MCAN MORTGAGE CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 2019

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, 2019 and December 31, 2018 and the consolidated statements of income, changes in shareholders' equity 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 26, 2020.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains forward-looking 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;
- international trade and geopolitical uncertainties and their impact on the Canadian economy;
- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources;
- the timing of the effect of interest rate changes on our cash flows; and
- the declaration and payment of dividends.

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 and the cost to us of such regulation;
- systems failure or cyber and security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected spread 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;
- the stage of the real estate cycle and the maturity phase of the mortgage market;
- impact on housing demand from changing population demographics and immigration patterns;
- 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 and rates of default;
- availability of key personnel;
- our operating cost structure;
- the current tax regime; and
- operations within our equity investments.

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 and trade policies;
- levels of foreign investment in Canada and its real estate market;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in climate and environmental policies;
- 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 the Office of the Superintendent of Financial Institutions Canada (“OSFI”) and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- digital and technology evolution and disruptions;
- 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 investments in MCAP, marketable securities and non-marketable securities;
- our exposure to litigation;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with third-party mortgage originators and servicers;
- changes in operations within our equity investments; 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.

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

(in thousands except for per share amounts and %) For the Years Ended December 31	2019	2018	Change (%)	2017	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 64,943	$ 50,139	30%	$ 53,289	22%
Net investment income - securitization assets	$ 3,994	$ 4,976	(20%)	$ 5,613	(29%)
Net income	$ 48,294	$ 36,293	33%	$ 39,928	21%
Basic and diluted earnings per share	$ 2.01	$ 1.54	31%	$ 1.72	17%
Dividends per share	$ 1.28	$ 1.43	(10%)	$ 1.31	(2%)
Return on average shareholders' equity [1]	15.11%	11.90%	3.21%	13.75%	1.36%
Taxable income per share [1,2]	$ 1.36	$ 1.29	5%	$ 1.51	(10%)
Yields					
Spread of corporate mortgages over term deposit interest [1]	2.62%	3.07%	(0.45%)	3.07%	(0.45%)
Spread of securitized mortgages over liabilities [1]	0.71%	0.74%	(0.03%)	0.74%	(0.03%)
Average term to maturity (in months)					
Mortgages - corporate	10.7	11.5	(7%)	11.3	(5%)
Term deposits	18.4	18.7	(2%)	19.1	(4%)

As at December 31	2019	2018	Change (%)	2017	Change (%)
Balance Sheet Highlights					
Total assets	$ 2,179,341	$ 2,141,072	2%	$ 2,216,775	(2%)
Mortgages - corporate	$ 1,089,401	$ 922,390	18%	$ 863,384	26%
Mortgages - securitized	$ 784,296	$ 887,252	(12%)	$ 1,016,724	(23%)
Total liabilities	$ 1,849,029	$ 1,834,378	1%	$ 1,919,798	(4%)
Shareholders' equity	$ 330,312	$ 306,694	8%	$ 296,977	11%
Capital Ratios [1]					
Income tax assets to capital ratio	4.93	4.64	6%	4.60	7%
CET 1, Tier 1 and Total Capital ratios	22.52%	21.66%	4%	21.26%	1%
Leverage ratio [3]	12.58%	11.79%	7%	11.31%	1%
Credit Quality					
Impaired mortgage ratio (corporate) [1,4]	0.32%	0.34%	(0.02%)	0.29%	0.03%
Impaired mortgage ratio (total) [1,4]	0.23%	0.27%	(0.04%)	0.13%	0.10%
Mortgage Arrears [1]					
Corporate	$ 12,161	$ 9,435	29%	$ 8,766	39%
Securitized	3,750	6,527	(43%)	8,803	(57%)
Total	$ 15,911	$ 15,962	—%	$ 17,569	(9%)
Common Share Information (end of period)					
Number of common shares outstanding	24,215	23,798	2%	23,378	4%
Book value per common share [1]	$ 13.64	$ 12.89	6%	$ 12.70	7%
Common share price - close	$ 17.10	$ 13.32	28%	$ 17.84	(4%)
Market capitalization [1]	$ 414,077	$ 316,989	31%	$ 417,064	(1%)

[1] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.
[2] For further information refer to the "Taxable Income" section of this MD&A.
[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] Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

Table 2: Financial Statement Highlights

(in thousands except for per share amounts and %) For the Periods Ended		Q4 2019		Q3 2019	Change (%)		Q4 2018	Change (%)
Income Statement Highlights								
Net investment income - corporate assets	$	14,839	$	18,207	(18%)	$	7,872	89%
Net investment income - securitization assets	$	1,015	$	962	6%	$	1,082	(6%)
Net income	$	10,550	$	14,551	(27%)	$	3,547	197%
Basic and diluted earnings per share	$	0.44	$	0.60	(27%)	$	0.15	193%
Dividends per share	$	0.32	$	0.32	—%	$	0.32	—%
Next quarter's dividend per share	$	0.34						
Return on average shareholders' equity [1]		12.84%		18.05%	(5.21%)		4.66%	8.18%
Taxable income per share [1,2]	$	0.46	$	0.28	64%	$	0.49	(6%)
Yields								
Spread of corporate mortgages over term deposit interest [1]		2.63%		2.48%	0.15%		2.93%	(0.30%)
Spread of securitized mortgages over liabilities [1]		0.72%		0.72%	—%		0.70%	0.02%

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

HIGHLIGHTS

Financial Performance

Q4 2019

- Net income of $10.6 million in Q4 2019, an increase of $7.1 million (197%) from $3.5 million in Q4 2018.
- Earnings per share totalled $0.44 in Q4 2019, an increase of $0.29 (193%) from $0.15 per share in Q4 2018.
- Return on average shareholders' equity[1] of 12.84% in Q4 2019, an increase of 8.18% from 4.66% in Q4 2018.
- Net corporate mortgage spread income[1] decreased by $0.1 million from Q4 2018. The net corporate mortgage spread income[1] decreased due to a reduction in the spread of corporate mortgages over term deposit interest[1] to 2.63% in Q4 2019 from 2.93% in Q4 2018. This decrease in the spread of corporate mortgages over term deposit interest[1] was partially offset by a higher average corporate mortgage portfolio balance[1] of $1,094 million in Q4 2019 compared to $968 million in Q4 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to term deposit funding and related costs.
- Equity income from MCAP Commercial LP ("MCAP") totalled $4.0 million in Q4 2019, an increase of $0.7 million (22%) from $3.3 million in Q4 2018, which was due to higher net interest income on securitized mortgages, net investment revenue and mortgage origination fees, partially offset by higher financial instrument losses in MCAP.
- In Q4 2019, we recorded a $2.1 million net gain on securities compared to a $4.2 million net loss on securities in Q4 2018. Activity in both Q4 2019 and Q4 2018 included fair value changes related to our real estate investment trust ("REIT") portfolio and our investment in Crown Realty II Limited Partnership ("Crown LP"). The net gain in Q4 2019 positively impacted earnings per share by $0.09, while the net loss in Q4 2018 negatively impacted earnings per share by $0.17.

2019

- Net income of $48.3 million for 2019, an increase of $12.0 million (33%) from $36.3 million in 2018.
- Earnings per share totalled $2.01 for 2019, an increase of $0.47 (31%) from $1.54 per share in 2018.
- Return on average shareholders' equity[1] of 15.11% for 2019, an increase of 3.21% from 11.90% in 2018.
- Net corporate mortgage spread income[1] decreased by $0.7 million from 2018. The net corporate mortgage spread income[1] decreased due to a reduction in the spread of corporate mortgages over term deposit interest[1] to 2.62% in 2019 from 3.07% in 2018. This decrease in the spread of corporate mortgages over term deposit interest[1] was partially offset by a higher average corporate mortgage portfolio balance[1] of $1,041 million in 2019 compared to $918 million in 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to term deposit funding and related costs.
- Equity income from MCAP totalled $15.8 million for 2019, an increase of $2.6 million (19%) from $13.2 million in 2018. For 2019, MCAP has earned higher net interest income on securitized mortgages, net investment revenue and mortgage origination fees, partially offset by higher financial instrument losses. During 2019, we did not sell any partnership units in MCAP. In 2018, we sold 200,000 partnership units in MCAP, recognizing a gain on sale of $1.7 million.
- In 2019, we recorded a $14.0 million net gain on securities compared to a net loss on securities of $0.5 million in 2018, which was driven by net gains of $10.8 million (2018 - $3.5 million net loss) on our REIT portfolio and $3.2 million (2018 - $2.6 million) on our investment in Crown LP. In 2019, proceeds from dispositions in our REIT portfolio totalled $17.9 million (2018 - $7.5 million), resulting in $6.3 million of realized gains (2018 - $1.9 million). The 2019 net gain positively impacted earnings per share by $0.58 while the net loss in 2018 negatively impacted earnings per share by $0.02.

Business Activity

- Corporate assets totalled $1.36 billion at December 31, 2019, a decrease of $9 million (1%) from September 30, 2019 and an increase of $137 million (11%) from December 31, 2018.
- Corporate mortgage portfolio totalled $1.1 billion at December 31, 2019, a decrease of $7 million (1%) from September 30, 2019 and an increase of $167 million (18%) from December 31, 2018.

- Uninsured single family portfolio totalled $383 million at December 31, 2019, an increase of $19 million (5%) from September 30, 2019 and an increase of $127 million (50%) from December 31, 2018.

- Uninsured single family originations totalled $222 million in 2019, an increase of $101 million (84%) from 2018. Uninsured single family originations were $57 million in the fourth quarter of 2019, an increase of $6 million (13%) from the fourth quarter of 2018.

- Insured single family originations totalled $232 million in 2019, an increase of $130 million (127%) from 2018. Insured single family originations were $60 million in the fourth quarter of 2019, an increase of $32 million (116%) from the fourth quarter of 2018.

- Securitization volumes totalled $322 million in 2019, an increase of $153 million (90%) from $169 million in 2018. Securitization volumes in 2019 consisted of $308 million of insured single family mortgages (2018 - $169 million) and $14 million of insured multi family mortgages (2018 - $nil). This increase in securitization volumes was offset by mortgage maturities and resulted in a decrease in our securitized portfolio of 11% from 2018.

- Construction and commercial portfolios totalled $551 million at December 31, 2019, a decrease of $4 million (1%) from September 30, 2019 and an increase of $3 million (1%) from December 31, 2018. Of this, our construction portfolio totalled $505 million at December 31, 2019, an increase of $4 million (1%) from September 30, 2019 and an increase of $71 million (16%) from December 31, 2018.

Dividend

- The Board of Directors (the "Board") declared an increase to the quarterly dividend from $0.32 per share to $0.34 per share on February 26, 2020 to be paid March 30, 2020 to shareholders of record as of March 13, 2020.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.32% at December 31, 2019 compared to 0.27% at September 30, 2019 and 0.34% at December 31, 2018[2].

- The impaired total mortgage ratio[1] was 0.23% at December 31, 2019 compared to 0.18% at September 30, 2019 and 0.27% at December 31, 2018[2].

- Total mortgage arrears[1] were $16 million at December 31, 2019 compared to $16 million at September 30, 2019 and $16 million at December 31, 2018. All arrears relate to the single family mortgage portfolio at December 31, 2019.

- Net write-offs were $58,000 (2.1 basis points) of the average corporate portfolio in Q4 2019 compared to nil in Q4 2018; annual write-offs were $99,000 (1.0 basis point) in 2019 and $256,000 (2.8 basis points) in 2018. All write-offs relate to the uninsured single family mortgage portfolio.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and OSFI.

- Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital to risk-weighted assets ratios[1] were 22.52% at December 31, 2019 compared to 21.77% at September 30, 2019 and 21.66% at December 31, 2018.

- The leverage ratio[1] was 12.58% at December 31, 2019 compared to 12.28% at September 30, 2019 and 11.79% at December 31, 2018.

- The income tax assets to capital ratio[1] was 4.93 at December 31, 2019 compared to 5.13 at September 30, 2019 and 4.64 at December 31, 2018.

- We issued 416,919 new common shares through the Dividend Reinvestment Plan ("DRIP") in 2019 compared to 367,942 in 2018. The DRIP participation rate was 17% for the 2019 fourth quarter dividend (2018 fourth quarter dividend - 18%). The DRIP participation rate for 2019 dividends was 20% (2018 - 19%).

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.*

Summary of Three Year Results of Operations

Financial Performance

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 $8.9 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 return on average shareholders' equity[1] of 13.75%.

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 $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 return on average shareholders' equity[1] of 11.90%.

