



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OPERATIONS**

SEPTEMBER 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended September 30, 2017 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2016. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2016 remain substantially unchanged. Information has been presented as at November 10, 2017.

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	21
SELECTED QUARTERLY FINANCIAL DATA	31
SECURITIZATION PROGRAMS	32
CAPITAL MANAGEMENT	33
LIQUIDITY MANAGEMENT	37
RISK GOVERNANCE AND MANAGEMENT	39
DESCRIPTION OF CAPITAL STRUCTURE	41
OFF-BALANCE SHEET ARRANGEMENTS	41
DIVIDENDS	42
TRANSACTIONS WITH RELATED PARTIES	42
FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS	42
PEOPLE	42
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS	42
STANDARDS ISSUED BUT NOT YET EFFECTIVE	44
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING	46
NON-IFRS MEASURES	47

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

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

ACRONYMS

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

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)						
For the Periods Ended September 30	Q3 2017	Q3 2016	Change (%)	YTD 2017	YTD 2016	Change (%)
Income Statement Highlights						
Net investment income - corporate assets	\$ 12,913	\$ 12,396	4%	\$ 38,054	\$ 40,017	(5%)
Net investment income - securitization assets	1,534	1,594	(4%)	4,197	4,259	(1%)
	14,447	13,990	3%	42,251	44,276	(5%)
Other income	-	-	-	876	-	-
Operating expenses	4,686	4,323	8%	13,916	13,492	3%
Net income before income taxes	9,761	9,667	1%	29,211	30,784	(5%)
Provision for (recovery of) income taxes	(157)	(108)	45%	90	(398)	(123%)
Net income	\$ 9,918	\$ 9,775	1%	\$ 29,121	\$ 31,182	(7%)
Basic and diluted earnings per share	\$ 0.42	\$ 0.43	(2%)	\$ 1.25	\$ 1.36	(8%)
Dividends per share	\$ 0.32	\$ 0.29	10%	\$ 0.94	\$ 0.87	8%
Next quarter's dividend per share	\$ 0.37					
Return on average shareholders' equity ¹	13.63%	14.08%	(0.45%)	13.45%	15.36%	(1.91%)
Taxable income per share ¹	\$ 0.36	\$ 0.23	57%	\$ 1.17	\$ 0.91	29%
Yields						
Average mortgage portfolio yield - corporate ²	5.25%	5.14%	0.11%	5.22%	5.21%	0.01%
Term deposit average interest rate ²	2.25%	2.22%	0.03%	2.22%	2.23%	(0.01%)
Spread of mortgages over term deposits	3.00%	2.92%	0.08%	3.00%	2.98%	0.02%
Average mortgage portfolio yield - securitized ²	2.63%	2.77%	(0.14%)	2.61%	2.73%	(0.12%)
Financial liabilities from securitization - average interest rate ²	1.83%	2.05%	(0.22%)	1.88%	2.03%	(0.15%)
Spread of mortgages over liabilities	0.80%	0.72%	0.08%	0.73%	0.70%	0.03%

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

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	September 30 2017	June 30 2017	December 31 2016	Change from Prior Quarter (\$)	Change from Prior Quarter (%)
Balance Sheet Highlights					
Assets					
Corporate	\$ 1,147,544	\$ 1,200,789	\$ 1,188,480	\$ (53,245)	(4%)
Securitization	1,048,244	1,076,495	1,092,375	(28,251)	(3%)
Total assets	<u>\$ 2,195,788</u>	<u>\$ 2,277,284</u>	<u>\$ 2,280,855</u>	<u>\$ (81,496)</u>	<u>(4%)</u>
Mortgages - corporate	\$ 867,069	\$ 911,744	\$ 904,112	\$ (44,675)	(5%)
Mortgages - securitized	\$ 1,026,657	\$ 1,052,071	\$ 1,071,849	\$ (25,414)	(2%)
Liabilities					
Corporate	\$ 878,428	\$ 930,197	\$ 927,293	\$ (51,769)	(6%)
Securitization	1,027,090	1,058,856	1,071,786	(31,766)	(3%)
Total liabilities	<u>\$ 1,905,518</u>	<u>\$ 1,989,053</u>	<u>\$ 1,999,079</u>	<u>\$ (83,535)</u>	<u>(4%)</u>
Shareholders' equity	\$ 290,270	\$ 288,231	\$ 281,776	\$ 2,039	1%
Capital Ratios ¹					
Income Tax Assets to Capital Ratio	4.50	4.77	4.87		(6%)
Common Equity Tier 1 Capital Ratio (transitional)	21.58%	21.69%	22.98%		(0.11%)
Common Equity Tier 1 Capital Ratio (all-in)	21.34%	21.47%	22.55%		(0.13%)
Tier 1 Capital Ratio (transitional)	21.58%	21.69%	22.98%		(0.11%)
Tier 1 Capital Ratio (all-in)	21.34%	21.47%	22.55%		(0.13%)
Total Capital Ratio (transitional)	21.58%	21.69%	22.98%		(0.11%)
Total Capital Ratio (all-in)	21.34%	21.47%	22.55%		(0.13%)
Leverage ratio ²	11.31%	10.82%	10.46%		0.49%
Credit Quality					
Impaired mortgage ratio (total) ¹	0.14%	0.12%	0.14%		0.02%
Impaired mortgage ratio (corporate) ¹	0.31%	0.27%	0.31%		0.04%
Mortgage Arrears					
Corporate	\$ 11,317	\$ 11,267	\$ 13,041	\$ 50	-
Securitized	7,782	10,414	13,609	(2,632)	(25%)
Total	<u>\$ 19,099</u>	<u>\$ 21,681</u>	<u>\$ 26,650</u>	<u>\$ (2,582)</u>	<u>(12%)</u>
Common Share Information (end of period)					
Number of common shares outstanding	23,378	23,303	23,075		-
Book value per common share ¹	\$ 12.42	\$ 12.37	\$ 12.21	\$ 0.05	-
Common share price - close	\$ 15.60	\$ 14.90	\$ 14.32	\$ 0.70	5%
Market capitalization ¹	\$ 364,697	\$ 347,215	\$ 330,434	\$ 17,482	5%

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**Q3 2017

- We earned net income of \$9.9 million in Q3 2017, an increase of \$0.1 million (1%) from \$9.8 million in Q3 2016.
- Earnings per share were \$0.42 in Q3 2017 compared to \$0.43 in Q3 2016.
- Return on average shareholders' equity¹ was 13.63% in Q3 2017 compared to 14.08% in Q3 2016.

Year to Date 2017

- For 2017 year to date, we earned net income of \$29.1 million compared to \$31.2 million in 2016.
- Earnings per share were \$1.25 per share for 2017 year to date compared to \$1.36 per share in 2016.
- Return on average shareholders' equity¹ was 13.45% for 2017 year to date compared to 15.36% in 2016.
- The decrease in net income for 2017 year to date was primarily due to lower corporate mortgage interest, equity income from MCAP Commercial LP ("MCAP") and fees, partially offset by higher distribution income recognized from our investment in the Crown Realty II Limited Partnership ("Crown LP").

Corporate Activity

- Corporate assets, which totalled \$1.15 billion at September 30, 2017, decreased by \$53 million from June 30, 2017.
- The corporate mortgage portfolio decreased by \$45 million during Q3 2017 to \$867 million from \$912 million, which included decreases of \$19 million in construction, \$14 million in uninsured single family and \$8 million in commercial.
- For 2017 year to date, corporate assets have decreased by \$41 million (3%), consisting primarily of a decrease of \$37 million in corporate mortgages.

Dividend

- On October 13, 2017, the Board of Directors (the "Board") declared a 15.6% increase in the quarterly dividend from \$0.32 to \$0.37 per share effective with the 2017 fourth quarter dividend to be paid on January 2, 2018 to shareholders of record as of December 15, 2017. The dividend increase announcement followed MCAN's annual strategic planning process and is consistent with our dividend policy and the trending in taxable income experienced in 2017. This dividend represents a 23.3% increase over the corresponding 2016 fourth quarter dividend of \$0.30 per share. For further information, refer to the "Taxable Income" sub-section of this MD&A.

Credit Quality

- The impaired total mortgage ratio¹ increased to 0.14% at September 30, 2017 from 0.12% at June 30, 2017.
- The impaired corporate mortgage ratio¹ increased to 0.31% at September 30, 2017 from 0.27% at June 30, 2017.
- Total mortgage arrears¹ were \$19 million at September 30, 2017, a decrease of \$3 million (12%) from \$22 million at June 30, 2017. The September 30, 2017 balance consists entirely of single family mortgages, \$7.4 million of which were uninsured.
- Net write-offs were 4.3 basis points of the average corporate portfolio in Q3 2017 compared to nil in Q3 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 51.1% at September 30, 2017, compared to 53.7% at June 30, 2017.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios¹ were 21.58% on the transitional basis and 21.34% on the "all-in" basis at September 30, 2017 compared to 21.69% and 21.47%, respectively, at June 30, 2017.
- Our leverage ratio¹ was 11.31% at September 30, 2017 compared to 10.82% at June 30, 2017.
- Income tax asset capacity¹ was \$313 million at September 30, 2017 compared to \$243 million at June 30, 2017. 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 continue to face headwinds as a result of recent regulations enacted by the federal and provincial governments to cool down real estate markets and mortgage lending in Canada. Consumers are also facing a rising interest rate environment. After two interest rate hikes in July and September, the Bank of Canada is expected to take a “wait and see” approach in considering future interest rate increases.

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to local economic conditions. The Prairie Provinces continue to demonstrate weakness as oil prices remain low, which is negatively impacting employment. Other regional economies previously benefited from the lower Canadian dollar, which helped to strengthen employment in the manufacturing sector. These regional economies now face a strengthening Canadian dollar while a strong Canadian GDP supports 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.

Recently 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

Canadian housing market conditions are expected to be volatile through the remainder of the year. 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 6 to 12 months to see the full impact of these changes on housing sale volumes and prices. We expect home sale levels to slow as buyers react to the uncertainty caused by the multiple rule changes, the evidence of increases in listings and 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 was down 11% in September 2017 compared to the record month in September in 2016. Sales were down year over year in close to three quarters of all local markets, led by the Greater Toronto Area and nearby local markets. Despite this decline in sales activity, year over year price inflation rose by 10.7% in September 2017.

