MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 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 consolidated balance sheets and accompanying notes as at December 31, 2017 and December 31, 2016 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and presented in Canadian currency. This MD&A has been presented as at February 23, 2018.

Additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including copies of our 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.

TABLE OF CONTENTS - MD&A

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS 3
SELECTED FINANCIAL INFORMATION 5
HIGHLIGHTS 7
OUTLOOK 8
RESULTS OF OPERATIONS 10
FINANCIAL POSITION 18
SELECTED QUARTERLY FINANCIAL DATA 29
SUMMARY OF FOURTH QUARTER RESULTS 30
SECURITIZATION PROGRAMS 36
CAPITAL MANAGEMENT 38
LIQUIDITY MANAGEMENT 41
RISK GOVERNANCE AND MANAGEMENT 43
DESCRIPTION OF CAPITAL STRUCTURE 52
OFF-BALANCE SHEET ARRANGEMENTS 53
DIVIDEND POLICY AND RECORD 53
TRANSACTIONS WITH RELATED PARTIES 54
FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS 54
PEOPLE 54
REGULATORY COMPLIANCE 55
INTERNAL AUDIT 55
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 55
STANDARDS ISSUED BUT NOT YET EFFECTIVE 57
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING 57
NON-IFRS MEASURES 58

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this MD&A is qualified by this cautionary note. Often, but not always, forward-looking information can be identified by the use of words such as “may,” “believe,” “will,” “anticipate,” “expect,” “planned,” “estimate,” “project,” “future,” and variations of these or similar words or other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Forward-looking information in this MD&A includes, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of changes to regulations;
- the stability of home prices;
- the 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.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information reflects management’s current beliefs and is based on information currently available to management. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable by us at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking information.

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

- our ability to successfully implement and realize on our business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of our business;
- computer failure or security breaches;
- the availability of funding and capital to meet our 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 our products in the marketplace;
- availability of key personnel;
- our operating cost structure; and
- the current tax regime.

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information 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;
- our 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;
- our ability to retain our executive officers and other employees;
- litigation risk;
- our 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 or revise any forward-looking information after the date of this MD&A whether as a result of new information, future events or otherwise or to explain any material difference between subsequent actual events and any forward-looking information. 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*	***MBS***	*Mortgage Backed Securities*
BCBS	*Basel Committee on Banking Supervision*	***IAS***	*International Accounting Standard*	***MD&A***	*Management's Discussion & Analysis*
CAR	*Capital Adequacy Requirements*	***IASB***	*International Accounting Standards Board*	***MIC***	*Mortgage Investment Corporation*
CDIC	*Canada Deposit Insurance Corporation*	***ICB***	*Investment Committee of the Board*	***NHA***	*National Housing Act*
CET 1	*Common Equity Tier 1*	***IFRIC***	*IFRS Interpretations Committee*	***NSFR***	*Net Stable Funding Ratio*
CHT	*Canada Housing Trust*	***IFRS***	*International Financial Reporting Standards*	***OSFI***	*Office of the Superintendent of Financial Institutions*
CMB	*Canada Mortgage Bonds*	***LAR***	*Liquidity Adequacy Requirements*	***RAF***	*Risk Appetite Framework*
CMHC	*Canada Mortgage and Housing Corporation*	***LCR***	*Liquidity Coverage Ratio*	***RMBS***	*Residential Mortgage Backed Securities*
DRIP	*Dividend Reinvestment Plan*	***LP ARA***	*Limited Partner's At-Risk Amount*	***SEDAR***	*System for Electronic Document Analysis and Retrieval*
ECL	*Expected Credit Losses*	***LTV***	*Loan to Value (ratio)*	***TSX***	*Toronto Stock Exchange*
EIM	*Effective Interest Rate Method*				

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2017	2016	2015	Change from 2016 ($)	Change from 2016 (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 52,413	$ 51,701	$ 42,741	$ 712	1.4%
Net investment income - securitization assets	5,613	5,778	4,467	(165)	(2.9%)
	58,026	57,479	47,208	547	1.0%
Other income	876	-	68	876	-
Operating expenses	19,218	17,963	14,508	1,255	7.0%
Net income before income taxes	39,684	39,516	32,768	168	0.4%
Provision for (recovery of) income taxes	(244)	(666)	(89)	422	(63.4%)
Net income	$ 39,928	$ 40,182	$ 32,857	$ (254)	(0.6%)
Basic and diluted earnings per share	$ 1.72	$ 1.75	$ 1.51	$ (0.03)	(1.7%)
Dividends per share	$ 1.31	$ 1.17	$ 1.13	$ 0.14	12.0%
Next quarter's dividend per share	$ 0.37				
Return on average shareholders' equity [1]	13.75%	14.74%	13.45%		(0.99%)
Taxable income per share [1,3]	$ 1.51	$ 1.24	$ 0.90	$ 0.27	21.8%
Yields					
Average mortgage portfolio yield - corporate [2]	5.31%	5.15%	5.35%		0.16%
Term deposit average interest rate [2]	2.24%	2.23%	2.34%		0.01%
Spread of mortgages over term deposits	3.07%	2.92%	3.01%		0.15%
Average mortgage portfolio yield - securitized [2]	2.61%	2.73%	2.71%		(0.12%)
Financial liabilities from securitization - average interest rate [2]	1.87%	2.02%	2.07%		(0.15%)
Spread of mortgages over liabilities	0.74%	0.71%	0.64%		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.*
[3] *For further information refer to the "Taxable Income" section of this MD&A.*

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %) As at December 31, 2017	2017	2016	2015	Change from 2016 ($)	Change from 2016 (%)
Balance Sheet Highlights					
Assets					
Corporate	$ 1,182,371	$ 1,188,480	$ 1,155,046	$ (6,109)	(1%)
Securitization	1,034,404	1,092,375	1,091,912	(57,971)	(5%)
Total assets	$ 2,216,775	$ 2,280,855	$ 2,246,958	$ (64,080)	(3%)
Mortgages - corporate	$ 863,384	$ 904,112	$ 944,109	$ (40,728)	(5%)
Mortgages - securitized	$ 1,016,724	$ 1,071,849	$ 1,075,947	$ (55,125)	(5%)
Liabilities					
Corporate	$ 904,099	$ 927,293	$ 917,852	$ (23,194)	(3%)
Securitization	1,015,699	1,071,786	1,070,304	(56,087)	(5%)
Total liabilities	$ 1,919,798	$ 1,999,079	$ 1,988,156	$ (79,281)	(4%)
Shareholders' equity	$ 296,977	$ 281,776	$ 258,802	$ 15,201	5%
Capital Ratios [1]					
Income Tax Assets to Capital Ratio	4.60	4.87	5.11		(6%)
Common Equity Tier 1 Capital Ratio (transitional)	21.53%	22.98%	23.58%		(1.45%)
Common Equity Tier 1 Capital Ratio (all-in)	21.26%	22.55%	23.02%		(1.29%)
Tier 1 Capital Ratio (transitional)	21.53%	22.98%	23.58%		(1.45%)
Tier 1 Capital Ratio (all-in)	21.26%	22.55%	23.02%		(1.29%)
Total Capital Ratio (transitional)	21.53%	22.98%	23.58%		(1.45%)
Total Capital Ratio (all-in)	21.26%	22.55%	23.02%		(1.29%)
Leverage ratio [2]	11.31%	10.46%	9.96%		0.85%
Credit Quality					
Impaired mortgage ratio (total) [1]	0.09%	0.14%	0.11%		(0.05%)
Impaired mortgage ratio (corporate) [1]	0.20%	0.31%	0.23%		(0.11%)
Mortgage Arrears					
Corporate	$ 8,766	$ 13,041	$ 19,889	$ (4,275)	(33%)
Securitized	8,803	13,609	14,361	(4,806)	(35%)
Total	$ 17,569	$ 26,650	$ 34,250	$ (9,081)	(34%)
Common Share Information (end of period)					
Number of common shares outstanding	23,378	23,075	22,782		1%
Book value per common share [1]	$ 12.70	$ 12.21	$ 11.36	$ 0.49	4%
Common share price - close	$ 17.84	$ 14.32	$ 12.14	$ 3.52	25%
Market capitalization [1]	$ 417,064	$ 330,434	$ 276,573	$ 86,630	26%

[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

Fiscal 2017

- We earned net income of $39.9 million, down slightly from record net income of $40.2 million earned in 2016.
- Earnings per share totalled $1.72 per share in 2017 compared to $1.75 per share in 2016.
- Return on average shareholders' equity[1] was 13.75% in 2017 compared to 14.74% in 2016.
- Our equity investment in MCAP Commercial LP ("MCAP") continued to provide solid equity income of $14.4 million, up from $13.5 million in 2016.
- Income from financial investments and other loans, consisting primarily of our investments in the Crown Realty II Limited Partnership ("Crown LP") and the KingSett High Yield Fund, increased by 39% to $9.0 million in 2017 from $6.5 million in 2016.
- We had decreases in corporate mortgage interest income ($2.9 million) and fees ($1.3 million) from 2016, in addition to higher operating expenses ($1.3 million).

Q4 2017

- Net income was $10.8 million in Q4 2017, an increase of 20% from $9.0 million in Q4 2016. The increase was driven by higher equity income from MCAP and income from financial investments and other loans, partially offset by higher operating expenses.
- Earnings per share increased by $0.08 (21%) to $0.47 in Q4 2017 from $0.39 in Q4 2016.
- Return on average shareholders' equity increased to 14.63% in Q4 2017 from 12.94% in Q4 2016.

Corporate Activity

- Corporate assets, which totalled $1.18 billion at December 31, 2017, decreased by $6 million from December 31, 2016.
- The corporate mortgage portfolio decreased by $41 million during 2017 to $863 million from $904 million, which included decreases of $50 million in uninsured single family, $28 million in insured single family, partially offset by an increase in $33 million in uninsured completed inventory.
- Our higher yielding corporate non-mortgage investments portfolio, consisting of marketable securities, our equity investment in MCAP and financial investments, increased by $27 million (16%) from December 31, 2016.

Dividend

- Consistent with the fourth quarter dividend, the Board of Directors (the "Board") declared a first quarter dividend of $0.37 per share to be paid on March 29, 2018 to shareholders of record as of March 15, 2018.

Credit Quality

- The impaired total mortgage ratio[1] decreased to 0.09% at December 31, 2017 from 0.14% at December 31, 2016.
- The impaired corporate mortgage ratio[1] decreased to 0.20% at December 31, 2017 from 0.31% at December 31, 2016.
- Total mortgage arrears[1] were $18 million at December 31, 2017, a decrease of $9 million (33%) from $27 million at December 31, 2016. The December 31, 2017 balance consists entirely of single family mortgages, $5.9 million of which were uninsured.
- Net write-offs were 5.7 basis points of the average corporate portfolio in 2017 compared to 2.4 basis points in 2016.
- The average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 52.6% at December 31, 2017 compared to 56.5% at December 31, 2016.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 21.53% on the transitional basis and 21.26% on the "all-in" basis at December 31, 2017 compared to 22.98% and 22.55%, respectively, at December 31, 2016.
- Our leverage ratio[1] was 11.31% at December 31, 2017 compared to 10.46% at December 31, 2016.
- Income tax asset capacity[1] was $287 million at December 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") that govern leverage for mortgage investment corporations.

[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

Housing markets are expected to face headwinds as a result of recent regulations enacted by the Federal and Ontario governments to cool down real estate markets and mortgage lending in Canada. Additionally, consumers are also facing a rising interest rate environment. After two interest rate hikes in 2017 and one in January 2018, the Bank of Canada will continue to monitor economic conditions before considering future interest rate increases. Recent reporting of job losses may add to the concerns over economic growth.

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to local economic conditions. The Prairie Provinces have demonstrated some stabilization following the strengthening of oil prices. Other regional economies previously benefited from the lower Canadian dollar, which helped to strengthen employment in the manufacturing sector. These regional economies are now facing a relatively strong Canadian dollar, with forecasts for strong Canadian GDP supporting higher interest rates.

Ontario and British Columbia have continued to exhibit strong fundamentals, with GDP growth driven by exports and immigration. We continue to focus our origination in Ontario and British Columbia and selectively lend in Alberta.

Announced increases in immigration levels by the Federal government are expected to positively impact housing markets, particularly those that are supply-constrained such as Toronto and Vancouver.

Real Estate Conditions

We expect Canadian housing market conditions to be volatile in 2018. Markets are adjusting to an unprecedented level of regulatory and policy changes affecting mortgage insurance rules, foreign buyer taxes, underwriting requirements for regulated lenders and rising interest rates. It will take another 6 months to see the full impact of these changes on housing sale volumes and prices. We expect home sale levels to slow considerably in Ontario, as buyers react to the uncertainty caused by the multiple rule changes, with significant increases in the number of days listings are on the market and marked decreases in sales volumes. We expect to see some level of weakness in resale markets as markets adjust to fewer buyers and more available listings.

Actual sales activity in the Greater Toronto Area ("GTA") was down 22.5% in January 2018 compared to January 2017. In line with reduced sales, the average price in January 2018 was 4.1% less than the average price in January 2017.

The GTA saw existing home sales decrease by over 29% in the second half of 2017 (compared to 2016) following the Government of Ontario's announced reforms to rental and housing markets. We expect the negative impact of the announced changes to impact the market for the first half of 2018, similar to what occurred in the Greater Vancouver Area ("GVA") market. Notwithstanding the slowdown in the resale market, the GTA set a record in new condominium apartment sales in 2017, while having a record low in available inventory at year end.

With regards to the GVA, demand is currently outpacing supply. There continues to be a lack of inventory in the market, which has and will continue to push prices upward. We expect the volumes and pricing on new home sales in the GVA to be steady due to a low supply of housing lots against demand.

We believe that there is an increased risk of a price correction in the GTA residential housing market through 2018, as prices adjust from historical highs. We will continue to operate with more conservative underwriting and credit policies relative to the market for uninsured mortgages through this market transition.

Regulatory Changes

Revised Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* came into effect on January 1, 2018. We believe that our existing underwriting standards are consistent with the new B-20 guidelines. The new B-20 guidelines require a 200 basis point stress test on the borrower qualifying rate, which will further enhance the credit quality of newly originated mortgages. We expect that this stress test may have some impact on the proportion of mortgages that we approve. This increase in the qualifying rate on uninsured mortgages will have the largest impact on market origination activity.

