MCAN MORTGAGE CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS

SEPTEMBER 30, 20

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter and the nine months ended September 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 of November 6, 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 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	Q3 2020	Q2 2020	Change (%)	Q3 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Income Statement Highlights								
Mortgage interest - corporate assets	$ 16,149	$ 15,409	5%	$ 14,609	11%	$ 46,955	$ 41,469	13%
Net investment income - corporate assets	$ 26,963	$ 12,649	113%	$ 18,207	48%	$ 34,590	$ 50,104	(31%)
Mortgage interest - securitization assets	$ 5,504	$ 4,786	15%	$ 4,800	15%	$ 15,073	$ 15,541	(3%)
Net investment income - securitization assets	$ 1,149	$ 389	195%	$ 962	19%	$ 2,339	$ 2,979	(21%)
Net income	$ 22,741	$ 7,796	192%	$ 14,551	56%	$ 20,807	$ 37,744	(45%)
Basic and diluted earnings per share	$ 0.92	$ 0.32	188%	$ 0.60	53%	$ 0.85	$ 1.57	(46%)
Dividends per share	$ 0.34	$ 0.34	—%	$ 0.32	6%	$ 1.02	$ 0.96	6%
Next quarter's dividend per share	$ 0.34							
Return on average shareholders' equity [1]	28.04 %	9.96 %	18.08%	18.05 %	9.99%	8.61 %	15.90 %	(7.29%)
Taxable income per share [1,2]	$ 0.48	$ 0.21	129%	$ 0.28	71%	$ 1.40	$ 0.90	56%
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.63 %	2.48 %	0.15%	2.48 %	0.15%	2.57 %	2.62 %	(0.05%)
Spread of securitized mortgages over liabilities [1]	0.81 %	0.44 %	0.37%	0.72 %	0.09%	0.63 %	0.70 %	(0.07%)
Average term to maturity (in months)								
Mortgages - corporate	13.5	12.3	10%	11.3	19%			
Term deposits	19.2	18.7	3%	19.1	1%			

	Sept 30 2020	Jun 30 2020	Change (%)	Dec 31 2019	Change (%)
Balance Sheet Highlights					
Total assets	$2,565,977	$2,248,343	14%	$2,179,341	18%
Mortgages - corporate	1,309,605	1,119,313	17%	1,089,401	20%
Mortgages - securitized	960,874	812,048	18%	784,296	23%
Shareholders' equity	332,833	317,072	5%	330,312	1%
Capital Ratios [1]					
Income tax assets to capital ratio	5.44	4.95	10%	4.93	10%
CET 1 & Tier 1 capital ratio [4]	20.45 %	23.01 %	(2.56%)	22.52 %	(2.07%)
Total capital ratio [4]	20.80 %	23.40 %	(2.60%)	22.52 %	(1.72%)
Leverage ratio [3]	10.26 %	11.46 %	(1.20%)	12.58 %	(2.32%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	0.27 %	1.26 %	(0.99%)	0.32 %	(0.05%)
Impaired mortgage ratio (total) [1]	0.17 %	0.77 %	(0.60%)	0.23 %	(0.06%)
Mortgage Arrears [1]					
Corporate	$ 10,229	$ 36,083	(72%)	$ 12,161	(16%)
Securitized	3,522	4,005	(12%)	3,750	(6%)
Total	$ 13,751	$ 40,088	(66%)	$ 15,911	(14%)
Common Share Information (end of period)					
Number of common shares outstanding	24,727	24,621	—%	24,215	2%
Book value per common share [1]	$ 13.46	$ 12.88	5%	$ 13.64	(1%)
Common share price - close	$ 13.41	$ 12.65	6%	$ 17.10	(22%)
Market capitalization [1]	$ 331,589	$ 311,456	6%	$ 414,077	(20%)

[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

Q3 2020

- Net income of $22.7 million in Q3 2020, an increase of $8.1 million (56%) from $14.6 million in Q3 2019.
- Earnings per share totalled $0.92 in Q3 2020, an increase of $0.32 (53%) from $0.60 per share in Q3 2019.
- Return on average shareholders' equity[1] of 28.04% in Q3 2020, an increase of 9.99% from 18.05% in Q3 2019.
- Net corporate mortgage spread income[1] increased by $1.6 million from Q3 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,232 million in Q3 2020 compared to $1,094 million in Q3 2019 and an increase in the spread of corporate mortgages over term deposit interest[1] to 2.63% in Q3 2020 from 2.48% in Q3 2019. The increase in the spread of corporate mortgages over term deposit interest[1] is due to a reduction in term deposit rates partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, and the yield on our primarily floating-rate construction loan portfolio decreasing.
- Net securitized mortgage spread income[1] increased by $0.5 million from Q3 2019. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] and an increase in the spread of securitized mortgages over liabilities[1].
- Our provision for credit losses on our corporate mortgage portfolio increased by $0.3 million from Q3 2019. Increases relating to the potential economic impacts of COVID–19 and growth in the portfolio were substantially offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our policies and practices on asset management.
- Equity income from MCAP Commercial LP ("MCAP") totalled $18.0 million in Q3 2020, an increase of $13.6 million (306%) from $4.4 million in Q3 2019, which was due to higher financial instrument gains and mortgage origination fee income from higher whole loan sales at wider spreads. MCAP also recorded higher fees from non-recurring new contracts. It is expected that MCAP will have strong earnings in Q4 2020, however, normal market and business dynamics will drive MCAP's net income in 2021.
- In Q3 2020, we recorded a $0.5 million net loss on securities compared to a $5.0 million net gain on securities in Q3 2019. Activity in both Q3 2020 and Q3 2019 included fair value losses and gains, respectively, mainly related to our real estate investment trust ("REIT") portfolio. We continue to see volatility in the market value of our REIT portfolio due to COVID-19 since the first quarter and into the second wave, as most of the Q3 2020 losses were incurred in September.

Year to Date 2020

- Net income of $20.8 million for 2020 year to date, a decrease of $16.9 million (45%) from $37.7 million net income in 2019.
- Earnings per share totalled $0.85 for 2020 year to date, a decrease of $0.72 (46%) from $1.57 earnings per share in 2019.
- Return on average shareholders' equity[1] of 8.61% for 2020 year to date, which compares to 15.90% in 2019.
- Net corporate mortgage spread income[1] increased by $2.8 million from 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,184 million in 2020 from $1,023 million in 2019. This was partly offset by a small decrease in the spread of corporate mortgages over term deposit interest[1] to 2.57% in 2020 from 2.62% 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 and the yield on our primarily floating-rate construction loan portfolio decreasing. Term deposit rates didn't go down by as much as rates in our mortgage portfolio due to increased competition for term deposit funding, particularly in the first half of Q2 2020 when term deposit rates remained high and even temporarily increased notwithstanding substantial decreases in the Bank of Canada overnight rate.

- Net securitized mortgage spread income[1] decreased by $0.4 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 due to higher indemnity expense on early repaid mortgages that was higher than penalty income occurring mainly in the second quarter of the year.

- Our provision for credit losses on our corporate mortgage portfolio increased by $2.6 million from 2019. Increases relating to the potential economic impacts of COVID–19 and growth in the portfolio were significantly offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our policies and practices on asset management.

