthly average using all components of shareholders' equity.

Taxable Income Measures
Taxable Income Measures include taxable income and taxable income per share. Taxable income represents MCAN's net income on a non-consolidated basis calculated under the provisions of the Tax Act applicable to a MIC. Taxable income is calculated as an estimate until we complete our annual tax returns subsequent to year end, at which point it is finalized.

Average Interest Rate
The average interest rate is a profitability measure that presents the average annualized yield of an asset or liability. Average mortgage portfolio yield (corporate or securitized), term deposit average interest rate, financial liabilities from securitization average interest rate, spread of mortgages over term deposits and spread of securitized assets over liabilities are examples of average interest rates. The average asset/liability balance that is incorporated into the average interest rate calculation is calculated on either a daily or monthly basis depending on the nature of the asset/liability. Please refer to the applicable tables containing average balances for further details.

Net Interest Income
Net interest income is a profitability measure that reflects net income earned only from interest-bearing assets and liabilities.

Impaired Mortgage Ratios
The impaired mortgage ratios represent the ratio of impaired uninsured mortgages to both corporate and total (corporate and securitized) mortgage principal.

Mortgage Arrears
Mortgage arrears measures include total corporate mortgage arrears, total securitized mortgage arrears and total mortgage arrears. These measures represent the amount of mortgages from the corporate portfolio, securitized portfolio and the sum of the two, respectively, that are at least one day past due.

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple and Risk Weighted Assets
These measures provided in this MD&A are in accordance with guidelines issued by OSFI and are located on Table 33 of this MD&A and Note 24 to the consolidated financial statements.

Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios
Tier 1, Tier 2, Tier 3 and Total Liquid Assets are internal metrics that quantify the balance sheet assets (or components of assets) that comprise various liquidity levels. Liquidity ratios represent the ratio of select tiers of liquid assets to term deposits maturing within 100 days.

Income Tax Capital Measures
Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts. Income tax asset capacity represents additional income tax asset growth available to yield a 5.75 income tax assets to capital ratio, which is our target ratio.

Market Capitalization
Market capitalization is calculated as the number of common shares outstanding multiplied by the closing common share price as of that date.

Book Value per Common Share
Book value per common share is calculated as total shareholders' equity divided by the number of common shares outstanding.

Limited Partner's At-Risk Amount
The value of our equity investment in MCAP for income tax purposes is referred to as the Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the limited partner's investment in the partnership. The LP ARA is increased (decreased) by the partner's share of partnership income (loss) on a tax basis, increased by the amount of capital contributions into the partnership and reduced by distributions received from the partnership.