MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 2018

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, 2018 and December 31, 2017 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 22, 2019.

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.

Effective January 1, 2018, MCAN prospectively adopted IFRS 9, *Financial Instruments* and did not restate prior period information. Accordingly, financial information as at December 31, 2018 and for the year ended December 31, 2018 is based on IFRS 9 and prior periods are based on International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

- our ability to successfully implement and realize on our business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of our business;
- computer failure or security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected margin between interest earned on mortgage portfolios and interest paid on deposits;
- the relative uncertainty and volatility of real estate markets;
- acceptance of our products in the marketplace;
- our ability to forecast future changes to borrower credit and credit scores, loan to value ratios and other forward-looking factors used in assessing expected credit losses;
- availability of key personnel;
- our operating cost structure; and
- the current tax regime.

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

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in Canada Mortgage Bonds ("CMB") and mortgage-backed securities ("MBS") spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;

- adverse legislation or regulation, including recent changes implemented by OSFI and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- our ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investment in MCAP, marketable securities and non-marketable securities;
- litigation risk;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update or revise any forward-looking information after the date of this MD&A whether as a result of new information, future events or otherwise or to explain any material difference between subsequent actual events and any forward-looking information. However, any further disclosures made on related subjects in subsequent reports should be consulted.

ACRONYMS

AFS	*Available for Sale*	***EIM***	*Effective Interest Rate Method*	***LP ARA***	*Limited Partner's At-Risk Amount*
ALCO	*Asset and Liability Committee*	***EIR***	*Effective Interest Rate*	***LTV***	*Loan to Value (ratio)*
BCBS	*Basel Committee on Banking Supervision*	***FVOCI***	*Fair Value Through Other Comprehensive Income*	***MBS***	*Mortgage Backed Securities*
CAR	*Capital Adequacy Requirements*	***FVPL***	*Fair Value Through Profit and Loss*	***MD&A***	*Management's Discussion & Analysis*
CDIC	*Canada Deposit Insurance Corporation*	***HELOC***	*Home Equity Line of Credit*	***MIC***	*Mortgage Investment Corporation*
CET 1	*Common Equity Tier 1*	***IAS***	*International Accounting Standard*	***NHA***	*National Housing Act*
CHT	*Canada Housing Trust*	***IASB***	*International Accounting Standards Board*	***OSFI***	*Office of the Superintendent of Financial Institutions*
CMB	*Canada Mortgage Bonds*	***IFRIC***	*IFRS Interpretations Committee*	***PD***	*Probability of Default*
CMHC	*Canada Mortgage and Housing Corporation*	***IFRS***	*International Financial Reporting Standards*	***RAF***	*Risk Appetite Framework*
DRIP	*Dividend Reinvestment Plan*	***LAR***	*Liquidity Adequacy Requirements*	***SEDAR***	*System for Electronic Document Analysis and Retrieval*
EAD	*Exposure at Default*	***LCR***	*Liquidity Coverage Ratio*	***SPPI***	*Solely Payment of Principal and Interest*
ECL	*Expected Credit Losses*	***LGD***	*Loss Given Default*	***TSX***	*Toronto Stock Exchange*

During 2018, we renamed "Financial Investments" as "Non-Marketable Securities".

HIGHLIGHTS

Financial Performance

Q4 2018

- Net income of $3.5 million in Q4 2018, a decrease of $7.3 million (67%) from $10.8 million in Q4 2017.
- Unrealized loss on marketable securities of $4.2 million, consisting entirely of a reduction in the fair value of the real estate investment trust ("REIT") component of our marketable securities portfolio. This unrealized loss negatively impacted earnings per share by $0.17. Subsequent to year end, the value of the marketable securities portfolio recovered, consistent with the broader market. In Q4 2017, we recorded an unrealized gain on marketable securities of $2.3 million through accumulated other comprehensive income in accordance with IAS 39.
- Equity income from MCAP Commercial LP ("MCAP") decreased by $2.2 million (40%) from Q4 2017 due to a reduced ownership interest and compressed spreads, which were consistent with the broader market.
- Earnings per share totalled $0.15 per share in Q4 2018, a decrease of $0.32 (68%) from $0.47 per share in Q4 2017.
- Return on average shareholders' equity[1] was 4.66% in Q4 2018 compared to 14.63% in Q4 2017.

Fiscal 2018

- Net income of $36.3 million in fiscal 2018, a decrease of $3.6 million (9%) from $39.9 million in 2017.
- Income from non-marketable securities decreased by $3.5 million (39%) from 2017 as a result of lower distribution income from our investment in Crown Realty II Limited Partnership ("Crown LP") as it sold the last remaining property in its opportunity fund.
- Equity income from MCAP decreased by $1.2 million (9%) from 2017 due to a reduction in our ownership interest from 14.41% in 2017 to 13.71% at December 31, 2018 and compressed spreads.
- Unrealized net loss on securities of $3.5 million relating to our marketable securities REIT portfolio, partially offset by $2.6 million and $0.4 million of realized and unrealized net gains on our investments in Crown LP and the KingSett High Yield Fund ("KSHYF").
- Earnings per share totalled $1.54 in 2018, a decrease of $0.18 (10%) from $1.72 in 2017.
- Return on average shareholders' equity[1] was 11.90% in 2018 compared to 13.75% in 2017.
- Net corporate mortgage spread income increased by $0.9 million (3%) from 2017 due to the average corporate mortgage portfolio balance[1] increasing by 2%. The spread of corporate mortgages over term deposits[1] remained unchanged at 3.07% from 2017.

Corporate Activity

Q4 2018

- Corporate assets of $1.22 billion at December 31, 2018 decreased by $15 million (1%) from September 30, 2018.
- Corporate mortgage portfolio decreased by $43 million (4%) in Q4 2018, consisting of $20 million of net portfolio growth and the transfer of $63 million of insured single family to the securitized portfolio.
- Uninsured single family portfolio increased by $34 million (16%) during Q4 2018 due to a 53% increase in originations from Q3 2018.
- Insured single family portfolio increased by $35 million during Q4 2018 (excluding the impact of the transfer to the securitized portfolio noted above). New originations of $28 million decreased by $7 million from Q3 2018 but remained consistent with our growth strategy.
- Construction and commercial portfolios decreased by $53 million (9%) during Q4 2018, consistent with the moderation of our corporate portfolio in this product type.
- Corporate mortgage originations decreased to $86 million (8%) in Q4 2018 compared to $93 million in Q4 2017, including increases of $29 million and $12 million in uninsured and insured single family, offset by decreases in commercial originations of $33 million and construction originations of $20 million.

Fiscal 2018

- Corporate assets increased by $42 million (4%) from December 31, 2017, reflecting an increase of $59 million (7%) in the corporate mortgage portfolio.
- Corporate mortgage portfolio activity included increases of $57 million in uninsured single family, $42 million in construction and $31 million in insured single family, partially offset by decreases of $43 million in uninsured completed inventory and $28 million in commercial.
- Corporate mortgage originations increased by 32% to $391 million in 2018 from $295 million in 2017, including increases of $76 million and $55 million in uninsured and insured single family, respectively.

Dividend

- The Board of Directors (the "Board") declared a first quarter dividend of $0.32 per share on February 22, 2019 to be paid March 29, 2019 to shareholders of record as of March 15, 2019.

Credit Quality

- The impaired total mortgage ratio[1,2,4] increased to 0.12% at December 31, 2018 from 0.03% at September 30, 2018 and 0.09% at December 31, 2017.
- The impaired corporate mortgage ratio[1,2,4] increased to 0.23% at December 31, 2018 from 0.06% at September 30, 2018 and 0.20% at December 31, 2017.
- Total mortgage arrears[1,3] decreased to $16 million at December 31, 2018 from $17 million at September 30, 2018 and $18 million at December 31, 2017.
- Net write-offs were nil basis points of the average corporate portfolio in Q4 2018 compared to 1.5 basis points in Q4 2017; annual ratios were 2.8 basis points in fiscal 2018 and 5.7 basis points in 2017.
- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 58.2% at December 31, 2018 compared to 57.1% at September 30, 2018 and 52.6% at December 31, 2017.

Capital

- Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital to risk-weighted assets ratios[1] were 21.66% at December 31, 2018 compared to 20.58% at September 30, 2018 and 21.26% at December 31, 2017.
- The leverage ratio[1] was 11.79% at December 31, 2018 compared to 11.35% at September 30, 2018 and 11.31% at December 31, 2017.
- The income tax assets to capital ratio[1] was 4.64 at December 31, 2018 compared to 4.90 at September 30, 2018 and 4.60 at December 31, 2017.
- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions ("OSFI").

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *Represents impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.*
[3] *The mortgage arrears balance was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.*
[4] *The impaired mortgage ratios do not include insured mortgages since credit risk is substantially mitigated by mortgage insurance.*

Summary of Three Year Results of Operations

Financial Performance

In 2016, we recorded net income of $40.2 million, including growth in higher yielding corporate assets which offset lower single family originations. Our investment in MCAP and the non-marketable securities portfolio contributed $13.5 million and $6.5 million to net income, respectively. This strong financial performance led to $1.75 earnings per share and a 14.74% return on average shareholders' equity [1].

In 2017, we recorded net income of $39.9 million. Although our total assets and corporate mortgage interest income decreased by 3% and 6% respectively from 2016, our spread of corporate mortgages over term deposits [1] increased by 0.15%. The performance from our equity investment in MCAP and non-marketable securities was strong with $14.4 million and $9.0 million of income respectively. We also earned $0.8 million from the sale of a portion of our investment in MCAP. In 2017, we recorded $1.72 earnings per share and a 13.75% return on average shareholders' equity [1].

In 2018, we recorded net income of $36.3 million, a decrease of 9% from 2017. Notably, net corporate mortgage spread income[1] increased by 3% from 2017. Equity income from MCAP was close to that recorded in 2016 at $13.2 million while non-marketable securities contributed $5.4 million, a decrease of approximately 39% from 2017. We also earned $1.7 million from the sale of a portion of our investment in MCAP. In 2018, we recorded $1.54 earnings per share and a 11.90% return on average shareholders' equity [1].

Corporate Activity

In 2016, total invested assets remained consistent from 2015 at $2.28 billion. The mortgage mix was generally evenly distributed between corporate and securitized mortgages.

In 2017, total invested assets were $2.22 billion, a decrease of 3% from 2016. Corporate mortgages decreased by $41 million (5%) due to lower origination volumes in single family, partially offset by higher originations in residential construction.

In 2018, total invested assets were $2.14 billion, a decrease of 3% from 2017. During the year, we shifted our corporate mortgage portfolio strategy to focus more on single family mortgages. Given the current phase of the real estate cycle, we believe that it is prudent to be more selective and continue to evaluate opportunities in markets for our construction lending portfolio. The average balance of our commercial loan portfolio has remained consistent during 2018 and provides an appropriate risk-adjusted return. For further information on the construction portfolio, refer to the "Construction and commercial lending" sub-section of this MD&A. Our securitized mortgages have decreased 13% from 2017, which is due to lower insured originations in 2017 and the natural run off of the portfolio.

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

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights - Annual

(in thousands except for per share amounts and %) For the Years Ended December 31	2018 [1]	2017	2016	Change from 2017 (%)
Income Statement Highlights				
Net investment income - corporate assets	$ 48,124	$ 52,413	$ 51,701	(8%)
Net investment income - securitization assets	4,976	5,613	5,778	(11%)
	53,100	58,026	57,479	(8%)
Other income	2,015	876	-	130%
Operating expenses	18,922	19,218	17,963	(2%)
Net income before income taxes	36,193	39,684	39,516	(9%)
Provision for (recovery of) income taxes	(100)	(244)	(666)	(59%)
Net income	$ 36,293	$ 39,928	$ 40,182	(9%)
Basic and diluted earnings per share	$ 1.54	$ 1.72	$ 1.75	(10%)
Dividends per share	$ 1.43	$ 1.31	$ 1.17	9%
Next quarter's dividend per share	$ 0.32			
Return on average shareholders' equity [2]	11.90%	13.75%	14.74%	(1.85%)
Taxable income per share [2,3]	$ 1.29	$ 1.51	$ 1.24	(15%)
Yields				
Average mortgage portfolio yield - corporate [2]	5.62%	5.31%	5.15%	0.31%
Term deposit average interest rate [2]	2.55%	2.24%	2.23%	0.31%
Spread of mortgages over term deposits [2]	3.07%	3.07%	2.92%	0.00%
Average mortgage portfolio yield - securitized [2]	2.57%	2.61%	2.73%	(0.04%)
Financial liabilities from securitization - average interest rate [2]	1.83%	1.87%	2.02%	(0.04%)
Spread of mortgages over liabilities [2]	0.74%	0.74%	0.71%	0.00%
Average term to maturity (in months)				
Mortgages - corporate	11.5	11.3	12.8	2%
Term deposits	18.7	19.1	17.4	(2%)

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[3] For further information refer to the "Taxable Income" section of this MD&A.

Table 2: Income Statement Highlights - Quarterly

(in thousands except for per share amounts and %) For the Periods Ended	Q4 2018 [1]	Q3 2018 [1]	Change (%)	Q4 2017	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 7,872	$ 13,116	(40%)	$ 14,359	(45%)
Net investment income - securitization assets	1,082	1,276	(15%)	1,416	(24%)
	8,954	14,392	(38%)	15,775	(43%)
Other income	-	314	(100%)	-	-
Operating expenses	5,512	3,637	52%	5,302	4%
Net income before income taxes	3,442	11,069	(69%)	10,473	(67%)
Provision for (recovery of) income taxes	(105)	63	(267%)	(334)	(69%)
Net income	$ 3,547	$ 11,006	(68%)	$ 10,807	(67%)
Basic and diluted earnings per share	$ 0.15	$ 0.47	(68%)	$ 0.47	(68%)
Dividends per share	$ 0.32	$ 0.37	(14%)	$ 0.37	(14%)
Return on average shareholders' equity [2]	4.66%	14.29%	(9.63%)	14.63%	(9.97%)
Taxable income per share [2,3]	$ 0.49	$ 0.13	277%	$ 0.34	44%
Yields					
Average mortgage portfolio yield - corporate [2]	5.62%	5.53%	0.09%	5.56%	0.06%
Term deposit average interest rate [2]	2.69%	2.61%	0.08%	2.29%	0.40%
Spread of mortgages over term deposits [2]	2.93%	2.92%	0.01%	3.27%	(0.34%)
Average mortgage portfolio yield - securitized [2]	2.53%	2.57%	(0.04%)	2.57%	(0.04%)
Financial liabilities from securitization - average interest rate [2]	1.83%	1.83%	0.00%	1.81%	0.02%
Spread of mortgages over liabilities [2]	0.70%	0.74%	(0.04%)	0.76%	(0.06%)
Average term to maturity (in months)					
Mortgages - corporate	11.5	12.8	(10%)	11.3	2%
Term deposits	18.7	19.2	(3%)	19.1	(2%)

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[3] For further information refer to the "Taxable Income" section of this MD&A.

