MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

JUNE 30, 2020

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 and the six months ended June 30, 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 and our website at 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 August 12, 2020.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- the current business environment and outlook;
- the impact of global health pandemics on the Canadian economy and globally, including the global outbreak of COVID-19;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of new regulations and changes to existing regulations;
- the stability of home prices;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- international trade and geopolitical uncertainties and their impact on the Canadian economy;
- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources;
- the timing of the effect of interest rate changes on our cash flows; and
- the declaration and payment of dividends.

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

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

- our ability to successfully implement and realize on our business goals and strategy;
- government regulation of our business and the cost to us of such regulation, including the anticipated impact of government actions related to COVID-19;
- the economic and social impact, and management and duration, of COVID-19;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- systems failure or cyber and security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected spread between interest earned on mortgage portfolios and interest paid on deposits;
- the relative uncertainty and volatility of real estate markets;
- acceptance of our products in the marketplace;
- the stage of the real estate cycle and the maturity phase of the mortgage market;
- impact on housing demand from changing population demographics and immigration patterns;
- our ability to forecast future changes to borrower credit and credit scores, loan to value ratios and other forward-looking factors used in assessing expected credit losses and rates of default;
- availability of key personnel;
- our operating cost structure;
- the current tax regime; and
- operations within our equity investments.

The COVID-19 pandemic has cast additional uncertainty on the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. Given the rapid pace of change with respect to the impact of the COVID-19 pandemic, it is premature to make further assumptions about these matters. The duration, extent and severity of the impact the COVID-19 pandemic, including measures to prevent its spread, will have on our business is highly uncertain and difficult to predict at this time.

The Company expects, however, that the disruption in financial markets due to COVID-19 will continue to impact its business. The extent and adversity of such an impact will depend on the duration of the conditions related to the COVID-19 pandemic and related government actions adopted in response, including restrictions imposed to limit the spread of COVID-19 and policies adopted to mitigate the economic impact of COVID-19.

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, the risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2019, 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 and %) For the Periods Ended	Q2 2020	Q1 2020	Change (%)	Q2 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Income Statement Highlights								
Mortgage interest - corporate assets	$ 15,409	$ 15,397	—%	$ 13,656	13%	$ 30,806	$ 26,860	15%
Net investment income (loss) - corporate assets	$ 12,649	$ (5,022)	352%	$ 13,124	(4%)	$ 7,627	$ 31,897	(76%)
Mortgage interest - securitization assets	$ 4,786	$ 4,783	—%	$ 5,241	(9%)	$ 9,569	$ 10,741	(11%)
Net investment income - securitization assets	$ 389	$ 801	(51%)	$ 965	(60%)	$ 1,190	$ 2,017	(41%)
Net income (loss)	$ 7,796	$ (9,730)	180%	$ 8,888	(12%)	$ (1,934)	$ 23,193	(108%)
Basic and diluted earnings (loss) per share	$ 0.32	$ (0.40)	180%	$ 0.37	(14%)	$ (0.08)	$ 0.97	(108%)
Dividends per share	$ 0.34	$ 0.34	—%	$ 0.32	6%	$ 0.68	$ 0.64	6%
Next quarter's dividend per share	$ 0.34							
Return on average shareholders' equity [1]	9.96%	(11.84)%	21.80%	11.27%	(1.31%)	(1.21)%	14.79%	(16.00%)
Taxable income per share [1,2]	$ 0.21	$ 0.71	(70%)	$ 0.28	(25%)	$ 0.92	$ 0.62	48%
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.48%	2.62 %	(0.14%)	2.66%	(0.18%)	2.52 %	2.70%	(0.18%)
Spread of securitized mortgages over liabilities [1]	0.44%	0.63 %	(0.19%)	0.70%	(0.26%)	0.53 %	0.70%	(0.17%)
Average term to maturity (in months)								
Mortgages - corporate	12.3	12.2	1%	11.6	6%			
Term deposits	18.7	17.0	10%	20.1	(7%)			
As at	**Jun 30 2020**	**Mar 31 2020**	**Change (%)**	**Dec 31 2019**	**Change (%)**			
Balance Sheet Highlights								
Total assets	$ 2,248,343	$2,211,909	2%	$ 2,179,341	3%			
Mortgages - corporate	1,119,313	1,188,331	(6%)	1,089,401	3%			
Mortgages - securitized	812,048	751,530	8%	784,296	4%			
Shareholders' equity	317,072	315,093	1%	330,312	(4%)			
Capital Ratios [1]								
Income tax assets to capital ratio	4.95	5.03	(2%)	4.93	—%			
CET 1 & Tier 1 capital ratio [4]	23.01%	21.80 %	1.21%	22.52%	0.49%			
Total capital ratio [4]	23.40%	22.17 %	1.23%	22.52%	0.88%			
Leverage ratio [3]	11.46%	11.70 %	(0.24%)	12.58%	(1.12%)			
Credit Quality								
Impaired mortgage ratio (corporate) [1]	1.26%	0.39 %	0.87%	0.32%	0.94%			
Impaired mortgage ratio (total) [1]	0.77%	0.28 %	0.49%	0.23%	0.54%			
Mortgage Arrears [1]								
Corporate	$ 36,083	$ 31,289	15%	$ 12,161	197%			
Securitized	4,005	5,016	(20%)	3,750	7%			
Total	$ 40,088	$ 36,305	10%	$ 15,911	152%			
Common Share Information (end of period)								
Number of common shares outstanding	24,621	24,420	1%	24,215	2%			
Book value per common share [1]	$ 12.88	$ 12.90	—%	$ 13.64	(6%)			
Common share price - close	$ 12.65	$ 12.18	4%	$ 17.1	(26%)			
Market capitalization [1]	$ 311,456	$ 297,436	5%	$ 414,077	(25%)			

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *For further information refer to the "Taxable Income" section of this MD&A.*[3] *Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.*
[3] *Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.*
[4] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's 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

Q2 2020

- Net income of $7.8 million in Q2 2020, a decrease of $1.1 million (12%) from $8.9 million in Q2 2019.
- Earnings per share totalled $0.32 in Q2 2020, a decrease of $0.05 (14%) from $0.37 per share in Q2 2019.
- Return on average shareholders' equity[1] of 9.96% in Q2 2020, a decrease of 1.31% from 11.27% in Q2 2019.
- Net corporate mortgage spread income[1] increased by $0.4 million from Q2 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,181 million in Q2 2020 compared to $1,003 million in Q2 2019. This was partly offset by a reduction in the spread of corporate mortgages over term deposit interest[1] to 2.48% in Q2 2020 from 2.66% in Q2 2019. The decrease in the spread of corporate mortgages over term deposit interest[1] is partly due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, the yield on our primarily floating-rate construction loan portfolio decreasing, and increased competition for term deposit funding, particularly in the first half of Q2 2020 when term deposit rates remained high and even increased notwithstanding substantial decreases in the Bank of Canada overnight rates.
- Net securitized mortgage spread income[1] decreased by $0.6 million from Q2 2019. The net securitized mortgage spread income[1] decreased due to a lower average securitized mortgage portfolio balance[1] and a reduction in the spread of securitized mortgages over liabilities[1]. The decrease in the spread of securitized mortgages over liabilities[1] is mainly due to higher indemnity expense on early repaid mortgages that was higher than penalty income.
- Our provision for credit losses on our corporate mortgage portfolio increased by $0.5 million from Q2 2019. Increases relating to the economic impacts of COVID–19 were substantially offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our polices and practices on asset management, as well as a recovery in the provision related to one construction mortgage where an asset recovery program was initiated and where we anticipate full recovery of past due interest and principal.
- Equity income from MCAP Commercial LP ("MCAP") totalled $3.1 million in Q2 2020, a decrease of $1.6 million (34%) from $4.7 million in Q2 2019, which was due to higher financial instrument losses, primarily as a result of hedge losses, and lower net interest income on securitized mortgages related to lower prime-CDOR spreads. This was partially offset by increases in mortgage origination fee income, which is expected to continue in the next quarter, and decreases in origination and mortgage funding costs. With respect to MCAP's hedging activities, hedge gains and losses on funded mortgages are designed to be roughly offset by corresponding losses and gains related to the fair value of the mortgages and the fair value of the mortgage commitments. The timing of the offsets will, however, lag based on the timing of the actual funding of the mortgages.
- In Q2 2020, we recorded a $1.4 million net gain on securities compared to a $1.0 million net loss on securities in Q2 2019. Activity in both Q2 2020 and Q2 2019 included fair value gains and losses, respectively, related to our real estate investment trust ("REIT") portfolio. The net gain on securities in Q2 2020 represented a partial recovery of losses that occurred in Q1 2020 and positively impacted earnings per share by $0.06, while the net loss in Q2 2019 negatively impacted earnings per share by $0.04.

Year to Date 2020

- Net loss of $1.9 million for 2020 year to date, a decrease of $25.1 million (108%) from $23.2 million net income in 2019.
- Loss per share totalled $0.08 for 2020 year to date, a decrease of $1.05 (108%) from $0.97 earnings per share in 2019.
- Return on average shareholders' equity[1] of (1.21)% for 2020 year to date, which compares to 14.79% in 2019.
- Net corporate mortgage spread income[1] increased by $1.2 million from 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,160 million in 2020 from $987 million in 2019. This was partly offset by a decrease in the spread of corporate mortgages over term deposit interest[1] to 2.52% in 2020 from 2.70% in 2019. The decrease in the spread of corporate mortgages over term deposit interest[1] was due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, the yield on our primarily floating-rate construction loan portfolio decreasing and increased competition for term deposit funding (as noted above).
- Net securitized mortgage spread income[1] decreased by $1.0 million from 2019. The net securitized mortgage spread income[1] decreased due to a lower average securitized mortgage portfolio balance[1] and a reduction in the spread of

securitized mortgages over liabilities[1]. The decrease in the spread of securitized mortgages over liabilities[1] is mainly due to higher indemnity expense on early repaid mortgages that was higher than penalty income.

