



**MCAN MORTGAGE CORPORATION**

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

**MARCH 31, 20**

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

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2020 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2019. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and our website at [www.mcanmortgage.com](http://www.mcanmortgage.com). Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2019 remain substantially unchanged. Information has been presented as at May 12, 2020.

**TABLE OF CONTENTS - MD&A**

|   |                           |
|---|---------------------------|
| A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS                        | <a href="#"><u>6</u></a>  |
| SELECTED FINANCIAL INFORMATION  | <a href="#"><u>8</u></a>  |
| HIGHLIGHTS  | <a href="#"><u>9</u></a>  |
| OUTLOOK   | <a href="#"><u>11</u></a> |
| RESULTS OF OPERATIONS   | <a href="#"><u>12</u></a> |
| FINANCIAL POSITION  | <a href="#"><u>18</u></a> |
| SELECTED QUARTERLY FINANCIAL DATA   | <a href="#"><u>29</u></a> |
| CAPITAL MANAGEMENT  | <a href="#"><u>30</u></a> |
| RISK MANAGEMENT   | <a href="#"><u>33</u></a> |
| DESCRIPTION OF CAPITAL STRUCTURE  | <a href="#"><u>40</u></a> |
| OFF-BALANCE SHEET ARRANGEMENTS  | <a href="#"><u>41</u></a> |
| DIVIDENDS   | <a href="#"><u>41</u></a> |
| TRANSACTIONS WITH RELATED PARTIES   | <a href="#"><u>41</u></a> |
| FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS                                       | <a href="#"><u>41</u></a> |
| PEOPLE  | <a href="#"><u>42</u></a> |
| CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS                                       | <a href="#"><u>42</u></a> |
| DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING | <a href="#"><u>42</u></a> |
| SUBSEQUENT EVENTS   | <a href="#"><u>42</u></a> |
| NON-IFRS MEASURES   | <a href="#"><u>43</u></a> |

## 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 impact of global health pandemics on the Canadian economy and globally, including the recent global outbreak of COVID-19;
- 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, including the anticipated impact of government actions related to COVID-19;
- systems failure or cyber and security breaches;
- the economic and social impact, and management and duration, of COVID-19
- 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;
- the effects of global health pandemics on the Canadian economy and globally and the Company's business, including the impact of COVID-19
- 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

| (in thousands except for per share amounts)                           |                  |                     |               |                  |               |
|---|------------------|---------------------|---------------|------------------|---------------|
| As at and for the Quarters Ended                                      | March 31<br>2020 | December 31<br>2019 | Change<br>(%) | March 31<br>2019 | Change<br>(%) |
| <b>Income Statement Highlights</b>                                    |                  |                     |               |                  |               |
| Mortgage interest - corporate assets                                  | \$ 15,397        | \$ 14,910           | 3 %           | \$ 13,204        | 17%           |
| Net investment income (loss) - corporate assets                       | \$ (5,022)       | \$ 14,839           | (134%)        | \$ 18,773        | (127%)        |
| Mortgage interest - securitization assets                             | \$ 4,783         | \$ 4,950            | (3%)          | \$ 5,500         | (13%)         |
| Net investment income - securitization assets                         | \$ 801           | \$ 1,015            | (21%)         | \$ 1,052         | (24%)         |
| Net income (loss)   | \$ (9,730)       | \$ 10,550           | (192%)        | \$ 14,305        | (168%)        |
| Basic and diluted earnings (loss) per share                           | \$ (0.40)        | \$ 0.44             | (191%)        | \$ 0.60          | (167%)        |
| Dividends per share   | \$ 0.34          | \$ 0.32             | 6 %           | \$ 0.32          | 6 %           |
| Next quarter's dividend per share                                     | \$ 0.34          |                     |               |                  |               |
| Return on average shareholders' equity <sup>1</sup>                   | (11.84)%         | 12.84%              | (24.68%)      | 18.36%           | (30.20%)      |
| Taxable income per share <sup>1,2</sup>                               | \$ 0.71          | \$ 0.46             | 54 %          | \$ 0.34          | 109 %         |
| <b>Spreads</b>  |                  |                     |               |                  |               |
| Spread of corporate mortgages over term deposit interest <sup>1</sup> | 2.62 %           | 2.63%               | (0.01%)       | 2.73%            | (0.11%)       |
| Spread of securitized mortgages over liabilities <sup>1</sup>         | 0.63 %           | 0.72%               | (0.09%)       | 0.69%            | (0.06%)       |
| <b>Average term to maturity (in months)</b>                           |                  |                     |               |                  |               |
| Mortgages - corporate   | 12.2             | 10.7                | 14%           | 11.9             | 3 %           |
| Term deposits   | 17.0             | 18.4                | (8%)          | 17.2             | (1%)          |
| <b>Balance Sheet Highlights</b>                                       |                  |                     |               |                  |               |
| Total assets  | \$ 2,211,909     | \$ 2,179,341        | 1%            | \$ 2,166,709     | 2 %           |
| Mortgages - corporate   | \$ 1,188,331     | \$ 1,089,401        | 9%            | \$ 996,123       | 19 %          |
| Mortgages - securitized   | \$ 751,530       | \$ 784,296          | (4%)          | \$ 870,543       | (14%)         |
| Shareholders' equity  | \$ 315,093       | \$ 330,312          | (5%)          | \$ 316,769       | (1%)          |
| <b>Capital Ratios <sup>1</sup></b>                                    |                  |                     |               |                  |               |
| Income tax assets to capital ratio                                    | 5.03             | 4.93                | 2%            | 4.69             | 7 %           |
| CET 1 & Tier 1 capital ratio <sup>4</sup>                             | 21.80 %          | 22.52%              | (0.72%)       | 22.09%           | (0.29%)       |
| Total capital ratio <sup>4</sup>                                      | 22.17 %          | 22.52%              | (0.35%)       | 22.09%           | 0.08%         |
| Leverage ratio <sup>3</sup>   | 11.70 %          | 12.58%              | (0.88%)       | 12.05%           | (0.35%)       |
| <b>Credit Quality</b>   |                  |                     |               |                  |               |
| Impaired mortgage ratio (corporate) <sup>1</sup>                      | 0.39 %           | 0.32%               | 0.07%         | 0.30%            | 0.09 %        |
| Impaired mortgage ratio (total) <sup>1</sup>                          | 0.28 %           | 0.23%               | 0.05%         | 0.24%            | 0.04 %        |
| <b>Mortgage Arrears <sup>1</sup></b>                                  |                  |                     |               |                  |               |
| Corporate   | \$ 31,289        | \$ 12,161           | 157%          | \$ 11,251        | 178 %         |
| Securitized   | 5,016            | 3,750               | 34%           | 7,431            | (32%)         |
| Total   | \$ 36,305        | \$ 15,911           | 128%          | \$ 18,682        | 94%           |
| <b>Common Share Information (end of period)</b>                       |                  |                     |               |                  |               |
| Number of common shares outstanding                                   | 24,420           | 24,215              | 1%            | 24,040           | 2 %           |
| Book value per common share <sup>1</sup>                              | \$ 12.90         | \$ 13.64            | (5%)          | \$ 13.18         | (2%)          |
| Common share price - close  | \$ 12.18         | \$ 17.10            | (29%)         | \$ 15.93         | (24%)         |
| Market capitalization <sup>1</sup>                                    | \$ 297,436       | \$ 414,077          | (28%)         | \$ 382,957       | (22%)         |

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

<sup>2</sup> For further information refer to the "Taxable Income" section of this MD&A.

<sup>3</sup> 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.

<sup>4</sup> Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on our mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in Stage 1 and Stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

## HIGHLIGHTS

### Financial Performance

- Net loss of \$9.7 million in Q1 2020, a decrease of \$24 million (168%) from net income of \$14.3 million in Q1 2019.
- Loss per share totalled \$0.40 in Q1 2020, a decrease of \$1.00 (167%) from earnings per share of \$0.60 in Q1 2019.
- Return on average shareholders' equity<sup>1</sup> of (11.84)% in Q1 2020, a decrease of 30.20% from 18.36% in Q1 2019.
- In Q1 2020, we recorded a \$15.7 million net loss on securities compared to a \$8.0 million net gain on securities in Q1 2019. Activity in Q1 2020 included fair value losses related to our real estate investment trust ("REIT") portfolio and in Q1 2019 included fair value gains related to our REIT portfolio and our investment in Crown Realty II Limited Partnership ("Crown LP"). The net loss in Q1 2020 negatively impacted earnings per share by \$0.65, while the net gain in Q1 2019 positively impacted earnings per share by \$0.34.
- Net corporate mortgage spread income<sup>1</sup> increased by \$0.8 million from Q1 2019. The net corporate mortgage spread income<sup>1</sup> increased due to a higher average corporate mortgage portfolio balance<sup>1</sup> of \$1.14 billion in Q1 2020 compared to \$971 million in Q1 2019. This increase was partially offset by a reduction in the spread of corporate mortgages over term deposit interest<sup>1</sup> to 2.62% in Q1 2020 from 2.73% in Q1 2019. The decrease in the spread of corporate mortgages over term deposit interest<sup>1</sup> 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.
- Our provision for credit losses on our corporate mortgage portfolio increased by \$1.8 million from Q1 2019. The increase in the provision for credit losses on our corporate mortgage portfolio reflects projected macroeconomic scenarios and economic inputs along with qualitative adjustments. Key judgments include the speed and shape of economic recovery and the impact of government stimulus. These judgments have been made with reference to the facts, projections and other circumstances as of March 31, 2020, based on information available as of that date. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2020, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any changes in forward-looking information subsequent to March 31, 2020, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.
- Equity income from MCAP Commercial LP ("MCAP") totalled \$3.4 million in Q1 2020, an increase of \$0.8 million (34%) from \$2.6 million in Q1 2019, which was due to higher net interest income on securitized mortgages, mortgage origination fees and net investment revenue less interest expense, partially offset by higher financial instrument losses in MCAP.

### Business Activity

- Corporate assets totalled \$1.43 billion at March 31, 2020, an increase of \$64 million (5%) from December 31, 2019.
- Corporate mortgage portfolio totalled \$1.19 billion at March 31, 2020, an increase of \$99 million (9%) from December 31, 2019.
- Uninsured single family portfolio totalled \$396 million at March 31, 2020, an increase of \$13 million (3%) from December 31, 2019.
- Uninsured single family originations were \$52 million in Q1 2020, a decrease of \$5 million (9%) from Q4 2019 and a decrease of \$11 million (18%) from Q1 2019.
- Insured single family originations were \$100 million in Q1 2020, an increase of \$40 million (67%) from Q4 2019 and an increase of \$61 million (160%) from Q1 2019.
- Securitization volumes totalled \$95 million in Q1 2020, a decrease of \$9 million (8%) from \$104 million in Q4 2019 and an increase of \$67 million (235%) from \$28 million in Q1 2019. Securitization volumes in Q1 2020 consisted of \$80 million of insured single family mortgages (Q4 2019 - \$104 million; Q1 2019 - \$28 million) and \$15 million of insured multi family mortgages (Q4 2019 - \$nil; Q1 2019 - \$nil). Securitization maturities continue to exceed new securitization volumes in Q1 2020, resulting in a 4% decrease from Q4 2019.
- Construction and commercial portfolios totalled \$590 million at March 31, 2020, an increase of \$39 million (7%) from December 31, 2019.

**Dividend**

- The Board of Directors (the “Board”) declared a second quarter dividend of \$0.34 per share on May 12, 2020 to be paid June 30, 2020 to shareholders of record as of June 15, 2020.

**Credit Quality**

- The impaired corporate mortgage ratio<sup>1</sup> was 0.39% at March 31, 2020 compared to 0.32% at December 31, 2019.
- The impaired total mortgage ratio<sup>1</sup> was 0.28% at March 31, 2020 compared to 0.23% at December 31, 2019.
- Total mortgage arrears<sup>1</sup> were \$36 million at March 31, 2020 compared to \$16 million at December 31, 2019.
- Net write-offs were \$69,000 (2.4 basis points) of the average corporate portfolio in Q1 2020 compared to \$23,000 (0.9 basis points) in Q1 2019. All write-offs relate to the uninsured single family mortgage portfolio.
- Average loan to value ratio (“LTV”) of our uninsured single family portfolio based on an industry index of current real estate values was 61.5% at March 31, 2020 compared to 64.0% at December 31, 2019.