- Equity income from MCAP totalled $24.5 million for 2020 year to date, an increase of $12.8 million (109%) from $11.7 million in 2019. For 2020 year to date, MCAP had higher mortgage origination income from higher whole loan sales at wider spreads as well as income from non-recurring new contracts. This was partly offset by higher hedge losses as a result of the large decline in bond yields in late Q1 and early Q2 2020. 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. It is expected that MCAP will have strong earnings in Q4 2020, however, normal market and business dynamics will drive MCAP's net income in 2021.

- Year to date net loss on securities of $14.8 million for 2020 compared to a year to date net gain on securities of $11.9 million for 2019 were both primarily driven by our REIT portfolio's valuation changes. In 2020, market prices for REITs were severely impacted by COVID-19 and we continue to see higher market volatility.

Business Activity and Balance Sheet

- Corporate assets totalled $1.57 billion at September 30, 2020, an increase of $169 million (12%) from June 30, 2020 and an increase of $211 million (16%) from December 31, 2019.

- Corporate mortgage portfolio totalled $1.3 billion at September 30, 2020, an increase of $190 million (17%) from June 30, 2020 and an increase of $220 million (20%) from December 31, 2019.

- Uninsured single family portfolio totalled $436 million at September 30, 2020, an increase of $26 million (6%) from June 30, 2020 and an increase of $54 million (14%) from December 31, 2019.

- Uninsured single family originations were $66 million in Q3 2020, an increase of $15 million (30%) from Q2 2020 and an increase of $20 million (44%) from Q3 2019.

- Insured single family originations were $196 million in Q3 2020, an increase of $94 million (92%) from Q2 2020 and an increase of $119 million (155%) from Q3 2019.

- Securitization volumes were $218 million in Q3 2020, an increase of $43 million (25%) from Q2 2020 and an increase of $103 million (90%) from Q3 2019. Securitization volumes in Q3 2020 consisted of $218 million insured single family mortgages (Q2 2020 - $154 million; Q3 2019 - $101 million) and $nil of insured multi family mortgages (Q2 2020 - $20 million; Q3 2019 - $14 million).

- Construction and commercial portfolios totalled $635 million at September 30, 2020, an increase of $117 million (23%) from June 30, 2020 and an increase of $84 million (15%) from December 31, 2019.

Dividend

- The Board of Directors (the "Board") declared a fourth quarter dividend of $0.34 per share to be paid January 4, 2021 to shareholders of record as of December 15, 2020.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.27% at September 30, 2020 compared to 1.26% at June 30, 2020 and 0.32% at December 31, 2019. The improvement in the third quarter was due to one construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal. The impairment of this construction mortgage was not related to COVID-19.

- The impaired total mortgage ratio[1] was 0.17% at September 30, 2020 compared to 0.77% at June 30, 2020 and 0.23% at December 31, 2019. The decrease from Q2 2020 is discussed above.

- Total mortgage arrears[1] were $14 million at September 30, 2020 compared to $40 million at June 30, 2020 and $16 million at December 31, 2019.

- Total mortgages in our payment deferral program represent less than 1% of our single family and securitized portfolio on a dollar basis at September 30, 2020 compared to 4% at June 30, 2020 and 10% 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 61.5% at September 30, 2020 compared to 61.2% at June 30, 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.

- The income tax assets to capital ratio[1] was 5.44 at September 30, 2020 compared to 4.95 at June 30, 2020 and 4.93 at December 31, 2019.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[1,2] were 20.45% at September 30, 2020 compared to 23.01% at June 30, 2020 and 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio[1,2] was 20.80% at September 30, 2020 compared to 23.40% at June 30, 2020 and 22.52% at December 31, 2019.

- The leverage ratio[1] was 10.26% at September 30, 2020 compared to 11.46% at June 30, 2020 and 12.58% at December 31, 2019.

- We issued 106,248 new common shares through the Dividend Reinvestment Plan ("DRIP") in Q3 2020 compared to 86,085 in Q3 2019. The DRIP participation rate was 17% for the 2020 third quarter dividend (2019 third quarter dividend - 17%).

[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 third quarter marked the sixth month of COVID-19 impact in Canada. Although many non-essential businesses and services were reopened in Canada early in the quarter and schools reopened in September with appropriate safety measures, COVID-19 continues to have significant effects on the Canadian and global economies. We now find ourselves in the second wave of infections with further specific localized shutdowns being reinstated across the country. International borders continue to either be closed or have restrictions. It is still too early to determine the impacts of the second wave or even the full impacts of the first wave of COVID-19 on the Canadian economy. Prior to the pandemic, we were expecting an interest rate increase and 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.

Since March and continuing into the third quarter, 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 continues to stand currently and is expected to remain in the near to mid-term. All these measures have helped support Canadians and the Canadian economy thus far. Canada's Q3 GDP is set to make up approximately three quarters of the decline experienced in the first half of the year. Employment numbers also took a positive direction in Q3. Job gains from May to August brought employment to within 1.1 million jobs of its pre-COVID level. Within that narrative, economic impacts have been uneven. Many economists are talking about a k-shaped recovery, with some industries recovering quickly from the pandemic, and others with a very slow and long recovery that have been very hard hit. It is still unclear however, what Canada's economic and employment future will be - particularly when key support measures end.

Business Outlook

We conduct our business based on our expectations 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 and risks 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 since then continue to execute our business effectively.

The timing and speed of the recovery of the Canadian economy is uncertain as previously mentioned, and the Bank of Canada has indicated that interest rates will remain low for the foreseeable future. We had initially seen a decline in housing starts after the pandemic. Starting in the latter part of Q2 that trend reversed. Housing continues to be a hot spot for the Canadian economy despite the pandemic. In fact, housing starts hit a 13-year high in Q3 according to a major Canadian bank. On the resale side of the housing business, Q3 showed strong increases in sales, particularly in major markets, with home prices also increasing. We believe that our strategy will continue to serve us well during the pandemic and beyond. We believe that we are a prudent and disciplined lender and investor and that we have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see strong deal flow in all our product lines, as well as loan repayments from completed construction projects and maturing residential mortgages. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty in the economy and outlook.

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 sales process immediately, these activities did not stop. In fact, as previously mentioned, the Q3 housing market remained extremely strong and extremely active. In our portfolios, we continued to see an increase in new insured and uninsured mortgage volumes relating to home purchases and uninsured mortgage refinances across our target markets. We attribute this increase largely to the low interest rate environment. We have had some of the highest origination volumes in our history and our pipeline continues to be full subsequent to quarter end. Year to date, the low interest rate environment also created an increase in early repaid mortgages in our existing securitized pools resulting in higher indemnity expense. This activity within our securitized pools subsided in Q3, however. New mortgage volumes relating to uninsured home purchases have also increased in Q3 across our target markets. Throughout the year, we have seen a much more competitive environment in both the insured and uninsured mortgage market. We expect this to continue for the balance of the year and into 2021.

