MCAN MORTGAGE CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes as at December 31, 2015 and December 31, 2014 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and presented in Canadian currency. This MD&A has been presented as at February 25, 2016.

Additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including copies of our continuous disclosure materials such as the Annual Information Form, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

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

ACRONYMS

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

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2015	2014	2013 [3]	Change from 2014 ($)	Change from 2014 (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 42,741	$ 39,151	$ 39,187	$ 3,590	9.2%
Other income - corporate assets	68	782	5,363	(714)	(91.3%)
Net investment income - securitization assets before fair value adjustment	4,538	1,282	(90)	3,256	254.0%
Fair value adjustment	(71)	(1,376)	(3,218)	1,305	(94.8%)
Net investment income - securitization assets	4,467	(94)	(3,308)	4,561	(4,852.1%)
Operating expenses	14,508	13,383	11,290	1,125	8.4%
Net income before income taxes	32,768	26,456	29,952	6,312	23.9%
Provision for (recovery of) income taxes	(89)	1,010	(853)	(1,099)	(108.8%)
Net income	$ 32,857	$ 25,446	$ 30,805	$ 7,411	29.1%
Basic and diluted earnings per share	$ 1.51	$ 1.23	$ 1.57	$ 0.28	22.8%
Dividends per share	$ 1.13	$ 1.12	$ 1.15	$ 0.01	0.9%
Taxable income per share [1]	$ 0.90	$ 0.86	$ 0.78	$ 0.04	4.5%
Return on average shareholders' equity [1]	13.45%	11.50%	15.84%		1.95%
Yields					
Average mortgage portfolio yield - corporate [2]	5.35%	5.62%	5.80%		(0.27%)
Term deposit average interest rate [2]	2.34%	2.46%	2.46%		(0.12%)
Average mortgage portfolio yield - securitized [2]	2.71%	2.90%	3.62%		(0.19%)
Financial liabilities from securitization - average interest rate [2]	2.07%	2.37%	3.03%		(0.30%)

[1] Refer to the “Non-IFRS Measures” section of this MD&A for a definition of these measures.
[2] Refer to “Average Interest Rate” in the “Non-IFRS Measures” section of this MD&A for a definition of this measure.
[3] 2013 financial information only includes six months of the consolidation of Xceed operations as the acquisition did not occur until the third quarter of 2013.

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)				Change from 2014	
As at December 31	2015	2014	2013	($)	(%)
Balance Sheet Highlights					
Assets					
Corporate	$ 1,155,046	$ 1,045,352	$ 1,027,176	$ 109,694	10.5%
Securitization	1,091,912	760,366	1,066,128	331,546	43.6%
Total assets	$ 2,246,958	$ 1,805,718	$ 2,093,304	$ 441,240	24.4%
Mortgages - corporate	$ 944,109	$ 895,467	$ 868,833	$ 48,642	5.4%
Mortgages - securitized	$ 1,075,947	$ 741,184	$ 585,196	$ 334,763	45.2%
Liabilities					
Corporate	$ 917,852	$ 834,310	$ 821,396	$ 83,542	10.0%
Securitization	1,070,304	746,105	1,057,008	324,199	43.5%
Total liabilities	$ 1,988,156	$ 1,580,415	$ 1,878,404	$ 407,741	25.8%
Shareholders' equity	$ 258,802	$ 225,303	$ 214,900	$ 33,499	14.9%
Capital Ratios [1]					
Income Tax Assets to Capital Ratio	5.11	5.05	5.35		1.2%
Common Equity Tier 1 Capital Ratio (transitional)	23.64%	23.37%	21.36%		0.27%
Common Equity Tier 1 Capital Ratio (all-in)	23.08%	22.62%	20.31%		0.46%
Tier 1 Capital Ratio (transitional)	23.64%	23.37%	21.36%		0.27%
Tier 1 Capital Ratio (all-in)	23.08%	22.62%	20.31%		0.46%
Total Capital Ratio (transitional)	23.64%	23.37%	21.36%		0.27%
Total Capital Ratio (all-in)	23.08%	22.62%	20.31%		0.46%
Leverage ratio [2]	9.96%	n/a	n/a		n/a
Assets to Capital Multiple [2]	n/a	8.14	5.80		n/a
Credit Quality					
Impaired mortgage ratio (total) [1]	0.11%	0.50%	0.51%		(0.39%)
Impaired mortgage ratio (corporate) [1]	0.23%	0.92%	0.84%		(0.69%)
Total mortgage arrears	$ 34,250	$ 38,405	$ 38,456	$ (4,155)	(10.8%)
Common Share Information (end of period)					
Number of common shares outstanding	22,782	20,808	20,461		9.5%
Book value per common share [1]	$ 11.36	$ 10.83	$ 10.50	$ 0.53	4.9%
Common share price - close	$ 12.14	$ 14.40	$ 13.00	$ (2.26)	(15.7%)
Market capitalization [1]	$ 276,573	$ 299,635	$ 265,993	$ (23,062)	(7.7%)

[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 for which derecognition has not been achieved are included in regulatory assets in the leverage ratio and assets to capital multiple. The leverage ratio replaced the assets to capital multiple effective January 1, 2015 such that the leverage ratio is n/a for 2013 and 2014 and the assets to capital multiple is n/a for 2015. For further information, refer to the "Capital Management" section of this MD&A.*

HIGHLIGHTS

Income Statement

- We earned record net income of $32.9 million in 2015, an increase of $7.4 million (29%) from $25.4 million in 2014.
- Earnings per share increased by $0.28 (23%) to $1.51 from $1.23.
- Return on average shareholders' equity[1] increased by 17% to 13.45% from 11.50%.
- Corporate spread income (mortgage interest less term deposit interest expense) up slightly to $30.3 million in 2015 from $29.7 million in 2014.
- $4.6 million increase in securitization income due to 151% growth in our market mortgage-backed securities ("MBS") program mortgage average portfolio balance.
- $3.9 million increase in income from our equity investment in MCAP Commercial LP ("MCAP").

Corporate Activity

- Corporate assets totalled $1.16 billion at December 31, 2015, up $110 million from December 31, 2014 which represents a 10.5% increase year over year.
- The corporate mortgage portfolio increased to $944 million from $895 million during 2015, which included increases of $70 million in uninsured single family, $34 million in commercial and $10 million in completed inventory and decreases of $49 million in insured single family and $16 million in construction. The growth in uninsured single family during 2015 was a result of the continued expansion of our Xceed mortgage origination platform.
- In 2015, we originated $518 million of single family mortgages through our Xceed mortgage origination platform, consisting of $357 million of insured single family and $161 million of uninsured single family.
- On July 13, 2015, we completed a rights offering with 1,406,084 new common shares issued and $15.1 million of new share capital raised that created $87 million of additional income tax asset capacity[1].
- Consistent with the prior quarter dividend increase, the Board of Directors (the "Board") declared a 2016 first quarter dividend of $0.29 per share to be paid on March 31, 2016 to shareholders of record as of March 15, 2016.

Securitization Activity

- Throughout 2015, we issued and sold $589 million of new MBS to third parties through the market MBS program.
- Securitized mortgages increased by $335 million (45%) to $1.1 billion at December 31, 2015.
- In Q4 2015, we sold the residual economics (the "interest-only strips") associated with $147 million of mortgages that had been securitized through the market MBS program, which allowed us to derecognize the associated mortgages from our balance sheet and reduce the related capital utilization for regulatory purposes.

Credit Quality

- The impaired total mortgage ratio[1] improved to 0.11% at December 31, 2015 from 0.50% at December 31, 2014.
- The impaired corporate mortgage ratio[1] was 0.23%, improved from 0.92% at December 31, 2014.
- Total mortgage arrears[1] were $34 million at December 31, 2015, down $4 million (11%) from $38 million at December 31, 2014.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 23.64% at December 31, 2015 on the transitional basis and 23.08% on the "all-in" basis compared to 23.37% and 22.62%, respectively, at December 31, 2014.
- Our leverage ratio[1] was 9.96% at December 31, 2015.
- Income tax asset capacity[1] was $141 million at December 31, 2015 compared to $145 million at December 31, 2014.

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

OUTLOOK

Canadian real estate markets are experiencing mixed performances as some regional economies adjust to reduced oil prices and the negative impact on employment, while other regional economies benefit from the lower Canadian dollar and employment strength in the manufacturing sector. As a result, housing markets in the Prairie Provinces are experiencing declines in home sales volumes as the markets adjust to reduced oil prices, slow growth and increasing unemployment. Meanwhile, home sales remain steady in Canada's largest cities, Toronto and Vancouver, as sales volumes continue to grow and housing inventory levels remain at historical lows due to building lot supply shortages. The rest of the country continues to see stable housing markets as a result of historically low mortgage rates.

We expect financial markets to remain volatile for the first half of 2016 with significant fluctuations in stock markets as slowing global growth and volatility in international currencies impact reported earnings and earnings multiples. In Canada the impact of oil and commodity prices continues to impact a significant portion of the market, raising concerns over low or negative economic growth, increases in unemployment rates and the spillover effect to consumer confidence. Volatility in stock markets and the continued weakness in global oil prices could have a negative influence on consumer confidence and the economy in 2016.

Consensus forecasted GDP growth rates for Canada are 1.4% in 2016. With low levels of economic growth, the risk of increased interest and mortgage rates is seen as low. We expect housing markets to continue to benefit from low mortgage rates and relatively stable employment in most of the country, with the exception of the Prairie Provinces. Although mortgage rates are expected to remain low, volatility within the bond market could marginally impact mortgage spreads as it did in the later part of 2015. Increased uncertainty in regional employment markets is expected to impact housing markets and could temper price appreciation in those markets. We expect housing sales, both new housing and resale, to decline moderately in the Prairie Provinces for 2016 due to weakness in demand.

The key risks to the housing market are the prospects for slow, and possibly negative, economic growth and increases in regional unemployment rates. These factors could have a direct impact on the stability of the regional housing markets, particularly in Alberta. The current level of relatively low mortgage rates should help to support home affordability and keep price appreciation in line with inflation. The impact of oversupply in local housing markets could lead to significant price volatility. We will continue to be diligent in monitoring local housing markets in which we lend and will closely monitor our mortgage portfolio for early indicators of potential performance concerns.

We expect construction activity to moderate nationally, with British Columbia and Ontario benefiting from the recent decline in the Canadian dollar and increased exports. Given economic uncertainty and slow growth projections for the Canadian economy, we are closely monitoring our construction portfolio and do not expect to materially grow the construction portfolio in 2016. Our portfolio remains well diversified with projects supported by presales in balanced markets and experienced developers.

Our strategy remains focused on growth in our insured and uninsured single family mortgage portfolio sourced through our direct Xceed origination platform. Our current view is that 2016 originations and portfolio growth in single family mortgages will allow us to continue to achieve our annual corporate asset growth target of 10%, which will further diversify and re-balance our portfolio to optimize return and lower our risk profile.

We participated in the MBS securitization market with regular issuances throughout 2015 totaling $589 million. We expect our MBS volumes to moderate in the first half of 2016 as we have reduced our volume expectations in the first quarter to allow for a system upgrade that includes new underwriting software. With origination volumes surpassing $500 million in 2015, the adoption of the new system will facilitate the future growth of the Xceed platform. We believe that this upgrade will enhance its capabilities and productivity as well as enhance our risk management processes.

RESULTS OF OPERATIONS

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

(in thousands)	2015	2014	Change from 2014 ($)	Change from 2014 (%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 50,997	$ 50,426	$ 571	1%
Equity income from MCAP Commercial LP	10,096	6,182	3,914	63%
Fees	3,231	2,733	498	18%
Marketable securities	2,076	1,925	151	8%
Whole loan gain on sale income	626	1,296	(670)	(52%)
Realized and unrealized gain (loss) on financial instruments	(2,914)	(1,729)	(1,185)	69%
Interest on financial investments and other loans	3,506	822	2,684	327%
Interest on cash and cash equivalents	730	848	(118)	(14%)
Gain on sale of foreclosed real estate	-	1,115	(1,115)	(100%)
	68,348	**63,618**	**4,730**	**7%**
Term deposit interest and expenses	20,671	20,709	(38)	(0%)
Mortgage expenses	3,823	3,820	3	0%
Interest on loans payable	838	921	(83)	(9%)
Provision for (recovery of) credit losses	275	(983)	1,258	(128%)
	25,607	**24,467**	**1,140**	**5%**
	42,741	**39,151**	**3,590**	**9%**
Other Income - Corporate Assets				
Gain on sale of investment in MCAP Commercial LP	-	711	(711)	(100%)
Gain on dilution of investment in MCAP Commercial LP	68	71	(3)	(4%)
	68	**782**	**(714)**	**(91%)**
Net Investment Income - Securitization Assets				
Mortgage interest	25,564	12,383	13,181	106%
Interest on financial investments	1	428	(427)	(100%)
Interest on short-term investments	76	835	(759)	(91%)
Other securitization income	121	1,343	(1,222)	(91%)
	25,762	14,989	10,773	72%
Interest on financial liabilities from securitization	19,763	13,087	6,676	51%
Mortgage expenses	1,461	620	841	136%
	21,224	13,707	7,517	55%
Net investment income before fair value adjustment	4,538	1,282	3,256	254%
Fair value adjustment - derivative financial instruments	(71)	(1,376)	1,305	(95%)
	4,467	**(94)**	**4,561**	**(4,852%)**
Operating Expenses				
Salaries and benefits	8,515	7,154	1,361	19%
General and administrative	5,993	6,229	(236)	(4%)
	14,508	13,383	1,125	8%
Net Income Before Income Taxes	32,768	26,456	6,312	24%
Provision for (recovery of) income taxes	(89)	1,010	(1,099)	(109%)
Net Income	**$ 32,857**	**$ 25,446**	**$ 7,411**	**29%**
Basic and diluted earnings per share	$ 1.51	$ 1.23	$ 0.28	23%
Dividends per share	$ 1.13	$ 1.12	$ 0.01	1%

Net Income

The $7.4 million increase in net income from 2014 was primarily due to higher securitization income from increased market MBS program volumes, an increase in equity income from our investment in MCAP and an income distribution received from a commercial real estate investment, partially offset by an increase in the realized and unrealized loss on financial instruments (caused by unexpected Bank of Canada prime rate decreases), higher operating expenses and a non-recurring gain on sale of foreclosed real estate in 2014.