- Our provision for credit losses on our corporate mortgage portfolio increased by $2.3 million from 2019. Increases relating to the economic impacts of COVID–19 were significantly offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our polices and practices on asset management.

- Equity income from MCAP totalled $6.6 million for 2020 year to date, a decrease of $0.7 million (10%) from $7.3 million in 2019. For 2020 year to date, MCAP had higher financial instrument losses, primarily as a result of hedge losses, partially offset by increases in mortgage origination fee income and decreases in origination and mortgage funding costs.

- Year to date net loss on securities of $14.3 million for 2020 compared to a year to date net gain on securities of $7.0 million for 2019 were both primarily driven by our REIT portfolio. In 2020, market prices for REITs were severely impacted by COVID-19. The 2020 year to date net loss negatively impacted earnings per share by $0.59 while the net gain in 2019 positively impacted earnings per share by $0.29.

Business Activity and Balance Sheet

- Corporate assets totalled $1.40 billion at June 30, 2020, a decrease of $21 million (1%) from March 31, 2020 and an increase of $42 million (3%) from December 31, 2019.

- Corporate mortgage portfolio totalled $1.1 billion at June 30, 2020, a decrease of $69 million (6%) from March 31, 2020 and an increase of $30 million (3%) from December 31, 2019.

- Uninsured single family portfolio totalled $410 million at June 30, 2020, an increase of $14 million (4%) from March 31, 2020 and an increase of $27 million (7%) from December 31, 2019.

- Uninsured single family originations were $51 million in Q2 2020, a decrease of $1 million (2%) from Q1 2020 and a decrease of $4 million (8%) from Q2 2019.

- Insured single family originations were $102 million in Q2 2020, an increase of $3 million (3%) from Q1 2020 and an increase of $45 million (79%) from Q2 2019.

- Securitization volumes were $174 million in Q2 2020, an increase of $80 million (84%) from Q1 2020 and an increase of $100 million (133%) from Q2 2019. Securitization volumes in Q2 2020 consisted of $154 million insured single family mortgages (Q1 2020 - $80 million; Q2 2019 - $75 million) and $20 million of insured multi family mortgages (Q1 2020 - $15 million; Q2 2019 - $nil).

- Construction and commercial portfolios totalled $518 million at June 30, 2020, a decrease of $72 million (12%) from March 31, 2020 and a decrease of $33 million (6%) from December 31, 2019.

Dividend

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

Credit Quality

- The impaired corporate mortgage ratio[1] was 1.26% at June 30, 2020 compared to 0.39% at March 31, 2020 and 0.32% at December 31, 2019. The increase in the second quarter is due to one construction mortgage where an asset recovery program was initiated. We anticipate full recovery of past due interest and principal. The impairment of this construction mortgage is not related to COVID-19.

- The impaired total mortgage ratio[1] was 0.77% at June 30, 2020 compared to 0.28% at March 31, 2020 and 0.23% at December 31, 2019. The increase in Q2 2020 is discussed above.

- Total mortgage arrears[1] were $40 million at June 30, 2020 compared to $36 million at March 31, 2020 and $16 million at December 31, 2019. There were no write offs in the quarter.

- Total mortgages in our payment deferral program represent only 3.6% of our single family and securitized portfolio on a dollar basis at June 30, 2020 compared to 9.5% at March 31, 2020.

- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 61.2% at June 30, 2020 compared to 61.5% at March 31, 2020 and 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[1,2] were 23.01% at June 30, 2020 compared to 21.80% at March 31, 2020 and 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio[1,2] was 23.40% at June 30, 2020 compared to 22.17% at March 31, 2020 and 22.52% at December 31, 2019.

- The leverage ratio[1] was 11.46% at June 30, 2020 compared to 11.70% at March 31, 2020 and 12.58% at December 31, 2019.

- The income tax assets to capital ratio[1] was 4.95 at June 30, 2020 compared to 5.03 at March 31, 2020 and 4.93 at December 31, 2019.

- We issued 106,242 new common shares through the Dividend Reinvestment Plan ("DRIP") in Q2 2020 compared to 88,914 in Q2 2019. The DRIP participation rate was 16% for the 2020 second quarter dividend (2019 second quarter dividend - 18%).

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's 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 COVID-19 pandemic continued to have significant effects on the Canadian and global economies in the second quarter. In Canada, widespread shutdowns of non-essential businesses and services and international borders continued through June. In many markets, phased reopenings of the economy have only just begun, and so it is still too early to determine the impacts in terms of speed of recovery, potential further waves of infections and if so, whether there will need to be further shutdowns of the economy. Prior to the pandemic, 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.

As a result of COVID-19, Canadian governments at all levels, as well as the Bank of Canada, have taken extraordinary measures by injecting a significant amount of fiscal stimulus into the economy through various support measures. These measures have been both direct to individuals and businesses affected through various benefits, subsidies and credit support, as well as indirect through various methods to improve liquidity conditions and ensure that that the economy is functioning properly. Many of these measures have been extended. By the end of March, the Bank of Canada had decreased its overnight rate by 150 basis points to 0.25% - where it stands currently. While all these measures have helped support Canadians and the Canadian economy, Canada's future remains very unclear - especially once support measures end. Most economists are predicting a long and fairly deep recession. How we live and work have fundamentally changed in the interim, and whether that becomes permanent or even semi-permanent, could have a significant impact on the economy. Deglobalization and the temporary loss of immigration will also be factors.

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 in early March and have since then been executing our business effectively.

The timing and speed of the recovery of the Canadian economy is uncertain and the Bank of Canada has indicated that interest rates will remain low for an extended period. We had initially seen a decline in housing starts after the pandemic. More recently that trend has reversed, and while housing starts have gained momentum, there is uncertainty as to whether this trend will continue once the government support measures disappear. While we have experienced changes in the makeup of some of our origination volumes, 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 prior 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 were sidelined due to employment and other uncertainties, but for many, these activities continued. In fact, we saw an increase in new insured mortgage volumes relating to purchases across our target markets. We attribute this increase to the low interest rate environment as well as the Canada Mortgage and Housing Corporation ("CMHC") rules change that was announced earlier in June that would make it harder for aspiring home buyers to qualify for a mortgage in Canada. Borrowers waiting for the right time to buy may have taken this opportunity to do so prior to the change taking effect. The low interest rate environment continues to create high origination volumes year to date and in our current insured pipeline. The environment also creates an increase in early repaid mortgages in our existing securitized pools resulting in higher indemnity expense. New mortgage volumes relating to uninsured purchases have declined across our target markets since the onset of COVID-19; however, given that the duration of uninsured single family mortgages is short, activity relating to refinances and renewals has increased and will become the key driver of business activity in that space. We have seen a much more competitive environment in both the insured and uninsured mortgage market since the pandemic-led interest rate decreases. We expect this to continue for the balance of the year.

In these unprecedented times, we have been 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. Active deferrals have decreased and by the end of June only make up approximately 3.6% of our single family and securitized portfolios on a dollar basis. We are evaluating appropriate measures to support borrowers impacted by COVID-19 after the payment deferral period ends, which may include increased amortizations and other payment arrangements, among others. 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 there have been some construction site delays and a slowdown in sales activity, 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 have, and may continue to, impact the timing of repayments; however, they have not changed the overall expected outcome of project successes or loan performances.

We entered this pandemic with strong underlying demand for new residential units in Toronto and Vancouver. Initially after the pandemic, there were changes in demand and sales slowed; however, recent market data from Vancouver and Toronto for our target market and products indicates stronger home sales in June with modest price growth on a year-over-year basis. Going forward, it is not clear whether this stronger activity will continue once government stimulus measures end. We will of course continue to monitor these measures. Despite the uncertainty, we continue to selectively grow our pipeline in our core markets. We also anticipate increasing our insured multi family securitizations in the remainder of the year. 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. We have approached our underwriting with an even more conservative lens in light of COVID-19 and will continue to do so as we move forward.

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 have been taken by various governmental agencies. We 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. While certain parts of our business have experienced significant declines due to COVID-19 related factors, such as the large decline in the market value of our marketable securities recorded in Q1 2020, we are encouraged by the strength of other segments of our business such as our insured single family business and our other investments, such as our investment in MCAP. We expect that MCAP will record enhanced earnings from new business contracts, high mortgage spreads and increased commitment levels, the combination of which will have a positive impact on MCAN's results. MCAN's management and Board continue to be committed to proactively and effectively managing and reviewing the Company's strategy, business activities and team through the pandemic into the future. We remain optimistic and our team remains focused.