The Greater Toronto Area (“GTA”) saw existing home sales decrease by over 50% in the first half of the year following the Government of Ontario’s announced reforms to rental and housing markets (see below). We expect the negative impact of the announced changes to be short lived, similar to what occurred in the Greater Vancouver market. There was some evidence of sales level recovery in the GTA in September and October. The GTA still has near record lows in available new home lots and the lowest levels of available new homes in over 15 years.

Vancouver has recovered to more normal levels of home sales and is experiencing price inflation, although at levels below those experienced before the implementation of the 15% tax on non-resident real estate purchases enacted in mid-2016. While we expect to see lower levels of resale homes for the remainder of the year in both Toronto and Vancouver, we expect the impact on new home sales to be minimal due to lot supply shortages and relatively low mortgage rates.

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

Regulatory Changes

In October 2017, the Office of the Superintendent of Financial Institutions Canada (“OSFI”) published in final form the revised Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, which comes into effect on January 1, 2018. We expect that our existing underwriting standards will align with the new B-20 guidelines. The new B-20 guidelines also require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect this stress test to cause a small decrease in 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 decreased this year, as reported by CMHC in Q2. This is a result of the cumulative effect of new mortgage insurance rules, the increased cost of portfolio insurance and the foreign buyers’ tax in Vancouver and the Greater Golden Horseshoe of Ontario. We have been affected by these rules, as insured mortgage rates have been stable due to increased competition amongst lenders despite the recent Bank of Canada interest rate hikes.

Impact on MCAN

We will continue to monitor housing markets and market developments as they evolve, and will continue to ensure that our mortgage portfolio remains well positioned. Our corporate assets have decreased by 3% year to date, compared to our stated annual growth target of 10%. As a result of the current uncertainty in mortgage markets, we believe that we will not achieve this target in 2017. However, we continue to maintain this as our ongoing target as a measure of our expected annualized growth objective into 2018 and beyond. 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. Given our available asset capacity, 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. Considering the factors noted above, we currently believe that our financial position will continue to provide taxable income to support our dividend policy.

KingSett's announcement during Q2 regarding its agreement to acquire \$1.2 billion in commercial mortgages from Home Capital has had and may continue to have a positive impact on future income from our investment in the KingSett High Yield Fund. During the quarter, we funded an additional \$5.1 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 6-12 months to see the impact of these changes on construction, home sales, and mortgage volumes. MCAN has made significant changes to its underwriting procedures over the past 18 months and we believe that we are well positioned against the regulatory changes outlined above, and do not expect a material impact to our financial results. We believe that MCAN is well positioned to adapt to changes in mortgage and housing markets.

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts)						
For the Periods Ended September 30	Q3 2017	Q3 2016	Change (%)	YTD 2017	YTD 2016	Change (%)
Net Investment Income - Corporate Assets						
Mortgage interest	\$ 11,973	\$ 12,987	(8%)	\$ 35,531	\$ 38,942	(9%)
Equity income from MCAP Commercial LP	3,260	3,276	(1%)	8,970	10,300	(13%)
Fees	360	683	(47%)	1,043	1,909	(45%)
Marketable securities	928	1,205	(23%)	2,868	2,733	5%
Financial investments and other loans	2,327	614	279%	7,501	5,554	35%
Interest on cash and cash equivalents	264	145	82%	563	398	41%
Whole loan gain on sale income	-	-	-	-	324	(100%)
	19,112	18,910	1%	56,476	60,160	(6%)
Term deposit interest and expenses	5,447	5,685	(4%)	15,604	16,543	(6%)
Mortgage expenses	972	1,009	(4%)	2,926	2,980	(2%)
Interest on loans payable	-	64	(100%)	36	244	(85%)
Provision for (recovery of) credit losses	(220)	(244)	(10%)	(144)	376	(138%)
	6,199	6,514	(5%)	18,422	20,143	(9%)
	12,913	12,396	4%	38,054	40,017	(5%)
Other Income - Corporate Assets						
Gain on sale of investment in MCAP Commercial LP	-	-	-	785	-	-
Gain on dilution of investment in MCAP Commercial LP	-	-	-	91	-	-
	-	-	-	876	-	-
Net Investment Income - Securitization Assets						
Mortgage interest	6,784	7,187	(6%)	20,576	21,176	(3%)
Other securitization income	66	219	(70%)	139	349	(60%)
	6,850	7,406	(8%)	20,715	21,525	(4%)
Interest on financial liabilities from securitization	4,780	5,356	(11%)	14,939	15,926	(6%)
Mortgage expenses	536	456	18%	1,579	1,340	18%
	5,316	5,812	(9%)	16,518	17,266	(4%)
	1,534	1,594	(4%)	4,197	4,259	(1%)
Operating Expenses						
Salaries and benefits	2,777	2,191	27%	7,960	7,277	9%
General and administrative	1,909	2,132	(11%)	5,956	6,215	(4%)
	4,686	4,323	8%	13,916	13,492	3%
Net income before income taxes	9,761	9,667	1%	29,211	30,784	(5%)
Provision for (recovery of) income taxes	(157)	(108)	45%	90	(398)	(123%)
Net Income	\$ 9,918	\$ 9,775	2%	\$ 29,121	\$ 31,182	(7%)
Basic and diluted earnings per share	\$ 0.42	\$ 0.43	(2%)	\$ 1.25	\$ 1.36	(8%)
Dividends per share	\$ 0.32	\$ 0.29	10%	\$ 0.94	\$ 0.87	8%

Net Investment Income - Corporate Assets

Mortgage interest income

Table 4: Interest Income and Average Rate by Mortgage Portfolio - Q3

For the Quarters Ended September 30	2017			2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 211,218	\$ 2,386	4.52%	\$ 306,022	\$ 3,621	4.72%
- Insured	81,821	694	3.40%	117,815	954	3.23%
- Uninsured - completed inventory	63,510	872	5.45%	22,098	374	6.75%
Construction loans						
- Residential	399,689	5,550	5.51%	421,242	5,729	5.42%
- Non residential	7,200	96	5.29%	7,408	104	5.57%
Commercial loans						
- Multi family residential	44,999	527	4.64%	52,792	589	4.42%
- Other commercial	99,798	1,848	7.36%	80,992	1,616	7.96%
Mortgages - corporate portfolio	\$ 908,235	\$ 11,973	5.25%	\$ 1,008,369	\$ 12,987	5.14%
Term deposits	893,865	5,447	2.25%	962,150	5,685	2.22%
Spread of mortgages over term deposits			3.00%			2.92%
Mortgages - securitized portfolio	\$ 1,028,172	\$ 6,784	2.63%	\$ 1,032,280	\$ 7,187	2.77%
Financial liabilities from securitization	1,042,893	4,780	1.83%	1,045,122	5,356	2.05%
Spread of mortgages over liabilities			0.80%			0.72%

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 quarters ended September 30, 2017 and September 30, 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 Q3 2017, our average balances in the construction, commercial and completed inventory portfolios remained consistent with the prior quarter after experiencing growth earlier in the year in all three segments. We continue to lend to experienced builders in construction market segments where the cost to build has not followed real estate appreciation in the resale market. Construction lending is based on specific conditions required prior to funding, which act as a risk mitigant given other concerns in the real estate market. The decrease in the average construction portfolio from Q3 2016 is due to our curtailing of new commitments in Q2 2017 amidst market liquidity issues, in addition to the transfer of existing projects to the completed inventory portfolio upon the substantial completion of units earlier in 2017. This reclassification led to an increase in the average completed inventory portfolio from Q3 2016.

During Q3 2017, the Bank of Canada announced two 0.25% increases in the prime rate which had and is expected to continue to have a positive impact on mortgage interest income related to the floating rate component of our corporate mortgage portfolio. These prime rate increases contributed approximately 0.27% and 0.17%, respectively, to the average interest rate for the construction and total corporate portfolios in Q3 2017, as approximately 96% and 61% of those respective portfolios are floating rate and repriced following the rate increases.

New uninsured single family origination volumes have increased in 2017 on a year to date basis compared to 2016. Given the significant increase in home prices in the single family market segment since 2016, especially in the Greater Toronto Area, we continue to take a defensive approach to origination and have maintained conservative 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.

Subsequent to quarter end, OSFI announced the finalization of significant changes to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*. We expect that our existing underwriting standards will align with the new B-20 guidelines. The new B-20 guidelines also require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect this stress test to cause a small decrease in 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 year have made the insured single family market more competitive and have led to tightened securitization spreads. These changes have led to a reduction in 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 was consistent with Q3 2016. MCAP earned higher securitized asset investment income from a larger average portfolio and higher servicing revenue as a result of an increase in assets under administration in Q3 2017. These increases were offset by lower net fair value adjustments to financial instruments.

We recognize equity income from MCAP on a one-month lag such that our Q3 2017 equity income from MCAP is based on MCAP’s net income for the quarter ended August 31, 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

In Q3 2017, we recognized \$1.3 million of income from our investment in Crown LP, compared to \$nil in Q3 2016. For 2017 year to date, we have recognized \$5.0 million of income from Crown LP (2016 year to date - \$3.8 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 income from our investment in the KingSett High Yield Fund. 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 Q1 2017, we sold 100,000 partnership units in MCAP at a price of \$19.47 per unit (compared to a net book value of \$11.62 per unit), recognizing a gain on sale of \$0.8 million. MCAP also issued additional class B units to other partners of MCAP during Q1 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 Q3 2017, we securitized \$20 million of insured single family mortgages through the market MBS program (Q3 2016 - \$17 million market MBS program; \$22 million CMB program). Additionally, in Q3 2016 we securitized \$33 million of insured multi family mortgages; these mortgages were derecognized from the balance sheet and we recorded an upfront gain from securitization of \$0.2 million.

Market MBS Program

The average outstanding market MBS program mortgage balance decreased to \$897 million in Q3 2017 from \$1.0 billion in Q3 2016, while the net spread increased to 0.82% from 0.71% as a result of higher penalty income. As noted earlier, new securitization volumes have been low in recent quarters 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 \$131 million in Q3 2017 from \$30 million in Q3 2016, while the net spread decreased to 0.67% from 1.17%. 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 recent CMB issuances has made the overall CMB program economics lower than those from the market MBS program.