The prime insured mortgage market is expected to decrease again this year, as a result of the cumulative effect of new mortgage insurance rules and the increased cost of portfolio insurance. We have been impacted by these rules, as insured mortgage rates have been under pressure due to increased competition amongst lenders despite the recent Bank of Canada interest rate increases.

Impact on MCAN

We will continue to monitor housing markets as they react to an unprecedented level of regulatory changes. We will continue to ensure that our mortgage portfolio remains well positioned. Our corporate assets decreased by 1% in 2017, compared to our stated annual growth target of 10%. As market conditions change, we may choose to deviate from this target to exercise prudent risk management, such as avoiding mortgage markets where home prices have shown excessive inflation levels, or to capitalize on opportunities that fit within our overall risk appetite and strategic objectives. We continue to maintain annual 10% corporate asset growth as our ongoing target as a measure of our expected annualized growth objective into 2018 and beyond.

Real estate markets will react to the conditions described above, with the GTA market showing the greatest volatility in the first half of 2018. We believe that the market will recover to more normal volumes in the second half of the year. 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 in the geographic markets we lend to.

We expect our equity investments in MCAP, Crown LP and the KingSett High Yield Fund to positively contribute to our earnings in 2018. KingSett's announcement during Q2 2017 regarding its agreement to acquire over $1 billion in commercial mortgages from Home Capital has advanced the investment level and is expected to continue to have a positive impact on future income from our investment in the KingSett High Yield Fund. Subsequent to year end, we funded an additional $2.7 million of our capital commitment relating to our investment in the High Yield Fund.

We continue to evaluate the impact of regulatory changes on the market and MCAN. We believe that it will require another 6 months to see the impact of these changes on construction, home sales, and mortgage volumes. We have significant available asset capacity, and with the market repositioning and changing rules, we feel that we are well positioned to capitalize on the single family uninsured asset class by way of internal originations or from mortgage acquisitions in the upcoming year. In late 2017 we commenced new acquisition programs for single family mortgages from MCAP and another third party originator and we will continue examining additional opportunities into 2018.

IFRS 9

IFRS 9, *Financial Instruments*, became effective as of January 1, 2018. IFRS 9 requires the Company to begin including forward-looking economic information in its calculation of expected credit losses ("ECL"), which may add volatility to ECL balances. As part of the calculation of ECLs under IFRS 9 we expect to reflect negative trends in our economic outlook of the real estate market for 2018 and 2019. For further information on IFRS 9, please refer to Note 4 to the consolidated financial statements.

RESULTS OF OPERATIONS

Table 3: Net Income - For the Years Ended December 31

(in thousands except for per share amounts and %)	2017	2016	Change from 2016 ($)	Change from 2016 (%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 47,765	$ 50,670	$ (2,905)	(6%)
Equity income from MCAP Commercial LP	14,427	13,509	918	7%
Financial investments and other loans	9,018	6,487	2,531	39%
Marketable securities	3,722	3,622	100	3%
Fees	1,239	2,547	(1,308)	(51%)
Interest on cash and cash equivalents	883	604	279	46%
Whole loan gain on sale income	-	324	(324)	(100%)
	77,054	**77,763**	**(709)**	**(1%)**
Term deposit interest and expenses	20,837	22,035	(1,198)	(5%)
Mortgage expenses	3,877	3,993	(116)	(3%)
Interest on loans payable	38	244	(206)	(84%)
Provision for (recovery of) credit losses	(111)	(210)	99	(47%)
	24,641	**26,062**	**(1,421)**	**(5%)**
	52,413	**51,701**	**712**	**1%**
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	27,028	28,298	(1,270)	(4%)
Other securitization income	221	461	(240)	(52%)
	27,249	**28,759**	**(1,510)**	**(5%)**
Interest on financial liabilities from securitization	19,533	21,176	(1,643)	(8%)
Mortgage expenses	2,103	1,805	298	17%
	21,636	**22,981**	**(1,345)**	**(6%)**
	5,613	**5,778**	**(165)**	**(3%)**
Operating Expenses				
Salaries and benefits	10,555	9,406	1,149	12%
General and administrative	8,663	8,557	106	1%
	19,218	**17,963**	**1,255**	**7%**
Net Income Before Income Taxes	39,684	39,516	168	0%
Provision for (recovery of) income taxes	(244)	(666)	422	(63%)
Net Income	**$ 39,928**	**$ 40,182**	**$ (254)**	**(1%)**
Basic and diluted earnings per share	$ 1.72	$ 1.75	$ (0.03)	(2%)
Dividends per share	$ 1.31	$ 1.17	$ 0.14	12%

Net Investment Income - Corporate Assets

Mortgage interest income

Table 4: Interest Income and Average Rate by Mortgage Portfolio

For the Years Ended December 31	2017			2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 220,160	$ 10,185	4.63%	$ 318,503	$ 14,611	4.59%
- Insured	88,473	2,934	3.32%	110,694	3,562	3.40%
- Uninsured - completed inventory	44,610	2,570	5.76%	19,099	1,038	5.44%
Construction loans						
- Residential	391,310	21,837	5.58%	407,246	22,286	5.47%
- Non residential	7,308	394	5.40%	6,957	390	5.61%
Commercial loans						
- Multi family residential	45,549	2,119	4.65%	41,761	1,917	4.60%
- Other commercial	101,609	7,726	7.61%	82,864	6,866	8.30%
Mortgages - corporate portfolio	$ 899,019	$ 47,765	5.31%	$ 987,124	$ 50,670	5.15%
Term deposits	870,393	20,837	2.24%	940,926	22,035	2.23%
Spread of mortgages over term deposits			3.07%			2.92%
Mortgages - securitized portfolio	$ 1,034,699	$ 27,028	2.61%	$ 1,035,457	$ 28,298	2.73%
Financial liabilities from securitization	1,046,976	19,533	1.87%	1,046,154	21,176	2.02%
Spread of mortgages over liabilities			0.74%			0.71%

[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, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Excluding discount income, non-recurring items were immaterial for the years ended December 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.

In 2017, our construction, commercial and completed inventory portfolios were comparable to 2016 on a combined basis. In these portfolios, we continue to target experienced builders in construction market segments where the cost to build has not increased in line with the cumulative real estate appreciation experienced in the housing resale market in recent years. Construction lending is based on specific conditions required prior to funding, which act as a risk mitigant given concerns about inflated valuations in certain real estate markets. During 2017, we transferred certain existing construction projects to the completed inventory portfolio upon the substantial completion of units which led to an increase in the average completed inventory portfolio. On a combined basis, the two portfolios increased modestly from 2016. We have also targeted growth in our commercial loan portfolio, as it provides a different risk profile from single family while providing appropriate risk-adjusted returns. The other commercial category includes higher-yielding loans such as second mortgages on construction projects and term mortgages secured by retail or industrial buildings.

The Bank of Canada announced two 0.25% increases in the overnight rate during 2017 which had and are expected to continue to have a positive impact on mortgage interest income related to the floating rate component of our corporate mortgage portfolio. These rate increases contributed approximately 0.19% and 0.12%, respectively, to the average interest rate for the construction and total corporate portfolios in 2017, as approximately 96% and 61% of those respective portfolios are floating rate and repriced following the rate increases.

Our uninsured single family portfolio declined for a second consecutive year in 2017. Given the significant increase in home prices in the single family market segment in recent years, especially in the GTA, we continue to take a conservative approach to our underwriting and credit standards. We believe that this conservative approach to uninsured single family mortgage origination has been an appropriate course of action in the current risk environment. We continue to monitor the market for appropriate risk-adjusted returns in this segment of the market. In late 2017, we commenced new acquisition programs for uninsured single family mortgages from MCAP and another third party origination source by acquiring $4.6 million of mortgages. We have targeted additional sources for uninsured single family mortgage origination given the attractive risk-adjusted returns and our excess balance sheet capacity. Our single family origination volumes, while still low by historical standards, increased to $45 million in 2017 from $25 million in 2016.

In late 2017, OSFI announced the finalization of significant changes to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, effective January 1, 2018. We believe that our existing underwriting standards are consistent with the new B-20 guidelines. The new B-20 guidelines require a 200 basis point stress test on the borrower qualifying rate, which will further enhance the credit quality of newly originated mortgages. We expect that this stress test may have some impact on the proportion of mortgages that we approve. Our available asset capacity, market repositioning and these rule changes position us well to capitalize on this asset class by way of internal originations or through mortgage acquisitions.

Multiple changes to mortgage regulations enacted within the last two years have led to a reduction in market insured single family mortgage origination and securitization volumes during 2017 and have led to tightened securitization spreads. These changes contributed to low mortgage origination and securitization volumes during 2017, and a reduction in the associated securitization economics.

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

Equity income from MCAP increased from 2016, although both years were strong by historical standards. MCAP earned higher net interest income on securitized mortgages from a larger average portfolio and higher servicing revenue as a result of an increase in assets under administration in 2017. These increases were offset by lower net fair value adjustments to financial instruments in 2017.

We recognize equity income from MCAP on a one-month lag such that our 2017 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2017. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Other net investment income

Income from financial investments and other loans includes $5.3 million of income recognized from Crown LP (2016 - $4.1 million). The recognition of income upon the receipt of partnership distributions from Crown LP is offset by a corresponding reduction to accumulated other comprehensive income. While distributions from Crown LP do not occur on a regular basis and therefore income from this investment can be volatile, this investment has performed well during 2016 and 2017. Income from financial investments and other loans also includes $3.5 million of income from our investment in the KingSett High Yield Fund (2016 - $2.1 million). For further information on both of these investments, refer to the "Other Corporate Assets" sub-section of the "Financial Position" section of this MD&A.

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 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. For further details, refer to the "Liquidity Management" section of this MD&A.

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 - Corporate Assets

During 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 $0.8 million. MCAP also issued additional class B units to other partners of MCAP during 2017 which diluted our equity interest. Since the new units were issued at a price in excess of our carrying value per unit, we recorded a dilution gain of $0.1 million.

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 2017, our total securitization volumes were $110 million (2016 - $228 million), consisting of $63 million of insured single family mortgages securitized through the CMB program (2016 - $100 million) and $47 million securitized through the market MBS program (2016 - $42 million). Additionally, in 2016 we securitized $86 million of insured multi family mortgages; these mortgages were derecognized from the balance sheet and we recorded an upfront gain from securitization of $0.4 million, which is recorded in other securitization income.

Market MBS Program

The average outstanding market MBS program mortgage balance decreased to $909 million in 2017 from $1.0 billion in Q4 2016, while the net spread increased to 0.76% from 0.70% as a result of higher penalty income. As noted earlier, new securitization volumes have been low since 2016 as a result of our decision to reduce securitization activities due to tightened spreads from a more competitive market for insured single family mortgages.

CMB Program

The average outstanding CMB program mortgage balance increased to $125 million in 2017 from $22 million in Q4 2016, while the net spread decreased to 0.64% from 1.08%. Normally, the CMB program spread is higher than the market MBS program spread due to a lower funding cost. However, the tightening of spreads in CMB issuances from 2017 has made the CMB program net spread lower than that from the market MBS program.

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

For the Years Ended December 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	$ 86,758	$ 883	1.02%	$ 77,790	$ 604	0.78%
Marketable securities	58,633	3,722	6.32%	50,078	3,622	6.51%
Mortgages - corporate	899,019	47,765	5.31%	987,124	50,670	5.15%
Financial investments	27,992	3,540	12.65%	19,117	2,135	11.17%
Other loans	3,286	168	5.11%	3,878	204	5.26%
Corporate interest earning assets	1,075,688	56,078	5.21%	1,137,987	57,235	5.03%
Cash held in trust	17,083	121	0.71%	15,158	40	0.26%
Mortgages - securitized	1,034,699	27,028	2.61%	1,035,457	28,298	2.73%
Securitization interest earning assets	1,051,782	27,149	2.58%	1,050,615	28,338	2.70%
Total interest earning assets	2,127,470	83,227	3.91%	2,188,602	85,573	3.91%
Non interest earning assets	90,222	5,310	-	85,404	4,148	-
Total assets	$ 2,217,692	$ 88,537	3.99%	$ 2,274,006	$ 89,721	3.95%
Liabilities and shareholders' equity						
Term deposits	$ 870,393	$ 20,837	2.24%	$ 940,926	$ 22,035	2.23%
Loans payable	1,096	38	3.47%	6,749	244	3.32%
Corporate liabilities	871,489	20,875	2.24%	947,675	22,279	2.24%
Securitization liabilities	1,046,976	19,533	1.87%	1,046,154	21,176	2.02%
Total interest bearing liabilities	1,918,465	40,408	2.06%	1,993,829	43,455	2.13%
Non interest bearing liabilities	8,926	-	-	7,541	-	-
Shareholders' equity	290,301	-	-	272,636	-	-
Total liabilities and shareholders' equity	$ 2,217,692	$ 40,408	1.82%	$ 2,274,006	$ 43,455	1.91%
Net Interest Income [2]		$ 48,129			$ 46,266	

[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, realized gain (loss) on derivatives, other securitization income, mortgage expenses, provision for credit losses and fair value adjustment - derivative financial instruments. 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 such as discount income, 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. Excluding discount income, non-recurring items were immaterial for the years ended December 31, 2017 and December 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)			Change from 2016	
For the Years Ended December 31	**2017**	**2016**	**($)**	**(%)**
Individual provision (recovery)				
Single family uninsured	$ 176	$ 287	$ (111)	(39%)
Collective provision (recovery)				
Single family uninsured	(207)	(459)	252	(55%)
Single family uninsured - completed inventory	142	(56)	198	(354%)
Construction	44	200	(156)	(78%)
Commercial	(86)	257	(343)	(133%)
Corporate mortgages - total	(107)	(58)	(49)	84%
Other provisions (recoveries)	(180)	(439)	259	(59%)
	$ (287)	$ (497)	$ 210	(42%)
Total provision for (recovery of) credit losses	$ (111)	$ (210)	$ 99	(47%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 69	$ 229	$ (160)	(70%)
Net write offs	$ 508	$ 239	$ 269	113%
Net write offs (basis points)	5.7	2.4	3.2	133%

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.