In 2019, we recorded net income of $48.3 million, an increase of 33% from 2018. We exceeded our long-term annual growth target for corporate assets of 10%, with growth of 11% although net corporate mortgage spread income[1] decreased by 3% from 2018. Equity income from MCAP totalled $15.8 million, while non-marketable securities contributed $6.4 million, an increase of approximately 20% from 2018. Net gain on securities contributed $14.0 million to net income, as compared to a net loss on securities of $0.5 million in 2018. In 2019, we recorded earnings per share of $2.01 and return on average shareholders' equity[1] of 15.11%.

Business Activity

Assets totalled $2.22 billion as at December 31, 2017, a decrease of 3% from December 31, 2016. Corporate mortgages decreased by $41 million (5%) due to lower origination volumes in single family, partially offset by higher originations in residential construction.

Assets totalled $2.14 billion as at December 31, 2018, a decrease of 3% from December 31, 2017. During the year, we shifted our corporate mortgage portfolio strategy to focus more on single family mortgages. Given the phase of the real estate cycle, it was prudent to focus more on single family lending while being more selective in reviewing opportunities for our construction lending portfolio. The average balance of our commercial loan portfolio remained consistent during 2018 and provided an appropriate risk-adjusted return. Our securitized mortgage portfolio decreased 13% from 2017, due to lower insured originations in 2017 and natural run off of the portfolio.

Assets totalled $2.18 billion as at December 31, 2019, an increase of 2% from December 31, 2018. As noted above, we experienced strong growth in our corporate assets during 2019, with corporate assets totalling $1.36 billion. Our corporate mortgage portfolio totalled $1.09 billion, an increase of 18% from December 31, 2018. Securitization volumes totalled $322 million in 2019, an increase of $153 million (90%) from $169 million in 2018. Securitization volumes in 2019 consisted of $308 million of insured single family mortgages (2018 - $169 million) and $14 million of insured multi family mortgages (2018 - $nil). This increase in securitization volumes was offset by mortgage maturities and resulted in a decrease in our securitized portfolio of 11% from 2018.

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

OUTLOOK

Market Outlook

Canada's economy continued growing at a measured pace during the fourth quarter as trade conflicts, low oil and gas prices, geopolitical risk and their associated uncertainties continued. Canada's Gross Domestic Product ("GDP") outlook for 2020 is expected to be 1.6%. This may be negatively impacted, especially in the first half of 2020, by the potential impact on trade and GDP from the recent coronavirus outbreak and blockades of key transportation infrastructure. We believe that Canada has largely adjusted to the negative impact of lower oil prices and various other economic weaknesses and is positively supported by relatively low interest rates, increasing immigration and strong employment. The economy has been operating at nearly full potential since the beginning of 2019. Development of the Trans Mountain pipeline expansion project and the Coastal GasLink natural gas pipeline are expected to provide both price support for Canadian oil and gas over the long term and positive investment and employment during construction. Headwinds from decreased consumer confidence, weaker investment, other than oil and gas, and international uncertainties may have negative impacts in 2020 and influence the Bank of Canada overnight rate.

During the fourth quarter, the residential housing market strengthened in most major markets where we do business. Furthermore, there is a scarcity of affordable new housing supply in our major markets of Vancouver, Toronto and Ottawa. This supported increases in resales, particularly in the Vancouver and Toronto markets, in the fourth quarter of 2019. The demand for affordable housing supports continuing housing starts, which are expected to see an uptick into 2020.

The Canadian housing market has essentially rebounded while, at the same time, the policy and regulatory reforms over the past few years have served to strengthen lending standards governing regulated entities. While Canadian household indebtedness remains high, it has plateaued as consumers become more cautious. We expect some further stimulus in the housing market with the recent announcement from the Department of Finance and the Office of the Superintendent of Financial Institutions, regarding the change to the benchmark rate for the interest rate stress test for insured single family mortgages issued by regulated entities.

Business Outlook

Uncertainty around geopolitical event risk, trade, the impact of the coronavirus outbreak and their potential economic impact on the Canadian economy is expected to continue in 2020.

As a diversified lender primarily focused on affordable residential Canadian real estate, we believe that our systematic approach to lending, shaped by our risk appetite and expertise in balance sheet management, will allow us to effectively grow our business and optimize opportunities even with this ongoing uncertainty.

Strong demand, continued low interest rates and the quality and number of immigration household formations, is expected to support a balanced overall Canadian residential housing market. In some regions, however, low inventory supply may lead to a seller's market and increases in pricing. Over the mid to long term, we expect to continue to see challenges in the housing market in major urban centres driven by supply and demand fundamentals, which will provide support for new residential housing construction particularly at the affordable end of the market.

Increased competition from other lenders in the market is placing downward pressure on yields and spreads in our single family, construction and commercial portfolios. We believe that our portfolio composition continues to provide a balanced risk and return profile as we position ourselves in this competitive market. We continue to focus on our desired markets with our chosen borrowers and strategic partnerships, as well as internal efficiencies and customer service, to earn appropriate risk adjusted returns. We remain dedicated to our strategic partner strategy to support the growth and diversification of our business. In addition, we are focused on increasing investments in our non-marketable securities portfolio. We believe that diversified assets with differing risk and return profiles provide the Company with sustainable returns over the mid to long term. Our targeted annual growth in corporate assets over the long term is 10%. We believe we are well positioned in terms of capital and liquidity to support our targeted corporate asset growth within our risk appetite into 2020.

This Outlook contains forward-looking statements. For further information, please refer to the "A Caution About Forward-Looking Information and Statements" section of this MD&A.

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %) For the Periods Ended	Q4 2019	Q4 2018	Change (%)	Annual 2019	Annual 2018	Change (%)
Net Investment Income - Corporate Assets						
Mortgage interest	$ 14,910	$ 13,649	9%	$ 56,379	$ 51,610	9%
Equity income from MCAP Commercial LP	4,032	3,292	22%	15,759	13,188	19%
Non-marketable securities	1,802	1,230	47%	6,416	5,357	20%
Marketable securities	680	898	(24%)	3,027	3,464	(13%)
Fees	382	397	(4%)	2,002	1,909	5%
Interest on cash and other income	247	353	(30%)	1,101	1,284	(14%)
Net gain (loss) on securities	2,067	(4,156)	150%	14,008	(512)	2,836%
Gain on sale of investment in MCAP Commercial LP	—	—	n/a	—	1,701	(100%)
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	187	314	(40%)
	24,120	**15,663**	**54%**	**98,879**	**78,315**	**26%**
Term deposit interest and expenses	7,960	6,590	21%	29,321	23,814	23%
Mortgage expenses	1,111	1,048	6%	4,078	4,031	1%
Interest on loans payable	77	27	185%	638	143	346%
Other financial expenses	—	—	n/a	360	—	n/a
Provision for (recovery of) credit losses	133	126	6%	(461)	188	(345%)
	9,281	**7,791**	**19%**	**33,936**	**28,176**	**20%**
	14,839	**7,872**	**89%**	**64,943**	**50,139**	**30%**
Net Investment Income - Securitization Assets						
Mortgage interest	4,950	5,657	(12%)	20,491	24,540	(16%)
Other securitization income	208	154	35%	792	360	120%
	5,158	**5,811**	**(11%)**	**21,283**	**24,900**	**(15%)**
Interest on financial liabilities from securitization	3,650	4,208	(13%)	15,345	17,793	(14%)
Mortgage expenses	494	519	(5%)	1,954	2,133	(8%)
Provision for (recovery of) credit losses	(1)	2	(150%)	(10)	(2)	400%
	4,143	**4,729**	**(12%)**	**17,289**	**19,924**	**(13%)**
	1,015	**1,082**	**(6%)**	**3,994**	**4,976**	**(20%)**
Operating Expenses						
Salaries and benefits	3,870	2,700	43%	13,905	11,118	25%
General and administrative	1,744	2,812	(38%)	7,292	7,804	(7%)
	5,614	**5,512**	**2%**	**21,197**	**18,922**	**12%**
Net income before income taxes	10,240	3,442	198%	47,740	36,193	32%
Provision for (recovery of) income taxes	(310)	(105)	195%	(554)	(100)	454%
Net Income	**$ 10,550**	**$ 3,547**	**197%**	**$ 48,294**	**$ 36,293**	**33%**
Basic and diluted earnings per share	$ 0.44	$ 0.15	193%	$ 2.01	$ 1.54	31%
Dividends per share	$ 0.32	$ 0.32	—%	$ 1.28	$ 1.43	(10%)

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	December 31, 2019			September 30, 2019			December 31, 2018		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages									
Insured	$ 121,690	$ 928	3.07%	$ 165,970	$ 1,305	3.10%	$ 126,367	$ 977	3.17%
Uninsured	371,487	4,416	4.76%	355,895	4,098	4.59%	245,177	2,772	4.52%
Uninsured - completed inventory	47,964	769	6.36%	21,532	411	6.71%	4,400	69	6.19%
Construction loans									
Residential	497,878	7,993	6.38%	452,837	7,258	6.36%	441,790	7,448	6.69%
Non residential	4,060	95	9.31%	4,500	94	8.27%	10,589	191	7.15%
Commercial loans									
Multi family residential	15,917	237	5.90%	42,731	616	5.72%	70,076	948	5.37%
Other	35,350	472	5.35%	50,383	827	6.46%	69,515	1,244	7.09%
Mortgages - corporate portfolio	$1,094,346	$ 14,910	5.43%	$1,093,848	$ 14,609	5.28%	$ 967,914	$ 13,649	5.62%
Term deposit interest and expenses	1,019,641	7,960	2.80%	1,001,159	7,853	2.80%	917,106	6,590	2.69%
Net corporate mortgage spread income[2]		$ 6,950			$ 6,756			$ 7,059	
Spread of mortgages over term deposit interest [2]			2.63%			2.48%			2.93%
Average term to maturity (months)									
Mortgages - corporate	10.7			11.3			11.5		
Term deposits	18.4			19.1			18.7		

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

For the Years Ended December 31	2019			2018		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages						
Insured	$ 134,839	$ 4,252	3.13%	$ 104,146	$ 3,232	3.10%
Uninsured	335,057	15,409	4.60%	216,631	9,948	4.59%
Uninsured - completed inventory	24,691	1,629	6.41%	9,675	558	5.76%
Construction loans						
Residential	451,416	29,199	6.47%	428,508	27,795	6.49%
Non residential	6,565	526	7.79%	6,745	438	6.50%
Commercial loans						
Multi family residential	38,394	2,143	5.58%	72,878	3,885	5.33%
Other commercial	49,998	3,221	6.44%	79,662	5,754	7.24%
Mortgages - corporate portfolio	$ 1,040,960	$ 56,379	5.41%	$ 918,245	$ 51,610	5.62%
Term deposit interest and expenses	969,121	29,321	2.79%	878,944	23,814	2.55%
Net corporate mortgage spread income[2]		$ 27,058			$ 27,796	
Spread of mortgages over term deposit interest [2]			2.62%			3.07%

[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 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, 2019, September 30, 2019 and December 31, 2018 and the years ended December 31, 2019 and December 31, 2018.*
[2] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2019	Q3 2019	Change (%)	Q4 2018	Change (%)	Annual 2019	Annual 2018	Change (%)
Originations								
Single family - insured	$ 59,553	$ 76,970	(23%)	$ 27,631	116%	$ 231,823	$ 102,213	127%
Single family - uninsured	57,276	46,179	24%	50,805	13%	222,301	121,050	84%
Single family - uninsured completed inventory [1]	424	32,030	(99%)	3,854	(89%)	47,917	12,900	271%
Residential construction [1]	104,745	74,611	40%	56,580	85%	295,264	298,155	(1%)
Non-residential construction [1]	—	—	n/a	646	(100%)	760	9,129	(92%)
Commercial [1]	2,000	212	843%	475	321%	3,037	51,228	(94%)
	$ 223,998	**$ 230,002**	**(3%)**	**$ 139,991**	**60%**	**$ 801,102**	**$ 594,675**	**35%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 27,229	$ 30,606	(11%)	$ 12,065	126%	$ 82,808	$ 59,906	38%

[1] Construction, commercial and completed inventory originations represent all advances on loans.
[2] Represents mortgages previously derecognized or held in the securitized portfolio that have been renewed into the corporate mortgage portfolio.

Overview

The decrease in the spread of mortgages over term deposit interest[1] in 2019 from 2018 was due to an increase in the proportion of our corporate portfolio held in single family mortgages. Re-balancing of the risk profile of the mortgages on our balance sheet was a strategic focus of the Company in 2019. Continued intense market competition and an increase in term deposit funding and related costs also contributed to the decrease in the spread of mortgages over term deposit interest[1].