Table 5: Interest Income and Average Rate by Mortgage Portfolio - YTD

For the Nine Months Ended September 30	2017			2016		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 226,685	\$ 7,675	4.52%	\$ 334,410	\$ 11,517	4.60%
- Insured	89,822	2,278	3.38%	105,588	2,777	3.51%
- Uninsured - completed inventory	42,178	1,684	5.34%	19,505	796	5.44%
Construction loans						
- Residential	396,452	16,250	5.48%	413,864	17,147	5.53%
- Non residential	7,413	294	5.30%	6,656	283	5.67%
Commercial loans						
- Multi family residential	41,797	1,416	4.53%	40,969	1,364	4.46%
- Other commercial	105,811	5,934	7.50%	77,204	5,058	8.73%
Mortgages - corporate portfolio	\$ 910,158	\$ 35,531	5.22%	\$ 998,196	\$ 38,942	5.21%
Term deposits	878,101	15,604	2.22%	943,092	16,543	2.23%
Spread of mortgages over term deposits			3.00%			2.98%
Mortgages - securitized portfolio	\$ 1,045,816	\$ 20,576	2.61%	\$ 1,036,547	\$ 21,176	2.73%
Financial liabilities from securitization	1,058,476	14,939	1.88%	1,046,179	15,926	2.03%
Spread of mortgages over liabilities			0.73%			0.70%

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 nine months ended September 30, 2017 and September 30, 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.

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 6: Net Interest Income - Q3

For the Quarters Ended September 30	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	\$ 99,772	\$ 264	1.05%	\$ 75,473	\$ 145	0.76%
Marketable securities	57,914	928	6.36%	54,871	1,205	6.12%
Mortgages - corporate	908,235	11,973	5.25%	1,008,369	12,987	5.14%
Financial investments	29,361	964	13.03%	20,655	561	10.81%
Other loans	3,004	38	5.02%	3,831	53	5.50%
Corporate interest earning assets	1,098,286	14,167	5.12%	1,163,199	14,951	4.99%
Cash held in trust	20,197	42	0.83%	18,383	13	0.28%
Mortgages - securitized	1,028,172	6,784	2.63%	1,032,280	7,187	2.77%
Securitization interest earning assets	1,048,369	6,826	2.58%	1,050,663	7,200	2.73%
Total interest earning assets	2,146,655	20,993	3.88%	2,213,862	22,151	3.92%
Non interest earning assets	89,804	1,325	-	85,452	-	-
Total assets	\$ 2,236,459	\$ 22,318	3.96%	\$ 2,299,314	\$ 22,151	3.77%
Liabilities and shareholders' equity						
Term deposits	\$ 893,865	\$ 5,447	2.25%	\$ 962,150	\$ 5,685	2.22%
Loans payable	-	-	-	7,435	64	3.42%
Corporate liabilities	893,865	5,447	2.25%	969,585	5,749	2.23%
Securitization liabilities	1,042,893	4,780	1.83%	1,045,122	5,356	2.05%
Total interest bearing liabilities	1,936,758	10,227	2.05%	2,014,707	11,105	2.14%
Non interest bearing liabilities	8,642	-	-	6,990	-	-
Shareholders' equity	291,059	-	-	277,617	-	-
Total liabilities and shareholders' equity	\$ 2,236,459	\$ 10,227	1.81%	\$ 2,299,314	\$ 11,105	1.92%
Net Interest Income ²		\$ 12,091			\$ 11,046	

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

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

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to “Income/Expense” divided by “Average Balance”, as non-recurring items 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. Non-recurring items were immaterial for the quarters ended September 30, 2017 and September 30, 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.

Table 7: Net Interest Income - YTD

For the Nine Months Ended September 30	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	\$ 84,369	\$ 563	0.89%	\$ 71,695	\$ 398	0.74%
Marketable securities	57,873	2,868	6.30%	49,544	2,733	6.40%
Mortgages - corporate	910,158	35,531	5.22%	998,196	38,942	5.21%
Financial investments	26,301	2,386	12.13%	18,308	1,641	11.97%
Other loans	3,474	132	5.08%	3,950	156	5.28%
Corporate interest earning assets	1,082,175	41,480	5.11%	1,141,693	43,870	5.09%
Cash held in trust	17,335	63	0.49%	14,076	29	0.28%
Mortgages - securitized	1,045,816	20,576	2.61%	1,036,547	21,176	2.73%
Securitization interest earning assets	1,063,151	20,639	2.60%	1,050,623	21,205	2.70%
Total interest earning assets	2,145,326	62,119	3.86%	2,192,316	65,075	3.94%
Non interest earning assets	89,401	4,983	-	83,771	3,757	-
Total assets	\$ 2,234,727	\$ 67,102	4.01%	\$ 2,276,087	\$ 68,832	4.02%
Liabilities and shareholders' equity						
Term deposits	\$ 878,101	\$ 15,604	2.22%	\$ 943,092	\$ 16,543	2.23%
Loans payable	1,377	36	3.50%	9,015	244	3.32%
Corporate liabilities	879,478	15,640	2.22%	952,107	16,787	2.25%
Securitization liabilities	1,058,476	14,939	1.88%	1,046,179	15,926	2.03%
Total interest bearing liabilities	1,937,954	30,579	2.05%	1,998,286	32,713	2.14%
Non interest bearing liabilities	8,177	-	-	7,040	-	-
Shareholders' equity	288,596	-	-	270,761	-	-
Total liabilities and shareholders' equity	\$ 2,234,727	\$ 30,579	1.83%	\$ 2,276,087	\$ 32,713	1.92%
Net Interest Income ²		\$ 36,523			\$ 36,119	

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 nine months ended September 30, 2017 and September 30, 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 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points)						
For the Periods Ended September 30	Q3 2017	Q3 2016	Change (%)	YTD 2017	YTD 2016	Change (%)
Individual provision (recovery)						
Single family uninsured	\$ 104	\$ 51	104%	\$ 133	\$ 237	(44%)
Collective provision (recovery)						
Single family uninsured	(58)	(167)	(65%)	(206)	(312)	(34%)
Single family uninsured - completed inventory	1	8	(88%)	183	(55)	(433%)
Construction	(122)	(218)	(44%)	41	267	(85%)
Commercial	(85)	105	(181%)	(129)	295	(144%)
Corporate mortgages - total	(264)	(272)	(3%)	(111)	195	(157%)
Other recoveries, net	(60)	(23)	161%	(166)	(56)	196%
	\$ (324)	\$ (295)	10%	\$ (277)	\$ 139	(299%)
Total provisions for (recoveries of) credit losses,	\$ (220)	\$ (244)	(10%)	\$ (144)	\$ 376	(138%)
Corporate mortgage portfolio data:						
Provisions for (recoveries of) credit losses, net	\$ (160)	\$ (221)	(28%)	\$ 22	\$ 432	(95%)
Net write offs	\$ 98	\$ -	-	\$ 475	\$ 199	139%
Net write offs (basis points)	4.3	-	-	7.0	2.7	158%

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.

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 Q3 2017 consist of uninsured single family mortgages for which an individual allowance had already been recorded. In Q1 2017, we wrote off \$220,000 of capitalized legal fees on a construction loan for which an individual allowance had already been recorded. Accordingly, these write-offs had no impact on net income.

Table 9: Operating Expenses

(in thousands)						
For the Periods Ended September 30	Q3 2017	Q3 2016	Change (%)	YTD 2017	YTD 2016	Change (%)
Salaries and benefits	\$ 2,777	\$ 2,191	27%	\$ 7,960	\$ 7,277	9%
General and administrative	1,909	2,132	(11%)	5,956	6,215	(4%)
	\$ 4,686	\$ 4,323	8%	\$ 13,916	\$ 13,492	3%

The increase in salaries and benefits is a result of an increase in the number of employees from Q3 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 Q3 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 10: Income Taxes

(in thousands)						
	Q3	Q3	Change	YTD	YTD	Change
For the Periods Ended September 30	2017	2016	(%)	2017	2016	(%)
Current tax provision (recovery)	\$ -	\$ -	-	\$ -	\$ (100)	(100%)
Deferred tax provision (recovery)	(157)	(108)	45%	90	(298)	(130%)
	\$ (157)	\$ (108)	45%	\$ 90	\$ (398)	(123%)

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

As at September 30, 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 (June 30, 2017 - \$11 million), the benefit of which is not reflected in deferred taxes. 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 11: Taxable Income Reconciliation ¹

(in thousands)					
	Q3	Q3	YTD	YTD	
For the Periods Ended September 30	2017	2016	2017	2016	
Net income for accounting purposes	\$ 9,918	\$ 9,775	\$ 29,121	\$ 31,182	
Adjustments:					
Taxable income from MCAP	(952)	(4,299)	(1,258)	(8,570)	
Equity income from subsidiaries ²	(557)	822	(1,953)	(1,223)	
Provision for (recovery of) credit losses ²	(264)	(267)	(155)	199	
Amortization of upfront securitization program costs ³	1,711	1,582	5,058	4,686	
Securitization program mortgage origination costs ³	(310)	(858)	(1,522)	(2,628)	
CMB program multi family gain on sale adjustment ⁴	73	(852)	218	(1,530)	
Other securitization program cash outflows	(346)	(105)	(995)	(131)	
Return of capital on marketable securities ⁷	(292)	(388)	(905)	(1,082)	
Gain on dilution of investment in MCAP ²	-	-	(91)	-	
Gain on partial sale of MCAP ⁵	-	-	(248)	-	
Reorganization of investment in XMC ⁶	-	-	-	4,017	
Other items	(471)	(157)	(26)	(138)	
Taxable Income	\$ 8,510	\$ 5,253	\$ 27,244	\$ 24,782	

¹ Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.

² Not deductible/recognizable in the calculation of taxable income. Individual mortgage allowances are 90% deductible for tax purposes.

³ Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes, however amortization is added back in calculation of taxable income.

⁴ This adjustment reverses the recognition of the non-cash component of the upfront accounting gain and accounts for spread income collected for tax purposes.