Table 3: Balance Sheet Highlights

(in thousands except for per share amounts and %) As at	December 31 2018 [1]	September 2018 [1]	December 31 2017	December 31 2016	Change from 2017 (%)
Balance Sheet Highlights					
Assets					
Corporate	$ 1,224,339	$ 1,239,181	$ 1,182,371	$ 1,188,480	4%
Securitization	916,733	950,200	1,034,404	1,092,375	(11%)
Total assets	$ 2,141,072	$ 2,189,381	$ 2,216,775	$ 2,280,855	(3%)
Mortgages - corporate	$ 922,390	$ 965,674	$ 863,384	$ 904,112	7%
Mortgages - securitized	$ 887,252	$ 919,176	$ 1,016,724	$ 1,071,849	(13%)
Liabilities					
Corporate	$ 936,443	$ 953,405	$ 904,099	$ 927,293	4%
Securitization	897,935	933,553	1,015,699	1,071,786	(12%)
Total liabilities	$ 1,834,378	$ 1,886,958	$ 1,919,798	$ 1,999,079	(4%)
Shareholders' equity	$ 306,694	$ 302,423	$ 296,977	$ 281,776	3%
Capital Ratios [2]					
Income tax assets to capital ratio	4.64	4.90	4.60	4.87	1%
CET 1, Tier 1 and Total Capital ratios [4]	21.66%	20.58%	21.26%	22.55%	0.40%
Leverage ratio [3]	11.79%	11.35%	11.31%	10.46%	0.48%
Credit Quality					
Impaired mortgage ratio (total) [2,5]	0.12%	0.03%	0.09%	0.14%	0.03%
Impaired mortgage ratio (corporate) [2,5]	0.23%	0.06%	0.20%	0.31%	0.03%
Mortgage Arrears [6]					
Corporate	$ 9,435	$ 8,398	$ 8,766	$ 13,041	8%
Securitized	6,527	8,472	8,803	13,609	(26%)
Total	$ 15,962	$ 16,870	$ 17,569	$ 26,650	(9%)
Common Share Information (end of period)					
Number of common shares outstanding	23,798	23,746	23,378	23,075	2%
Book value per common share [2]	$ 12.89	$ 12.74	$ 12.70	$ 12.21	1%
Common share price - close	$ 13.32	$ 17.50	$ 17.84	$ 14.32	(25%)
Market capitalization [2]	$ 316,989	$ 415,555	$ 417,064	$ 330,434	(24%)

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[3] Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] These ratios are presented on the "all-in" basis, with certain regulatory capital deductions fully phased in.
[5] Incorporates impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.
[6] The calculation of mortgage arrears was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.

OUTLOOK

Real Estate Market Conditions

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to both regulatory changes and local economic conditions. We expect overall Canadian housing market conditions to experience downward pricing pressure and uncertainty throughout 2019 with sustained headwinds if interest rates continue to rise, challenging affordability.

We expect continued weakness in resale markets through 2019 given recent increases in unsold homes in certain markets. This has also led to a reduction in housing starts. In October 2018, the Bank of Canada announced a further increase to its benchmark interest rate to 1.75%. We expect interest rates to continue to increase throughout 2019, placing further pressures on consumer spending and housing/mortgage affordability.

Both the Greater Vancouver Area and the Greater Toronto Area markets experienced reduced sales during 2018 as a result of the new mortgage rules, other statutory changes designed to cool the housing markets and overall mortgage and housing market dynamics. The Prairie province economies are expected to continue to be challenged due to oil prices and the complexities in moving oil to markets.

Notwithstanding the above, we began to observe some small signs of recovery beginning in the second half of 2018 as buyers continued to adjust to the new mortgage rules and the increasing interest rate environment. We continue to closely monitor the markets where we lend to ensure that we can capitalize on opportunities for growth in our quality portfolio.

Regulatory Changes

Effective January 1, 2018, additional granularity was added to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20") by OSFI, including a stress test for uninsured mortgages. We believe that the uninsured stress test has reduced the volume of mortgages that we approve based on the borrower's ability to service the higher mortgage rates used in the stress test.

Impact on MCAN

MCAN has historically repositioned itself to adapt our portfolio to changing market dynamics. Consistent with our disclosures in the Second Quarter and Third Quarter outlooks, we continue to reposition our mortgage portfolio to focus more on single family mortgages and less on construction lending given the uncertainty in the housing market, the impact of increasing rates, the overall economy and related risk factors.

Our construction lending activity is considered to have a higher risk profile compared to our other lending activities. We believe that it is prudent to continue to closely manage lending activities in this business segment as we view that we are approaching the end of a real estate cycle. We believe that single family lending typically provides a more moderate risk profile. Accordingly, we will focus on leveraging the success that we had in this market during the last half of 2018 and continue to grow our single family origination volumes in 2019.

To assist with our single family growth plans, we launched programs to attract potential mortgages through the brokerage community and we increased our internal sales capabilities. In addition, through MCAP and other originators, we have increased our single family mortgage acquisitions. We expect to continue to use acquisitions to supplement our own underwriting activities to grow our balance sheet. These acquisition activities are subject to satisfactory loan quality and pricing. We also expect to increase our securitization volumes of insured single family mortgages. All of these single family activities provide the Company with the opportunity to realize a continuing income stream on mortgage renewal which improves long-term profitability notwithstanding the current mortgage spread environment.

We observed historically low spread levels on our single family mortgage originations in 2018 and foresee this continuing into 2019 as we compete with other lenders for originations. Notwithstanding these competitive market conditions, increased interest rates and the regulatory changes related to Guideline B-20, we are focused on growing our origination volumes. We also expect to continue to invest in sustainable internal operating platforms to ensure that there are efficient processes and systems in place to support profitable growth in our single family business that is in line with our risk management objectives.

As we look to maintain the level of our investment in construction and commercial loans during 2019, while at the same time growing the single family business, we do not expect significant growth in our net interest margins in the near term. Beyond 2019, we expect to return to our targeted long term growth in corporate assets of 10% and to realize improved increases in net interest margin.

We are starting 2019 with a strong capital position and asset capacity that can be profitably deployed as opportunities arise. We have an eager and committed management team that we announced in the fourth quarter. Collectively, the team has deep industry and Company experience and is focused on driving our business strategy forward. Overall, we believe that our strategy in the near term is prudent given our view of the current risks to the Canadian economy and housing markets. Over the long term we are focused on growing our balance sheet and providing growing returns and sustainable dividends to our shareholders.

RESULTS OF OPERATIONS

Table 4: Net Income

(in thousands except for per share amounts) For the Periods Ended	Q4 2018 [1]	Q4 2017	Change (%)	Annual 2018 [1]	Annual 2017	Change (%)
Net Investment Income - Corporate Assets						
Mortgage interest	$ 13,649	$ 12,109	13%	$ 51,610	$ 47,765	8%
Equity income from MCAP Commercial LP	3,292	5,457	(40%)	13,188	14,427	(9%)
Non-marketable securities	1,230	1,480	(17%)	5,357	8,850	(39%)
Marketable securities	898	854	5%	3,464	3,722	(7%)
Fees	397	321	24%	1,909	1,239	54%
Interest on cash and other income	353	357	(1%)	1,284	1,051	22%
Realized and unrealized gain (loss) on securities [1,3]	(4,156)	-	-	(512)	-	-
	15,663	**20,578**	**(24%)**	**76,300**	**77,054**	**(1%)**
Term deposit interest and expenses	6,590	5,233	26%	23,814	20,837	14%
Mortgage expenses	1,048	951	10%	4,031	3,877	4%
Interest on loans payable	27	2	1,250%	143	38	276%
Provision for (recovery of) credit losses [1,2]	126	33	282%	188	(111)	(269%)
	7,791	**6,219**	**25%**	**28,176**	**24,641**	14%
	7,872	**14,359**	**(45%)**	**48,124**	**52,413**	**(8%)**
Other Income - Corporate Assets						
Gain on sale of investment in MCAP Commercial LP	-	-	-	1,701	785	117%
Gain on dilution of investment in MCAP Commercial LP	-	-	-	314	91	245%
	-	**-**	**-**	**2,015**	**876**	**130%**
Net Investment Income - Securitization Assets						
Mortgage interest	5,657	6,449	(12%)	24,540	27,028	(9%)
Other securitization income	154	82	88%	360	221	63%
	5,811	**6,531**	**(11%)**	**24,900**	**27,249**	**(9%)**
Interest on financial liabilities from securitization	4,208	4,594	(8%)	17,793	19,533	(9%)
Mortgage expenses	519	521	(0%)	2,133	2,103	1%
Provision for (recovery of) credit losses [1,2]	2	-	-	(2)	-	-
	4,729	**5,115**	**(8%)**	**19,924**	**21,636**	**(8%)**
	1,082	**1,416**	**(24%)**	**4,976**	**5,613**	**(11%)**
Operating Expenses						
Salaries and benefits	2,700	2,595	4%	11,118	10,555	5%
General and administrative	2,812	2,707	4%	7,804	8,663	(10%)
	5,512	**5,302**	**4%**	**18,922**	**19,218**	**(2%)**
Net income before income taxes	3,442	10,473	(67%)	36,193	39,684	(9%)
Provision for (recovery of) income taxes	(105)	(334)	(69%)	(100)	(244)	(59%)
Net Income	**$ 3,547**	**$ 10,807**	**(67%)**	**$ 36,293**	**$ 39,928**	**(9%)**
Basic and diluted earnings per share	$ 0.15	$ 0.47	(68%)	$ 1.54	$ 1.72	(10%)
Dividends per share	$ 0.32	$ 0.37	(14%)	$ 1.43	$ 1.31	9%

[1] *Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.*

[2] *Under IFRS 9, the methodology for the calculation of mortgage allowances and provisions has changed from IAS 39, therefore provisions under IFRS 9 are not directly comparable to prior periods.*

[3] *Under IFRS 9, fair value changes in certain reclassified financial assets are presented in the income statement and are therefore not directly comparable to prior periods. Under IAS 39, these fair value changes were recorded through other comprehensive income.*

Net Investment Income - Corporate Assets

Mortgage interest income

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

For the Quarters Ended	December 31, 2018			September 30, 2018			December 31, 2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family									
- Insured	$ 126,367	$ 977	3.17%	$ 128,440	$ 983	3.06%	$ 84,468	$ 696	3.30%
- Uninsured	245,177	2,772	4.52%	217,645	2,499	4.59%	200,797	2,366	4.72%
- Uninsured - completed inventory	4,400	69	6.19%	5,111	85	6.59%	51,826	885	6.78%
Construction loans									
- Residential	441,790	7,448	6.69%	436,632	7,116	6.47%	376,059	5,570	5.88%
- Non residential	10,589	191	7.15%	6,927	110	6.30%	6,995	100	5.69%
Commercial loans									
- Multi family residential	70,076	948	5.37%	74,185	993	5.25%	56,684	701	4.91%
- Other commercial	69,515	1,244	7.09%	73,116	1,308	7.12%	89,136	1,791	7.98%
Mortgages - corporate portfolio	$ 967,914	$ 13,649	5.62%	$ 942,056	$ 13,094	5.53%	$ 865,965	$ 12,109	5.56%
Term deposits	917,106	6,590	2.69%	903,136	6,334	2.61%	847,523	5,233	2.29%
Net corporate mortgage spread income		$ 7,059			$ 6,760			$ 6,876	
Spread of mortgages over term deposits			2.93%			2.92%			3.27%
Average term to maturity (months)									
Mortgages - corporate	11.5			12.8			11.3		
Term deposits	18.7			19.2			19.1		

Table 6: Net Interest Income and Average Rate by Mortgage Portfolio - Annual

For the Years Ended December 31	2018			2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Insured	$ 104,146	$ 3,232	3.10%	$ 88,473	$ 2,934	3.32%
- Uninsured	216,631	9,948	4.59%	220,160	10,185	4.63%
- Uninsured - completed inventory	9,675	558	5.76%	44,610	2,570	5.76%
Construction loans						
- Residential	428,508	27,795	6.49%	391,310	21,837	5.58%
- Non residential	6,745	438	6.50%	7,308	394	5.40%
Commercial loans						
- Multi family residential	72,878	3,885	5.33%	45,549	2,119	4.65%
- Other commercial	79,662	5,754	7.24%	101,609	7,726	7.61%
Mortgages - corporate portfolio	$ 918,245	$ 51,610	5.62%	$ 899,019	$ 47,765	5.31%
Term deposits	878,944	23,814	2.55%	870,393	20,837	2.24%
Net corporate mortgage spread income		$ 27,796			$ 26,928	
Spread of mortgages over term deposits			3.07%			3.07%
Average term to maturity (months)						
Mortgages - corporate	11.5			11.3		
Term deposits	18.7			19.1		

[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 and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 and the years ended December 31, 2018 and December 31, 2017. Average interest rate and average balance are considered to be non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

Overview

Recent increases to the overnight rate by the Bank of Canada have had a positive impact on mortgage interest income and the average interest rate related to the floating rate component of our corporate mortgage portfolio. As at December 31, 2018, floating rate mortgages represented 99% of the construction portfolio (December 31, 2017 - 95%), 58% of the commercial portfolio (December 31, 2017 - 53%) and 55% of the total corporate portfolio (December 31, 2017 - 57%).

An increase to the overnight rate of 0.25% early in Q4 2018 was the main reason for the increase in the corporate and construction yields from Q3 2018. The Bank of Canada also increased the overnight rate by 0.25% in both Q1 and Q3 of 2018 after increasing it by 0.50% in the second half of 2017. This cumulative increase of 1.25% has contributed significantly to the increases in the construction yield since 2017.