The adoption of IFRS 9 as of January 1, 2018 will require MCAN to use forward-looking economic information in its calculation of ECLs. This change will impact the calculation of collective and individual allowances on MCAN's corporate mortgage portfolio. For further information on IFRS 9, refer to Note 4 to the consolidated financial statements.

Other recoveries consist primarily of recoveries from mortgage settlements or litigations relating to XMC-originated insured single family mortgages that had previously been written off.

Write-offs in 2017 include $220,000 relating to capitalized legal fees on a construction loan for which an individual allowance had already been recorded, while the balance of 2017 and the fiscal 2016 balance consist of uninsured single family mortgages for which an individual allowance had already been recorded. Accordingly, these write-offs had no impact on net income.

Operating Expenses

Table 7: Operating Expenses

(in thousands) For the Years Ended December 31	2017	2016	Change from 2016 ($)	(%)
Salaries and benefits	$ 10,555	$ 9,406	$ 1,149	12%
General and administrative	8,663	8,557	106	1%
	$ 19,218	**$ 17,963**	**$ 1,255**	**7%**

The increase in salaries and benefits is a result of an increase in the number of employees from 2016 and an increase in the expense associated with certain long term compensation programs as a result of a more pronounced increase in the share price in 2017.

General and administrative includes expenditures relating to the continued development of our systems and processes, including corporate governance and our risk management framework.

Provision for Income Taxes

Table 8: Income Taxes

(in thousands) For the Years Ended December 31	2017	2016	Change from 2016 ($)	(%)
Current tax provision	$ -	$ (100)	$ 100	$ (100%)
Deferred tax provision (recovery)	(244)	(566)	322	(57%)
	$ (244)	**$ (666)**	**$ 422**	**$ (63%)**

Deferred tax provisions (recoveries) are generally due to taxable income (losses) recognized at the subsidiary level.

As at December 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. Tax activity for 2017 has not been reflected in this balance as our 2017 tax position has not been finalized. 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 XMC and other subsidiaries as it does not directly impact MCAN's non-consolidated taxable income.

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 Periods Ended December 31	Q4 2017	Q4 2016	YTD 2017	YTD 2016
Net income for accounting purposes	$ 10,807	$ 9,000	$ 39,928	$ 40,182
Adjustments:				
Deduct: Equity income from MCAP - accounting purposes	(5,457)	(3,209)	(14,428)	(13,510)
Add: MCAP taxable income	1,016	2,572	8,729	4,303
Equity income from subsidiaries [2]	819	622	(1,134)	(451)
Provision for (recovery of) credit losses [2]	8	(255)	(147)	(56)
Amortization of upfront securitization program costs [3]	1,701	1,614	6,759	6,300
Securitization program mortgage origination costs [3]	(444)	(1,171)	(1,966)	(3,799)
CMB program multi family gain on sale adjustment [4]	74	(300)	292	(1,830)
Other securitization program cash outflows	(484)	(321)	(1,479)	(452)
Return of capital on marketable securities [5]	(253)	(415)	(1,158)	(1,054)
Gain on dilution of investment in MCAP [2]	-	-	(91)	-
Gain on partial sale of MCAP [6]	-	-	(248)	-
Reorganization of investment in XMC [7]	-	-	-	4,017
Other items	205	12	179	(34)
Taxable Income	**$ 7,992**	**$ 8,149**	**$ 35,236**	**$ 33,616**

[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] *Represents a separate deduction for tax purposes only.*
[6] *For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.*
[7] *In 2017, we officially finalized the transfer value for tax purposes relating to the 2016 reorganization of the holding structure of our subsidiary investment in XMC. 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, 2016 taxable income was retroactively restated from $28.4 million to $33.6 million.*

The increase in taxable income in 2017 is primarily due to higher taxable income from MCAP, lower deductions for upfront securitization program origination costs and higher CMB program multi family cash flow income, partially offset by the taxable gain recorded on the reorganization of XMC discussed below. The increase in income from MCAP from 2016 was more significant for tax purposes than for accounting purposes, as net fair value gains (which are excluded from taxable income) were lower in 2017.

During 2017, we finalized our 2016 corporate tax position. Fiscal 2016 taxable income was revised to $33.6 million from the estimate of $28.4 million disclosed in our 2016 Annual Report. The change was primarily due to the above-noted taxable capital gain created on the reorganization of the holding structure of our subsidiary investment in XMC which represented $0.22 per share of taxable income.

The key differences between taxable income and pre-tax net income for accounting purposes include differences between equity income from MCAP and XMC for accounting and tax purposes and the treatment of securitization program origination costs, securitization gains and losses, capital gains income, collective provisions for credit losses and the amortization of upfront securitization program costs for tax purposes.

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 2017, we incurred $2.0 million of origination costs on securitized mortgages, including market MBS held by MCAN (2016 - $3.8 million). As at December 31, 2017, the unamortized origination fee balance was $11.9 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.

In recent quarters, taxable income has exceeded dividends paid as a result of the relatively low volume of deductions of payments of upfront origination fees. If our securitization volumes remain low, we would expect this excess of taxable income over dividends to continue. This recent trend in taxable income contributed to the 16% per share increase in the regular quarterly dividend as of the fourth quarter of 2017 from $0.32 per share to $0.37 per share.

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 above.

Summary of Three Year Results of Operations

In 2015, we earned then-record net income of $32.9 million while earnings per share were $1.51. The XMC origination platform increased significantly with $518 million in new mortgages originated. Our market MBS program securitization volumes were $589 million as the securitized mortgage portfolio continued to provide a reliable source of incremental income. Equity income from our investment in MCAP also increased by 63% to over $10 million. Corporate asset growth exceeded our 10% annual target as we finished the year with a $1.16 billion portfolio.

In 2016, we again posted record net income of $40.2 million with earnings per share of $1.75. Although we had lower single family originations and a reduction in the size of those portfolios, we experienced growth in certain higher-yielding asset classes such as construction and commercial mortgages, marketable securities and financial investments, and earned strong returns in these investments. Additionally, we had a record performance from our equity investment in MCAP, providing $13.5 million of income which represented a 34% increase over 2015. We also re-commenced our participation in the CMB program, and increased our net investment income from securitization assets.

In 2017, we recorded solid net income of $39.9 million, just below 2016's record amount. Performance from our equity investment in MCAP, Crown LP and the KingSett High Yield Fund was strong once again with increases in both portfolio balances and income earned from those investments. We experienced modest growth in our construction, commercial and completed inventory mortgage portfolios on a combined basis while again reducing the size of the uninsured single family portfolio. Additionally, we continued to securitize new insured single family mortgages through the market MBS program and CMB program.

Cash Flows

Operating activities provided cash flows of $24 million in 2017 and provided $52 million in 2016. In 2017, we had higher net outflows related to term deposits and financial liabilities from securitization, partially offset by higher mortgage inflows.

Investing activities provided cash flows of $7 million in 2017 and provided $6 million in 2016. In 2017, we received proceeds from a partial sale of our equity investment in MCAP of $1.9 million, offset by lower distributions from MCAP.

Financing activities used cash flows of $24 million in 2017 and used $23 million in 2016. In 2017, there was an increase in outflows from dividends paid.

FINANCIAL POSITION

Table 10: Assets

(in thousands except %) As at	December 31 2017	December 31 2016	Change from 2016 ($)	Change from 2016 (%)
Corporate Assets				
Cash and cash equivalents	$ 117,571	$ 111,732	$ 5,839	5%
Marketable securities	62,518	55,126	7,392	13%
Mortgages	863,384	904,112	(40,728)	(5%)
Financial investments	68,190	57,264	10,926	19%
Other loans	2,612	3,584	(972)	(27%)
Equity investment in MCAP Commercial LP	59,189	50,805	8,384	17%
Foreclosed real estate	435	529	(94)	(18%)
Deferred tax asset	2,672	1,782	890	50%
Other assets	5,800	3,546	2,254	64%
	1,182,371	**1,188,480**	**(6,109)**	**(1%)**
Securitization Assets				
Cash held in trust	13,441	15,724	(2,283)	(15%)
Mortgages	1,016,724	1,071,849	(55,125)	(5%)
Other assets	4,239	4,802	(563)	(12%)
	1,034,404	**1,092,375**	**(57,971)**	**(5%)**
	$ 2,216,775	**$ 2,280,855**	**$ (64,080)**	**(3%)**

Mortgages - Corporate & Securitized

Table 11: Mortgage Summary

(in thousands) As at	December 31 2017	December 31 2016	Change from 2016 ($)	Change from 2016 (%)
Corporate portfolio:				
Single family mortgages				
- Uninsured	$ 198,354	$ 248,065	$ (49,711)	(20%)
- Insured	80,377	108,334	(27,957)	(26%)
- Uninsured - completed inventory	51,190	18,162	33,028	182%
Construction loans				
- Residential	386,562	379,212	7,350	2%
- Non-residential	4,840	7,851	(3,011)	(38%)
Commercial loans				
- Multi family residential	64,655	34,521	30,134	87%
- Other commercial	77,406	107,967	(30,561)	(28%)
	863,384	**904,112**	**(40,728)**	**(5%)**
Securitized portfolio:				
Single family insured - Market MBS program	867,406	971,548	(104,142)	(11%)
Single family insured - CMB program	149,318	100,301	49,017	49%
	1,016,724	**1,071,849**	**(55,125)**	**(5%)**
	$ 1,880,108	**$ 1,975,961**	**$ (95,853)**	**(5%)**

Corporate and Securitized Mortgage Portfolio Analysis

Q4 2017 Summary

Our year-end construction and commercial portfolios were comparable to 2016 on a combined basis. In these portfolios, we continue to target experienced builders in construction market segments where the cost to build has not increased in line with cumulative real estate appreciation in the housing resale market from recent years. Construction lending is based on specific conditions required prior to funding, which act as a risk mitigant given concerns about inflated valuations in certain real estate markets. During 2017, we transferred certain existing construction projects to the completed inventory portfolio upon the substantial completion of units which led to an increase in the average completed inventory portfolio. On a combined basis, the two portfolios increased modestly from 2016. We have also targeted growth in our commercial loan portfolio, as it provides a different risk profile from single family while providing appropriate risk-adjusted returns.

The uninsured single family portfolio has decreased steadily since the end of 2015. Given the significant increase in valuations in the single family market segment in recent years, especially the GTA, we continue to take a conservative approach to our underwriting and credit standards. In late 2017, OSFI finalized significant regulatory changes to single family mortgage underwriting practices that are effective January 1, 2018. We believe that our existing underwriting standards are consistent with the new B-20 guidelines. The new B-20 guidelines require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect that this stress test may have some impact on the proportion of mortgages that we approve. Given our available asset capacity, the market repositioning and rule changes, we feel that we are well positioned to capitalize on this asset class by way of internal originations or from mortgage acquisitions.

In late 2017, we commenced new acquisition programs for uninsured single family mortgages from MCAP and another third party origination source. We have targeted additional sources for uninsured single family mortgage origination given the attractive risk-adjusted returns and our excess balance sheet capacity.

Mortgages in the insured single family portfolio are generally destined for our securitized portfolio, but recent changes to mortgage regulations have made the insured single family market more competitive. This has led to a reduction in mortgage refinance volumes, a tightening of securitization spreads and a reduction in overall economics.

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

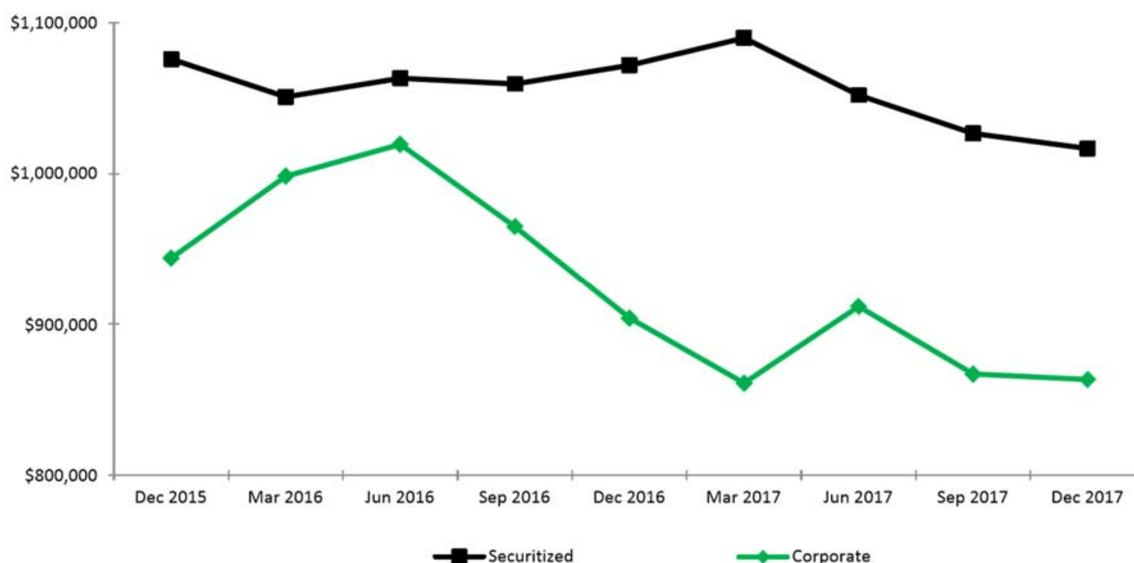
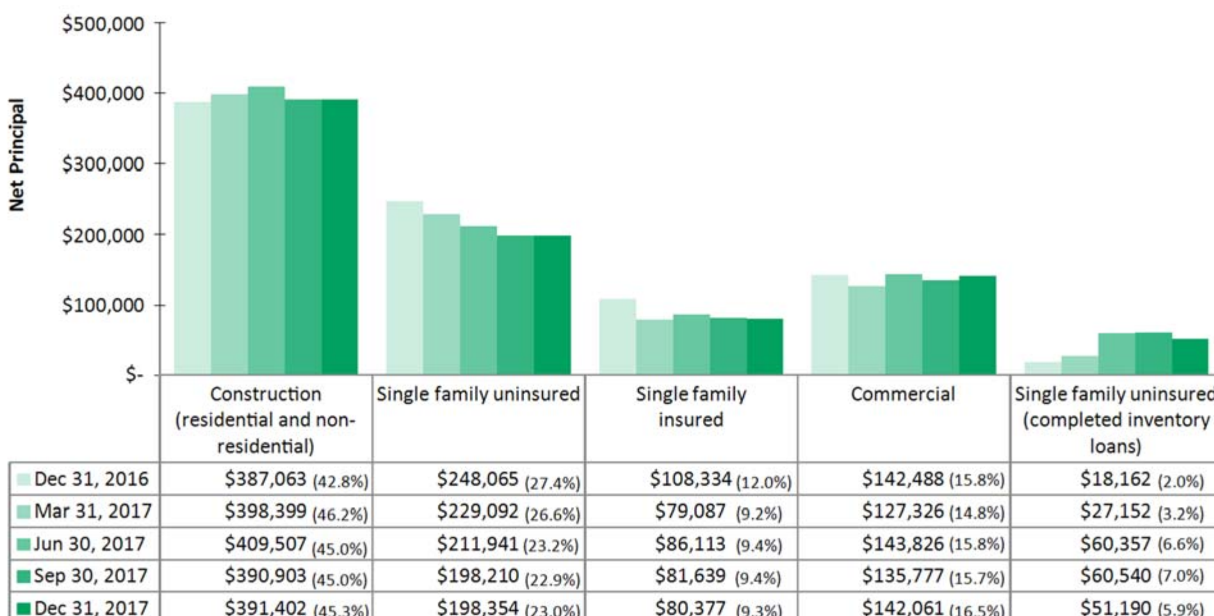