⁵ For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.

⁶ In Q2 2017, we officially finalized the transfer value for tax purposes relating to the Q1 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, YTD 2016 taxable income has been retroactively restated from \$20.8 million to \$24.8 million.

⁷ Represents a separate deduction for tax purposes only.

The increase in taxable income in Q3 2017 is primarily due to an increase in taxable income from MCAP to \$2.3 million in Q3 2017 from a loss for tax purposes of \$1.0 million in Q3 2016. Although the net impact of MCAP's fair value adjustments and hedging activities for accounting purposes was insignificant in both periods, MCAP recognized higher realized hedge gains in Q3 2017 (compared to minimal losses in Q3 2016), which are reflected in taxable income and led to the significant increase from Q3 2016. Since fair value adjustments are non-taxable, these losses did not impact taxable income.

During Q3 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.

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 Q3 2017, we incurred \$0.3 million of origination costs on securitized mortgages, including market MBS held by MCAN (Q3 2016 - \$0.9 million). As at September 30, 2017, the unamortized origination fee balance was \$12.9 million (June 30, 2017 - \$14.0 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 fourth quarter dividend which is to be paid on January 2, 2018 to shareholders of record as of December 15, 2017.

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.

Table 12: Quarterly Net Income

(in thousands except per share amounts and %)				
For the Quarters Ended	September 30 2017	June 30 2017	Change from Prior Quarter (\$)(%)	
Net Investment Income - Corporate Assets				
Mortgage interest	\$ 11,973	\$ 12,058	\$ (85)	(1%)
Equity income from MCAP Commercial LP	3,260	3,818	(558)	(15%)
Fees	360	337	23	7%
Marketable securities	928	1,094	(166)	(15%)
Financial investments and other loans	2,327	911	1,416	155%
Interest on cash and cash equivalents	264	141	123	87%
	19,112	18,359	753	4%
Term deposit interest and expenses	5,447	5,136	311	6%
Mortgage expenses	972	995	(23)	(2%)
Interest on loans payable	-	4	(4)	(100%)
Provision for (recovery of) credit losses	(220)	46	(266)	(578%)
	6,199	6,181	18	0%
	12,913	12,178	735	6%
Net Investment Income - Securitization Assets				
Mortgage interest	6,784	7,020	(236)	(3%)
Other securitization income	66	37	29	78%
	6,850	7,057	(207)	(3%)
Interest on financial liabilities from securitization	4,780	5,148	(368)	(7%)
Mortgage expenses	536	537	(1)	(0%)
	5,316	5,685	(369)	(6%)
	1,534	1,372	162	12%
Operating Expenses				
Salaries and benefits	2,777	2,589	188	7%
General and administrative	1,909	2,024	(115)	(6%)
	4,686	4,613	73	2%
Net Income Before Income Taxes	9,761	8,937	824	9%
Provision for (recovery of) income taxes	(157)	(1)	(156)	15,600%
Net Income	\$ 9,918	\$ 8,938	\$ 980	11%
Basic and diluted earnings per share	\$ 0.42	\$ 0.39	\$ 0.03	8%
Dividends per share	\$ 0.32	\$ 0.32	\$ -	-

Q3 2017 vs. Q2 2017

Net Investment Income - Corporate Assets

Table 13: Interest Income and Average Rate by Mortgage Portfolio

For the Quarters Ended	September 30, 2017			June 30, 2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 211,218	\$ 2,386	4.52%	\$ 225,513	\$ 2,544	4.51%
- Insured	81,821	694	3.40%	81,653	742	3.63%
- Uninsured - completed inventory	63,510	872	5.45%	41,401	507	4.90%
Construction loans						
- Residential	399,689	5,550	5.51%	400,166	5,542	5.55%
- Non residential	7,200	96	5.29%	7,188	93	5.18%
Commercial loans						
- Multi family residential	44,999	527	4.64%	45,475	504	4.44%
- Other commercial	99,798	1,848	7.36%	112,564	2,126	7.58%
Mortgages - corporate portfolio	\$ 908,235	\$ 11,973	5.25%	\$ 913,960	\$ 12,058	5.28%
Term deposits	893,865	5,447	2.25%	872,198	5,136	2.21%
Spread of mortgages over term deposits			3.00%			3.07%
Mortgages - securitized portfolio	\$ 1,028,172	\$ 6,784	2.63%	\$ 1,057,298	\$ 7,020	2.67%
Financial liabilities from securitization	1,042,893	4,780	1.83%	1,071,719	5,183	1.93%
Spread of mortgages over liabilities			0.80%			0.74%

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 quarters ended September 30, 2017 and June 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.

Activity in Q2 2017 included \$0.3 million of non-recurring discount income earned on the payout of a residential construction loan. Excluding this discount income, the Q2 2017 construction portfolio average yield was 5.21% and the corporate portfolio average yield was 5.13%. As discussed earlier, the two 0.25% increases in the prime rate that occurred during Q3 2017 contributed approximately 0.27% and 0.17%, respectively, to the average interest rate for the construction and total corporate portfolios.

The average corporate portfolio balance was consistent with Q2 2017. Activity in the construction, commercial and completed inventory portfolios has largely offset the continued decline in the uninsured single family portfolio. For further analysis of individual mortgage categories, please refer to the "Mortgage Interest Income" sub-section of the "Net Investment Income - Corporate Assets" section of this MD&A.

The decrease in equity income from MCAP from Q2 2017 is largely due to the seasonal nature of MCAP's business. For further information, refer to the "Net Investment Income - Corporate Assets" section of this MD&A.

In Q3 2017, income from financial investments and other loans included \$1.3 million of income realized on the receipt of a distribution from our investment in Crown LP compared to \$0.2 million in Q2 2017, which was offset by a corresponding reduction to accumulated other comprehensive income. Distributions from Crown LP do not occur on a regular basis, therefore income from this investment can be volatile.

Net Investment Income - Securitization Assets

The increase in the net spread of securitized mortgages over liabilities in Q3 2017 is primarily due to higher penalty income earned in the quarter.

Operating Expenses and Income Taxes

For further analysis of operating expenses, refer to the “Operating Expenses” sub-section of the “Results of Operations” section of this MD&A.

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

Cash Flows

Operating activities provided cash flows of \$4 million in 2017 and provided \$22 million in 2016. In 2017, net outflows related to term deposits and financial liabilities from securitization were higher, partially offset by higher mortgage inflows.

Investing activities provided cash flows of \$5 million in 2017 and provided \$5 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 14: Assets**

(in thousands except %)					
As at	September 30 2017	June 30 2017	December 31 2016	Change from Prior Quarter (\$)	(%)
Corporate Assets					
Cash and cash equivalents	\$ 97,202	\$ 108,548	\$ 111,732	\$ (11,346)	(10%)
Marketable securities	57,792	58,497	55,126	(705)	(1%)
Mortgages	867,069	911,744	904,112	(44,675)	(5%)
Financial investments	60,603	57,346	57,264	3,257	6%
Other loans	2,829	3,627	3,584	(798)	(22%)
Equity investment in MCAP Commercial LP	55,022	53,348	50,805	1,674	3%
Foreclosed real estate	435	435	529	-	-
Deferred tax asset	2,381	2,105	1,782	276	13%
Other assets	4,211	5,139	3,546	(928)	(18%)
	1,147,544	1,200,789	1,188,480	(53,245)	(4%)
Securitization Assets					
Cash held in trust	17,240	19,822	15,724	(2,582)	(13%)
Mortgages	1,026,657	1,052,071	1,071,849	(25,414)	(2%)
Other assets	4,347	4,602	4,802	(255)	(6%)
	1,048,244	1,076,495	1,092,375	(28,251)	(3%)
	\$ 2,195,788	\$ 2,277,284	\$ 2,280,855	\$ (81,496)	(4%)

Mortgages - Corporate & Securitized

Table 15: Mortgage Summary

(in thousands)					
As at	September 30 2017	June 30 2017	December 31 2016	Change from Prior Quarter (\$)(%)	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 198,210	\$ 211,941	\$ 248,065	\$ (13,731)	(6%)
- Insured	81,639	86,113	108,334	(4,474)	(5%)
- Uninsured - completed inventory	60,540	60,357	18,162	183	-
Construction loans					
- Residential	383,720	402,316	379,212	(18,596)	(5%)
- Non-residential	7,183	7,191	7,851	(8)	-
Commercial loans					
- Multi family residential	44,783	44,713	34,521	70	-
- Other commercial	90,994	99,113	107,967	(8,119)	(8%)
	867,069	911,744	904,112	(44,675)	(5%)
Securitized portfolio:					
Single family insured - Market MBS program	895,677	917,762	971,548	(22,085)	(2%)
Single family insured - CMB program	130,980	134,309	100,301	(3,329)	(2%)
	1,026,657	1,052,071	1,071,849	(25,414)	(2%)
	\$ 1,893,726	\$ 1,963,815	\$ 1,975,961	\$ (70,089)	(4%)

Corporate and Securitized Mortgage Portfolio Analysis

Q3 2017 Summary

We continue to lend to experienced builders in market segments where the cost to build has not followed real estate appreciation. Construction lending is based on specific conditions required prior to funding, which act as a risk mitigant given other concerns in the real estate market. In the first half of both 2017 and 2016 we experienced seasonal growth in the portfolio. We continue to focus on growing the construction, commercial and completed inventory portfolios given their differing risk profiles from single family, while earning appropriate risk-adjusted returns.

The uninsured single family portfolio has decreased steadily since 2016. Given the significant increase in valuations in the single family market segment since 2016, especially the Greater Toronto Area, we continue to take a more defensive approach to origination and have maintained conservative underwriting and credit standards. OSFI finalized significant regulatory changes to single family mortgage underwriting practices subsequent to quarter end. We expect that our existing underwriting standards will align with the new B-20 guidelines. The new B-20 guidelines also require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect this stress test to cause a small decrease in 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 the upcoming year.