The combined uninsured and insured single family portfolio (excluding uninsured completed inventory) grew by 32% during 2018 and accordingly represented a larger proportion of the corporate portfolio as at December 31, 2018. The comparatively lower yields in this portfolio given its lower risk profile and compressed spreads due to market conditions provided a partial offset in both Q4 2018 and fiscal 2018 to the positive impact of the increases in the overnight rate noted above. Interest rates on new single family originations were lower in 2018 due to competitiveness in the mortgage market as noted above.

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

Table 7: Mortgage Originations and Renewals

(in thousands) **For the Periods Ended December 31**	**Q4 2018**	**Q4 2017**	**Change (%)**	**Annual 2018**	**Annual 2017**	**Change (%)**
Originations						
Single family - insured	$ 27,631	$ 15,245	81%	$ 102,213	$ 46,950	118%
Single family - uninsured	50,805	21,529	136%	121,050	45,092	168%
	78,436	36,774	113%	223,263	92,042	143%
Single family - uninsured completed inventory	3,800	-	-	10,478	9,000	16%
Residential construction	3,697	22,964	(84%)	101,920	124,967	(18%)
Non-residential construction	-	702	(100%)	10,196	702	1352%
Commercial	-	32,640	(100%)	44,819	68,509	(35%)
	$ 85,933	**$ 93,080**	**(8%)**	**$ 390,676**	**$ 295,220**	**32%**
Renewals of non-corporate mortgages [1]						
Single family - insured	$ 12,065	$ 14,981	(19%)	$ 59,906	$ 53,833	11%

[1] *Represents mortgages previously derecognized or held in securitized portfolio that have been renewed into the corporate mortgage portfolio.*

Single family originations

Our uninsured single family portfolio grew by 16% during Q4 2018 and 29% during fiscal 2018 due to continued increases in both internal originations and acquisitions from external origination sources. Our insured single family portfolio increased by 39% during fiscal 2018 but decreased by 20% during Q4 2018 as a result of a securitization transaction. We continue to focus on growing our insured single family corporate mortgage portfolio (including the retention of market Mortgage Backed Securities ("MBS") on our corporate balance sheet) to allow us to securitize opportunistically through the National Housing Act ("NHA") MBS program. On a combined basis, the portfolios grew by $88 million during 2018 due to both market dynamics and improved internal sales and productivity initiatives.

We also noted in mid-2018 that we believed that there would be challenges in originating adequate volumes to grow the single family portfolio and that we expected to see reduced spreads as a result of competitive pressures. While we still believe that these risks exist, we were able to grow the portfolio in the second half of 2018 although the average interest rate in both portfolios decreased from 2017.

Construction and commercial originations

Growth in our construction portfolio balance during 2018 was driven by further advances on existing loans. While we are currently closely managing growth in this portfolio given the potential for deteriorating market conditions, we continue to make investments in markets that are balanced between new home sales and unsold resale inventory and in projects geared to the more affordable product segment. The slight decline in the "commercial other" portfolio yield was largely driven by a change in portfolio composition towards loans with a lower risk profile. Construction, commercial and completed inventory originations represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio or reclassifications between portfolios.

Mortgage renewal rights

Through our XMC Mortgage Corporation ("XMC") origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At maturity, we have the rights to renew these mortgages, which may contribute to future revenues. As at December 31, 2018, we had the renewal rights to $985 million of single family mortgages (December 31, 2017 - $931 million).

Equity income from MCAP

In Q4 2018, MCAP's origination volumes were $3.5 billion, up from $3.2 billion in Q4 2017. For fiscal 2018, MCAP's origination volumes were $15.4 billion, up from $14.5 billion in 2017. As at November 30, 2018, MCAP had $72.8 billion of assets under administration compared to $72.0 billion as at August 31, 2018 and $65.9 billion as at November 30, 2017. Despite these increases, equity income from MCAP decreased in both the quarter and the year due to our reduced ownership position and compressed spreads.

We recognize equity income from MCAP on a one-month lag such that our Q4 2018 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2018. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

We received distribution income of $1.1 million from the KSYHF in Q4 2018 (Q4 2017 - $1.2 million) and $0.1 million from Crown LP in Q4 2018 (Q4 2017 - $0.3 million). For fiscal 2018, we received $4.6 million from the KSHYF (2017 - $3.5 million) and $0.8 million from Crown LP (2017 - $5.3 million). As real estate based investments, annual income can be variable.

Marketable Securities

In Q4 2018, marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 6.35% in Q4 2018 (Q4 2017 - 6.34%); for fiscal 2018 the yield was 5.86% (2017 - 6.32%). The yield has been calculated based on the average portfolio carrying value. The unrealized loss on marketable securities discussed below occurred late in 2018, therefore it did not have a significant impact on the 2018 yields.

Fees

The increase in fees in 2018 was primarily due to income recognized from construction letter of credit fees. Fees can be volatile dependent on the various types of construction loans within the portfolio.

Realized and Unrealized Gain (Loss) on Securities

In Q4 2018, we recorded a $4.2 million unrealized loss on our marketable securities portfolio, consisting of REITs. This unrealized loss occurred near the end of 2018 as part of a significant market-wide decrease in the value of Canadian publicly traded securities. In fiscal 2018, we recorded a $3.5 million unrealized loss on our marketable securities portfolio and $2.6 million and $0.4 million of unrealized net gains on our investments in Crown LP and the KSHYF. In 2017, we recorded an unrealized gain on securities of $2.3 million through accumulated other comprehensive income in accordance with IAS 39.

Term Deposit Interest and Expenses

The increase in average term deposit interest from 2017 was driven by the impact of the aforementioned increases in the Bank of Canada overnight rate on newly issued deposits. Market rate changes on new deposits have a more gradual impact on the average term deposit interest rate given the fixed-rate nature of the portfolio compared to the corporate mortgage portfolio, in which floating rate loans reprice immediately. The change in the average term deposit balance is comparable to that of the average corporate mortgage portfolio as we primarily use term deposits to fund our corporate mortgage assets.

Mortgage Expenses

The increase in mortgage expenses, which consist primarily of mortgage servicing fees paid to third party mortgage servicers, is consistent with the increase in the average corporate mortgage portfolio balance from 2017.

Other Income - Corporate Assets

In Q3 2018 and Q1 2017, MCAP issued additional class B units to other partners of MCAP which decreased our equity interest. As a result of the issuance of the new units at a price in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $0.3 million in Q3 2018 (Q1 2017 - $0.1 million).

In Q1 2018, we sold 200,000 partnership units (Q1 2017 - 100,000) in MCAP at a price of $22.60 per unit (Q1 2017 - $19.47) compared to a net book value of $14.10 per unit (Q1 2017 - $11.62), recognizing a gain on sale of $1.7 million (Q1 2017 - $0.8 million).

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program, which involve the securitization of insured mortgages through the Canada Mortgage and Housing Corporation ("CMHC") NHA MBS program. Our total securitization volumes were $63 million in Q4 2018 (Q4 2017 - $28 million) and $169 million in fiscal 2018 (2017 - $110 million). For further details on these programs, refer to the "Securitization Programs" section of this MD&A.

Table 8: Net Interest Income and Average Rate - Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	December 31, 2018			September 30, 2018			December 31, 2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 891,876	$ 5,657	2.53%	$ 934,759	$ 6,015	2.57%	$ 1,001,708	$ 6,449	2.57%
Financial liabilities from securitization	917,589	4,208	1.83%	951,222	4,346	1.83%	1,012,852	4,594	1.81%
Net securitized mortgage spread income		$ 1,449			$ 1,669			$ 1,855	
Spread of mortgages over liabilities			0.70%			0.74%			0.76%

Table 9: Net Interest Income and Average Rate - Securitized Mortgage Portfolio - Annual

For the Years Ended December 31	2018			2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 956,531	$ 24,540	2.57%	$ 1,034,699	$ 27,028	2.61%
Financial liabilities from securitization	972,180	17,793	1.83%	1,046,976	19,533	1.87%
Net securitized mortgage spread income		$ 6,747			$ 7,495	
Spread of mortgages over liabilities			0.74%			0.74%

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 and years December 31, 2018 and December 31, 2017. Average interest rate and average balance are considered to be non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

Net Interest Income - Summary

Table 10: Net Interest Income - Quarterly

For the Quarters Ended December 31	2018			2017		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate [3]	Average Balance [1]	Income / Expense	Average Rate [3]
Corporate						
Cash and cash equivalents	$ 74,496	$ 320	1.70%	$ 94,719	$ 320	1.34%
Mortgages	967,914	13,649	5.62%	865,965	12,109	5.56%
Other loans	2,410	33	5.43%	2,723	36	5.25%
Corporate interest earning assets	1,044,820	14,002	5.34%	963,407	12,465	5.14%
Term deposits	917,106	6,590	2.69%	847,523	5,233	2.29%
Loans payable	2,315	27	4.63%	261	2	3.04%
Corporate interest bearing liabilities	919,421	6,617	2.69%	847,784	5,235	2.29%
Net interest income (Corporate)		**$ 7,385**	**2.65%**		**$ 7,230**	**2.85%**
Securitization						
Cash held in trust	$ 35,267	$ 151	1.73%	$ 16,324	$ 58	1.41%
Mortgages	891,876	5,657	2.53%	1,001,708	6,449	2.57%
Securitization interest earning assets	927,143	5,808	2.50%	1,018,032	6,507	2.55%
Securitization interest bearing liabilities	917,589	4,208	1.83%	1,012,852	4,594	1.81%
Net interest income (Securitization)		**$ 1,600**	**0.67%**		**$ 1,913**	**0.74%**
Net Interest Income [2]		**$ 8,985**	**1.74%**		**$ 9,143**	**1.78%**

Table 11: Net Interest Income - Annual

For the Years Ended December 31	2018			2017		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate [3]	Average Balance [1]	Income / Expense	Average Rate [3]
Corporate						
Cash and cash equivalents	$ 84,867	$ 1,156	1.36%	$ 86,758	$ 883	1.02%
Mortgages	918,245	51,610	5.62%	899,019	47,765	5.31%
Other loans	2,411	126	5.23%	3,286	168	5.11%
Corporate interest earning assets	1,005,523	52,892	5.26%	989,063	48,816	4.93%
Term deposits	878,944	23,814	2.55%	870,393	20,837	2.24%
Loans payable	3,342	143	4.28%	1,096	38	3.47%
Corporate interest bearing liabilities	$ 882,286	23,957	2.56%	$ 871,489	20,875	2.24%
Net interest income (Corporate)		**$ 28,935**	**2.70%**		**$ 27,941**	**2.69%**
Securitization						
Cash held in trust	$ 23,312	$ 359	1.54%	$ 17,083	$ 121	0.71%
Mortgages	956,531	24,540	2.57%	1,034,699	27,028	2.61%
Securitization interest earning assets	979,843	24,899	2.55%	1,051,782	27,149	2.58%
Securitization interest bearing liabilities	$ 972,180	17,793	1.83%	$ 1,046,976	19,533	1.87%
Net interest income (Securitization)		**$ 7,106**	**0.72%**		**$ 7,616**	**0.71%**
Net Interest Income [2]		**$ 36,041**	**1.74%**		**$ 35,557**	**1.68%**

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

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

[3] Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income, one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items were immaterial for the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 and the years ended December 31, 2018 and December 31, 2017. Average rate and average balance are considered to be non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

Credit Quality

Table 12: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Periods Ended December 31	IFRS 9 Q4 2018	IAS 39 Q4 2017	IFRS 9 Annual 2018	IAS 39 Annual 2017
Provision on impaired corporate mortgages [1]				
Single family uninsured	$ 162	$ 43	$ 336	$ 176
Construction	217	-	217	-
	379	43	553	176
Provision (recovery) on performing corporate mortgages [2]				
Single family insured	(1)	-	9	-
Single family uninsured	241	(2)	667	(207)
Single family uninsured - completed inventory	20	(41)	(356)	142
Construction	(155)	3	(40)	44
Commercial				
Multi family residential	(192)	130	(127)	196
Other commercial	(167)	(87)	(458)	(282)
	(254)	3	(305)	(107)
Other provisions (recoveries)	1	(13)	(60)	(180)
Total corporate provision for (recovery of) credit losses	126	33	188	(111)
Provision (recovery) on performing securitized mortgages [2]	2	-	(2)	-
Total provisions for (recoveries of) credit losses	$ 128	$ 33	$ 186	$ (111)
Corporate mortgage portfolio data:				
Provisions for credit losses, net	$ 125	$ 46	$ 248	$ 69
Net write offs	$ -	$ 33	$ 256	$ 508
Net write offs (basis points)	-	1.5	2.8	5.7

[1] Represents impaired (stage 3) provision for credit losses on mortgages and mortgage commitments under IFRS 9 and individual provisions for credit losses under IAS 39.
[2] Represents performing (stage 1 and 2) provision for credit losses on mortgages and mortgage commitments under IFRS 9 and collective provisions for credit losses under IAS 39.

The adoption of IFRS 9 as of January 1, 2018 required MCAN to use forward-looking economic information in its calculation of expected credit losses ("ECLs"). This change has impacted the calculation of collective and individual allowances on MCAN's corporate and securitized mortgage portfolios, and accordingly provisions for credit losses for 2018 and 2017 are not directly comparable. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

In 2018, we recorded an allowance relating to economic conditions in the Alberta and Saskatchewan geographical sub-segment of the uninsured single family portfolio, which was the primary reason behind the increased provisions on impaired and performing mortgages in this portfolio. The provision activity in other lines of business was primarily driven by changes in the respective portfolio balances.

Write-offs in 2018 relate entirely to uninsured single family mortgages, while write-offs in 2017 include $220,000 relating to the construction portfolio.