In these unprecedented times our risk management, credit monitoring and assessment activities have increased. We have worked with some of our borrowers on a case-by-case basis to provide effective alternatives that have allowed them to manage the challenges they are facing due to COVID-19. This support has included payment deferrals of up to six months on existing

mortgages. Active deferrals have decreased and by the end of September only make up less than 1% of our single family and securitized portfolios on a dollar basis. We have also implemented appropriate measures to support these borrowers after their payment deferral periods end, 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 and in our portfolios 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 initially after the pandemic began, 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 in particular, due to social distancing protocols and workplace safety rules, as well as supply chain challenges for key components such as plumbing fixtures, lighting fixtures, and mechanical units. 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 as previously indicated, the housing market has been strong since then. We have increased the amount of construction loans on our books, particularly in Q3 and our pipeline remains strong. Going forward, it is not clear whether this stronger activity will continue once government stimulus measures end. We will of course continue to monitor this. 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 continue to depend on the scope and duration of this crisis, the second wave of COVID-19 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 have been 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, we are encouraged by the strength of other segments of our business such as our insured single family business, our construction and commercial business and our other investments, including our investment in MCAP. MCAP has recorded, and is expected to continue to record for the balance of the year, enhanced earnings from non-recurring new business contracts, high mortgage spreads and increased commitment levels. 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

(in thousands except for per share amounts and %) For the Periods Ended	Q3 2020	Q2 2020	Change (%)	Q3 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 16,149	$ 15,409	5%	$ 14,609	11%	$ 46,955	$ 41,469	13%
Equity income from MCAP Commercial LP	17,963	3,143	472%	4,422	306%	24,540	11,727	109%
Non-marketable securities	1,269	1,610	(21%)	1,631	(22%)	4,425	4,614	(4%)
Marketable securities	588	563	4%	786	(25%)	1,762	2,347	(25%)
Fees	555	158	251%	687	(19%)	1,076	1,620	(34%)
Interest on cash and other income	108	97	11%	250	(57%)	507	854	(41%)
Net gain (loss) on securities	(517)	1,412	(137%)	4,958	(110%)	(14,793)	11,941	(224%)
Gain on dilution of investment in MCAP Commercial LP	33	—	n/a	187	(82%)	33	187	(82%)
	36,148	**22,392**	**61%**	**27,530**	**31%**	**64,505**	**74,759**	**(14%)**
Term deposit interest and expenses	7,774	8,306	(6%)	7,853	(1%)	24,088	21,361	13%
Mortgage expenses	1,130	1,124	1%	1,031	10%	3,288	2,967	11%
Interest on loans payable	269	74	264%	395	(32%)	484	561	(14%)
Other financial expenses	—	—	n/a	360	(100%)	—	360	(100%)
Provision for (recovery of) credit losses	12	239	(95%)	(316)	104%	2,055	(594)	446%
	9,185	**9,743**	**(6%)**	**9,323**	**(1%)**	**29,915**	**24,655**	**21%**
	26,963	**12,649**	**113%**	**18,207**	**48%**	**34,590**	**50,104**	**(31%)**
Net Investment Income - Securitization Assets								
Mortgage interest	5,504	4,786	15%	4,800	15%	15,073	15,541	(3%)
Other securitization income	43	179	(76%)	309	(86%)	483	584	(17%)
	5,547	**4,965**	**12%**	**5,109**	**9%**	**15,556**	**16,125**	**(4%)**
Interest on financial liabilities from securitization	3,841	4,078	(6%)	3,662	5%	11,666	11,695	—%
Mortgage expenses	558	487	15%	485	15%	1,540	1,460	5%
Provision for (recovery of) credit losses	(1)	11	(109%)	—	n/a	11	(9)	222%
	4,398	**4,576**	**(4%)**	**4,147**	**6%**	**13,217**	**13,146**	**1%**
	1,149	**389**	**195%**	**962**	**19%**	**2,339**	**2,979**	**(21%)**
Operating Expenses								
Salaries and benefits	3,517	3,219	9%	2,947	19%	10,538	10,035	5%
General and administrative	1,525	1,750	(13%)	1,667	(9%)	5,030	5,548	(9%)
	5,042	**4,969**	**1%**	**4,614**	**9%**	**15,568**	**15,583**	**—%**
Net income before income taxes	23,070	8,069	186%	14,555	59%	21,361	37,500	(43%)
Provision for (recovery of) income taxes	329	273	21%	4	8,125%	554	(244)	327%
Net Income	**$ 22,741**	**$ 7,796**	**192%**	**$ 14,551**	**56%**	**$ 20,807**	**$ 37,744**	**(45%)**
Basic and diluted earnings per share	$ 0.92	$ 0.32	188%	$ 0.60	53%	$ 0.85	$ 1.57	(46%)
Dividends per share	$ 0.34	$ 0.34	—%	$ 0.32	6%	$ 1.02	$ 0.96	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	September 30, 2020			June 30, 2020			September 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	$ 189,505	$ 1,351	2.84 %	$ 187,633	$ 1,336	2.85 %	$ 165,970	$ 1,305	3.10 %
Uninsured	425,881	5,194	4.87 %	400,329	4,822	4.81 %	355,895	4,098	4.59 %
Uninsured - completed inventory	38,613	609	6.27 %	37,639	606	6.47 %	21,532	411	6.71 %
Construction loans									
Residential	533,617	8,392	6.25 %	511,961	7,997	6.28 %	452,837	7,258	6.36 %
Non residential	1,613	38	9.24 %	679	12	6.88 %	4,500	94	8.27 %
Commercial loans									
Multi family residential	10,089	142	5.58 %	10,441	140	5.38 %	42,731	616	5.72 %
Other	32,336	423	5.19 %	32,346	496	6.16 %	50,383	827	6.46 %
Mortgages - corporate portfolio	$1,231,654	$ 16,149	5.22 %	$1,181,028	$ 15,409	5.23 %	$1,093,848	$ 14,609	5.28 %
Term deposit interest and expenses	1,116,772	7,774	2.59 %	1,095,734	8,306	2.75 %	1,001,159	7,853	2.80 %
Net corporate mortgage spread income[2]		$ 8,375			$ 7,103			$ 6,756	
Spread of mortgages over term deposit interest [2]			2.63 %			2.48 %			2.48 %
Average term to maturity (months)									
Mortgages - corporate	13.5			12.3			11.3		
Term deposits	19.2			18.7			19.1		

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

For the Nine Months Ended September 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	$ 171,704	$ 3,710	2.89 %	$ 139,270	$ 3,322	3.15 %
Uninsured	404,765	14,599	4.81 %	322,780	10,992	4.54 %
Uninsured - completed inventory	39,687	1,883	6.33 %	16,849	860	6.45 %
Construction loans						
Residential	523,309	24,842	6.34 %	435,759	21,164	6.51 %
Non residential	814	70	11.42 %	7,410	431	7.50 %
Commercial loans						
Multi family residential	11,113	546	6.00 %	45,968	1,906	5.54 %
Other commercial	32,346	1,305	4.94 %	54,934	2,750	6.69 %
Mortgages - corporate portfolio	$ 1,183,738	$ 46,955	5.28 %	$ 1,022,970	$ 41,425	5.40 %
Term deposit interest and expenses	1,083,676	24,088	2.71 %	952,096	21,361	2.78 %
Net corporate mortgage spread income[2]		$ 22,867			$ 20,064	
Spread of mortgages over term deposit interest [2]			2.57 %			2.62 %