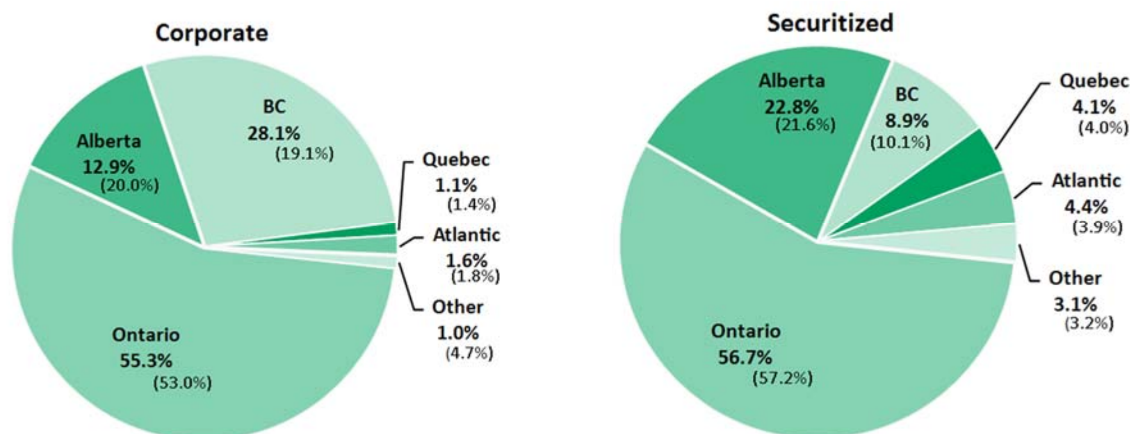
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction (residential and non-residential)	Single family uninsured	Single family insured	Commercial	Single family uninsured (completed inventory loans)
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%)
Jun 30, 2017	$409,507 (45.0%)	$211,941 (23.2%)	$86,113 (9.4%)	$143,826 (15.8%)	$60,357 (6.6%)
Sep 30, 2017	$390,903 (45.0%)	$198,210 (22.9%)	$81,639 (9.4%)	$135,777 (15.7%)	$60,540 (7.0%)
Dec 31, 2017	$391,402 (45.3%)	$198,354 (23.0%)	$80,377 (9.3%)	$142,061 (16.5%)	$51,190 (5.9%)

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 December 31, 2017 (December 31, 2016)



During 2017, we continued to focus on reducing our exposure to Alberta in the corporate mortgage portfolio while increasing exposure to Ontario and British Columbia.

Corporate Mortgages

Single family mortgages

We invest in insured and uninsured single family mortgages in Canada, primarily originated through XMC 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 noted in the Corporate Mortgage Summary, in late 2017 we commenced new acquisition programs for uninsured single family mortgages from third party sources, including MCAP.

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) that are close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units being at least at a drywall stage with completion of plumbing and electrical.

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 retail/industrial buildings) and high ratio mortgage loans (e.g. second mortgages on residential construction projects).

Other items

The Canadian mortgage industry continues to experience falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed this activity in our own underwriting processes. We have enhanced and continue to enhance our underwriting processes, and we maintain a rigorous due diligence process.

To date, the impact of this document falsification has not had a material impact on MCAN or its financial position or performance. We do not expect to experience any material impact to our financial position or performance in the future relating to such document falsification.

Mortgage renewal rights

Through our XMC origination platform, 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 December 31, 2017, we had the renewal rights to $931 million 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 $42 million relates to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2016 - $130 million). The decrease from 2016 was consistent with the reduction in our single family corporate and securitized portfolios during that period.

Arrears and Impaired Mortgages

Table 12: Arrears and Impaired Mortgages

(in thousands except %) As at	December 31 2017	September 30 2017	December 31 2016
Corporate impaired mortgages			
Single family - uninsured	$ 1,696	$ 2,675	$ 2,759
Single family - insured	832	622	1,118
	2,528	3,297	3,877
Securitized impaired mortgages	-	185	587
Total impaired mortgages	$ 2,528	$ 3,482	$ 4,464
Impaired mortgage ratio (total) [1]	0.09%	0.14%	0.14%
Impaired mortgage ratio (corporate) [1]	0.20%	0.31%	0.31%
Total corporate mortgage arrears [1]			
Single family - uninsured	$ 5,912	$ 7,399	$ 8,878
Single family - insured	2,854	3,918	4,163
	8,766	11,317	13,041
Total securitized mortgage arrears [1]	8,803	7,782	13,609
Total mortgage arrears [1]	$ 17,569	$ 19,099	$ 26,650
Collective allowance	$ 4,748	$ 4,744	$ 4,859
Individual allowance	62	52	390
Total allowance	$ 4,810	$ 4,796	$ 5,249

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

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 closely monitor our mortgage portfolio for early indicators of potential performance concerns by maintaining a “watch list” for these loans, whether they are in arrears or not.

During 2017, a land developer in Western Canada filed for protection under the Companies’ Creditors Arrangement Act (“CCAA”). We have $15.8 million of outstanding mortgages from the borrower legal entity that are not in arrears as at December 31, 2017. The borrower legal entity is controlled by the developer (who previously acted as loan guarantor) but is not part of the bankruptcy proceedings. To keep the loans out of the developer’s CCAA proceedings and avoid claims on the loans from the developer’s creditors, we have waived the current default of the guarantor on the loan. In the event that the individual loans enter into arrears, based on the value of the underlying collateral we currently do not believe that we would incur a loss of principal or interest. Accordingly, we have not recorded an individual allowance on either loan.

Figure 4: Impaired Corporate Mortgage Ratio

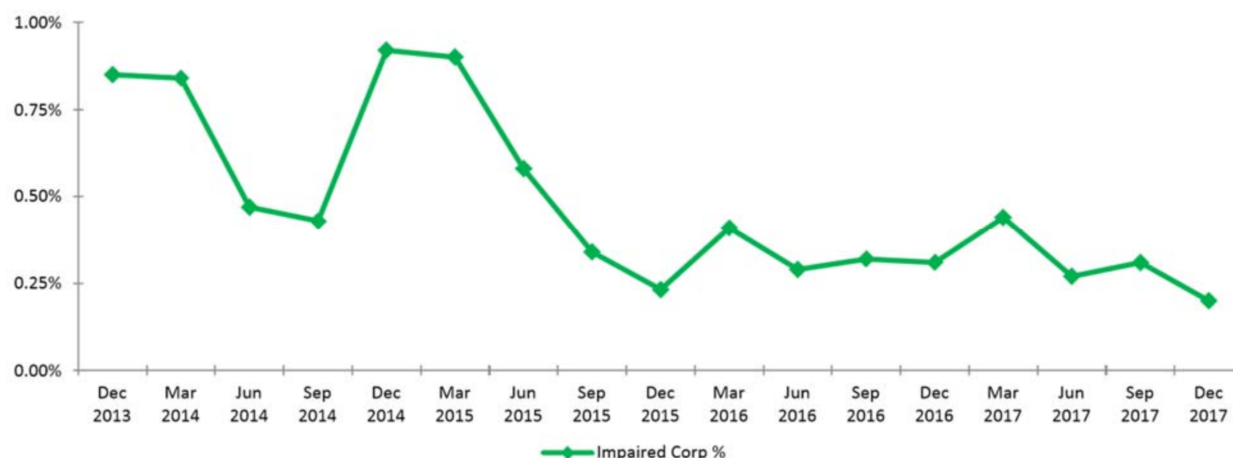


Table 13: Mortgage Originations

(in thousands) For the Quarters Ended December 31	Q4 2017	Q4 2016	Annual 2017	Annual 2016
Single family - insured	$ 15,245	$ 43,895	$ 46,950	$ 144,241
Single family - uninsured	21,529	6,998	45,092	23,993
Single family - uninsured completed inventory	-	-	9,000	17,214
Residential construction	22,964	21,951	124,967	78,662
Non-residential construction	702	-	702	638
Commercial	32,640	15,725	68,509	79,294
	$ 93,080	**$ 88,569**	**$ 295,220**	**$ 344,042**

New uninsured single family origination volumes have increased modestly in 2017, although the portfolio has decreased significantly over the last two years. Given the significant increase in valuations in the single family market segment in recent years, especially the GTA, we continue to take a conservative approach to our underwriting and credit standards. We believe that this conservative approach to uninsured single family mortgage origination has been an appropriate course of action given the current risk environment.

In late 2017, we commenced new acquisition programs for uninsured single family mortgages from MCAP and another third party origination source. Q4 and fiscal 2017 acquisition volumes of $4.6 million are included in the table above. We will seek to identify additional sources for uninsured single family mortgage origination consistent with our risk and quality standards, given the attractive risk-adjusted returns and our excess balance sheet capacity.

Insured single family originations have decreased as a result of changes to mortgage regulations enacted within the last year that have made that market segment more competitive and have led to tightened securitization spreads.

In late 2017, OSFI announced the finalization of significant changes to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, effective January 1, 2018. We believe that our existing underwriting standards are consistent with the new B-20 guidelines. The new standards require a 200 basis point stress test on the borrower qualifying rate, which will further enhance the credit quality of newly originated mortgages. We expect that this stress test may have some impact on the proportion of mortgages that we approve. Our available asset capacity, market repositioning and these rule changes position us well to capitalize on this asset class by way of internal originations or from mortgage acquisitions.

Construction, commercial and completed inventory originations represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio or reclassifications between portfolios. Originations in these asset classes have increased from 2016 as we have increased our focus on these portfolios.

Table 14: Average Mortgage Loan to Value (LTV) Ratios

As at	December 31 2017	September 30 2017	December 31 2016
Corporate portfolio:			
Single family mortgages			
- Uninsured	67.5%	68.5%	72.2%
- Uninsured completed inventory	64.2%	63.6%	63.8%
- Insured	78.1%	79.3%	77.9%
Construction loans			
- Residential	61.6%	62.5%	58.8%
- Non-residential	47.0%	59.0%	58.4%
Commercial loans			
- Multi family residential	67.9%	69.5%	70.2%
- Other commercial	64.6%	63.5%	66.3%
	65.3%	66.0%	66.2%
Securitized portfolio:			
Single family insured - Market MBS Program	85.8%	85.9%	86.2%
Single family insured - CMB Program	82.0%	81.8%	83.1%
	85.3%	85.4%	85.9%
	76.0%	76.4%	76.8%

Note: The LTV ratios in the above table represent the LTV at origination, not as at the reporting dates.

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 15: Single Family Mortgages by Province as at December 31, 2017

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 47,391	59.1%	$ 159,788	64.1%	$ 114	67.5%	$ 576,785	56.6%	$ 784,078	58.2%
Alberta	14,932	18.6%	47,396	19.0%	48	28.4%	231,335	22.8%	293,711	21.8%
British Columbia	3,026	3.8%	25,169	10.1%	7	4.1%	90,174	8.9%	118,376	8.8%
Quebec	4,504	5.6%	4,853	1.9%	-	-	41,449	4.1%	50,806	3.8%
Atlantic Provinces	7,142	8.9%	6,539	2.6%	-	-	44,924	4.4%	58,605	4.4%
Other	3,213	4.0%	5,799	2.3%	-	-	32,057	3.2%	41,069	3.0%
Total	**$ 80,208**	**100.0%**	**$ 249,544**	**100.0%**	**$ 169**	**100.0%**	**$ 1,016,724**	**100.0%**	**$ 1,346,645**	**100.0%**

Table 16: 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 17: Single Family Mortgages by Amortization Period as at December 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	$ 98,172	$ 69,868	$ 158,200	$ 3,681	$ -	$ 329,921
	29.8%	21.2%	48.0%	1.0%	-	100.0%
Securitized	$ 205,764	$ 502,032	$ 231,282	$ 77,305	$ 341	$ 1,016,724
	20.2%	49.4%	22.7%	7.7%	-	100.0%
Total	**$ 303,936**	**$ 571,900**	**$ 389,482**	**$ 80,986**	**$ 341**	**$ 1,346,645**
	22.6%	**42.5%**	**28.9%**	**6.0%**	**-**	**100.0%**

Table 18: 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%	-	100.0%
Securitized	$ 164,923	$ 568,428	$ 247,246	$ 90,905	$ 347	$ 1,071,849
	15.4%	53.0%	23.1%	8.5%	-	100.0%
Total	**$ 232,098**	**$ 656,828**	**$ 459,202**	**$ 97,829**	**$ 453**	**$ 1,446,410**
	16.1%	**45.4%**	**31.7%**	**6.8%**	**-**	**100.0%**

Table 19: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %)

For the Periods Ended December 31	Q4 2017	Average LTV	YTD 2017	Average LTV	Q4 2016	Average LTV	YTD 2016	Average LTV
Ontario	$ 19,135	67.8%	$ 50,243	68.2%	$ 6,064	74.4%	$ 30,627	74.0%
Alberta	228	80.0%	971	73.2%	-	-	5,525	69.3%
British Columbia	1,215	72.2%	1,760	70.0%	750	57.7%	4,502	67.3%
Other	951	78.3%	1,118	76.6%	184	80.0%	553	72.8%
	$ 21,529	**68.6%**	**$ 54,092**	**68.5%**	**$ 6,998**	**72.8%**	**$ 41,207**	**72.7%**

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 66.8% as at December 31, 2017 (December 31, 2016 - 71.6%). Based on an industry index that incorporates current real estate values, the ratios would be 52.6% and 56.5%, respectively. As noted earlier in this MD&A, we have observed a significant increase in real estate values in recent years in certain markets, which is reflected in the current LTV ratios.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, increased by $6 million in 2017. 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 $7 million in 2017, which included a $2.3 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

Financial investments include a $32 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 2017, we recorded a $4.4 million gross increase in the unrealized gain on the investment in Crown LP (2016 - $7.2 million), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. Additionally, we recognized $5.3 million of gross income from the Crown LP investment in 2017 (2016 - $4.1 million), 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 $36 million investment in the KingSett High Yield Fund ("the Fund"), in which we have an 8.1% 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. We carry our investment in the Fund 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 2017 return was 13.1% (2016 - 11.8%). 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 throughout the life of the Fund.