Single family

During 2019, we focused on single family originations in our corporate mortgage portfolio and accordingly our volumes increased significantly over 2018. This increase was a result of our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity. Additionally, we continued to acquire uninsured single family mortgages from our strategic partners and third party originators.

We continue to grow our insured single family origination volumes to allow us to securitize opportunistically through the Canada Mortgage and Housing Corporation ("CMHC") *National Housing Act* ("NHA") MBS program. The significant increase in insured single family originations in 2019 led to an 82% increase in single family securitization volumes to $308 million in 2019 from $169 million in 2018.

Single family mortgages provide comparatively lower yields given the lower risk profile. We will continue to focus on our target markets and risk profile while anticipating increased competition into 2020. Higher gross coupon and penalty income in our uninsured single family originations during Q4 2019 contributed to a higher corporate mortgage portfolio average interest rate[1] compared to Q3 2019. We increased our single family uninsured completed inventory portfolio during the second half of 2019 through our origination strategic partnerships.

Construction and commercial

During 2019, we focused on originations in our residential construction portfolio in our selected markets, with our preferred borrowers and risk profile. The decrease in the commercial portfolio was due to the movement of certain loans to the construction and completed inventory portfolios and increased competition for product within our risk appetite and with our desired risk adjusted return. During Q4, 2019, we were proactive in managing the portfolio for future growth opportunities.

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

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 right to renew these mortgages, which we believe will contribute to future income. As at December 31, 2019, we had the renewal rights to $1.2 billion of single family mortgages (September 30, 2019 - $1.1 billion; December 31, 2018 - $985 million).

Equity Income from MCAP

The $2.6 million increase in equity income from MCAP in 2019 from 2018 was due to higher net interest income on securitized mortgages, net investment revenue and mortgage origination fees, partially offset by higher financial instrument losses.

In Q4 2019, MCAP's origination volumes were $4.7 billion, an increase from $3.5 billion in Q4 2018. For 2019, MCAP's origination volumes were $16.9 billion, an increase from $15.4 billion in 2018. As at November 30, 2019, MCAP had $105.5 billion of assets under management compared to $78.1 billion at August 31, 2019 and $72.8 billion as at November 30, 2018.

We recognize equity income from MCAP on a one-month lag such that our 2019 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2019. 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

Income from non-marketable securities primarily consisted of distribution income of $1.2 million from the KingSett High Yield Fund ("KSHYF") in Q4 2019 (Q4 2018 - $1.1 million) and $0.3 million from Crown LP in Q4 2019 (Q4 2018 - $0.1 million). For 2019, we received $4.7 million of distribution income from the KSHYF (2018 - $4.6 million) and $1.4 million from Crown LP (2018 - $0.8 million).

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 4.79% in Q4 2019 (Q4 2018 - 6.35%). During 2019, the yield was 5.19% (2018 - 5.86%). The yield has been calculated based on the average portfolio balance. The net gain on the REIT portfolio discussed below contributed to the lower 2019 yield by increasing the average portfolio balance.

Net Gain (Loss) on Securities

In Q4 2019, we recorded a $2.1 million net gain on securities compared to a $4.2 million net loss in Q4 2018. During 2019, we recorded a $14.0 million net gain on the securities portfolio, which was driven by a net gain of $10.8 million on our REIT portfolio and $3.2 million on our investment in Crown LP, compared to a $0.5 million net loss in 2018 primarily related to a $3.5 million net loss on our REIT portfolio. In 2019, proceeds from dispositions in our REIT portfolio totalled $17.9 million, resulting in $6.3 million of realized gains.

Gain on Dilution of Investment in MCAP

In 2019 and 2018, MCAP issued additional class B units to other partners of MCAP which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $0.2 million in 2019 (2018 - $0.3 million).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses from 2018 is primarily due to the increase in deposit funding and related costs to support growth in our mortgage portfolio. 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 term deposit portfolio compared to the floating rate component of the corporate mortgage portfolio, which reprices immediately. Term deposit expenses include costs related to insurance, infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program. Our total new securitization volumes were $104 million in Q4 2019 (Q4 2018 - $63 million) and $322 million in 2019 (2018 - $169 million). For further details on these programs, refer to the "Securitization Programs" section of this MD&A.

Table 7: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	December 31, 2019			September 30, 2019			December 31, 2018		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$ 773,136	$ 4,950	2.56%	$ 747,566	$ 4,800	2.58%	$ 891,976	$ 5,657	2.53%
Financial liabilities from securitization	793,569	3,650	1.84%	784,259	3,662	1.86%	917,589	4,208	1.83%
Net securitized mortgage spread income [2]		$ 1,300			$ 1,138			$ 1,449	
Spread of mortgages over liabilities [2]			0.72%			0.72%			0.70%

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

For the Years Ended December 31	2019			2018		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$ 802,970	$ 20,491	2.56%	$ 956,531	$ 24,540	2.57%
Financial liabilities from securitization	827,940	15,345	1.85%	972,180	17,793	1.83%
Net securitized mortgage spread income [2]		$ 5,146			$ 6,747	
Spread of mortgages over liabilities [2]			0.71%			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 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, 2019, September 30, 2019 and December 31, 2018 and the years ended December 31, 2019 and December 31, 2018.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Provisions for Credit Losses

Table 9: Provisions for Credit Losses and Write-offs

(in thousands except basis points and %) For the Periods Ended	Q4 2019	Q4 2018	Change (%)	Annual 2019	Annual 2018	Change (%)
Provision (recovery) on impaired corporate mortgages						
Single family mortgages uninsured	$ 6	$ 162	(96%)	$ 62	$ 336	(82%)
Construction	—	217	(100%)	(217)	217	(200%)
	6	379	(98%)	(155)	553	(128%)
Provision (recovery) on performing corporate mortgages						
Single family mortgages insured	—	(1)	(100%)	19	9	111%
Single family mortgages uninsured	60	241	(75%)	(305)	667	(146%)
Single family mortgages uninsured - completed inventory	27	20	35%	140	(356)	(139%)
Construction loans	29	(155)	(119%)	474	(40)	(1,285%)
Commercial loans						
Multi family residential	(4)	(192)	(98%)	(346)	(127)	172%
Other commercial	23	(167)	(114%)	(269)	(458)	(41%)
	135	(254)	(153%)	(287)	(305)	(6%)
Other provisions (recoveries)	(8)	1	(900%)	(19)	(60)	(68%)
Total corporate provision for (recovery of) credit losses	133	126	6%	(461)	188	(345%)
Provision (recovery) on performing securitized mortgages	(1)	2	(150%)	(10)	(2)	400%
Total provisions for (recoveries of) credit losses	$ 132	$ 128	3%	$ (471)	$ 186	(353%)
Corporate mortgage portfolio data:						
Provisions for (recoveries of) credit losses, net	$ 141	$ 125	13%	$ (442)	$ 248	(278%)
Net write offs	$ 58	$ —	n/a	$ 99	$ 256	(61%)
Net write offs (basis points)	2.1	—	n/a	1.0	2.8	(64%)

Provisions on performing mortgages reflect changes in portfolio balances, macroeconomic conditions and characteristics of the mortgages held in the portfolio. Additionally, we may incorporate management judgment, where appropriate, in the calculation of mortgage allowances. Accordingly, provisions on performing mortgages are expected to vary between periods.

All write-offs noted in the table above relate to the uninsured single family mortgage portfolio.

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q4 2019	Q4 2018	Change (%)	Annual 2019	Annual 2018	Change (%)
Salaries and benefits	$ 3,870	$ 2,700	43%	$ 13,905	$ 11,118	25%
General and administrative	1,744	2,812	(38%)	7,292	7,804	(7%)
	$ 5,614	**$ 5,512**	**2%**	**$ 21,197**	**$ 18,922**	**12%**

The increase in salaries and benefits in Q4 2019 and 2019 from Q4 2018 and 2018 is primarily due to additional resources to support our increased focus on single family originations, internal infrastructure and systems initiatives.

The decrease in general and administrative expenses in Q4 2019 from Q4 2018 is primarily due to higher professional fees incurred in Q4 2018.

Taxable Income

The table below provides a reconciliation between consolidated net income for accounting purposes and non-consolidated taxable income. The adjustments below represent the difference between the 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 expect to pay out all of our taxable income over time through dividends. As a MIC, we are entitled to deduct dividends paid up to 90 days after 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 11: Taxable Income Reconciliation [1]

(in thousands) **For the Periods Ended**	**Q4 2019**	**Q4 2018**	**Annual 2019**	**Annual 2018**
Consolidated net income for accounting purposes	$ 10,550	$ 3,547	$ 48,294	$ 36,293
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(4,032)	(3,292)	(15,759)	(13,188)
Add: MCAP taxable income	2,176	6,896	7,590	3,620
Reverse: Provision for (recovery of) credit losses [2]	135	(211)	(313)	(289)
Add: Amortization of upfront securitization program costs [3]	1,349	1,941	6,204	7,106
Deduct: Securitization program mortgage origination costs [3]	(1,553)	(1,042)	(7,874)	(2,755)
Reverse: Net (gain)/loss on securities [4]	636	4,162	(10,780)	3,521
Add: Capital gains	3,625	142	4,043	992
Reverse: (Income)/loss earned in subsidiaries [5]	(1,342)	562	1,108	(2,023)
Deduct: Gain on dilution of MCAP [7]	—	—	(187)	(314)
Deduct: Accounting gain on partial sale of MCAP [6]	—	—	—	(1,701)
Add: Taxable gain on partial sale of MCAP [6]	—	—	—	1,425
Other items	(365)	(1,008)	456	(2,220)
Taxable Income	**$ 11,179**	**$ 11,697**	**$ 32,782**	**$ 30,467**

[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] *Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.*
[3] *Securitization program mortgage origination 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] *Excluded from the calculation of taxable income; only includes net gains and losses recognized in the MIC entity.*
[5] *Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.*
[6] *For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.*
[7] *Not recognizable in the calculation of taxable income.*

The change in taxable income in 2019 from 2018 is primarily due to three factors:

1) Higher taxable income allocation from MCAP driven by increased income and by the timing differences between accounting and taxable income related to securitization transactions;
2) Dispositions of securities within our REIT portfolio; and
3) Increased securitization activity, resulting in higher mortgage origination costs.

During 2019, we incurred $7.9 million of origination costs on securitized mortgages (including market MBS held by MCAN) (2018 - $2.8 million) due to higher insured single family origination volumes and increased participation in the securitization market (both single family and multi family). These costs are deductible for income tax purposes in the period that the mortgages are securitized; however, for accounting purposes they are capitalized and amortized over the term of the mortgages. As at December 31, 2019, the unamortized origination fee balance was $9.8 million (December 31, 2018 - $9.0 million), which represents costs that are still to be expensed for accounting purposes but will be added back in the calculation of taxable income in the MIC in future periods.

We expect our business activities to continue to impact the timing and amount of differences between taxable income and accounting income in the MIC. We believe that MCAP's taxable income may increase over the midterm from timing differences between accounting income and taxable income due to MCAP's growth and strategic direction. MCAN's taxable income may also be impacted by the upfront costs of our securitization activities and our ongoing business activities. As a result, we may recognize higher taxable income in the MIC.

FINANCIAL POSITION

Table 12: Assets

(in thousands except %) As at	December 31 2019	September 30 2019	Change (%)	December 31 2018	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 54,452	$ 58,778	(7%)	$ 98,842	(45%)
Marketable securities	46,170	62,490	(26%)	53,247	(13%)
Mortgages	1,089,401	1,096,719	(1%)	922,390	18%
Non-marketable securities	93,689	72,982	28%	71,813	30%
Equity investment in MCAP Commercial LP	69,844	68,076	3%	61,593	13%
Deferred tax asset	132	129	2%	2,961	(96%)
Other assets	7,771	11,530	(33%)	13,493	(42%)
	1,361,459	**1,370,704**	**(1%)**	**1,224,339**	**11%**
Securitization Assets					
Cash held in trust	28,575	53,202	(46%)	26,002	10%
Mortgages	784,296	770,728	2%	887,252	(12%)
Other assets	5,011	4,927	2%	3,479	44%
	817,882	**828,857**	**(1%)**	**916,733**	**(11%)**
	$ 2,179,341	**$ 2,199,561**	**(1%)**	**$ 2,141,072**	**2%**

During 2019, we exceeded our targeted annual growth in corporate assets over the long term of 10%, with growth at 11%, primarily driven by strong origination volumes in our mortgage portfolio. This increase in corporate assets was offset by mortgage maturities in the securitized mortgage portfolio which exceeded the impact of new securitization issuances in 2019.