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended September 30, 2020, June 30, 2020 and September 30, 2019 and the nine months ended September 30, 2020 and September 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	Q3 2020	Q2 2020	Change (%)	Q3 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Originations								
Single family - insured	$ 196,161	$ 102,181	92%	$ 76,970	155%	$ 397,884	$ 172,270	131%
Single family - uninsured	66,481	51,060	30%	46,179	44%	169,687	165,025	3%
Single family - uninsured completed inventory [1]	27,108	755	3,490%	32,030	(15%)	46,329	47,493	(2%)
Residential construction [1]	181,827	81,153	124%	74,611	144%	352,799	190,519	85%
Non-residential construction [1]	1,004	784	28%	—	n/a	2,057	760	171%
Commercial [1]	—	75	(100%)	212	(100%)	75	1,037	(93%)
	$ 472,581	**$ 236,008**	**100%**	**$ 230,002**	**105%**	**$ 968,831**	**$ 577,104**	**68%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 46,914	$ 34,895	34%	$ 30,606	53%	$ 110,222	$ 55,579	98%

[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 increase in the spread of mortgages over term deposit interest[1] in Q3 2020 from Q2 2020 and Q3 2019 was due to a decrease in term deposit rates and expenses partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, and the yield on our primarily floating-rate construction loan portfolio decreasing. Continued market competition for both mortgages and term deposit funding contributed to the decrease in the spread of mortgages over term deposit interest[1] year to date as well as the aforementioned portfolio mix. With respect to term deposits, although the average rate is slightly lower than in prior year, rates remained high and even increased for several weeks immediately following the COVID-19 impact on Canada in March 2020, notwithstanding the significant decrease in Bank of Canada overnight rates.

Single Family

We continue to focus on growing our single family originations in our corporate and securitized 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 Q3 2020 supported a 116% increase in single family securitization volumes to $218 million in Q3 2020 from $101 million in Q3 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.

As we are in unprecedented times, we have been committed to working with our borrowers on a case-by-case basis to provide effective alternatives that have helped them manage the challenges they are facing due to COVID-19. This support included up to a six-month payment deferral for mortgages. Active deferrals have decreased, and by September 30, 2020 only represent less than 1% of our single family and securitized portfolio on a dollar basis compared to 4% at June 30, 2020 and 10% at March 31, 2020.

Construction and Commercial

During Q3 2020, we continued to focus on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile and we have seen a significant increase in originations, especially in Q3 2020. The decrease in the commercial portfolio at Q3 2020 from Q3 2019 was due to loan repayments at maturity and the selection process for our desired risk adjusted return.

Construction delays for some projects may occur due to the COVID-19 pandemic which may lead to an increase in loan extension requests and project cost overruns. To date, sites with the appropriate permits in place continue to progress toward completion. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worths and presale requirements as applicable to the respective markets to mitigate impacts from slower expected sales or project delays.

[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 September 30, 2020, we had the renewal rights to $1.5 billion of single family mortgages (June 30, 2020 - $1.3 billion; December 31, 2019 - $1.2 billion).

Equity Income from MCAP

In Q3 2020, MCAP's origination volumes were $5.3 billion, an increase from $5.2 billion in Q3 2019. At August 31, 2020 (we account for MCAP on a one-month lag basis), MCAP had $109.0 billion of assets under management compared to $105.6 billion at May 31, 2020 and $78.1 billion at August 31, 2019. For Q3 2020, the $13.6 million increase in equity income from MCAP was due to higher financial instrument gains and mortgage origination fee income from higher whole loan sales at wider spreads. MCAP also recorded higher fees from non-recurring new contracts. For the year to date, the $12.8 million increase in equity income from MCAP was due to higher mortgage origination income from higher whole loan sales at wider spreads as well as income from non-recurring new contracts. This was partly offset by higher hedge losses as a result of the large decline in bond yields in late Q1 and early Q2 2020. 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. It is expected that MCAP will have strong earnings in Q4 2020, however, normal market and business dynamics will drive MCAP's net income in 2021.

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 Q3 2020, we received distribution income of $1.0 million (Q3 2019 - $1.3 million) from the KingSett High Yield Fund ("KSHYF") and $nil (Q3 2019 - $0.3 million) from Crown LP. In Q3 2020, we received principal and interest of $2.2 million from MCAP RMBS Issuer Corporation 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 6.75% in Q3 2020 (Q3 2019 - 5.27%). 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 Q3 2020, we recorded a $0.5 million net loss on securities compared to a $5.0 million net gain on securities in Q3 2019. Activity in Q3 2020 included fair value losses related to our REIT portfolio and in Q3 2019 included fair value gains related to our REIT portfolio and our investment in Crown LP. Our year to date net loss on securities was $14.8 million for 2020 compared to a year to date net gain on securities of $11.9 million for 2019. The current year net loss was caused by significant declines in the

market values of REITs due to COVID-19. We continue to see volatility in the market values of REITs due to COVID-19 since the first quarter and into the second wave.

Gain on Dilution of Investment in MCAP

In Q3 2020 and Q3 2019, MCAP issued additional class B units to other partners of MCAP which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $33,000 in Q3 2020 (Q3 2019 - $187,000).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses from 2019 was partly due to the increase in deposit funding required to support growth in our mortgage portfolio. As well, although the average rate is slightly lower than in prior year, rates remained high and even increased for several weeks immediately following the COVID-19 impact on Canada in March 2020, notwithstanding the significant decrease in Bank of Canada overnight rates. We have seen rates since come down and stabilize. 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. Term deposit expenses include costs related to insurance, operating infrastructure and administration. In Q3 2020, the reduction in term deposit interest and expenses from Q3 2019 was due to a decrease in term deposit rates partly offset by an increase in term deposit funding levels.

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 $218 million in Q3 2020 (Q3 2019 - $115 million), of which $nil were insured multi family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q3 2019 - $14 million). The low interest rate environment has caused a higher volume of securitizations in addition to a higher amount of 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	September 30, 2020			June 30, 2020			September 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	$ 847,399	$ 5,504	2.61 %	$ 739,590	$ 4,786	2.61 %	$ 747,566	$ 4,800	2.58 %
Financial liabilities from securitization	859,683	3,841	1.80 %	755,692	4,078	2.17 %	784,259	3,662	1.86 %
Net securitized mortgage spread income [2]		$ 1,663			$ 708			$ 1,138	
Spread of mortgages over liabilities [2]			0.81 %			0.44 %			0.72 %

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

For the Nine Months Ended September 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	$ 779,838	$ 15,073	2.59 %	$ 813,024	$ 15,541	2.56 %
Financial liabilities from securitization	797,888	11,666	1.96 %	839,523	11,695	1.86 %
Net securitized mortgage spread income [2]		$ 3,407			$ 3,846	
Spread of mortgages over liabilities [2]			0.63 %			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 September 30, 2020, June 30, 2020 and September 30, 2019 and the nine months ended September 30, 2020 and September 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] year to date compared to 2019 due to higher indemnity expense on early repaid mortgages that was higher than penalty income. Since Q2 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities[2] has widened consistent with the broader mortgage market.