Net Investment Income - Corporate Assets

Mortgage interest income

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

For the Years Ended December 31	2015			2014		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 318,892	$ 15,171	4.74%	$ 252,513	$ 13,273	5.23%
- Insured	143,685	5,154	3.58%	141,945	6,126	4.30%
- Uninsured - completed inventory	14,534	799	5.48%	48,002	2,652	5.50%
Construction loans						
- Residential	336,762	20,262	5.57%	363,260	20,441	5.60%
- Non residential	1,186	65	5.52%	2,438	181	7.36%
Commercial loans						
- Uninsured	94,567	9,546	9.28%	88,114	7,753	8.76%
Average mortgages - corporate portfolio	**$ 909,626**	**$ 50,997**	**5.35%**	**$ 896,272**	**$ 50,426**	**5.62%**

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income on impaired loans, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate. Excluding discount income on impaired loans and deferred interest, non-recurring items are immaterial for the years ended December 31, 2015 and December 31, 2014. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

The increase in the average uninsured single family mortgage average portfolio was primarily due to increased originations from our internal Xceed origination platform in 2015. The majority of our insured single family originations from this channel were securitized through the market MBS program. The decrease in the construction loan portfolio is a result of the measured approach that we took to new loan originations in early 2015 and the geographic rebalancing of the portfolio given the current economic uncertainty in Western Canada.

The decrease in the single family average mortgage portfolio yield is primarily due to lower market rates for the funding of new single family mortgages during 2015. Although the prime rate decreased by 0.30% during 2015, our construction average mortgage portfolio yield only decreased minimally during 2015 as the majority of loans in the portfolio contain an interest rate floor and therefore were not fully impacted by the decrease in the prime rate. 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.

Current year mortgage interest income includes $1.5 million of discount income from the payout of previously impaired construction loans and $529,000 of deferred interest on a commercial loan, both of which are excluded from the average mortgage portfolio yield as they are non-recurring items.

Equity income from MCAP

Equity income from our investment in MCAP increased by $3.9 million (63%) from 2014. MCAP had significant increases in income from securitized mortgages and origination fee income, partly offset by hedge losses incurred during 2015.

Realized and unrealized losses on financial instruments

The realized and unrealized loss on financial instruments relates to the hedging of mortgage funding commitments to mitigate interest rate risk. We enter into forward starting interest rate swaps with a financial institution as part of this hedge. When the hedged mortgage is securitized through the market MBS program, the offsetting economic gain (loss) is realized over the term of

the mortgage through higher (lower) spread income. MBS yields were lower in the 2015 issuances due to volatility in the MBS market. If the hedged mortgages are sold to third parties on a whole loan basis, offsetting gains or losses are recognized in the period that the mortgages are sold.

The interest rate on our forward starting swaps decreased significantly over the first three quarters of 2015, which led to a $2.9 million loss. In Q4 2015, we closed out these hedges and adjusted the structure of our term deposits to provide more natural hedging.

The loss incurred on the forward starting swaps will be offset by the economic benefit realized through higher spread income from mortgages securitized through the market MBS program to be realized over the 5 year duration of these mortgages.

Other net investment income

Fees increased by $498,000 from 2014, primarily due to a non-recurring fee received on a commercial loan.

Marketable securities income increased by $151,000 from 2014, primarily due to a larger average portfolio.

Whole loan gain on sale income decreased by $670,000 from 2014. The volume of mortgages sold to third parties decreased from $70 million in 2014 to $26 million in 2015 as spreads were more attractive in the MBS market in 2015 compared to the whole loan market.

Interest on financial investments increased by $2.7 million from 2014, primarily due to a $2.5 million income distribution received from a commercial real estate investment compared to $676,000 in 2014. The balance of the increase relates to income earned on our KingSett High Yield Fund financial investment during 2015.

In 2014 we recognized a $1.1 million gain on the sale of real estate that we had previously foreclosed upon.

Term deposit interest and expenses decreased by $38,000 from 2014. The decrease was due to a drop in the average term deposit rate from 2.46% in 2014 to 2.34% in 2015, partially offset by the impact of a $33 million increase in the average term deposit balance from $811 million to $844 million. Similar to single family mortgages, market rates for new term deposits, all of which are fixed-rate, decreased during 2015.

Mortgage expenses, consisting primarily of mortgage servicing fees, were comparable to 2014 in line with a slightly higher average mortgage portfolio.

Details of the provision for (recovery of) credit losses are discussed in “Credit Quality”.

Other Income - Corporate Assets

In 2014, we recorded a $0.7 million gain on the partial sale of our equity investment in MCAP. For further details, refer to the “Equity investment in MCAP” sub-section of the “Financial Position” section of this MD&A.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to MCAN’s participation in the market MBS program and the CMB program. Net investment income from the market MBS program has increased significantly since 2014 as we have continued to securitize insured single family mortgages through this program. For further details on these programs, refer to the “Securitization Programs” section of this MD&A.

Market MBS Program

Net income from the market MBS program was $4.5 million, up from $1.9 million in 2014. The increase was a result of a 151% increase in the average outstanding mortgage portfolio balance as we have continued to earn a stable return since re-commencing this program in late 2013.

In 2015, we sold $589 million of MBS to third parties (2014 - $561 million). The majority of mortgages securitized in 2015 were originated through our internal Xceed platform, including all mortgages securitized in the third and fourth quarters of 2015. In 2014, only 28% of mortgages securitized through the market MBS program were originated internally, whereas the remainder were purchased from third parties. Our internally originated mortgages are significantly more profitable than externally purchased mortgages for market MBS program purposes.

Mortgage interest income was $25.5 million in 2015, a 138% increase from $10.7 million in 2014. The average portfolio balance increased from $375 million to $943 million, while the average yield decreased from 2.85% to 2.70%.

Interest on financial liabilities from securitization was $19.5 million in 2015, up from $8.2 million in 2014. The market MBS liability average balance increased from $372 million to $949 million while the average interest rate decreased from 2.21% to 2.06%.

The spread of the mortgage interest rate over the liability interest rate on new market MBS issuances decreased in the second half of 2015 as the MBS market was extremely volatile.

In 2015, we sold the interest-only strips associated with $147 million of mortgages that had been securitized through the market MBS program, from which we recognized a $42,000 gain and recorded a $2.6 million loan receivable. This transaction allowed us to derecognize the associated mortgages from our balance sheet and reduce the related capital utilization for regulatory purposes. The spread of the mortgage interest rate over the liability interest rate relating to the interest-only strips sold was relatively low as they related to mortgages originally securitized in the second half of 2015.

CMB Program

Our participation in the CMB program ceased in 2015 with the maturity of the final CMB bond issuance. In 2015 we incurred a loss of $52,000 related to the CMB program as a result of minimal activity, whereas in 2014, we incurred a net loss of $2.0 million. For further information, refer to the “CMB Program” sub-section of the “Securitization Programs” section of this MD&A.

In 2014, mortgage interest income was $1.8 million on an average balance of $146 million and an average yield of 3.34%. Interest on financial investments and short-term investments from 2014 relate to income earned on principal reinvestment assets. Other securitization income consists primarily of interest rate swap receipts. Interest on financial liabilities from securitization was $4.9 million on an average balance of $396 million and an average interest rate of 2.71%.

The negative fair value adjustment to derivative financial instruments of $71,000 (2014 - $1.4 million) relates to the CMB interest rate swaps.

Net Interest Income

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

Table 5: Net Interest Income

For the Years Ended December 31	2015			2014		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate[3]	Average Balance [1]	Income / Expense	Average Rate[3]
Assets						
Cash and cash equivalents	$ 86,138	$ 730	0.85%	$ 75,841	$ 848	1.12%
Marketable securities	30,250	2,076	6.86%	25,149	1,925	7.65%
Mortgages - corporate	909,626	50,997	5.35%	896,272	50,426	5.62%
Financial investments	7,851	913	11.63%	3,670	75	2.04%
Other loans	1,774	84	4.73%	2,037	64	3.14%
Corporate interest earning assets	1,035,639	54,800	5.29%	1,002,969	53,338	5.32%
Short term investments	17,511	76	0.87%	210,047	835	0.89%
Mortgages - securitized	950,480	25,564	2.71%	520,908	12,383	2.90%
Financial investments	95	1	2.11%	57,815	428	1.65%
Securitization interest earning assets	968,086	25,641	2.68%	788,770	13,646	2.52%
Total interest earning assets	2,003,725	80,441	4.03%	1,791,739	66,984	4.09%
Non interest earning assets	75,161	2,509	-	41,264	683	-
Total assets	$ 2,078,886	$ 82,950	3.88%	$ 1,833,003	$ 67,667	4.00%
Liabilities and shareholders' equity						
Term deposits	$ 844,309	$ 20,671	2.34%	$ 811,271	$ 20,709	2.46%
Loans payable	21,595	838	3.12%	25,645	921	3.22%
Corporate liabilities	865,904	21,509	2.37%	836,916	21,630	2.49%
Securitization liabilities	962,263	19,763	2.07%	767,878	13,087	2.37%
Total interest bearing liabilities	1,828,167	41,272	2.21%	1,604,794	34,717	2.43%
Non interest bearing liabilities	6,480	-	-	7,105	-	-
Shareholders' equity	244,239	-	-	221,104	-	-
Total liabilities and shareholders' equity	$ 2,078,886	$ 41,272	1.94%	$ 1,833,003	$ 34,717	2.13%
Net Interest Income [2]		$ 41,678			$ 32,950	
Spread of Mortgages (Corporate Portfolio) over Term Deposits			3.01%			3.16%

[1] *The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.*

[2] *Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair value adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

[3] *Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate, while non-interest bearing assets and liabilities are excluded from the denominator. Excluding the discount income on impaired loans and deferred interest included in mortgage interest income, non-recurring items were immaterial for the years ended December 31, 2015 and December 31, 2014. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

The increase in net interest income from 2014 is primarily due to higher securitization income from increased participation in the market MBS program. Our market MBS program securitization volumes increased significantly from 2014 and securitization net interest income has increased accordingly. Corporate net interest income, which was comparable to 2014, is discussed further in the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

Credit Quality

Table 6: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Years Ended December 31	2015	2014	Change from 2014 ($)	(%)
Individual provision (recovery)				
Single family uninsured	$ 78	$ 96	$ (18)	(19%)
Single family uninsured - completed inventory	-	(550)	550	(100%)
Residential construction	(55)	275	(330)	(120%)
Commercial uninsured	-	(15)	15	(100%)
	$ 23	$ (194)	$ 217	(112%)
Collective provision (recovery)				
Single family uninsured	$ 363	$ 357	$ 6	2%
Single family uninsured - completed inventory	42	(52)	94	(181%)
Construction	(99)	(5)	(94)	1,880%
Commercial	341	(120)	461	(384%)
Corporate mortgages - total	647	180	467	259%
Other provisions (recoveries)	(395)	(969)	574	(59%)
	$ 252	$ (789)	$ 1,041	(132%)
Total provision for (recovery of) credit losses	$ 275	$ (983)	$ 1,258	(128%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 670	$ (14)	$ 684	(4,886%)
Net write offs	$ 385	$ 364	$ 21	6%
Net write offs (basis points)	4.2	4.1	0.1	3%

Individual mortgage allowances are recorded to reduce a mortgage to its estimated realizable value. Activity in 2015 was minimal, while 2014 included the $550,000 reversal of a completed inventory loan allowance as a result of a partial repayment of the loan and increase in net realizable value and a $275,000 allowance on a residential construction loan as a result of cost overruns.

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 years are consistent with the growth (reduction) in the size of the respective mortgage portfolios.