During 2017, KingSett announced an agreement to acquire $1.2 billion in commercial mortgages from Home Capital. Certain of these mortgages have been and will be sold into the Fund. During 2017, we advanced $12.2 million with respect to our funding commitment in the Fund, and subsequent to year end we advanced an additional $2.7 million.

Equity investment in MCAP

We hold a 14.41% equity interest in MCAP, which represents 4.2 million units held by MCAN of the 29.1 million total outstanding MCAP partnership units. The investment had a net book value of $59 million as at December 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 $42 million as at December 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.

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 being 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 $14.5 billion in 2017 (2016 - $15.9 billion). MCAP had $65.9 billion of assets under administration as at November 30, 2017 (November 30, 2016 - $60.6 billion).

Since MCAP's fiscal year end is November 30th, we record equity income from MCAP on a one-month lag. To the extent that MCAP has a material transaction during the one-month lag, we are required to reflect the transaction in the month in which it occurred.

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 over MCAP through our entitlement to a position on MCAP's Board of Directors. If we experience further dilution our influence may be diminished and 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.

Amongst the interparty rights in the MCAP partnership agreement, the majority partner in MCAP has the right to acquire MCAN's entire partnership interest in MCAP for "fair market value", which would be determined by an independent valuator agreed upon by both parties.

Adoption of IFRS 9

We will adopt IFRS 9, *Financial Instruments*, effective January 1, 2018. As part of the adoption of IFRS 9, we will reclassify our marketable securities portfolio, our investment in Crown LP and our investment in the KingSett High Yield Fund. Under IAS 39, the three investments were classified as available for sale with fair value changes recorded through accumulated other comprehensive income. Under IFRS 9, these investments will be reclassified as fair value reported through profit and loss ("FVPL"), with unrealized gains and losses recorded in net income. We believe that this change in accounting treatment better aligns fair value changes in these investments, as the total return earned from these investments will be reflected in the consolidated income statement. For further information on the adoption of IFRS 9, refer to Note 4 to the consolidated financial statements.

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program and CMB program. During 2017 we recognized $110 million of new securitized mortgages on our balance sheet through the market MBS program and CMB program.

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

Table 20: Liabilities and Shareholders' Equity

(in thousands) As at	December 31 2017	December 31 2016	Change from 2016 ($)	(%)
Corporate Liabilities				
Term deposits	$ 884,460	$ 911,866	$ (27,406)	(3%)
Deferred tax liabilities	3,572	3,050	522	17%
Other liabilities	16,067	12,377	3,690	30%
	904,099	**927,293**	**(23,194)**	**(3%)**
Securitization Liabilities				
Financial liabilities from securitization	1,015,699	1,071,786	(56,087)	(5%)
	1,015,699	**1,071,786**	**(56,087)**	**(5%)**
	1,919,798	**1,999,079**	**(79,281)**	**(4%)**
Shareholders' Equity				
Share capital	214,664	210,239	4,425	2%
Contributed surplus	510	510	-	-
Retained earnings	65,365	55,923	9,442	17%
Accumulated other comprehensive income	16,438	15,104	1,334	9%
	296,977	**281,776**	**15,201**	**5%**
	$ 2,216,775	**$ 2,280,855**	**$ (64,080)**	**(3%)**

To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We 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, where we have sold MBS to third parties but have not derecognized the related mortgages from our balance sheet. Activity in 2017 consisted of the creation of $110 million of new liabilities from our participation in the market MBS program and CMB program less $166 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 2017 reflects new common shares issued through the Dividend Reinvestment Plan ("DRIP") and the Executive Share Purchase Plan ("ESPP"). For further information, refer to Note 21 to the consolidated financial statements.

Retained earnings activity for 2017 consists of net income of $39.9 million less dividends of $30.5 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. Activity in 2017 includes a $5.3 million gross decrease related to distributions received from Crown LP; on receipt of the distribution we transferred this balance from accumulated other comprehensive income to net income. Additionally, we recorded a $2.3 million increase in the unrealized gain on the marketable securities portfolio and a $4.3 million increase in the unrealized gain on our financial investments in Crown LP and the KingSett High Yield Fund.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16
Net investment income - corporate assets	$ 14,359	$ 12,913	$ 12,178	$ 12,963	$ 11,684	$ 12,396	$ 16,996	$ 10,625
Other income - corporate assets	-	-	-	876	-	-	-	-
Net investment income - securitization assets	1,416	1,534	1,372	1,291	1,519	1,594	1,421	1,244
	15,775	14,447	13,550	15,130	13,203	13,990	18,417	11,869
Operating expenses	5,302	4,686	4,613	4,617	4,471	4,323	4,650	4,519
Net income before income taxes	10,473	9,761	8,937	10,513	8,732	9,667	13,767	7,350
Provision for (recovery of) income taxes	(334)	(157)	(1)	248	(268)	(108)	131	(421)
Net income	$ 10,807	$ 9,918	$ 8,938	$ 10,265	$ 9,000	$ 9,775	$ 13,636	$ 7,771
Basic and diluted earnings per share	$ 0.47	$ 0.42	$ 0.39	$ 0.44	$ 0.39	$ 0.43	$ 0.59	$ 0.34
Dividends per share	$ 0.37	$ 0.32	$ 0.32	$ 0.30	$ 0.30	$ 0.29	$ 0.29	$ 0.29
Return on average shareholders' equity [1]	14.63%	13.63%	12.37%	14.37%	12.94%	14.08%	20.10%	11.80%
Average mortgage portfolio yield - corporate [1]	5.56%	5.25%	5.28%	5.12%	4.99%	5.14%	5.21%	5.27%
Average term deposit interest rate [1]	2.29%	2.25%	2.21%	2.20%	2.20%	2.22%	2.22%	2.25%
Average mortgage portfolio balance - corporate ($ million)	$ 866	$ 908	$ 914	$ 908	$ 954	$ 1,008	$ 1,017	$ 969
Average mortgage portfolio yield - securitized [1]	2.57%	2.63%	2.67%	2.61%	2.74%	2.74%	2.73%	2.69%
Average financial liability from securitization rate [1]	1.81%	1.83%	1.93%	1.90%	2.01%	2.01%	2.02%	2.01%
Average mortgage portfolio balance - securitized ($ million)	$ 1,002	$ 1,028	$ 1,057	$ 1,052	$ 1,032	$ 1,032	$ 1,028	$ 1,049

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

Net investment income from corporate and securitization assets is largely driven by changes in the average mortgage portfolio balance and interest rate. Additionally, corporate net investment income was impacted by significant distribution income from Crown LP in Q2 2016 and Q1 2017 and substantial equity income from MCAP in Q2 2016, Q2 2017 and Q4 2017. Operating expenses increased in Q4 2017 as a result of non-recurring professional fee accruals.

Table 22: Ten Year Financial Summary

(in thousands except per share amounts)

December 31	Net Income	Earnings Per Share	Dividends Per Share	Assets[1]	Shareholders' Equity	Market Capitalization
2017 (IFRS)	$ 39,928	$ 1.72	$ 1.31	$ 1,182,371	$ 296,977	$ 417,064
2016 (IFRS)	40,182	1.75	1.17	1,188,480	281,776	330,434
2015 (IFRS)	32,857	1.51	1.13	1,155,046	258,802	276,573
2014 (IFRS)	25,446	1.23	1.12	1,044,579	225,303	299,635
2013 (IFRS)	30,805	1.57	1.15	1,027,176	214,900	265,993
2012 (IFRS)	16,494	0.94	1.42	950,686	177,781	262,393
2011 (IFRS)	24,262	1.50	1.81	753,799	158,465	225,951
2010 (IFRS)	31,667	2.20	1.19	538,118	125,079	200,249
2009 (CGAAP)	24,742	1.73	1.44	506,683	122,879	194,766
2008 (CGAAP)	30,348	2.14	0.96	570,154	116,609	129,438

[1] *2010-2017 consist of corporate assets only as reported under IFRS. 2008-2009 consist of total assets as reported under Canadian Generally Accepted Accounting Principles ("CGAAP").*

SUMMARY OF FOURTH QUARTER RESULTS

Table 23: Quarterly Net Income

(in thousands) For the Quarters Ended	December 31 2017	September 30 2017	December 31 2016
Net Investment Income - Corporate Assets			
Mortgage interest	$ 12,109	$ 11,973	$ 11,728
Equity income from MCAP Commercial LP	5,457	3,260	3,209
Financial investments and other loans	1,517	2,327	933
Marketable securities	854	928	889
Fees	321	360	638
Interest on cash and cash equivalents	320	264	206
	20,578	**19,112**	**17,603**
Term deposit interest and expenses	5,233	5,447	5,492
Mortgage expenses	951	972	1,013
Interest on loans payable	2	-	-
Provision for (recovery of) credit losses	33	(220)	(586)
	6,219	**6,199**	**5,919**
	14,359	**12,913**	**11,684**
Net Investment Income - Securitization Assets			
Mortgage interest	6,449	6,784	7,122
Other securitization income	82	66	112
	6,531	6,850	7,234
Interest on financial liabilities from securitization	4,594	4,780	5,250
Mortgage expenses	521	536	465
	5,115	5,316	5,715
	1,416	**1,534**	**1,519**
Operating Expenses			
Salaries and benefits	2,595	2,777	2,129
General and administrative	2,707	1,909	2,342
	5,302	4,686	4,471
Net Income Before Income Taxes	10,473	9,761	8,732
Provision for (recovery of) income taxes	(334)	(157)	(268)
Net Income	**$ 10,807**	**$ 9,918**	**$ 9,000**
Basic and diluted earnings per share	$ 0.47	$ 0.42	$ 0.39
Dividends per share	$ 0.37	$ 0.32	$ 0.30

Q4 2017 vs. Q4 2016

Net Investment Income - Corporate Assets

Table 24: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended December 31	2017			2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 200,797	$ 2,366	4.72%	$ 271,126	$ 3,104	4.56%
- Insured	84,468	696	3.30%	125,902	755	3.12%
- Uninsured - completed inventory	51,826	885	6.78%	17,888	244	5.42%
Construction loans						
- Residential	376,059	5,570	5.88%	387,536	5,152	5.29%
- Non residential	6,995	100	5.69%	7,852	108	5.45%
Commercial loans						
- Multi family residential	56,684	701	4.91%	44,137	553	4.99%
- Other commercial	89,136	1,791	7.98%	99,706	1,812	7.31%
Mortgages - corporate portfolio	$ 865,965	$ 12,109	5.56%	$ 954,147	$ 11,728	4.99%
Term deposits	847,523	5,233	2.29%	934,475	5,492	2.20%
Spread of mortgages over term deposits			3.27%			2.79%
Mortgages - securitized portfolio	$ 1,001,708	$ 6,449	2.57%	$ 1,032,208	$ 7,122	2.74%
Financial liabilities from securitization	1,012,852	4,594	1.81%	1,046,078	5,250	2.01%
Spread of mortgages over liabilities			0.76%			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. Excluding discount income on impaired loans and deferred interest, non-recurring items were immaterial for the quarters ended December 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.

Changes in the average portfolio balance from Q4 2016 are generally consistent with the fiscal 2017 discussion in the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

The significant increase in the corporate mortgage yield from Q4 2016 is partly due to the two 0.25% increases in the overnight rate by the Bank of Canada during 2017 which had a positive impact on the floating rate component of our corporate mortgage portfolio. These rate increases contributed approximately 0.48% and 0.31%, respectively, to the average interest rate for the construction and total corporate portfolios in Q4 2017, as approximately 96% and 61% of those respective portfolios are floating rate and repriced following the rate increases. In Q4 2017, we also recognized additional corporate mortgage interest income from the acceleration of mortgage commitment fee amortization on the early payout of certain completed inventory, residential construction and commercial loans.

The uninsured single family portfolio declined throughout 2017 as a result of low origination volumes for new mortgages in the year. Despite a general trend downwards in funding rates for new mortgages, the average portfolio yield increased over Q4 2016 as a result of higher penalty income.

Activity in the construction, commercial and completed inventory portfolios, outside of the yield items noted above, is consistent with the fiscal 2017 discussion in the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

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.

The significant increase in equity income from MCAP in Q4 2017 is a result of higher net interest income on securitized mortgages, higher servicing revenue as a result of an increase in assets under administration and lower origination expenses due to lower origination volumes, partially offset by lower mortgage origination fee income and financial instrument gains.

The increase in income from financial investments and other loans in Q4 2017 is primarily due to the significant increase in our investment in the KingSett High Yield Fund.

Net Investment Income - Securitization Assets

Spread income from securitization assets decreased slightly from Q4 2016 as a result of a smaller average portfolio balance. In Q4 2017, our total securitization volumes were $28 million (Q4 2016 - $74 million).