The insured single family portfolio has also decreased in recent quarters. Mortgages in this 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)

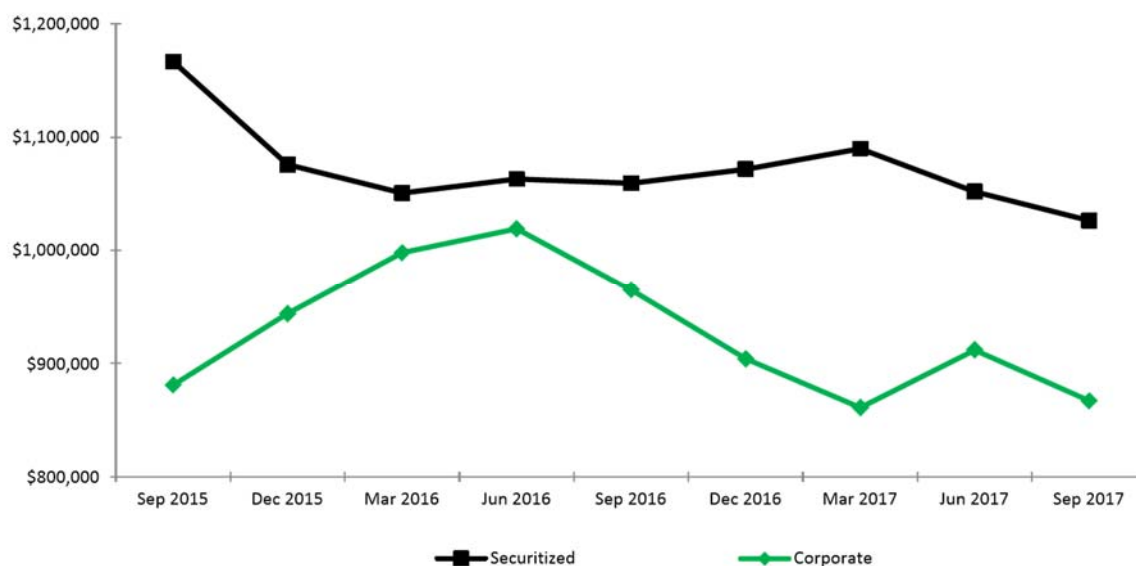
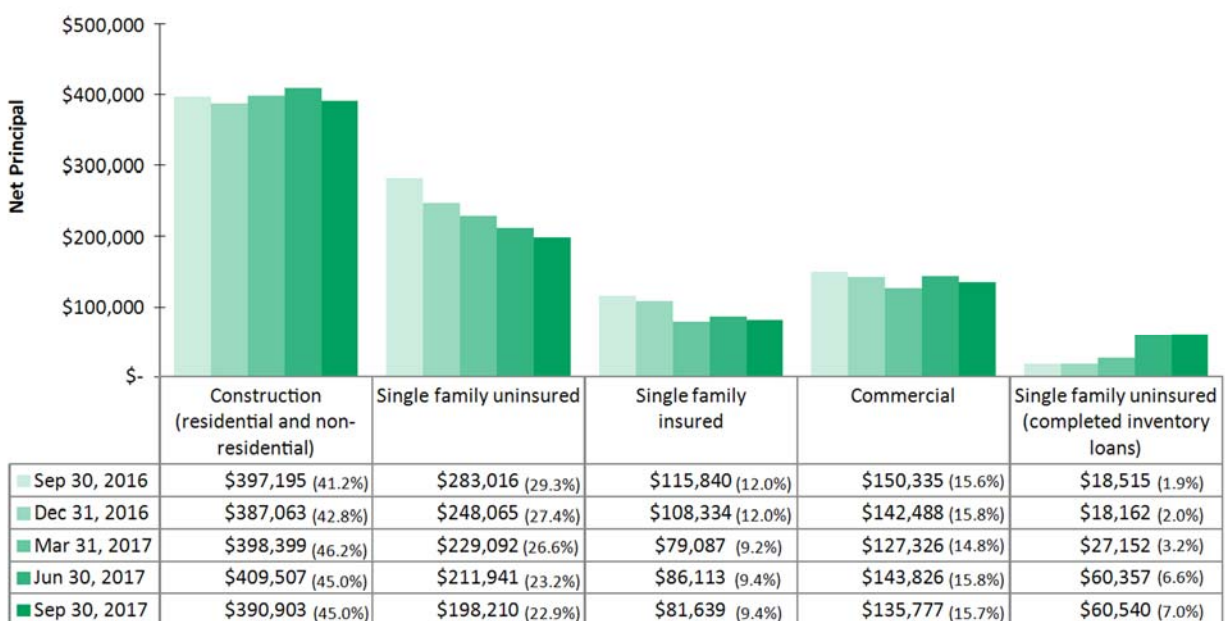
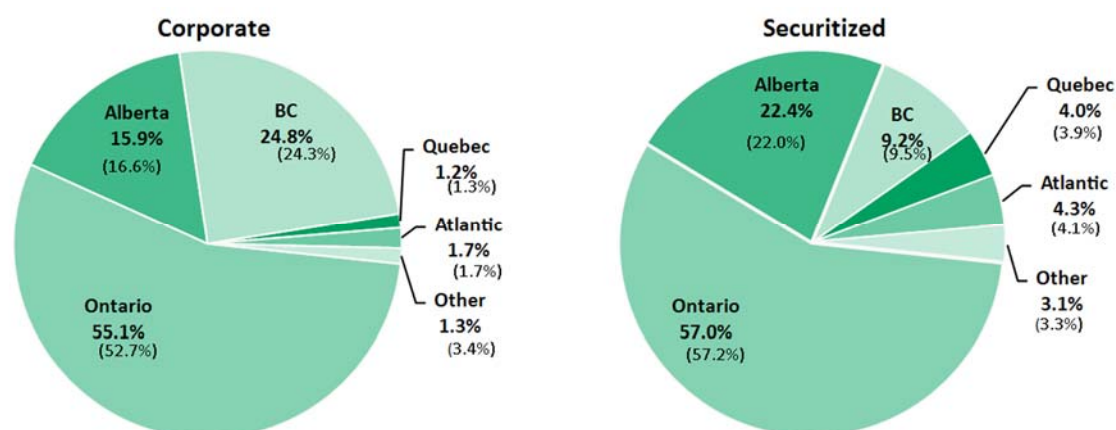


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



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 September 30, 2017 (June 30, 2017)



Since 2016, we have focused on reducing our exposure to Alberta in the corporate mortgage portfolio while increasing exposure to Ontario and British Columbia. The Alberta component of the corporate portfolio has decreased from 20.0% to 15.9% during this time, while the combined Ontario and British Columbia component has increased from 72.1% to 79.9%. The Alberta decrease is consistent with slowing housing markets in that province.

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.

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 may 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 a loan term of approximately 24 months. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

Commercial loans

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

Other items

During Q3 2017, the interior of British Columbia sustained considerable damage from wildfires. To date, we have not identified any MCAN borrowers with outstanding on-balance sheet or off-balance sheet mortgages that have been impacted by the fires, nor have the fires had a material impact on MCAN’s net income or financial position.

In 2016, the Canadian mortgage industry experienced an increase in the awareness of falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed this activity in our own underwriting processes.

In response, we have enhanced and continue to enhance our underwriting processes, including engaging independent third party consultants to assist us.

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

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 September 30, 2017, we had the renewal rights to \$953 million of single family mortgages (June 30, 2017 - \$994 million). The majority of these renewal rights relate to mortgages held on the consolidated balance sheet as corporate or securitized mortgages, while \$66 million relates to off-balance sheet mortgages sold to third parties on a whole loan basis (June 30, 2017 - \$87 million).

Arrears and Impaired Mortgages

Table 16: Arrears and Impaired Mortgages

(in thousands except %)				
As at	September 30 2017	June 30 2017	Change (%)	December 31 2016
Corporate impaired mortgages				
Single family - uninsured	\$ 2,675	\$ 2,428	10%	\$ 2,759
Single family - insured	622	1,881	(67%)	1,118
	3,297	4,309	(24%)	3,877
Securitized impaired mortgages	185	87	113%	587
Total impaired mortgages	\$ 3,482	\$ 4,396	(21%)	\$ 4,464
Impaired mortgage ratio (total) ¹	0.14%	0.12%	0.02%	0.14%
Impaired mortgage ratio (corporate) ¹	0.31%	0.27%	0.04%	0.31%
Total corporate mortgage arrears ¹				
Single family - uninsured	\$ 7,399	\$ 7,465	(1%)	\$ 8,878
Single family - insured	3,918	3,802	3%	4,163
	11,317	11,267	0%	13,041
Total securitized mortgage arrears ¹	7,782	10,414	(25%)	13,609
Total mortgage arrears ¹	\$ 19,099	\$ 21,681	(12%)	\$ 26,650
Collective allowance	\$ 4,744	\$ 5,008	(5%)	\$ 4,859
Individual allowance	52	46	13%	390
Total allowance	\$ 4,796	\$ 5,054	(5%)	\$ 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 will closely monitor our mortgage portfolio for early indicators of potential performance concerns.

During Q2 2017, a land developer in Western Canada filed for CCAA protection. We have \$14.7 million of outstanding mortgages from the borrower legal entity that are not in arrears as at September 30, 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.

As at June 30, 2017, we had two outstanding Saskatchewan-based loans from a single borrowing group totalling \$19 million that were previously in arrears, but were current as at that date. These borrowers had previously filed for protection under the CCAA and were in default, however our interest in the loans had been paid current by a subordinated lender in the loans. These loans were subsequently paid out in full in Q3 2017 with no loss of principal or interest.