Other provisions (recoveries) in both years consist primarily of a reduction in the liability associated with the Xceed off-balance sheet securitization portfolio. For further details, refer to the “Liabilities and Shareholders’ Equity” sub-section of the “Financial Position” section of this MD&A.

Write-offs remained low in 2015 and related entirely to the uninsured single family mortgage portfolio.

Operating Expenses

Table 7: Operating Expenses

(in thousands) For the Years Ended December 31	2015	2014	Change from 2014 ($)	(%)
Salaries and benefits	$ 8,515	$ 7,154	$ 1,361	19%
General and administrative	5,993	6,229	(236)	(4%)
	$ 14,508	**$ 13,383**	**$ 1,125**	**8%**

The increase in salaries and benefits is a result of an increase in the number of employees and a higher variable compensation expense. As we have grown our internal origination platform through Xceed, we have continued to grow the size of our staff in both operations and the second line of defense to maintain sound corporate governance.

Despite the increase in our scale of operations, general and administrative expenses decreased slightly from 2014 as a result of the increased efficiency of certain internal processes, in addition to higher tax refunds received.

Provision for Income Taxes

Table 8: Income Taxes

(in thousands) For the Years Ended December 31	2015	2014	Change from 2014 ($)	(%)
Current tax provision	$ -	$ 102	$ (102)	(100%)
Deferred tax provision (recovery)	(89)	908	(997)	(110%)
	$ (89)	**$ 1,010**	**$ (1,099)**	**(109%)**

The deferred tax recovery in 2015 was due to tax losses recognized at the subsidiary level, while in 2014 we had a deferred tax provision due to the partial application of loss carry forwards as a result of taxable income earned at the subsidiary level.

As at December 31, 2015, we had $12 million of losses available for carry-forward in the MCAN mortgage investment corporation ("MIC") parent company on a non-consolidated basis, 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 Xceed and other subsidiaries as it does not directly impact MCAN's non-consolidated taxable income.

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

We purchase and originate insured mortgages that are securitized through the market MBS program (for further details on the market MBS program, 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 2015, we incurred $13.8 million of origination costs on market MBS mortgages (2014 - $11.4 million). As at December 31, 2015, the unamortized origination fee balance was $17.1 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.

During 2014, we reorganized our equity investment in MCAP. For further information on the reorganization, refer to the "Equity Investment in MCAP" sub-section of the "Financial Position" section of this MD&A. As a result of the reorganization, we recognized a $23.6 million gain on sale in MCAN on a non-consolidated basis. For taxable income purposes, we recognized a 50% capital gain to taxable income with an impact of $11.8 million ($0.57 per share). The reorganization had no impact on the consolidated balance sheet or consolidated statement of income.

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

Table 9: Taxable Income Reconciliation [1]

(in thousands) For the Periods Ended December 31	Q4 2015	Q4 2014	Annual 2015	Annual 2014
Net income for accounting purposes	$ 9,450	$ 7,129	$ 32,857	$ 25,446
Adjustments:				
Equity income from MCAP	(3,610)	(1,591)	(5,919)	(6,132)
Equity income from subsidiaries [2]	(2,522)	(1,672)	(440)	(2,053)
Provision for (recovery of) credit losses [2]	527	82	557	28
Amortization of upfront securitization program costs [2]	1,776	1,079	6,003	2,933
Market MBS program mortgage origination costs [3]	(1,235)	(3,438)	(13,810)	(11,447)
Gain on sale of interest-only strips	3,073	-	3,073	-
Other securitization program cash outflows	(209)	(425)	(1,639)	(3,355)
Fair value adjustment - derivative financial instruments [2]	-	133	71	1,376
Capital gains	(57)	5	(57)	64
Gain on dilution of investment in MCAP [2]	-	-	(68)	-
Reorganization of investment in MCAP [4]	-	-	-	11,756
Other items	(373)	(440)	(1,048)	(915)
Taxable Income	**$ 6,820**	**$ 862**	**$ 19,580**	**$ 17,701**

[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.
[3] Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes.

We finalized our 2014 tax position subsequent to year end after the completion of our corporate tax filings. Q4 2014 taxable income was revised from $1.4 million to $862,000 and fiscal 2014 taxable income was revised from $20.8 million to $17.7 million.

Summary of Three Year Results of Operations

2013 was highlighted by the acquisition of Xceed, which occurred at the start of the third quarter. In addition to providing us with an in-house mortgage origination platform, it created significant incremental income through a bargain purchase gain and discount income earned on mortgages acquired as part of the acquisition. Additionally, we acquired renewal rights to a portfolio of off-balance sheet mortgages. Earnings per share were $1.57, primarily due to the aforementioned non-recurring items associated with the acquisition of Xceed and a dilution gain and partial gain on sale associated with the equity investment in MCAP. Securitization income declined as a result of a significant negative fair value adjustment to derivative financial instruments. Corporate assets increased steadily during the year and eclipsed the $1 billion level for the first time. Late in the year, MCAN re-entered the market MBS program with a $168 million issuance.

2014 represented the first full year of the integration of Xceed into MCAN operations. We re-launched the Xceed single family brand with mortgage brokers and originated over $200 million of new mortgages. Additionally, our securitization volumes through the market MBS program grew significantly to $561 million as the program provided incremental income to MCAN. Earnings per share decreased to $1.23, which was primarily due to the above-noted non-recurring items associated with MCAP and the acquisition of Xceed, partially offset by the significant increase in market MBS program securitization income.

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

Cash Flows

Operating activities provided cash flows of $22 million in 2015 and provided $15 million in 2014. 2014 had significantly lower net mortgage outflows as a result of CMB program mortgage maturities and a substantial net outflow from securitization liabilities from CMB bond liability maturities, while 2015 had an inflow from new market MBS program issuances. 2014 also had significant inflows from short-term investments and financial investments as CMB reinvestment assets matured on the payout of the bond liability.

Investing activities provided cash flows of $4 million in 2015 and provided $8 million in 2014. 2014 included proceeds from the partial sale of the MCAP investment.

Financing activities used cash flows of $1 million in 2015 and used $36 million in 2014. 2015 had a higher net inflow from the issuance of common shares from the rights offering, while 2014 had a net outflow associated with loans payable.

FINANCIAL POSITION

Table 10: Assets

(in thousands) As at December 31	2015	2014	Change from 2014 ($)	(%)
Corporate Assets				
Cash and cash equivalents	$ 75,762	$ 51,090	$ 24,672	48%
Marketable securities	40,735	24,900	15,835	64%
Mortgages	944,109	895,467	48,642	5%
Financial investments	41,793	28,469	13,324	47%
Other loans	4,176	2,108	2,068	98%
Equity investment in MCAP Commercial LP	44,191	38,792	5,399	14%
Foreclosed real estate	529	686	(157)	(23%)
Deferred tax asset	1,125	773	352	46%
Other assets	2,626	3,067	(441)	(14%)
	1,155,046	**1,045,352**	**109,694**	**10%**
Securitization Assets				
Short-term investments	13,112	16,763	(3,651)	(22%)
Mortgages	1,075,947	741,184	334,763	45%
Financial investments	-	907	(907)	(100%)
Derivative financial instruments	-	71	(71)	(100%)
Other assets	2,853	1,441	1,412	98%
	1,091,912	**760,366**	**331,546**	**44%**
	$ 2,246,958	**$ 1,805,718**	**$ 441,240**	**24%**

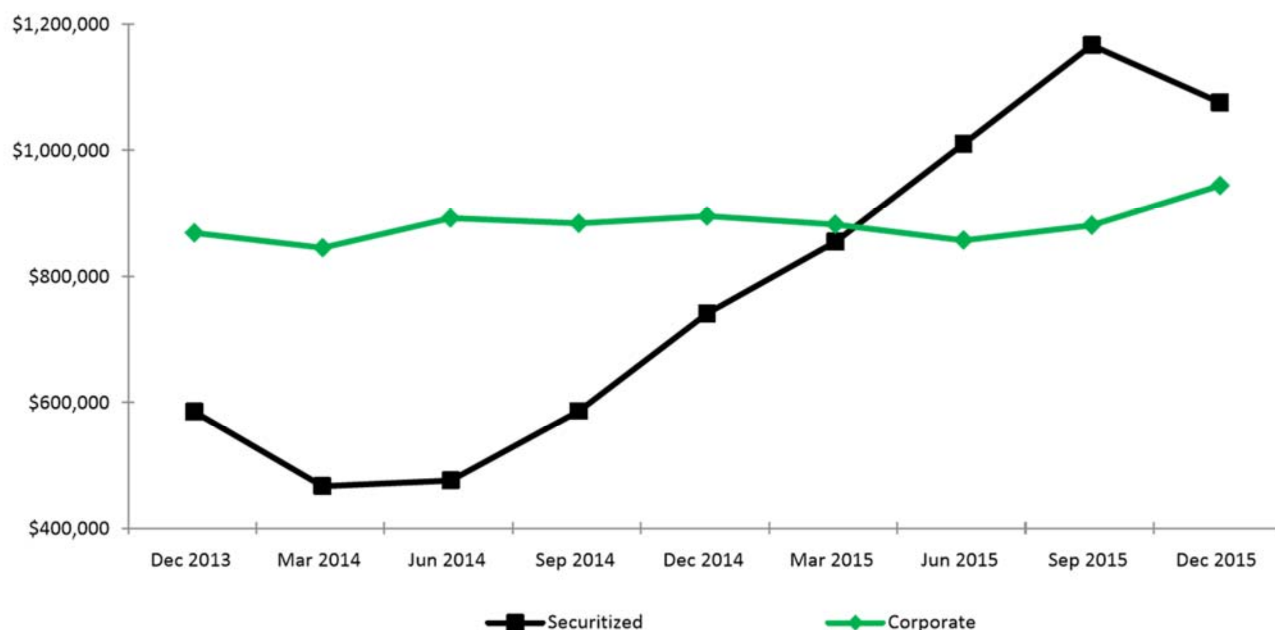
Mortgages - Corporate & Securitized

Table 11: Mortgage Summary

(in thousands) As at December 31	2015	2014	Change from 2014 ($)	(%)
Corporate portfolio:				
Single family mortgages				
- Uninsured	$ 359,465	$ 289,128	$ 70,337	24%
- Insured	83,619	132,290	(48,671)	(37%)
- Uninsured - completed inventory	31,280	21,438	9,842	46%
Construction loans				
- Residential	349,808	371,808	(22,000)	(6%)
- Non-residential	5,595	-	5,595	-
Commercial loans				
- Uninsured	114,342	80,803	33,539	42%
	944,109	**895,467**	**48,642**	**5%**
Securitized portfolio:				
Single family insured - Market MBS program	1,075,947	716,112	359,835	50%
Single family insured - CMB program	-	25,072	(25,072)	(100%)
	1,075,947	**741,184**	**334,763**	**45%**
	$ 2,020,056	**$ 1,636,651**	**$ 383,405**	**23%**

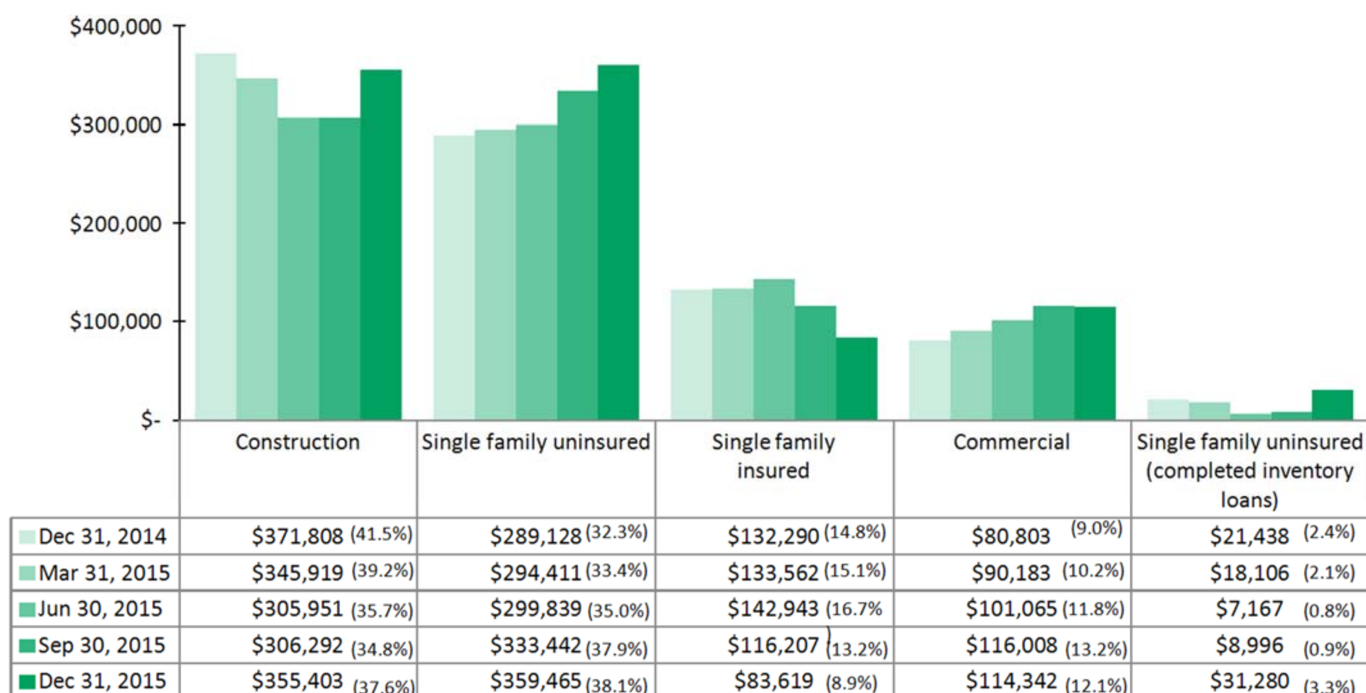
Corporate and Securitized Mortgage Portfolio Analysis

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



The decrease in securitized mortgages in Q4 2015 is a result of the sale of interest-only strips and the derecognition of the associated mortgages from the balance sheet.