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 Periods Ended	Q2 2020	Q1 2020	Change (%)	Q2 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 15,409	$ 15,397	—%	$ 13,656	13%	$ 30,806	$ 26,860	15%
Equity income from MCAP Commercial LP	3,143	3,434	(8%)	4,737	(34%)	6,577	7,305	(10%)
Non-marketable securities	1,610	1,546	4%	1,684	(4%)	3,156	2,983	6%
Marketable securities	563	611	(8%)	790	(29%)	1,174	1,561	(25%)
Fees	158	363	(56%)	739	(79%)	521	933	(44%)
Interest on cash and other income	97	302	(68%)	246	(61%)	399	604	(34%)
Net gain (loss) on securities	1,412	(15,688)	109%	(1,045)	235%	(14,276)	6,983	(304%)
	22,392	**5,965**	**275%**	**20,807**	**8%**	**28,357**	**47,229**	**(40%)**
Term deposit interest and expenses	8,306	8,008	4%	6,937	20%	16,314	13,508	21%
Mortgage expenses	1,124	1,034	9%	959	17%	2,158	1,936	11%
Interest on loans payable	74	141	(48%)	74	—%	215	166	30%
Provision for (recovery of) credit losses	239	1,804	(87%)	(287)	(183%)	2,043	(278)	(835%)
	9,743	**10,987**	**(11%)**	**7,683**	**27%**	**20,730**	**15,332**	**35%**
	12,649	**(5,022)**	**352%**	**13,124**	**(4%)**	**7,627**	**31,897**	**(76%)**
Net Investment Income - Securitization Assets								
Mortgage interest	4,786	4,783	—%	5,241	(9%)	9,569	10,741	(11%)
Other securitization income	179	261	(31%)	162	10%	440	275	60%
	4,965	**5,044**	**(2%)**	**5,403**	**(8%)**	**10,009**	**11,016**	**(9%)**
Interest on financial liabilities from securitization	4,078	3,747	9%	3,951	3%	7,825	8,033	(3%)
Mortgage expenses	487	495	(2%)	487	—%	982	975	1%
Provision for (recovery of) credit losses	11	1	1,000%	—	n/a	12	(9)	(233%)
	4,576	**4,243**	**8%**	**4,438**	**3%**	**8,819**	**8,999**	**(2%)**
	389	**801**	**(51%)**	**965**	**(60%)**	**1,190**	**2,017**	**(41%)**
Operating Expenses								
Salaries and benefits	3,219	3,802	(15%)	3,502	(8%)	7,021	7,088	(1%)
General and administrative	1,750	1,755	—%	1,950	(10%)	3,505	3,881	(10%)
	4,969	**5,557**	**(11%)**	**5,452**	**(9%)**	**10,526**	**10,969**	**(4%)**
Net income (loss) before income taxes	8,069	(9,778)	183%	8,637	(7%)	(1,709)	22,945	(107%)
Provision for (recovery of) income taxes	273	(48)	669%	(251)	209%	225	(248)	191%
Net Income (loss)	**$ 7,796**	**$ (9,730)**	**180%**	**$ 8,888**	**(12%)**	**$ (1,934)**	**$ 23,193**	**(108%)**
Basic and diluted earnings (loss) per share	$ 0.32	$ (0.40)	180%	$ 0.37	(14%)	$ (0.08)	$ 0.97	(108%)
Dividends per share	$ 0.34	$ 0.34	—%	$ 0.32	6%	$ 0.68	$ 0.64	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	June 30, 2020			March 31, 2020			June 30, 2019		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages									
Insured	$ 187,633	$ 1,336	2.85%	$ 137,778	$ 1,023	3.04%	$ 130,772	$ 1,058	3.19%
Uninsured	400,329	4,822	4.81%	387,852	4,604	4.75%	328,276	3,749	4.58%
Uninsured - completed inventory	37,639	606	6.47%	42,821	668	6.34%	16,418	258	6.31%
Construction loans									
Residential	511,961	7,997	6.28%	524,236	8,432	6.48%	420,115	6,881	6.58%
Non residential	679	12	6.88%	142	4	6.45%	7,941	147	6.68%
Commercial loans									
Multi family residential	10,441	140	5.38%	12,820	264	6.85%	45,119	624	5.57%
Other	32,346	496	6.16%	32,356	402	4.80%	54,557	922	6.82%
Mortgages - corporate portfolio	$1,181,028	$ 15,409	5.23%	$1,138,005	$ 15,397	5.42%	$1,003,198	$ 13,639	5.45%
Term deposit interest and expenses	1,095,734	8,306	2.75%	1,038,158	8,008	2.80%	941,860	6,937	2.79%
Net corporate mortgage spread income[2]		$ 7,103			$ 7,389			$ 6,702	
Spread of mortgages over term deposit interest [2]			2.48%			2.62%			2.66%
Average term to maturity (months)									
Mortgages - corporate	12.3			12.2			11.6		
Term deposits	18.7			17.0			20.1		

Table 4: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2020			2019		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages						
Insured	$ 162,705	$ 2,359	2.92%	$ 125,699	$ 2,015	3.18%
Uninsured	394,091	9,430	4.78%	305,948	6,887	4.52%
Uninsured - completed inventory	40,230	1,274	6.37%	14,468	448	6.26%
Construction loans						
Residential	518,098	16,445	6.38%	427,078	13,927	6.58%
Non residential	410	12	5.69%	8,889	337	7.29%
Commercial loans						
Multi family residential	11,630	404	6.19%	47,614	1,288	5.46%
Other commercial	32,351	882	5.48%	57,247	1,919	6.80%
Mortgages - corporate portfolio	$ 1,159,515	$ 30,806	5.30%	$ 986,943	$ 26,821	5.47%
Term deposit interest and expenses	1,066,946	16,314	2.78%	927,157	13,508	2.77%
Net corporate mortgage spread income[2]		$ 14,492			$ 13,313	
Spread of mortgages over term deposit interest [2]			2.52%			2.70%

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended June 30, 2020, March 31, 2020 and June 30, 2019 and the six months ended June 30, 2020 and June 30, 2019.*

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

Table 5: Mortgage Originations

(in thousands except %) For the Periods Ended	Q2 2020	Q1 2020	Change (%)	Q2 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Originations								
Single family - insured	$ 102,181	$ 99,542	3%	$ 56,998	79%	$ 201,723	$ 95,300	112%
Single family - uninsured	51,060	52,146	(2%)	55,551	(8%)	103,206	118,846	(13%)
Single family - uninsured completed inventory [1]	755	18,466	(96%)	247	206%	19,221	15,463	24%
Residential construction [1]	81,153	89,819	(10%)	77,660	4%	170,972	115,908	48%
Non-residential construction [1]	784	269	191%	—	n/a	1,053	760	39%
Commercial [1]	75	—	n/a	337	(78%)	75	825	(91%)
	$ 236,008	**$ 260,242**	**(9%)**	**$ 190,793**	**24%**	**$ 496,250**	**$ 347,102**	**43%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 34,895	$ 28,413	23%	$ 19,296	81%	$ 63,308	$ 24,973	154%

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

Overview

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. The decrease in the spread of mortgages over term deposit interest[1] in Q2 2020 from Q2 2019 was due partly to an increase in the proportion of our corporate portfolio held in single family mortgages and the immediate impact of a decreasing yield on our primarily floating-rate construction portfolio partially offset by higher penalty income on early repaid mortgages. Finally, continued market competition for both mortgages and term deposit funding contributed to the decrease in the spread of mortgages over term deposit interest[1]. With respect to term deposits, rates remained high and even increased in the first half of Q2 2020, notwithstanding the significant decrease in Bank of Canada overnight rates.

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 the reduced interest rate environment, 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 CMHC *National Housing Act* ("NHA") MBS program. The significant increase in insured single family originations in Q2 2020 supported a 106% increase in single family securitization volumes to $154 million in Q2 2020 from $75 million in Q2 2019.

Single family mortgages provide comparatively lower yields given the lower risk profile. For the quarter and year to date, higher gross coupon in our uninsured single family originations and higher average balances in single family (both insured and uninsured) in 2020 contributed to a higher corporate mortgage interest compared to 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 under COVID-19. We opportunistically invest in our single family uninsured completed inventory portfolio through our origination strategic partnerships.

We expect some delays in the home purchasing process due to possible service impacts such as legal, appraisals and income verification during the COVID-19 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. Active deferrals have decreased, and by June 30, 2020 only represent approximately 3.6% of our single family and securitized portfolio on a dollar basis compared to 9.5% at March 31, 2020.

Construction and Commercial

During Q2 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 Q2 2020 from Q2 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 our conservative 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.

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

Mortgage Renewal Rights

Through our XMC Mortgage Corporation ("XMC") origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. At June 30, 2020, we had the renewal rights to $1.3 billion of single family mortgages (March 31, 2020 - $1.2 billion; December 31, 2019 - $1.2 billion).

Equity Income from MCAP

In Q2 2020, MCAP's origination volumes were $3.6 billion, a decrease from $4.2 billion in Q2 2019. At May 31, 2020 (we account for MCAP on a one-month lag basis), MCAP had $105.6 billion of assets under management compared to $105.8 billion at February 29, 2020 and $75.7 billion at May 31, 2019. For Q2 2020, the $1.6 million decrease in equity income from MCAP was due to higher financial instrument losses, primarily as a result of hedge losses, and lower net interest income on securitized mortgages related to lower prime-CDOR spreads. This was partially offset by increases in mortgage origination fee income, which is expected to continue in the next quarter, and decreases in origination and mortgage funding costs. For the year to date, the $0.7 million decrease in equity income from MCAP was due to higher financial instrument losses, primarily as a result of hedge losses, partially offset by increases in mortgage origination fee income and decreases in origination and mortgage funding costs. With respect to MCAP's hedging activities, hedge gains and losses on funded mortgages are designed to be roughly offset by corresponding losses and gains related to the fair value of the mortgages and the fair value of the mortgage commitments. The timing of the offsets will, however, lag based on the timing of the actual funding of the mortgages. We expect that MCAP will record enhanced earnings from new business contracts, high mortgage spreads and increased commitment levels, the combination of which will have a positive impact on MCAN's results.