Operating Expenses

Table 13: Operating Expenses

(in thousands) For the Periods Ended	Q4 2018	Q4 2017	Change (%)	Annual 2018	Annual 2017	Change (%)
Salaries and benefits	$ 2,700	$ 2,595	4%	$ 11,118	$ 10,555	5%
General and administrative	2,812	2,707	4%	7,804	8,663	(10%)
	$ 5,512	**$ 5,302**	**4%**	**$ 18,922**	**$ 19,218**	**(2%)**

Although salaries and benefits increased slightly from Q4 2017, the composition of activity in Q4 2018 was significantly different. Salary expense increased as a result of an increased staff complement and increased severance costs, which was partially offset by lower long-term equity compensation accruals, detailed further in Note 25 to the consolidated financial statements.

The increase in salaries and benefits in 2018 was consistent with the rationale noted above for Q4 2018.

Q4 2018 general and administrative expenses were comparable to Q4 2017. In fiscal 2018, the decrease in general and administrative expenses was primarily due to a non-recurring $0.6 million reimbursement of legal expenses.

Taxable Income

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

As a Mortgage Investment Corporation ("MIC"), we typically pay out all of our taxable income to shareholders through dividends as 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.

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 14: Taxable Income Reconciliation [1]

(in thousands) For the Periods Ended December 31	Q4 2018	Q4 2017	Annual 2018	Annual 2017
Net income for accounting purposes	$ 3,547	$ 10,807	$ 36,293	$ 39,928
Adjustments:				
Deduct: Equity income from MCAP - accounting purposes	(3,292)	(5,457)	(13,188)	(14,428)
Add: MCAP taxable income	6,896	1,016	3,620	8,729
Provision for (recovery of) credit losses [5]	(211)	8	(289)	(147)
Amortization of upfront securitization program costs [3]	1,941	1,701	7,106	6,759
Securitization program mortgage origination costs [3]	(1,042)	(444)	(2,755)	(1,966)
Other securitization program cash outflows [3]	(571)	(484)	(1,198)	(1,479)
Unrealized loss on securities [2]	4,162	-	3,521	-
Equity income from subsidiaries [2]	562	819	(2,023)	(1,134)
Deduct: Accounting gain on partial sale of MCAP [4]	-	-	(1,701)	(785)
Add: Taxable gain on partial sale of MCAP [4]	-	-	1,425	535
Gain on dilution of investment in MCAP [2]	-	-	(314)	(91)
Other items	(295)	26	(30)	(686)
	$ 11,697	**$ 7,992**	**$ 30,467**	**$ 35,235**

[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] Excluded from the calculation of taxable income.
[3] Securitization program mortgage origination costs and other upfront securitization program costs are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.
[4] For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.
[5] Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.

MCAP executed securitization transactions that created timing differences between accounting and taxable income. These timing differences are expected to reverse over the duration of the transactions and were the primary reason for the decrease in taxable income in fiscal 2018 from fiscal 2017.

During 2018, we incurred $2.8 million of origination costs on securitized mortgages (including market MBS held by MCAN) (2017 - $2.0 million). These costs are deductible for income tax purposes in the period that the mortgages are securitized; for accounting purposes they are capitalized and amortized over the term of the associated mortgages. As at December 31, 2018, the unamortized origination fee balance was $9.0 million (December 31, 2017 - $11.9 million), which represents costs that are still to be expensed for non-consolidated accounting purposes but will be added back in the calculation of taxable income in future periods.

Cash Flows

Operating Activities

- Used cash flows of $4 million for 2018; provided $24 million for 2017.
- Variances primarily due to lower net cash flows relating to net corporate (mortgage and term deposit) and securitization (mortgage and financial liabilities from securitization) activity in 2018 compared to 2017.

Investing Activities

- Provided cash flows of $13 million for 2018; provided $7 million for 2017.
- 2018 includes higher net inflows relating to distributions from MCAP and proceeds from a partial sale of our equity investment in MCAP.

Financing Activities

- Used cash flows of $28 million for 2018; used $24 million for 2017.
- In 2018, there were higher outflows from dividends paid partially offset by higher inflows from the issuance of common shares through the Dividend Reinvestment Plan (“DRIP”).

FINANCIAL POSITION

Table 15: Assets

(in thousands) As at	December 31 2018 [1]	September 30 2018 [1]	Change (%)	December 31 2017	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 98,842	$ 75,236	31%	$ 117,571	(16%)
Marketable securities	53,247	58,447	(9%)	62,518	(15%)
Mortgages	922,390	965,674	(4%)	863,384	7%
Non-marketable securities	71,813	70,727	2%	68,190	5%
Other loans	2,640	2,104	25%	2,612	1%
Equity investment in MCAP Commercial LP	61,593	59,931	3%	59,189	4%
Deferred tax asset	2,961	2,971	-	2,672	11%
Other assets	10,853	4,091	165%	6,235	74%
	1,224,339	**1,239,181**	**(1%)**	**1,182,371**	**4%**
Securitization Assets					
Cash held in trust	26,002	27,527	(6%)	13,441	93%
Mortgages	887,252	919,176	(3%)	1,016,724	(13%)
Other assets	3,479	3,497	(1%)	4,239	(18%)
	916,733	**950,200**	**(4%)**	**1,034,404**	**(11%)**
	$ 2,141,072	**$ 2,189,381**	**(2%)**	**$ 2,216,775**	**(3%)**

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Amounts from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

Mortgages - Corporate & Securitized

Corporate Mortgages

Single family mortgages

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

Uninsured - Completed inventory loans

Uninsured - completed inventory loans are extended to developers to provide interim mortgage financing on residential units (condominium or freehold) that are close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units being at least at a drywall stage with completion of plumbing and electrical.

Construction loans

Residential construction loans are made to developers to finance residential construction projects. These loans generally have a floating interest rate and loan terms of 24 months or less. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

Commercial loans

Commercial loans include multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of term mortgages (e.g. loans secured by retail/industrial buildings) and high ratio mortgage loans (e.g. loans that do not meet standard residential construction loan parameters).

Table 16: Mortgage Summary

(in thousands) As at	December 31 2018 [1]	September 30 2018 [1]	Change (%)	December 31 2017	Change (%)
Corporate portfolio:					
Single family mortgages					
- Insured	$ 111,419	$ 139,860	(20%)	$ 80,377	39%
- Uninsured	255,545	221,220	16%	198,354	29%
- Uninsured - completed inventory	7,703	4,095	88%	51,190	(85%)
Construction loans					
- Residential	422,561	445,335	(5%)	386,562	9%
- Non-residential	11,018	10,357	6%	4,840	128%
Commercial loans					
- Multi family residential	50,133	73,547	(32%)	64,655	(22%)
- Other commercial	64,011	71,260	(10%)	77,406	(17%)
	922,390	**965,674**	**(4%)**	**863,384**	**7%**
Securitized portfolio:					
Single family insured - Market MBS program	722,726	780,036	(7%)	867,406	(17%)
Single family insured - CMB program	164,526	139,140	18%	149,318	10%
	887,252	**919,176**	**(3%)**	**1,016,724**	**(13%)**
	$ 1,809,642	**$ 1,884,850**	**(4%)**	**$ 1,880,108**	**(4%)**

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Amounts from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

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

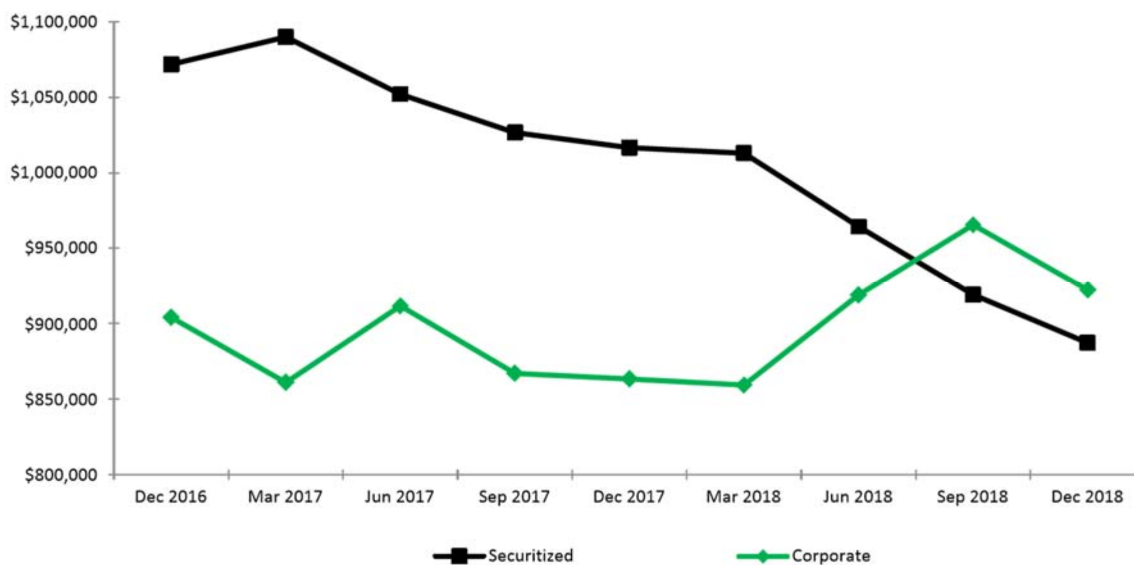
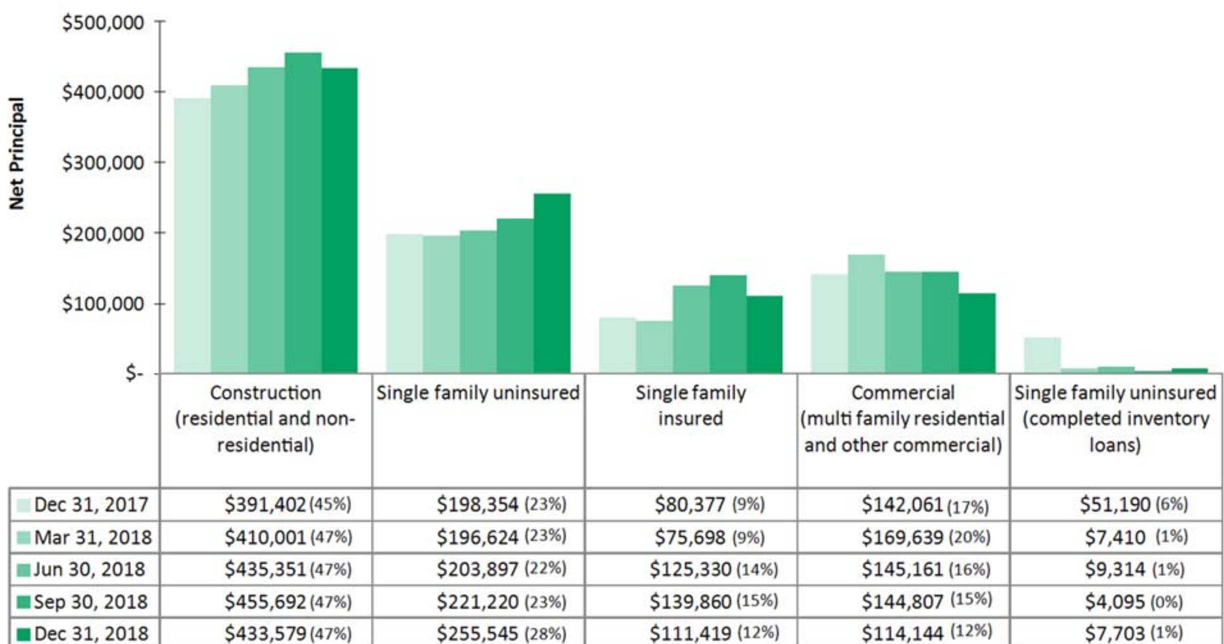


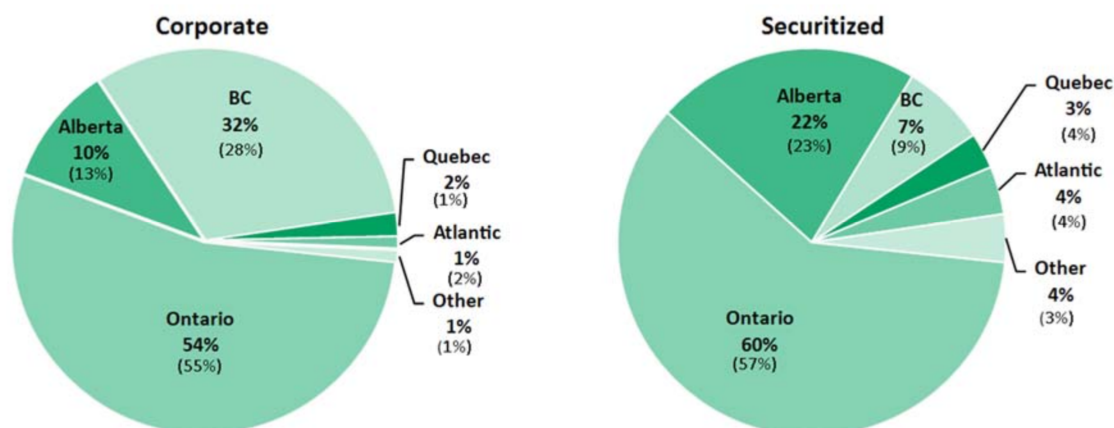
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction (residential and non-residential)	Single family uninsured	Single family insured	Commercial (multi family residential and other commercial)	Single family uninsured (completed inventory loans)
Dec 31, 2017	$391,402 (45%)	$198,354 (23%)	$80,377 (9%)	$142,061 (17%)	$51,190 (6%)
Mar 31, 2018	$410,001 (47%)	$196,624 (23%)	$75,698 (9%)	$169,639 (20%)	$7,410 (1%)
Jun 30, 2018	$435,351 (47%)	$203,897 (22%)	$125,330 (14%)	$145,161 (16%)	$9,314 (1%)
Sep 30, 2018	$455,692 (47%)	$221,220 (23%)	$139,860 (15%)	$144,807 (15%)	$4,095 (0%)
Dec 31, 2018	$433,579 (47%)	$255,545 (28%)	$111,419 (12%)	$114,144 (12%)	$7,703 (1%)

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

Figure 3: Mortgage Portfolio Geographic Distribution as at December 31, 2018 (December 31, 2017)