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



	Construction	Single family uninsured	Single family insured	Commercial	Single family uninsured (completed inventory loans)
Dec 31, 2014	$371,808 (41.5%)	$289,128 (32.3%)	$132,290 (14.8%)	$80,803 (9.0%)	$21,438 (2.4%)
Mar 31, 2015	$345,919 (39.2%)	$294,411 (33.4%)	$133,562 (15.1%)	$90,183 (10.2%)	$18,106 (2.1%)
Jun 30, 2015	$305,951 (35.7%)	$299,839 (35.0%)	$142,943 (16.7%	$101,065 (11.8%)	$7,167 (0.8%)
Sep 30, 2015	$306,292 (34.8%)	$333,442 (37.9%)	$116,207 (13.2%)	$116,008 (13.2%)	$8,996 (0.9%)
Dec 31, 2015	$355,403 (37.6%)	$359,465 (38.1%)	$83,619 (8.9%)	$114,342 (12.1%)	$31,280 (3.3%)

Figure 3: Mortgage Portfolio Geographic Distribution as at December 31, 2015 (December 31, 2014)

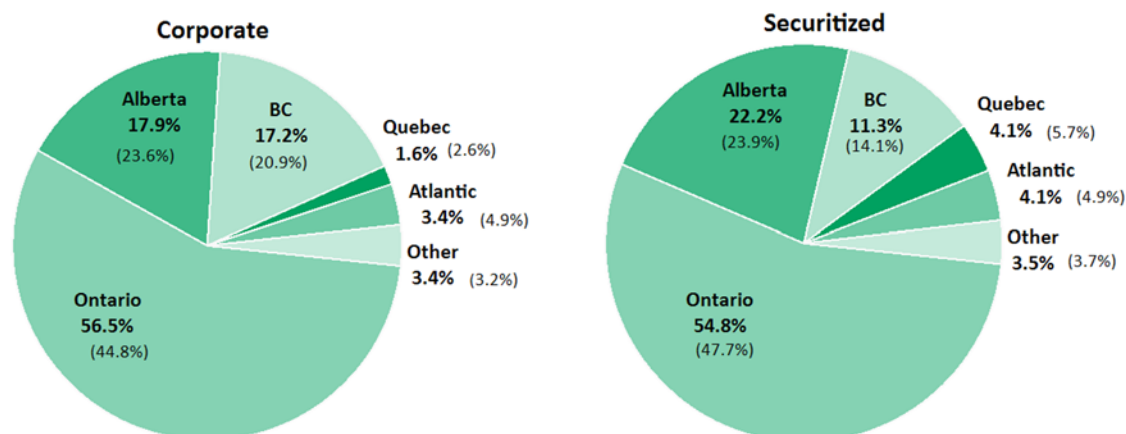
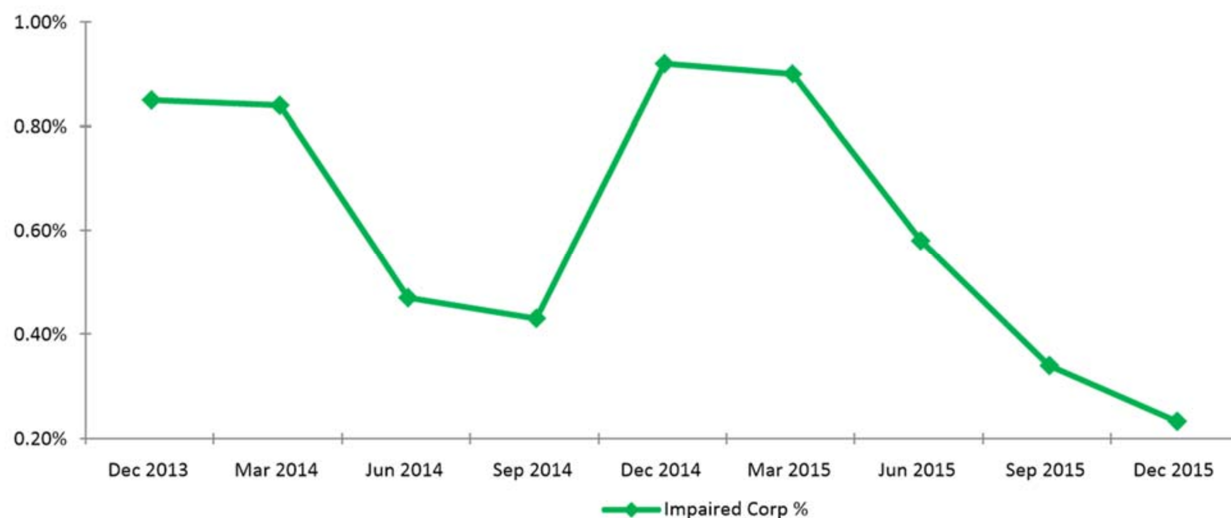


Table 12: Arrears and Impaired Mortgages

(in thousands except %)			Change from 2014	
As at December 31	**2015**	**2014**	**($)**	**(%)**
Impaired mortgages				
Single family - uninsured	$ 2,196	$ 2,782	$ (586)	(21%)
Single family - insured	531	250	281	112%
Residential construction	-	5,352	(5,352)	(100%)
	$ 2,727	$ 8,384	$ (5,657)	(67%)
Impaired mortgage ratio (total) [1]	0.11%	0.50%		(0.39%)
Impaired mortgage ratio (corporate) [1]	0.23%	0.92%		(0.69%)
Total corporate mortgage arrears [1]	$ 19,889	$ 29,859	$ (9,970)	(33%)
Total securitized mortgage arrears [1]	14,361	8,546	5,815	68%
Total mortgage arrears [1]	$ 34,250	$ 38,405	$ (4,155)	(11%)
Collective allowance	$ 4,920	$ 4,332	$ 588	14%
Individual allowance	339	642	(303)	(47%)
Total allowance	$ 5,259	$ 4,974	$ 285	6%

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

Figure 4: Impaired Corporate Mortgage Ratio



Impaired single family mortgages decreased slightly during 2015 and remained low by historical standards. At December 31, 2014, there were three impaired residential construction loans outstanding, two of which paid out during 2015 with no loss of principal. The other loan has had its individual allowance reduced from $275,000 to $220,000 as at December 31, 2015 and has a net book value of $nil.

Construction arrears can be volatile given the relatively low volume of loans and the relative size of individual loans which can cause volatility in impaired mortgage ratios.

The significant decrease in total corporate mortgage arrears from December 31, 2014 is primarily due to the aforementioned reduction in impaired mortgages, in addition to other decreases in single family mortgages past due but not impaired. The increase in total securitized mortgage arrears from December 31, 2014 is primarily due to growth in the portfolio.

Economic volatility and continued weakness in oil prices continue to impact housing markets in western Canada where job losses are expected to impact mortgage arrears. While our mortgage arrears decreased slightly during 2015, we continue to remain vigilant and have adopted more conservative underwriting standards.

Corporate Mortgages

The majority of our corporate mortgage growth took place in Q4 2015. As of September 30, 2015, our portfolio had decreased by $15 million for the year to date, however in Q4 2015 we had significant increases in construction, uninsured single family and completed inventory loans such that fiscal 2015 corporate mortgage growth was $49 million. Given current economic uncertainty, we do not expect similar growth in the first half of 2016.

The growth in uninsured single family during 2015 is due to the continued increase in volumes from our internal Xceed origination platform throughout 2015. We issued a high level of commitments in the spring and summer which funded during the second half of the year. The decrease in insured single family is due to the fact that we were not building up the portfolio at year end to facilitate an early 2016 market MBS issuance.

In early 2015, we took a measured approach to new construction loan originations and undertook a geographic rebalancing by reducing our exposure to Alberta which led to a significant decrease in the portfolio in the first half of 2015. After completing the rebalancing, we funded new commitments in the second half of 2015 that we had issued earlier in the year and accordingly the overall portfolio balance increased, including a significant Ontario-based increase net of the Alberta reduction.

Single family mortgages

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

Insured single family mortgage originations moderated in Q4 2015 as a result of increases in our mortgage rates to deal with volatility in MBS markets. We will continue to monitor the performance of housing markets as they adjust for new absorption levels.

Uninsured single family mortgage originations through our internal Xceed platform led to strong mortgage fundings in 2015. We continue to monitor our portfolio for early delinquencies and continue to adjust our mortgage rates to ensure they are reflective of the changing risk in our core markets.

As we securitize mortgages into the market MBS program, assets are effectively transferred from corporate mortgages to securitized mortgages on the balance sheet. The change contributes to changes in asset levels when corporate mortgages are securitized in the following quarter.

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

Completed inventory loans

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

Completed inventory loans remained low as new housing markets in Canada currently have a very tight supply of completed inventory. As such, these loans are difficult to originate, as existing inventory has been quickly sold by builders in recent quarters. We are currently closely monitoring inventory levels in some of our core markets to ensure we react to changes in the overall housing markets.

Construction loans

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

Our residential construction loan portfolio experienced reasonable growth in Q4 2015 after a reduction in the portfolio earlier in the year. Our portfolio concentrations in Western Canada continue to be monitored closely and our exposure to Alberta has decreased amidst the current economic conditions.

Commercial loans

Commercial loans include commercial term mortgages and high ratio mortgage loans.

Commercial lending remains highly competitive, with an excess amount of capital in the market that has led to yield compression. Despite these limitations, we have continued to observe good opportunities for future loan commitments.

Mortgage renewal rights

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

As at December 31, 2015, we had the renewal rights to $1.3 billion of single family mortgages (December 31, 2014 - $735 million).

Table 13: Average Mortgage Loan to Value (LTV) Ratios

As at December 31	2015	2014
Corporate portfolio:		
Single family mortgages		
- Uninsured	74.3%	72.0%
- Uninsured completed inventory	63.3%	64.5%
- Insured	85.9%	81.6%
Construction loans		
- Residential	66.1%	65.5%
- Non-residential	59.4%	-
Commercial loans		
- Uninsured	68.7%	72.0%
	71.1%	70.5%
Securitized portfolio:		
Single family insured - Market MBS Program	87.0%	85.2%
Single family insured - CMB Program	-	87.9%
	87.0%	85.3%
	79.5%	77.1%

Table 14: Mortgage Originations

(in thousands) For the Periods Ended December 31	Q4 2015	Q4 2014	Annual 2015	Annual 2014
Single family - insured	$ 51,099	$ 51,133	$ 356,594	$ 119,921
Single family - uninsured	53,181	63,660	167,453	157,449
Single family - uninsured completed inventory	-	10,688	4,603	28,522
Residential construction (advances)	89,689	148,100	173,117	408,847
Non-residential construction (advances)	5,215	-	5,215	-
Commercial	10,754	10,169	58,674	30,605
	$ 209,938	**$ 283,750**	**$ 765,656**	**$ 745,344**

Insured single family originations increased significantly from 2014 due to our continued participation in the market MBS program. The proportion of internally originated mortgages in 2015 market MBS issuances was much higher than 2014.

Although uninsured single family originations increased slightly from 2014, the proportion of internally originated mortgages is significantly higher in 2015 as a result of the growth of our internal Xceed origination platform and our decreased reliance on external originators.

Single family originations were lower in Q4 2015 than in Q4 2014 as a result of an upgrade to a new mortgage underwriting system. We expect that the adoption of the new system will assist in facilitating the future growth of the Xceed origination platform.

Residential construction advances decreased from 2014 due to the geographic rebalancing of the portfolio that commenced in early 2015 and led to lower volumes.