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 Q2 2020, we received distribution income of $1.3 million (Q2 2019 - $1.0 million) from the KingSett High Yield Fund ("KSHYF") and $nil (Q2 2019 - $0.6 million) from Crown LP. In Q2 2020, we received principal and interest of $1.7 million from Class A securitization notes (the "Securitization Notes"). 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 7.07% in Q2 2020 (Q2 2019 - 5.37%). The higher yield is due to the significant declines in market value since COVID-19. 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 Q2 2020, we recorded a $1.4 million net gain on securities compared to a $1.0 million net loss on securities in Q2 2019. Activity in Q2 2020 included fair value gains related to our REIT portfolio and in Q2 2019 included fair value losses related to our REIT portfolio and our investment in Crown LP. Our year to date net loss on securities was $14.3 million for 2020 compared to a year to date net gain on securities of $7.0 million for 2019. The current year net loss was caused by significant declines in the market values of REITs due to COVID-19.

Term Deposit Interest and Expenses

As previously mentioned, the increase in term deposit interest and expenses from 2019 (both for the quarter and year to date) was partly due to the increase in deposit funding required to support growth in our mortgage portfolio. As well, rates remained

high and even increased in the first half of Q2 2020, notwithstanding the significant decrease in Bank of Canada overnight rates. 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 the Canada Housing Trust ("CHT") CMB program. Our total new securitization volumes were $174 million in Q2 2020 (Q2 2019 - $75 million), of which $20 million were insured multi family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q2 2019 - $nil). The low interest rate environment has caused a higher volume of securitizations in addition to higher early repayments of mortgages within existing securitizations.

Table 6: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	June 30, 2020			March 31, 2020			June 30, 2019		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$ 739,590	$ 4,786	2.61%	$ 751,781	$ 4,783	2.56%	$ 823,381	$ 5,241	2.55%
Financial liabilities from securitization	755,692	4,078	2.17%	777,608	3,747	1.93%	854,709	3,951	1.85%
Net securitized mortgage spread income [2]		$ 708			$ 1,036			$ 1,290	
Spread of mortgages over liabilities [2]			0.44%			0.63%			0.70%

Table 7: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2020			2019		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$ 745,686	$ 9,569	2.58%	$ 846,296	$ 10,741	2.55%
Financial liabilities from securitization	766,650	7,825	2.05%	867,612	8,033	1.85%
Net securitized mortgage spread income [2]		$ 1,744			$ 2,708	
Spread of mortgages over liabilities [2]			0.53%			0.70%

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended June 30, 2020, March 31, 2020 and June 30, 2019 and the six months ended June 30, 2020 and June 30, 2019.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

As a result of a decline in rates during 2020, there was an increase in the number of early repaid mortgages. This impacted the net securitized mortgage spread income[2] and spread of mortgages over liabilities[2] for both the quarter and year to date compared to 2019 due to higher indemnity expense on early repaid mortgages that was significantly higher than penalty income.

Provision for (Recovery of) Credit Losses

Table 8: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) For the Periods Ended	Q2 2020	Q1 2020	Change (%)	Q2 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Provision for (recovery of) on impaired corporate mortgages								
Single family mortgages uninsured	$ 140	$ (135)	204%	$ 18	678%	$ 5	$ 15	(67%)
Construction	—	—	n/a	—	n/a	—	(217)	100%
	140	(135)	204%	18	678%	5	(202)	102%
Provision for (recovery of) on performing corporate mortgages								
Single family mortgages insured	2	—	n/a	18	(89%)	2	19	(89%)
Single family mortgages uninsured	1,011	267	279%	10	10,010%	1,278	(393)	425%
Single family mortgages uninsured - completed inventory	(7)	624	(101%)	(29)	76%	617	64	864%
Construction loans	(1,023)	1,144	(189%)	(277)	(269%)	121	781	(85%)
Commercial loans								
Multi family residential	54	(35)	254%	(28)	293%	19	(290)	107%
Other commercial	70	(61)	215%	1	6,900%	9	(250)	104%
	107	1,939	(94%)	(305)	(135%)	2,046	(69)	3,065%
Other provisions (recoveries)	(8)	—	n/a	—	n/a	(8)	(7)	(14%)
Total corporate provision for (recovery of) credit losses	239	1,804	(87%)	(287)	183%	2,043	(278)	835%
Provision for (recovery of) on performing securitized mortgages	11	1	1,000%	—	n/a	12	(9)	233%
Total provision for (recovery of) credit losses	$ 250	$ 1,805	(86%)	$ (287)	187%	$ 2,055	$ (287)	816%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 247	$ 1,804	(86%)	$ (287)	186%	$ 2,051	$ (271)	857%
Net write offs	$ —	$ 69	(100%)	$ 18	(100%)	$ 69	$ 41	68%
Net write offs (basis points)	—	2.4	(100%)	0.7	(100%)	0.6	0.8	(25%)

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 ("ECL") to key macroeconomic indicators including house price indices, unemployment rates, 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 2020 is due to current macroeconomic scenarios and economic inputs being affected by COVID-19, along with qualitative adjustments including, but not limited to, the effectiveness of various government support 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 June 30, 2020. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since June 30, 2020, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to June 30, 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.

In Q2 2020, increases in the provision for credit losses relating to the economic impacts of COVID-19 were substantially offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our polices and practices on asset management, as well as a recovery in the provision related to one construction mortgage where an asset recovery program

was initiated and where we anticipate full recovery of past due interest and principal. The impairment of this construction mortgage is not related to COVID-19.

We continue to monitor our portfolio in arrears on a regular basis and note that it remains relatively early in the COVID-19 pandemic, with government support programs still in effect, to detect COVID-19-specific significant stress or deterioration. We note that notwithstanding COVID-19, we continued to receive contractual repayments of mortgages within our construction and commercial portfolio.

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

Operating Expenses

Table 9: Operating Expenses

(in thousands except %) For the Periods Ended	Q2 2020	Q1 2020	Change (%)	Q2 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Salaries and benefits	$ 3,219	$ 3,802	(15%)	$ 3,502	(8%)	$ 7,021	$ 7,088	(1%)
General and administrative	1,750	1,755	—%	1,950	(10%)	3,505	3,881	(10%)
	$ 4,969	**$ 5,557**	**(11%)**	**$ 5,452**	**(9%)**	**$ 10,526**	**$ 10,969**	**(4%)**

The decrease in salaries and benefits was primarily due to a decrease in short and long-term incentive compensation.

The decrease in general and administrative expenses for the year to date 2020 was primarily due to lower professional fees incurred.

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 10: Taxable Income Reconciliation [1]

(in thousands) For the Periods Ended	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Consolidated net income (loss) for accounting purposes	$ 7,796	$ 8,888	$ (1,934)	$ 23,193
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(3,143)	(4,737)	(6,577)	(7,305)
Add: MCAP taxable income	2,432	1,094	13,449	3,066
Reverse: Provision for (recovery of) credit losses [2]	127	(302)	2,056	(97)
Add: Amortization of upfront securitization program costs [3]	1,147	1,668	2,468	3,331
Deduct: Securitization program mortgage origination costs [3]	(4,251)	(1,908)	(5,555)	(2,868)
Reverse: Net unrealized (gain)/loss on securities [4]	(1,412)	839	14,276	(6,921)
Reverse: (Income)/loss earned in subsidiaries [5]	1,241	816	2,853	2,100
Other items	1,321	378	1,433	366
Taxable Income	**$ 5,258**	**$ 6,736**	**$ 22,469**	**$ 14,865**

[1] Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.
[2] Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.
[3] Securitization program mortgage origination costs are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.
[4] Excluded from the calculation of taxable income; only includes net realized gains and losses recognized in the MIC entity.
[5] Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.

The decrease in taxable income in Q2 2020 from Q2 2019 was primarily due to higher securitization program origination costs partially offset by an increase in taxable income from MCAP. The increase in taxable income year to date in 2020 from 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

Assets

Table 11: Assets

(in thousands except %) As at	June 30 2020	March 31 2020	Change (%)	December 31 2019	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 109,024	$ 63,960	70%	$ 54,452	100%
Marketable securities	34,775	30,483	14%	46,170	(25%)
Mortgages	1,119,313	1,188,331	(6%)	1,089,401	3%
Non-marketable securities	59,540	60,068	(1%)	93,689	(36%)
Equity investment in MCAP Commercial LP	72,710	71,298	2%	69,844	4%
Deferred tax asset	469	442	6%	132	255%
Other assets	7,901	10,463	(24%)	7,771	2%
	1,403,732	**1,425,045**	**(1%)**	**1,361,459**	**3%**
Securitization Assets					
Cash held in trust	23,466	29,736	(21%)	28,575	(18%)
Mortgages	812,048	751,530	8%	784,296	4%
Other assets	9,097	5,598	63%	5,011	82%
	844,611	**786,864**	**7%**	**817,882**	**3%**
	$ 2,248,343	**$ 2,211,909**	**2%**	**$ 2,179,341**	**3%**

Our corporate asset portfolio increased in 2020 compared to December 31, 2019 primarily due to strong origination volumes in the insured single family portfolio. Our securitized mortgage portfolio has increased from Q1 2020 and December 31, 2019 due to 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. At June 30, 2020, the average outstanding construction loan balance was $8 million (March 31, 2020 - $9 million; December 31, 2019 - $9 million) with a maximum individual loan commitment of $30 million (March 31, 2020 - $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 CHT CMB program.

Securitized mortgages in the deferred payment program as a result of COVID-19 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 insurers have issued guidance for addressing the deferrals in the securitized pools following the deferral period.

The Government of Canada expanded its revised Insured Mortgage Purchase Program ("IMPP") to further bolster the financial system and the Canadian economy. The government announced on March 26, 2020 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 Q2 2020, we securitized $57 million (Q2 2019 - $35 million) of MBS through the market MBS program and retained $19 million (Q2 2019 - $nil) of the MBS on our corporate balance sheet and sold $38 million (Q2 2019 - $35 million) to third parties.