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	Q3 2020	Q2 2020	Change (%)	Q3 2019	Change (%)	YTD 2020	YTD 2019	Change (%)
Provision for (recovery of) on impaired corporate mortgages								
Single family mortgages uninsured	$ 44	$ 140	(69%)	$ 41	7%	$ 49	$ 56	(13%)
Construction	—	—	n/a	—	n/a	—	(217)	100%
	44	140	(69%)	41	7%	49	(161)	130%
Provision for (recovery of) on performing corporate mortgages								
Single family mortgages insured	—	2	(100%)	—	n/a	2	19	(89%)
Single family mortgages uninsured	(401)	1,011	(140%)	28	(1,532%)	877	(365)	340%
Single family mortgages uninsured - completed inventory	(140)	(7)	1,900%	49	(386%)	477	113	322%
Construction loans	368	(1,023)	(136%)	(336)	210%	489	445	10%
Commercial loans								
Multi family residential	(21)	54	(139%)	(52)	60%	(2)	(342)	99%
Other commercial	150	70	114%	(42)	457%	159	(292)	154%
	(44)	107	(141%)	(353)	(88%)	2,002	(422)	574%
Other provisions (recoveries)	12	(8)	250%	(4)	400%	4	(11)	136%
Total corporate provision for (recovery of) credit losses	12	239	(95%)	(316)	104%	2,055	(594)	446%
Provision for (recovery of) on performing securitized mortgages	(1)	11	(109%)	—	n/a	11	(9)	222%
Total provision for (recovery of) credit losses	$ 11	$ 250	(96%)	$ (316)	103%	$ 2,066	$ (603)	443%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ —	$ 247	(100%)	$ (312)	100%	$ 2,051	$ (583)	452%
Net write offs	$ 83	$ —	n/a	$ —	n/a	$ 221	$ 41	439%
Net write offs (basis points)	2.7	—	n/a	—	n/a	1.9	0.5	280%

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 compared to 2019 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 offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our policies and practices on asset management. In Q3 2020, the provision for credit losses was largely unchanged due to updated more positive macroeconomic scenarios and economic inputs offset by increases in ECL due to higher construction portfolio balances. 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 at September 30, 2020. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since September 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 September 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.

We continue to monitor our portfolio in arrears on a regular basis to detect COVID-19-specific significant stress or deterioration and note that government support programs are still in effect. We also 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**	**Q3 2020**	**Q2 2020**	**Change (%)**	**Q3 2019**	**Change (%)**	**YTD 2020**	**YTD 2019**	**Change (%)**
Salaries and benefits	$ 3,517	$ 3,219	9%	$ 2,947	19%	$ 10,538	$ 10,035	5%
General and administrative	1,525	1,750	(13%)	1,667	(9%)	5,030	5,548	(9%)
	$ 5,042	**$ 4,969**	**1%**	**$ 4,614**	**9%**	**$ 15,568**	**$ 15,583**	**0%**

The increase in salaries and benefits was primarily due to an increase in short and long-term incentive compensation and staff complement.

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.

In order to take advantage of the tax benefits provided by its Mortgage Investment Corporation ("MIC") status, we typically pay out substantially all of MCAN's non-consolidated taxable income to shareholders 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**	**Q3 2020**	**Q3 2019**	**YTD 2020**	**YTD 2019**
Consolidated net income (loss) for accounting purposes	$ 22,741	$ 14,551	$ 20,807	$ 37,744
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(17,963)	(4,422)	(24,540)	(11,727)
Add: MCAP taxable income	6,648	2,348	20,097	5,414
Reverse: Provision for (recovery of) credit losses [2]	(41)	(351)	2,015	(448)
Add: Amortization of upfront securitization program costs [3]	1,226	1,524	3,694	4,855
Deduct: Securitization program mortgage origination costs [3]	(5,433)	(3,453)	(10,988)	(6,321)
Add: Securitization program premium (discount)	2,126	879	3,776	1,362
Reverse: Net unrealized (gain)/loss on securities [4]	517	(4,495)	14,793	(11,416)
Reverse: (Income)/loss earned in subsidiaries [5]	1,533	350	4,386	2,450
Deduct: Gain on dilution of MCAP [7]	(33)	(187)	(33)	(187)
Other items	529	(6)	312	(123)
Taxable Income	**$ 11,850**	**$ 6,738**	**$ 34,319**	**$ 21,603**

[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 increase in taxable income for Q3 2020 and year to date compared to 2019 was primarily due to an increase in taxable income from MCAP. We believe that MCAP's taxable income may increase over the mid-term from timing differences between accounting income and taxable income due to MCAP's growth and strategic direction.

FINANCIAL POSITION

Assets

Table 11: Assets

(in thousands except %)	September 30 2020	June 30 2020	Change (%)	December 31 2019	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 71,257	$ 109,024	(35%)	$ 54,452	31%
Marketable securities	34,254	34,775	(1%)	46,170	(26%)
Mortgages	1,309,605	1,119,313	17%	1,089,401	20%
Non-marketable securities	57,340	59,540	(4%)	93,689	(39%)
Equity investment in MCAP Commercial LP	89,138	72,710	23%	69,844	28%
Deferred tax asset	368	469	(22%)	132	179%
Other assets	10,551	7,901	34%	7,771	36%
	1,572,513	**1,403,732**	**12%**	**1,361,459**	**16%**
Securitization Assets					
Cash held in trust	26,252	23,466	12%	28,575	(8%)
Mortgages	960,874	812,048	18%	784,296	23%
Other assets	6,338	9,097	(30%)	5,011	26%
	993,464	**844,611**	**18%**	**817,882**	**21%**
	$ 2,565,977	**$ 2,248,343**	**14%**	**$ 2,179,341**	**18%**

Our corporate asset portfolio increased from June 30, 2020 and December 31, 2019 primarily due to strong origination volumes in the insured single family and construction portfolios. Our securitized mortgage portfolio has increased from June 30, 2020 and December 31, 2019 due to the impact of new securitization issuances as a result of higher volumes of insured single family originations.

Mortgages - Corporate & Securitized

Corporate Mortgages

Single Family Mortgages

Insured and uninsured

We invest in insured and uninsured residential single family mortgages across Canada primarily focused on first time and move up buyer markets in the greater urban regions in Ontario and to a lesser extent in Alberta and Vancouver. These mortgages are primarily originated by our XMC subsidiary through its strategic relationships with mortgage brokers for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending to those customers with credit challenges and to those who are self employed. 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 typically ranging between 24 and 36 months, 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 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 we have enhanced 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 focus investments 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 September 30, 2020, the average outstanding construction loan balance was $9 million (June 30, 2020 - $8 million; December 31, 2019 - $9 million) with a maximum individual loan commitment of $30 million (June 30, 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 higher yielding 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.