Figure 4: Impaired Corporate Mortgage Ratio

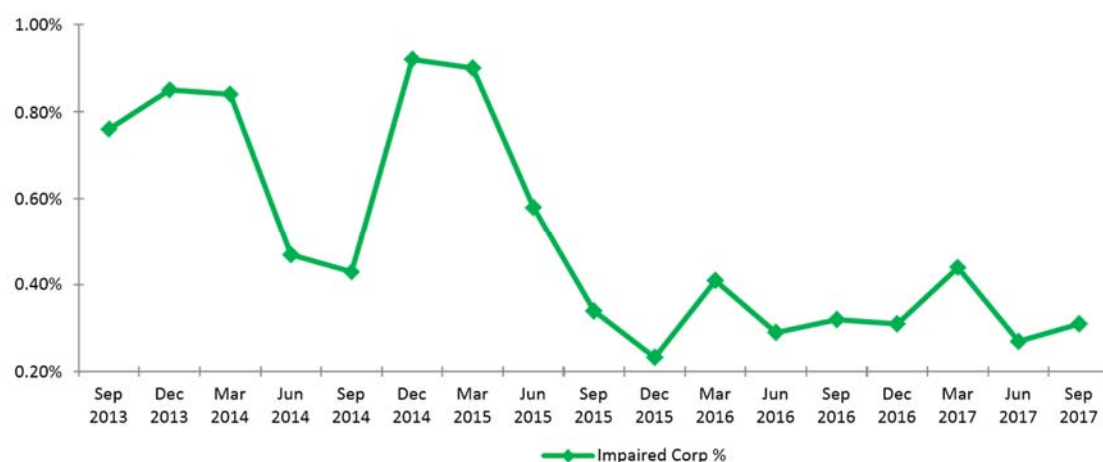


Table 17: Mortgage Originations

(in thousands)					
	Q3	Q3	Q2	YTD	YTD
For the Periods Ended September 30	2017	2016	2017	2017	2016
Single family - insured	\$ 13,888	\$ 46,932	\$ 7,754	\$ 31,705	\$ 100,346
Single family - uninsured	10,837	4,664	6,166	23,563	16,995
Single family - uninsured completed inventory	9,000	3,263	-	9,000	17,214
Residential construction	14,772	4,589	47,564	102,004	56,711
Non-residential construction	-	-	-	-	638
Commercial	-	15,804	32,639	35,869	63,569
	\$ 48,497	\$ 75,252	\$ 94,123	\$ 202,141	\$ 255,473

New uninsured single family origination volumes have increased modestly for 2017 year to date. Given the significant increase in valuations in the single family market segment since 2016, especially the Greater Toronto Area, we continue to take a defensive approach to origination and have maintained conservative 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.

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.

Subsequent to quarter end, OSFI announced the finalization of significant changes to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*. We expect that our existing underwriting standards will align with the new B-20 guidelines. The new B-20 guidelines also require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect this stress test to have a small decrease in 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 on both a quarterly and year to date basis as we have put more focus on these portfolios.

Table 18: Average Mortgage Loan to Value (LTV) Ratios

As at	September 30 2017	June 30 2017	December 31 2016
Corporate portfolio:			
Single family mortgages			
- Uninsured	68.5%	71.2%	72.2%
- Uninsured completed inventory	63.6%	60.7%	63.8%
- Insured	79.3%	78.4%	77.9%
Construction loans			
- Residential	62.5%	61.3%	58.8%
- Non-residential	59.0%	59.0%	58.4%
Commercial loans			
- Multi family residential	69.5%	69.5%	70.2%
- Other commercial	63.5%	64.3%	66.3%
	66.0%	65.9%	66.2%
Securitized portfolio:			
Single family insured - Market MBS Program	85.9%	86.0%	86.2%
Single family insured - CMB Program	81.8%	81.5%	83.1%
	85.4%	85.5%	85.9%
	76.4%	76.3%	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 19: Single Family Mortgages by Province as at September 30, 2017

(in thousands except %)											
	Corporate						Securitized				
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%	
Ontario	\$ 46,635	57.4%	\$ 163,522	63.2%	\$ 121	67.2%	\$ 585,007	57.0%	\$ 795,285	58.2%	
Alberta	16,206	19.9%	51,359	19.8%	48	26.7%	230,338	22.4%	297,951	21.8%	
British Columbia	3,132	3.8%	26,461	10.2%	11	6.1%	94,665	9.2%	124,269	9.1%	
Quebec	5,398	6.6%	5,067	2.0%	-	-	40,620	4.0%	51,085	3.7%	
Atlantic Provinces	8,177	10.0%	6,966	2.7%	-	-	43,749	4.3%	58,892	4.3%	
Other	1,911	2.3%	5,375	2.1%	-	-	32,278	3.1%	39,564	2.9%	
Total	\$ 81,459	100.0%	\$ 258,750	100.0%	\$ 180	100.0%	\$ 1,026,657	100.0%	\$ 1,367,046	100.0%	

Table 20: Single Family Mortgages by Province as at June 30, 2017

(in thousands except %)											
	Corporate						Securitized				
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%	
Ontario	\$ 47,622	55.6%	\$ 165,037	60.6%	\$ 184	68.9%	\$ 601,920	57.3%	\$ 814,763	57.7%	
Alberta	17,425	20.3%	53,203	19.5%	49	18.4%	231,882	22.0%	302,559	21.5%	
British Columbia	3,637	4.2%	26,903	9.9%	34	12.7%	100,215	9.5%	130,789	9.3%	
Quebec	6,108	7.1%	5,376	2.0%	-	-	41,305	3.9%	52,789	3.7%	
Atlantic Provinces	8,798	10.2%	7,150	2.6%	-	-	42,846	4.1%	58,794	4.2%	
Other	2,256	2.6%	14,629	5.4%	-	-	33,903	3.2%	50,788	3.6%	
Total	\$ 85,846	100.0%	\$ 272,298	100.0%	\$ 267	100.0%	\$ 1,052,071	100.0%	\$ 1,410,482	100.0%	

Table 21: Single Family Mortgages by Amortization Period as at September 30, 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	\$ 106,099	31.2%	\$ 70,181	20.6%	\$ 160,175	47.1%	\$ 3,934	1.1%	\$ -	-	\$ 340,389
Securitized	\$ 199,234	19.4%	\$ 513,943	50.1%	\$ 231,644	22.6%	\$ 81,493	7.9%	\$ 343	-	\$ 1,026,657
Total	\$ 305,333	22.3%	\$ 584,124	42.8%	\$ 391,819	28.7%	\$ 85,427	6.2%	\$ 343	-	\$ 1,367,046

Table 22: Single Family Mortgages by Amortization Period as at June 30, 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	\$ 108,700	30.3%	\$ 68,492	19.1%	\$ 175,336	48.9%	\$ 5,883	1.7%	\$ -	-	\$ 358,411
Securitized	\$ 193,701	18.4%	\$ 531,130	50.5%	\$ 240,481	22.9%	\$ 86,415	8.2%	\$ 344	-	\$ 1,052,071
Total	\$ 302,401	21.4%	\$ 599,622	42.6%	\$ 415,817	29.5%	\$ 92,298	6.5%	\$ 344	-	\$ 1,410,482

Table 23: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %)									
For the Periods Ended September 30	Q3 2017		YTD 2017		Q3 2016		YTD 2016		
	Average LTV		Average LTV		Average LTV		Average LTV		
Ontario	\$ 18,919	67.9%	\$ 31,108	68.4%	\$ 2,519	72.5%	\$ 24,563	74.0%	
Alberta	598	80.0%	743	71.1%	3,635	67.1%	5,525	69.3%	
British Columbia	320	75.3%	545	65.1%	1,557	66.7%	3,752	69.3%	
Other	-	-	167	66.8%	216	77.4%	369	69.3%	
Total	\$ 19,837	68.4%	\$ 32,563	68.4%	\$ 7,927	69.0%	\$ 34,209	72.6%	

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 67.4% as at September 30, 2017 (June 30, 2017 - 68.9%). Based on an industry index that incorporates current real estate values, the ratios would be 51.1% and 53.7%, respectively. As noted earlier in this MD&A, we have observed a significant increase in real estate values since 2016 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, decreased by \$11 million in Q3 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”), decreased by \$1 million in Q3 2017, which included a \$0.7 million decrease in the net unrealized gain on the portfolio that was reflected in accumulated other comprehensive income. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets. For further details, refer to the “Liquidity Management” section of this MD&A.

Financial investments

Corporate financial investments include a \$29 million investment in Crown LP, in which we have a 14.1% equity interest (June 30, 2017 - \$31 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 Q3 2017, we recorded a \$0.4 million gross increase in the unrealized gain on the investment (Q3 2016 - \$0.4 million), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. Additionally, we recognized \$1.3 million of gross income from the Crown LP investment in Q3 2017 (Q3 2016 - \$nil), which is reflected in income from financial investments and other loans, with a corresponding deferred tax expense recorded. The recognition of income upon the receipt of partnership distributions from Crown LP is offset by a corresponding reduction to accumulated other comprehensive income.

We hold a \$31 million investment in the KingSett High Yield Fund, in which we have an 8.5% equity interest (June 30, 2017 - \$26 million). The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages and is carried at fair value. As mortgage advances are made by the fund, we advance our proportionate share. The fund pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. Our Q3 2017 return was 12.9% (Q3 2016 - 10.8%). 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.

During Q2 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 KingSett’s High Yield Fund. During Q3 2017, we advanced \$5.1 million with respect to our funding commitment in the High Yield Fund, and subsequent to quarter end we advanced an additional \$1.7 million.

Equity investment in MCAP

We hold a 14.40% equity interest in MCAP, which represents 4.2 million units held by MCAN of the 29.2 million total outstanding MCAP partnership units. During Q3 2017, MCAP redeemed 100,000 partnership units held by another partner in MCAP which increased MCAN’s equity interest in MCAP from 14.35% to 14.40%.

The investment had a net book value of \$55 million as at September 30, 2017 (June 30, 2017 - \$53 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 \$43 million as at September 30, 2017 (June 30, 2017 - \$41 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 \$4.9 billion in Q3 2017 (Q3 2016 - \$4.5 billion). MCAP had \$64.2 billion of assets under administration as at August 31, 2017 (May 31, 2017 - \$62.3 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.

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program and CMB program. During Q3 2017 we recognized \$20 million of new securitized mortgages on our balance sheet through the market MBS program.