**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”) and Tier 1 Capital to risk-weighted assets ratios<sup>1,2</sup> were 21.80% at March 31, 2020 compared to 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio<sup>1,2</sup> was 22.17% at March 31, 2020 compared to 22.52% at December 31, 2019.
- The leverage ratio<sup>1</sup> was 11.70% at March 31, 2020 compared to 12.58% at December 31, 2019.
- The income tax assets to capital ratio<sup>1</sup> was 5.03 at March 31, 2020 compared to 4.93 at December 31, 2019.
- We issued 204,894 new common shares through the Dividend Reinvestment Program (“DRIP”) in Q1 2020 compared to 241,920 new common shares in Q1 2019. The DRIP participation rate was 17% for the Q1 2020 dividend (Q4 2019 - 17%; Q1 2019 - 26%).

<sup>1</sup> Considered to be a “Non-IFRS Measure”. For further details, refer to the “Non-IFRS Measures” section of this MD&A.

<sup>2</sup> Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on our mortgage portfolio in Tier 2 capital. In accordance with OSFI’s transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in Stage 1 and Stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

## OUTLOOK

### Market Outlook

The Canadian economy, market and the world as we knew it in early March took a dramatic turn due to the COVID-19 pandemic. The impact on the Canadian economy has been further magnified by the recent collapse in oil prices. Leading up to this, the Canadian markets where we do business were strong, with an affordable housing shortage, strong employment and were experiencing a positive impact from growing immigration.

We do not know how COVID-19 will evolve and whether the gradual reopening of the economy will cause further waves of infections and subsequently, further retraction. A return to full operations across all economic sectors is not anticipated until there is a vaccine that is effective and widely disseminated globally. As a result, the return to normalization of economic activity is expected to be protracted over an extended period of time and will encompass continuing restrictions on the conduct of business and normal day to day life of Canadians.

### Business Outlook

We conduct our business activities in the context of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. Since mid-March, the Company has been focused on managing all of its business activities in the context of the COVID-19 pandemic and the new economic, business and daily living environment in Canada. We efficiently mobilized to remote operations within one week and have since then been executing our business effectively.

While we have observed reduced sales activity in the housing market, which may impact mortgage origination volumes, it remains early in the pandemic and assessment of the impact will depend on many factors including the effectiveness of government and regulatory action. We believe that our strategy will continue to serve us well in the crisis. We are a prudent and disciplined lender and investor and have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see deal flow in all our product lines, as well as loan repayments from completed construction projects. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty.

#### *Single Family Business*

The Canadian housing markets, particularly in Vancouver, Toronto and Ottawa, were very active leading up to the implementation of emergency government containment measures across Canada in mid-March. While social distancing protocols changed and slowed the real estate sale process immediately, these activities did not stop. Certainly, many buyers and sellers are sidelined due to employment and other uncertainties, but for many, these activities continue. We expect new mortgage volumes relating to purchases to decline across our targeted markets. However, given that the duration of uninsured single family mortgages is short, activity relating to refinances and renewals is expected to become the key driver of business activity.

In these unprecedented times, we are committed to working with our borrowers on a case-by-case basis to provide effective alternatives that help them manage the challenges they are facing due to COVID-19. This support includes payment deferrals of up to six months on existing mortgages for those who are eligible. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term. We are focused on keeping abreast of all changes in the market that could negatively impact our business or that could create opportunities in line with our risk appetite.

#### *Construction and Commercial Business*

While we expect some construction site delays and a slowdown in sales activity for a period of time, our construction project finance loans are progressing forward without major delays or credit issues in the markets where we do business. We have seen some slowdowns in interior unit finishing due to social distancing protocols and workplace safety rules. Furthermore, certain municipal staff inspections have been delayed. These delays may impact the timing of repayments; however, they have not changed the overall expected outcome of the project success or loan performance at this time.

We entered this pandemic with strong underlying demand for new residential units in Toronto and Vancouver. We expect to see some change in demand in 2020 that may continue forward and we will pivot our business accordingly. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite with a focus on well-located and affordable residential product with experienced borrowers where we have existing relationships.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on the scope and duration of the crisis and the overall effectiveness of actions that are taken by various governmental agencies. Together, they will impact the speed at which the economy rebounds and the timeline to recovery. Currently, all impacts are uncertain and are systemic to the country. MCAN's management and Board are committed to proactively and effectively managing the Company's strategy, business activities and team through the pandemic into the future. We remain optimistic and support the actions taken by the government and regulators as we believe that to date, they are positive for the economy, consumers and our business.

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 2: Net Income (loss)

| (in thousands except for per share amounts and %)     |                   |                  |               |                  |               |
|---|-------------------|------------------|---------------|------------------|---------------|
| For the Quarters Ended                                | Q1<br>2020        | Q4<br>2019       | Change<br>(%) | Q1<br>2019       | Change<br>(%) |
| <b>Net Investment Income - Corporate Assets</b>       |                   |                  |               |                  |               |
| Mortgage interest                                     | \$ 15,397         | \$ 14,910        | 3%            | \$ 13,204        | 17%           |
| Equity income from MCAP Commercial LP                 | 3,434             | 4,032            | (15%)         | 2,568            | 34%           |
| Non-marketable securities                             | 1,546             | 1,802            | (14%)         | 1,299            | 19%           |
| Marketable securities                                 | 611               | 680              | (10%)         | 771              | (21%)         |
| Fees  | 363               | 382              | (5%)          | 194              | 87%           |
| Interest on cash and other income                     | 302               | 247              | 22%           | 358              | (16%)         |
| Net gain (loss) on securities                         | (15,688)          | 2,067            | (859%)        | 8,028            | (295%)        |
|   | <b>5,965</b>      | <b>24,120</b>    | <b>(75%)</b>  | <b>26,422</b>    | <b>(77%)</b>  |
| Term deposit interest and expenses                    | 8,008             | 7,960            | 1%            | 6,571            | 22%           |
| Mortgage expenses                                     | 1,034             | 1,111            | (7%)          | 977              | 6%            |
| Interest on loans payable                             | 141               | 77               | 83%           | 92               | 53%           |
| Provision for (recovery of) credit losses             | 1,804             | 133              | 1,256%        | 9                | 19,944%       |
|   | <b>10,987</b>     | <b>9,281</b>     | <b>18%</b>    | <b>7,649</b>     | <b>44%</b>    |
|   | <b>(5,022)</b>    | <b>14,839</b>    | <b>(134%)</b> | <b>18,773</b>    | <b>(127%)</b> |
| <b>Net Investment Income - Securitization Assets</b>  |                   |                  |               |                  |               |
| Mortgage interest                                     | 4,783             | 4,950            | (3%)          | 5,500            | (13%)         |
| Other securitization income                           | 261               | 208              | 25%           | 113              | 131%          |
|   | <b>5,044</b>      | <b>5,158</b>     | <b>(2%)</b>   | <b>5,613</b>     | <b>(10%)</b>  |
| Interest on financial liabilities from securitization | 3,747             | 3,650            | 3%            | 4,082            | (8%)          |
| Mortgage expenses                                     | 495               | 494              | —%            | 488              | 1%            |
| Provision for (recovery of) credit losses             | 1                 | (1)              | (200%)        | (9)              | (111%)        |
|   | <b>4,243</b>      | <b>4,143</b>     | <b>2%</b>     | <b>4,561</b>     | <b>(7%)</b>   |
|   | <b>801</b>        | <b>1,015</b>     | <b>(21%)</b>  | <b>1,052</b>     | <b>(24%)</b>  |
| <b>Operating Expenses</b>                             |                   |                  |               |                  |               |
| Salaries and benefits                                 | 3,802             | 3,870            | (2%)          | 3,586            | 6%            |
| General and administrative                            | 1,755             | 1,744            | 1%            | 1,931            | (9%)          |
|   | <b>5,557</b>      | <b>5,614</b>     | <b>(1%)</b>   | <b>5,517</b>     | <b>1%</b>     |
| Net income (loss) before income taxes                 | (9,778)           | 10,240           | (195%)        | 14,308           | (168%)        |
| Provision for (recovery of) income taxes              | (48)              | (310)            | (85%)         | 3                | (1,700%)      |
| <b>Net Income (loss)</b>                              | <b>\$ (9,730)</b> | <b>\$ 10,550</b> | <b>(192%)</b> | <b>\$ 14,305</b> | <b>(168%)</b> |
| Basic and diluted earnings (loss) per share           | \$ (0.40)         | \$ 0.44          | (191%)        | \$ 0.60          | (167%)        |
| Dividends per share                                   | \$ 0.34           | \$ 0.32          | 6%            | \$ 0.32          | 6%            |

## Net Investment Income - Corporate Assets

## Mortgage Interest Income

Table 3: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Quarterly

| For the Quarters Ended                                      | March 31, 2020               |                 |                             | December 31, 2019            |                 |                             | March 31, 2019               |                 |                             |
|---|------------------------------|-----------------|-----------------------------|------------------------------|-----------------|-----------------------------|------------------------------|-----------------|-----------------------------|
|   | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> |
| (in thousands except %)                                     |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Single family mortgages                                     |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Insured   | \$ 137,778                   | \$ 1,023        | 3.04%                       | \$ 121,690                   | \$ 928          | 3.07%                       | \$ 120,571                   | \$ 957          | 3.14%                       |
| Uninsured   | 387,852                      | 4,604           | 4.75%                       | 371,487                      | 4,416           | 4.76%                       | 283,371                      | 3,137           | 4.46%                       |
| Uninsured - completed inventory                             | 42,821                       | 668             | 6.34%                       | 47,964                       | 769             | 6.36%                       | 12,497                       | 191             | 6.20%                       |
| Construction loans  |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Residential   | 524,236                      | 8,432           | 6.48%                       | 497,878                      | 7,993           | 6.38%                       | 434,119                      | 7,045           | 6.59%                       |
| Non residential   | 142                          | 4               | 6.45%                       | 4,060                        | 95              | 9.31%                       | 9,847                        | 190             | 7.78%                       |
| Commercial loans  |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Multi family residential                                    | 12,820                       | 264             | 6.85%                       | 15,917                       | 237             | 5.90%                       | 50,135                       | 665             | 5.39%                       |
| Other   | 32,356                       | 402             | 4.80%                       | 35,350                       | 472             | 5.35%                       | 59,968                       | 997             | 6.76%                       |
| Mortgages - corporate portfolio                             | \$1,138,005                  | \$ 15,397       | 5.42%                       | \$1,094,346                  | \$ 14,910       | 5.43%                       | \$ 970,508                   | \$ 13,182       | 5.49%                       |
| Term deposit interest and expenses                          | 1,038,158                    | 8,008           | 2.80%                       | 1,019,641                    | 7,960           | 2.80%                       | 912,291                      | 6,571           | 2.76%                       |
| Net corporate mortgage spread income <sup>2</sup>           |                              | \$ 7,389        |                             |                              | \$ 6,950        |                             |                              | \$ 6,611        |                             |
| Spread of mortgages over term deposit interest <sup>2</sup> |                              |                 | 2.62%                       |                              |                 | 2.63%                       |                              |                 | 2.73%                       |
| <b>Average term to maturity (months)</b>                    |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Mortgages - corporate                                       | 12.2                         |                 |                             | 10.7                         |                 |                             | 11.9                         |                 |                             |
| Term deposits   | 17.0                         |                 |                             | 18.4                         |                 |                             | 17.2                         |                 |                             |

<sup>1</sup> 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 March 31, 2020, December 31, 2019 and March 31, 2019.