Arrears and Impaired Mortgages

Table 17: Arrears and Impaired Mortgages

(in thousands except %) As at	IFRS 9 December 31 2018	IFRS 9 September 30 2018	Change (%)	IAS 39 December 31 2017
Impaired mortgages [2]				
Corporate				
Single family - insured	$ 1,004	$ 1,592	(37%)	832
Single family - uninsured	1,602	581	176%	$ 1,696
Residential construction	548	-	-	-
	3,154	2,173	45%	2,528
Securitized	1,801	2,305	(22%)	-
Total impaired mortgages	$ 4,955	$ 4,478	11%	$ 2,528
Impaired mortgage ratio (total) [1,6]	0.12%	0.03%	0.09%	0.09%
Impaired mortgage ratio (corporate) [1,6]	0.23%	0.06%	0.17%	0.20%
Mortgage arrears (past due) [5]				
Corporate				
Single family - insured	$ 1,594	$ 2,691	(41%)	$ 2,854
Single family - uninsured	7,293	5,707	28%	5,912
Residential construction	548	-	-	-
Total corporate mortgage arrears [1]	9,435	8,398	12%	8,766
Total securitized mortgage arrears [1]	6,527	8,472	(23%)	8,803
Total mortgage arrears [1]	$ 15,962	$ 16,870	(5%)	$ 17,569
IFRS 9 staging analysis - corporate portfolio				
Stage 2				
Single family - insured	$ 7,743	$ 15,222	(49%)	n/a
Single family - uninsured	35,437	34,188	4%	n/a
Construction - residential	60,929	60,631	1%	n/a
Commercial - multi-family residential	2,079	2,100	(1%)	n/a
Commercial - other	3,535	4,934	(28%)	n/a
	109,723	117,075	(6%)	n/a
Stage 3				
Single family - insured	1,004	1,592	(37%)	n/a
Single family - uninsured	1,602	581	176%	n/a
Construction - residential	548	-	-	n/a
	3,154	2,173	45%	n/a
Total stage 2 and 3 corporate mortgages	$ 112,877	$ 119,248	(5%)	n/a
Allowance for credit losses				
Corporate				
Allowance on performing mortgages [3]	$ 4,424	$ 4,678	(5%)	$ 4,748
Allowance on impaired mortgages [4]	430	51	743%	62
	4,854	4,729	3%	4,810
Securitized - allowance on performing mortgages [3]	14	13	8%	-
Total allowance for credit losses	$ 4,868	$ 4,742	3%	$ 4,810

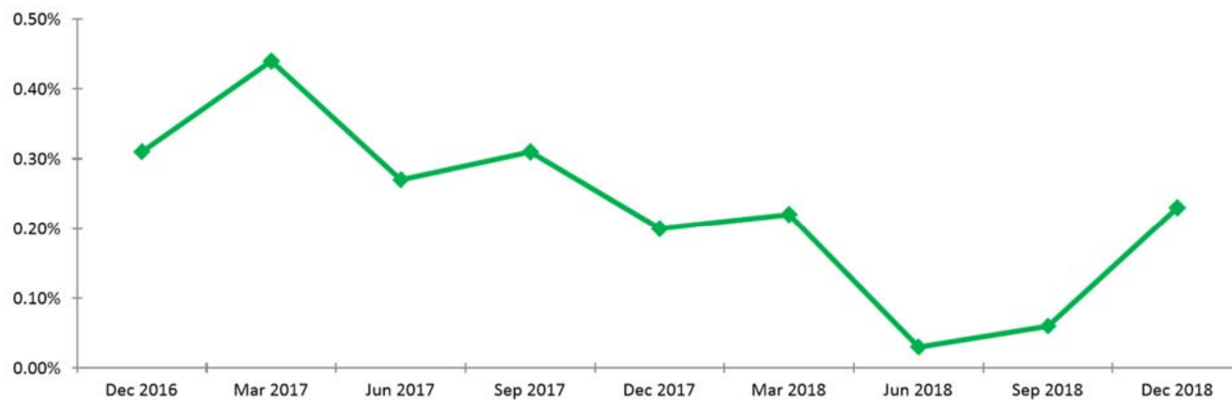
[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.
[2] Represents impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.
[3] Represents performing (stage 1 and 2) allowances for credit losses on mortgages and mortgage commitments under IFRS 9 and collective allowances for credit losses under IAS 39.
[4] Represents impaired (stage 3) allowances for credit losses on mortgages and mortgage commitments under IFRS 9 and individual allowances for credit losses under IAS 39.
[5] The calculation of mortgage arrears was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.
[6] The impaired mortgage ratios do not include insured mortgages since credit risk is substantially mitigated by mortgage insurance.

Arrears and Impaired Mortgage Summary

The majority of single family and securitized arrears activity occurs in the 1-30 day category, in which the majority of arrears are resolved and do not migrate to arrears categories over 30 days. We continue to closely monitor these arrears.

We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios.

Figure 4: Impaired Corporate Mortgage Ratio



The ratio as presented above incorporates impaired (stage 3) mortgages under IFRS 9 for data presented after January 1, 2018, while the data prior to this time incorporates impaired mortgages under IAS 39. The adoption of IFRS 9 did not materially impact the impaired mortgage ratios. Refer to the “Non-IFRS Measures” section of this MD&A for a full definition of impaired mortgage ratios.

Table 18: Corporate Mortgages by Risk Rating

The table below outlines the corporate portfolio by mortgage type per MCAN's internal mortgage risk rating system and the percentage of the portfolio that each balance represents. For further information refer to Note 8 to the consolidated financial statements.

(in thousands except %) As at	December 31, 2018		September 30, 2018		Change (%)
Single family - insured					
Insured / Low to Moderate Risk	$ 109,825	99%	$ 137,169	98%	(20%)
Arrears/Impaired	1,594	1%	2,691	2%	(41%)
	111,419	100%	139,860	100%	(20%)
Single family - uninsured					
Low to Moderate Risk	233,105	91%	199,662	90%	17%
High/Higher Risk	15,147	6%	15,851	7%	(4%)
Arrears/Impaired	7,293	3%	5,707	3%	28%
	255,545	100%	221,220	100%	16%
Single family - uninsured completed inventory					
Low to Moderate Risk	3,760	49%	-	-	-
High/Higher Risk	3,943	51%	4,095	100%	(4%)
	7,703	100%	4,095	100%	88%
Construction - residential					
Low to Moderate Risk	49,161	12%	46,627	11%	5%
High/Higher Risk	344,090	81%	357,662	80%	(4%)
Monitored/Watchlist	28,762	7%	41,046	9%	(30%)
Arrears/Impaired	548	-	-	-	-
	422,561	100%	445,335	100%	(5%)
Construction - non-residential					
High/Higher Risk	11,018	100%	10,357	100%	6%
	11,018	100%	10,357	100%	6%
Commercial - multi-family residential					
Low to Moderate Risk	24,183	48%	42,409	58%	(43%)
High/Higher Risk	23,871	48%	29,038	39%	(18%)
Monitored/Watchlist	2,079	4%	2,100	3%	(1%)
	50,133	100%	73,547	100%	(32%)
Commercial - other					
Low to Moderate Risk	33,940	53%	33,926	48%	-
High/Higher Risk	30,071	47%	37,334	52%	(20%)
	64,011	100%	71,260	100%	(10%)
	$ 922,390		$ 965,674		(5%)

Construction and commercial lending

Our strategy relating to construction lending consists of providing loans to developers, primarily to build housing projects. In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move-up buyers characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration. This approach mitigates the impact of price volatility and tightened sales activity in the event of market corrections. We only invest in markets where we have experience and local expertise, consisting primarily of major urban markets and their surrounding areas with a preference for proximity to mass transit.

We take certain actions to mitigate risk in the construction portfolio, some examples of which are as follows:

- Targeting experienced borrowers with a successful track record of project completion and loan repayment
- Targeting smaller multi-phased projects; as at December 31, 2018 the average outstanding construction loan size was $6 million (December 31, 2017 - $6 million) with a maximum loan commitment of $30 million
- Requiring evidence of strong pre-sales prior to loan funding
- Limiting most loan terms to 24 months or less with extensions requiring additional underwriting and approval
- Managing concentration risk by diversifying across product type, loan size, geography and borrowers; and
- Utilizing our relationships with strategic partners for loan participation, servicing and workout expertise

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

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

Insured mortgages include individual mortgages that are insured by CMHC or other approved mortgage insurers at origination and mortgages included in groups of mortgages that are portfolio-insured after origination.

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

Table 19: Single Family Mortgages by Province as at December 31, 2018

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 71,381	64.1%	$ 167,998	63.8%	$ 136	81.9%	$ 532,817	60.1%	$ 772,332	61.1%
Alberta	21,599	19.4%	37,616	14.3%	30	18.1%	195,414	22.0%	254,659	20.2%
British Columbia	3,872	3.5%	41,829	15.9%	-	-	65,229	7.4%	110,930	8.8%
Quebec	5,331	4.8%	3,657	1.4%	-	-	29,952	3.4%	38,940	3.1%
Atlantic Provinces	7,523	6.8%	5,471	2.1%	-	-	38,287	4.3%	51,281	4.1%
Other	1,547	1.4%	6,677	2.5%	-	-	25,553	2.8%	33,777	2.7%
Total	**$ 111,253**	**100.0%**	**$ 263,248**	**100.0%**	**$ 166**	**100.0%**	**$ 887,252**	**100.0%**	**$ 1,261,919**	**100.0%**

Table 20: Single Family Mortgages by Province as at December 31, 2017

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

Table 21: Single Family Mortgages by Amortization Period as at December 31, 2018

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 56,025	$ 109,615	$ 203,510	$ 5,517	$ -	$ 374,667
	15.0%	29.2%	54.3%	1.5%	-	100.0%
Securitized	$ 196,325	$ 461,363	$ 192,786	$ 36,778	$ -	$ 887,252
	22.1%	52.1%	21.7%	4.1%	-	100.0%
Total	**$ 252,350**	**$ 570,978**	**$ 396,296**	**$ 42,295**	**$ -**	**$ 1,261,919**
	20.0%	**45.2%**	**31.4%**	**3.4%**	**-**	**100.0%**

Table 22: Single Family Mortgages by Amortization Period as at December 31, 2017

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 98,172	$ 69,868	$ 158,200	$ 3,681	$ -	$ 329,921
	29.8%	21.2%	48.0%	1.0%	-	100.0%
Securitized	$ 205,764	$ 502,032	$ 231,282	$ 77,305	$ 341	$ 1,016,724
	20.2%	49.4%	22.7%	7.7%	-	100.0%
Total	**$ 303,936**	**$ 571,900**	**$ 389,482**	**$ 80,986**	**$ 341**	**$ 1,346,645**
	22.6%	**42.5%**	**28.9%**	**6.0%**	**-**	**100.0%**

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

(in thousands except %) **For the Periods Ended December 31**	**Q4 2018**	**Average LTV**	**Q4 2017**	**Average LTV**	**Annual 2018**	**Average LTV**	**Annual 2017**	**Average LTV**
Ontario	$ 38,799	70.8%	$ 19,135	67.8%	$ 87,926	69.8%	$ 50,243	68.2%
Alberta	4,732	62.0%	228	80.0%	12,353	62.6%	971	73.2%
British Columbia	10,874	70.8%	1,215	72.2%	29,224	67.6%	1,760	70.0%
Other	200	79.7%	951	78.3%	2,025	72.3%	1,118	76.6%
	$ 54,605	**70.1%**	**$ 21,529**	**68.6%**	**$ 131,528**	**68.7%**	**$ 54,092**	**68.5%**

Table 24: Average Mortgage Loan to Value (LTV) Ratios at Origination

As at	December 31 2018	September 30 2018	December 31 2017
Corporate portfolio:			
Single family mortgages			
- Insured	80.3%	81.2%	78.1%
- Uninsured [1]	64.9%	67.3%	67.5%
- Uninsured completed inventory [1]	59.6%	60.0%	64.2%
Construction loans			
- Residential	56.9%	58.2%	61.6%
- Non-residential	53.0%	53.1%	47.0%
Commercial loans			
- Multi family residential	65.2%	67.8%	67.9%
- Other commercial	63.9%	64.6%	64.6%
	62.8%	64.7%	65.3%
Securitized portfolio:			
Single family insured - Market MBS Program	84.8%	85.2%	85.8%
Single family insured - CMB Program	82.9%	82.0%	82.0%
	84.5%	84.7%	85.3%
	73.4%	74.4%	76.0%

[1] MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 64.8% as at December 31, 2018 (December 31, 2017 - 66.8%). Based on an industry index that incorporates current real estate values, the ratios would be 58.2% and 52.6%, respectively.

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.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposit and new mortgage funding commitments and are considered to be Tier 1 liquid assets. As at December 31, 2018, our cash balance was $99 million (December 31, 2017 - $118 million). For further information, refer to the "Liquidity and Funding Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Marketable securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. As at December 31, 2018, the portfolio balance was $53 million (December 31, 2017 - $63 million). This decrease was a result of both the sale of individual REITs and a decrease in the fair value of the portfolio.

Non-Marketable Securities

We hold a $42 million (December 31, 2017 - $36 million) investment in the KSHYF, in which we have an 7.9% equity interest (December 31, 2017 - 8.1%). The KSHYF invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages.

We also hold a $30 million (December 31, 2017 - $32 million) investment in Crown LP, in which we have a 14.1% equity interest (December 31, 2017 - 14.1%). Crown LP invests primarily in commercial office buildings and classifies them into its core fund, which represents buildings expected to provide stable cash flows over a longer time horizon, and its opportunity fund, which represents buildings with medium-term capital appreciation. Its fair value is based on building rental rates and current market capitalization rates.

During 2018, Crown LP sold the last remaining property in its opportunity fund and paid a distribution of $5.1 million which reduced the carrying value of our investment in Crown LP. The remaining properties held by Crown LP are held in its core fund.

Equity investment in MCAP

We hold a 13.71% equity interest in MCAP (December 31, 2017 - 14.41%), which represents 4.0 million units held by MCAN (December 31, 2017 - 4.2 million) of the 29.2 million total outstanding MCAP partnership units (December 31, 2017 - 29.1 million).

The investment had a net book value of $62 million as at December 31, 2018 (December 31, 2017 - $59 million). The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was $36 million as at December 31, 2018 (December 31, 2017 - $42 million). The difference between the net book value and the LP ARA reflects an unrealized gain that, if realized, would be recognized as a capital gain and applied against MCAN's tax loss carry forward. For further information on the LP ARA, refer to the "Non-IFRS Measures" section of this MD&A.