Mortgages - Corporate & Securitized

Corporate Mortgages

Single family mortgages

Insured and Uninsured

We invest in insured and uninsured residential single family mortgages in select markets across Canada, primarily originated by XMC through its strategic relationships with mortgage brokers for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending on a niche borrower market concentrated in larger urban centres that include customers with credit challenges. 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, the value at the time of funding is the lower of the appraised value of the property as determined by a qualified appraiser or purchase price (if applicable). 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 completed or 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 near completion. We invest in this product type opportunistically and given the nature of unit closings, originations and repayments can be unpredictable.

Construction loans

Residential construction loans are made to developers to finance residential construction projects. These loans generally have a floating interest rate, with a floor interest rate set at origination and loan terms of 24 months or less with extensions requiring additional underwriting and approval. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

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 transit. We target experienced developers with a successful track record of project completion and loan repayment and smaller multi-phased projects requiring evidence of strong pre-sales prior to loan funding. As at December 31, 2019, the average outstanding construction loan balance was $9 million (September 30, 2019 - $8 million; December 31, 2018 - $6 million) with a maximum individual loan commitment of $30 million. We utilize our relationships with strategic partners for loan participation, servicing and workout expertise.

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 or industrial buildings) and high ratio mortgage loans (e.g. loans that do not meet conventional residential construction loan parameters).

Securitized Mortgages

Securitization assets consist primarily of single family insured mortgages that have been securitized through the NHA MBS program. We issue MBS through our internal market MBS program and the Canada Housing Trust ("CHT") CMB program.

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

Table 13: Mortgage Summary

(in thousands except %) As at	December 31 2019	September 30 2019	Change (%)	December 31 2018	Change (%)
Corporate portfolio:					
Single family mortgages					
Insured	$ 110,181	$ 128,637	(14%)	$ 111,419	(1%)
Uninsured	382,820	363,949	5%	255,545	50%
Uninsured - completed inventory	45,455	48,958	(7%)	7,703	490%
Construction loans	504,520	500,295	1%	433,579	16%
Commercial loans					
Multi family residential	14,032	18,281	(23%)	50,133	(72%)
Other commercial	32,393	36,599	(11%)	64,011	(49%)
	1,089,401	**1,096,719**	**(1%)**	**922,390**	**18%**
Securitized portfolio					
Single family insured - Market MBS program	449,935	454,088	(1%)	722,726	(38%)
Single family insured - CMB program	334,361	316,640	6%	164,526	103%
	784,296	**770,728**	**2%**	**887,252**	**(12%)**
	$ 1,873,697	**$ 1,867,447**	**0%**	**$ 1,809,642**	**4%**

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships for origination and expect to continue to maintain the quality of underwriting our investments in these portfolios. The decrease in the commercial loan portfolio during 2019 was primarily due to the movement of certain loans to the construction and uninsured completed inventory portfolios and reduced new originations compared to 2018.

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

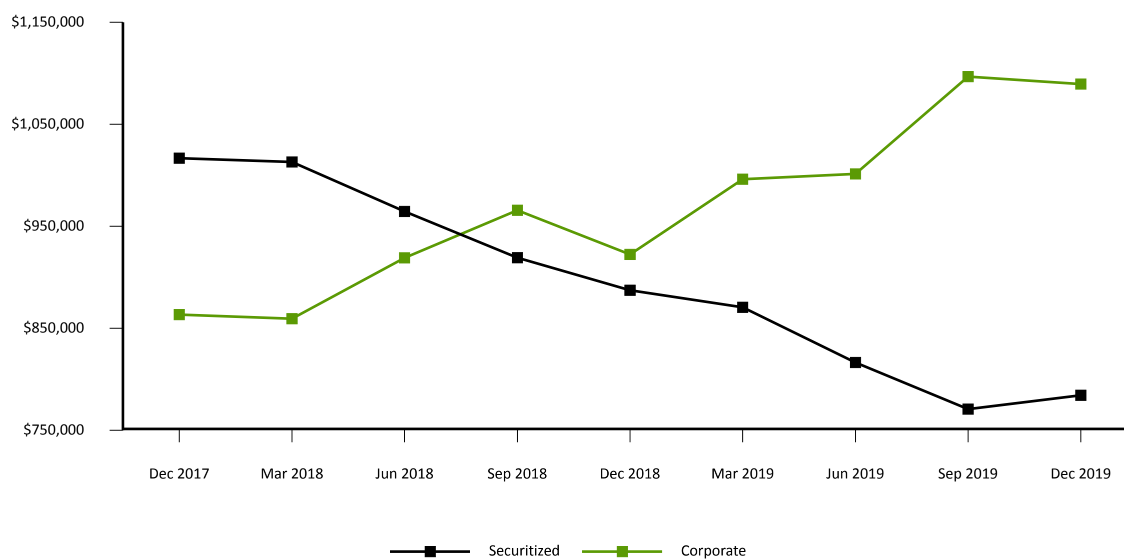
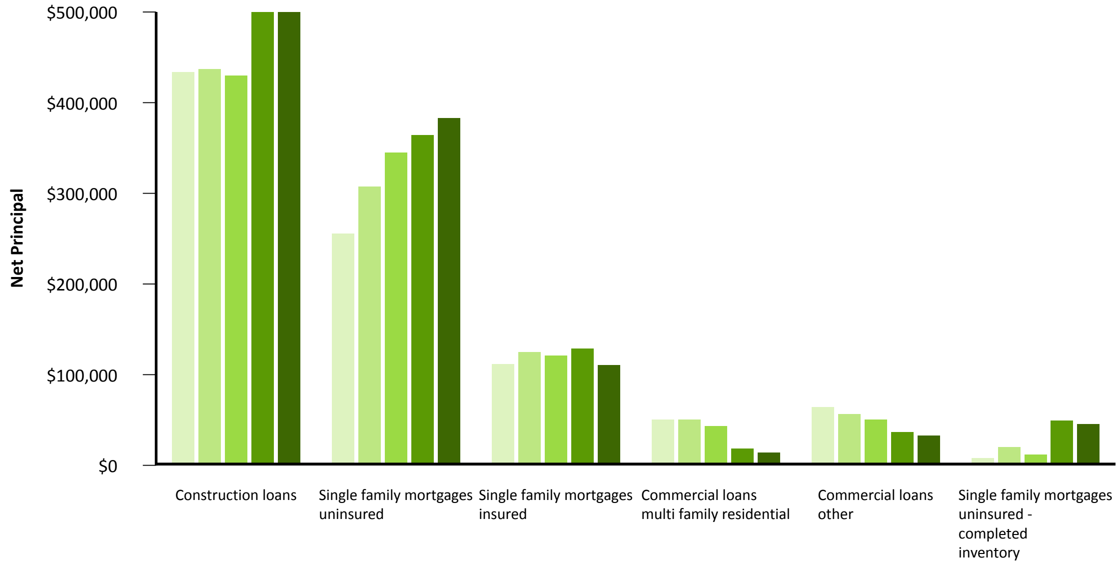


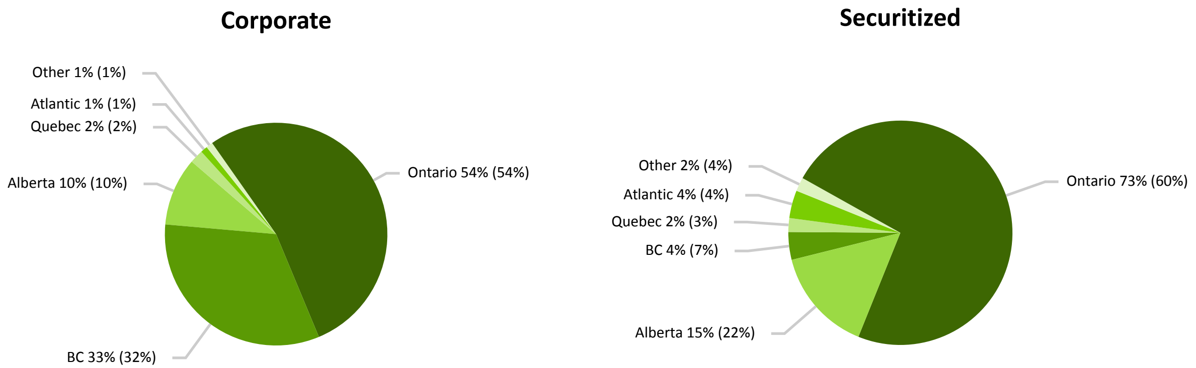
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Dec 31, 2018	$433,579 (47%)	$255,545 (28%)	$111,419 (12%)	$50,133 (5%)	$64,011 (7%)	$7,703 (1%)
Mar 31, 2019	$437,099 (44%)	$307,539 (31%)	$124,857 (13%)	$50,108 (5%)	$56,636 (6%)	$19,884 (2%)
Jun 30, 2019	$429,911 (43%)	$344,621 (34%)	$121,084 (12%)	$43,332 (4%)	$50,510 (5%)	$11,879 (1%)
Sept 30, 2019	$500,295 (46%)	$363,949 (33%)	$128,637 (12%)	$18,281 (2%)	$36,599 (3%)	$48,958 (4%)
Dec 31, 2019	$504,520 (46%)	$382,820 (35%)	$110,181 (10%)	$14,032 (1%)	$32,393 (3%)	$45,455 (4%)

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, 2019 (December 31, 2018)



Credit Quality

Table 14: Arrears and Impaired Mortgages

(in thousands except %) As at	December 31 2019	September 30 2019	Change (%)	December 31 2018	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 1,783	$ 923	93%	$ 1,004	78%
Single family mortgages - uninsured	1,739	2,086	(17%)	1,602	9%
Construction loans	—	—	n/a	548	(100%)
	3,522	3,009	17%	3,154	12%
Securitized	761	378	101%	1,801	(58%)
Total impaired mortgages	$ 4,283	$ 3,387	26%	$ 4,955	(14%)
Impaired mortgage ratio (corporate) [1,2]	0.32%	0.27%	0.05%	0.34%	(0.02%)
Impaired mortgage ratio (total) [1,2]	0.23%	0.18%	0.05%	0.27%	(0.04%)
Mortgage arrears (past due) [3]					
Corporate					
Single family mortgages - insured	$ 3,340	$ 2,417	38%	$ 1,594	110%
Single family mortgages - uninsured	8,821	10,597	(17%)	7,293	21%
Construction loans	—	—	n/a	548	(100%)
Total corporate mortgage arrears [1]	12,161	13,014	(7%)	9,435	29%
Total securitized mortgage arrears [1]	3,750	3,367	11%	6,527	(43%)
Total mortgage arrears [1]	$ 15,911	$ 16,381	(3%)	$ 15,962	—%
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 11,815	$ 12,769	(7%)	$ 7,743	53%
Single family mortgages - uninsured	64,790	60,843	6%	49,493	31%
Single family mortgages - uninsured - completed inventory	2,411	—	n/a	—	n/a
Construction loans	44,504	49,179	(10%)	60,929	(27%)
Commercial loans - multi-family	947	987	(4%)	2,079	(54%)
Commercial - other	—	—	n/a	3,535	(100%)
	124,467	123,778	1%	123,779	1%
Stage 3					
Single family mortgages - insured	1,783	923	93%	1,004	78%
Single family mortgages - uninsured	1,739	2,086	(17%)	1,602	9%
Construction loans	—	—	n/a	548	(100%)
	3,522	3,009	17%	3,154	12%
Total stage 2 and 3 corporate mortgages	$ 127,989	$ 126,787	1%	$ 126,933	1%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 4,119	$ 3,984	3%	$ 4,424	(7%)
Allowance on impaired mortgages	194	246	(21%)	430	(55%)
	4,313	4,230	2%	4,854	(11%)
Securitized - allowance on performing mortgages	4	5	(20%)	14	(71%)
Total allowance for credit losses	$ 4,317	$ 4,235	2%	$ 4,868	(11%)

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.*
[3] *Mortgage arrears consists of mortgages that are at least one day past due and impaired mortgages.*

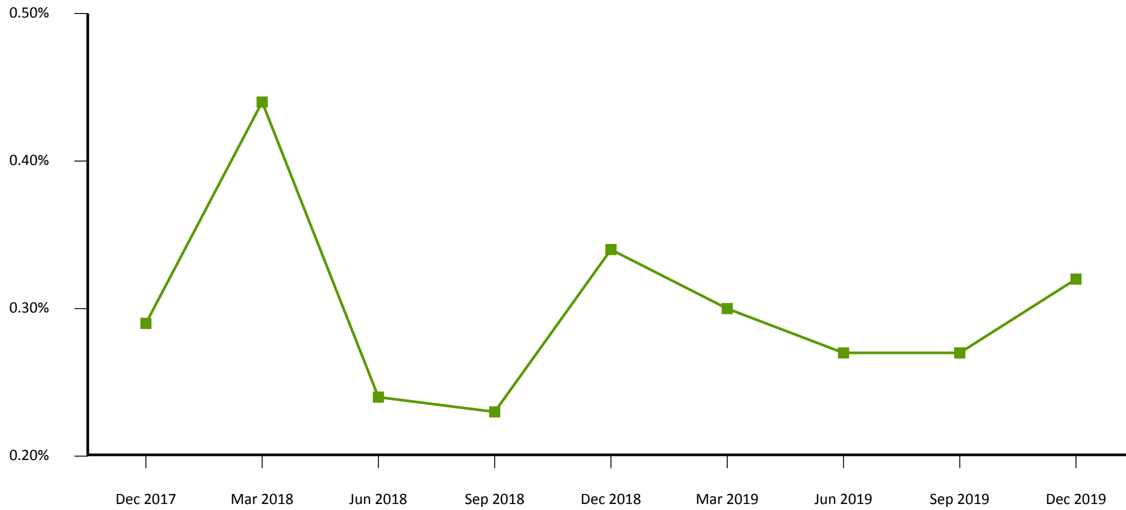
Arrears and Impaired Mortgage Summary

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

We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types.