<sup>2</sup> Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 4: Mortgage Originations

| For the Quarters Ended                                     | Q1                |                   | Change (%) | Q1                |            |
|--|-------------------|-------------------|------------|-------------------|------------|
|  | 2020              | 2019              |            | 2019              | Change (%) |
| (in thousands except %)                                    |                   |                   |            |                   |            |
| <b>Originations</b>  |                   |                   |            |                   |            |
| Single family - insured                                    | \$ 99,542         | \$ 59,553         | 67%        | \$ 38,302         | 160%       |
| Single family - uninsured                                  | 52,146            | 57,276            | (9%)       | 63,295            | (18%)      |
| Single family - uninsured completed inventory <sup>1</sup> | 18,466            | 424               | 4,255%     | 15,216            | 21%        |
| Residential construction <sup>1</sup>                      | 89,819            | 104,745           | (14%)      | 38,248            | 135%       |
| Non-residential construction <sup>1</sup>                  | 269               | —                 | n/a        | 760               | (65%)      |
| Commercial <sup>1</sup>                                    | —                 | 2,000             | (100%)     | 488               | (100%)     |
|  | <b>\$ 260,242</b> | <b>\$ 223,998</b> | <b>16%</b> | <b>\$ 156,309</b> | <b>66%</b> |
| <b>Renewals of securitized mortgages<sup>2</sup></b>       |                   |                   |            |                   |            |
| Single family - insured                                    | \$ 28,413         | \$ 27,229         | 4%         | \$ 5,677          | 400%       |

<sup>1</sup> Construction, commercial and completed inventory originations represent all advances on loans.

<sup>2</sup> 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<sup>1</sup> in Q1 2020 from Q1 2019 was due primarily to an increase in the proportion of our corporate portfolio held in single family mortgages. Balancing of the risk profile of the mortgages on our balance sheet continues to be a strategic focus of the Company given the current economic environment. Continued 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<sup>1</sup>. We believe our prudent underwriting and risk appetite provides solid risk mitigation in times of uncertainty.

*Single family*

We continue to focus on single family originations in our corporate mortgage portfolio and accordingly our total volumes increased from 2019. 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 Q1 2020 supported a 184% increase in single family securitization volumes to \$80 million in Q1 2020 from \$28 million in Q1 2019.

Single family mortgages provide comparatively lower yields given the lower risk profile. Higher gross coupon in our uninsured single family originations and higher penalty income in our uninsured single family portfolio during Q1 2020 contributed to a higher corporate mortgage portfolio average interest rate<sup>1</sup> compared to Q1 2019. We will continue to focus on our target markets and risk profile while anticipating a challenging environment for the remainder of 2020 given the economic conditions. We opportunistically invest in our single family uninsured completed inventory portfolio through our origination strategic partnerships.

We expect some delays in the purchasing process due to possible service impacts such as legal, appraisals and income verification during the COVID19 pandemic. These impacts are typically logistical in nature and can be resolved through the dedication and customer focus of our mortgage team. As we are in unprecedented times, we are committed to working with our borrowers on a case-by-case basis to provide effective alternatives that help them manage the challenges they are facing due to COVID-19. This support will include up to a six-month payment deferral for mortgages for those who are eligible.

*Construction and commercial*

During Q1 2020, we focused on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile. The decrease in the commercial portfolio at Q1 2020 from Q1 2019 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.

Construction delays of up to 6 months can be reasonably expected for some projects at this time due to COVID-19 pandemic. Delays in construction may lead to an increase in extension requests and cost overruns, which are expected to be mitigated by lending structure at underwriting. To date, sites with the appropriate permits in place continue to progress toward completion. Our prudent underwriting approach with stringent borrower liquidity and net worth analysis and presale requirements as applicable, are expected to help mitigate slower expected sales.

<sup>1</sup> 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 March 31, 2020, we had the renewal rights to \$1.2 billion of single family mortgages (December 31, 2019 - \$1.2 billion).

**Equity Income from MCAP**

In Q1 2020, MCAP's origination volumes were \$3.6 billion, an increase from \$2.7 billion in Q1 2019. As at February 29, 2020, MCAP had \$105.8 billion of assets under management compared to \$105.5 billion at November 30, 2019 and \$73.8 billion as at February 28, 2019. The \$0.8 million increase in equity income from MCAP was due to higher net interest income on securitized mortgages, mortgage origination fees and net investment revenue less interest expense, partially offset by higher financial instrument losses in MCAP.

We recognize equity income from MCAP on a one-month lag, based on MCAP's net income for its quarter ended February 29, 2020, adjusted for the impact of any significant events or transactions. 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**

In Q1 2020, we received distribution income of \$1.1 million (Q1 2019 - \$1.2 million) from the KingSett High Yield Fund ("KSHYF") and \$0.1 million (Q1 2019 - \$0.1 million) from Crown LP. Effective January 1, 2020, we sold our position in the Crown LP core fund. For further information, refer to the "Other Corporate Assets" section of this MD&A.

**Marketable Securities**

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.64% in Q1 2020 (Q1 2019 - 5.32%). The yield has been calculated based on the average portfolio carrying value.

**Fees**

Fee income can vary between quarters given the fact that certain fees such as loan amendment and extension fees do not occur on a routine basis.

**Net Gain (Loss) on Securities**

In Q1 2020, we recorded a \$15.7 million net loss on securities compared to a \$8.0 million net gain on securities in Q1 2019. Activity in Q1 2020 included fair value losses related to our REIT portfolio and in Q1 2019 included fair value gains related to our REIT portfolio and our investment in Crown LP.

**Term Deposit Interest and Expenses**

The increase in term deposit interest and expenses from Q1 2019 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 \$95 million in Q1 2020 (Q1 2019 - \$28 million), of which \$15 million were insured multi-family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q1 2019 - \$nil).

**Table 5: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly**

| For the Quarters Ended                              | March 31, 2020               |                 |                             | December 31, 2019            |                 |                             | March 31, 2019               |                 |                             |
|---|------------------------------|-----------------|-----------------------------|------------------------------|-----------------|-----------------------------|------------------------------|-----------------|-----------------------------|
|   | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> | Average Balance <sup>2</sup> | Interest Income | Average Rate <sup>1,2</sup> |
| (in thousands except %)                             |                              |                 |                             |                              |                 |                             |                              |                 |                             |
| Mortgages - securitized portfolio                   | \$ 751,781                   | \$ 4,783        | 2.56%                       | \$ 773,136                   | \$ 4,950        | 2.56%                       | \$ 869,466                   | \$ 5,500        | 2.54%                       |
| Financial liabilities from securitization           | 777,608                      | 3,747           | 1.93%                       | 793,569                      | 3,650           | 1.84%                       | 880,659                      | 4,082           | 1.85%                       |
| Net securitized mortgage spread income <sup>2</sup> |                              | \$ 1,036        |                             |                              | \$ 1,300        |                             |                              | \$ 1,418        |                             |
| Spread of mortgages over liabilities <sup>2</sup>   |                              |                 | 0.63%                       |                              |                 | 0.72%                       |                              |                 | 0.69%                       |

<sup>1</sup> 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 March 31, 2020, December 31, 2019 and March 31, 2019.

<sup>2</sup> 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 6: Provisions for Credit Losses and Write-offs**

| For the Quarters Ended                                    | (in thousands except basis points and %) |         |            |         |            |  |
|---|--|---------|------------|---------|------------|--|
|   | Q1 2020                                  | Q4 2019 | Change (%) | Q1 2019 | Change (%) |  |
| Provision (recovery) on impaired corporate mortgages      |  |         |            |         |            |  |
| Single family mortgages uninsured                         | \$ (135)                                 | \$ 6    | (2,350%)   | \$ (3)  | 4,400%     |  |
| Construction  | —  | —       | n/a        | (217)   | (100%)     |  |
|   | (135)                                    | 6       | (2,350%)   | (220)   | (39%)      |  |
| Provision (recovery) on performing corporate mortgages    |  |         |            |         |            |  |
| Single family mortgages insured                           | —  | —       | n/a        | 1       | (100%)     |  |
| Single family mortgages uninsured                         | 267                                      | 60      | 345%       | (403)   | (166%)     |  |
| Single family mortgages uninsured - completed inventory   | 624                                      | 27      | 2,211%     | 93      | 571%       |  |
| Construction loans  | 1,144                                    | 29      | 3,845%     | 1,058   | 8%         |  |
| Commercial loans  |  |         |            |         |            |  |
| Multi family residential                                  | (35)                                     | (4)     | 775%       | (262)   | (87%)      |  |
| Other commercial  | (61)                                     | 23      | (365%)     | (251)   | (76%)      |  |
|   | 1,939                                    | 135     | 1,336%     | 236     | 722%       |  |
| Other provisions (recoveries)                             | —  | (8)     | (100%)     | (7)     | (100%)     |  |
| Total corporate provision for (recovery of) credit losses | 1,804                                    | 133     | 1,256%     | 9       | 19,944%    |  |
| Provision (recovery) on performing securitized mortgages  | 1  | (1)     | (200%)     | (9)     | (111%)     |  |
| Total provisions for (recoveries of) credit losses        | \$ 1,805                                 | \$ 132  | 1,267%     | \$ —    | n/a        |  |
| <b>Corporate mortgage portfolio data:</b>                 |  |         |            |         |            |  |
| Provisions for (recoveries of) credit losses, net         | \$ 1,804                                 | \$ 141  | 1,179%     | \$ 16   | 11,175%    |  |
| Net write offs  | \$ 69                                    | \$ 58   | 19%        | \$ 23   | 200%       |  |
| Net write offs (basis points)                             | 2.4                                      | 2.1     | 14%        | 0.9     | 167%       |  |

Provisions are based on a statistical modelling methodology incorporating both internal portfolio characteristics and forward-looking macroeconomic information. Loans are segmented into homogenous risk bands based on internal risk characteristics including (but not limited to) credit scores, delinquency history, loan type and location. Historical regression methodology is used to relate expected credit loss to key macroeconomic indicators including house price indices, unemployment rate, interest rates and gross domestic product. Economic forecasts of these variables are then used to produce forward-looking estimates of expected credit loss under multiple scenarios. Scenarios are probability weighted by management to obtain an aggregated forward looking view. 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.

The increase in the provision for credit losses on our corporate mortgage portfolio in Q1 2020 is due to current macroeconomic scenarios and economic inputs along with qualitative adjustments including, but not limited to, the effectiveness of various government programs. Key judgments include the speed and shape of economic recovery and the impact of government stimulus. These judgments have been made with reference to the facts, projections and other circumstances as of March 31, 2020, based on information available as of that date. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2020, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any changes in forward-looking information subsequent to March 31, 2020, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis and note that it remains relatively early in the COVID-19 pandemic to detect COVID-19 specific significant stress or deterioration.

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

## Operating Expenses

Table 7: Operating Expenses

| (in thousands except %)    |                 |                 |             |                 |           |  |
|----------------------------|-----------------|-----------------|-------------|-----------------|-----------|--|
|                            | Q1              | Q4              | Change      | Q1              | Change    |  |
| For the Quarters Ended     | 2020            | 2019            | (%)         | 2019            | (%)       |  |
| Salaries and benefits      | \$ 3,802        | \$ 3,870        | (2%)        | \$ 3,586        | 6%        |  |
| General and administrative | 1,755           | 1,744           | 1%          | 1,931           | (9%)      |  |
|                            | <b>\$ 5,557</b> | <b>\$ 5,614</b> | <b>(1%)</b> | <b>\$ 5,517</b> | <b>1%</b> |  |

The increase in salaries and benefits in Q1 2020 from Q1 2019 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 Q1 2020 from Q1 2019 is primarily due to lower professional fees incurred in Q1 2020.

## Taxable Income

The table below provides a reconciliation between consolidated net income (loss) for accounting purposes and non-consolidated taxable income. The adjustments below represent the difference between the components of net income (loss) 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 8: Taxable Income Reconciliation <sup>1</sup>

| (in thousands)   |                  |                 |
|--|------------------|-----------------|
| For the Quarters Ended March 31  | 2020             | 2019            |
| Consolidated net income (loss) for accounting purposes                 | \$ (9,730)       | \$ 14,305       |
| Adjustments to calculate taxable income:                               |                  |                 |
| Reverse: Equity income from MCAP - accounting purposes                 | (3,434)          | (2,568)         |
| Add: MCAP taxable income   | 11,017           | 1,972           |
| Reverse: Provision for (recovery of) credit losses <sup>2</sup>        | 1,929            | 205             |
| Add: Amortization of upfront securitization program costs <sup>3</sup> | 1,321            | 1,663           |
| Deduct: Securitization program mortgage origination costs <sup>3</sup> | (1,304)          | (960)           |
| Reverse: Net unrealized (gain)/loss on securities <sup>4</sup>         | 15,688           | (7,760)         |
| Reverse: (Income)/loss earned in subsidiaries <sup>5</sup>             | 1,612            | 1,284           |
| Other items  | 112              | (12)            |
| <b>Taxable Income</b>  | <b>\$ 17,211</b> | <b>\$ 8,129</b> |

<sup>1</sup> 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.