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 Loan to Value ratio ("LTV") by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

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

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

Table 15: Single Family Mortgages by Province as at December 31, 2015

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 42,449	50.9%	$ 264,490	67.7%	$ 122	52.2%	$ 589,912	54.8%	$ 896,973	57.9%
Alberta	19,433	23.3%	54,815	14.0%	53	22.6%	239,192	22.2%	313,493	20.2%
British Columbia	3,646	4.4%	41,809	10.7%	59	25.2%	121,811	11.3%	167,325	10.8%
Quebec	6,887	8.3%	8,688	2.2%	-	-	43,960	4.1%	59,535	3.8%
Atlantic Provinces	8,848	10.6%	11,303	2.9%	-	-	43,712	4.1%	63,863	4.1%
Other	2,122	2.5%	9,640	2.5%	-	-	37,360	3.5%	49,122	3.2%
Total	**$ 83,385**	**100.0%**	**$ 390,745**	**100.0%**	**$ 234**	**100.0%**	**$ 1,075,947**	**100.0%**	**$ 1,550,311**	**100.0%**

Table 16: Single Family Mortgages by Province as at December 31, 2014

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 63,474	48.0%	$ 176,104	56.8%	$ 116	41.1%	$ 353,340	47.7%	$ 593,034	50.0%
Alberta	33,800	25.6%	43,844	14.1%	86	30.5%	177,481	23.9%	255,211	21.6%
British Columbia	6,887	5.2%	51,047	16.4%	80	28.4%	104,243	14.1%	162,257	13.7%
Quebec	9,739	7.4%	13,342	4.3%	-	-	42,579	5.7%	65,660	5.5%
Atlantic Provinces	14,205	10.8%	17,722	5.7%	-	-	36,205	4.9%	68,132	5.8%
Other	3,903	3.0%	8,507	2.7%	-	-	27,336	3.7%	39,746	3.4%
Total	**$ 132,008**	**100.0%**	**$ 310,566**	**100.0%**	**$ 282**	**100.0%**	**$ 741,184**	**100.0%**	**$ 1,184,040**	**100.0%**

Table 17: Single Family Mortgages by Amortization Period as at December 31, 2015

(in thousands except %) **As at December 31, 2015**	**Up to 20 Years**	**>20 to 25 Years**	**>25 to 30 Years**	**>30 to 35 Years**	**>35 to 40 Years**	**Total**
Corporate	$ 76,636	$ 79,032	$ 301,874	$ 16,434	$ 388	$ 474,364
	16.2%	16.7%	63.6%	3.5%	0.0%	100.0%
Securitized	$ 119,194	$ 575,192	$ 277,016	$ 103,802	$ 743	$ 1,075,947
	11.1%	53.5%	25.7%	9.6%	0.1%	100.0%
Total	**$ 195,830**	**$ 654,224**	**$ 578,890**	**$ 120,236**	**$ 1,131**	**$ 1,550,311**
	12.6%	**42.2%**	**37.3%**	**7.8%**	**0.1%**	**100.0%**

Table 18: Single Family Mortgages by Amortization Period as at December 31, 2014

(in thousands except %) As at December 31, 2014	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 73,653	$ 113,988	$ 222,565	$ 30,479	$ 2,171	$ 442,856
	16.6%	25.7%	50.3%	6.9%	0.5%	100.0%
Securitized	$ 65,530	$ 385,504	$ 167,279	$ 122,334	$ 537	$ 741,184
	8.8%	52.0%	22.6%	16.5%	0.1%	100.0%
Total	**$ 139,183**	**$ 499,492**	**$ 389,844**	**$ 152,813**	**$ 2,708**	**$ 1,184,040**
	11.8%	**42.2%**	**32.9%**	**12.9%**	**0.2%**	**100.0%**

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

(in thousands except %) For the Periods Ended December 31	Q4 2015	Average LTV	Annual 2015	Average LTV	Q4 2014	Average LTV	Annual 2014	Average LTV
Ontario	$ 40,084	73.8%	$ 127,446	73.8%	$ 53,238	73.5%	$ 120,915	73.4%
Alberta	6,401	73.2%	26,023	74.3%	7,585	76.4%	17,549	73.9%
British Columbia	4,733	73.0%	13,149	72.7%	10,921	58.6%	37,370	78.7%
Quebec	-	-	-	-	192	76.6%	2,384	71.1%
Atlantic Provinces	-	-	1,336	62.7%	157	69.8%	2,055	61.9%
Other	1,963	76.4%	4,102	73.7%	2,255	75.0%	5,698	73.0%
	$ 53,181	**73.7%**	**$ 172,056**	**73.7%**	**$ 74,348**	**74.2%**	**$ 185,971**	**74.3%**

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 of 73.4% as at December 31, 2015.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, increased by $25 million in 2015. These investments 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 ("REIT"), increased by $16 million in 2015 as a decrease in REIT prices provided us with an attractive purchasing opportunity. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets. For further details, refer to the "Liquidity Management" section of this MD&A.

Financial investments

Corporate financial investments include a $31 million equity investment in a commercial real estate investment fund in which we have a 14.1% equity interest. The fund invests primarily in commercial office buildings and its fair value is based on independent appraisals of the buildings. As property acquisitions are made by the fund, we advance our proportionate share to finance the acquisitions.

We have funded a $10.7 million investment in the KingSett High Yield Fund, in which we have a 9% equity interest. 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 monthly preferred distribution of 9%, and distributes any additional income earned on a quarterly basis. Our 2015 return was 13.1%. Our total funding commitment is $36 million, which consists of $24 million of capital advances for the fund and $12 million that supports credit facilities.

Equity investment in MCAP

We hold a 14.70% equity interest in MCAP, which represents 4.3 million units held by MCAN from 29.2 million total outstanding MCAP partnership units. The investment had a net book value of $44 million as at December 31, 2015. The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was $42 million as at December 31, 2015. 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 phased in by 20% on an annual basis to 2018 such that the deduction is 40% in 2015. We have managed our investment in MCAP in line with our Risk Appetite Framework ("RAF") and regulatory requirements in order to minimize this deduction from Total Capital under Basel III while optimizing the economic benefits of the investment.

MCAP is an originator and servicer of mortgages for third party investors in Canada and securitizes mortgages on its own behalf. MCAP's origination volumes were $14.3 billion in 2015. MCAP had $53.1 billion of assets under administration as at November 30, 2015.

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

Foreclosed real estate

Foreclosed real estate consists of a real estate investment which was previously an impaired construction loan. This investment is carried at the lower of the carrying amount and fair value less estimated costs to sell.

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program. Securitization asset activity for 2015 included items as follows:

- $589 million of new mortgages retained on the balance sheet through new market MBS program issuances. The newly securitized market MBS program mortgages remained on the consolidated balance sheet as a result of MCAN's retention of risks and rewards associated with these mortgages.
- Derecognition of $147 million of mortgages from the balance sheet upon the sale of associated interest-only strips.
- Maturity of $28 million of CMB-related assets as our participation in the program ended.
- Net market MBS mortgage repayments of $79 million.

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

Table 20: Liabilities and Shareholders' Equity

(in thousands)			Change from 2014	
As at December 31	2015	2014	($)	(%)
Corporate Liabilities				
Term deposits	$ 903,041	$ 821,742	$ 81,299	10%
Current tax liabilities	100	120	(20)	(17%)
Deferred tax liabilities	2,299	1,246	1,053	85%
Other liabilities	12,412	11,202	1,210	11%
	917,852	**834,310**	**83,542**	**10%**
Securitization Liabilities				
Financial liabilities from securitization	1,070,304	746,063	324,241	43%
Other liabilities	-	42	(42)	(100%)
	1,070,304	**746,105**	**324,199**	**43%**
	1,988,156	**1,580,415**	**407,741**	**26%**
Shareholders' Equity				
Share capital	206,382	183,939	22,443	12%
Contributed surplus	510	510	-	-
Retained earnings	42,617	34,481	8,136	24%
Accumulated other comprehensive income	9,293	6,373	2,920	46%
	258,802	**225,303**	**33,499**	**15%**
	$ 2,246,958	**$ 1,805,718**	**$ 441,240**	**24%**

Term deposits increased by $81 million (10%) in 2015, which was consistent with our growth in corporate assets. To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. The role of term deposits in managing liquidity risk is discussed in the "Liquidity Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Upon the acquisition of Xceed, we set up a reserve associated with Xceed's off-balance sheet securitized mortgage portfolio, which is expected to be incurred over the remaining duration of the portfolio and is included in other corporate liabilities. As at December 31, 2015, the balance of the reserve was $80,000 (December 31, 2014 - $487,000) and the portion of the off balance sheet securitized mortgage balance that attracts a reserve was $4 million (December 31, 2014 - $22 million).

Financial liabilities from securitization relate to our participation in the market MBS program, representing MBS that we have sold to third parties but have not derecognized from our balance sheet. The balance increased by $324 million in 2015, consisting of $589 million of new liabilities issued through the market MBS program, the derecognition of $147 million of mortgages upon the sale of associated interest-only strips, the maturity of $28 million of CMB-related liabilities and $90 million of net liability repayments. For further information on the market MBS program, refer to the "Securitization Programs" section of this MD&A.

Share capital increased by $22.4 million in 2015. We raised $15.1 million of new share capital through the rights offering and the Dividend Reinvestment Plan ("DRIP") provided $7.3 million. For further information, refer to Note 22 to the consolidated financial statements.

Retained earnings increased by $8.1 million, consisting of net income of $32.9 million less dividends of $24.7 million.

Accumulated other comprehensive income, which represents unrealized gains or losses on available for sale marketable securities and financial investments, increased by $2.9 million in 2015. The fair value adjustment of a commercial real estate investment increased by $5.2 million, while the fair value adjustment to our marketable securities portfolio decreased by $2.3 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14
Net investment income - corporate assets	$ 12,602	$ 8,996	$ 13,745	$ 7,398	$ 10,262	$ 8,707	$ 9,888	$ 10,292
Other income - corporate assets	-	-	68	-	71	-	-	711
Gross investment income - securitization assets	1,469	1,246	1,105	718	603	319	175	187
Fair value adjustment	-	-	(47)	(24)	(133)	(414)	(365)	(464)
Net investment income - securitization assets	1,469	1,246	1,058	694	470	(95)	(190)	(277)
Operating expenses	4,224	3,577	3,136	3,571	3,201	3,596	3,221	3,365
Net income before income taxes	9,847	6,665	11,735	4,521	7,602	5,016	6,477	7,361
Provision for (recovery of) income taxes	397	(528)	(183)	225	473	165	385	(13)
Net income	$ 9,450	$ 7,193	$ 11,918	$ 4,296	$ 7,129	$ 4,851	$ 6,092	$ 7,374
Average mortgage portfolio yield - corporate [1]	5.31%	5.25%	5.34%	5.48%	5.43%	5.52%	5.55%	6.02%
Average term deposit interest rate [1]	2.27%	2.32%	2.38%	2.40%	2.43%	2.45%	2.46%	2.49%
Basic and diluted earnings per share	$ 0.42	$ 0.32	$ 0.56	$ 0.21	$ 0.34	$ 0.23	$ 0.30	$ 0.36
Return on average shareholders' equity [1]	14.66%	11.36%	20.16%	7.49%	12.76%	8.74%	11.01%	13.52%
Dividends per share								
Regular	$ 0.29	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Total	$ 0.29	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

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

Net investment income from corporate assets was consistent throughout 2014. The significant increases in Q2 2015 and Q4 2015 were primarily due to higher equity income from MCAP and an income distribution from a commercial real estate investment, respectively. We have experienced a steady decrease in our corporate mortgage portfolio yield due to decreases in market rates for new fundings. Realized and unrealized hedge losses were volatile throughout 2014 and 2015.

Net investment income from securitization assets was negative for most of 2014 as a result of the negative fair value adjustments relating to the CMB program. However, the growth in the market MBS program has led to steady quarterly increases in income in this asset class.