The classification of mortgages into stage 2 and stage 3 involves consideration of additional criteria such as credit score and internal risk rating. Accordingly, stage 2 and stage 3 balances are expected to vary between periods.

Figure 4: Impaired Corporate Mortgage Ratio



The impaired corporate ratio, as presented above, incorporates impaired (stage 3) mortgages under IFRS 9. The impaired mortgage ratios are considered to be "Non-IFRS Measures". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

For further information regarding corporate mortgages by risk rating, refer to Note 7 to the consolidated financial statements.

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

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

Insured mortgages include individual mortgages that are insured by CMHC or other approved mortgage insurers at origination and mortgages that are portfolio-insured after origination. Uninsured mortgages include both single family uninsured and single family uninsured - completed inventory loans.

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

Table 15: Single Family Mortgages by Province as at December 31, 2019

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 68,006	61.8%	$ 292,206	68.2%	$ 34	55.7%	$ 575,122	73.3%	$ 935,368	70.7%
Alberta	25,353	23.0%	48,021	11.2%	27	44.3%	114,509	14.6%	187,910	14.2%
British Columbia	4,203	3.8%	74,157	17.3%	—	—%	34,442	4.4%	112,802	8.5%
Quebec	5,245	4.8%	3,417	0.8%	—	—%	17,183	2.2%	25,845	2.0%
Atlantic Provinces	5,853	5.3%	4,656	1.1%	—	—%	28,864	3.7%	39,373	3.0%
Other	1,460	1.3%	5,818	1.4%	—	—%	14,176	1.8%	21,454	1.6%
Total	**$ 110,120**	**100.0%**	**$ 428,275**	**100.0%**	**$ 61**	**100.0%**	**$ 784,296**	**100.0%**	**$ 1,322,752**	**100.0%**

Table 16: 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 17: Single Family Mortgages by Amortization Period as at December 31, 2019

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 100,323	$ 148,600	$ 257,469	$ 32,064	$ 538,456
	18.6%	27.6%	47.8%	6.0%	100.0%
Securitized	$ 165,064	$ 516,884	$ 96,205	$ 6,143	$ 784,296
	21.0%	65.9%	12.3%	0.8%	100.0%
Total	**$ 265,387**	**$ 665,484**	**$ 353,674**	**$ 38,207**	**$ 1,322,752**
	20.1%	**50.3%**	**26.7%**	**2.9%**	**100.0%**

Table 18: 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	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 19: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2019	Average LTV	Q4 2018	Average LTV	Annual 2019	Average LTV	Annual 2018	Average LTV
Ontario	$ 52,180	70.2%	$ 38,799	70.8%	$199,412	70.6%	$ 87,924	69.8%
Alberta	497	52.6%	4,786	62.0%	21,558	60.7%	12,530	62.6%
British Columbia	5,023	68.8%	10,874	70.8%	48,720	63.7%	31,471	67.6%
Other	—	—%	200	79.7%	528	71.9%	2,025	72.3%
	$ 57,700	**69.9%**	**$ 54,659**	**70.1%**	**$270,218**	**68.6%**	**$133,950**	**68.4%**

Table 20: Average Mortgage Loan to Value (LTV) Ratios at Origination

As at	December 31 2019	September 30 2019	December 31 2018
Corporate portfolio:			
Single family mortgages			
Insured	78.8%	80.2%	79.8%
Uninsured	68.1%	67.8%	64.8%
Uninsured - completed inventory	63.9%	62.2%	59.6%
Construction loans			
Residential	46.2%	46.2%	46.9%
Non-residential	—%	38.2%	46.2%
Commercial loans			
Multi family residential	58.0%	48.2%	62.8%
Other commercial	58.4%	53.7%	51.0%
	58.4%	58.3%	57.0%
Securitized portfolio			
Single family insured - Market MBS Program	82.9%	84.1%	84.3%
Single family insured - CMB Program	83.9%	83.6%	82.9%
	83.3%	83.9%	84.0%
	68.8%	68.8%	70.2%

Based on 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 could include, for example, changes to unemployment rates, income levels and consumer confidence and spending which we would expect to increase single family defaults and arrears. 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

As at December 31, 2019, our cash balance was $54 million (September 30, 2019 - $59 million; December 31, 2018 - $99 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. 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. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices.

Marketable Securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. As at December 31, 2019, the portfolio balance was $46 million (September 30, 2019 - $62 million; December 31, 2018 - $53 million). During 2019, we recognized a $11 million increase in the fair value of the portfolio. As a result of dispositions during 2019, we realized $18 million of proceeds from dispositions of REITs.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 7.3% equity interest as at December 31, 2019 (September 30, 2019 - 7.8%; December 31, 2018 - 7.9%). At December 31, 2019, the carrying value of our investment was $43 million (September 30, 2019 - $43 million; December 31, 2018 - $42 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. During 2019, we increased our commitment in the KSHYF by $3.75 million. This commitment is expected to be invested in the next 18 months.

We have a 14.1% equity interest in Crown LP as at December 31, 2019 (September 30, 2019 - 14.1%; December 31, 2018 - 14.1%). At December 31, 2019, the carrying value of our investment was $33 million (September 30, 2019 - $30 million; December 31, 2018 - $30 million). Crown LP invests primarily in commercial office buildings. The carrying value of our investment in Crown LP increased by $3.2 million during 2019 based on the fair value assessed on its cashflows and current market capitalization rates. Subsequent to December 31, 2019, we sold our investment in the core fund units of Crown LP for $33 million representing fair value as at year end.

During Q4 2019, we invested in Class A securitization notes (the "Securitization Notes"). As at December 31, 2019, the carrying value of the Securitization Notes was $18 million. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022.

Equity Investment in MCAP

We hold a 14.02% equity interest in MCAP (September 30, 2019 - 14.02%; December 31, 2018 - 14.08%), which represents 4.0 million units held by MCAN as at December 31, 2019 (September 30, 2019 - 4.0 million; December 31, 2018 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (September 30, 2019 - 28.5 million; December 31, 2018 - 28.4 million). During 2019 and 2018, MCAP issued new class B units at a price in excess of MCAN's carrying value per unit, resulting in a dilution gain of $0.2 million (2018 - $0.3 million).

The investment had a net book value of $70 million as at December 31, 2019 (September 30, 2019 - $68 million; December 31, 2018 - $62 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 $37 million as at December 31, 2019 (September 30, 2019 - $37 million; December 31, 2018 - $36 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 may be applied against any tax loss carry forward. The LP ARA is considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

During 2019, we received $7.7 million of unitholder distributions from MCAP (2018 - $8.3 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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.

Other Securitization Assets

Other securitization assets include cash held in trust, which represents securitized mortgage principal and interest collections from borrowers that are payable to MBS holders.

Liabilities and Shareholders' Equity

Table 21: Liabilities and Shareholders' Equity

(in thousands except %) As at	December 31 2019	September 30 2019	Change (%)	December 31 2018	Change (%)
Corporate Liabilities					
Term deposits	$ 1,034,299	$ 1,065,087	(3%)	$ 919,623	12%
Loans payable	5,053	—	n/a	—	n/a
Current taxes payable	—	—	n/a	173	(100%)
Deferred tax liabilities	21	272	(92%)	3,478	(99%)
Other liabilities	15,996	11,018	45%	13,169	21%
	1,055,369	**1,076,377**	**(2%)**	**936,443**	**13%**
Securitization Liabilities					
Financial liabilities from securitization	793,660	795,673	—%	897,935	(12%)
	793,660	**795,673**	**—%**	**897,935**	**(12%)**
	1,849,029	**1,872,050**	**(1%)**	**1,834,378**	**1%**
Shareholders' Equity					
Share capital	228,008	228,008	—%	221,869	3%
Contributed surplus	510	510	—%	510	—%
Retained earnings	101,794	98,993	3%	84,315	21%
	330,312	**327,511**	**1%**	**306,694**	**8%**
	$ 2,179,341	**$ 2,199,561**	**(1%)**	**$ 2,141,072**	**2%**

Term Deposits

Our primary source of funding for our corporate operations is the issuance of 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. Deposits cannot 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 strategically 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 Management" section of this MD&A.

Financial Liabilities from Securitization

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 and CMB programs, refer to the "Securitization Programs" section of this MD&A.

Share Capital

Share capital activity for 2019 reflects new common shares issued through the DRIP. The DRIP participation rate for 2019 dividends was 20% (2018 - 19%). For further information, refer to Note 17 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for 2019 consists of net income of $48.3 million (2018 - $36.3 million) less dividends of $30.8 million (2018 - $33.8 million).

SELECTED QUARTERLY FINANCIAL DATA

Table 22: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Income Statement Highlights								
Net investment income - corporate assets	$ 14,839	$ 18,557	$ 13,104	$ 18,747	$ 7,872	$ 13,430	$ 15,063	$ 13,774
Net investment income - securitization assets	$ 1,015	$ 962	$ 965	$ 1,052	$ 1,082	$ 1,276	$ 1,317	$ 1,301
Net income	$ 10,550	$ 14,551	$ 8,888	$ 14,305	$ 3,547	$ 11,006	$ 11,125	$ 10,615
Basic and diluted earnings per share	$ 0.44	$ 0.60	$ 0.37	$ 0.60	$ 0.15	$ 0.47	$ 0.47	$ 0.45
Dividends per share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.37	$ 0.37	$ 0.37
Return on average shareholders' equity [1]	12.84%	18.05%	11.27%	18.36%	4.66%	14.29%	14.54%	14.10%
Taxable income per share [1,2]	$ 0.46	$ 0.28	$ 0.28	$ 0.34	$ 0.49	$ 0.13	$ 0.48	$ 0.19
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.63%	2.48%	2.66%	2.73%	2.93%	2.92%	3.17%	3.34%
Spread of securitized mortgages over liabilities [1]	0.72%	0.72%	0.70%	0.69%	0.70%	0.74%	0.76%	0.74%
Average term to maturity (in months)								
Mortgages - corporate	10.7	11.3	11.6	11.9	11.5	12.8	13.2	11.3
Term deposits	18.4	19.1	20.1	17.2	18.7	19.2	20.5	19.0
Balance Sheet Highlights ($ million)								
Total assets	$ 2,179	$ 2,200	$ 2,130	$ 2,167	$ 2,141	$ 2,189	$ 2,206	$ 2,154
Mortgages - corporate	$ 1,089	$ 1,097	$ 1,001	$ 996	$ 922	$ 966	$ 919	$ 859
Mortgages - securitized	$ 784	$ 771	$ 816	$ 871	$ 887	$ 919	$ 965	$ 1,013
Total liabilities	$ 1,849	$ 1,872	$ 1,811	$ 1,850	$ 1,834	$ 1,887	$ 1,900	$ 1,852
Shareholders' equity	$ 330	$ 328	$ 319	$ 317	$ 307	$ 302	$ 306	$ 302
Capital Ratios								
Income tax assets to capital ratio [1]	4.93	5.13	4.71	4.69	4.64	4.90	4.60	4.33
CET 1, Tier 1 and Total Capital ratios [1]	22.52%	21.77%	22.40%	22.09%	21.66%	20.58%	21.47%	21.29%
Leverage ratio [3]	12.58%	12.28%	12.16%	12.05%	11.79%	11.35%	11.55%	11.74%
Credit Quality								
Impaired mortgage ratio (corporate) [1, 4]	0.32%	0.27%	0.27%	0.30%	0.34%	0.23%	0.24%	0.44%
Impaired mortgage ratio (total) [1, 4]	0.23%	0.18%	0.19%	0.24%	0.27%	0.24%	0.20%	0.26%
Mortgage Arrears								
Corporate [1]	$ 12,161	$ 13,014	$ 11,334	$ 11,251	$ 9,435	$ 8,398	$ 6,739	$ 9,204
Securitized [1]	3,750	3,367	4,122	7,431	6,527	8,472	13,979	9,554
Total [1]	$ 15,911	$ 16,381	$ 15,456	$ 18,682	$ 15,962	$ 16,870	$ 20,718	$ 18,758
Common Share Information (end of period)								
Number of common shares outstanding	24,215	24,215	24,129	24,040	23,798	23,746	23,652	23,559
Book value of common share [1]	$ 13.64	$ 13.53	$ 13.23	$ 13.18	$ 12.89	$ 12.74	$ 12.94	$ 12.82
Common share price - close	$ 17.10	$ 15.95	$ 15.95	$ 15.93	$ 13.32	$ 17.50	$ 17.90	$ 17.61
Market capitalization ($ million) [1]	$ 414	$ 386	$ 385	$ 383	$ 317	$ 416	$ 423	$ 415

[1] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.
[2] For further information refer to the "Taxable Income" section of this MD&A.
[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] Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

Corporate net investment income has been driven by changes in the corporate mortgage portfolio composition, market dynamics and net gains and losses on marketable and non-marketable securities. Additionally, corporate net investment income is impacted by equity income from MCAP, which can vary significantly from quarter to quarter.