During 2018, we received $8.3 million of unitholder distributions from MCAP (2017 - $5.0 million). Since we account for this investment on the equity basis, the receipt of distributions reduces the carrying value of the investment in MCAP.

We use the equity basis of accounting for our investment in MCAP as per IAS 28, *Investments in Associates and Joint Ventures*, as we have significant influence over MCAP through our entitlement to a position on MCAP's Board of Directors. If we experience further dilution our influence may be diminished and we may no longer qualify for the equity basis of accounting. In that case, we would not recognize our pro-rata share of MCAP's net income as equity income, but would instead recognize distributions received from MCAP as income and would carry the investment as fair value through profit and loss ("FVPL") or fair value through other comprehensive income ("FVOCI").

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

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program and CMB program. Additionally, we hold cash in trust, which represents securitized mortgage principal and interest collections from borrowers that are payable to MBS holders.

During 2018 we securitized $169 million of mortgages (2017 - $110 million). For further information, refer to the "Securitization Programs" section of this MD&A.

Liabilities and Shareholders' Equity

Table 25: Liabilities and Shareholders' Equity

(in thousands) As at	December 31 2018 [1]	September 30 2018 [1]	Change (%)	December 31 2017	Change (%)
Corporate Liabilities					
Term deposits	$ 919,623	$ 935,496	(2%)	$ 884,460	$ 4%
Current taxes payable	173	461	(62%)	-	-
Deferred tax liabilities	3,478	3,416	2%	3,572	(3%)
Other liabilities	13,169	14,032	(6%)	16,067	(18%)
	936,443	**953,405**	**(2%)**	**904,099**	**4%**
Securitization Liabilities					
Financial liabilities from securitization	897,935	933,553	(4%)	1,015,699	(12%)
	897,935	**933,553**	**(4%)**	**1,015,699**	**(12%)**
	1,834,378	**1,886,958**	**(3%)**	**1,919,798**	**(4%)**
Shareholders' Equity					
Share capital	221,869	221,126	-	214,664	3%
Contributed surplus	510	510	-	510	-
Retained earnings	84,315	80,787	4%	65,365	29%
Accumulated other comprehensive income	-	-	-	16,438	(100%)
	306,694	**302,423**	**1%**	**296,977**	**3%**
	$ 2,141,072	**$ 2,189,381**	**(2%)**	**$ 2,216,775**	**$ (3%)**

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Amounts from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

To fund our corporate operations, we primarily issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. We do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. We believe that our term deposits provide a reliable low-cost funding source that can be matched against the corporate mortgage portfolio. The role of term deposits in managing liquidity and funding risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Financial liabilities from securitization relate to our participation in the market MBS program and CMB program, where we have sold MBS to third parties but have not derecognized the related mortgages from our balance sheet. For further information on the market MBS program and CMB program, refer to the "Securitization Programs" section of this MD&A.

Share capital activity for 2018 reflects new common shares issued through the DRIP. The DRIP participation rate for fiscal 2018 was 19% (2017 - 16%). For further information, refer to Note 19 to the consolidated financial statements.

Retained earnings activity for 2018 consists of net income of $36.3 million and the IFRS 9 transition adjustment of $16.4 million less dividends of $33.8 million.

On the adoption of IFRS 9 effective January 1, 2018, the accumulated other comprehensive income balance was reclassified to retained earnings.

SELECTED QUARTERLY FINANCIAL DATA

Table 26: Selected Quarterly Financial Data

(in thousands except per share amounts and where indicated)	Q4/18 [1]	Q3/18 [1]	Q2/18 [1]	Q1/18 [1]	Q4/17	Q3/17	Q2/17	Q1/17
Net Income								
Net investment income excluding realized and unrealized gain (loss) - corporate assets [1]	$ 12,028	$ 12,757	$ 11,722	$ 12,129	$ 14,359	$ 12,918	$ 12,179	$ 12,963
Realized and unrealized gain (loss) on securities - corporate assets [1]	(4,156)	359	3,341	(56)	-	-	-	-
Other income - corporate assets	-	314	-	1,701	-	-	-	876
Net investment income - securitization assets [1]	1,082	1,276	1,317	1,301	1,416	1,532	1,374	1,291
	8,954	14,706	16,380	15,075	15,775	14,450	13,553	15,130
Operating expenses	5,512	3,637	5,142	4,631	5,302	4,689	4,616	4,617
Provision for (recovery of) income taxes	(105)	63	113	(171)	(334)	(157)	(1)	248
Net income	$ 3,547	$ 11,006	$ 11,125	$ 10,615	$ 10,807	$ 9,918	$ 8,938	$ 10,265
Basic and diluted earnings per share	$ 0.15	$ 0.47	$ 0.47	$ 0.45	$ 0.47	$ 0.42	$ 0.39	$ 0.44
Dividends per share	$ 0.32	$ 0.37	$ 0.37	$ 0.37	$ 0.37	$ 0.32	$ 0.32	$ 0.30
Return on average shareholders' equity [2]	4.66%	14.29%	14.54%	14.10%	14.63%	13.63%	12.37%	14.37%
Assets ($ million)								
Corporate	$ 1,224	1,239	1,212	1,122	1,182	1,148	1,201	1,133
Securitization	917	950	994	1,032	1,034	1,048	1,076	1,109
Total	$ 2,141	$ 2,189	$ 2,206	$ 2,154	$ 2,216	$ 2,196	$ 2,277	$ 2,242
Liabilities ($ million)								
Corporate	$ 936	953	923	837	904	878	930	869
Securitization	898	934	977	1,015	1,016	1,027	1,059	1,088
Total	$ 1,834	$ 1,887	$ 1,900	$ 1,852	$ 1,920	$ 1,905	$ 1,989	$ 1,957
Corporate Mortgages								
Average mortgage portfolio yield [2]	5.62%	5.53%	5.65%	5.72%	5.56%	5.25%	5.28%	5.12%
Average term deposit interest rate [2]	2.69%	2.61%	2.48%	2.38%	2.29%	2.25%	2.21%	2.20%
Average mortgage portfolio balance ($ million) [2]	$ 968	$ 942	$ 913	$ 849	$ 866	$ 908	$ 914	$ 908
Average term to maturity (in months)								
Mortgages - corporate	11.5	12.8	13.2	11.3	11.3	10.6	10.6	10.8
Term deposits	18.7	19.2	17.4	18.9	19.1	18.1	18.8	17.4
Securitized mortgages								
Average mortgage portfolio yield [2]	2.53%	2.57%	2.59%	2.57%	2.57%	2.63%	2.67%	2.61%
Average financial liability from securitization rate [2]	1.83%	1.83%	1.83%	1.83%	1.81%	1.83%	1.93%	1.90%
Average mortgage portfolio balance ($ million) [2]	$ 892	$ 935	$ 986	$ 1,015	$ 1,002	$ 1,028	$ 1,057	$ 1,052
Capital ratios								
Income tax assets to capital ratio [2]	4.64	4.90	4.60	4.33	4.60	4.50	4.77	4.61
Leverage ratio [2]	11.79%	11.35%	11.55%	11.74%	11.31%	11.31%	10.82%	10.87%
CET 1, Tier 1 and Total Capital ratios [2]	21.66%	20.58%	21.47%	21.29%	21.26%	21.34%	21.47%	22.23%
Credit Quality								
Impaired mortgage ratio (total) [2]	0.12%	0.03%	0.02%	0.10%	0.09%	0.14%	0.12%	0.19%
Impaired mortgage ratio (corporate) [2]	0.23%	0.06%	0.03%	0.22%	0.20%	0.31%	0.27%	0.44%
Mortgage Arrears								
Corporate [2]	$ 9,435	$ 8,398	$ 6,739	$ 9,204	$ 8,766	$ 11,317	$ 11,267	$ 33,514
Securitized [2]	6,527	8,472	13,979	9,554	8,803	7,782	10,414	14,797
Total [2]	$ 15,962	$ 16,870	$ 20,718	$ 18,758	$ 17,569	$ 19,099	$ 21,681	$ 48,311

[1] Provisions for credit losses are included in net investment income from both corporate and securitization assets. Effective Q1 2018, we prospectively adopted IFRS 9 and did not restate prior period information. Under IFRS 9, the methodology for the calculation of mortgage allowances and provisions has changed from IAS 39, therefore provisions under IFRS 9 are not directly comparable to prior periods. Additionally, under IFRS 9 fair value changes in certain reclassified financial assets are presented in the income statement and are therefore not directly comparable to prior periods. Under IAS 39, these fair value changes were recorded through other comprehensive income.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

Corporate net investment income has been driven by changes in the corporate mortgage portfolio balance. Additionally, corporate net investment income was impacted by significant distribution income from Crown LP in Q1 2017 and substantial equity income from MCAP in Q2 2017 and Q4 2017.

Since the adoption of IFRS 9 effective January 1, 2018, we experienced increased volatility in net income as a result of the recognition of unrealized gains on certain securities through net income. This volatility was especially prominent in Q2 2018 and Q4 2018, generating respective impacts to net income of a $3.3 million unrealized gain and a $4.2 million unrealized loss. Prior to the adoption of IFRS 9, unrealized gains and losses were recognized through accumulated other comprehensive income.

Corporate mortgage interest yields have generally increased throughout 2017 and 2018 as a result of increases to the overnight rate by the Bank of Canada given that the majority of the corporate portfolio is floating rate, however changes in the portfolio mix and market conditions have contributed to the slight decrease in 2018.

The securitized mortgage portfolio has gradually decreased throughout 2017 and 2018 as a result of a reduction in securitization volumes and the natural run-off of the securitized portfolio. The securitized net spread has decreased slightly during this time as we have experienced lower overall economics on recent securitizations.

The decrease in operating expenses in Q3 2018 was a result of a reduction to our variable compensation accruals and a non-recurring $0.6 million reimbursement of legal expenses. Operating expenses increased in Q4 2017 as a result of non-recurring professional fee accruals. In Q4 2018, we incurred increased salary expense and severance costs, partially offset by lower long-term equity compensation accruals.

Capital ratios have remained steady across the last eight quarters as the gradual increase in corporate assets has generally been matched by a growing capital base. Capacity tightened in Q3 2018 as a result of the accrual of the fourth quarter dividend during that period.

Total arrears and impaired ratios, while low by historical standards, have been volatile on a quarterly basis given the nature of the 1-30 day arrears classification. Q1 2017 corporate arrears were significantly higher than usual as a result of construction arrears.

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 subject to final review and declaration by the Board. Capital growth is achieved through retained earnings, the DRIP, rights offerings and public share offerings. Our capital management is driven by the guidelines set out by the Tax Act and OSFI.

Income Tax Capital

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

We manage our income tax assets to a level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets.

Table 27: Income Tax Capital [1]

(in thousands except ratios) As at	December 31 2018 [2]	September 30 2018 [2]	December 31 2017
Income tax assets [1]			
Consolidated assets	$ 2,141,072	$ 2,189,381	$ 2,216,775
Adjustment for assets in subsidiaries	6,743	4,839	5,435
Non-consolidated assets in MIC entity	2,147,815	2,194,220	2,222,210
Add: corporate mortgage allowances	4,466	4,680	4,750
Less: securitization assets [3]	(908,367)	(944,153)	(1,030,020)
Less: equity investments in MCAP and subsidiaries	(52,450)	(56,483)	(42,411)
Other adjustments	(4,328)	(8,436)	(7,475)
	$ 1,187,136	$ 1,189,828	$ 1,147,054
Income tax liabilities [1]			
Consolidated liabilities	$ 1,834,378	$ 1,886,958	$ 1,919,798
Adjustment for liabilities in subsidiaries	(6,194)	(7,963)	(7,852)
Non-consolidated liabilities in MIC entity	1,828,184	1,878,995	1,911,946
Less: securitization liabilities [3]	(896,641)	(932,222)	(1,014,258)
	$ 931,543	$ 946,773	$ 897,688
Income tax capital [1]	$ 255,593	$ 243,055	$ 249,366
Income tax capital ratios [1]			
Income tax assets to capital ratio	4.64	4.90	4.60
Income tax liabilities to capital ratio	3.64	3.90	3.60

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[2] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Amounts from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.
[3] The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes.

Regulatory Capital

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

Both OSFI and the Basel Committee on Banking Supervision ("BCBS") promote a resilient banking sector and strong global capital standards. Key components of Basel III impact MCAN through the Capital Adequacy Requirements ("CAR") and Leverage Requirements Guidelines.

OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital. The Company's Common Equity Tier 1 ("CET 1") capital consists of share capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company does not hold any additional Tier 1 or Tier 2 capital instruments, therefore its CET 1 capital is equal to its Tier 1 and Total Capital.

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

During 2018, OSFI released a discussion paper relating to the proposed implementation of final Basel III reforms in Canada. The reforms were published by the BCBS in December 2017 and seek to enhance credibility in the calculation of risk-weighted assets and improve the comparability and transparency of the capital ratios of OSFI-regulated financial institutions. These proposed reforms could significantly impact the risk-weighting of the Company's construction and commercial mortgage portfolios, as the new guidelines could potentially increase the risk-weighting of these assets from the current level of 100% to 150%. We are currently investigating the impact of these proposed reforms and the associated potential for higher capital requirements on real estate lending in Canada.

OSFI has released a revised version of the CAR Guideline effective January 1, 2019. We do not expect these revisions to have a material impact on MCAN's regulatory capital position or ratios.

The adoption of IFRS 9 effective January 1, 2018 did not have a material impact on our regulatory capital or ratios.