As at June 30, 2020, we held $67 million of MBS on our balance sheet for liquidity purposes (March 31, 2020 - $50 million; December 31, 2019 - $49 million), which is included in the insured single family portfolio within corporate mortgages.

CMB Program

During Q2 2020, we securitized $97 million (Q2 2019 - $40 million) of insured single family mortgages through the CMB program and $20 million (Q2 2019 - $nil) of insured multi family mortgages . 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 $0.2 million (Q2 2019 - $nil). Year to date 2020, we securitized $150 million (year to date 2019 - $64 million) of insured single family mortgages through the CMB program and $35 million (year to date 2019 - $nil) of insured multi family mortgages. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded an upfront gain of $0.3 million (2019 - $nil).

Table 12: Mortgage Summary

(in thousands except %) As at	June 30 2020	March 31 2020	Change (%)	December 31 2019	Change (%)
Corporate portfolio:					
Single family mortgages					
Insured	$ 157,333	$ 161,017	(2%)	$ 110,181	43%
Uninsured	410,014	395,833	4%	382,820	7%
Uninsured - completed inventory	33,962	41,638	(18%)	45,455	(25%)
Construction loans	475,274	546,967	(13%)	504,520	(6%)
Commercial loans					
Multi family residential	10,350	10,436	(1%)	14,032	(26%)
Other commercial	32,380	32,440	—%	32,393	—%
	1,119,313	**1,188,331**	**(6%)**	**1,089,401**	**3%**
Securitized portfolio					
Single family insured - Market MBS program	343,828	369,811	(7%)	449,935	(24%)
Single family insured - CMB program	468,220	381,719	23%	334,361	40%
	812,048	**751,530**	**8%**	**784,296**	**4%**
	$ 1,931,361	**$ 1,939,861**	**—%**	**$ 1,873,697**	**3%**

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 and uninsured single family corporate mortgages from Q2 2019 was primarily due to increased new originations and renewals.

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

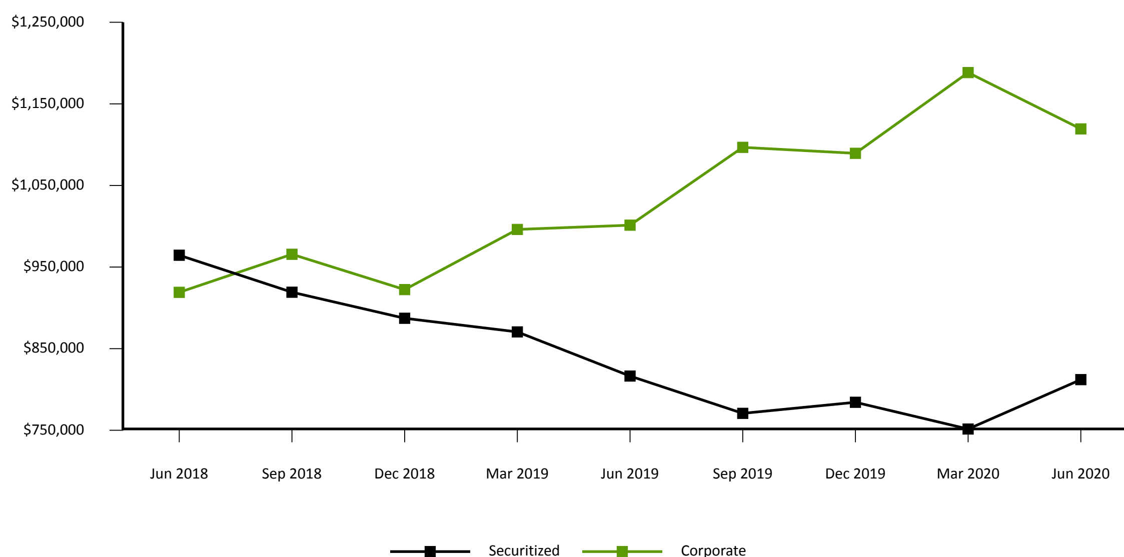
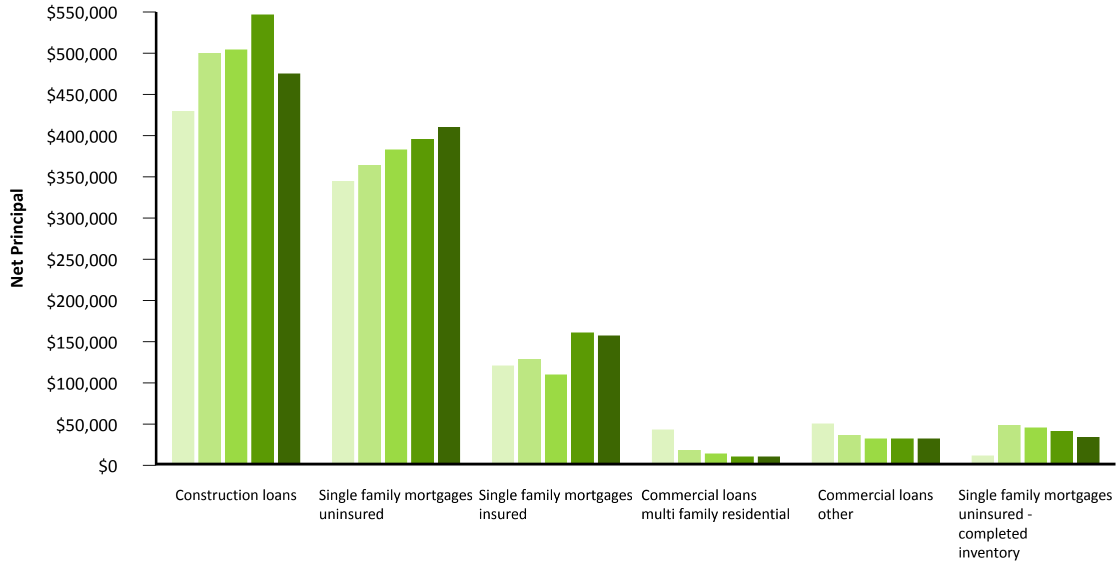


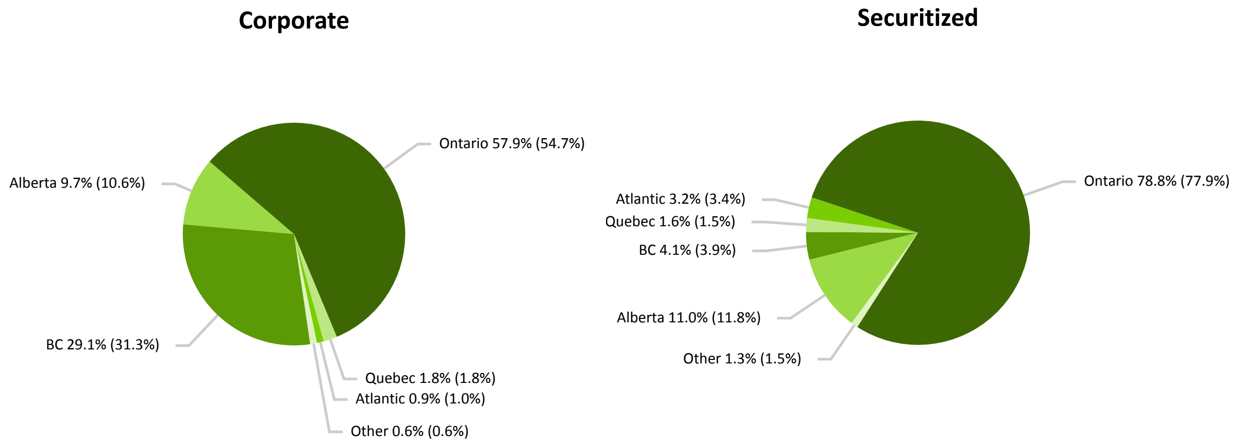
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
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%)
Jun 30, 2020	$475,274 (42%)	$410,014 (37%)	$157,333 (14%)	$10,350 (1%)	$32,380 (3%)	$33,962 (3%)

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

Figure 3: Mortgage Portfolio Geographic Distribution at June 30, 2020 (March 31, 2020)



Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %) As at	June 30 2020	March 31 2020	Change (%)	December 31 2019	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 1,149	$ 2,561	(55%)	$ 1,783	(36%)
Single family mortgages - uninsured	2,382	2,109	13%	1,739	37%
Construction loans	10,568	—	n/a	—	n/a
	14,099	4,670	202%	3,522	300%
Securitized	704	698	1%	761	(7%)
Total impaired mortgages	$ 14,803	$ 5,368	176%	$ 4,283	246%
Impaired mortgage ratio (corporate) [1]	1.26%	0.39%	0.87%	0.32%	0.94%
Impaired mortgage ratio (total) [1]	0.77%	0.28%	0.49%	0.23%	0.54%
Mortgage arrears [1]					
Corporate					
Single family mortgages - insured	$ 2,622	$ 4,876	(46%)	$ 3,340	(21%)
Single family mortgages - uninsured	11,093	15,845	(30%)	8,821	26%
Construction loans	22,368	10,568	112%	—	n/a
Total corporate mortgage arrears [1]	36,083	31,289	15%	12,161	197%
Total securitized mortgage arrears [1]	4,005	5,016	(20%)	3,750	7%
Total mortgage arrears [1]	$ 40,088	$ 36,305	10%	$ 15,911	152%
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 10,029	$ 10,452	(4%)	$ 11,815	(15%)
Single family mortgages - uninsured	65,037	70,649	(8%)	64,790	—%
Single family mortgages - uninsured - completed inventory	2,091	2,442	(14%)	2,411	(13%)
Construction loans	24,197	43,017	(44%)	44,504	(46%)
Commercial loans - multi-family	356	404	(12%)	947	(62%)
Commercial - other	19,009	—	n/a	—	n/a
	120,719	126,964	(5%)	124,467	(3%)
Stage 3					
Single family mortgages - insured	1,149	2,561	(55%)	1,783	(36%)
Single family mortgages - uninsured	2,382	2,109	13%	1,739	37%
Construction loans	10,568	—	n/a	—	n/a
	14,099	4,670	202%	3,522	300%
Total stage 2 and 3 corporate mortgages	$ 134,818	$ 131,634	2%	$ 127,989	5%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,097	$ 5,989	2%	$ 4,119	48%
Allowance on impaired mortgages	199	59	237%	194	3%
	6,296	6,048	4%	4,313	46%
Securitized - allowance on performing	17	6	183%	4	325%
Total allowance for credit losses	$ 6,313	$ 6,054	4%	$ 4,317	46%

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

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 increase in arrears and impaired construction mortgages relates to two construction mortgages where asset recovery programs were initiated. We anticipate full recovery of past due interest and principal.