<sup>2</sup> Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.

<sup>3</sup> 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.

<sup>4</sup> Excluded from the calculation of taxable income; only includes net realized gains and losses recognized in the MIC entity.

<sup>5</sup> Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.

The increase in taxable income in Q1 2020 from Q1 2019 was primarily a result of higher taxable income from MCAP due to expected timing differences between accounting income and taxable income related to MCAP's growth and strategic direction.

## FINANCIAL POSITION

Table 9: Assets

| (in thousands except %)                 | March 31            | December 31         | Change      | March 31            | Change       |
|---|---------------------|---------------------|-------------|---------------------|--------------|
| As at                                   | 2020                | 2019                | (%)         | 2019                | (%)          |
| <b>Corporate Assets</b>                 |                     |                     |             |                     |              |
| Cash and cash equivalents               | \$ 63,960           | \$ 54,452           | 17%         | \$ 53,813           | 19%          |
| Marketable securities                   | 30,483              | 46,170              | (34%)       | 61,007              | (50%)        |
| Mortgages                               | 1,188,331           | 1,089,401           | 9%          | 996,123             | 19%          |
| Non-marketable securities               | 60,068              | 93,689              | (36%)       | 72,460              | (17%)        |
| Equity investment in MCAP Commercial LP | 71,298              | 69,844              | 2%          | 62,490              | 14%          |
| Deferred tax asset                      | 442                 | 132                 | 235%        | 3,090               | (86%)        |
| Other assets                            | 10,463              | 7,771               | 35%         | 12,568              | (17%)        |
|   | <b>1,425,045</b>    | <b>1,361,459</b>    | <b>5%</b>   | <b>1,261,551</b>    | <b>13%</b>   |
| <b>Securitization Assets</b>            |                     |                     |             |                     |              |
| Cash held in trust                      | 29,736              | 28,575              | 4%          | 31,272              | (5%)         |
| Mortgages                               | 751,530             | 784,296             | (4%)        | 870,543             | (14%)        |
| Other assets                            | 5,598               | 5,011               | 12%         | 3,343               | 67%          |
|   | <b>786,864</b>      | <b>817,882</b>      | <b>(4%)</b> | <b>905,158</b>      | <b>(13%)</b> |
|   | <b>\$ 2,211,909</b> | <b>\$ 2,179,341</b> | <b>1%</b>   | <b>\$ 2,166,709</b> | <b>2%</b>    |

Our corporate asset portfolio increased in Q1 2020 primarily due to strong origination volumes in the insured single family portfolio. This increase was offset by mortgage maturities in the securitized mortgage portfolio which exceeded the impact of new securitization issuances.

## 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. We expect that some of our construction portfolio projects may experience delays of up to six months as a result of the impact of COVID-19 on the construction industry. We expect that this may lengthen the time these loans are outstanding. We continue to be prudent and selective in our credit adjudication and will enhance our portfolio management given the fluid situation of the pandemic.

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 March 31, 2020 the average outstanding construction loan balance was \$9 million (December 31, 2019 - \$9 million) with a maximum individual loan commitment of \$30 million (December 31, 2019 - \$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.

Securitized mortgages in the deferred payment program will be eligible for renewal with payments calculated based on the outstanding principal at maturity, which could include capitalized interest from the payment deferral period. These mortgages remain eligible for future NHA MBS securitizations and issuers are required to remit scheduled mortgage principal and interest payments to Computershare, the designated Central Payor and Transfer Agent ("CPTA") for the program, even if these mortgage payments have not been collected from mortgagors.

The Government of Canada is expanding its revised Insured Mortgage Purchase Program (IMPP) to further bolster the financial system and the Canadian economy. The government announced it will purchase up to \$150 billion of insured mortgage pools through CMHC, which would assist with stabilizing these programs.



For further information related to our securitization activities, refer to the “Securitization Programs” section of the 2019 Annual MD&A.

**Market MBS Program**

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. During Q1 2020, we securitized \$28 million of MBS through the market MBS program and retained the MBS that we securitized on our corporate balance sheet. During Q1 2019, we securitized \$4 million of MBS through the market MBS program and sold the MBS to third parties.

As at March 31, 2020, we held \$50 million of retained MBS on our balance sheet (December 31, 2019 - \$49 million), which is included in the insured single family portfolio in corporate mortgages.

**CMB Program**

During Q1 2020, we securitized \$52 million of insured single family mortgages through the CMB program (Q1 2019 - \$24 million) and \$15 million of insured multi family mortgages (Q1 2019 - \$nil). At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of \$74,000 (Q1 2019 - \$nil).

Table 10: Mortgage Summary

| (in thousands except %)                    | March 31<br>2020    | December 31<br>2019 | Change<br>(%) | March 31<br>2019    | Change<br>(%) |
|--|---------------------|---------------------|---------------|---------------------|---------------|
| <b>As at</b>                               |                     |                     |               |                     |               |
| <b>Corporate portfolio:</b>                |                     |                     |               |                     |               |
| Single family mortgages                    |                     |                     |               |                     |               |
| Insured                                    | \$ 161,017          | \$ 110,181          | 46%           | \$ 124,857          | 29%           |
| Uninsured                                  | 395,833             | 382,820             | 3%            | 307,539             | 29%           |
| Uninsured - completed inventory            | 41,638              | 45,455              | (8%)          | 19,884              | 109%          |
| Construction loans                         | 546,967             | 504,520             | 8%            | 437,099             | 25%           |
| Commercial loans                           |                     |                     |               |                     |               |
| Multi family residential                   | 10,436              | 14,032              | (26%)         | 50,108              | (79%)         |
| Other commercial                           | 32,440              | 32,393              | —%            | 56,636              | (43%)         |
|  | <b>1,188,331</b>    | <b>1,089,401</b>    | <b>9%</b>     | <b>996,123</b>      | <b>19%</b>    |
| <b>Securitized portfolio</b>               |                     |                     |               |                     |               |
| Single family insured - Market MBS program | 369,811             | 449,935             | (18%)         | 684,507             | (46%)         |
| Single family insured - CMB program        | 381,719             | 334,361             | 14%           | 186,036             | 105%          |
|  | <b>751,530</b>      | <b>784,296</b>      | <b>(4%)</b>   | <b>870,543</b>      | <b>(14%)</b>  |
|  | <b>\$ 1,939,861</b> | <b>\$ 1,873,697</b> | <b>4%</b>     | <b>\$ 1,866,666</b> | <b>4%</b>     |

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 related to our investments in these portfolios. The increase in the insured single family corporate mortgages during Q1 2020 was primarily due to increased new originations and renewals compared to Q4 2019 and Q1 2019.

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

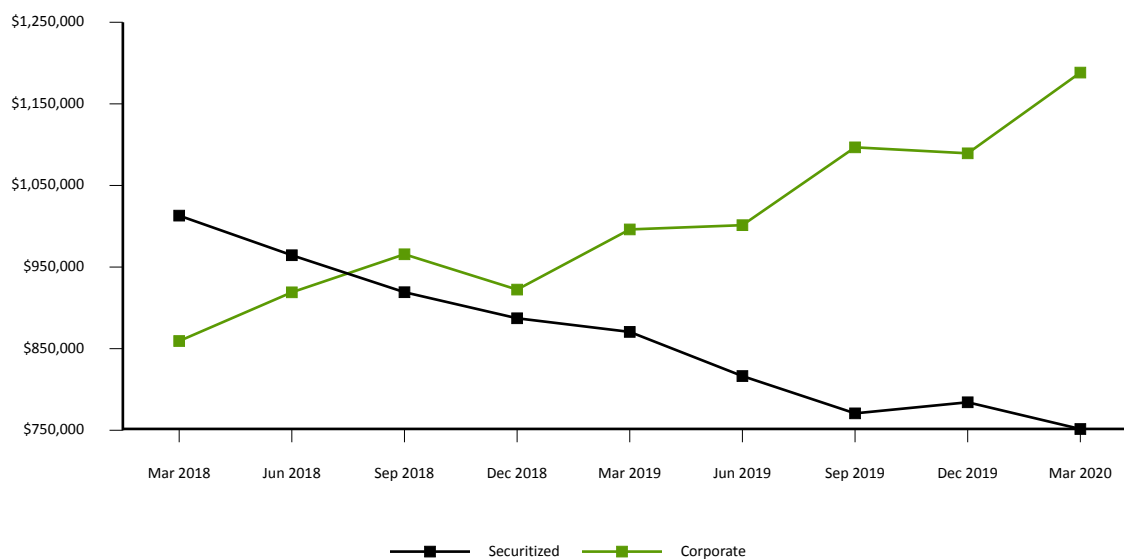
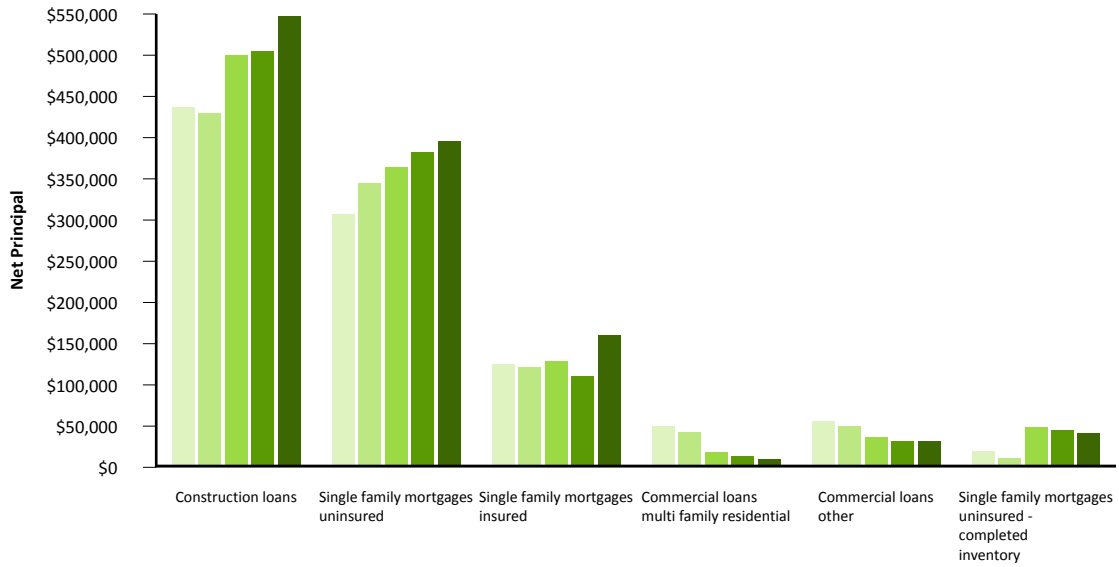