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 Q3 2020, we securitized $120 million (Q3 2019 - $nil) of MBS through the market MBS program and retained $2 million (Q3 2019 - $nil) of the MBS on our corporate balance sheet and sold $118 million (Q3 2019 - $nil) to third parties. Year to date 2020, we securitized $205 million (year to date 2019 - $39 million) of MBS through the market MBS program and retained $21 million (year to date 2019 - $nil) of the MBS on our corporate balance sheet and sold $184 million (year to date 2019 - $39 million) to third parties.

At September 30, 2020, we held $48 million of MBS on our balance sheet for liquidity purposes (June 30, 2020 - $67 million; December 31, 2019 - $49 million), which is included in the insured single family portfolio within corporate mortgages.

CMB Program

During Q3 2020, we securitized $98 million (Q3 2019 - $101 million) of insured single family mortgages through the CMB program and $nil (Q3 2019 - $14 million) 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 $nil (Q3 2019 - $0.1 million). Year to date 2020, we securitized $247 million (year to date 2019 - $165 million) of insured single family mortgages through the CMB program and $35 million (year to date 2019 - $14 million) 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 $0.2 million (2019 - $0.1 million).

Table 12: Mortgage Summary

(in thousands except %)	September 30 2020	June 30 2020	Change (%)	December 31 2019	Change (%)
Corporate portfolio:					
Single family mortgages					
Insured	$ 183,556	$ 157,333	17%	$ 110,181	67%
Uninsured	436,417	410,014	6%	382,820	14%
Uninsured - completed inventory	54,607	33,962	61%	45,455	20%
Construction loans	592,778	475,274	25%	504,520	17%
Commercial loans					
Multi family residential	10,031	10,350	(3%)	14,032	(29%)
Other commercial	32,216	32,380	(1%)	32,393	(1%)
	1,309,605	**1,119,313**	**17%**	**1,089,401**	**20%**
Securitized portfolio					
Single family insured - Market MBS program	406,040	343,828	18%	449,935	(10%)
Single family insured - CMB program	554,834	468,220	18%	334,361	66%
	960,874	**812,048**	**18%**	**784,296**	**23%**
	$ 2,270,479	**$ 1,931,361**	**18%**	**$ 1,873,697**	**21%**

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 and construction loans was primarily due to increased new originations.

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

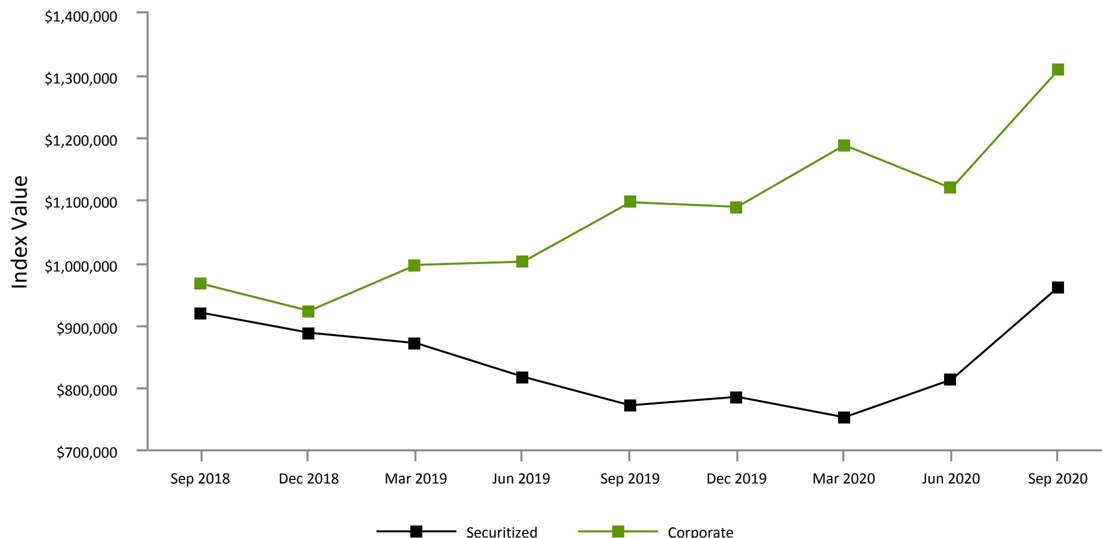
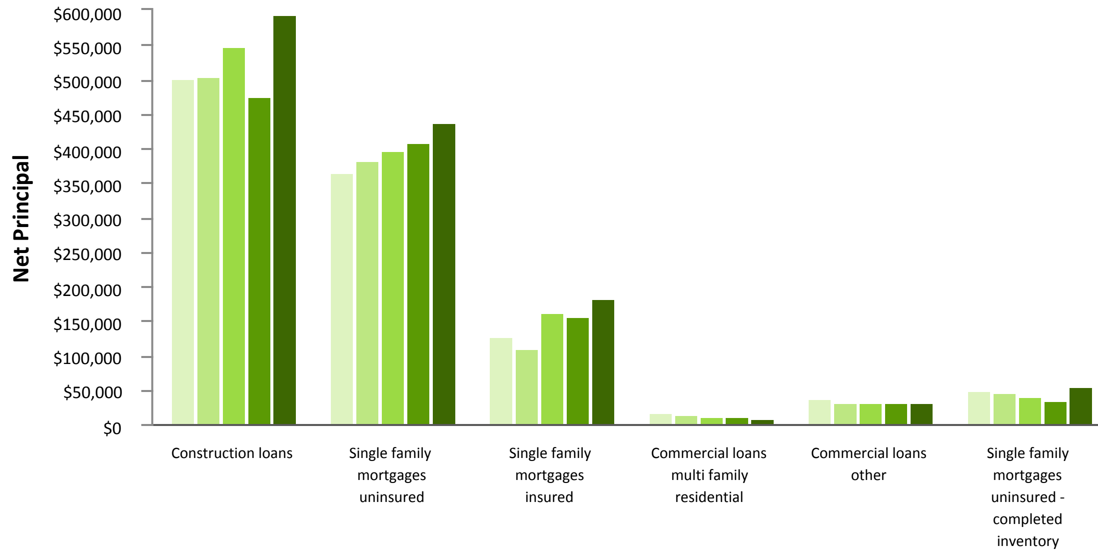


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
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%)
Sep 30, 2020	$592,778 (46%)	$436,417 (33%)	$183,556 (14%)	$10,031 (1%)	$32,216 (2%)	$54,607 (4%)

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

Figure 3: Mortgage Portfolio Geographic Distribution at September 30, 2020 (December 31, 2019)