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

Table 24: Liabilities and Shareholders' Equity

(in thousands)	September 30	June 30	December 31	Change from Prior Quarter	
As at	2017	2017	2016	(\$)	(%)
Corporate Liabilities					
Term deposits	\$ 869,059	\$ 922,100	\$ 911,866	\$ (53,041)	(6%)
Deferred tax liabilities	3,259	3,262	3,050	(3)	-
Other liabilities	6,110	4,835	12,377	1,275	26%
	878,428	930,197	927,293	(51,769)	(6%)
Securitization Liabilities					
Financial liabilities from securitization	1,027,090	1,058,856	1,071,786	(31,766)	(3%)
	1,027,090	1,058,856	1,071,786	(31,766)	(3%)
	1,905,518	1,989,053	1,999,079	(83,535)	(4%)
Shareholders' Equity					
Share capital	214,664	213,538	210,239	1,126	1%
Contributed surplus	510	510	510	-	-
Retained earnings	63,208	60,748	55,923	2,460	4%
Accumulated other comprehensive income	11,888	13,435	15,104	(1,547)	(12%)
	290,270	288,231	281,776	2,039	1%
	\$ 2,195,788	\$ 2,277,284	\$ 2,280,855	\$ (81,496)	(4%)

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 Q3 2017 consisted of the creation of \$20 million of new liabilities, from our participation in the market MBS program, less \$52 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 Q3 2017 reflects new common shares issued through the Dividend Reinvestment Plan ("DRIP"). For further information, refer to Note 15 to the consolidated financial statements.

Retained earnings activity for Q3 2017 consists of net income of \$9.9 million less dividends of \$7.5 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. Activity in Q3 2017 includes a \$1.3 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 \$0.7 million net decrease in the unrealized gain on the marketable securities portfolio and a \$0.3 million increase in the unrealized gain on financial investments.

SELECTED QUARTERLY FINANCIAL DATA

Table 25: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15
Net investment income - corporate assets	\$ 12,913	\$ 12,178	\$ 12,963	\$ 11,684	\$ 12,396	\$ 16,996	\$ 10,625	\$ 12,602
Other income - corporate assets	-	-	876	-	-	-	-	-
Net investment income - securitization assets	1,534	1,372	1,291	1,519	1,594	1,421	1,244	1,469
	14,447	13,550	15,130	13,203	13,990	18,417	11,869	14,071
Operating expenses	4,686	4,613	4,617	4,471	4,323	4,650	4,519	4,224
Net income before income taxes	9,761	8,937	10,513	8,732	9,667	13,767	7,350	9,847
Provision for (recovery of) income taxes	(157)	(1)	248	(268)	(108)	131	(421)	397
Net income	\$ 9,918	\$ 8,938	\$ 10,265	\$ 9,000	\$ 9,775	\$ 13,636	\$ 7,771	\$ 9,450
Basic and diluted earnings per share	\$ 0.42	\$ 0.39	\$ 0.44	\$ 0.39	\$ 0.43	\$ 0.59	\$ 0.34	\$ 0.42
Dividends per share	\$ 0.32	\$ 0.32	\$ 0.30	\$ 0.30	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.29
Return on average shareholders' equity ¹	13.63%	12.37%	14.37%	12.94%	14.08%	20.10%	11.80%	14.66%
Average mortgage portfolio yield - corporate ¹	5.25%	5.28%	5.12%	4.99%	5.14%	5.21%	5.27%	5.31%
Average term deposit interest rate ¹	2.25%	2.21%	2.20%	2.20%	2.22%	2.22%	2.25%	2.27%
Average mortgage portfolio balance - corporate (\$ million)	\$ 908	\$ 914	\$ 908	\$ 954	\$ 1,008	\$ 1,017	\$ 969	\$ 932
Average mortgage portfolio yield - securitized ¹	2.63%	2.67%	2.61%	2.74%	2.77%	2.73%	2.69%	2.66%
Average financial liability from securitization rate ¹	1.83%	1.93%	1.90%	2.01%	2.05%	2.02%	2.01%	2.01%
Average mortgage portfolio balance - securitized (\$ million)	\$ 1,028	\$ 1,057	\$ 1,052	\$ 1,032	\$ 1,032	\$ 1,028	\$ 1,049	\$ 1,127

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 corporate portfolio balance and interest rate. Additionally, corporate net investment income was impacted by significant distribution income from Crown LP in Q4 2015, Q2 2016 and Q1 2017 and substantial equity income from MCAP in Q2 2016 and Q2 2017.

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 Q3 2017, we pooled and sold \$20 million of MBS to third parties (Q3 2016 - \$17 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 September 30, 2017, we held \$29 million of retained MBS on our balance sheet (June 30, 2017 - \$33 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 did not securitize any insured single family mortgages through the CMB program during Q3 2017 (Q3 2016 - \$22 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.

We did not securitize any insured multi family mortgages during Q3 2017 (Q3 2016 - \$33 million). Upon the securitization of multi family mortgages, we generally achieve derecognition as control over the assets is transferred. In Q3 2016, we recognized an upfront gain of \$0.2 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 26: Income Tax Capital ¹

(in thousands except ratios)			
As at	September 30 2017	June 30 2017	December 31 2016
Income tax assets ¹			
Consolidated assets	\$ 2,195,788	\$ 2,277,284	\$ 2,280,855
Adjustment for assets in subsidiaries	6,375	10,043	6,918
Non-consolidated assets in MIC entity	2,202,163	2,287,327	2,287,773
Add: mortgage allowances	4,742	5,007	4,897
Less: securitization assets ²	(1,042,199)	(1,074,957)	(1,089,358)
Less: equity investments in MCAP and subsidiaries	(35,933)	(36,196)	(37,049)
Other adjustments	(5,953)	(6,358)	(5,605)
	<u>\$ 1,122,820</u>	<u>\$ 1,174,823</u>	<u>\$ 1,160,658</u>
Income tax liabilities ¹			
Consolidated liabilities	\$ 1,905,518	\$ 1,989,053	\$ 1,999,079
Adjustment for liabilities in subsidiaries	(6,778)	(3,491)	(6,500)
Non-consolidated liabilities in MIC entity	1,898,740	1,985,562	1,992,579
Less: securitization liabilities ²	(1,025,622)	(1,057,284)	(1,070,117)
	<u>\$ 873,118</u>	<u>\$ 928,278</u>	<u>\$ 922,462</u>
Income tax capital ¹	<u>\$ 249,702</u>	<u>\$ 246,545</u>	<u>\$ 238,196</u>
Income tax asset capacity ¹	<u>\$ 312,967</u>	<u>\$ 242,811</u>	<u>\$ 208,970</u>
Income tax capital ratios ¹			
Income tax assets to capital ratio	4.50	4.77	4.87
Income tax liabilities to capital ratio	3.50	3.77	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.

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

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

- An explicit requirement that institutions have appropriate policies and procedures in place to originate, underwrite and administer insured single family mortgages so as to receive a 0% risk-weighting for these assets; otherwise they would attract a 35% or 75% risk weighting similar to uninsured single family mortgages. This revision has not impacted the risk-weighting of MCAN’s insured single family mortgage portfolio.
- A revision to the risk-weighting of equity investments in funds. MCAN has adopted the “look through” approach that incorporates the risk-weighting of assets held inside the fund and the leverage used by the fund. This revision has impacted the risk-weighting of the financial investments in Crown LP and the KingSett High Yield Fund and caused decreases in the capital to risk-weighted assets ratios of 2.04% on both the all-in and transitional bases at September 30, 2017. As at June 30, 2017, the impact was a decrease of 0.96%, however a significant increase in the leverage within the KingSett High Yield Fund during Q3 2017 caused this amount to increase significantly.

Additionally, OSFI recently proposed revisions to the CAR Guideline to be effective January 1, 2018 that have not yet been enacted. If enacted, we do not expect any of the proposed revisions to have a material impact on our regulatory capital position.

Table 27: Regulatory Capital

(in thousands except %)			
As at	September 30 2017	June 30 2017	December 31 2016
Regulatory Ratios (OSFI)			
Share capital	\$ 214,664	\$ 213,538	\$ 210,239
Contributed surplus	510	510	510
Retained earnings	63,208	60,748	55,923
Accumulated other comprehensive income	11,888	13,435	15,104
Deduction for equity investment in MCAP (Transitional adjustment) ¹	(20,796)	(19,620)	(13,576)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) ²	\$ 269,474	\$ 268,611	\$ 268,200
Deduction for equity investment in MCAP (All-in adjustment) ¹	(5,199)	(4,905)	(9,051)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) ²	\$ 264,275	\$ 263,706	\$ 259,149
Total Exposures/Regulatory Assets ²			
Consolidated assets	\$ 2,195,788	\$ 2,277,284	\$ 2,280,855
Less: deductions from all-in Tier 1 Capital ¹	(25,995)	(24,525)	(22,627)
Other adjustments ³	2,385	1,393	1,489
Total On-Balance Sheet Exposures	2,172,178	2,254,152	2,259,717
Mortgage and investment funding commitments	295,223	332,374	402,861
Less: conversion to credit equivalent amount (50%)	(147,612)	(166,187)	(201,431)
Letters of credit	34,491	34,727	30,537
Less: conversion to credit equivalent amount (50%)	(17,246)	(17,364)	(15,269)
Total Off-Balance Sheet Items	164,856	183,550	216,698
Total Exposures/Regulatory Assets	\$ 2,337,034	\$ 2,437,702	\$ 2,476,415
Leverage ratio ²	11.31%	10.82%	10.46%
Risk weighted assets (transitional) ²	\$ 1,248,729	\$ 1,238,131	\$ 1,167,226
Risk weighted assets (all-in) ²	\$ 1,238,331	\$ 1,228,321	\$ 1,149,124
Regulatory Capital Ratios ²			
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	21.58%	21.69%	22.98%
Tier 1 capital to risk-weighted assets ratio (transitional)	21.58%	21.69%	22.98%
Total capital to risk-weighted assets ratio (transitional)	21.58%	21.69%	22.98%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	21.34%	21.47%	22.55%
Tier 1 capital to risk-weighted assets ratio (all-in)	21.34%	21.47%	22.55%
Total capital to risk-weighted assets ratio (all-in)	21.34%	21.47%	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 28: Regulatory Risk-Weighted Assets

(in thousands except %)	September 30, 2017			June 30, 2017		
	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
As at						
On-Balance Sheet Assets						
Cash and cash equivalents	\$ 97,202	20%	\$ 19,917	\$ 108,548	20%	\$ 21,988
Cash held in trust	17,240	20%	3,448	19,822	20%	3,964
Marketable securities	57,792	100%	57,792	58,497	100%	58,497
Mortgages - corporate	867,069	76%	659,104	911,744	76%	690,426
Mortgages - securitized	1,026,657	3%	33,131	1,052,071	3%	34,805
Financial investments	60,603	278%	168,519	57,346	191%	109,426
Other loans	2,829	100%	2,829	3,627	100%	3,627
Equity investment in MCAP (all-in) ¹	55,022	53%	29,026	53,348	54%	28,822
Foreclosed real estate	435	100%	435	435	100%	435
Deferred tax asset	2,381	100%	2,381	2,105	100%	2,105
Other assets	8,558	100%	8,558	9,741	100%	9,741
			<u>985,140</u>			<u>963,836</u>
Off-Balance Sheet Items						
Letters of credit	34,491	50%	17,246	34,727	50%	17,364
Commitments	295,223	45%	133,732	332,374	45%	148,633
			<u>150,978</u>			<u>165,997</u>
Charge for operational risk			<u>102,213</u>			<u>98,488</u>
Risk-Weighted Assets (all-in)			1,238,331			1,228,321
Equity investment in MCAP (transitional adjustment) ¹			<u>10,398</u>			<u>9,810</u>
Risk-Weighted Assets (transitional)			\$ 1,248,729			\$ 1,238,131

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

Other Capital Management Activity

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

LIQUIDITY MANAGEMENT

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the 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 22 to the consolidated financial statements.