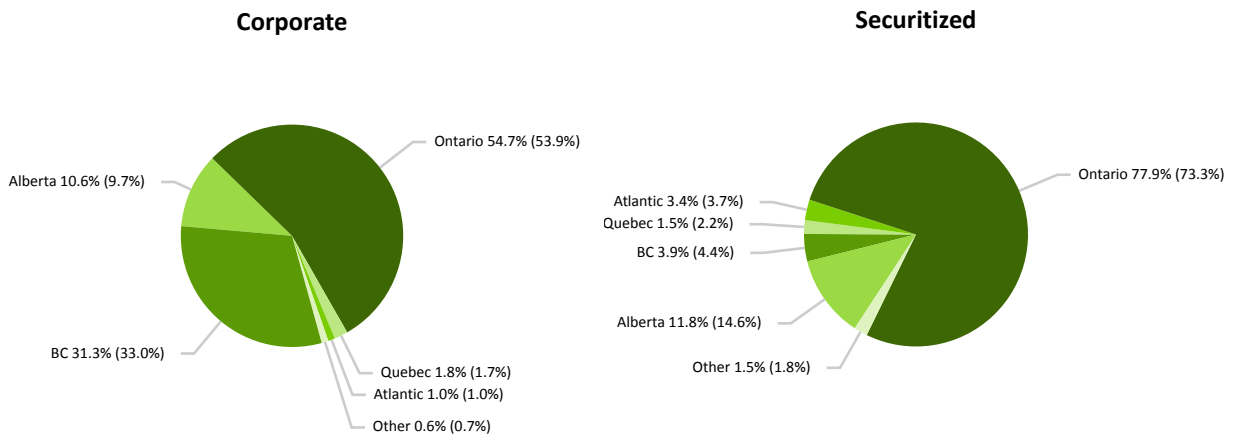
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



|              | Construction loans | Single family mortgages uninsured | Single family mortgages insured | Commercial loans multi family residential | Commercial loans other | Single family mortgages uninsured - completed inventory |
|--------------|--------------------|-----------------------------------|---------------------------------|---|------------------------|---|
| 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%)   |
| Sep 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%)   |
| Mar 31, 2020 | \$546,967 (46%)    | \$395,833 (33%)                   | \$161,017 (14%)                 | \$10,436 (1%)                             | \$32,440 (3%)          | \$41,638 (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 March 31, 2020 (December 31, 2019)



## Credit Quality

Table 11: Arrears and Impaired Mortgages

| (in thousands except %)                                      | March 31<br>2020 | December 31<br>2019 | Change<br>(%) | March 31<br>2019 | Change<br>(%) |
|--|------------------|---------------------|---------------|------------------|---------------|
| <b>As at</b>   |                  |                     |               |                  |               |
| <b>Impaired mortgages</b>                                    |                  |                     |               |                  |               |
| Corporate  |                  |                     |               |                  |               |
| Single family mortgages - insured                            | \$ 2,561         | \$ 1,783            | 44%           | \$ 1,096         | 134%          |
| Single family mortgages - uninsured                          | 2,109            | 1,739               | 21%           | 1,845            | 14%           |
|  | 4,670            | 3,522               | 33%           | 2,941            | 59%           |
| Securitized  | 698              | 761                 | (8%)          | 1,458            | (52%)         |
| Total impaired mortgages                                     | \$ 5,368         | \$ 4,283            | 25%           | \$ 4,399         | 22%           |
| Impaired mortgage ratio (corporate) <sup>1</sup>             | 0.39%            | 0.32%               | 0.07%         | 0.30%            | 0.09%         |
| Impaired mortgage ratio (total) <sup>1</sup>                 | 0.28%            | 0.23%               | 0.05%         | 0.24%            | 0.04%         |
| <b>Mortgage arrears (past due) <sup>2</sup></b>              |                  |                     |               |                  |               |
| Corporate  |                  |                     |               |                  |               |
| Single family mortgages - insured                            | \$ 4,876         | \$ 3,340            | 46%           | \$ 2,121         | 130%          |
| Single family mortgages - uninsured                          | 15,845           | 8,821               | 80%           | 9,130            | 74%           |
| Construction loans   | 10,568           | —                   | n/a           | —                | n/a           |
| Total corporate mortgage arrears <sup>1</sup>                | 31,289           | 12,161              | 157%          | 11,251           | 178%          |
| Total securitized mortgage arrears <sup>1</sup>              | 5,016            | 3,750               | 34%           | 7,431            | (32%)         |
| Total mortgage arrears <sup>1</sup>                          | \$ 36,305        | \$ 15,911           | 128%          | \$ 18,682        | 94%           |
| <b>Staging analysis - corporate portfolio</b>                |                  |                     |               |                  |               |
| Stage 2  |                  |                     |               |                  |               |
| Single family mortgages - insured                            | \$ 10,452        | \$ 11,815           | (12%)         | \$ 12,250        | (15%)         |
| Single family mortgages - uninsured                          | 70,649           | 64,790              | 9%            | 57,197           | 24%           |
| Single family mortgages - uninsured -<br>completed inventory | 2,442            | 2,411               | 1%            | —                | n/a           |
| Construction loans   | 43,017           | 44,504              | (3%)          | 38,673           | 11%           |
| Commercial loans - multi-family                              | 404              | 947                 | (57%)         | 1,515            | (73%)         |
| Commercial - other   | —                | —                   | n/a           | 3,114            | (100%)        |
|  | 126,964          | 124,467             | 2%            | 112,749          | 13%           |
| Stage 3  |                  |                     |               |                  |               |
| Single family mortgages - insured                            | 2,561            | 1,783               | 44%           | 1,096            | 134%          |
| Single family mortgages - uninsured                          | 2,109            | 1,739               | 21%           | 1,845            | 14%           |
|  | 4,670            | 3,522               | 33%           | 2,941            | 59%           |
| Total stage 2 and 3 corporate mortgages                      | \$ 131,634       | \$ 127,989          | 3%            | \$ 115,690       | 14%           |
| <b>Allowance for credit losses</b>                           |                  |                     |               |                  |               |
| Corporate  |                  |                     |               |                  |               |
| Allowance on performing mortgages                            | \$ 5,989         | \$ 4,119            | 45%           | \$ 4,660         | 29%           |
| Allowance on impaired mortgages                              | 59               | 194                 | (70%)         | 187              | (68%)         |
|  | 6,048            | 4,313               | 40%           | 4,847            | 25%           |
| Securitized - allowance on performing                        | 6                | 4                   | 50%           | 6                | —%            |
| Total allowance for credit losses                            | \$ 6,054         | \$ 4,317            | 40%           | \$ 4,853         | 25%           |

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

<sup>2</sup> 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.

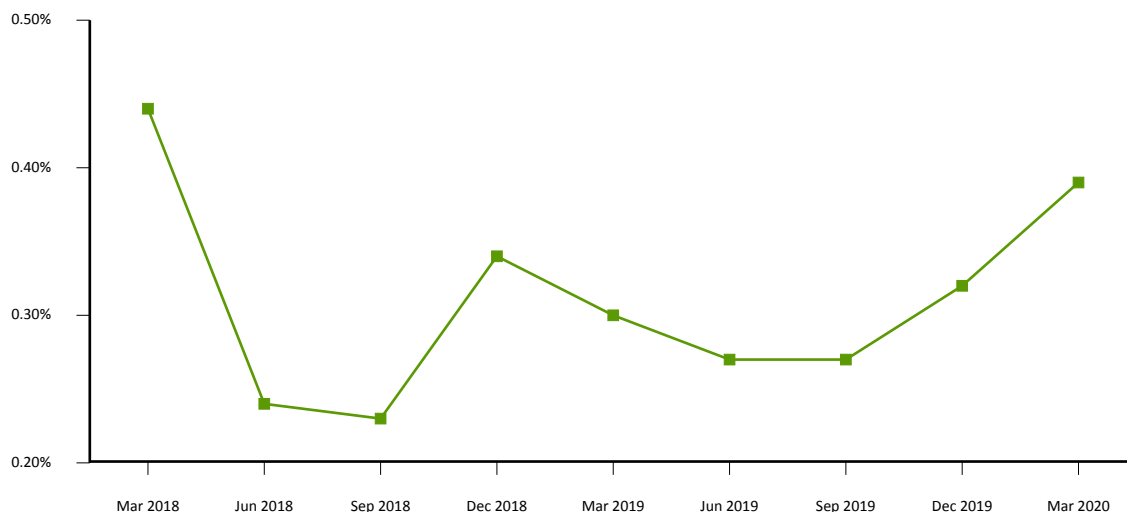
Consistent with a government-sponsored initiative and with industry practice, the Company has offered up to a six-month payment deferral program for eligible mortgages as a result of COVID-19. Consistent with regulatory guidance, all mortgages in the payment deferral program are reflected as performing, with unpaid interest capitalized to principal at the original contract rate. As such, these mortgages are not considered past due and do not migrate stages within the ECL methodology due to this deferral nor are they considered modifications. Additionally, mortgages included in the payment deferral program do not automatically trigger a SICR, all things being equal. If the payment deferral program becomes significant, the Company will need to apply significant judgment in determining the appropriate level of SICR. Once the deferral period has passed, mortgage payments will resume as per the agreed terms of the contract. At renewal, the mortgage will be re-amortized and payments will be based on the outstanding balance at that time.

As at March 31, 2020, total principal balance outstanding of corporate mortgages within this program totalled \$63,260. As at April 30, 2020, total principal balance outstanding of corporate mortgages within this program totalled \$118,956.

As at March 31, 2020, total principal balance outstanding of securitized mortgages within this program totalled \$65,037. As at April 30, 2020, total principal balance outstanding of securitized mortgages within this program totalled \$89,132.

We would expect to observe an increase in overall mortgage default and arrears rates in the event of a protracted economic downturn due to COVID-19 as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This could also result in an 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 not fully compensated for by government stimulus measures 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. However, given the systemic nature of the COVID-19 impacts traditional actions may not be available or effective.

**Figure 4: Impaired Corporate Mortgage Ratio**



The impaired corporate ratio, as presented above, reflects 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 interim 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 12: Single Family Mortgages by Province as at March 31, 2020**

| (in thousands except %) | Corporate         |               |                   |               |              |               | Securitized       |               | Total               |               |
|-------------------------|-------------------|---------------|-------------------|---------------|--------------|---------------|-------------------|---------------|---------------------|---------------|
|                         | Insured           | %             | Uninsured         | %             | HELOCs       | %             | Insured           | %             |                     |               |
| Ontario                 | \$ 110,496        | 68.6%         | \$ 305,570        | 69.9%         | \$ 58        | 69.0%         | \$ 584,836        | 77.9%         | \$ 1,000,960        | 74.2%         |
| Alberta                 | 28,439            | 17.7%         | 62,651            | 14.3%         | 26           | 31.0%         | 88,749            | 11.8%         | 179,865             | 13.3%         |
| British Columbia        | 7,324             | 4.6%          | 55,741            | 12.7%         | —            | —%            | 29,528            | 3.9%          | 92,593              | 6.9%          |
| Quebec                  | 6,188             | 3.8%          | 3,135             | 0.7%          | —            | —%            | 11,398            | 1.5%          | 20,721              | 1.5%          |
| Atlantic Provinces      | 6,943             | 4.3%          | 4,634             | 1.1%          | —            | —%            | 25,423            | 3.4%          | 37,000              | 2.7%          |
| Other                   | 1,543             | 1.0%          | 5,740             | 1.3%          | —            | —%            | 11,596            | 1.5%          | 18,879              | 1.4%          |
| <b>Total</b>            | <b>\$ 160,933</b> | <b>100.0%</b> | <b>\$ 437,471</b> | <b>100.0%</b> | <b>\$ 84</b> | <b>100.0%</b> | <b>\$ 751,530</b> | <b>100.0%</b> | <b>\$ 1,350,018</b> | <b>100.0%</b> |

**Table 13: Single Family Mortgages by Province as at December 31, 2019**

| (in thousands except %) | Corporate         |               |                   |               |              |               | Securitized       |               | Total               |               |
|-------------------------|-------------------|---------------|-------------------|---------------|--------------|---------------|-------------------|---------------|---------------------|---------------|
|                         | Insured           | %             | Uninsured         | %             | HELOCs       | %             | Insured           | %             |                     |               |
| 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%          |
| <b>Total</b>            | <b>\$ 110,120</b> | <b>100.0%</b> | <b>\$ 428,275</b> | <b>100.0%</b> | <b>\$ 61</b> | <b>100.0%</b> | <b>\$ 784,296</b> | <b>100.0%</b> | <b>\$ 1,322,752</b> | <b>100.0%</b> |