Table 22: Ten Year Financial Summary

(in thousands except per share amounts)

December 31	Net Income	Earnings Per Share	Dividends Per Share	Assets[1]	Shareholders' Equity	Market Capitalization
2015 (IFRS)	$ 32,857	$ 1.51	$ 1.13	$ 1,155,046	$ 258,802	$ 276,573
2014 (IFRS)	25,446	1.23	1.12	1,044,579	225,303	299,635
2013 (IFRS)	30,805	1.57	1.15	1,027,176	214,900	265,993
2012 (IFRS)	16,494	0.94	1.42	950,686	177,781	262,393
2011 (IFRS)	24,262	1.50	1.81	753,799	158,465	225,951
2010 (IFRS)	31,667	2.20	1.19	538,118	125,079	200,249
2009 (CGAAP)	24,742	1.73	1.44	506,683	122,879	194,766
2008 (CGAAP)	30,348	2.14	0.96	570,154	116,609	129,438
2007 (CGAAP)	14,843	1.12	1.00	557,425	103,007	140,416
2006 (CGAAP)	15,211	1.23	1.18	498,107	84,611	141,052

[1] *2010-2014 consist of corporate assets only as reported under IFRS. 2006-2009 consist of total assets as reported under Canadian Generally Accepted Accounting Principles ("CGAAP").*

SUMMARY OF FOURTH QUARTER RESULTS

Table 23: Quarterly Net Income

(in thousands) For the Quarters Ended	December 31 2015	September 30 2015	December 31 2014
Net Investment Income - Corporate Assets			
Mortgage interest	$ 12,610	$ 12,290	$ 12,519
Equity income from MCAP Commercial LP	2,070	1,992	1,767
Fees	937	1,231	901
Marketable securities	802	463	591
Whole loan gain on sale income	113	178	255
Realized and unrealized gain (loss) on financial instruments	2	(1,414)	(971)
Interest on financial investments and other loans	2,920	249	59
Interest on cash and cash equivalents	149	237	177
Gain on sale of foreclosed real estate	-	-	1,115
	19,603	**15,226**	**16,413**
Term deposit interest and expenses	5,189	5,231	5,233
Mortgage expenses	1,124	900	928
Interest on loans payable	163	248	294
Provision for (recovery of) credit losses	525	(149)	(304)
	7,001	**6,230**	**6,151**
	12,602	**8,996**	**10,262**
Other Income - Corporate Assets			
Gain on dilution of investment in MCAP Commercial LP	-	-	71
	-	**-**	**71**
Net Investment Income - Securitization Assets			
Mortgage interest	7,556	6,942	4,250
Interest on financial investments	-	-	9
Interest on short-term investments	8	9	91
Other securitization income	42	-	131
	7,606	6,951	4,481
Interest on financial liabilities from securitization	5,684	5,307	3,647
Mortgage expenses	453	398	231
	6,137	5,705	3,878
Net investment income before fair value adjustment	1,469	1,246	603
Fair value adjustment - derivative financial instruments	-	-	(133)
	1,469	**1,246**	**470**
Operating Expenses			
Salaries and benefits	2,586	1,996	1,795
General and administrative	1,638	1,581	1,406
	4,224	3,577	3,201
Net Income Before Income Taxes	9,847	6,665	7,602
Provision for (recovery of) income taxes	397	(528)	473
Net Income	**$ 9,450**	**$ 7,193**	**$ 7,129**
Basic and diluted earnings per share	$ 0.42	$ 0.32	$ 0.34
Dividends per share	$ 0.29	$ 0.28	$ 0.28

Q4 2015 vs. Q4 2014

Net Investment Income - Corporate Assets

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

For the Quarters Ended December 31	2015			2014		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 354,792	$ 4,026	4.53%	$ 282,333	$ 3,566	5.00%
- Insured	102,650	938	3.65%	159,537	1,619	4.02%
- Uninsured (completed inventory)	19,822	229	4.59%	33,795	428	5.01%
Construction loans						
- Residential	348,882	4,883	5.59%	358,920	4,933	5.45%
- Non-residential	4,705	65	5.52%	-	-	-
Commercial loans						
- Uninsured	101,567	2,469	8.88%	79,601	1,973	9.83%
Average mortgages - corporate portfolio	**$ 932,418**	**$ 12,610**	**5.31%**	**$ 914,186**	**$ 12,519**	**5.43%**

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income on impaired loans, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate. Excluding the aforementioned discount income on impaired loans, non-recurring items are immaterial for the quarters ended December 31, 2015 and December 31, 2014. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

The increase in the average uninsured single family mortgage average portfolio in Q4 2015 over Q4 2014 was primarily due to increased originations from our internal Xceed origination platform in 2015. The average insured single family balance decreased as a result of lower market MBS program securitization volumes in Q4 2015 versus Q4 2014.

The decrease in the Q4 2015 single family average mortgage portfolio yield from Q4 2014 is primarily due to lower market rates for the funding of new mortgages during 2015. 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 our ownership interest in MCAP increased by $0.3 million from Q4 2014 as a result of higher whole loan gain on sale income in Q4 2015.

Interest on financial investments and other loans increased by $2.9 million from 2014, primarily due to a $2.5 million income distribution received on a commercial real estate investment in Q4 2015.

For a discussion of realized and unrealized losses on financial instruments and gain on sale of foreclosed real estate, refer to the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

Term deposit interest and expenses decreased by $44,000 from Q4 2014. The average outstanding balance increased from $820 million in Q4 2014 to $865 million in Q4 2015, while the average term deposit interest rate decreased from 2.43% in Q4 2014 to 2.27% in Q4 2015 as a result of lower market rates for new term deposits.

For details of the provision for credit losses, refer to Table 26 of this MD&A.

Net Investment Income - Securitization Assets

Mortgage interest income increased by $3.3 million from Q4 2014, while interest on financial liabilities from securitization increased by $2.0 million. The average securitized mortgage and liability balances have increased by 74% and 65%, respectively, as a result of a significant increase in the balance of outstanding mortgages securitized through the market MBS program.

The Q4 2015 gain on sale of market MBS program interest-only strips is discussed in the "Net Investment Income - Securitization Assets" sub-section of the "Results of Operations" section of this MD&A.

Operating Expenses

Salaries and benefits increased by $791,000 from Q4 2014 as a result of an increase in the number of employees both in operations and the second line of defense and a higher variable compensation expense.

Q4 2015 vs. Q3 2015

Net Investment Income - Corporate Assets

Mortgage interest income increased by $0.3 million from Q3 2015. The average mortgage portfolio balance increased by $31 million from Q3 2015 and the average mortgage yield increased by 0.06%. The growth in the average balance consisted primarily of uninsured single family due to higher internal origination volumes and construction due to the funding of previously committed projects in Q4 2015.

Equity income from our ownership interest in MCAP increased by $78,000 from Q3 2015.

Fees decreased by $294,000 from Q3 2015, which included a non-recurring deferred profit participation fee received on a commercial loan.

Q3 2015 included a $1.4 million realized and unrealized loss on financial instruments as a result of a 0.20% decrease in the interest rate on our forward starting swaps. Q4 2015 activity was minimal as we stopped using forward starting swaps to hedge mortgage funding commitments and instead started using 5-year fixed rate term deposits.

Term deposit interest and expenses decreased by $42,000 from Q3 2015. The average outstanding balance increased by $14 million while the average interest rate decreased by 0.05% from Q3 2015.

Net Investment Income - Securitization Assets

The increases of $0.6 million in mortgage interest income and $0.4 million in interest on financial liabilities from securitization from Q3 2015 are due to increases of $97 million in both the average market MBS mortgage and financial liability from securitization balances.

Net Interest Income

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

Table 25: Net Interest Income

For the Quarters Ended December 31	2015			2014		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate [3]	Average Balance [1]	Income / Expense	Average Rate [3]
Assets						
Cash and cash equivalents	$ 74,384	$ 149	0.79%	$ 70,623	$ 177	0.99%
Marketable securities	38,829	802	8.19%	23,934	591	9.80%
Mortgages	932,418	12,610	5.31%	914,186	12,519	5.43%
Financial investments	9,149	382	16.57%	3,069	41	5.30%
Other loans	2,027	29	5.68%	1,830	17	3.69%
Corporate interest earning assets	1,056,807	13,972	5.25%	1,013,642	13,345	5.22%
Short term investments	11,775	8	0.27%	60,048	90	1.19%
Mortgages	1,126,839	7,556	2.66%	646,608	4,252	2.74%
Financial investments	-	-	-	3,414	8	1.86%
Securitized interest earning assets	1,138,614	7,564	2.64%	710,070	4,350	2.67%
Total interest earning assets	2,195,421	21,536	3.90%	1,723,712	17,695	4.17%
Non interest earning assets	83,036	2,509	-	40,718	2	-
Total assets	$ 2,278,457	$ 24,045	3.76%	$ 1,764,430	$ 17,697	4.07%
Liabilities and shareholders' equity						
Term deposits	$ 864,518	$ 5,189	2.27%	$ 819,722	$ 5,233	2.43%
Loans payable	14,234	163	3.06%	28,056	294	3.52%
Corporate liabilities	878,752	5,352	2.29%	847,778	5,527	2.49%
Securitization liabilities	1,135,196	5,684	2.01%	686,595	3,647	2.22%
Total interest bearing liabilities	2,013,948	11,036	2.13%	1,534,373	9,174	2.37%
Non interest bearing liabilities	6,728	-	-	6,527	-	-
Shareholders' equity	257,781	-	-	223,530	-	-
Total liabilities and shareholders' equity	$ 2,278,457	$ 11,036	1.88%	$ 1,764,430	$ 9,174	2.06%
Net Interest Income [2]		$ 13,009			$ 8,523	
Spread of Mortgages (Corporate Portfolio) over Term Deposits			3.04%			3.00%

[1] The average balances (excluding 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 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 and unrealized gain (loss) on financial instruments, gain on sale of foreclosed real estate, 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 consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the quarters ended December 31, 2015 and December 31, 2014. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Credit Quality

Table 26: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Quarters Ended December 31	2015	2014	Change from 2014 ($)	Change from 2014 (%)
Individual provision (recovery)				
Single family uninsured	$ 6	$ (29)	$ 35	(121%)
Residential construction	-	275	(275)	(100%)
Commercial uninsured	-	(15)	15	(100%)
	$ 6	$ 231	$ (225)	(97%)
Collective provision (recovery)				
Single family uninsured	$ 133	$ 306	$ (173)	(57%)
Single family uninsured - completed inventory	96	(158)	254	(161%)
Construction	291	176	115	65%
Commercial	38	(94)	132	(140%)
Corporate mortgages - total	558	230	328	143%
Other provisions (recoveries)	(39)	(765)	726	(95%)
	$ 519	$ (535)	$ 1,054	(197%)
Total provision for (recovery of) credit losses	$ 525	$ (304)	$ 829	(273%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 564	$ 461	$ 103	22%
Net write offs	$ 45	$ 263	$ (218)	(83%)
Annualized net write offs (basis points)	1.9	11.5		17%

SECURITIZATION PROGRAMS

We are an issuer of National Housing Act ("NHA") MBS, which involves the securitization of insured mortgages to create MBS. We issue MBS through the market MBS program, which is an internal program where 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. We issued MBS through the CMB program; however our participation ceased during 2015 with the maturity of the last CMB bond issuance.

Pursuant to the MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment obligation to investors. In instances where we have sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. Each of the MBS 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 2015, we pooled and sold $589 million of MBS to third parties. As we retained significant continuing involvement with the assets, the mortgage sales did not achieve derecognition and the associated mortgages remained on the balance sheet while a corresponding liability was incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages will be recognized on an accrual basis over the term of the mortgages.

During 2015, we sold the interest-only strips associated with $147 million of mortgages securitized through the market MBS program to third parties (2014 - $nil). Subsequent to sale, we derecognized the securitized mortgages and associated financial liabilities from securitization from our balance sheet as a result of the transfer of substantially all risks and rewards of ownership to the purchaser of the interest-only strip. As part of the transaction, we recognized a $2.6 million loan receivable from the third party purchaser and recognized a $42,000 gain on sale net of unamortized transaction costs.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes instead of selling it to a third party. As at December 31, 2015, we held $21 million of retained MBS on our balance sheet (December 31, 2014 - $26 million), which is included in the insured single family classification within corporate mortgages.

The primary risks associated with the market MBS 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) as part of the market MBS program. Prepayment risk includes the acceleration of the amortization of mortgage premiums as a result of early payouts.

As part of the transaction agreement relating to the aforementioned sale of the interest-only strips, in the case of an "Event of Default" per CMHC's NHA MBS guidelines (generally relating to an issuer insolvency), we would forfeit the rights to any remaining loan receivable repayments.

In the case of mortgage defaults, we are required to make scheduled principal and interest payments to investors as part of the Timely Payment (discussed below in the "Timely Payment" sub-section) 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.

Any mortgages securitized through the market MBS program for which derecognition is not achieved remain on the 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 achieve derecognition and 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 method ("EIM"), which incorporates mortgage prepayment assumptions.

CMB Program

We previously participated in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). Our participation in the CMB program ceased during 2015 with the maturity of the last remaining CMB bond issuance.

On the sale of MBS to CHT, we received proceeds for the sale and incurred a corresponding liability, which did not amortize over the term of the issuance and was payable in full at maturity. As the securitized mortgages repaid, we reinvested the collected principal in certain permitted investments. The securitized mortgages and reinvestment assets were held as collateral against the CMB liabilities.

Since we retained substantially all risks and rewards of ownership on the sale of the securitized mortgages to CHT, we retained the mortgages, reinvestment assets and financial liabilities from securitization on the consolidated balance sheets until the maturity of the CMB issuance.

We entered into pay "pay floating, receive fixed" interest rate swaps as part of the CMB program. The purpose of the interest rate swaps was to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that had a floating interest rate, as substantially all interest payments on the securitization liabilities were fixed rate.

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 the market MBS 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.