Since the adoption of IFRS 9 effective January 1, 2018, we have experienced increased variability as a result of the recognition of net gains and losses on certain securities through net income.

Since mid-2018, the corporate portfolio mix has shifted towards single family mortgages amidst a competitive market and experienced growth. Term deposit funding and related costs also increased through this period to support corporate asset growth. The combination of these two factors has contributed to the gradual decrease in the spread of corporate mortgages over term deposit interest[1]. Higher gross coupon and penalty income in our uninsured single family originations during Q4 2019 contributed to a higher corporate mortgage portfolio average interest rate[1] relative to Q3 2019.

The size of the securitized mortgage portfolio has steadily decreased with mortgage maturities exceeding the impact of new securitization issuances in recent years. The overall economics of securitization have been relatively flat and are impacted by competitive and market driven pressures.

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 this period.

Total arrears and impaired ratios, while low by historical standards, have varied on a quarterly basis given the nature of the 1-30 day arrears classification and seasonality in our portfolios.

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

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 asset growth, economic conditions, housing market activity, the interest rate environment and changes to credit quality to determine appropriate levels of capital. We expect to pay out all of our taxable income over time through 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 maximum 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 23: Income Tax Capital [1]

(in thousands except ratios)

As at	December 31 2019	September 30 2019	December 31 2018
Income tax assets [1]			
Consolidated assets	$ 2,179,341	$ 2,199,561	$ 2,141,072
Adjustment for assets in subsidiaries	11,250	13,423	6,743
Non-consolidated assets in MIC entity	2,190,591	2,212,984	2,147,815
Add: corporate mortgage allowances	4,135	4,005	4,466
Less: securitization assets [2]	(804,569)	(806,236)	(908,367)
Adjustments to equity investments in MCAP and subsidiaries	(60,146)	(57,151)	(52,450)
Other adjustments	(8,461)	(16,141)	(4,328)
	$ 1,321,550	$ 1,337,461	$ 1,187,136
Income tax liabilities [1]			
Consolidated liabilities	$ 1,849,029	$ 1,872,050	$ 1,834,378
Adjustment for liabilities in subsidiaries	(3,055)	(1,049)	(6,194)
Non-consolidated liabilities in MIC entity	1,845,974	1,871,001	1,828,184
Less: securitization liabilities [2]	(792,425)	(794,476)	(896,641)
	$ 1,053,549	$ 1,076,525	$ 931,543
Income tax capital [1]	$ 268,001	$ 260,936	$ 255,593
Income tax capital ratios [1]			
Income tax assets to capital ratio	4.93	5.13	4.64
Income tax liabilities to capital ratio	3.93	4.13	3.64

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *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 promote a resilient banking sector and strong global capital standards. Key components of Basel III impact MCAN through the Capital Adequacy Requirements and Leverage Requirements Guidelines.

Our CET 1 capital consists of share capital, contributed surplus and retained earnings. 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. We do not hold any additional Tier 1 or Tier 2 capital instruments; therefore, our CET 1 capital is equal to our Tier 1 and Total Capital.

As at December 31, 2019, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 24: Regulatory Capital

(in thousands except %)

As at	December 31 2019	September 30 2019	December 31 2018
Regulatory Ratios (OSFI)			
Share capital	$ 228,008	$ 228,008	$ 221,869
Contributed surplus	510	510	510
Retained earnings	101,794	98,993	84,315
Deduction from equity investment in MCAP [2]	(36,813)	(35,325)	(30,925)
Common Equity Tier 1, Tier 1 and Total Capital [1]	$ 293,499	$ 292,186	$ 275,769
Total Exposure/Regulatory Assets [1]			
Consolidated assets	$ 2,179,341	$ 2,199,561	$ 2,141,072
Less: deduction for equity investment in MCAP [2]	(36,813)	(35,325)	(30,925)
Other adjustments [3]	3,804	1,402	1,295
Total On-Balance Sheet Exposures	2,146,332	2,165,638	2,111,442
Mortgage and investment funding commitments (50%)	170,148	199,041	205,010
Letters of credit (50%)	16,982	15,368	21,878
Total Off-Balance Sheet Items	187,130	214,409	226,888
Total Exposure/Regulatory Assets	$ 2,333,462	$ 2,380,047	$ 2,338,330
Leverage ratio [1]	12.58%	12.28%	11.79%
Risk-weighted assets [1]	$ 1,303,502	$ 1,342,254	$ 1,273,205
Regulatory Capital Ratios [1]			
Common Equity Tier 1 capital to risk-weighted assets ratio	22.52%	21.77%	21.66%
Tier 1 capital to risk-weighted assets ratio	22.52%	21.77%	21.66%
Total capital to risk-weighted assets ratio	22.52%	21.77%	21.66%

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity.*
[3] *Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.*

Table 25: Regulatory Risk-Weighted Assets

(in thousands except %)	December 31, 2019			December 31, 2018		
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	$ 54,452	21%	$ 11,651	$ 98,842	20%	$ 20,028
Cash held in trust	28,575	20%	5,715	26,002	20%	5,200
Marketable securities	46,170	100%	46,170	53,247	100%	53,247
Mortgages - corporate	1,089,401	67%	734,680	922,390	70%	648,833
Mortgages - securitized	784,296	4%	31,457	887,252	3%	28,368
Non-marketable securities	93,689	175%	163,601	71,813	214%	153,692
Equity investment in MCAP Commercial LP	69,844	47%	33,031	61,593	50%	30,669
Deferred tax asset	132	100%	132	2,961	100%	2,961
Other assets	12,782	100%	12,782	16,972	100%	16,972
			1,039,219			959,970
Off-Balance Sheet Items						
Letters of credit	33,965	50%	16,983	43,757	50%	21,878
Commitments	340,297	41%	139,437	410,020	45%	182,744
			156,420			204,622
Charge for operational risk [1]			107,863			108,613
Risk-Weighted Assets			**$ 1,303,502**			**$ 1,273,205**

[1] We use the basic indicator approach for operational risk, which is equal to 15% of the previous three-year average of net investment income from corporate and securitized assets excluding provisions for credit losses multiplied by a factor of 12.5.

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 liquidity and funding, credit, interest rate, market, operational, regulatory compliance, strategic 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 CHT CMB program. For further information, refer to Note 11 to the consolidated financial statements.

Market MBS Program

During 2019, we securitized $116 million of MBS through the market MBS program (2018 - $141 million). In 2019, we retained none of the MBS securitized in 2019 on our corporate balance sheet (2018 - $46 million) with the remainder sold to third parties.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. As at December 31, 2019, we held $49 million of retained MBS on our balance sheet (December 31, 2018 - $68 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

During 2019, we securitized $191 million of insured single family mortgages through the CMB program (2018 - $28 million) and $14 million of insured multi family mortgages (2018 - $nil). At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded an upfront gain of $71,000 (2018 - $nil).

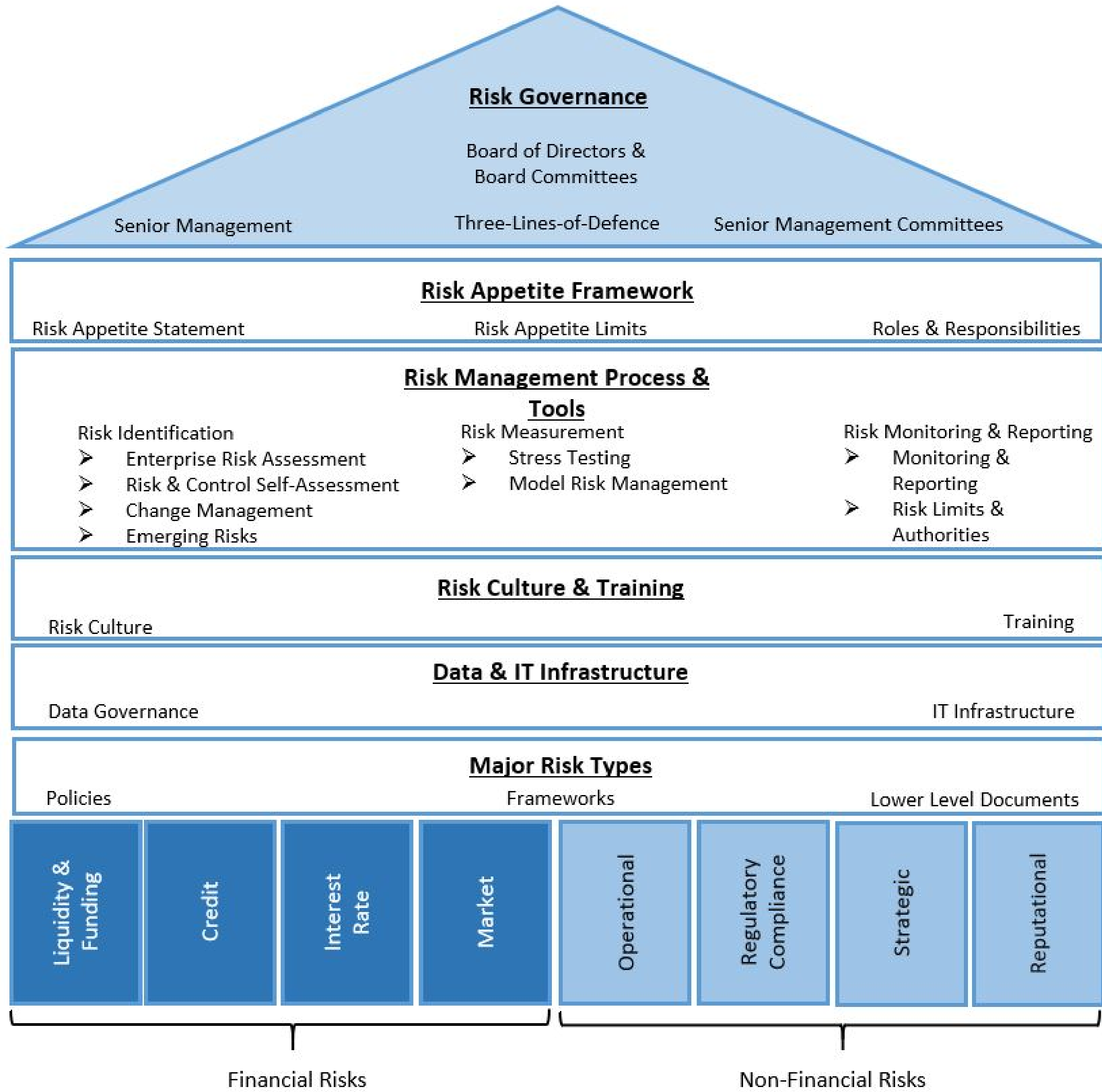
Other Considerations

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 MANAGEMENT

Effective risk management and an established risk management framework support a strong risk culture and help the Company provide sustainable growth and returns for our shareholders while maintaining an appropriate balance between risk and return. The Enterprise Risk Management Framework ("ERMF") outlines the Company's risk management structure, including the Three-Lines-of-Defence model, emphasizes accountabilities, and supports a common understanding among all key stakeholders of how the Company manages its risks.