**Table 14: Single Family Mortgages by Amortization Period as at March 31, 2020**

| (in thousands except %) | Up to 20          | >20 to 25         | >25 to 30         | >30 to 35        | Total               |
|-------------------------|-------------------|-------------------|-------------------|------------------|---------------------|
|                         | Years             | Years             | Years             | Years            |                     |
| Corporate               | \$ 108,309        | \$ 192,663        | \$ 254,825        | \$ 42,691        | \$ 598,488          |
|                         | 18.1%             | 32.2%             | 42.6%             | 7.1%             | 100.0%              |
| Securitized             | \$ 156,935        | \$ 520,576        | \$ 71,692         | \$ 2,327         | \$ 751,530          |
|                         | 20.9%             | 69.3%             | 9.5%              | 0.3%             | 100.0%              |
| <b>Total</b>            | <b>\$ 265,244</b> | <b>\$ 713,239</b> | <b>\$ 326,517</b> | <b>\$ 45,018</b> | <b>\$ 1,350,018</b> |
|                         | <b>19.6%</b>      | <b>52.9%</b>      | <b>24.2%</b>      | <b>3.3%</b>      | <b>100.0%</b>       |

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

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

Table 16: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

| (in thousands except %) | Q1<br>2020                 |                            | Q1<br>2019     |                |
|-------------------------|----------------------------|----------------------------|----------------|----------------|
| For the Quarters Ended  | Average<br>LTV             | Average<br>LTV             | Average<br>LTV | Average<br>LTV |
| Ontario                 | \$ 48,363<br>69.8%         | \$ 53,716<br>71.0%         |                |                |
| Alberta                 | 18,905<br>60.2%            | 319<br>51.8%               |                |                |
| British Columbia        | 3,234<br>74.7%             | 24,476<br>58.0%            |                |                |
| Other                   | 110<br>61.8%               | —<br>—%                    |                |                |
|                         | <b>\$ 70,612<br/>67.4%</b> | <b>\$ 78,511<br/>66.8%</b> |                |                |

Table 17: Average Mortgage Loan to Value (LTV) Ratios at Origination

| As at                                      | March 31<br>2020 | December<br>2019 | March 31<br>2019 |
|--|------------------|------------------|------------------|
| <b>Corporate portfolio:</b>                |                  |                  |                  |
| Single family mortgages                    |                  |                  |                  |
| Insured                                    | 78.3%            | 78.8%            | 80.7%            |
| Uninsured <sup>1</sup>                     | 68.0%            | 68.1%            | 66.2%            |
| Uninsured - completed inventory            | 47.0%            | 63.9%            | 53.9%            |
| Construction loans                         |                  |                  |                  |
| Residential                                | 45.7%            | 46.2%            | 49.3%            |
| Non-residential                            | 64.7%            | 0.0%             | 50.1%            |
| Commercial loans                           |                  |                  |                  |
| Multi family residential                   | 73.2%            | 58.0%            | 62.7%            |
| Other commercial                           | 58.4%            | 58.4%            | 56.2%            |
|  | 58.1%            | 58.4%            | 59.5%            |
| <b>Securitized portfolio</b>               |                  |                  |                  |
| Single family insured - Market MBS Program | 82.0%            | 82.9%            | 84.2%            |
| Single family insured - CMB Program        | 83.9%            | 83.9%            | 83.0%            |
|  | 82.9%            | 83.3%            | 83.9%            |
|  | 67.7%            | 68.8%            | 70.9%            |

<sup>1</sup> MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.0% as at March 31, 2020 (December 31, 2019 - 67.4%). Based on an industry index that incorporates current real estate values, the ratio would be 61.5% as at March 31, 2020 (December 31, 2019 - 64.0%).

## Other Corporate Assets

### Cash and Cash Equivalents

As at March 31, 2020, our cash balance was \$64 million (December 31, 2019 - \$54 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. In times of uncertainty, we ensure that we take a prudent approach to liquidity management which may result in holding additional liquidity. 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 March 31, 2020, the portfolio balance was \$30 million (December 31, 2019 - \$46 million). The decrease relates to the \$16 million unrealized loss on our REIT portfolio during Q1 2020.

### Non-Marketable Securities

We invest in the KSHYF, in which we have a 7.2% equity interest (December 31, 2019 - 7.3%). At March 31, 2020, the carrying value of our investment was \$43 million (December 31, 2019 - \$43 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages.

We invest in Crown LP opportunity fund, in which we have a 14.1% equity interest (December 31, 2019 - 14.1% equity interest in both Crown LP opportunity fund and core fund). Effective January 1, 2020, the Company sold its Crown LP core fund units for \$33 million representing the fair value as at December 31, 2019. At March 31, 2020, the carrying value of our remaining investment in Crown LP opportunity fund was \$30,000 (December 31, 2019 - \$30,129). Crown LP invests primarily in commercial office buildings.

We invest in Class A securitization notes (the "Securitization Notes"), which are issued by a wholly-owned subsidiary of MCAP. As at March 31, 2020, the carrying value of the Securitization Notes was \$17 million (December 31, 2019 - \$18 million). 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 14.04% equity interest in MCAP (December 31, 2019 - 14.02%), which represents 4.0 million units held by MCAN as at March 31, 2020 (December 31, 2019 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (December 31, 2019 - 28.5 million).

The investment had a net book value of \$71 million as at March 31, 2020 (December 31, 2019 - \$70 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 \$46 million as at March 31, 2020 (December 31, 2019 - \$37 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. 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 Q1 2020, we received \$2.0 million of unitholder distributions from MCAP (Q1 2019 - \$1.7 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 18: Liabilities and Shareholders' Equity

| (in thousands except %)                   | March 31            | December 31         | Change      | March 31            | Change       |
|---|---------------------|---------------------|-------------|---------------------|--------------|
| As at                                     | 2020                | 2019                | (%)         | 2019                | (%)          |
| <b>Corporate Liabilities</b>              |                     |                     |             |                     |              |
| Term deposits                             | \$ 1,105,039        | \$ 1,034,299        | 7%          | \$ 946,038          | 17%          |
| Loans payable                             | 19,107              | 5,053               | 278%        | —                   | n/a          |
| Current taxes payable                     | 231                 | —                   | n/a         | 366                 | (37%)        |
| Deferred tax liabilities                  | —                   | 21                  | (100%)      | 3,528               | (100%)       |
| Other liabilities                         | 6,502               | 15,996              | (59%)       | 11,069              | (41%)        |
|   | <b>1,130,879</b>    | <b>1,055,369</b>    | <b>7%</b>   | <b>961,001</b>      | <b>18%</b>   |
| <b>Securitization Liabilities</b>         |                     |                     |             |                     |              |
| Financial liabilities from securitization | 765,937             | 793,660             | (3%)        | 888,939             | (14%)        |
|   | <b>765,937</b>      | <b>793,660</b>      | <b>(3%)</b> | <b>888,939</b>      | <b>(14%)</b> |
|   | <b>1,896,816</b>    | <b>1,849,029</b>    | <b>3%</b>   | <b>1,849,940</b>    | <b>3%</b>    |
| <b>Shareholders' Equity</b>               |                     |                     |             |                     |              |
| Share capital                             | 230,724             | 228,008             | 1%          | 225,291             | 2%           |
| Contributed surplus                       | 510                 | 510                 | —%          | 510                 | —%           |
| Retained earnings                         | 83,859              | 101,794             | (18%)       | 90,968              | (8%)         |
|   | <b>315,093</b>      | <b>330,312</b>      | <b>(5%)</b> | <b>316,769</b>      | <b>(1%)</b>  |
|   | <b>\$ 2,211,909</b> | <b>\$ 2,179,341</b> | <b>1%</b>   | <b>\$ 2,166,709</b> | <b>2%</b>    |

## 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 or financial hardship. 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.

## Share Capital

Share capital activity for Q1 2020 reflects new common shares issued through the DRIP. The DRIP participation rate for the Q1 2020 first quarter dividend was 17% (2019 fourth quarter - 17%; 2019 first quarter - 26%). For further information, refer to Note 15 to the interim consolidated financial statements.

## Retained Earnings

Retained earnings activity for Q1 2020 consists of net loss of \$9.7 million less dividends of \$8.2 million.

## SELECTED QUARTERLY FINANCIAL DATA

Table 19: Selected Quarterly Financial Data

| (in thousands except per share amounts, % and where indicated)        | Q1/20     | Q4/19     | Q3/19     | Q2/19     | Q1/19     | Q4/18     | Q3/18     | Q2/18     |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Income Statement Highlights</b>                                    |           |           |           |           |           |           |           |           |
| Mortgage interest - corporate assets                                  | \$15,397  | \$ 14,910 | \$ 14,609 | \$ 13,656 | \$ 13,204 | \$ 13,649 | \$ 13,094 | \$ 12,867 |
| Net investment income (loss) - corporate assets                       | \$(5,022) | \$ 14,839 | \$ 18,207 | \$ 13,124 | \$ 18,773 | \$ 7,872  | \$ 13,430 | \$ 15,063 |
| Mortgage interest - securitization assets                             | \$ 4,783  | \$ 4,950  | \$ 4,800  | \$ 5,241  | \$ 5,500  | \$ 5,657  | \$ 6,015  | \$ 6,375  |
| Net investment income - securitization assets                         | \$ 801    | \$ 1,015  | \$ 962    | \$ 965    | \$ 1,052  | \$ 1,082  | \$ 1,276  | \$ 1,317  |
| Net income (loss)   | \$(9,730) | \$ 10,550 | \$ 14,551 | \$ 8,888  | \$ 14,305 | \$ 3,547  | \$ 11,006 | \$ 11,125 |
| Basic and diluted earnings (loss) per share                           | \$ (0.40) | \$ 0.44   | \$ 0.60   | \$ 0.37   | \$ 0.60   | \$ 0.15   | \$ 0.47   | \$ 0.47   |
| Dividends per share   | \$ 0.34   | \$ 0.32   | \$ 0.32   | \$ 0.32   | \$ 0.32   | \$ 0.32   | \$ 0.37   | \$ 0.37   |
| Return on average shareholders' equity <sup>1</sup>                   | (11.84)%  | 12.84%    | 18.05%    | 11.27%    | 18.36%    | 4.66%     | 14.29%    | 14.54%    |
| Taxable income per share <sup>1,2</sup>                               | \$ 0.71   | \$ 0.46   | \$ 0.28   | \$ 0.28   | \$ 0.34   | \$ 0.49   | \$ 0.13   | \$ 0.48   |
| <b>Spreads</b>  |           |           |           |           |           |           |           |           |
| Spread of corporate mortgages over term deposit interest <sup>1</sup> | 2.62 %    | 2.63%     | 2.48%     | 2.66%     | 2.73%     | 2.93%     | 2.92%     | 3.17%     |
| Spread of securitized mortgages over liabilities <sup>1</sup>         | 0.63 %    | 0.72%     | 0.72%     | 0.70%     | 0.69%     | 0.70%     | 0.74%     | 0.76%     |
| <b>Average term to maturity (in months)</b>                           |           |           |           |           |           |           |           |           |
| Mortgages - corporate   | 12.2      | 10.7      | 11.3      | 11.6      | 11.9      | 11.5      | 12.8      | 13.2      |
| Term deposits   | 17.0      | 18.4      | 19.1      | 20.1      | 17.2      | 18.7      | 19.2      | 20.5      |
| <b>Balance Sheet Highlights (\$ million)</b>                          |           |           |           |           |           |           |           |           |
| Total assets  | \$ 2,212  | \$ 2,179  | \$ 2,200  | \$ 2,130  | \$ 2,167  | \$ 2,141  | \$ 2,189  | \$ 2,206  |
| Mortgages - corporate   | \$ 1,188  | \$ 1,089  | \$ 1,097  | \$ 1,001  | \$ 996    | \$ 922    | \$ 966    | \$ 919    |
| Mortgages - securitized   | \$ 752    | \$ 784    | \$ 771    | \$ 816    | \$ 871    | \$ 887    | \$ 919    | \$ 965    |
| Total liabilities   | \$ 1,897  | \$ 1,849  | \$ 1,872  | \$ 1,811  | \$ 1,850  | \$ 1,834  | \$ 1,887  | \$ 1,900  |
| Shareholders' equity  | \$ 315    | \$ 330    | \$ 328    | \$ 319    | \$ 317    | \$ 307    | \$ 302    | \$ 306    |
| <b>Capital Ratios</b>   |           |           |           |           |           |           |           |           |
| Income tax assets to capital ratio <sup>1</sup>                       | 5.03      | 4.93      | 5.13      | 4.71      | 4.69      | 4.64      | 4.90      | 4.60      |
| CET 1 & Tier 1 Capital ratios <sup>1,5</sup>                          | 21.80 %   | 22.52%    | 21.77%    | 22.40%    | 22.09%    | 21.66%    | 20.58%    | 21.47%    |
| Total Capital ratio <sup>1,5</sup>                                    | 22.17 %   | 22.52%    | 21.77%    | 22.40%    | 22.09%    | 21.66%    | 20.58%    | 21.47%    |
| Leverage ratio <sup>3</sup>   | 11.70 %   | 12.58%    | 12.28%    | 12.16%    | 12.05%    | 11.79%    | 11.35%    | 11.55%    |
| <b>Credit Quality</b>   |           |           |           |           |           |           |           |           |
| Impaired mortgage ratio (corporate) <sup>1,4</sup>                    | 0.39 %    | 0.32%     | 0.27%     | 0.27%     | 0.30%     | 0.34%     | 0.23%     | 0.24%     |
| Impaired mortgage ratio (total) <sup>1,4</sup>                        | 0.28 %    | 0.23%     | 0.18%     | 0.19%     | 0.24%     | 0.27%     | 0.24%     | 0.20%     |
| <b>Mortgage Arrears</b>   |           |           |           |           |           |           |           |           |
| Corporate <sup>1</sup>  | \$31,289  | \$ 12,161 | \$ 13,014 | \$ 11,334 | \$ 11,251 | \$ 9,435  | \$ 8,398  | \$ 6,739  |
| Securitized <sup>1</sup>  | 5,016     | 3,750     | 3,367     | 4,122     | 7,431     | 6,527     | 8,472     | 13,979    |
| Total <sup>1</sup>  | \$36,305  | \$ 15,911 | \$ 16,381 | \$ 15,456 | \$ 18,682 | \$ 15,962 | \$ 16,870 | \$ 20,718 |
| <b>Common Share Information (end of period)</b>                       |           |           |           |           |           |           |           |           |
| Number of common shares outstanding                                   | 24,420    | 24,215    | 24,215    | 24,129    | 24,040    | 23,798    | 23,746    | 23,652    |
| Book value of common share <sup>1</sup>                               | \$ 12.90  | \$ 13.64  | \$ 13.53  | \$ 13.23  | \$ 13.18  | \$ 12.89  | \$ 12.74  | \$ 12.94  |
| Common share price - close  | \$ 12.18  | \$ 17.10  | \$ 15.95  | \$ 15.95  | \$ 15.93  | \$ 13.32  | \$ 17.50  | \$ 17.90  |
| Market capitalization (\$ million) <sup>1</sup>                       | \$ 297    | \$ 414    | \$ 386    | \$ 385    | \$ 383    | \$ 317    | \$ 416    | \$ 423    |