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 *Income Tax Act (Canada)* (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 27: Income Tax Capital [1]

(in thousands except ratios) As at December 31	2015	2014
Income tax assets [1]		
Consolidated assets	$ 2,246,958	$ 1,804,945
Adjust for assets in subsidiaries	5,535	9,141
Non-consolidated assets in MIC entity	2,252,493	1,814,086
Add: mortgage allowances	4,953	4,397
Less: securitization assets [2]	(1,091,099)	(758,936)
Less: equity investments in subsidiaries	(31,088)	(18,551)
Other adjustments	122	(965)
	$ 1,135,381	$ 1,040,031
Income tax liabilities [1]		
Consolidated liabilities	$ 1,988,156	$ 1,579,642
Adjust for liabilities in subsidiaries	(6,213)	(730)
Non-consolidated liabilities in MIC entity	1,981,943	1,578,912
Less: securitization liabilities [2]	(1,068,541)	(744,888)
	$ 913,402	$ 834,024
Income tax capital [1]	$ 221,979	$ 206,007
Income tax asset capacity [1]	$ 140,998	$ 144,509
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.11	5.05
Income tax liabilities to capital ratio	4.11	4.05

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

[2] *Securitization assets and liabilities per balance sheet (less accrued interest) are excluded from income tax assets, liabilities and capital to the extent that they are held in the MIC entity.*

Subsequent to year end, we reorganized the structure of our subsidiary investment in Xceed. This transaction increased income tax capital by $9.2 million and increased income tax asset capacity by $44 million. This reorganization had no impact on the consolidated financial statements.

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 "Income Tax Capital".

Over the last few years, OSFI and the BCBS have taken measures to promote a more resilient banking sector and strengthen global capital standards. The BCBS issued a revised capital framework referred to as Basel III, which impacts MCAN through the CAR Guideline, Leverage Ratio and other items as follows:

- 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. As of January 1, 2015, those 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 2015, the "transitional" basis phases the adjustment in by a factor of 40%, 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.

- As of January 1, 2015, OSFI replaced the assets to capital multiple with the leverage ratio. The leverage ratio is calculated as the ratio of Tier 1 Capital on an "all-in" basis to total exposures, which includes on-balance sheet assets and additional exposures for asset funding commitments, outstanding letters of credit and derivative financial instruments.

- Commencing in 2016, OSFI will also require 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 the first quarter of 2014. The CVA risk capital charge applicable to CET 1 is 64% in 2015. 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 expect to be able to meet OSFI's requirements and expectations above without materially adversely affecting the Company's business plan. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 28: Regulatory Capital

(in thousands except %)		
As at December 31	**2015**	**2014**
Regulatory Ratios (OSFI)		
Share capital	$ 206,382	$ 183,939
Contributed surplus	510	510
Retained earnings	42,617	34,481
Accumulated other comprehensive income	9,293	6,373
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(7,324)	(3,252)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 251,478	$ 222,051
Deduction for equity investment in MCAP (All-in adjustment) [1]	(10,986)	(13,008)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 240,492	$ 209,043
Total Exposures/Regulatory Assets [2]		
Consolidated assets	$ 2,246,958	$ 1,805,718
Less: CMB-related assets	-	(33,286)
Less: deductions from all-in Tier 1 Capital [1,2]	(18,310)	n/a
Less: deductions from transitional Total Capital [1,2]	n/a	(3,252)
Other adjustments [7]	2,229	2,017
Total On-Balance Sheet Exposures [3]	2,230,877	
Mortgage and investment funding commitments [4]	333,667	
Less: conversion to credit equivalent amount (50%)	(166,834)	
Letters of credit [5]	35,863	36,357
Less: conversion to credit equivalent amount (50%)	(17,932)	
Total Off-Balance Sheet Items	184,764	
Total Exposures/Regulatory Assets	$ 2,415,641	$ 1,807,554
Leverage ratio [2,3]	9.96%	n/a
Assets to capital multiple [2,3]	n/a	8.14
Risk weighted assets (transitional) [2]	$ 1,063,936	$ 950,263
Risk weighted assets (all-in) [2]	$ 1,041,964	$ 924,243
Regulatory Capital Ratios [2]		
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	23.64%	23.37%
Tier 1 capital to risk-weighted assets ratio (transitional)	23.64%	23.37%
Total capital to risk-weighted assets ratio (transitional)	23.64%	23.37%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	23.08%	22.62%
Tier 1 capital to risk-weighted assets ratio (all-in)	23.08%	22.62%
Total capital to risk-weighted assets ratio (all-in)	23.08%	22.62%

[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 2015, the deduction on the transitional basis is equal to 40% of the all-in adjustment. 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] The leverage ratio replaced the assets to capital multiple as of January 1, 2015 such that the leverage ratio is n/a for 2014 and the assets to capital multiple is n/a for 2015. The leverage ratio is based on all-in Tier 1 Capital while the assets to capital multiple was based on transitional Total 1 Capital.

[4] Mortgage and investment funding commitments are included in regulatory assets in the calculation of the leverage ratio, but were excluded from regulatory assets in the calculation of the assets to capital multiple.

[5] Letters of credit are included in regulatory assets at a 50% conversion factor in the calculation of the leverage ratio, but were included at 100% in the calculation of the assets to capital multiple.

[6] An adjustment for an institution's derivative financial instruments is included in regulatory assets in the calculation of the leverage ratio, but was not incorporated in regulatory assets in the calculation of the assets to capital multiple.

[7] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

Table 29: Regulatory Risk-Weighted Assets

(in thousands except %)	2015			2014		
As at December 31	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 75,762	21%	$ 15,598	$ 51,090	21%	$ 10,622
Marketable securities	40,735	100%	40,735	24,900	100%	24,900
Mortgages - corporate	944,109	67%	629,171	895,467	65%	580,722
Mortgages - securitized	1,075,947	3%	27,288	741,184	3%	19,669
Financial investments	41,793	100%	41,793	28,469	118%	33,720
Other loans	4,176	100%	4,176	2,108	100%	2,108
Equity investment in MCAP (all-in) [1]	44,191	59%	25,879	38,792	58%	22,529
Foreclosed real estate	529	100%	529	686	100%	686
Other assets	6,604	100%	6,604	4,508	100%	4,508
			791,773			699,464
Off-Balance Sheet Items						
Letters of credit	35,863	50%	17,932	36,357	50%	18,178
Commitments	333,667	44%	148,109	368,656	38%	140,259
			166,041			158,437
Derivative Financial Instruments						
Potential credit exposure			-			218
Positive replacement cost			-			71
Credit equivalent			-	`		289
Risk weighting			20%			20%
Risk-weighted equivalent			-			58
Charge for operational risk			84,150			66,284
Risk-Weighted Assets (all-in)			1,041,964			924,243
Equity investment in MCAP (transitional adjustment) [1]			21,972			26,020
Risk-Weighted Assets (transitional)			**$ 1,063,936**			**$ 950,263**

[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%.

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 RCB on a quarterly basis. For further information on how we manage liquidity risk, refer to the “Liquidity Risk” sub-section of the “Risk Governance & Management” section of this MD&A.

OSFI’s Liquidity Adequacy Requirements (“LAR”) guideline establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio (“LCR”) effective January 1, 2015, and the Net Stable Funding Ratio (“NSFR”) effective January 1, 2018.

The objective of the LCR is to ensure that institutions have an adequate balance of High Quality Liquid Assets (“HQLA”), consisting of cash or assets that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-day liquidity stress scenario. The minimum LCR requirement is 100%. We have maintained the ratio above this threshold and were in compliance as at December 31, 2015.

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, and the OSFI-designed Net Cumulative Cash Flow (“NCCF”) metric that we report to OSFI on a monthly basis. We were in compliance with the NCCF as at December 31, 2015 and believe that we will be able to comply with the NSFR requirements once enacted.

The table below 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 liquid assets based on term deposit liabilities maturing within 100 days.

Table 30: Liquidity Ratios

(in thousands except %) As at December 31	2015	2014
Tier 1 liquid assets [1]		
Cash and cash equivalents	$ 75,762	$ 51,090
Tier 2 liquid assets [1]		
Marketable securities	40,735	24,900
Less: marketable securities adjustment [2]	(10,104)	(7,100)
Market MBS retained by MCAN [3]	21,250	25,638
	51,881	43,438
Tier 3 liquid assets [1]		
Single family insured mortgages [4]	60,399	92,769
Less: single family insured mortgages adjustment [4]	(18,503)	(28,562)
	41,896	64,207
Total liquid assets [1]	$ 169,539	$ 158,735
100 day term deposit maturities	$ 92,622	$ 99,284
Liquidity ratios [1]		
Tier 1 & 2 liquid assets to 100 day term deposit maturities	138%	95%
Total liquid assets to 100 day term deposit maturities	183%	160%

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

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

Table 31: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2015	December 31 2014
Sources of liquidity							
Cash and cash equivalents	$ 75,762	$ -	$ -	$ -	$ -	$ 75,762	$ 51,090
Marketable securities	-	1,532	1,216	-	37,987	40,735	24,900
Mortgages - corporate	86,930	416,596	401,719	31,284	7,580	944,109	895,467
Financial investments	-	-	-	-	41,793	41,793	28,469
Other loans	1,559	-	-	2,617	-	4,176	2,108
	164,251	418,128	402,935	33,901	87,360	1,106,575	1,002,034
Uses of liquidity							
Term deposits	86,895	489,020	289,175	37,951	-	903,041	821,742
Other liabilities	12,412	-	-	-	-	12,412	11,202
	99,307	489,020	289,175	37,951	-	915,453	832,944
Net liquidity surplus (deficit)	**$ 64,944**	**$ (70,892)**	**$ 113,760**	**$ (4,050)**	**$ 87,360**	**$ 191,122**	**$ 169,090**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 171,479	$ 84,508	$ 52,255	$ -	$ -	$ 308,242	$ 337,156
Commitment - KingSett High Yield Fund	-	-	-	-	25,425	25,425	31,500
	$ 171,479	$ 84,508	$ 52,255	$ -	$ 25,425	$ 333,667	$ 368,656

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

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

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

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

Risk Governance

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

The Chief Executive Officer ("CEO") and the executive management team are responsible for developing the strategy and a comprehensive set of enterprise wide policies, including the RAF and ERMF for approval by the Board. They are responsible for fostering a strong risk culture through the "tone at the top" and applying the approved strategy and RAF to the business operations of the Company to help maximize, within the Company's risk appetite, the benefit to shareholders and other

stakeholders from a portfolio of risks that the Company is willing to accept. MCAN's Executive Committee recommends a risk appetite that aligns with the Mission Statement, Operating Philosophies and Goals and Objectives of the Company and the Operating Committee provides governance over the operations of MCAN to ensure that the strategy and tactics used by MCAN in its funding and investing activities are effective in meeting the Company's stated objectives.

The Company's operating model is predicated on the three-lines-of-defense approach to the management of risk. The operating areas headed by the CEO are the first line of defense in the Company's management of risk. They "own" the risk in their areas of responsibility and are responsible for ensuring the Company pursues only suitable business opportunities that are within the Company's risk appetite.

The second line of defense establishes the enterprise level risk management frameworks and policies, and provides risk guidance and oversight of the effectiveness of first Line risk management practices. These activities are provided by:

- The Chief Risk Officer ("CRO"), who is responsible for providing independent review and oversight of enterprise-wide risks and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF and in that regard for confirming and reporting on the significant business risks as identified by and assessed by the first line of defense of the Company.

- The Chief Financial Officer ("CFO"), who is responsible for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, and planning and budgeting systems and documents. The CFO ensures legal and regulatory compliance for all financial matters within the Company. The CFO is responsible for the Company's financial and capital plans which are presented to the Executive Committee and the Board for annual approval. Progress against these plans is regularly reported to the Board and regulators. The Finance department, led by the CFO, also updates the plan with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

- The Chief Compliance Officer ("CCO"), who is responsible for measuring, and reporting on, compliance with the Company's policies and processes that have been designed to manage and mitigate regulatory compliance risk. The CCO is mandated to promote a sound compliance culture, report to the Board on compliance with legislative requirements and make recommendations related to compliance activities.

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

The third line of defense is provided by MCAN's internal audit group which monitors, and reports on, the effectiveness of controls, risk management, and governance practices within the Company.