	September 30, 2020		December 31, 2019	
	Corporate	**Securitized**	**Corporate**	**Securitized**
Ontario	59.3 %	81.4 %	53.9 %	73.3 %
Alberta	8.3 %	9.9 %	9.7 %	14.6 %
British Columbia	29.4 %	3.7 %	33.0 %	4.4 %
Quebec	1.7 %	1.3 %	1.7 %	2.2 %
Atlantic Provinces	0.8 %	2.6 %	1.0 %	3.7 %
Other	0.5 %	1.1 %	0.7 %	1.8 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %)	September 30 2020	June 30 2020	Change (%)	December 31 2019	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 1,087	$ 1,149	(5%)	$ 1,783	(39%)
Single family mortgages - uninsured	2,465	2,382	3%	1,739	42%
Construction loans	—	10,568	(100)%	—	n/a
	3,552	14,099	(75%)	3,522	1%
Securitized	410	704	(42%)	761	(46%)
Total impaired mortgages	$ 3,962	$ 14,803	(73%)	$ 4,283	(7%)
Impaired mortgage ratio (corporate) [1]	0.27 %	1.26 %	(0.99%)	0.32 %	(0.05%)
Impaired mortgage ratio (total) [1]	0.17 %	0.77 %	(0.60%)	0.23 %	(0.06%)
Mortgage arrears [1]					
Corporate					
Single family mortgages - insured	$ 2,305	$ 2,622	(12%)	$ 3,340	(31%)
Single family mortgages - uninsured	7,924	11,093	(29%)	8,821	(10%)
Construction loans	—	22,368	(100%)	—	n/a
Total corporate mortgage arrears [1]	10,229	36,083	(72%)	12,161	(16%)
Total securitized mortgage arrears [1]	3,522	4,005	(12%)	3,750	(6%)
Total mortgage arrears [1]	$ 13,751	$ 40,088	(66%)	$ 15,911	(14%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 6,648	$ 10,029	(34%)	$ 11,815	(44%)
Single family mortgages - uninsured	61,027	65,037	(6%)	64,790	(6%)
Single family mortgages - uninsured - completed inventory	1,881	2,091	(10%)	2,411	(22%)
Construction loans	22,818	24,197	(6%)	44,504	(49%)
Commercial loans - multi-family residential	—	356	(100%)	947	(100%)
Commercial - other	18,866	19,009	(1%)	—	n/a
	111,240	120,719	(8%)	124,467	(11%)
Stage 3					
Single family mortgages - insured	1,087	1,149	(5%)	1,783	(39%)
Single family mortgages - uninsured	2,465	2,382	3%	1,739	42%
Construction loans	—	10,568	(100%)	—	n/a
	3,552	14,099	(75%)	3,522	1%
Total stage 2 and 3 corporate mortgages	$ 114,792	$ 134,818	(15%)	$ 127,989	(10%)
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,053	$ 6,097	(1%)	$ 4,119	47%
Allowance on impaired mortgages	160	199	(20%)	194	(18%)
	6,213	6,296	(1%)	4,313	44%
Securitized - allowance on performing mortgages	15	17	(12%)	4	275%
Total allowance for credit losses	$ 6,228	$ 6,313	(1%)	$ 4,317	44%

[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.

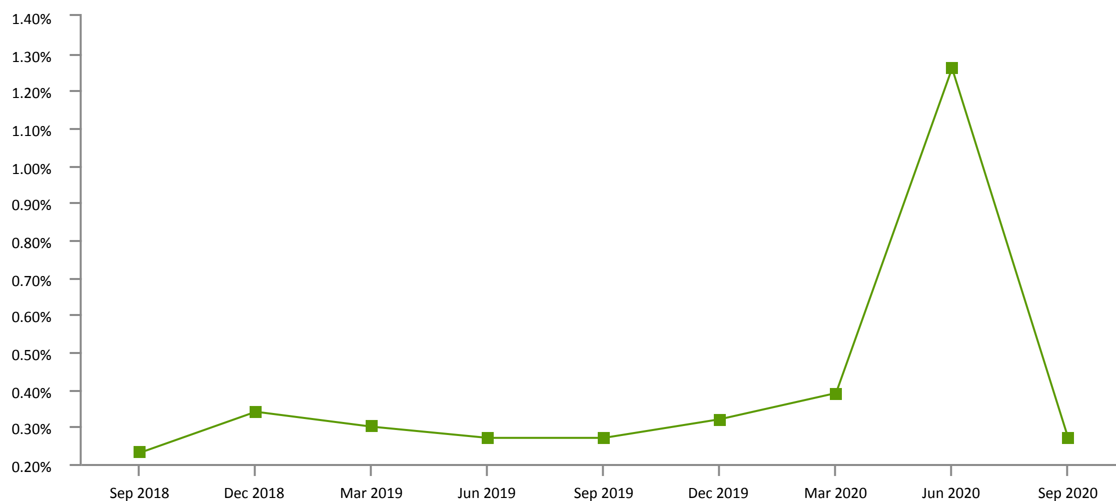
The classification of mortgages into stage 2 and stage 3 involves consideration of additional criteria such as credit score and internal risk rating. Accordingly, stage 2 and stage 3 balances are expected to vary between periods.

Consistent with a government-sponsored initiative and with industry practice, the Company offered up to a six-month payment deferral program for borrowers as a result of COVID-19. On August 31, 2020, OSFI issued revisions to the treatment of mortgage deferrals. If the mortgage deferral was granted before August 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to six calendar months from the effective date of the deferral. For deferrals granted from August 30, 2020 to September 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to three calendar months from the effective date of the deferral. 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. Once the deferral period expires, mortgage payments are to 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 September 30, 2020, total principal balance outstanding of corporate mortgages within this program totalled $6 million (June 30, 2020 - $28 million; March 31, 2020 - $63 million) and represented only single family mortgages. At September 30, 2020, total principal balance outstanding of securitized mortgages within this program totalled $7 million (June 30, 2020 - $22 million; March 31, 2020 - $65 million). At September 30, 2020, total mortgages previously in our payment deferral program that are now included in total mortgage arrears[1] represent less than 1% of our single family and securitized portfolio on a dollar basis.

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 potentially 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 would 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 mortgage where an asset recovery program was initiated. In Q3 2020, we received full recovery of past due interest and principal. The impairment of this construction mortgage was not related to COVID-19.

For further information regarding corporate mortgages by risk rating, refer to Note 6 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 September 30, 2020

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 147,870	80.6 %	$ 363,262	74.0 %	$ 69	73.4 %	$ 782,593	81.4 %	$ 1,293,794	79.0 %
Alberta	20,345	11.1 %	50,952	10.4 %	25	26.6 %	94,914	9.9 %	166,236	10.2 %
British Columbia	2,795	1.5 %	64,243	13.1 %	—	— %	35,376	3.7 %	102,414	6.3 %
Quebec	5,077	2.8 %	2,997	0.6 %	—	— %	12,720	1.3 %	20,794	1.3 %
Atlantic Provinces	5,944	3.2 %	4,591	0.9 %	—	— %	24,867	2.6 %	35,402	2.2 %
Other	1,431	0.8 %	4,979	1.0 %	—	— %	10,404	1.1 %	16,814	1.0 %
Total	**$ 183,462**	**100.0 %**	**$ 491,024**	**100.0 %**	**$ 94**	**100.0 %**	**$ 960,874**	**100.0 %**	**$ 1,635,454**	**100.0 %**

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

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

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

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 135,927	$ 201,778	$ 256,634	$ 80,241	$ 674,580
	20.2 %	29.9 %	38.0 %	11.9 %	100.0 %
Securitized	$ 195,827	$ 722,019	$ 42,693	$ 335	$ 960,874
	20.5 %	75.1 %	4.4 %	0.0 %	100.0 %
Total	**$ 331,754**	**$ 923,797**	**$ 299,327**	**$ 80,576**	**$ 1,635,454**
	20.3 %	**56.5 %**	**18.3 %**	**4.9 %**	**100.0 %**