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

<sup>2</sup> For further information refer to the "Taxable Income" section of this MD&A.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on our mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in Stage 1 and Stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

Corporate net investment income (loss) 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 (loss) 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 (loss).

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<sup>1</sup>. Higher gross coupon on our insured single family and construction portfolio during Q1 2019 contributed to a higher corporate mortgage portfolio average interest rate<sup>1</sup> relative to Q1 2020.

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. We participate in this market opportunistically.

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. The additional Tier 2 capital introduced in Q1 2020 was offset by the net loss incurred.

Total arrears and impaired ratios have varied on a quarterly basis given the nature of the 1-30 day arrears.

<sup>1</sup> 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 20: Income Tax Capital <sup>1</sup>

(in thousands except ratios)

| As at  | March 31<br>2020 | December 31<br>2019 | March 31<br>2019 |
|--|------------------|---------------------|------------------|
| <b>Income tax assets <sup>1</sup></b>                      |                  |                     |                  |
| Consolidated assets  | \$ 2,211,909     | \$ 2,179,341        | \$ 2,166,709     |
| Adjustment for assets in subsidiaries                      | 14,029           | 11,250              | 7,886            |
| Non-consolidated assets in MIC entity                      | 2,225,938        | 2,190,591           | 2,174,595        |
| Add: corporate mortgage allowances                         | 5,994            | 4,135               | 4,678            |
| Less: securitization assets <sup>2</sup>                   | (776,679)        | (804,569)           | (898,472)        |
| Adjustments to equity investments in MCAP and subsidiaries | (52,246)         | (60,146)            | (52,393)         |
| Other adjustments  | 8,223            | (8,461)             | (12,906)         |
|  | \$ 1,411,230     | \$ 1,321,550        | \$ 1,215,502     |
| <b>Income tax liabilities <sup>1</sup></b>                 |                  |                     |                  |
| Consolidated liabilities                                   | \$ 1,896,816     | \$ 1,849,029        | \$ 1,849,940     |
| Adjustment for liabilities in subsidiaries                 | (1,516)          | (3,055)             | (6,009)          |
| Non-consolidated liabilities in MIC entity                 | 1,895,300        | 1,845,974           | 1,843,931        |
| Less: securitization liabilities <sup>2</sup>              | (764,684)        | (792,425)           | (887,645)        |
|  | \$ 1,130,616     | \$ 1,053,549        | \$ 956,286       |
| <b>Income tax capital <sup>1</sup></b>                     | \$ 280,614       | \$ 268,001          | \$ 259,216       |
| <b>Income tax capital ratios <sup>1</sup></b>              |                  |                     |                  |
| Income tax assets to capital ratio                         | 5.03             | 4.93                | 4.69             |
| Income tax liabilities to capital ratio                    | 4.03             | 3.93                | 3.69             |

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

<sup>2</sup> 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. We do not hold any additional Tier 1 capital instruments; therefore, our CET 1 capital is equal to our Tier 1 capital. Our Tier 2 capital consists of Stage 1 and Stage 2 mortgage allowances calculated under IFRS, a portion of which is allowed to be included in CET 1 under new OSFI transitional arrangements issued March 27, 2020. Total Capital equals CET 1 or Tier 1 capital plus Tier 2 capital. 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.

As at March 31, 2020, 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 21: Regulatory Capital

(in thousands except %)

| As at   | March 31<br>2020    | December 31<br>2019 | March 31<br>2019    |
|---|---------------------|---------------------|---------------------|
| <b>Regulatory Ratios (OSFI)</b>                               |                     |                     |                     |
| Share capital   | \$ 230,724          | \$ 228,008          | \$ 225,291          |
| Contributed surplus   | 510                 | 510                 | 510                 |
| Retained earnings   | 83,859              | 101,794             | 90,968              |
| Deduction from equity investment in MCAP <sup>2</sup>         | (39,658)            | (36,813)            | (30,813)            |
| Eligible Stage 1 and Stage 2 mortgage allowances <sup>4</sup> | 1,311               | —                   | —                   |
| <b>Common Equity Tier 1 and Tier 1 Capital<sup>4</sup></b>    | <b>276,746</b>      | <b>293,499</b>      | <b>285,956</b>      |
| Tier 2 Capital <sup>4</sup>                                   | 4,684               | —                   | —                   |
| <b>Total Capital<sup>4</sup></b>                              | <b>\$ 281,430</b>   | <b>\$ 293,499</b>   | <b>\$ 285,956</b>   |
| <b>Total Exposure/Regulatory Assets<sup>1</sup></b>           |                     |                     |                     |
| Consolidated assets   | \$ 2,211,909        | \$ 2,179,341        | \$ 2,166,709        |
| Less: deduction for equity investment in MCAP <sup>2</sup>    | (39,658)            | (36,813)            | (30,813)            |
| Other adjustments <sup>3</sup>                                | 1,578               | 3,804               | 2,101               |
| <b>Total On-Balance Sheet Exposures</b>                       | <b>2,173,829</b>    | <b>2,146,332</b>    | <b>2,137,997</b>    |
| Mortgage and investment funding commitments (50%)             | 175,102             | 170,148             | 216,911             |
| Letters of credit (50%)                                       | 15,916              | 16,982              | 17,975              |
| <b>Total Off-Balance Sheet Items</b>                          | <b>191,018</b>      | <b>187,130</b>      | <b>234,886</b>      |
| <b>Total Exposure/Regulatory Assets</b>                       | <b>\$ 2,364,847</b> | <b>\$ 2,333,462</b> | <b>\$ 2,372,883</b> |
| Leverage ratio <sup>1</sup>                                   | 11.70%              | 12.58%              | 12.05%              |
| Risk-weighted assets <sup>1</sup>                             | \$ 1,269,686        | \$ 1,303,502        | \$ 1,294,275        |
| <b>Regulatory Capital Ratios<sup>1</sup></b>                  |                     |                     |                     |
| Common Equity Tier 1 capital to risk-weighted assets ratio    | 21.80%              | 22.52%              | 22.09%              |
| Tier 1 capital to risk-weighted assets ratio                  | 21.80%              | 22.52%              | 22.09%              |
| Total capital to risk-weighted assets ratio                   | 22.17%              | 22.52%              | 22.09%              |

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

<sup>2</sup> The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.

<sup>3</sup> Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

<sup>4</sup> Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on our mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in Stage 1 and Stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

Table 22: Regulatory Risk-Weighted Assets

| (in thousands except %)                  | March 31, 2020    |              |                      | December 31, 2019 |              |                      |
|--|-------------------|--------------|----------------------|-------------------|--------------|----------------------|
|  | Per Balance Sheet | Average Rate | Risk-Weighted Assets | Per Balance Sheet | Average Rate | Risk-Weighted Assets |
| <b>On-Balance Sheet Assets</b>           |                   |              |                      |                   |              |                      |
| Cash and cash equivalents                | \$ 63,960         | 20%          | \$ 13,108            | \$ 54,452         | 21%          | \$ 11,651            |
| Cash held in trust                       | 29,736            | 20%          | 5,947                | 28,575            | 20%          | 5,715                |
| Marketable securities                    | 30,483            | 100%         | 30,483               | 46,170            | 100%         | 46,170               |
| Mortgages - corporate                    | 1,188,331         | 65%          | 777,323              | 1,089,401         | 67%          | 734,680              |
| Mortgages - securitized                  | 751,530           | 4%           | 32,134               | 784,296           | 4%           | 31,457               |
| Non-marketable securities                | 60,068            | 180%         | 108,179              | 93,689            | 175%         | 163,601              |
| Equity investment in MCAP Commercial LP  | 71,298            | 44%          | 31,640               | 69,844            | 47%          | 33,031               |
| Deferred tax asset                       | 442               | 100%         | 443                  | 132               | 100%         | 132                  |
| Other assets                             | 16,061            | 100%         | 16,060               | 12,782            | 100%         | 12,782               |
|  |                   |              | <u>1,015,317</u>     |                   |              | <u>1,039,219</u>     |
| <b>Off-Balance Sheet Items</b>           |                   |              |                      |                   |              |                      |
| Letters of credit                        | 31,833            | 50%          | 15,917               | 33,965            | 50%          | 16,983               |
| Commitments                              | 350,205           | 37%          | 131,002              | 340,297           | 41%          | 139,437              |
|  |                   |              | <u>146,919</u>       |                   |              | <u>156,420</u>       |
| Charge for operational risk <sup>1</sup> |                   |              | <u>107,450</u>       |                   |              | <u>107,863</u>       |
| <b>Risk-Weighted Assets</b>              |                   |              | <b>\$ 1,269,686</b>  |                   |              | <b>\$ 1,303,502</b>  |

<sup>1</sup> 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.

## 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.

### 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 interim consolidated financial statements.

The Company’s operations could also be adversely affected by the impact of global health pandemics such as the recent global outbreak of COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company. Significant uncertainties exist with respect to the severity and duration of the pandemic, and regulations and restrictions and the effectiveness of stimulus and other policy measures imposed by the government in muting the impact of the pandemic.

As a response to COVID-19, the Company enhanced the oversight of its portfolio and operations with more frequent monitoring and management activities to proactively identify and address emerging risks. The COVID-19 Response Committee was established to oversee the changing dynamics of the rapidly evolving pandemic and its effects on operations and the Company. Additionally, we increased the frequency of reporting to and interaction with the Board to facilitate their role in providing oversight as information and developments are fluid.