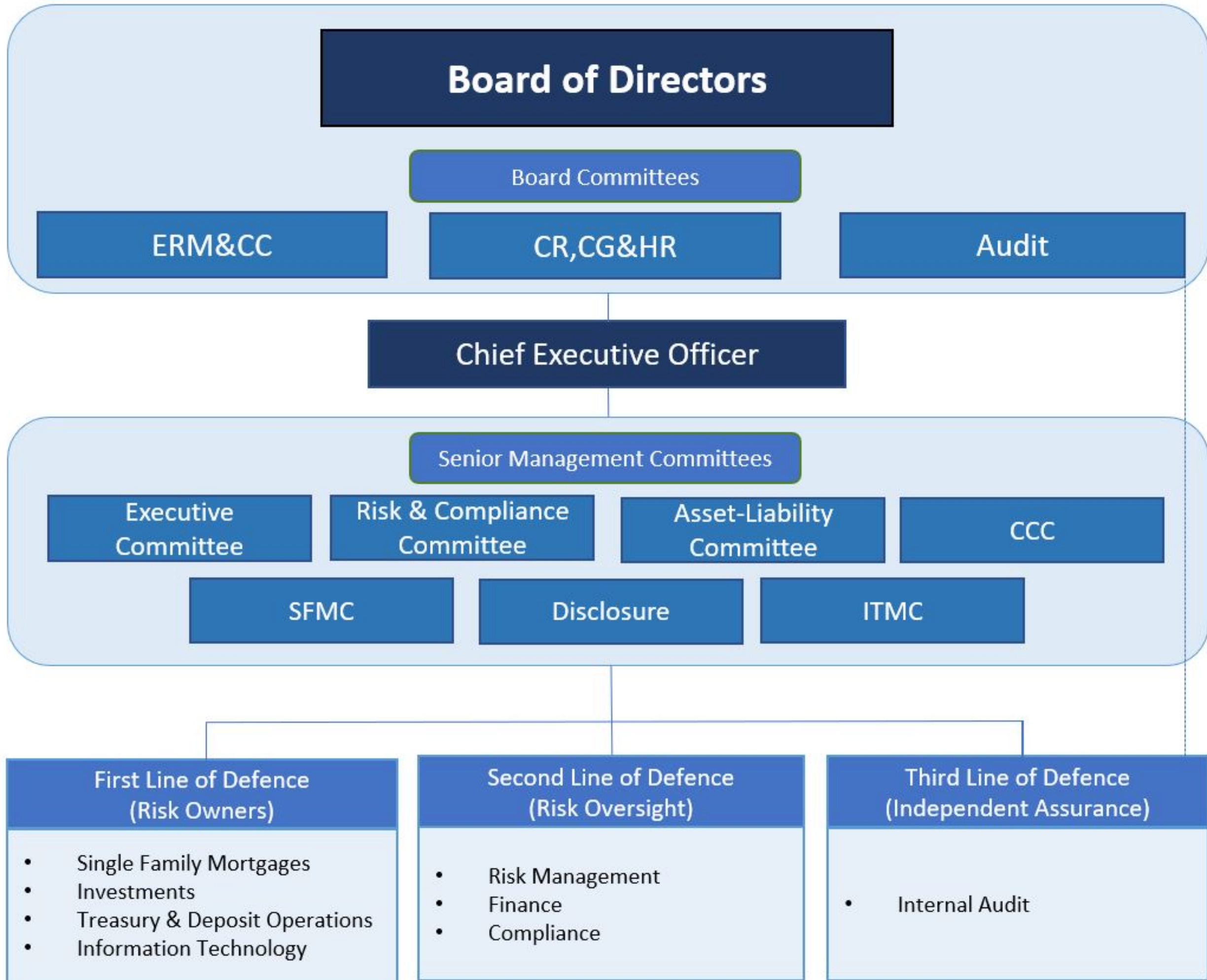
Roles and Accountabilities



Risk Governance

The Board of Directors oversees the design and implementation of our ERMF, while employees at all levels of the organization are accountable for managing day-to-day risks. The Company's Board is supported by Board Committees, senior management committees and an experienced senior management team.

MCAN's Risk Governance structure is illustrated in the following diagram:



SFMC: Single-Family Management Committee; CCC: Capital Commitments Committee; ITMC: IT Management Committee

The Board oversees the Company's strategic direction, the implementation of an effective risk management culture and the internal control framework across the Company, both directly and indirectly, through its committees within a written mandate. The Board is responsible for overseeing the identification, measurement, monitoring and reporting of the major risks types affecting the business, and satisfying itself that management has implemented appropriate policies, procedures and practices to manage risks adequately and effectively.

The Enterprise Risk Management and Compliance Committee ("ERM&CC") is accountable for overseeing the management of the risk profile and the implementation of an effective risk management culture throughout the organization. The ERM&CC is accountable for reviewing and recommending the risk appetite framework ("RAF") for approval by the Board annually, regularly reviewing the risk profile against the Board-approved risk appetite, satisfying itself that policies are in place and operating effectively to manage the major risk types to which the Company is exposed, providing a forum for analysis of an enterprise view of risk including trends and emerging risks, regularly assessing the Company's capacity to withstand potential adverse events and ensuring management allocates the appropriate resources to risk management.

The Audit Committee is accountable for the oversight of financial reporting and the information technology function, the adequacy and effectiveness of internal controls and the performance of the finance, internal audit and information technology functions.

The Conduct Review, Corporate Governance and Human Resources Committee ("CR,CG&HR") is accountable for the oversight of corporate governance and conduct, including potential conflicts of interest, policies, practices and processes, Board and management succession, development and compensation, and the effectiveness of the Board and its committees.

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

Three-Lines-of-Defence

The three-lines-of-defence model is employed to provide clarity with respect to the risk management structure and assigns roles and accountabilities to enhance effective risk management and control.

First Line (Business Units):
- Accountable for known and emerging risks and is accountable for planning, directing and controlling the day-to-day operations of their respective business unit and establishing appropriate internal controls for managing risk.
- Accountable for identifying, measuring, monitoring, and reporting risks within established risk appetite, regulatory guidelines and relevant policies and frameworks.
- Accountable for escalating risk issues and promoting a strong risk culture within their respective business unit.

Second Line (Oversight Functions):
- Provides independent objective oversight of the First Line of Defence through monitoring and challenge.
- Accountable for objectively identifying, measuring, monitoring and reporting known and emerging risks on an enterprise-wide basis and escalating risk issues in a timely manner to the Board and/or senior management.
- Identifies and assesses relevant regulatory changes and develops and implements risk measurement tools.
- Promotes a strong risk culture and establishes effective training material.
- Monitors and reports on compliance with the RAF and ensures compliance with the ERMF and related policies and procedures.

  These activities are overseen by:

  - The Risk function, under the leadership of the Chief Risk Officer ("CRO"), provides independent oversight, governance and objective challenge with respect to identifying, measuring, monitoring and reporting on enterprise-wide risks. The CRO has accountability for maintaining and managing the RAF, which includes reporting on significant business risks and for fostering a strong risk culture throughout the Company.

  - 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, including financial internal controls, financial statements, planning and budgeting systems and all other financial matters. The CFO is accountable for developing and monitoring performance and compliance against the Company's capital management strategy.

  - The Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer is accountable for identifying, measuring, monitoring and reporting on the Company's compliance with applicable laws and regulations as well as identifying and ensuring controls are adequately designed to mitigate risks, including compliance and regulatory risk.

Third Line (Internal Audit):
- Independent from both the First and Second Lines of Defence and headed by the Chief Audit Officer who reports to the Chair of the Audit Committee
- Provides reasonable assurance to senior management and the Board that the First and Second Lines of Defence are effectively managing and controlling risks
- Reviews the design and use of risk management tools, programs and systems in both the First and Second Lines of Defence to ensure compliance with the ERMF, related policies and procedures, and applicable laws and regulations, including the appropriateness of independent challenge.

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 strategy and risk capacity, 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. Always maintain MIC status.
4. Maintain balance in the corporate mortgage portfolio for managed risk and returns.
5. Maintain access to adequate funding and capital markets at all times.
6. Ensure sound management of regulatory compliance and operational risk and maintain a strong risk culture.
7. Ensure financial resiliency in a stressed scenario.

MCAN's RAF includes risk appetite metrics to measure and monitor whether MCAN is operating within its established risk appetite.

Risk Culture

Risk culture is the system of values and behaviors present in an organization that shapes risk decisions of management and employees. Within MCAN's Three-Lines-of-Defence risk governance structure, all employees at all levels of the organization are responsible for managing the day-to-day risks that arise in the context of their role. Senior management plays a critical role in shaping risk culture by communicating the importance of risk management and ensuring that employees are aware of how their behaviors may impact the organization.

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, recovery, 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 an enterprise-wide view of risks, risk profile, trend analysis, emerging risks, stress testing, including scenarios and sensitivity analysis, and ad hoc reporting, as applicable.

Major Risk Types

MCAN's major risk types include: Liquidity & Funding, Credit, Interest Rate, Market, Operational, Regulatory Compliance, 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 liquidity, credit, 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.

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 and other funding sources, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations.

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and

stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. 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.

The Asset and Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, ALCO reviews the Company's liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. As at December 31, 2019 and 2018, we were in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. As at December 31, 2019 and 2018, we held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

We have access to liquidity 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 a demand loan revolver facility to meet our short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. During 2019, the facility limit was increased from $75 million to $120 million.

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 will execute these repurchase agreements to provide alternative sources of liquidity when it is efficient and effective to do so.

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") metrics. As at December 31, 2019 and 2018, we were in compliance with the LCR and NCCF metrics.

Our sources and uses of liquidity are outlined in the table below. 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 26: 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 2019	December 31 2018
Sources of liquidity							
Cash and cash equivalents	$ 54,452	$ —	$ —	$ —	$ —	$ 54,452	$ 98,842
Marketable securities	46,141	—	—	29	—	46,170	53,247
Mortgages - corporate	289,240	473,737	256,583	59,380	10,461	1,089,401	922,390
Non-marketable securities	—	—	17,619	—	76,070	93,689	71,813
Other loans	882	217	—	—	—	1,099	2,640
	390,715	473,954	274,202	59,409	86,531	1,284,811	1,148,932
Uses of liquidity							
Term deposits	63,540	380,295	467,820	122,644	—	1,034,299	919,623
Loans payable	5,053	—	—	—	—	5,053	—
Other liabilities	9,538	529	1,512	1,679	2,738	15,996	13,169
	78,131	380,824	469,332	124,323	2,738	1,055,348	932,792
Net liquidity surplus (deficit)	**$ 312,584**	**$ 93,130**	**$ (195,130)**	**$ (64,914)**	**$ 83,793**	**$ 229,463**	**$ 216,140**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 116,945	$ 113,205	$ 86,126	$ —	$ —	$ 316,276	$ 389,072
Commitment - KSHYF	—	—	1,827	—	22,194	24,021	20,948
	$ 116,945	$ 113,205	$ 87,953	$ —	$ 22,194	$ 340,297	$ 410,020

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 investments 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 risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments and lending activities. Credit policies include credit risk limits in alignment with the RAF. These credit risk limits include, but are not limited to, concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis and approved by the Board to reflect changes in market conditions and risk appetite.

The Capital Commitments Committee ("CCC"), which is comprised of management, is accountable for decision-making on credit risk issues and provides oversight of proposed investments for the construction, commercial and marketable and non-marketable securities portfolios.

Credit and commitment exposure are closely monitored by the First and Second Line of Defence. The Risk and Compliance Committee, which is comprised of management, monitors and challenges credit risk exposures, monitors portfolio and underwriting quality and performance against credit risk limits on a monthly basis, and the ERM&CC reviews all material risks affecting the Company on a quarterly basis, which includes the identification, assessment, and monitoring of material credit risks.

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 provide adequate monitoring of and control over our exposure to credit risk.

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 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/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2.

Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at December 31, 2019 and 2018 there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. 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.

Impairment calculations are based on a forward-looking Expected Credit Loss ("ECL") methodology. ECL is composed of 3 submodels; Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). Each of these submodels produce quarterly projections of the respective metric under various macroeconomic scenarios.

Probability of Default

The PD model is comprised of 1) forward looking macroeconomic projections and 2) internal risk rating based segmentation. Forward looking macroeconomic projections are built utilizing statistical regression to determine relationships between default rates and macroeconomic variables. Internal risk rating based segmentation views the portfolio by internal risk rating and credit scores to provide PD differentiation at the borrower level.