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

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 25: Net Interest Income

For the Quarters Ended December 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	$ 94,719	$ 320	1.34%	$ 98,044	$ 208	0.84%
Marketable securities	60,911	854	6.34%	51,682	889	6.84%
Mortgages	865,965	12,109	5.56%	954,147	11,728	4.99%
Financial investments	33,062	1,154	13.85%	21,195	494	9.27%
Other loans	2,723	36	5.25%	3,662	48	5.21%
Corporate interest earning assets	1,057,380	14,473	5.43%	1,128,730	13,367	4.71%
Short term investments	16,324	58	1.41%	18,405	11	0.24%
Mortgages	1,001,708	6,449	2.57%	1,032,208	7,122	2.74%
Securitized interest earning assets	1,018,032	6,507	2.54%	1,050,613	7,133	2.70%
Total interest earning assets	2,075,412	20,980	4.01%	2,179,343	20,500	3.74%
Non interest earning assets	91,809	327	-	88,514	391	-
Total assets	$ 2,167,221	$ 21,307	3.90%	$ 2,267,857	$ 20,891	3.66%
Liabilities and shareholders' equity						
Term deposits	$ 847,523	$ 5,233	2.29%	$ 934,475	$ 5,492	2.20%
Loans payable	261	2	3.04%	-	-	-
Corporate liabilities	847,784	5,235	2.29%	934,475	5,492	2.20%
Securitization liabilities	1,012,852	4,594	1.81%	1,046,078	5,250	2.01%
Total interest bearing liabilities	1,860,636	9,829	2.07%	1,980,553	10,742	2.11%
Non interest bearing liabilities	11,170	-	-	9,044	-	-
Shareholders' equity	295,415	-	-	278,260	-	-
Total liabilities and shareholders' equity	$ 2,167,221	$ 9,829	1.80%	$ 2,267,857	$ 10,742	1.88%
Net Interest Income [2]		$ 11,478			$ 10,149	

[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, realized gain (loss) on derivatives, 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. Excluding discount income on impaired loans and deferred interest, non-recurring items were immaterial for the quarters ended December 31, 2017 and December 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 26: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Quarters Ended	December 31 2017	September 30 2017	December 31 2016
Individual provision (recovery)			
Single family uninsured	$ 43	$ 104	$ 50
Collective provision (recovery)			
Single family uninsured	(2)	(58)	(148)
Single family uninsured - completed inventory	(41)	1	(1)
Construction	3	(122)	(67)
Commercial	43	(85)	(37)
Corporate mortgages - total	3	(264)	(253)
Other provisions (recoveries)	(13)	(60)	(383)
	$ (10)	$ (324)	$ (636)
Total provision for (recovery of) credit losses	$ 33	$ (220)	$ (586)
Corporate mortgage portfolio data:			
Provision for (recovery of) credit losses	$ 46	$ (160)	$ (203)
Net write offs	$ 33	$ 98	$ 39
Annualized net write offs (basis points)	1.5	4.3	1.6

The change in the corporate mortgage collective provision from Q4 2016 to Q4 2017 was largely driven by portfolio activity. For a discussion of other provisions (recoveries), refer to the "Credit Quality" sub-section of the "Results of Operations" section of this MD&A.

Table 27: Operating Expenses

(in thousands) For the Quarters Ended	December 31 2017	September 30 2017	December 31 2016
Salaries and benefits	$ 2,595	$ 2,777	$ 2,129
General and administrative	2,707	1,909	2,342
	$ 5,302	**$ 4,686**	**$ 4,471**

The increase in both salaries and benefits and general and administrative expenses from Q4 2016 is consistent with the fiscal 2017 discussion in the "Operating Expenses" sub-section of the "Results of Operations" section of this MD&A. Additionally, general and administrative expenses increased from Q3 2017 and Q4 2016 as a result of non-recurring professional fee accruals.

Table 28: Income Taxes

(in thousands) For the Quarters Ended	December 31 2017	September 30 2017	December 31 2016
Deferred tax provision (recovery)	$ (334)	$ (157)	$ (268)
	$ (334)	**$ (157)**	**$ (268)**

The deferred tax provision (recovery) is driven by taxable income (losses) recognized in subsidiaries.

Q4 2017 vs. Q3 2017

Net Investment Income - Corporate Assets

Table 29: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended	December 31, 2017			September 30, 2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 200,797	$ 2,366	4.72%	$ 211,218	$ 2,386	4.52%
- Insured	84,468	696	3.30%	81,821	694	3.40%
- Uninsured - completed inventory	51,826	885	6.78%	63,510	872	5.45%
Construction loans						
- Residential	376,059	5,570	5.88%	399,689	5,550	5.51%
- Non residential	6,995	100	5.69%	7,200	96	5.29%
Commercial loans						
- Multi family residential	56,684	701	4.91%	44,999	527	4.64%
- Other commercial	89,136	1,791	7.98%	99,798	1,848	7.36%
Mortgages - corporate portfolio	$ 865,965	$ 12,109	5.56%	$ 908,235	$ 11,973	5.25%
Term deposits	847,523	5,233	2.29%	893,865	5,447	2.25%
Spread of mortgages over term deposits			3.27%			3.00%
Mortgages - securitized portfolio	$ 1,001,708	$ 6,449	2.57%	$ 1,028,172	$ 6,784	2.63%
Financial liabilities from securitization	1,012,852	4,594	1.81%	1,042,893	4,780	1.83%
Spread of mortgages over liabilities			0.76%			0.80%

[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. Excluding discount income on impaired loans and deferred interest, non-recurring items were immaterial for the quarters ended December 31, 2017 and September 30, 2017. 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.

The two 0.25% increases in the overnight rate from the Bank of Canada during Q3 2017 contributed approximately 0.21% and 0.14%, respectively, to the average interest rate for the construction and total corporate portfolios in Q4 2017 compared to Q3 2017, as approximately 96% and 61% of those respective portfolios are floating rate and repriced following the rate increases. The acceleration of mortgage commitment fee amortization on the early payout of certain completed inventory, residential construction and commercial loans noted in the "Q4 2017 vs. Q4 2016" discussion also impacted the increase in average yield from Q3 2017.

Financial Position

Table 30: Quarterly Balance Sheet

(in thousands) As at	December 31 2017	September 30 2017	Change from Prior Quarter ($)	(%)
Assets				
Corporate Assets				
Cash and cash equivalents	$ 117,571	$ 97,202	$ 20,369	21%
Marketable securities	62,518	57,792	4,726	8%
Mortgages	863,384	867,069	(3,685)	-
Financial investments	68,190	60,603	7,587	13%
Other loans	2,612	2,829	(217)	(8%)
Equity investment in MCAP Commercial LP	59,189	55,022	4,167	8%
Foreclosed real estate	435	435	-	-
Deferred tax asset	2,672	2,381	291	12%
Other assets	5,800	4,211	1,589	38%
	1,182,371	**1,147,544**	**34,827**	**3%**
Securitization Assets				
Cash held in trust	13,441	17,240	(3,799)	(22%)
Mortgages	1,016,724	1,026,657	(9,933)	(1%)
Other assets	4,239	4,347	(108)	(2%)
	1,034,404	**1,048,244**	**(13,840)**	**(1%)**
	$ 2,216,775	**$ 2,195,788**	**$ 20,987**	**1%**
Liabilities and Shareholders' Equity				
Liabilities				
Corporate Liabilities				
Term deposits	$ 884,460	$ 869,059	$ 15,401	2%
Deferred tax liabilities	3,572	3,259	313	10%
Other liabilities	16,067	6,110	9,957	163%
	904,099	**878,428**	**25,671**	**3%**
Securitization Liabilities				
Financial liabilities from securitization	1,015,699	1,027,090	(11,391)	(1%)
	1,015,699	**1,027,090**	**(11,391)**	**(1%)**
	1,919,798	**1,905,518**	**14,280**	**1%**
Shareholders' Equity				
Share capital	214,664	214,664	-	-
Contributed surplus	510	510	-	-
Retained earnings	65,365	63,208	2,157	3%
Accumulated other comprehensive income	16,438	11,888	4,550	38%
	296,977	**290,270**	**6,707**	**2%**
	$ 2,216,775	**$ 2,195,788**	**$ 20,987**	**1%**

Table 31: Quarterly Mortgage Summary

(in thousands) As at	December 31 2017	September 30 2017	Change from Prior Quarter ($)	 (%)
Corporate portfolio:				
Single family mortgages				
- Uninsured	$ 198,354	$ 198,210	$ 144	-
- Insured	80,377	81,639	(1,262)	(2%)
- Uninsured - completed inventory	51,190	60,540	(9,350)	(15%)
Construction loans				
- Residential	386,562	383,720	2,842	1%
- Non-residential	4,840	7,183	(2,343)	(33%)
Commercial loans				
- Multi family residential	64,655	44,783	19,872	44%
- Other commercial	77,406	90,994	(13,588)	(15%)
	863,384	**867,069**	**(3,685)**	**-**
Securitized portfolio:				
Single family insured - Market MBS program	867,406	895,677	(28,271)	(3%)
Single family insured - CMB program	149,318	130,980	18,338	14%
	1,016,724	**1,026,657**	**(9,933)**	**(1%)**
	$ 1,880,108	**$ 1,893,726**	**$ (13,618)**	**(1%)**

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, MBS investors 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 2017, we securitized $47 million of MBS to third parties (2016 - $42 million). This mortgage transaction, in addition to the majority of our previous market MBS securitizations, did not achieve derecognition for accounting purposes as we retained significant continuing involvement with the mortgages. As such, the associated mortgages remained on the balance sheet while a corresponding liability was incurred. The mortgage interest income and interest expense associated with the financial liability from securitization related to 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 for liquidity purposes instead of selling it to a third party. As at December 31, 2017, we held $29 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 requires the reinvestment by the issuer of mortgage principal repayments received during their term into certain permitted assets. 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 $63 million of insured single family mortgages through the CMB program during 2017 (2016 - $100 million). Similar to the market MBS program, we do not derecognize the securitized mortgages from the consolidated balance sheet when we retain significant continuing involvement with the assets such that the associated mortgages remain on the consolidated balance sheet while a corresponding liability is 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.

During 2016, we securitized $86 million of insured multi family mortgages through the CMB program, but did not securitize any in 2017. Upon the securitization of multi family mortgages, we generally achieve derecognition as control over the assets is transferred. In 2016, we recognized an upfront gain of $0.4 million, which is included in other securitization income. Additionally, we recognized a receivable in the amount of estimated discounted spread income to be earned over the term of the securitized mortgages, which is included in other securitization assets.

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 32: Income Tax Capital [1]

(in thousands except ratios) As at	December 31 2017	September 30 2017	December 31 2016
Income tax assets [1]			
Consolidated assets	$ 2,216,775	$ 2,195,788	$ 2,280,855
Adjustment for assets in subsidiaries	5,435	6,375	6,918
Non-consolidated assets in MIC entity	2,222,210	2,202,163	2,287,773
Add: mortgage allowances	4,750	4,742	4,897
Less: securitization assets [2]	(1,030,020)	(1,042,199)	(1,089,358)
Less: equity investments in MCAP and subsidiaries	(42,411)	(35,933)	(37,049)
Other adjustments	(7,475)	(5,953)	(5,605)
	$ 1,147,054	$ 1,122,820	$ 1,160,658
Income tax liabilities [1]			
Consolidated liabilities	$ 1,919,798	$ 1,905,518	$ 1,999,079
Adjustment for liabilities in subsidiaries	(7,852)	(6,778)	(6,500)
Non-consolidated liabilities in MIC entity	1,911,946	1,898,740	1,992,579
Less: securitization liabilities [2]	(1,014,258)	(1,025,622)	(1,070,117)
	$ 897,688	$ 873,118	$ 922,462
Income tax capital [1]	$ 249,366	$ 249,702	$ 238,196
Income tax asset capacity [1]	$ 286,801	$ 312,967	$ 208,970
Income tax capital ratios [1]			
Income tax assets to capital ratio	4.60	4.50	4.87
Income tax liabilities to capital ratio	3.60	3.50	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 having a materially adverse effect on 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. As of January 1, 2018, we revised these targets to 18% to reflect our ongoing assessment of our risk appetite and risk profile.

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 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 1.89% on both the all-in and transitional bases at December 31, 2017.

OSFI recently enacted revisions to the CAR Guideline to be effective January 1, 2018. We do not expect any of these revisions to have a material impact on our regulatory capital position.

Table 33: Regulatory Capital

(in thousands except %) As at	December 31 2017	September 30 2017	December 31 2016
Regulatory Ratios (OSFI)			
Share capital	$ 214,664	$ 214,664	$ 210,239
Contributed surplus	510	510	510
Retained earnings	65,365	63,208	55,923
Accumulated other comprehensive income	16,438	11,888	15,104
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(23,593)	(20,796)	(13,576)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 273,384	$ 269,474	$ 268,200
Deduction for equity investment in MCAP (All-in adjustment) [1]	(5,898)	(5,199)	(9,051)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 267,486	$ 264,275	$ 259,149
Total Exposures/Regulatory Assets [2]			
Consolidated assets	$ 2,216,775	$ 2,195,788	$ 2,280,855
Less: deductions from all-in Tier 1 Capital [1]	(29,491)	(25,995)	(22,627)
Other adjustments [3]	2,915	2,385	1,489
Total On-Balance Sheet Exposures	2,190,199	2,172,178	2,259,717
Mortgage and investment funding commitments	317,687	295,223	402,861
Less: conversion to credit equivalent amount (50%)	(158,844)	(147,612)	(201,431)
Letters of credit	32,164	34,491	30,537
Less: conversion to credit equivalent amount (50%)	(16,082)	(17,246)	(15,269)
Total Off-Balance Sheet Items	174,925	164,856	216,698
Total Exposures/Regulatory Assets	$ 2,365,124	$ 2,337,034	$ 2,476,415
Leverage ratio [2]	11.31%	11.31%	10.46%
Risk weighted assets (transitional) [2]	$ 1,269,967	$ 1,248,729	$ 1,167,226
Risk weighted assets (all-in) [2]	$ 1,258,171	$ 1,238,331	$ 1,149,124
Regulatory Capital Ratios [2]			
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	21.53%	21.58%	22.98%
Tier 1 capital to risk-weighted assets ratio (transitional)	21.53%	21.58%	22.98%
Total capital to risk-weighted assets ratio (transitional)	21.53%	21.58%	22.98%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	21.26%	21.34%	22.55%
Tier 1 capital to risk-weighted assets ratio (all-in)	21.26%	21.34%	22.55%
Total capital to risk-weighted assets ratio (all-in)	21.26%	21.34%	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 34: Regulatory Risk-Weighted Assets

(in thousands except %)	December 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	$ 117,571	20%	$ 24,097	$ 111,732	20%	$ 22,644
Cash held in trust	13,441	20%	2,688	15,724	20%	3,145
Marketable securities	62,518	100%	62,518	55,126	100%	55,126
Mortgages - corporate	863,384	76%	656,384	904,112	71%	637,871
Mortgages - securitized	1,016,724	3%	32,182	1,071,849	3%	37,432
Financial investments	68,190	251%	170,922	57,264	100%	57,264
Other loans	2,612	100%	2,612	3,584	100%	3,584
Equity investment in MCAP (all-in) [1]	59,189	50%	29,697	50,805	55%	28,177
Foreclosed real estate	435	100%	435	529	100%	529
Deferred tax asset	2,672	100%	2,672	1,782	100%	1,782
Other assets	10,039	100%	10,039	8,348	100%	8,348
			994,246			855,902
Off-Balance Sheet Items						
Letters of credit	32,164	50%	16,082	30,537	50%	15,269
Commitments	317,687	45%	142,043	402,861	46%	184,378
			158,125			199,647
Charge for operational risk			105,800			93,575
Risk-Weighted Assets (all-in)			1,258,171			1,149,124
Equity investment in MCAP (transitional adjustment) [1]			11,796			18,102
Risk-Weighted Assets (transitional)			**$ 1,269,967**			**$ 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 sufficient capital 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 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 Investment Committee of the Board ("ICB") on a quarterly basis.