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.

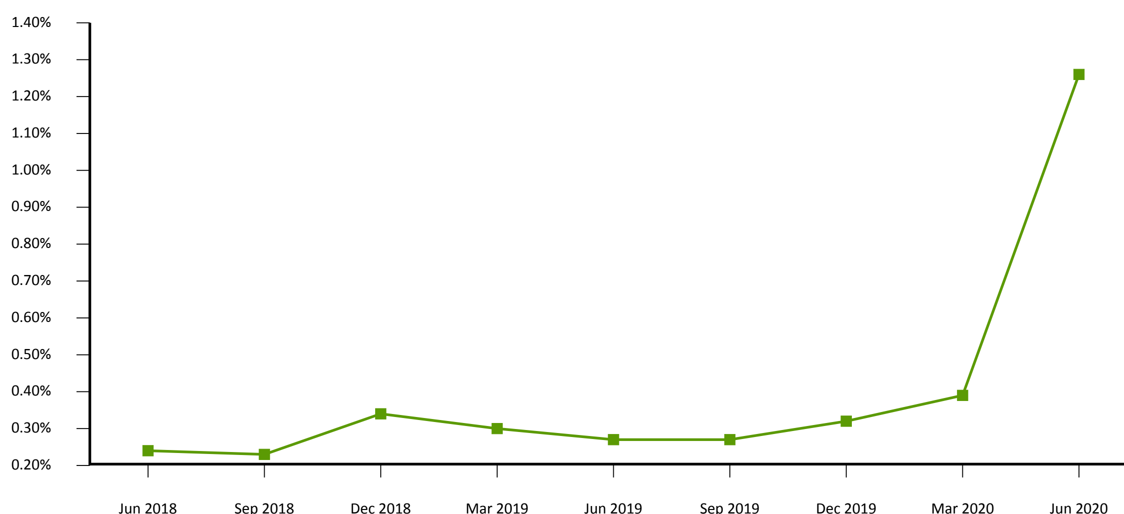
Consistent with a government-sponsored initiative and with industry practice, the Company has offered up to a six-month payment deferral program for eligible mortgages as a result of COVID-19. Consistent with regulatory guidance, all mortgages in the payment deferral program are reflected as performing, 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 significant increase in credit risk ("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.

At June 30, 2020, total principal balance outstanding of corporate mortgages within this program totalled $28 million (March 31, 2020 - $63 million).

At June 30, 2020, total principal balance outstanding of securitized mortgages within this program totalled $22 million (March 31, 2020 - $65 million).

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[1]



The impaired corporate mortgage ratio[1], as presented above, reflects impaired (stage 3) mortgages under IFRS 9. The increase in the impaired corporate mortgage ratio[1] at June 30, 2020 mainly relates to one construction loan where an asset recovery program was initiated. We anticipate full recovery of past due interest and principal. The impairment of this construction mortgage is not related to COVID-19.

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

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

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 14: Single Family Mortgages by Province at June 30, 2020

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 119,083	75.7%	$ 321,177	72.4%	$ 71	74.0%	$ 640,040	78.8%	$ 1,080,371	76.5%
Alberta	20,452	13.0%	58,132	13.1%	25	26.0%	89,587	11.0%	168,196	11.9%
British Columbia	5,287	3.4%	51,991	11.7%	—	—%	33,129	4.1%	90,407	6.4%
Quebec	5,037	3.2%	3,106	0.7%	—	—%	12,961	1.6%	21,104	1.5%
Atlantic Provinces	5,518	3.5%	4,597	1.0%	—	—%	25,652	3.2%	35,767	2.5%
Other	1,860	1.2%	4,973	1.1%	—	—%	10,679	1.3%	17,512	1.2%
Total	**$ 157,237**	**100.0%**	**$ 443,976**	**100.0%**	**$ 96**	**100.0%**	**$ 812,048**	**100.0%**	**$ 1,413,357**	**100.0%**

Table 15: Single Family Mortgages by Province at March 31, 2020

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
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%
Total	**$ 160,933**	**100.0%**	**$ 437,471**	**100.0%**	**$ 84**	**100.0%**	**$ 751,530**	**100.0%**	**$ 1,350,018**	**100.0%**

Table 16: Single Family Mortgages by Amortization Period at June 30, 2020

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 108,545	$ 180,280	$ 249,896	$ 62,588	$ 601,309
	18.1%	29.9%	41.6%	10.4%	100.0%
Securitized	$ 164,083	$ 590,536	$ 57,097	$ 332	$ 812,048
	20.2%	72.8%	7.0%	0.0%	100.0%
Total	**$ 272,628**	**$ 770,816**	**$ 306,993**	**$ 62,920**	**$ 1,413,357**
	19.3%	**54.5%**	**21.7%**	**4.5%**	**100.0%**

Table 17: Single Family Mortgages by Amortization Period at March 31, 2020

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
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%
Total	**$ 265,244**	**$ 713,239**	**$ 326,517**	**$ 45,018**	**$ 1,350,018**
	19.6%	**52.8%**	**24.2%**	**3.3%**	**100.0%**

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

(in thousands except %) **For the Periods Ended**	**Q2 2020**	**Average LTV**	**Q2 2019**	**Average LTV**	**YTD 2020**	**Average LTV**	**YTD 2019**	**Average LTV**
Ontario	$ 45,760	70.6%	$ 45,618	71.9%	$ 94,123	70.2%	$ 99,333	71.4%
Alberta	755	72.1%	104	65.0%	19,660	60.7%	374	54.5%
British Columbia	5,300	72.8%	9,455	74.1%	8,534	73.5%	18,765	72.0%
Other	—	—%	374	72.7%	110	61.8%	374	72.7%
	$ 51,815	**70.8%**	**$ 55,551**	**72.2%**	**$122,427**	**68.9%**	**$118,846**	**71.4%**

Table 19: Average Mortgage Loan to Value (LTV) Ratios at Origination

As at	**June 30 2020**	**March 31 2020**	**December 31 2019**
Corporate portfolio:			
Single family mortgages			
Insured	74.9%	78.3%	78.8%
Uninsured[1]	67.9%	68.0%	68.1%
Uninsured - completed inventory	47.4%	47.0%	63.9%
Construction loans			
Residential	46.5%	45.7%	46.2%
Non-residential	64.7%	64.7%	0.0%
Commercial loans			
Multi family residential	73.6%	73.2%	58.0%
Other commercial	56.7%	58.4%	58.4%
	58.9%	58.1%	58.4%
Securitized portfolio			
Single family insured - Market MBS Program	82.3%	82.0%	82.9%
Single family insured - CMB Program	82.9%	83.9%	83.9%
	82.6%	82.9%	83.3%
	68.8%	67.7%	68.8%

[1] MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.3% at June 30, 2020 (March 31, 2020 - 66.0%; December 31, 2019 - 67.4%). Based on an industry index that incorporates current real estate values, the ratios would be 61.2%, 61.5% and 64.0%, respectively.

Other Corporate Assets

Cash and Cash Equivalents

At June 30, 2020, our cash balance was $109 million (March 31, 2020 - $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. At June 30, 2020, the portfolio balance was $35 million (March 31, 2020 - $30 million; December 31, 2019 - $46 million). During Q2 2020, we purchased $3 million of REITs and recognized a $1 million increase in the fair value of the portfolio.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 6.8% equity interest at June 30, 2020 (March 31, 2020 - 7.2%; December 31, 2019 - 7.3%). At June 30, 2020, the carrying value of our investment was $44 million (March 31, 2020 - $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 at June 30, 2020 (March 31, 2020 - 14.1%; 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 at December 31, 2019. At June 30, 2020, the carrying value of our remaining investment in Crown LP opportunity fund was $30,000 (March 31, 2020 - $30,000; December 31, 2019 - $30,129). Crown LP invests primarily in commercial office buildings.

During Q4 2019, we invested in Securitization Notes. At June 30, 2020, the carrying value of the Securitization Notes was $16 million (March 31, 2020 - $17 million; December 31, 2019 - $18 million). The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022.

Equity Investment in MCAP

We hold a 14.04% equity interest in MCAP (March 31, 2020 - 14.04%; December 31, 2019 - 14.02%), which represents 4.0 million units held by MCAN at June 30, 2020 (March 31, 2020 - 4.0 million; December 31, 2019 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (March 31, 2020 - 28.5 million; December 31, 2019 - 28.5 million).