Loss given default

LGD is built utilizing statistical regression to determine a relationship between LGD and macroeconomic variables, using external LGD data from comparable historical portfolios to forecast LGD under macroeconomic scenarios.

Exposure at default

EAD is the borrower level exposure in the event of default, determined by forecasting advances and repayments on the portfolio. The forecast is determined utilizing historical advance and repayment trends and segmented by product type. EAD is forecast up to the expected lifetime of each individual loan, capped at 12 months for IFRS 9 stage 1 loans.

Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or specific basis for the corporate mortgage portfolio based on the line of business (per Note 7 to the consolidated financial statements). ECLs are calculated on a specific 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 assesses 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. Risk factors that MCAN regularly considers are credit spread, gap, basis and yield curve risks.

The Interest Rate Risk Management Framework, which is reviewed and approved by the Board, details MCAN's interest rate risk measurement tools, including stress testing, roles and accountabilities, and monitoring and reporting requirements. Additionally, it establishes appropriate interest rate risk limits and articulates appetite for interest rate exposures.

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, 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

an interest rate spread and gap analysis as well as an 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, and, 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 employ various hedging strategies.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments as at December 31, 2019 would have an estimated positive effect of $3.8 million (September 30, 2019 - $4.6 million; December 31, 2018 - $4.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at December 31, 2019 would have an estimated adverse effect of $3.4 million (September 30, 2019 - $4.1 million; December 31, 2018 - $4.4 million) to net income over the following twelve month period.

We have an integrated balance sheet approach to interest rate risk and our management of liquidity and funding risk. We expect that the impact of an immediate and sustained interest rate change would be substantially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given our balance sheet composition. Taking our other financial instruments into consideration, an immediate and sustained parallel 1% increase to market interest rates as at December 31, 2019 would have an estimated positive effect of $2.1 million (September 30, 2019 - $2.2 million; December 31, 2018 - $2.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at December 31, 2019 would have an estimated adverse effect of $1.6 million (September 30, 2019 - $1.7 million; December 31, 2018 - $2.4 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity as at December 31, 2019 and December 31, 2018 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 27: Interest Rate Sensitivity as at December 31, 2019

As at December 31, 2019								
(in thousands except %)	**Floating Rate**	**Within 3 Months**	**3 Months to 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Non Interest Sensitive**	**Total**
Assets								
Corporate	$ 515,859	$ 72,041	$ 297,675	$ 208,596	$ 58,030	$ 53,348	$ 155,910	$ 1,361,459
Securitization	28,575	96,448	151,711	185,248	350,889	—	5,011	817,882
	544,434	168,489	449,386	393,844	408,919	53,348	160,921	2,179,341
Liabilities								
Corporate	5,053	63,540	380,295	467,820	122,644	—	16,017	1,055,369
Securitization	—	74,682	178,982	182,610	357,386	—	—	793,660
	5,053	138,222	559,277	650,430	480,030	—	16,017	1,849,029
Shareholders' Equity	—	—	—	—	—	—	330,312	330,312
GAP	**$ 539,381**	**$ 30,267**	**$(109,891)**	**$(256,586)**	**$ (71,111)**	**$ 53,348**	**$ (185,408)**	**$ —**
YIELD SPREAD	**1.31%**	**1.85%**	**1.69%**	**1.50%**	**1.04%**	**12.58%**		

Table 28: Interest Rate Sensitivity as at December 31, 2018

As at December 31, 2018								
(in thousands except %)	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$ 604,741	$ 43,522	$ 203,181	$ 117,245	$ 50,588	$ 46,826	$ 158,236	$ 1,224,339
Securitization	26,002	23,040	309,887	401,423	152,902	—	3,479	916,733
	630,743	66,562	513,068	518,668	203,490	46,826	161,715	2,141,072
Liabilities								
Corporate	—	41,664	317,006	472,342	88,611	—	16,820	936,443
Securitization	—	8,373	315,263	409,435	164,864	—	—	897,935
	—	50,037	632,269	881,777	253,475	—	16,820	1,834,378
Shareholders' Equity	—	—	—	—	—	—	306,694	306,694
GAP	**$ 630,743**	**$ 16,525**	**$(119,201)**	**$(363,109)**	**$ (49,985)**	**$ 46,826**	**$ (161,799)**	**$ —**
YIELD SPREAD	**5.12%**	**2.31%**	**1.32%**	**0.76%**	**0.36%**	**10.57%**		

Future Regulatory Changes

In May 2019, OSFI issued revisions to Guideline B-12 - *Interest Rate Risk Management*, which provides guidance on the Basel Committee on Banking Supervision's interest rate risk in the banking book measures, standardized stress scenarios, and enhancements to governance processes, controls and modelling. The Company will adopt these revised requirements on January 1, 2021.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Market risk includes price risk on marketable securities, 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 and non-marketable securities portfolios are 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. Portfolio reporting is submitted to 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 Operational Risk Management Framework ("ORMF") covers all components of MCAN's operational risk management including processes and control activities to ensure adherence with business and regulatory requirements. The ORMF sets out an integrated approach to identify, measure, monitor, manage and report on known and emerging operational risks. Senior management and the Board review operational risk assessments on a quarterly basis.

Outsourcing Risk

Within operational risk, outsourcing risk is the risk of losses resulting from: a) inadequate levels of services provided by third parties; or b) suddenly unavailable services by third parties that are not readily replaceable. We outsource the majority of our construction and commercial mortgage origination, mortgage servicing and collections to MCAP and other third parties. There is a risk that the services provided by third parties will fail to adequately meet our standards.

The Company's Outsourcing Policy, which is approved by the Board, incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We regularly review our outsourced arrangements to determine if an arrangement is material and to assess the overall risk inherent in that arrangement. All outsourced arrangements are subject to a risk management program, which includes detailed monitoring activities. If an outsourced arrangement is material, it is subjected to an enhanced risk management program.

Information Technology and Cybersecurity Risk

Within operational risk, information technology ("IT") and cybersecurity risk is the risk of loss resulting from clients' private and confidential information being compromised, and unauthorized access to MCAN's systems, which could lead to disruption to business as usual practices.

We collect and store confidential and personal information to the extent needed for operational purposes. Risk factors include unauthorized access to the Company's computer systems which could result in the theft or publication of confidential information, the deletion or modification of records or could otherwise cause interruptions in the Company's operations.

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 the Company's network security is penetrated or its sensitive data is misappropriated, 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.

The IT Management Committee, which is comprised of management, is accountable for overseeing technology and cybersecurity risk exposures and management activities. The IT Management Committee reports IT and cybersecurity risks to the Audit Committee. We also use external third party advisors and service providers to provide technical expertise, to assist with periodic cybersecurity assessments and to continuously monitor our IT infrastructure for cybersecurity risks. We have undertaken external vulnerability tests performed by an independent external party. We maintain an incident response plan and have designated officers responsible for the oversight over cybersecurity risks. We also maintain cybersecurity insurance coverage for both direct and third party coverage in the event of a cybersecurity incident that would result in a loss.

Model Risk

Model risk is the risk of potential adverse consequences from decisions based upon inaccurate or inappropriate model outputs, taking into account all errors at any point from design through implementation.

The Model Risk Management Policy describes the overarching principles that provide the framework for managing model risk in a sound and prudent manner. All models are subject to a periodic review based on model complexity and model materiality ratings. Periodic assessment of models is a key element of the ongoing validation phase of the model life-cycle.

Risk of Accuracy and Completeness of Borrower Information

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 manage this risk. These enhancements include improvements to underwriting staff training, independent income verification procedures, and other quality control and quality assurance processes.

The Canadian mortgage industry periodically experiences falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed instances of this activity in our own underwriting processes. The implementation of significant changes to regulatory requirements reduces 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.

Regulatory Compliance Risk

Regulatory compliance risk arises from the Company's potential non-conformance with existing and new laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates. Regulatory compliance risk also arises from the exercise of discretionary oversight by regulatory or other competent authorities that 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. 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.

The Company's Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer independently oversees the adequacy of, adherence to, and effectiveness of day-to-day compliance procedures in alignment with the Company's Regulatory Compliance Management Framework. Additionally, the Risk and Compliance Committee and the Board review and effectively challenge regulatory compliance risk-related reports on a quarterly basis.

Strategic Risk

Strategic risk is the risk of loss due to fluctuations in the external business environment, and the failure of management to adjust its strategies, business model and business activities to adapt or respond appropriately.

Strategic risk is managed by the CEO and senior management. The Board approves the Company's strategies at least annually and reviews results and needed changes as applicable against those strategies regularly. Strategies are aligned to be consistent with the RAF, regulatory and other internal requirements.

As a result of this risk, there can be no assurance that the Company will generate any returns or be able to pay dividends to our shareholders in the future.

Reputational Risk

Reputational risk is a risk of loss or adverse impacts resulting from damages to MCAN's reputation, regardless of whether the facts that underlie the event are true or not.

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 cybersecurity 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 embedding successful processes and controls, along with the promotion of appropriate conduct, risk culture and risk management. Reputational risk is mitigated by management of the underlying risks in the business and is monitored and reported to the Board on a quarterly basis.

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.

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 11 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 and Geopolitical Conditions

Factors that could impact the overall market and economic stability of the Company's operations include changes in short-term and long-term interest rates, commodity prices, international trade, inflation, consumer confidence, business and government spending, real estate market activity, real estate prices and adverse economic events. Though the nature and extent of these risks may vary depending on circumstances, an increased level of uncertainty for economic growth and market volatility in interest rates may arise. Our inability to respond to 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 and acceptance of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability and acceptance 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.

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.

Capital Adequacy Risk

Capital adequacy risk is the risk that the Company does not hold sufficient capital to manage Company-wide risks and unexpected financial losses. Refer to the "Capital Management" section of this MD&A for further information. Oversight of the Company's capital adequacy risk is monitored and managed by the CFO.

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.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2019, there were 24,215,383 common shares outstanding (December 31, 2018 - 23,798,464). As at February 26, 2020, there were 24,292,882 common shares outstanding.

During 2019, we issued no new common shares through the Executive Share Purchase Plan (2018 - 52,737).

During 2019, we issued 416,919 new common shares under the DRIP (2018 - 367,942), which has historically provided 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% until further notice from MCAN.

For additional information related to share capital, refer to Note 17 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to outstanding commitments for future fundings of corporate mortgages and our investment in the KSHYF. Only a portion of the mortgage commitments that we issue are expected to fund. Accordingly, these amounts do not necessarily represent the future cash requirements of the Company.

Table 29: Contractual Obligations

(in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2019	December 31 2018
Mortgage funding commitments	$ 230,150	$ 86,126	$ —	$ —	$ 316,276	$ 389,072
Commitment - KSHYF	—	1,827	—	22,194	24,021	20,948
	$ 230,150	**$ 87,953**	**$ —**	**$ 22,194**	**$ 340,297**	**$ 410,020**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information on our securitization activities, refer to Note 11 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting borrower obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 23 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.

DVIDEND 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 and pay dividends on a quarterly basis. The Company has historically paid out dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations.

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

Table 30: Dividend Per Share

For the Years Ended December 31	2019	2018	2017
First Quarter	$ 0.32	$ 0.37	$ 0.30
Second Quarter	0.32	0.37	0.32
Third Quarter	0.32	0.37	0.32
Fourth Quarter	0.32	0.32	0.37
	$ 1.28	**$ 1.43**	**$ 1.31**

Figure 5: Dividend History

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters and years ended December 31, 2019 and December 31, 2018 and related party balances as at December 31, 2019 and December 31, 2018 are discussed in Notes 9 and 22 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 and funding, credit, interest rate and market risk. A discussion of these risks and how they are managed is found in the "Risk 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 of 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, 2019, we had 98 team members (September 30, 2019 - 95; December 31, 2018 - 89).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's consolidated 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 IFRS 9 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;
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Forward-looking information used as economic inputs.

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.

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 method investments.

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, 2019, 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, 2019.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2019.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2019 and ending on December 31, 2019 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 interest rate of an asset or liability. Mortgage portfolio average interest rate (corporate and securitized), average term deposit interest rate, financial liabilities from securitization average interest rate, spread of corporate mortgages over term deposit interest and spread of securitized mortgages over liabilities are examples of average interest rates. The average asset or 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 or liability. Please refer to the applicable tables containing average balances for further details.

Net Corporate Mortgage Spread Income and Net Securitized Mortgage Spread Income
Net corporate mortgage spread income is calculated as the difference between corporate mortgage interest and term deposit interest and expenses. Net securitized mortgage spread income is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization.

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

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 are calculated in accordance with guidelines issued by OSFI and are located on Table 24 of this MD&A and Note 24 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.

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 as of that date.

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.