We fund our corporate operations by issuing term deposits that are eligible for CDIC deposit insurance. We 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.

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 30 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, 2020.

As at December 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 December 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.

Table 35: Liquidity Ratios

(in thousands except %) **As at**	**December 31 2017**	**September 30 2017**	**December 31 2016**
Tier 1 liquid assets [1]			
Cash and cash equivalents	$ 117,571	$ 97,202	$ 111,732
Tier 2 liquid assets [1]			
Marketable securities	62,518	57,792	55,126
Less: marketable securities adjustment [2]	(14,391)	(13,314)	(13,007)
Market MBS retained by MCAN [3]	28,597	29,671	36,915
	76,724	74,149	79,034
Tier 3 liquid assets [1]			
Single family insured mortgages [4]	51,440	51,711	69,899
Less: single family insured mortgages adjustment [4]	(17,442)	(17,276)	(24,293)
	33,998	34,435	45,606
Total liquid assets [1]	$ 228,293	$ 205,786	$ 236,372
100 day term deposit maturities	$ 103,632	$ 124,672	$ 130,357
Liquidity ratios [1]			
Tier 1 & 2 liquid assets to 100 day term deposit maturities	187%	137%	146%
Total liquid assets to 100 day term deposit maturities	220%	165%	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. For further information on our off-balance sheet commitment associated with our investment in the KingSett High Yield Fund, refer to the "Off-Balance Sheet Arrangements" section of this MD&A.

Table 36: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2017	December 31 2016
Sources of liquidity							
Cash and cash equivalents	$ 117,571	$ -	$ -	$ -	$ -	$ 117,571	$ 111,732
Marketable securities	61,986	504	-	-	28	62,518	55,126
Mortgages - corporate	135,612	430,017	266,674	25,689	5,392	863,384	904,112
Financial investments	-	-	36,153	-	32,037	68,190	57,264
Other loans	1,141	-	1,471	-	-	2,612	3,584
	316,310	430,521	304,298	25,689	37,457	1,114,275	1,131,818
Uses of liquidity							
Term deposits	98,760	314,574	318,321	152,805	-	884,460	911,866
Other liabilities	16,067	-	-	-	-	16,067	12,377
	114,827	314,574	318,321	152,805	-	900,527	924,243
Net liquidity surplus (deficit)	**$ 201,483**	**$ 115,947**	**$ (14,023)**	**$ (127,116)**	**$ 37,457**	**$ 213,748**	**$ 207,575**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 99,507	$ 70,092	$ 121,605	$ -	$ -	$ 291,204	$ 364,161
Commitment - KingSett High Yield Fund	-	-	26,483	-	-	26,483	38,700
	$ 99,507	$ 70,092	$ 148,088	$ -	$ -	$ 317,687	$ 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, regulatory compliance 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.

Risk Governance

The Enterprise Risk Management and Compliance Committee ("ERMCC") is responsible for overseeing risk management across the Company. It looks to ensure the relevance of the Company's Risk Appetite Framework ("RAF") and its alignment with the Company's strategy. It has the responsibility to ensure that the risk management function is independent from the business activity it oversees, and is supported by an Enterprise Risk Management Framework ("ERMF") consisting of policies, procedures and controls. The goal of the ERMF is to manage risks within the Company's risk framework and appetite.

The Chief Executive Officer ("CEO") and the executive management team are responsible for developing the strategy and a comprehensive set of enterprise wide policies, including the RAF and ERMF for approval by the Board. They are responsible for fostering a strong risk culture through the "tone at the top" and applying the approved strategy and RAF to the business operations of the Company to help maximize, within the Company's risk appetite, the benefit to shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept. MCAN's Executive Committee recommends a risk appetite that aligns with the Mission Statement, Operating Philosophies and Goals and Objectives of the Company and the Operating Committee provides governance over the operations of MCAN to ensure that the strategy and tactics used by MCAN in its funding and investing activities are effective in meeting the Company's stated objectives.

The Company's operating model is predicated on the three-lines-of-defence approach to the management of risk. The business units headed by the CEO are the first line of defence in the Company's management of risk. The first line of defence has ownership of known and emerging risks whereby it acknowledges and manages the risks that it incurs or may incur in conducting its activities. The first line of defence is responsible for planning, directing and controlling the day-to-day operations of a significant activity/enterprise-wide process and for identifying and managing the known and emerging inherent risks in products, activities, processes and systems for which it is accountable.

The second line of defence provides oversight in objectively identifying, measuring, monitoring and reporting known and emerging risks on an enterprise basis. The heads of the oversight functions have sufficient stature and authority within the organization and are independent from operational management. They have unfettered access and, for functional purposes, a direct reporting line to the Board and/or the relevant Board Committee through quarterly (or more immediate if necessary) Committee reporting and through quarterly in-camera sessions. These activities are provided by:

- The Chief Risk Officer ("CRO"), who is responsible for identifying, measuring, monitoring and reporting on the risks of the organization on an enterprise-wide and disaggregated level, independently of operational management, and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF and in that regard for confirming and reporting on the significant business risks as identified and assessed by the first line of defence of the Company. The CRO reports directly to the CEO.

- The Chief Financial Officer ("CFO"), who is responsible for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, planning and budgeting systems and documents, and providing the technology tools to monitor risks of the Company. The CFO ensures legal and regulatory compliance for all financial matters within the Company. The CFO reports directly to the CEO.

- The Chief Compliance Officer ("CCO"), who is responsible for measuring, and reporting on, compliance with the Company's policies and procedures that have been designed to manage and mitigate legal and regulatory compliance risk. The CCO reports directly to the CEO.

- The Chief Anti-Money Laundering Officer ("CAMLO"), who is responsible for the Company's adherence to the Proceeds of Crime (Money Laundering) and *Terrorist Financing Act (Canada)* with regard to its deposit taking and lending activities. The CAMLO reports to the CRO.

The Internal Audit function is the third line of defence. The third line of defence is separate from both the first and second line of defence, and provides an objective review and testing of the organization's risk management controls, processes, systems and of the effectiveness of the first and second line of defence functions. The Chief Audit Officer ("CAO") reports directly to the Chair of the Audit Committee.

Risk Appetite

MCAN's RAF sets out the approach to risk management used by the Company in pursuing its strategic and business objectives.

Key principles that guide MCAN's approach to risk appetite are as follows:

- MCAN's strategy, including business objectives, business plans and stakeholder expectations are reflected in the risk appetite.

- The approach engages both top down senior management and Board leadership and bottom up involvement of employees at all levels.

- Risk appetite considerations are embedded in both strategic and day-to-day decisions and supported by a reinforced risk culture aligning decision making and risk.

- The approach to risk appetite reflects good industry practices and relevant regulatory guidance.
- The approach is forward looking and enables adaptation to changing business and market conditions; it also gives consideration to the skills, resources and technology required to manage and monitor identified risk exposures and the potential impacts of stressed conditions.

The RAF purposes and objectives are as follows:

- Defines maximum levels of risk that are within MCAN's risk capacity including regulatory constraints in order to achieve its strategic objectives within appropriate and approved target returns.

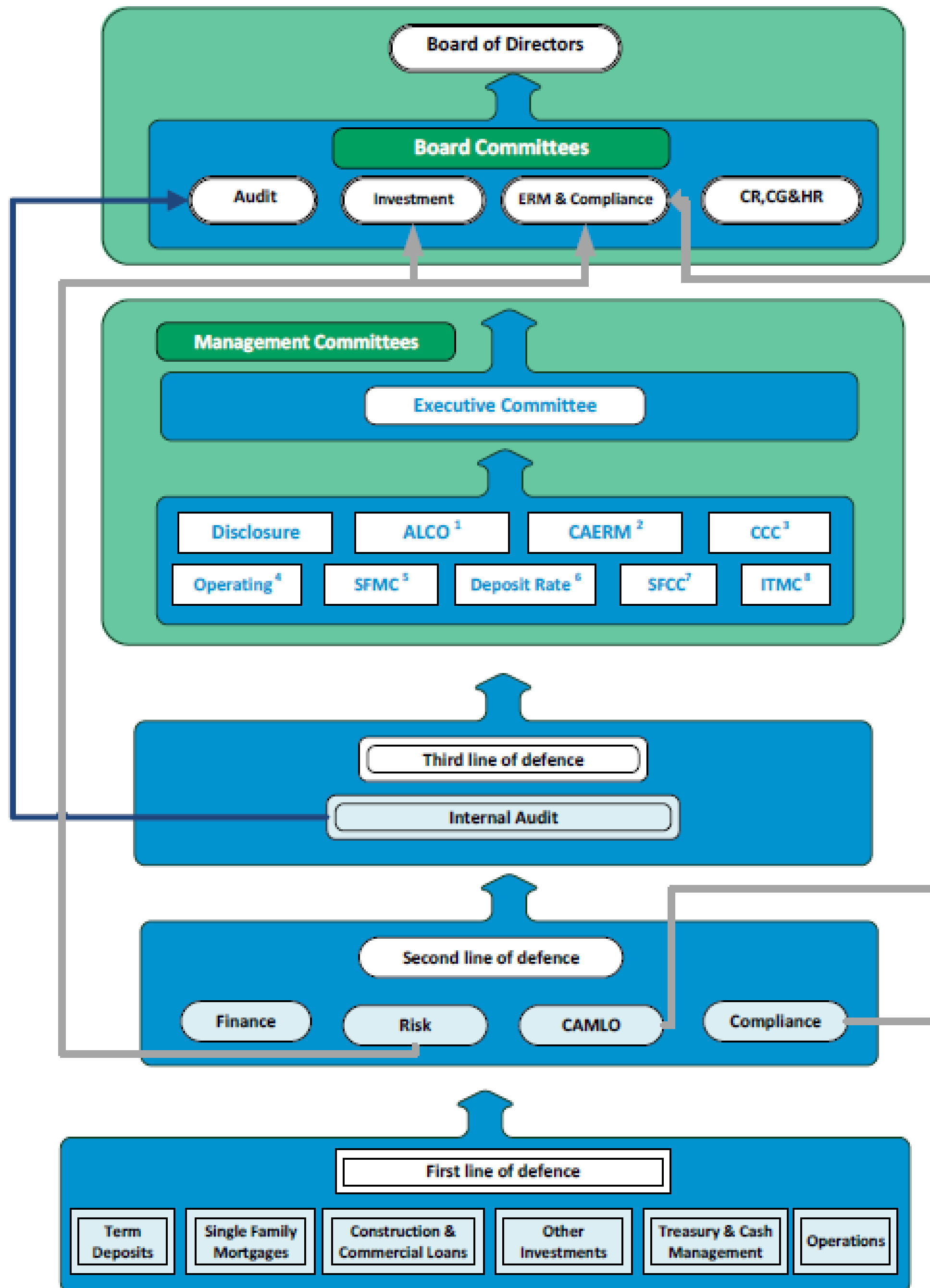
- Gives consideration to all material risks reflecting all key aspects of the business.

- Contains both qualitative and quantitative elements to define acceptable risk levels within MCAN's risk capacity.

- Sets out limits and targets to enable the Board and senior management to assess MCAN's performance and current risk levels relative to risk appetite.

- Considers MCAN's current capital position and ability to handle the range of results that may occur under normal operating conditions and under a range of stress scenarios.

The Board has oversight responsibility for risk governance within MCAN. It provides this oversight and carries out its risk management mandate primarily through the ERMCC, the Audit Committee of the Board (the "Audit Committee"), the Conduct Review, Corporate Governance and Human Resources Committee of the Board (the "CR, CG & HR Committee") and the Investment Committee of the Board ("ICB"). MCAN's Risk Governance structure is illustrated in the following diagram:



[1] Asset and Liability Committee
[2] Compliance, Audit and Enterprise Risk Management Committee
[3] Capital Commitments Committee
[4] Operating Committee
[5] Single Family Management Committee
[6] Deposit Rate Setting Committee
[7] Single Family Credit Committee
[8] Information Technology Management Committee

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, and 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 17, 20 and 29 to the consolidated financial statements.

Liquidity and Funding Risk Management

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The ICB is responsible for the approval of liquidity policies. The Asset and Liability Committee ("ALCO"), which is comprised of management, is responsible for liquidity management oversight. We have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities, MCAN-issued market MBS retained on our balance sheet, 75% of CMHC-insured single family mortgages, 50% of CMHC-insured single family second mortgages and 50% of privately insured mortgages) of at least 100% of term deposits maturing within 100 days. As at December 31, 2017 and December 31, 2016, we met this internal target.