The investment had a net book value of $73 million at June 30, 2020 (March 31, 2020 - $71 million; 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 at June 30, 2020 (March 31, 2020 - $46 million; 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 Q2 2020, we received $1.7 million of unitholder distributions from MCAP (Q2 2019 - $1.4 million). For year to date 2020, we have received $3.7 million of unitholder distributions from MCAP (year to date 2019 - $3.0 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 20: Liabilities and Shareholders' Equity

(in thousands except %) As at	June 30 2020	March 31 2020	Change (%)	December 31 2019	Change (%)
Corporate Liabilities					
Term deposits	$ 1,100,857	$ 1,105,039	—%	$ 1,034,299	6%
Loans payable	—	19,107	(100%)	5,053	(100%)
Current taxes payable	529	231	129%	—	n/a
Deferred tax liabilities	—	—	n/a	21	(100%)
Other liabilities	7,456	6,502	15%	15,996	(53%)
	1,108,842	**1,130,879**	**(2%)**	**1,055,369**	**5%**
Securitization Liabilities					
Financial liabilities from securitization	822,429	765,937	7%	793,660	4%
	822,429	**765,937**	**7%**	**793,660**	**4%**
	1,931,271	**1,896,816**	**2%**	**1,849,029**	**4%**
Shareholders' Equity					
Share capital	233,244	230,724	1%	228,008	2%
Contributed surplus	510	510	—%	510	—%
Retained earnings	83,318	83,859	(1%)	101,794	(18%)
	317,072	**315,093**	**1%**	**330,312**	**(4%)**
	$ 2,248,343	**$ 2,211,909**	**2%**	**$ 2,179,341**	**3%**

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 Q2 2020 reflects new common shares issued through the DRIP. The DRIP participation rate for the Q2 2020 second quarter dividend was 16% (2020 first quarter - 17%; 2019 second quarter - 18%). For further information, refer to Note 15 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q2 2020 consists of net income of $7.8 million less dividends of $8.3 million. Retained earnings activity for year to date 2020 consists of a net loss of $1.9 million less dividends of $16.5 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Income Statement Highlights								
Mortgage interest - corporate assets	$ 15,409	$15,397	$ 14,910	$ 14,609	$ 13,656	$ 13,204	$ 13,649	$ 13,094
Net investment income (loss) - corporate assets	$ 12,649	$ (5,022)	$ 14,839	$ 18,207	$ 13,124	$ 18,773	$ 7,872	$ 13,430
Mortgage interest - securitization assets	$ 4,786	$ 4,783	$ 4,950	$ 4,800	$ 5,241	$ 5,500	$ 5,657	$ 6,015
Net investment income - securitization assets	$ 389	$ 801	$ 1,015	$ 962	$ 965	$ 1,052	$ 1,082	$ 1,276
Net income (loss)	$ 7,796	$ (9,730)	$ 10,550	$ 14,551	$ 8,888	$ 14,305	$ 3,547	$ 11,006
Basic and diluted earnings (loss) per share	$ 0.32	$ (0.40)	$ 0.44	$ 0.60	$ 0.37	$ 0.60	$ 0.15	$ 0.47
Dividends per share	$ 0.34	$ 0.34	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.37
Return on average shareholders' equity [1]	9.96%	(11.84)%	12.84%	18.05%	11.27%	18.36%	4.66%	14.29%
Taxable income per share [1,2]	$ 0.21	$ 0.71	$ 0.46	$ 0.28	$ 0.28	$ 0.34	$ 0.49	$ 0.13
Spreads								
Spread of corporate mortgages over term deposit interest [1]	2.48%	2.62 %	2.63%	2.48%	2.66%	2.73%	2.93%	2.92%
Spread of securitized mortgages over liabilities [1]	0.44%	0.63 %	0.72%	0.72%	0.70%	0.69%	0.70%	0.74%
Average term to maturity (in months)								
Mortgages - corporate	12.3	12.2	10.7	11.3	11.6	11.9	11.5	12.8
Term deposits	18.7	17.0	18.4	19.1	20.1	17.2	18.7	19.2
Balance Sheet Highlights ($ million)								
Total assets	$ 2,248	$ 2,212	$ 2,179	$ 2,200	$ 2,130	$ 2,167	$ 2,141	$ 2,189
Mortgages - corporate	$ 1,119	$ 1,188	$ 1,089	$ 1,097	$ 1,001	$ 996	$ 922	$ 966
Mortgages - securitized	$ 812	$ 752	$ 784	$ 771	$ 816	$ 871	$ 887	$ 919
Total liabilities	$ 1,931	$ 1,897	$ 1,849	$ 1,872	$ 1,811	$ 1,850	$ 1,834	$ 1,887
Shareholders' equity	$ 317	$ 315	$ 330	$ 328	$ 319	$ 317	$ 307	$ 302
Capital Ratios								
Income tax assets to capital ratio [1]	4.95	5.03	4.93	5.13	4.71	4.69	4.64	4.90
CET 1 & Tier 1 Capital ratios [1,5]	23.01%	21.80 %	22.52%	21.77%	22.40%	22.09%	21.66%	20.58%
Total Capital ratio [1,5]	23.40%	22.17 %	22.52%	21.77%	22.40%	22.09%	21.66%	20.58%
Leverage ratio [3]	11.46%	11.70 %	12.58%	12.28%	12.16%	12.05%	11.79%	11.35%
Credit Quality								
Impaired mortgage ratio (corporate) [1,4]	1.26%	0.39 %	0.32%	0.27%	0.27%	0.30%	0.34%	0.23%
Impaired mortgage ratio (total) [1,4]	0.77%	0.28 %	0.23%	0.18%	0.19%	0.24%	0.27%	0.24%
Mortgage Arrears								
Corporate [1]	$ 36,083	$31,289	$ 12,161	$ 13,014	$ 11,334	$ 11,251	$ 9,435	$ 8,398
Securitized [1]	4,005	5,016	3,750	3,367	4,122	7,431	6,527	8,472
Total [1]	$ 40,088	$36,305	$ 15,911	$ 16,381	$ 15,456	$ 18,682	$ 15,962	$ 16,870
Common Share Information (end of period)								
Number of common shares outstanding	24,621	24,420	24,215	24,215	24,129	24,040	23,798	23,746
Book value of common share [1]	$ 12.88	$ 12.90	$ 13.64	$ 13.53	$ 13.23	$ 13.18	$ 12.89	$ 12.74
Common share price - close	$ 12.65	$ 12.18	$ 17.10	$ 15.95	$ 15.95	$ 15.93	$ 13.32	$ 17.50
Market capitalization ($ million) [1]	$ 311	$ 297	$ 414	$ 386	$ 385	$ 383	$ 317	$ 416

[1] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.
[2] For further information refer to the "Taxable Income" section of this MD&A.
[3] Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.
[5] Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's 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, net gains and losses on marketable and non-marketable securities and provisions for credit losses. Additionally, corporate net investment income (loss) is impacted by equity income from MCAP, which can vary significantly from quarter to quarter.

Since mid-2018, the corporate portfolio mix has shifted towards single family mortgages amidst a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. The combination of these two factors as well as market disruption experienced in the term deposit market in 2020 due to COVID-19 has contributed to the gradual decrease in the spread of corporate mortgages over term deposit interest[1].

The size of the securitized mortgage portfolio has begun to increase with the impact of new securitization issuances exceeding mortgage maturities in the current quarter. The overall economics of securitization has been impacted by competitive and market driven pressures. We participate in this market opportunistically.

Capital ratios have remained relatively 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.

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

CAPITAL MANAGEMENT

Our primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns for our shareholders. Through our risk management and corporate governance framework, we assess current and projected asset growth, economic conditions, housing market activity, the interest rate environment and changes to credit quality to determine appropriate levels of capital. We expect to pay out all of our taxable income over time through dividends subject to final review and declaration by the Board. Capital growth is achieved through retained earnings, the DRIP, rights offerings and public share offerings. Our capital management is driven by the guidelines set out by the Tax Act and OSFI.

Income Tax Capital

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

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

Table 22: Income Tax Capital [1]

(in thousands except ratios)

As at	June 30 2020	March 31 2020	December 31 2019
Income tax assets [1]			
Consolidated assets	$ 2,248,343	$ 2,211,909	$ 2,179,341
Adjustment for assets in subsidiaries	14,128	14,029	11,250
Non-consolidated assets in MIC entity	2,262,471	2,225,938	2,190,591
Add: corporate mortgage allowances	6,110	5,994	4,135
Less: securitization assets [2]	(834,292)	(776,679)	(804,569)
Adjustments to equity investments in MCAP and subsidiaries	(53,934)	(52,246)	(60,146)
Other adjustments	6,356	8,223	(8,461)
	$ 1,386,711	$ 1,411,230	$ 1,321,550
Income tax liabilities [1]			
Consolidated liabilities	$ 1,931,271	$ 1,896,816	$ 1,849,029
Adjustment for liabilities in subsidiaries	(3,603)	(1,516)	(3,055)
Non-consolidated liabilities in MIC entity	1,927,668	1,895,300	1,845,974
Less: securitization liabilities [2]	(820,982)	(764,684)	(792,425)
	$ 1,106,686	$ 1,130,616	$ 1,053,549
Income tax capital [1]	$ 280,025	$ 280,614	$ 268,001
Income tax capital ratios [1]			
Income tax assets to capital ratio	4.95	5.03	4.93
Income tax liabilities to capital ratio	3.95	4.03	3.93

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes.*

Regulatory Capital

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

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

Our CET 1 capital consists of share capital, contributed surplus and retained earnings. 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.