Table 28: Regulatory Capital

(in thousands except %) As at	December 31 2018 [1]	September 30 2018 [1]	December 31 2017
Regulatory Ratios (OSFI)			
Share capital	$ 221,869	$ 221,126	$ 214,664
Contributed surplus	510	510	510
Retained earnings	84,315	80,787	65,365
Accumulated other comprehensive income	-	-	16,438
Deduction for equity investment in MCAP (Transitional adjustment) [2]	n/a	n/a	(23,593)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2,3]	n/a	n/a	$ 273,384
Deduction for equity investment in MCAP (All-in adjustment) [2]	(30,925)	(29,689)	(5,898)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2,3]	$ 275,769	$ 272,734	$ 267,486
Total Exposures/Regulatory Assets [3]			
Consolidated assets	$ 2,141,072	$ 2,189,381	$ 2,216,775
Less: deductions from all-in Tier 1 Capital [2]	(30,925)	(29,689)	(29,491)
Other adjustments [4]	1,295	905	2,915
Total On-Balance Sheet Exposures	2,111,442	2,160,597	2,190,199
Mortgage and investment funding commitments	410,020	440,844	317,687
Less: conversion to credit equivalent amount (50%)	(205,010)	(220,422)	(158,844)
Letters of credit	43,757	43,715	32,164
Less: conversion to credit equivalent amount (50%)	(21,879)	(21,858)	(16,082)
Total Off-Balance Sheet Items	226,888	242,279	174,925
Total Exposures/Regulatory Assets	$ 2,338,330	$ 2,402,876	$ 2,365,124
Leverage ratio [3]	11.79%	11.35%	11.31%
Risk weighted assets (all-in) [2,3]	$ 1,273,205	$ 1,325,068	$ 1,258,171
Risk weighted assets (transitional) [2,3]	n/a	n/a	1,269,967
Regulatory Capital Ratios [3]			
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	21.66%	20.58%	21.26%
Tier 1 capital to risk-weighted assets ratio (all-in)	21.66%	20.58%	21.26%
Total capital to risk-weighted assets ratio (all-in)	21.66%	20.58%	21.26%
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%
Tier 1 capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%
Total capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%

[1] Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

[2] 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. As of January 1, 2018, the deduction was fully deductible whereas in 2017, the deduction on the transitional basis was equal to 80% of the all-in adjustment.

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

[4] 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 %)	December 31, 2018			December 31, 2017		
As at	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 98,842	20%	$ 20,028	$ 117,571	20%	$ 24,097
Cash held in trust	26,002	20%	5,200	13,441	20%	2,688
Marketable securities	53,247	100%	53,247	62,518	100%	62,518
Mortgages - corporate	922,390	70%	648,833	863,384	76%	656,384
Mortgages - securitized	887,252	3%	28,368	1,016,724	3%	32,182
Non-marketable securities	71,813	214%	153,692	68,190	251%	170,922
Other loans	2,640	100%	2,640	2,612	100%	2,612
Equity investment in MCAP Commercial LP	61,593	50%	30,669	59,189	50%	29,697
Deferred tax asset	2,961	100%	2,961	2,672	100%	2,672
Other assets	14,332	100%	14,332	10,474	100%	10,474
			959,970			994,246
Off-Balance Sheet Items						
Letters of credit	43,757	50%	21,878	32,164	50%	16,082
Commitments	410,020	45%	182,744	317,687	45%	142,043
			204,622			158,125
Charge for operational risk			108,613			105,800
Risk-Weighted Assets (all-in)			**$ 1,273,205**			$ 1,258,171
Equity investment in MCAP Commercial LP (transitional adjustment) [1]			n/a			11,796
Risk-Weighted Assets (transitional)			n/a			**$ 1,269,967**

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

Other Capital Management Activity

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

SECURITIZATION PROGRAMS

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. We issue MBS through our internal market MBS program and the Canada Housing Trust ("CHT") CMB program. For further information, refer to Note 13 to the consolidated financial statements.

Market MBS Program

During 2018, we securitized $141 million of MBS through the market MBS program (2017 - $47 million). In 2018, we retained $46 million of the MBS securitized on our corporate balance sheet (2017 - $nil) with the remainder sold to third parties.

As at December 31, 2018, we held $68 million of retained MBS on our balance sheet (December 31, 2017 - $29 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

During 2018, we securitized $28 million of insured single family mortgages through the CMB program (2017 - $63 million).

Other Considerations

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio. However, for income tax purposes, all mortgages securitized by MCAN are excluded from 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.

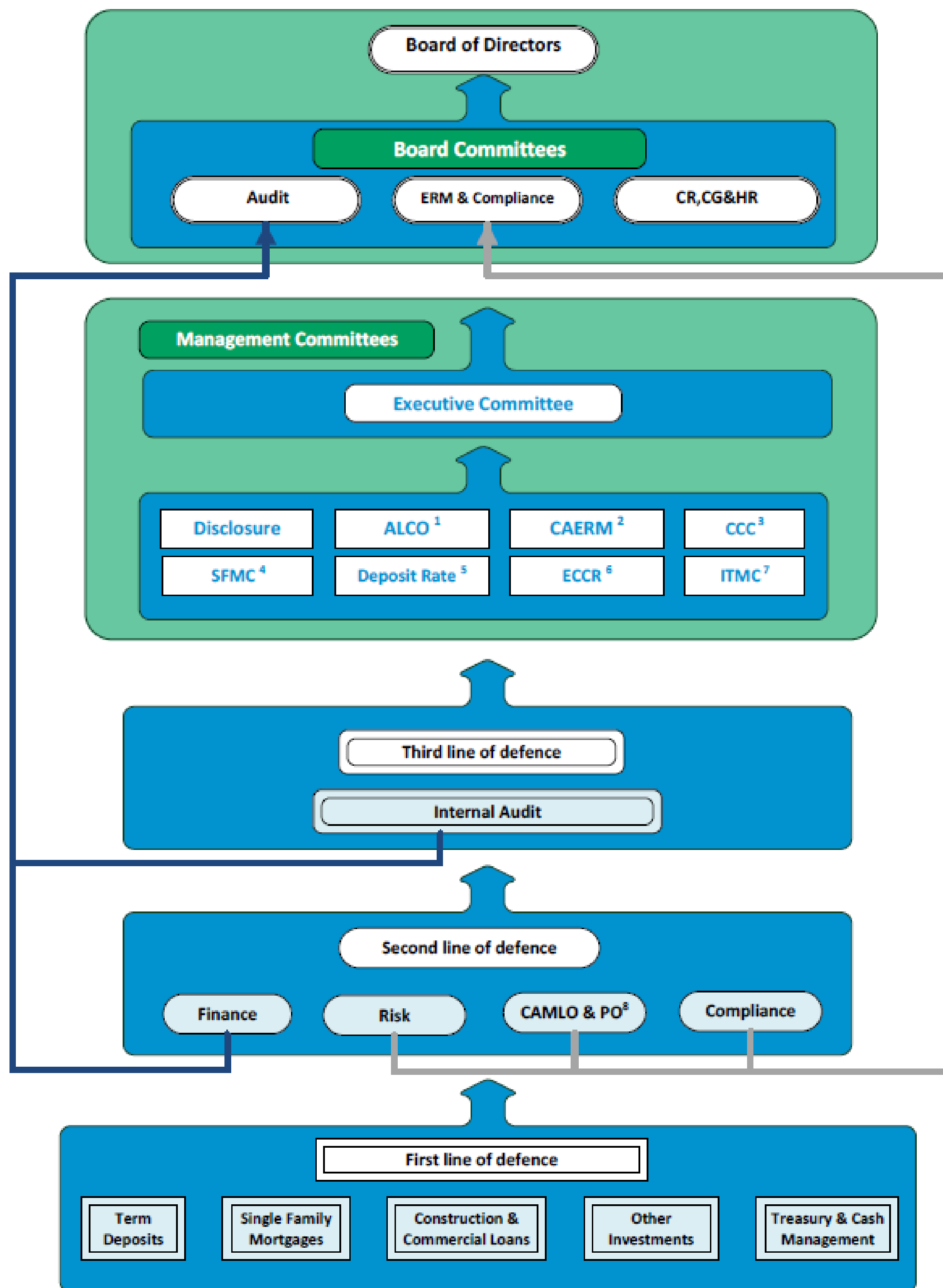
RISK GOVERNANCE AND MANAGEMENT

Effective risk management and an established risk management framework support a strong risk culture and help the Company achieve sustainable performance and stable growth while maintaining an appropriate balance between risk and return. The Enterprise Risk Management Framework ("ERMF") adopted by MCAN outlines MCAN's approach to risk management, which includes identifying, assessing, monitoring, reporting on and mitigating enterprise-wide exposures.

Risk Governance

MCAN has a risk governance structure, whereby the Board is supported by a number of Committees, and an experienced senior management team. This framework is governed through a hierarchy of committees and individual responsibilities as outlined in the diagram below.

The Board has oversight accountability for risk governance within MCAN. It provides this oversight and carries out its risk management mandate primarily through the Enterprise Risk Management and Compliance Committee ("ERM&CC"), 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"). MCAN's Risk Governance structure is illustrated in the following diagram:



[1] Asset and Liability Committee
[2] Compliance, Audit and Enterprise Risk Management Committee
[3] Capital Commitments Committee
[4] Single Family Management Committee
[5] Deposit Rate Setting Committee
[6] Executive Committee Credit Risk
[7] Information Technology Management Committee
[8] Chief Anti Money Laundering Officer & Privacy Officer

Board of Directors: is responsible for providing stewardship, including direction-setting and general oversight of the management and operations of the entire Company. The Board provides oversight and carries out its risk management mandate primarily through the ERM&CC, the Audit Committee, and the CR, CG & HR Committee. The Board reviews and approves the Risk Appetite Framework ("RAF") on a periodic basis and ensures its alignment with the strategic plan. The Board also ensures an effective risk culture by overseeing the implementation, by management, of appropriate systems to identify, quantify and manage the major risks of MCAN's business.

The Enterprise Risk Management and Compliance Committee: is responsible for overseeing risk management and compliance activities across the Company. It ensures the effectiveness of the Company's RAF and its alignment with the Company's strategy and ICAAP. It has the responsibility to ensure that the risk management function is independent from the business activity it oversees, and is supported by the terms of the ERMF.

The Executive Committee: consists of the Chief Executive Officer ("CEO") and senior management, and is responsible for developing the strategic plan and a comprehensive set of enterprise wide policies for approval by the Board, including the RAF. They are responsible for fostering a strong risk culture through "tone at the top" and are accountable for identifying and reporting significant risks to the ERM&CC.

Three-Lines-of-Defence

The Company's operating model follows the three-lines-of-defence approach to the management of risk.

First Line (Business Units): the business units headed by the CEO are the first line of defence in the Company's management of risk. The first line of defence has ownership of known and emerging risks whereby it acknowledges and manages the risks that it incurs or may incur in conducting its activities. The first line of defence is responsible for owning, identifying, managing, measuring and monitoring current and emerging risks and compliance with the Company's policies related to legal and regulatory matters.

Second Line (Oversight Functions): provide oversight and challenge to the first line through objectively identifying, measuring, monitoring and reporting known and emerging risks on an enterprise basis. The heads of the oversight functions are independent from operational management and have sufficient stature and authority within the organization to carry out their responsibilities as noted above. They have unfettered access and, for functional purposes, a direct reporting line to the Board and/or the relevant Board Committee through quarterly (or more immediate if necessary) Committee reporting and through quarterly in-camera sessions. These activities are overseen by:

- The Risk function, under the leadership of the Chief Risk Officer ("CRO") is accountable for identifying, measuring, monitoring and reporting on the risks of the organization on an enterprise-wide and disaggregated level, independently of operational management, and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF, which includes reporting on the significant business risks.

- The Finance function, under the leadership of the Chief Financial Officer ("CFO") is accountable for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, planning and budgeting systems. The CFO ensures legal and regulatory compliance for all financial matters within the Company.

- The Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer is accountable for measuring, and reporting on, compliance with the Company's policies and procedures that have been designed to manage and mitigate legal and regulatory compliance risk, and is accountable for the Company's adherence to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) and the *Personal Information Protection and Electronic Documents Act* (Canada) with regard to its deposit taking and lending activities.

Third Line (Internal Audit): is separate from both the first and second line of defence and provides independent and objective assurance with respect to the organization's risk management controls, processes, systems and of the effectiveness of the first and second line of defence functions. The Chief Audit Officer reports to the Chair of the Audit Committee.

Risk Appetite

The RAF governs the risk activities undertaken by the Company on an enterprise-wide basis. The RAF articulates the aggregate level and types of risk MCAN is willing to accept, or to avoid, in order to achieve its business objectives.

Key inputs into the RAF include MCAN's risk capacity and strategy, while the foundational components include risk appetite statements, risk appetite limits, and roles and accountabilities for the Board and senior management in relation to overseeing the implementation and monitoring of the RAF.

MCAN's overarching risk appetite statement is as follows:

1. Focus on sustainable and stable growth of earnings.
2. Maintain a conservative liquidity profile and a strong capital base.
3. Balance the corporate mortgage portfolio.
4. Maintain access to adequate funding and capital markets at all times.
5. Ensure sound management of regulatory compliance and operational risk and maintain a strong risk culture.
6. Ensure financial resiliency in a stressed scenario.

MCAN's RAF includes risk appetite metrics which are quantitative measures based on forward-looking assumptions to measure and monitor if MCAN is operating within its established risk appetite. RAF level risk appetite metrics are supported by policy level limit structures and controls, as applicable.

Stress Testing

Stress testing is a key risk management tool that supplements risk management practices by providing an assessment of our capacity to withstand potential adverse events and aids in refining our risk limits and chosen strategies. At least quarterly, MCAN conducts enterprise-wide stress testing covering a wide range of risks and correlations among risks.

Results of stress testing are interpreted in the context of our risk appetite and our specific risk appetite metrics including metrics for capital ratios, earnings volatility and level of stress losses. Enterprise-wide stress testing and capital and financial planning processes are integrated within the Company.

Monitoring and Reporting

Risk monitoring and reporting are key components of MCAN's ERMF and allow both the Board and senior management to execute their oversight and challenge responsibilities with respect to business operations. Risk Management reports risk exposures to senior management and the ERM&CC on a quarterly basis, to ensure business operations are within established risk appetite limits, policy level limits and policy guidelines. Reports include emerging risks, significant changes to MCAN's risk profile, and ad hoc reporting, as applicable.

Material Risk Types

MCAN's material risk types include Liquidity & Funding, Credit, Interest Rate, Market, Operational, Strategic and Reputational risk. Incidents related to these risks can adversely affect our ability to achieve our business objectives or execute our business strategies, and may result in a loss of earnings, capital and/or damage to our reputation. The ERMF addresses how we mitigate these risks by establishing effective policies, limits, and internal controls to monitor and mitigate these risks.