Risk Appetite

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

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

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

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

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

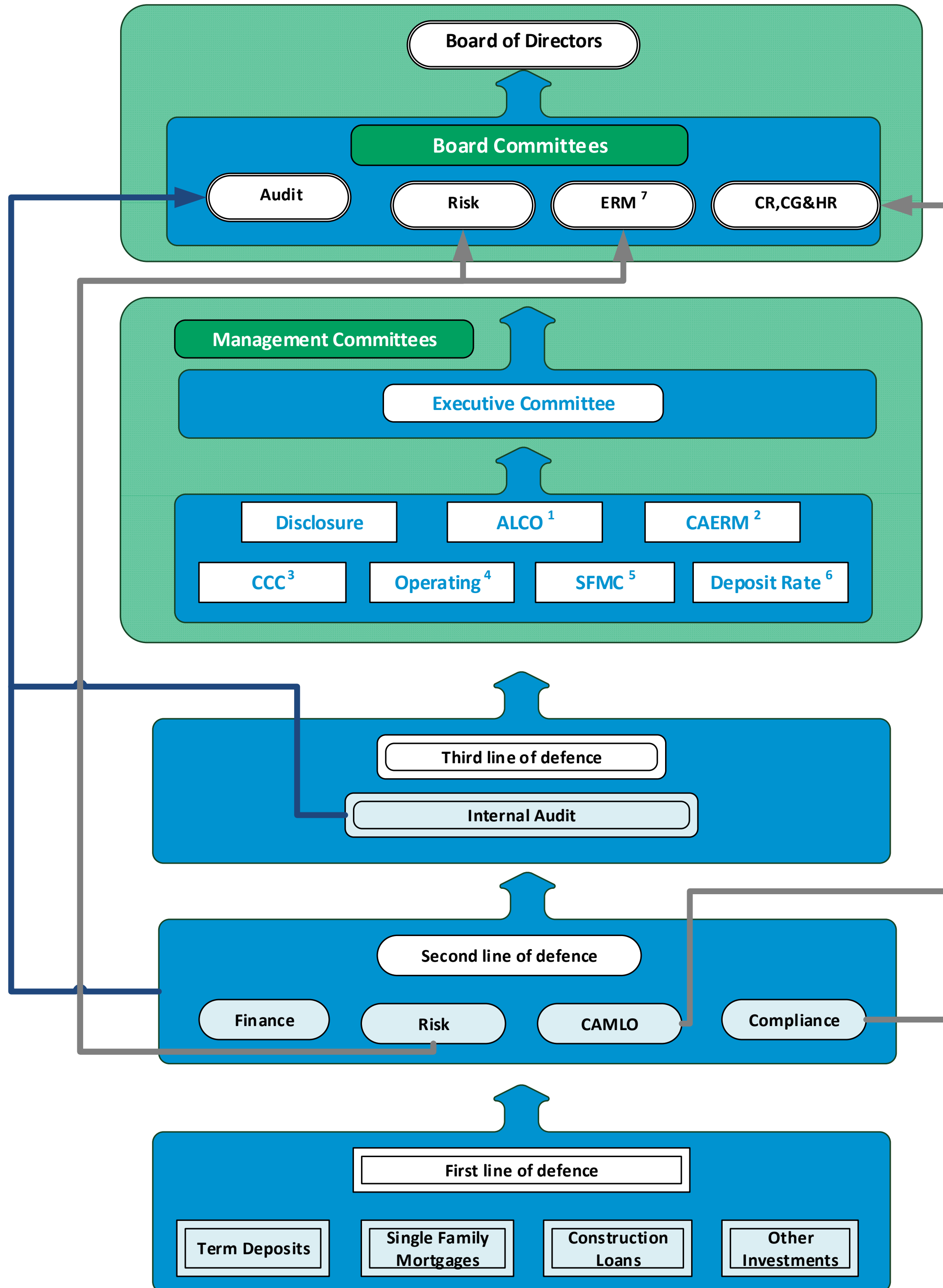
- The approach to risk appetite should reflect good industry practices and relevant regulatory guidance.

- The approach should be forward looking and enable adaptation to changing business and market conditions; it should also give consideration to the skills, resources and technology required to manage and monitor identified risk exposures and the potential impacts of stressed conditions.

The RAF purposes and objectives are as follows:

- Define maximum levels of risk that are within MCAN's risk capacity including regulatory constraints in order to achieve its strategic objectives within appropriate and approved target returns.
- Give consideration to all material risks reflecting all key aspects of the business.
- Contain both qualitative and quantitative elements to define acceptable risk levels within MCAN's risk capacity.
- Set out limits and targets to enable the Board and senior management to assess MCAN's performance and current risk levels relative to risk appetite.
- Consider MCAN's current capital position and ability to handle the range of results that may occur under normal operating conditions and under a range of stress scenarios.

The Board has overall responsibility for risk governance within MCAN. They provide oversight and carry out their risk management mandate primarily through the RCB, the Audit Committee of the Board (the "Audit Committee"), the Conduct Review, Corporate Governance and Human Resources Committee of the Board (the "CR, CG & HR Committee") and the Enterprise Risk Management Ad Hoc Committee (the "ERM Ad Hoc Committee"). There is a further committee structure at the management level as illustrated in the following diagram:



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

Liquidity and Funding Risk

Liquidity 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 17, 18, 21 and 31 to the consolidated financial statements.

Liquidity Risk Management

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The RCB is responsible for the review and approval of liquidity policies. The Asset and Liability Committee ("ALCO"), which is comprised of management, is responsible for liquidity management. We have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities, MCAN-issued market MBS retained on our balance sheet, 75% of CMHC-insured single family mortgages, 50% of CMHC-insured single family second mortgages and 50% of privately insured mortgages) of at least 100% of term deposits maturing within 100 days. As at December 31, 2015 and December 31, 2014, we met this internal target.

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

We also maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is $75 million, with sub-limits of $50 million for overdrafts and $50 million for letters of credit. In addition, we maintain a credit warehouse facility which can be drawn as required as mortgage fundings occur, which bears interest at the prime rate. This facility provides up to $50 million of borrowings, and insured mortgages are eligible to act as collateral in the facility for a period of no longer than one year. Subsequent to year end, the credit warehouse facility counterparty ceased its operations and was placed under supervisory administration, and as a result thereof, the credit warehouse was terminated. We believe that the termination of the credit warehouse facility did not have a material impact on our operations or liquidity given the other sources of funding options available to the Company.

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

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also completes monthly and quarterly stress testing which is reviewed by ALCO and the RCB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

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

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

Reputational Risk

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

Reputational Risk Management

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

Strategic and Business Risk

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

Strategic and Business Risk Management

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

Operational Risk

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

Operational Risk Management

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

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

Cyber Risk

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

Cyber Risk Management

We manage cyber risk through oversight by management, including an IT Management Committee, as well as the use of external third party advisors to provide technical expertise.

Outsourcing 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.

Outsourcing Risk Management

MCAN's Outsourcing Policy, which is approved annually by the Board, incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We review our outsourced arrangements on an annual basis

to determine if the arrangement is material. If the arrangement is material it is subjected to a risk management program, which includes detailed monitoring activities.

Credit Risk

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

Credit Risk Management

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

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

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

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

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

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage.

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

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing 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 33 to the consolidated financial statements.

Interest Rate Risk Management

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and matching the terms of corporate assets and term

deposits so that they offset each other, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the RCB each quarter.

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

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

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, commodity prices and foreign exchange rates, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Market Risk Management

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

Other Risk Factors

General Litigation

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

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

Reliance on Key Personnel

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

Economic Conditions

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

Regulatory Risk

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

Qualification as a Mortgage Investment Corporation

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

Mortgage Renewal Risk

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

Mortgage Prepayment Risk

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

Competition Risk

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

Monetary Policy

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

Environmental Risk

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

Changes in Laws and Regulations

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

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our

restating prior period financial statements. Please refer to the "Standards Issued But Not Yet Effective" section of this MD&A for further details.

Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished by them, including financial statements and other information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and other information that do not comply with IFRS, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

Leverage

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

No Assurance of Achieving Investment Objectives or Payment of Dividends

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2015, there were 22,782,433 common shares outstanding. As at February 25, 2016, there were 22,862,723 common shares outstanding.

In 2015, we closed a rights offering to common shareholders that raised $15.1 million of new share capital through the issuance of 1,406,084 common shares, creating $87 million of additional income tax asset capacity.

During 2015, we issued 568,588 new shares under the DRIP out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%.

For additional information related to share capital, refer to Note 22 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

Table 32: Contractual Obligations

(in thousands) **As at December 31, 2015**	**Less than one year**	**One to three years**	**Three to five years**	**Over five years**	**Total**
Mortgage funding commitments	$ 255,987	$ 52,255	$ -	$ -	$ 308,242
Commitment - KingSett High Yield Fund	-	-	-	25,425	25,425
Operating lease	575	1,496	1,193	1,881	5,145
	$ 256,562	**$ 53,751**	**$ 1,193**	**$ 27,306**	**$ 338,812**

We retain mortgage servicing obligations relating to mortgages securitized through the market MBS program 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 32 to the consolidated financial statements.

As at December 31, 2015, of our total single family mortgage renewal rights of $1.3 billion (December 31, 2014 - $735 million), $219 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2014 - $366 million).

DIVIDEND POLICY AND RECORD

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

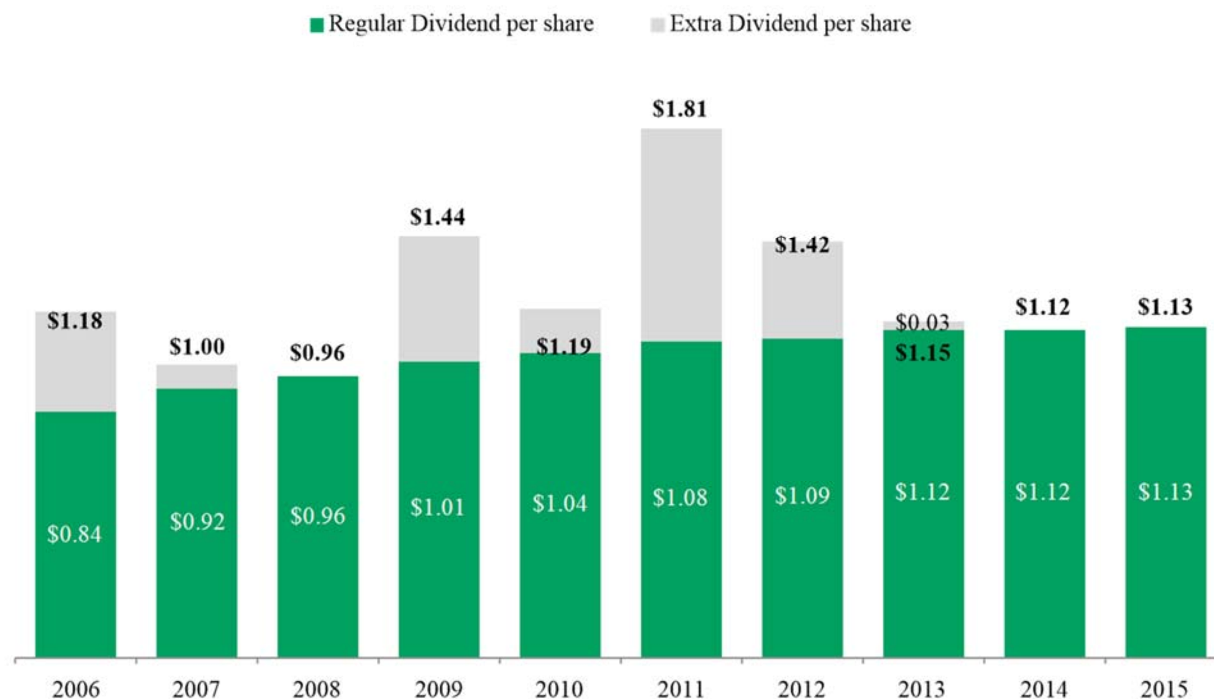
Dividends per share over the past three years are as follows:

Table 33: Dividends

Fiscal Period	2015	2014	2013
First Quarter - Regular Dividend	$ 0.28	$ 0.28	$ 0.28
First Quarter - Extra Dividend	-	-	0.03
Second Quarter	0.28	0.28	0.28
Third Quarter	0.28	0.28	0.28
Fourth Quarter	0.29	0.28	0.28
	$ 1.13	**$ 1.12**	**$ 1.15**
Taxable Dividends	1.13	1.12	1.15
	$ 1.13	**$ 1.12**	**$ 1.15**

Consistent with the prior quarter dividend increase, the Board declared a first quarter dividend of $0.29 per share to be paid March 31, 2016 to shareholders of record as of March 15, 2016.

Figure 5: Dividend History



Historically, extra dividends have been paid with the regular March 31st quarterly dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2015 and December 31, 2014 are discussed in Note 30 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, short-term investments, marketable securities, mortgages, financial investments, other loans, derivative financial instruments, financial liabilities from securitization, term deposits and loans payable, which are discussed throughout this MD&A.

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

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

PEOPLE

As at December 31, 2015, we had 64 employees.

REGULATORY COMPLIANCE

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

INTERNAL AUDIT

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments 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 period.

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

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

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

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the effective interest rate method ("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 those standards when they become effective.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued a final revised IFRS 9 standard. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also includes an expected credit loss model to replace the current incurred loss model. Additionally, IFRS 9 has new hedge accounting principles that are aimed to align hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

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. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

IAS 1, *Presentation of Financial Statements*

The Company will be required to adopt amendments to IAS 1, *Presentation of Financial Statements*, which includes amendments to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements, for annual periods beginning on or after January 1, 2016. Management has concluded that the amendments to IAS 1 will have no impact on the Company's consolidated financial statements.

IFRS 7, *Financial Instruments: Disclosures*

The Company will be required to adopt amendments to IFRS 7, *Financial Instruments: Disclosures*, requiring increased disclosure regarding derecognition of financial assets and continuing involvement accounting, for annual periods beginning on or after January 1, 2016. Management has concluded that the amendments to IFRS 7 will have no impact on the Company's consolidated financial statements.

IFRS 16, *Leases*

IFRS 16, *Leases* 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 from 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 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (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. The Company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2015, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Commission – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2015.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2015.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1 and ending on December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent Limitations of Controls and Procedures

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

NON IFRS MEASURES

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("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 and spread of mortgages over term deposits 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 28 of this MD&A and Note 34 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.