To date, MCAN has prioritized protecting our capital and liquidity, as well as ensuring core business activities are uninterrupted. For a complete discussion of risks to which the Company is exposed, refer to the “Risk Management” section of the 2019 Annual MD&A.

### 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, or more frequently as required, ALCO reviews the Company’s liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee (“ERM&CC”). As at March 31, 2020 and 2019, 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 March 31, 2020 and 2019, 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. As at March 31, 2020, the facility limit was \$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.

As a response to COVID-19, the Company has enhanced monitoring and reporting of our liquidity risk profile, our respective funding markets such as the term deposit and securitization market and our liquidity risk position. A prolonged duration of the pandemic may increase the risk of funding availability.

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 March 31, 2020 and 2019, 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 23: Liquidity Analysis

| (in thousands)                         | Within<br>3 months | 3 Months<br>to 1 Year | 1 to 3<br>Years     | 3 to 5<br>Years    | Over 5<br>Years  | March 31<br>2020  | December 31<br>2019 |
|--|--------------------|-----------------------|---------------------|--------------------|------------------|-------------------|---------------------|
| <b>Sources of liquidity</b>            |                    |                       |                     |                    |                  |                   |                     |
| Cash and cash equivalents              | \$ 63,960          | \$ —                  | \$ —                | \$ —               | \$ —             | \$ 63,960         | \$ 54,452           |
| Marketable securities                  | 30,452             | —                     | 31                  | —                  | —                | 30,483            | 46,170              |
| Mortgages - corporate                  | 325,695            | 491,639               | 267,601             | 78,906             | 24,490           | 1,188,331         | 1,089,401           |
| Non-marketable securities              | —                  | —                     | 16,859              | —                  | 43,209           | 60,068            | 93,689              |
| Other loans                            | 977                | 69                    | 0                   | —                  | —                | 1,046             | 1,099               |
|  | 421,084            | 491,708               | 284,491             | 78,906             | 67,699           | 1,343,888         | 1,284,811           |
| <b>Uses of liquidity</b>               |                    |                       |                     |                    |                  |                   |                     |
| Term deposits                          | 182,175            | 315,313               | 483,709             | 123,842            | —                | 1,105,039         | 1,034,299           |
| Loans payable                          | 19,107             | —                     | —                   | —                  | —                | 19,107            | 5,053               |
| Other liabilities                      | 220                | 536                   | 1,530               | 1,714              | 2,502            | 6,502             | 15,996              |
|  | 201,502            | 315,849               | 485,239             | 125,556            | 2,502            | 1,130,648         | 1,055,348           |
| <b>Net liquidity surplus (deficit)</b> | <b>\$ 219,582</b>  | <b>\$ 175,859</b>     | <b>\$ (200,748)</b> | <b>\$ (46,650)</b> | <b>\$ 65,197</b> | <b>\$ 213,240</b> | <b>\$ 229,463</b>   |
| <b>Off-Balance Sheet</b>               |                    |                       |                     |                    |                  |                   |                     |
| Unfunded mortgage commitments          | \$ 137,706         | \$ 88,597             | \$ 100,005          | \$ —               | \$ —             | \$ 326,308        | \$ 316,276          |
| Commitment - KSHYF                     | —                  | —                     | 1,703               | —                  | 22,194           | 23,897            | 24,021              |
|  | \$ 137,706         | \$ 88,597             | \$ 101,708          | \$ —               | \$ 22,194        | \$ 350,205        | \$ 340,297          |

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 Risk Appetite Framework (“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 concern. 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 March 31, 2020 and 2019, 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 5 to the interim consolidated financial statements.

The 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.

As a response to COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears and mortgage deferral reporting and pipeline monitoring. We expect that employment levels may be impacted due to the national response to the pandemic, which may adversely impact the ability of borrowers to make timely payments on mortgages. We may adjust our underwriting criteria and lending strategies for our products accordingly. The Company is participating in mortgage deferral programs to eligible borrowers. Non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments.

### 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 March 31, 2020 would have an estimated positive effect of \$4.3 million (December 31, 2019 - \$3.8 million) to net income (loss) over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at March 31, 2020 would have an estimated adverse effect of \$1.9 million (December 31, 2019 - \$3.4 million) to net income (loss) 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, given our balance sheet composition.

The following tables present the assets and liabilities of the Company by interest rate sensitivity as at March 31, 2020 and December 31, 2019 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 24: Interest Rate Sensitivity as at March 31, 2020

| As at March 31, 2020    |                   |                    |                    |                    |                   |                  |                        |              |
|-------------------------|-------------------|--------------------|--------------------|--------------------|-------------------|------------------|------------------------|--------------|
| (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        |
| <b>Assets</b>           |                   |                    |                    |                    |                   |                  |                        |              |
| Corporate               | \$ 400,370        | \$ 162,660         | \$ 350,520         | \$ 254,705         | \$ 77,566         | \$ 67,585        | \$ 111,639             | \$ 1,425,045 |
| Securitization          | 29,736            | 46,287             | 106,250            | 180,429            | 418,564           | —                | 5,598                  | 786,864      |
|                         | 430,106           | 208,947            | 456,770            | 435,134            | 496,130           | 67,585           | 117,237                | 2,211,909    |
| <b>Liabilities</b>      |                   |                    |                    |                    |                   |                  |                        |              |
| Corporate               | 19,107            | 182,175            | 315,313            | 483,709            | 123,842           | —                | 6,733                  | 1,130,879    |
| Securitization          | —                 | 51,494             | 112,188            | 183,199            | 419,056           | —                | —                      | 765,937      |
|                         | 19,107            | 233,669            | 427,501            | 666,908            | 542,898           | —                | 6,733                  | 1,896,816    |
| Shareholders' Equity    | —                 | —                  | —                  | —                  | —                 | —                | 315,093                | 315,093      |
| <b>GAP</b>              | <b>\$ 410,999</b> | <b>\$ (24,722)</b> | <b>\$ 29,269</b>   | <b>\$(231,774)</b> | <b>\$(46,768)</b> | <b>\$ 67,585</b> | <b>\$ (204,589)</b>    | <b>\$ —</b>  |
| <b>YIELD SPREAD</b>     | <b>1.66%</b>      | <b>2.04%</b>       | <b>1.98%</b>       | <b>1.68%</b>       | <b>1.06%</b>      | <b>7.58%</b>     |                        |              |

Table 25: 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        |
| <b>Assets</b>           |                   |                  |                    |                    |                   |                  |                        |              |
| 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    |
| <b>Liabilities</b>      |                   |                  |                    |                    |                   |                  |                        |              |
| 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      |
| <b>GAP</b>              | <b>\$ 539,381</b> | <b>\$ 30,267</b> | <b>\$(109,891)</b> | <b>\$(256,586)</b> | <b>\$(71,111)</b> | <b>\$ 53,348</b> | <b>\$ (185,408)</b>    | <b>\$ —</b>  |
| <b>YIELD SPREAD</b>     | <b>1.31%</b>      | <b>1.85%</b>     | <b>1.69%</b>       | <b>1.50%</b>       | <b>1.04%</b>      | <b>12.58%</b>    |                        |              |

#### 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, 2022.

#### 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.

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices. This is expected to create additional volatility in the market value of the Company's marketable securities portfolio.

### **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. Management and the Board review operational risk assessments on a quarterly basis.

As a response to COVID-19, the Company took actions to protect the health and well-being of our employees by implementing a company-wide remote working policy. To ensure operational resiliency, the Company has enhanced and implemented its Business Continuity Plan, bolstered its employee communications, provided effective tools to work from home, and has increased training on cybersecurity risks and other areas where appropriate.

### **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 outbreak of COVID-19 may also have an adverse impact on the operations of third parties and their abilities to meet their obligations with the Company.

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 or data 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-attacks 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.

In order to protect our employees' well-being during the COVID-19 pandemic, our business operations are being conducted remotely, which may impact the physical security of Company devices, employee access to Company networks and systems and an increased risk of unauthorized access to, or disclosure of, personal information.

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 a Cybersecurity Incident Response Plan and have designated officers responsible for the oversight of 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. We expect that employment levels may be adversely impacted due to the national response to the pandemic. This may adversely impact the ability of borrowers to 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 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**

### *Economic and Geopolitical Conditions*

The Company's operations could be adversely affected by the impact of global health pandemics, such as the recent global outbreak of COVID-19. The COVID-19 pandemic is a global event that is testing the financial resiliency of individuals and corporations. The financial services sector has been required to adapt to changes in market conditions and address constraints arising from the pandemic rapidly, like all other service industries.

Other 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.

### *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 2019 annual consolidated financial statements. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

### *Securitization Spread & Market Disruption*

The primary purpose of our participation in the MBS and CMB programs is to securitize our insured single family originations to earn a net securitized mortgage spread. If there is a disruption to these programs, the spread earned on these securitizations may be compressed and it may become unprofitable to utilize these programs as a funding source. The Government of Canada is expanding its revised Insured Mortgage Purchase Program (IMPP) to further bolster the financial system and the Canadian economy. The government announced it will purchase up to \$150 billion of insured mortgage pools through CMHC, which would assist with stabilizing these programs.

### *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. The Company's capital adequacy risk is monitored and managed by the CFO and overseen by the Board.

## **DESCRIPTION OF CAPITAL STRUCTURE**

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2020, there were 24,420,277 common shares outstanding (December 31, 2019 - 24,215,383). As at May 12, 2020, there were 24,420,277 common shares outstanding.

During Q1 2020, we issued no new common shares through the Executive Share Purchase Plan (Q1 2019 - 0).

During Q1 2020, we issued 204,894 new common shares under the DRIP (Q1 2019 - 241,920), 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 15 to the interim 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 26: Contractual Obligations**

| (in thousands)               | Less than 1<br>Year | 1 to 3<br>Years   | 3 to 5<br>Years | Over 5<br>Years  | March 31<br>2020  | December 31<br>2019 |
|------------------------------|---------------------|-------------------|-----------------|------------------|-------------------|---------------------|
| Mortgage funding commitments | \$ 226,303          | \$ 100,005        | \$ —            | \$ —             | \$ 326,308        | \$ 316,276          |
| Commitment - KSHYF           | —                   | 1,703             | —               | 22,194           | 23,897            | 24,021              |
|                              | <b>\$ 226,303</b>   | <b>\$ 101,708</b> | <b>\$ —</b>     | <b>\$ 22,194</b> | <b>\$ 350,205</b> | <b>\$ 340,297</b>   |

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 13 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2019.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer 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 21 to the interim 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.

## DIVIDENDS

On May 12, 2020, the Board declared a quarterly dividend of \$0.34 per share to be paid on June 30, 2020 to shareholders of record as at June 15, 2020.

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. 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.

## TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2020 and March 31, 2019 and related party balances as at March 31, 2020 and December 31, 2019 are discussed in Notes 9 and 20 to the interim consolidated financial statements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our interim consolidated balance sheet consists of financial instruments, and the majority of net income (loss) 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 March 31, 2020, we had 99 team members (December 31, 2019 - 98).

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company’s interim 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 affected assets or liabilities in future periods.

For a detailed discussion of critical accounting estimates and judgments, refer to the “Critical Accounting Estimates and Judgments” section of the 2019 Annual MD&A.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2020, the President and CEO and Chief Financial Officer (“CFO”) of MCAN, with the assistance of the Company’s Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

As a result of changes to our operations due to the impact of COVID-19, during the interim period ended March 31, 2020, we have automated certain of our internal controls over financial reporting. There were no changes in our ICFR during the interim period ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our control framework.

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

### **Notice required under National Instrument 51-102, “Continuous Disclosure Obligations,” Part 4.3 (3) (a)**

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

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

## SUBSEQUENT EVENTS

On April 13, 2020, the Company announced the departure of Dipti Patel as Chief Financial Officer effective May 15, 2020.



## NON-IFRS MEASURES

We prepare our interim 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 (loss attributable) to shareholders as a percentage of the capital deployed to earn the income (loss). 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, Tier 2 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 21 of this MD&A and Note 22 to the interim 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 on a tax basis, increased by the amount of capital contributions into the partnership and reduced by distributions received from the partnership.