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.

Liquidity and Funding Risk

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

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held (including insured single family mortgages, which are readily marketable within a time frame of one to three months), together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations. The Board is responsible for the approval of liquidity policies. The Asset and Liability Committee ("ALCO"), which is comprised of management, is responsible for liquidity management oversight. We have an internal target of a standard level of liquid investments. This internal target includes assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. As at December 31, 2018 and December 31, 2017, we met this internal target.

We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

We maintain an overdraft facility to 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. Prior to year end, the total facility was temporarily increased from $75 million to $125 million until March 31, 2019.

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

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

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 ("LRMF") that is reviewed and approved periodically 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 performs multi scenario stress testing that is reviewed monthly by ALCO and quarterly by the ERM&CC. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis. Further to the LRMF, we maintain a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair our access to funding and liquidity.

OSFI's Liquidity Adequacy Requirements ("LAR") guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metric. As at December 31, 2018, we were in compliance with the LCR and NCCF.

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above. For further information on our off-balance sheet commitment associated with our investment in the KSHYF, refer to the "Off-Balance Sheet Arrangements" section of this MD&A.

Table 30: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2018	December 31 2017
Sources of liquidity							
Cash and cash equivalents	$ 98,842	$ -	$ -	$ -	$ -	$ 98,842	$ 117,571
Marketable securities	53,218	-	-	29	-	53,247	62,518
Mortgages - corporate	183,117	436,262	247,661	50,560	4,790	922,390	863,384
Non-marketable securities	-	-	-	-	71,813	71,813	68,190
Other loans	1,784	-	856	-	-	2,640	2,612
	336,961	436,262	248,517	50,589	76,603	1,148,932	1,114,275
Uses of liquidity							
Term deposits	41,664	317,006	472,342	88,611	-	919,623	884,460
Other liabilities	13,169	-	-	-	-	13,169	16,067
	54,833	317,006	472,342	88,611	-	932,792	900,527
Net liquidity surplus (deficit)	**$ 282,128**	**$ 119,256**	**$ (223,825)**	**$ (38,022)**	**$ 76,603**	**$ 216,140**	**$ 213,748**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 109,868	$ 124,406	$ 154,798	$ -	$ -	$ 389,072	$ 291,204
Commitment - KSHYF	-	-	-	-	20,948	20,948	26,483
	$ 109,868	$ 124,406	$ 154,798	$ -	$ 20,948	$ 410,020	$ 317,687

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

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 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 ERM&CC and the Board. A CRO Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the ERM&CC on a quarterly basis. Monitoring also takes place through our Capital Commitments Committee and Executive Committee, which are both comprised of senior 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 periodically, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the Board by management. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, post funding monitoring 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 on individual mortgages.

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concerns. The "monitored/watchlist" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which risks have increased. Loans in this category are included in stage 2 for IFRS 9 arrears classification purposes. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at December 31, 2018 we have not observed anything specific across the portfolio that we believe would cause a loss of principal in excess of the stage 1 and 2 allowances recorded under IFRS 9. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the consolidated financial statements.

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

Credit Risk - Impairment Assessment Under IFRS 9

The analysis of MCAN's IFRS 9 impairment assessment and measurement approach discussed below should be read in conjunction with Note 4 to the consolidated financial statements.

Probability of Default

The probability of default ("PD") is driven by historical arrears performance, and incorporates the rate at which mortgages move from performing status to defaulted status. Key macroeconomic variables, borrower credit scores and internal mortgage risk ratings (where applicable) are also used in calculating this rate. Where historical arrears performance is limited or not available, the Company uses external arrears/default data for similar loans and mortgages.

Exposure at default

The exposure at default ("EAD") represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the borrower's ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months for the calculation of the 12 month ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 financial assets, the EAD is considered for events over the lifetime of the instruments.

The Company determines EADs by determining the period of exposure and modelling the change in loan exposures over time. Except for some revolving credit facilities, the maximum period over which the ECL is measured is the maximum contractual period. For revolving credit facilities that include both a loan component and an undrawn commitment component, an assessment is made with respect to whether the Company's exposure to credit losses is not limited to the contractual notice period. Once the period of exposure is determined, the EAD is modelled based on loan terms, prepayment assumptions, commitment drawing patterns and other relevant forward-looking information.

Loss given default

Loss given default ("LGD") is modelled using a common LGD methodology that incorporates specific relevant data where appropriate. The LGD estimation takes into account all relevant and forward-looking information including but not limited to expected EAD, forecast of future collateral valuations including expected sales costs and discounts, debt structure and cross-collateralization, and varies with macroeconomic scenarios.

The Company segments its corporate mortgage portfolio into individual lines of business, outlined in Note 8 to the consolidated financial statements. The segmentation is based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and other transaction characteristics as applicable.

Additional data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each mortgage. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs include changes in collateral values including property prices for mortgages, regional housing price indexes or other factors that are indicative of losses in the group. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each mortgage. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or individual basis for the corporate mortgage portfolio based on the line of business (per Note 8 to the consolidated financial statements). ECLs are calculated on an individual basis for all mortgages in Stage 3 and are calculated on a collective basis for all mortgages in Stage 1 and Stage 2.

Analysis of inputs into the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Notes 4 and 5 to the consolidated financial statements. As part of the model input process, macroeconomic data are obtained from third party sources (e.g. rating agencies, bank economic forecasts), and our Risk Management department verifies the quality of data and assumptions in the Company's ECL models including determining the weights attributable to the multiple scenarios.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations.

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

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

Market Risk

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

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.

Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events. The risk of loss from people includes internal or external fraud, non-adherence to internal procedures, values, objectives or unethical behaviour. The largest components of this risk for MCAN have been separately identified as outsourcing risk, cyber risk and the risk related to accuracy and completeness of borrower information. The remaining risks arise from the small size and entrepreneurial nature of MCAN. 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.

We manage operational risk through various committees and processes. Senior management reviews operational measures on a recurring and regular basis. We also provide monthly updates to the Board on operations and other key factors and issues that arise.

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

Outsourcing Risk

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

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

Cyber Risk

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

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

Risk of Accuracy and Completeness of Borrower Information

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

We frequently review and enhance our underwriting procedures and control processes to strengthen our ability to detect such inaccurate and misleading information and to better manage this risk. These enhancements include improvements to underwriting staff training, independent income verification procedures, and other quality control and quality assurance processes.

In recent years, the Canadian mortgage industry has experienced falsification of supporting documents provided to lenders in the mortgage underwriting process, and during this time we have observed instances of this activity in our own underwriting processes. The implementation of significant changes to OSFI Guideline B-20 effective January 1, 2018 has reduced the number of borrowers that qualify for new mortgages, which increases the risk of document falsification.

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

Strategic Risk

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

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

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, borrowers, depositors, employees, suppliers, regulators, brokers and strategic partners. 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 Company's leadership. Failure to effectively manage reputational risk can result in reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

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. Reputational risk appetite is primarily assessed through a qualitative assessment on a quarterly basis whereby the CRO attests if MCAN is operating within appetite based on monitoring of a reputational risk dashboard.

Other Risk Factors

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.

Changes in Laws and Regulations and Regulatory Compliance Risk

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, limiting pricing and availability of products in the market, 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. Increasing regulations and expectations, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

Mortgage Renewal and Prepayment 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, in the case of insured single family mortgages, proceeds are received from mortgage insurers following the sale of mortgaged properties.

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment obligation. For further information on the Timely Payment obligation, refer to Note 13 to the consolidated financial statements. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

Economic Conditions

Factors that could impact MCAN include changes in short-term and long-term interest rates, commodity prices, inflation, consumer, business and government spending, real estate market volume, real estate prices and adverse economic events. Our inability to respond to meet changes effectively may have an adverse effect on our financial condition and results of operations.

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 at reasonable rates, 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, 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.

Qualification as a Mortgage Investment Corporation

If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes.

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.

General Litigation

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

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

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.

No Assurance of Achieving Investment Objectives or Payment of Dividends

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

General Risk Management

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2018, there were 23,798,464 common shares outstanding (December 31, 2017 - 23,377,785). As at February 22, 2019, there were 23,910,417 common shares outstanding.

During 2018, we issued 367,942 new common shares under the DRIP (2017 - 295,849), which provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%.

During 2018, we issued 52,737 new common shares through the Executive Share Purchase Plan (2017 - 6,709).

For additional information related to share capital, refer to Note 19 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to a premises lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KSHYF.

Table 31: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	December 31 2018	December 31 2017
Mortgage funding commitments	$ 234,274	$ 154,798	$ -	$ -	$ 389,072	$ 291,204
Commitment - KSHYF	-	-	-	20,948	20,948	26,483
Premises lease	890	1,857	1,897	3,856	8,500	8,652
	$ 235,164	**$ 156,655**	**$ 1,897**	**$ 24,804**	**$ 418,520**	**$ 326,339**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information, refer to Note 13 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 27 to the consolidated financial statements.

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6 million. MCAP was awarded a judgment for approximately $500,000 against the same plaintiff in related proceedings. We may be subject to the indemnification of MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision. During 2018, we reversed $0.6 million of previously incurred and accrued legal expenses relating to this litigation after receiving funds for reimbursement.

DIVIDEND POLICY AND RECORD

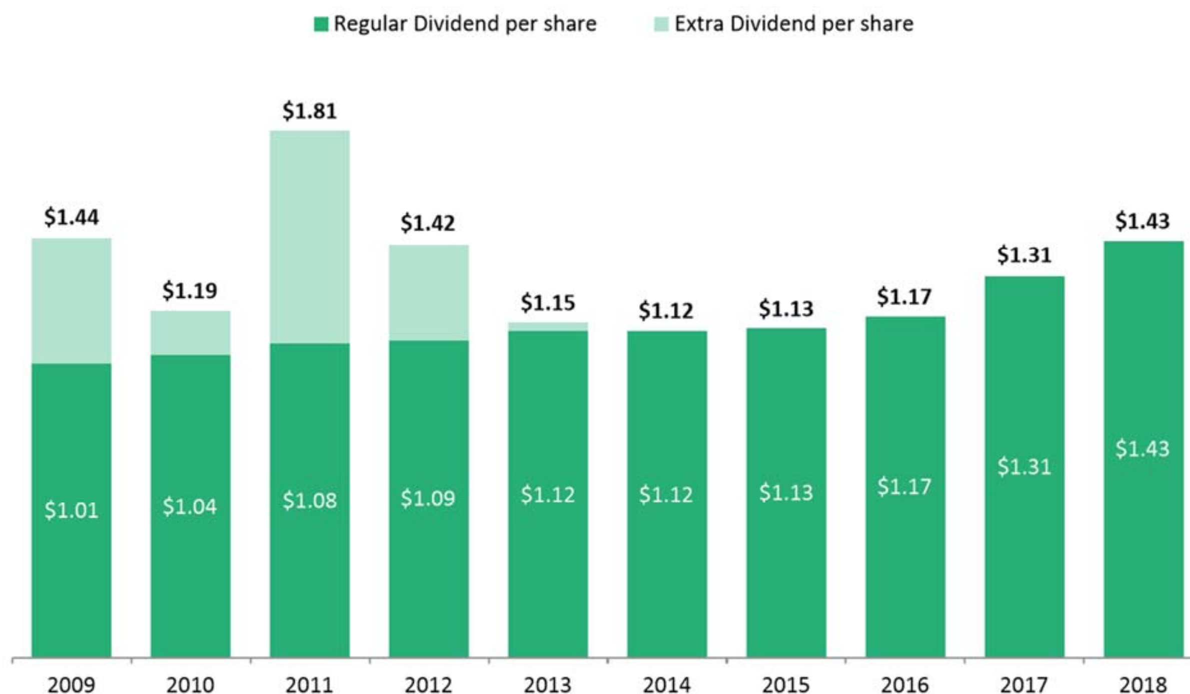
Our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. In addition, as a MIC, we can pay certain capital gains dividends which are taxed as capital gains to our shareholders. We intend to continue to declare dividends on a quarterly basis.

Dividends per share paid over the past three years are indicated in the table below:

Table 32: Dividends Per Share

For the Years Ended December 31	2018	2017	2016
First Quarter	$ 0.37	$ 0.30	$ 0.29
Second Quarter	0.37	0.32	0.29
Third Quarter	0.37	0.32	0.29
Fourth Quarter	0.32	0.37	0.30
	$ 1.43	**$ 1.31**	**$ 1.17**

Figure 5: Dividend History



TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters and years ended December 31, 2018 and December 31, 2017 and related party balances as at December 31, 2018 and December 31, 2017 are discussed in Note 25 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The use of financial instruments exposes us to liquidity, credit, interest rate and market risk. A discussion of these risks and how they 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 financial 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, 2018, we had 89 employees (December 31, 2017 - 69).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets by an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Allowances on impaired mortgages include all of the accumulated provisions for losses to reduce the assets to their estimated realizable value. Allowances depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect net realizable values and lead to an increase or decrease in the allowance for credit losses.

The measurement of impairment losses under both IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

We review our ECL models on a quarterly basis. We continue to monitor asset performance and economic conditions, including considering regionally specific issues to assess the adequacy of the current provisioning policies.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, we may make temporary qualitative adjustments or overlays using expert credit judgment when such differences are material.

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, as applicable, using the effective interest rate method.

Income taxes

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

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

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

Impairment of financial assets

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

Critical Accounting Judgments

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.

Income 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.

CURRENT PERIOD CHANGES IN ACCOUNTING POLICY

On January 1, 2018, we adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. As permitted, we have not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. All comparative period information is presented in accordance with the accounting policies as described in the annual consolidated financial statements for the year ended December 31, 2017. For further information on the adoption of IFRS 9 refer to Notes 4 and 6 to the consolidated financial statements.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective include IFRS 16, *Leases* and IFRS Interpretations Committee ("IFRIC") 23, *Uncertainty over Income Tax Treatments*. For further information on these standards, refer to Note 4 to the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2018, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2018.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2018.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2018 and ending on December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our control framework.

Inherent Limitations of Controls and Procedures

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

NON IFRS MEASURES

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

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

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

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

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

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

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

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk Weighted Asset Ratios
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 29 to the consolidated financial statements.

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, 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.