At June 30, 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 23: Regulatory Capital

(in thousands except %)

As at	June 30 2020	March 31 2020	December 31 2019
Regulatory Ratios (OSFI)			
Share capital	$ 233,244	$ 230,724	$ 228,008
Contributed surplus	510	510	510
Retained earnings	83,318	83,859	101,794
Deduction from equity investment in MCAP [2]	(40,863)	(39,658)	(36,813)
Eligible Stage 1 and Stage 2 mortgage allowances [4]	1,394	1,311	—
Common Equity Tier 1 and Tier 1 Capital [4] (A)	277,603	276,746	293,499
Tier 2 Capital [4]	4,720	4,684	—
Total Capital [4] (D)	$ 282,323	$ 281,430	$ 293,499
Total Exposure/Regulatory Assets [1]			
Consolidated assets	$ 2,248,343	$ 2,211,909	$ 2,179,341
Less: deduction for equity investment in MCAP [2]	(40,863)	(39,658)	(36,813)
Other adjustments [3]	5,004	1,578	3,804
Total On-Balance Sheet Exposures	2,212,484	2,173,829	2,146,332
Mortgage and investment funding commitments (50%)	192,641	175,102	170,148
Letters of credit (50%)	16,262	15,916	16,982
Total Off-Balance Sheet Items	208,903	191,018	187,130
Total Exposure/Regulatory Assets (B)	$ 2,421,387	$ 2,364,847	$ 2,333,462
Leverage ratio [1] **(A / B)**	11.46%	11.70%	12.58%
Risk-weighted assets [1] **(C)**	$ 1,206,470	$ 1,269,686	$ 1,303,502
Regulatory Capital Ratios [1]			
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	23.01%	21.80%	22.52%
Tier 1 capital to risk-weighted assets ratio **(A / C)**	23.01%	21.80%	22.52%
Total capital to risk-weighted assets ratio **(D / C)**	23.40%	22.17%	22.52%

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.*
[3] *Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.*
[4] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's 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 24: Regulatory Risk-Weighted Assets

(in thousands except %)	June 30, 2020			March 31, 2020		
As at	**Per Balance Sheet**	**Average Rate**	**Risk-Weighted Assets**	**Per Balance Sheet**	**Average Rate**	**Risk-Weighted Assets**
On-Balance Sheet Assets						
Cash and cash equivalents	$ 109,024	21%	$ 22,806	$ 63,960	20%	$ 13,108
Cash held in trust	23,466	20%	4,693	29,736	20%	5,947
Marketable securities	34,775	100%	34,775	30,483	100%	30,483
Mortgages - corporate	1,119,313	63%	707,938	1,188,331	65%	777,323
Mortgages - securitized	812,048	4%	36,340	751,530	4%	32,134
Non-marketable securities	59,540	177%	105,411	60,068	180%	108,179
Equity investment in MCAP Commercial LP	72,710	44%	31,846	71,298	44%	31,640
Deferred tax asset	469	100%	469	442	100%	443
Other assets	16,998	100%	16,997	16,061	100%	16,060
			961,275			1,015,317
Off-Balance Sheet Items						
Letters of credit	32,524	50%	16,262	31,833	50%	15,917
Commitments	385,283	32%	122,245	350,205	37%	131,002
			138,507			146,919
Charge for operational risk [1]			106,688			107,450
Risk-Weighted Assets			**$ 1,206,470**			**$ 1,269,686**

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

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 global outbreak of COVID-19. As indicated previously, the COVID-19 pandemic has cast uncertainty on the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. 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. The Company's management is prepared to continue to adapt to the situation should it persist and will take necessary actions to protect the Company's business while keeping the safety of the Company's employees and other stakeholders at the centre of all decision-making.

To date, we have 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. As a result of COVID-19, our Contingency Funding Plan was invoked.

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"). At June 30, 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. At June 30, 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. At June 30, 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 its liquidity risk profile, its respective funding markets such as the term deposit and securitization market and its 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. At June 30, 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 25: Liquidity Analysis

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	June 30 2020	March 31 2020
Sources of liquidity							
Cash and cash equivalents	$ 109,024	$ —	$ —	$ —	$ —	$ 109,024	$ 63,960
Marketable securities	34,747	—	28	—	—	34,775	30,483
Mortgages - corporate	322,052	446,518	261,912	64,611	24,220	1,119,313	1,188,331
Non-marketable securities	—	—	15,528	—	44,012	59,540	60,068
Other loans	2,113	—	0	—	—	2,113	1,046
	467,936	446,518	277,468	64,611	68,232	1,324,765	1,343,888
Uses of liquidity							
Term deposits	113,483	377,820	483,130	126,424	—	1,100,857	1,105,039
Loans payable	—	—	—	—	—	—	19,107
Other liabilities	1,348	544	1,549	1,750	2,265	7,456	6,502
	114,831	378,364	484,679	128,174	2,265	1,108,313	1,130,648
Net liquidity surplus (deficit)	**$ 353,105**	**$ 68,154**	**$ (207,211)**	**$ (63,563)**	**$ 65,967**	**$ 216,452**	**$ 213,240**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 219,913	$ 81,420	$ 60,544	$ —	$ —	$ 361,877	$ 326,308
Commitment - KSHYF	—	—	1,212	—	22,194	23,406	23,897
	$ 219,913	$ 81,420	$ 61,756	$ —	$ 22,194	$ 385,283	$ 350,205

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, at June 30, 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. Employment levels have, and may continue to 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 have adjusted 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 at June 30, 2020 would have an estimated positive effect of $4.3 million (March 31, 2020 - $4.3 million; December 31, 2019 - $3.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at June 30, 2020 would have an estimated adverse effect of $1.7 million (March 31, 2020 - $1.9 million; December 31, 2019 - $3.4 million) to net income over the following twelve month period.

We have an integrated balance sheet approach to interest rate risk and our management of liquidity and funding risk. We expect that the impact of an immediate and sustained interest rate change would normally be substantially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given our balance sheet composition. Under normal circumstances, an immediate and sustained parallel 1% increase to market interest rates would be expected to have a negative impact on our marketable securities (which mostly consist of our REIT portfolio); however, given these unprecedented times as a result of COVID-19, an immediate and sustained parallel 1% increase to market interest rates could signal a stronger economy and lead to an increase in the value of our marketable securities.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at June 30, 2020 and March 31, 2020 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 26: Interest Rate Sensitivity at June 30, 2020

As at June 30, 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
Assets								
Corporate	$ 363,791	$ 220,478	$ 343,429	$ 230,898	$ 63,286	$ 68,105	$ 113,745	$ 1,403,732
Securitization	23,466	48,729	63,664	185,697	513,958	—	9,097	844,611
	387,257	269,207	407,093	416,595	577,244	68,105	122,842	2,248,343
Liabilities								
Corporate	—	113,483	377,820	483,130	126,424	—	7,985	1,108,842
Securitization	—	43,304	70,442	175,002	533,681	—	—	822,429
	—	156,787	448,262	658,132	660,105	—	7,985	1,931,271
Shareholders' Equity	—	—	—	—	—	—	317,072	317,072
GAP	**$ 387,257**	**$ 112,420**	**$ (41,169)**	**$(241,537)**	**$ (82,861)**	**$ 68,105**	**$ (202,215)**	**$ —**
YIELD SPREAD	**3.47%**	**2.63%**	**1.98%**	**1.58%**	**1.15%**	**8.06%**		

Table 27: Interest Rate Sensitivity 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
Assets								
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
Liabilities								
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
GAP	**$ 410,999**	**$ (24,722)**	**$ 29,269**	**$(231,774)**	**$ (46,768)**	**$ 67,585**	**$ (204,589)**	**$ —**
YIELD SPREAD	**1.66%**	**2.04%**	**1.98%**	**1.68%**	**1.06%**	**7.58%**		

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.

The COVID-19 outbreak has led to disruptions of the Company's business activity and a sustained outbreak may have a negative impact on the Company and its financial performance. As a response to COVID-19, the Company has taken 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. Employment levels have, and may continue to be, adversely impacted due to the national response to the COVID-19 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 business, operations and financial performance could be adversely affected by the impact of global health pandemics, such as the 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 expanded its revised IMPP to further bolster the financial system and the Canadian economy. The government announced on March 26, 2020 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. These common shares are the only voting securities of MCAN. At June 30, 2020, there were 24,620,897 common shares outstanding (December 31, 2019 - 24,215,383). At August 12, 2020, there were 24,620,897 common shares outstanding.

During Q2 2020 and year to date 2020, we issued 94,378 new common shares through the Executive Share Purchase Plan (Q2 2019 and year to date 2019 - nil).

We issued 106,242 new common shares in Q2 2020 (Q2 2019 - 88,914) and 311,136 new common shares year to date 2020 (year to date 2019 - 330,834) under the DRIP, 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 28: Contractual Obligations

(in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	June 30 2020	March 31 2020
Mortgage funding commitments	$ 301,333	$ 60,544	$ —	$ —	$ 361,877	$ 326,308
Commitment - KSHYF	—	1,212	—	22,194	23,406	23,897
	$ 301,333	**$ 61,756**	**$ —**	**$ 22,194**	**$ 385,283**	**$ 350,205**

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

On March 13, 2020 OSFI instructed all federally regulated financial institutions that dividend increases should be halted for the time being. An increase in dividends is defined as an increase in the total dollar amount of dividends paid after March 13, 2020 and non-cash dividends such as stock dividends are not included in the limitation.

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 June 30, 2020 and June 30, 2019 and related party balances at June 30, 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

At June 30, 2020, we had 103 team members (March 31, 2020 - 99; 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

At June 30, 2020, the President and CEO, and 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 June 30, 2020, we have automated certain of our internal controls over financial reporting. There were no changes in our ICFR during the interim period ended June 30, 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.

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 23 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.