OSFI's Liquidity Adequacy Requirements ("LAR") guideline establishes three minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metric, which both became effective January 1, 2015, and the Net Stable Funding Ratio ("NSFR"), which is effective January 1, 2019.

As at September 30, 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 September 30, 2017, we were also in compliance with our internal liquidity ratios.

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

The following table shows the composition of our internal liquidity ratios. These internal ratios include assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. We manage our Tier 1 & 2 and Total liquid assets to a minimum of 60% and 100% of term deposit liabilities maturing within 100 days, respectively. The September 30, 2017 ratios decreased as a result of normalizing liquidity levels in Q3 2017 from the higher liquidity levels in Q2 2017 given the liquidity issues in the market at that time.

Table 29: Liquidity Ratios

(in thousands except %)				
As at	September 30 2017	June 30 2017	December 31 2016	
Tier 1 liquid assets ¹				
Cash and cash equivalents	\$ 97,202	\$ 108,548	\$ 111,732	
Tier 2 liquid assets ¹				
Marketable securities	57,792	58,497	55,126	
Less: marketable securities adjustment ²	(13,314)	(12,824)	(13,007)	
Market MBS retained by MCAN ³	29,469	33,281	36,606	
	73,947	78,954	78,725	
Tier 3 liquid assets ¹				
Single family insured mortgages ⁴	51,711	52,352	69,899	
Less: single family insured mortgages adjustment ⁴	(17,276)	(17,259)	(24,293)	
	34,435	35,093	45,606	
Total liquid assets ¹	\$ 205,584	\$ 222,595	\$ 236,063	
100 day term deposit maturities	\$ 124,672	\$ 100,439	\$ 130,357	
Liquidity ratios ¹				
Tier 1 & 2 liquid assets to 100 day term deposit maturities	137%	187%	146%	
Total liquid assets to 100 day term deposit maturities	165%	222%	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 30: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	September 30 2017	June 30 2017
Sources of liquidity							
Cash and cash equivalents	\$ 97,202	\$ -	\$ -	\$ -	\$ -	\$ 97,202	\$ 108,548
Marketable securities	57,166	516	83	-	27	57,792	58,497
Mortgages - corporate	189,896	391,560	253,595	30,459	1,559	867,069	911,744
Financial investments	-	-	-	-	60,603	60,603	57,346
Other loans	1,211	-	-	1,618	-	2,829	3,627
	345,475	392,076	253,678	32,077	62,189	1,085,495	1,139,762
Uses of liquidity							
Term deposits	114,423	298,783	306,357	149,496	-	869,059	922,100
Other liabilities	6,110	-	-	-	-	6,110	4,835
	120,533	298,783	306,357	149,496	-	875,169	926,935
Net liquidity surplus (deficit)	\$ 224,942	\$ 93,293	\$ (52,679)	\$ (117,419)	\$ 62,189	\$ 210,326	\$ 212,827
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 86,720	\$ 94,137	\$ 82,483	\$ -	\$ -	\$ 263,340	\$ 295,429
Commitment - KingSett High Yield Fund	-	-	-	-	31,883	31,883	36,945
	\$ 86,720	\$ 94,137	\$ 82,483	\$ -	\$ 31,883	\$ 295,223	\$ 332,374

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

RISK GOVERNANCE AND MANAGEMENT

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

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

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

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

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

Liquidity and Funding Risk

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

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

Reputational Risk

Reputational risk is the negative consequence of the occurrence of other risks and can occur from an activity undertaken by the Company, its affiliated companies, or its representatives. The loss of reputation can greatly affect shareholder value through reduced public confidence, a loss of business, legal action, or increased regulatory oversight. Reputation refers to the perception of the enterprise by various stakeholders. Typically, key stakeholder groups include investors, customers, 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 reputation risk can result in reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

Strategic and Business Risk

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

Operational Risk

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

Outsourcing Risk

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

Risk of Accuracy and Completeness of Borrower Information

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

Cyber Risk

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

Credit Risk

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

Interest Rate Risk

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

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

Market Risk

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

Risk Management

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At September 30, 2017, there were 23,377,785 common shares outstanding (June 30, 2017 - 23,303,289). As at November 10, 2017, there were 23,377,785 common shares outstanding.

During Q3 2017, we issued 74,496 new common shares under the DRIP (Q3 2016 - 66,897), 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 Q3 2016, we issued 12,418 common shares through the Executive Share Purchase Plan.

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

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KingSett High Yield Fund. Although the future funding commitment for our investment in the KingSett High Yield fund is displayed in the over five year category in the table below, 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 31: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	September 30 2017	June 30 2017
Mortgage funding commitments	\$ 180,857	\$ 82,483	\$ -	\$ -	\$ 263,340	\$ 295,429
Commitment - KingSett High Yield Fund	-	-	-	31,883	31,883	36,945
Operating lease	836	1,704	1,735	4,520	8,795	8,937
	\$ 181,693	\$ 84,187	\$ 1,735	\$ 36,403	\$ 304,018	\$ 341,311

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

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

As at September 30, 2017, of our total single family mortgage renewal rights of \$953 million (June 30, 2017 - \$994 million), \$66 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (June 30, 2017 - \$87 million).

DIVIDENDS

The Board declared an increase to the quarterly dividend from \$0.32 per share to \$0.37 per share, effective with the 2017 fourth quarter dividend to be paid on January 2, 2018 to shareholders of record as of December 15, 2017.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended September 30, 2017 and September 30, 2016 and related party balances as at September 30, 2017 are discussed in Note 20 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

As at September 30, 2017, we had 69 employees.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

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

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups). There have been no recent changes to the methodology, nor are any expected in the foreseeable future prior to the adoption of IFRS 9 on January 1, 2018. No trends, events or uncertainties exist that may affect the methodology and assumptions used.

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

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

Mortgage prepayment rates

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

Taxes

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

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

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

Impairment of financial assets

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

Critical Accounting Judgments

Going concern

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

Significant influence

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

Taxes

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9, Financial Instruments

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

Project Plan/Implementation

We have established an IFRS 9 Committee which includes representatives of finance, risk and other executives. The Committee is responsible for the overall implementation of IFRS 9, ensuring proper integration throughout the Company and providing review and approval of key decisions. The IFRS 9 Committee provides periodic reporting on the status of the implementation plan to the Audit Committee of the Board. We are currently finalizing our analysis of the impact of the IFRS 9 changes on our consolidated financial statements and will continue to provide details as the project progresses.

Impairment

IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets, with the most significant impact on the Company's mortgage portfolio. The new ECL model will result in a general allowance being recorded on financial assets regardless of whether there has been an actual loss event. IFRS 9 requires the ECL model to consider past events, current market conditions and reasonable supportable information about future economic conditions (through the use of multiple probability-

weighted scenarios) in determining whether there has been a significant increase in credit risk (“SICR”) since origination, and in calculating the amount of ECL. Additionally, IFRS 9 requires us to apply expert credit judgement in calculating ECL.

The expected credit loss model requires the recognition of 12-month ECL at origination and the recognition of lifetime ECL on financial assets that have experienced an SICR since origination. Financial assets are also classified into one of three “stages”, as follows:

- Stage 1: Financial instruments that are not credit impaired and have not experienced an SICR since origination; 12 months of ECL are recognized as general allowance.
- Stage 2: Financial instruments that are not credit impaired and have experienced an SICR since origination; lifetime ECL is recognized as general allowance.
- Stage 3: Financial instruments that have objective evidence of credit impairment; lifetime ECL is recognized as specific allowance.

We are currently finalizing our IFRS 9 ECL models and the quantification of the impact on our general allowance.

Classification and Measurement

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

Hedge Accounting

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

IFRS 15, Revenue from Contracts with Customers

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

IFRS 16, Leases

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

IFRS 2, Share-based Payment Transactions

In June 2016, the IASB issued amendments to IFRS 2, which clarify how to classify and measure certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018 and can be applied prospectively. We are currently finalizing our analysis of the impact of IFRS 2 on our consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, the Company shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This interpretation is effective for annual periods beginning on or after January 1, 2019. We have not yet determined the impact of this interpretation on our consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at September 30, 2017, the CEO and CFO of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations," Part 4.3 (3) (a).

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

The Company is in compliance with the interim Management's Discussion and Analysis of Operations requirements set out by National Instrument 51-102.

NON IFRS MEASURES

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

Return on Average Shareholders' Equity

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

Taxable Income Measures

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

Average Interest Rate

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

Net Interest Income

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

Impaired Mortgage Ratios

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

Mortgage Arrears

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

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple and Risk Weighted Assets

These measures provided in this MD&A are in accordance with guidelines issued by OSFI and are located on Table 33 of this MD&A and Note 24 to the consolidated financial statements.

Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios

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

Income Tax Capital Measures

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

Market Capitalization

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

Book Value per Common Share

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

Limited Partner's At-Risk Amount

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