In addition, all insured single family mortgages are readily marketable within a time frame of one to three months, providing us with added flexibility to meet unexpected liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

We maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is $75 million, with sub-limits of $50 million for overdrafts and $50 million for letters of credit.

We also have an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility provides liquidity and allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, we may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing.

We believe that our liquidity position and our access to capital markets in the form of term deposits and the banking facility support our ability to meet current and future commitments as they come due.

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also completes monthly (or more frequently when needed) stress testing which is reviewed by ALCO and the ICB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis. Further to the Liquidity Risk Management Framework, we maintain a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair our access to funding and liquidity.

We have established and maintain liquidity policies and procedures which meet the standards set under the Trust Act and regulations or guidelines issued by OSFI.

For a discussion regarding liquidity risk relating to the maturity of securitization program liabilities, refer to the "Timely Payment" sub-section of the "Securitization Programs" section of this MD&A.

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, depositors, 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 reputational risk can result in reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

Reputational Risk Management

We believe that the most effective way for the Company to safeguard its public reputation is through the successful management of the underlying risks in the business.

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, business model and business activities for external events or business results, changes in the competitive environment or the inability of the business to change its cost levels in response to those changes.

Strategic and Business Risk Management

Strategic and business risk is managed by the CEO and senior management. The Board approves the Company's strategies at least annually and reviews results against those strategies at least quarterly.

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.

Operational Risk Management

We manage operational risk through various committees and processes. Our management team reviews operational measures on a recurring basis as part of the Operating Committee, Compliance Audit and Enterprise Risk Management Committee, and ALCO. We also provide monthly updates to the Board on operations and other key factors and issues that arise.

We also maintain appropriate insurance coverage through a financial institution bond policy, which is reviewed at least annually by the Board for changes to coverage and our operations.

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. Accordingly, there is a risk that the services provided by third parties will fail to adequately meet our standards.

Outsourcing Risk Management

MCAN's Outsourcing Policy, which is approved annually by the Board, incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We review our outsourced arrangements on an annual basis to determine if the arrangement is material. If the arrangement is material it is subjected to a risk management program, which includes detailed monitoring activities.

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.

Management of Risk of Accuracy and Completeness of Borrower Information

We frequently review and/or update our underwriting policies, procedures and control processes to strengthen our ability to detect and to better manage this risk. These updates include improvements to underwriting staff training, independent income verification procedures, internal audit, risk and other quality control and quality assurance processes.

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.

Cyber Risk Management

We manage cyber risk through oversight by management, including an IT Management Committee, as well as the use of external third party advisors and service providers to provide technical expertise. We undertake a cyber security assessment on an annual basis. We employ the use of external security experts to assist and continuously monitor our information technology infrastructure for cybersecurity risks. We have also undertaken external vulnerability tests performed by an independent external party. Additionally, we maintain an incident response plan and have designated officers responsible for the oversight over the cybersecurity risks. We also maintain cyber security insurance coverage for both direct and third party coverage in the event of a cyber security incident that would result in a loss.

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.

Credit Risk Management

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the ICB. A CRO Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the ERMCC on a quarterly basis. Monitoring also takes place through our Capital Commitments Committee and Executive Committee, which are both comprised of certain members of management.

Our exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit limits, based on our risk appetite, which is approved by the Board at least annually, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the ICB. We also undertake site visits of active mortgage properties. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over our exposure to credit risk. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears.

We assign a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Risk ratings are reviewed annually for large exposures, and whenever there is an amendment or a material adverse change such as a default or impairment.

We have established a methodology for determining the adequacy of our collective allowances. The adequacy of collective allowances is assessed periodically, taking into consideration economic factors such as Gross Domestic Product, employment, housing market conditions as well as the current position in the economic cycle.

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value.

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, where maximum credit exposure also includes outstanding commitments for future mortgage fundings.

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 and maturity dates. Changes in interest rates where we have mismatched repricing and maturity 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 31 to the consolidated financial statements.

Interest Rate Risk Management

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and strategically matching the terms of corporate assets and term deposits so that they offset each other, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the ICB each quarter.

We are exposed to interest rate risk on insured single family mortgages between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded, or in the case of mortgages securitized through the market MBS or CMB programs, the time that the mortgage is securitized. To manage this risk, we may enter into bond forwards or we may fund them with long-term fixed-rate term deposits.

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.

Market Risk Management

Our marketable securities portfolio is susceptible to market price risk arising from uncertainties about future values of the securities. We manage the equity price risk through diversification and limits on both individual and total securities. Reports on the portfolio are submitted to senior management on a regular basis and to the Board on a quarterly basis.

Other Risk Factors

General Litigation

In the ordinary course of business, MCAN and its service providers (including MCAP), their subsidiaries and related parties may be party to legal proceedings that may result in unplanned payments to third parties.

To the best of our knowledge, we do not expect the outcome of any existing proceedings to have a material adverse effect on the consolidated financial position or results of operations of the Company.

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Economic Conditions

Factors that could impact MCAN include changes in short-term and long-term interest rates, commodity prices, inflation, consumer, business and government spending, real estate prices and adverse economic events.

Regulatory Compliance Risk

Changes in laws and regulations, including interpretation or implementation, may affect the Company by limiting the products or services that we can provide, limiting pricing/availability of products in the market and increasing the ability of competitors to compete with our products and services. Also, any failure by the Company to comply with applicable laws and regulations may result in sanctions and financial penalties which may adversely impact our earnings and damage our reputation. Increasing regulations and expectations as a result of the recent financial crisis, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

Qualification as a Mortgage Investment Corporation

If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes and such dividends will no longer be deemed by the rules in the Tax Act that apply to MICs to have been received by shareholders as interest or a capital gain, as the case may be. As a consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined rate of corporate and shareholder tax could be significantly greater.

Mortgage Renewal Risk

We retain renewal rights on mortgages that we originate that are either sold to third parties or retained on the consolidated balance sheet. If mortgagors are unable to renew their mortgages at their scheduled maturities, we may be required to use our own financial resources to fund these obligations until mortgage arrears are collected or proceeds are received from mortgage insurers following the sale of mortgaged properties.

Mortgage Prepayment Risk

In acquiring certain mortgages from third parties, we pay a premium to the mortgage par value based on the expected term of the mortgage. To the extent that mortgages repay prior to maturity, we may be required to accelerate the amortization of the premium and sustain a financial loss.

Competition Risk

Our operations and income are a function of the interest rate environment, the availability of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability of mortgage products for the Company and the yields thereon are dependent on market competition. In the event that we are unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities, there may be an adverse effect on our financial condition and results of operations.

Monetary Policy

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply and demand of money and the general level of interest rates could affect our earnings. Changes in the level of interest rates affect the interest spread between our mortgages, loans and investments, securitization investments and term deposits, and as a result may impact our net investment income. Changes to monetary policy and in financial markets in general are beyond our control and are difficult to predict or anticipate.

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy and procedures to our commercial and development lending activities.

Changes in Laws and Regulations

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, may adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. In addition, delays in the receipt of any regulatory approvals and authorizations that may be necessary to the operation of our business may adversely affect our operations and financial condition. Our failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements. Please refer to the “Standards Issued But Not Yet Effective” section of this MD&A for further details.

Leverage

Leverage increases our potential exposure to all risk factors described above.

No Assurance of Achieving Investment Objectives or Payment of Dividends

As a result of the risks discussed above, there is no assurance that we will be able to achieve our investment objectives or be able to pay dividends at targeted or historic levels. The funds available for the payment of dividends to our shareholders will vary according to, among other things, the principal and interest payments received in respect of the Company’s investments. There can be no assurance that the Company will generate any returns or be able to pay dividends to our shareholders in the future.

General Risk Management

Ultimately, risk management is monitored and controlled at the highest level of the Company. The Board also reviews and approves all risk management policies and procedures at least annually. Management reports to the Board on the status of risk management at least quarterly.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2017, there were 23,377,785 common shares outstanding (December 31, 2016 - 23,075,227). As at February 23, 2018, there were 23,461,529 common shares outstanding.

During 2017, we issued 295,849 new common shares under the DRIP (2016 - 280,376), 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%.

In 2017, we issued 6,709 common shares through the Executive Share Purchase Plan (2016 - 12,418).

For additional information related to share capital, refer to Note 21 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 are obligated to advance additional fundings on the investment at any time subject to capital calls by KingSett.

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 37: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	December 31 2017	December 31 2016
Mortgage funding commitments	$ 169,599	$ 121,605	$ -	$ -	$ 291,204	$ 364,161
Commitment - KingSett High Yield Fund	-	26,483	-	-	26,483	38,700
Operating lease	903	1,711	1,735	4,303	8,652	4,569
	$ 170,502	**$ 149,799**	**$ 1,735**	**$ 4,303**	**$ 326,339**	**$ 407,430**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information, refer to Note 14 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 30 to the consolidated financial statements.

As at December 31, 2017, of our total single family mortgage renewal rights of $931 million (December 31, 2016 - $1.1 billion), $42 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2016 - $130 million).

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6 million. MCAP was awarded a judgment for approximately $500,000 against the same plaintiff in related proceedings. We may be subject to the indemnification of MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly we have not recorded a provision.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC under the Tax Act, we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. These dividends are taxable in the shareholders' hands as interest income. In addition, as a MIC, we can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands. We intend to continue to declare dividends on a quarterly basis.

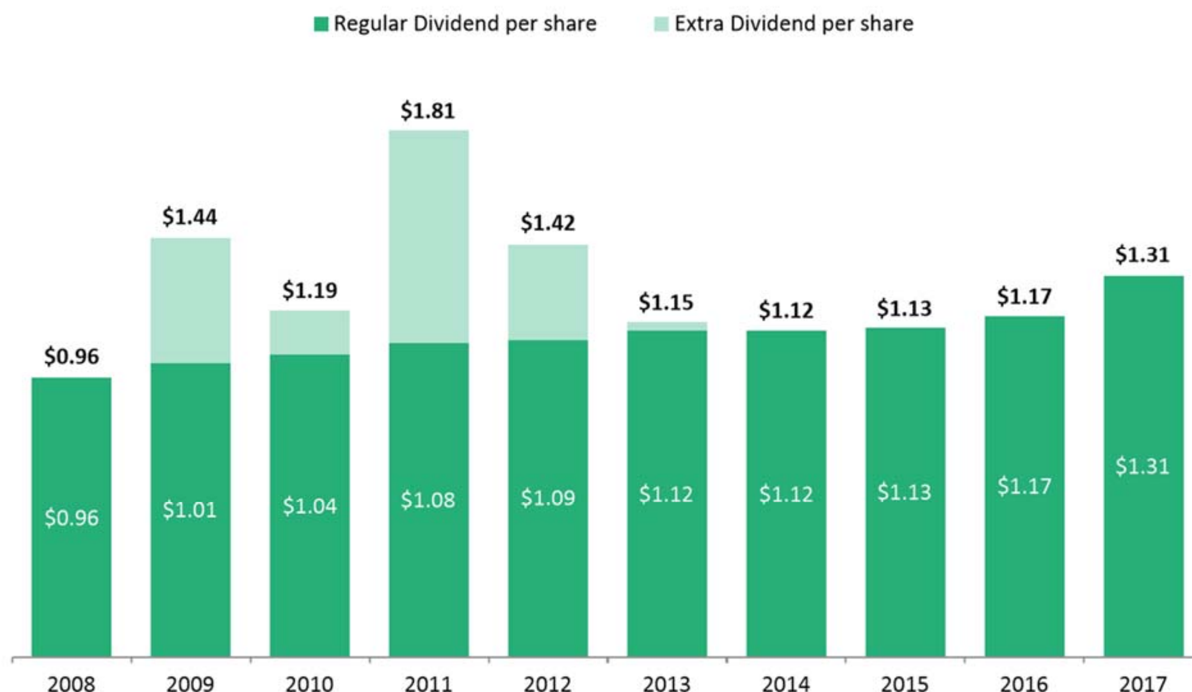
Dividends per share paid over the past three years are indicated in the table below. All dividends during this period have been regular dividends, i.e. none have been capital gains dividends.

Table 38: Dividends

Fiscal Period	2017	2016	2015
First Quarter	$ 0.30	$ 0.29	$ 0.28
Second Quarter	0.32	0.29	0.28
Third Quarter	0.32	0.29	0.28
Fourth Quarter	0.37	0.30	0.29
	$ 1.31	**$ 1.17**	**$ 1.13**

Consistent with the prior quarter, the Board declared a first quarter dividend of $0.37 per share, to be paid on March 29, 2018 to shareholders of record as of March 15, 2018.

Figure 5: Dividend History



Historically, extra dividends have been paid with the regular first quarter dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2017 and December 31, 2016 are discussed in Note 28 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 December 31, 2017, we had 69 employees (December 31, 2016 - 61).

REGULATORY COMPLIANCE

Our CCO ensures that management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with management to address any gaps in policies and procedures. We use a Regulatory Compliance Management System that ensures all managers assess their compliance with relevant legislation on a quarterly basis. Senior management liaises with regulators to keep them apprised of company progress and changes to our business. Our CCO reports quarterly to the ERMCC.

INTERNAL AUDIT

The Internal Audit function, consisting of the Chief Audit Officer, has unrestricted access to our operations, records, property and personnel, including senior management, the Chair of the Audit Committee and the other members of the Board. Internal Audit formulates an annual risk-based plan for approval by the Audit Committee and then undertakes internal audit reviews throughout the year with regular and direct reporting to both senior management and the Audit Committee.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, 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 may 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 by 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 net realizable values, 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.

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 prior to the adoption of IFRS 9 on January 1, 2018. For further information on IFRS, please refer to Note 4 to the consolidated financial statements.

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 the tax treatment of income and expenses 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 associated with these assets 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 include IFRS 9, *Financial Instruments,* IFRS 15, *Revenue from Contracts with Customers,* IFRS 16, *Leases,* IFRS 2, *Share-based Payment Transactions* and IFRIC 23, *Uncertainty over Income Tax Treatments*. For further information on these standards, refer to Note 4 to the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2017, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that 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 is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2017.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2017.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2017 and ending on December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent Limitations of Controls and Procedures

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 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 interest 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 32 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.