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

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

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

(in thousands except %) **For the Periods Ended**	**Q3 2020**	**Average LTV**	**Q3 2019**	**Average LTV**	**YTD 2020**	**Average LTV**	**YTD 2019**	**Average LTV**
Ontario	$ 76,459	71.5%	$ 47,899	69.6%	$170,582	70.8%	$147,232	70.8%
Alberta	928	60.9%	20,550	61.1%	20,588	60.7%	21,061	60.9%
British Columbia	16,202	75.0%	9,606	66.3%	24,736	74.5%	43,697	63.2%
Other	—	—%	154	70.0%	110	61.8%	528	71.9%
	$ 93,589	**72.0%**	**$ 78,209**	**66.9%**	**$216,016**	**70.2%**	**$212,518**	**68.2%**

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

	September 30 2020	**December 31 2019**
Corporate portfolio:		
Single family mortgages		
Insured	78.5 %	78.8 %
Uninsured[1]	68.3 %	68.1 %
Uninsured - completed inventory	55.3 %	63.9 %
Construction loans		
Residential	49.0 %	46.2 %
Non-residential	64.7 %	0.0 %
Commercial loans		
Multi family residential	75.2 %	58.0 %
Other commercial	56.7 %	58.4 %
	60.1 %	58.4 %
Securitized portfolio		
Single family insured - Market MBS Program	80.7 %	82.9 %
Single family insured - CMB Program	82.5 %	83.9 %
	81.7 %	83.3 %
	69.2 %	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 66.8% at September 30, 2020 (December 31, 2019 - 67.4%). Based on an industry index that incorporates current real estate values, the ratios would be 61.5% and 64.0%, respectively.*

Other Corporate Assets

Cash and Cash Equivalents

At September 30, 2020, our cash balance was $71 million (June 30, 2020 - $109 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 September 30, 2020, the portfolio balance was $34 million (June 30, 2020 - $35 million; December 31, 2019 - $46 million).

Non-Marketable Securities

We invest in the KSHYF, in which we have a 6.8% equity interest at September 30, 2020 (June 30, 2020 - 6.8%; December 31, 2019 - 7.3%). At September 30, 2020, the carrying value of our investment was $44 million (June 30, 2020 - $44 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 September 30, 2020 (June 30, 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 September 30, 2020, the carrying value of our remaining investment in Crown LP opportunity fund was $30,000 (June 30, 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 September 30, 2020, the carrying value of the Securitization Notes was $14 million (June 30, 2020 - $16 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 14.03% equity interest in MCAP (June 30, 2020 - 14.04%; December 31, 2019 - 14.02%), which represents 4.0 million units held by MCAN at September 30, 2020 (June 30, 2020 - 4.0 million; December 31, 2019 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (June 30, 2020 - 28.5 million; December 31, 2019 - 28.5 million).

The investment had a net book value of $89 million at September 30, 2020 (June 30, 2020 - $73 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 $51 million at September 30, 2020 (June 30, 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 Q3 2020, we received $1.6 million of unitholder distributions from MCAP (Q3 2019 - $2.4 million). For year to date 2020, we have received $5.3 million of unitholder distributions from MCAP (year to date 2019 - $5.4 million). On October 9, 2020, we received $10.3 million of unitholder distributions from MCAP which is reflective of MCAP's higher income. 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 %)	September 30 2020	June 30 2020	Change (%)	December 31 2019	Change (%)
Corporate Liabilities					
Term deposits	$ 1,229,423	$ 1,100,857	12%	$ 1,034,299	19%
Loans payable	25,116	—	n/a	5,053	397%
Current taxes payable	758	529	43%	—	n/a
Deferred tax liabilities	—	—	n/a	21	(100%)
Other liabilities	8,970	7,456	20%	15,996	(44%)
	1,264,267	**1,108,842**	**14%**	**1,055,369**	**20%**
Securitization Liabilities					
Financial liabilities from securitization	968,877	822,429	18%	793,660	22%
	968,877	**822,429**	**18%**	**793,660**	**22%**
	2,233,144	**1,931,271**	**16%**	**1,849,029**	**21%**
Shareholders' Equity					
Share capital	234,635	233,244	1%	228,008	3%
Contributed surplus	510	510	—%	510	—%
Retained earnings	97,688	83,318	17%	101,794	(4%)
	332,833	**317,072**	**5%**	**330,312**	**1%**
	$ 2,565,977	**$ 2,248,343**	**14%**	**$ 2,179,341**	**18%**

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 Q3 2020 reflects new common shares issued through the DRIP. The DRIP participation rate for the Q3 2020 third quarter dividend was 17% (2020 second quarter - 16%; 2019 third quarter - 17%). For further information, refer to Note 12 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2020 consists of net income of $22.7 million less dividends of $8.4 million. Retained earnings activity for year to date 2020 consists of a net income of $20.8 million less dividends of $24.9 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18
Income Statement Highlights								
Mortgage interest - corporate assets	$16,149	$15,409	$15,397	$14,910	$14,609	$13,656	$13,204	$13,649
Net investment income (loss) - corporate assets	$26,963	$12,649	$(5,022)	$14,839	$18,207	$13,124	$18,773	$ 7,872
Mortgage interest - securitization assets	$ 5,504	$ 4,786	$ 4,783	$ 4,950	$ 4,800	$ 5,241	$ 5,500	$ 5,657
Net investment income - securitization assets	$ 1,149	$ 389	$ 801	$ 1,015	$ 962	$ 965	$ 1,052	$ 1,082
Net income (loss)	$22,741	$ 7,796	$(9,730)	$10,550	$14,551	$ 8,888	$14,305	$ 3,547
Basic and diluted earnings (loss) per share	$ 0.92	$ 0.32	$ (0.40)	$ 0.44	$ 0.60	$ 0.37	$ 0.60	$ 0.15
Dividends per share	$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Return on average shareholders' equity [1]	28.04 %	9.96 %	(11.84)%	12.84 %	18.05 %	11.27 %	18.36 %	4.66 %
Taxable income per share [1,2]	$ 0.48	$ 0.21	$ 0.71	$ 0.46	$ 0.28	$ 0.28	$ 0.34	$ 0.49
Spreads								
Spread of corporate mortgages over term deposit interest [1]	2.63 %	2.48 %	2.62 %	2.63 %	2.48 %	2.66 %	2.73 %	2.93 %
Spread of securitized mortgages over liabilities [1]	0.81 %	0.44 %	0.63 %	0.72 %	0.72 %	0.70 %	0.69 %	0.70 %
Average term to maturity (in months)								
Mortgages - corporate	13.5	12.3	12.2	10.7	11.3	11.6	11.9	11.5
Term deposits	19.2	18.7	17.0	18.4	19.1	20.1	17.2	18.7
Balance Sheet Highlights ($ million)								
Total assets	$ 2,566	$ 2,248	$ 2,212	$ 2,179	$ 2,200	$ 2,130	$ 2,167	$ 2,141
Mortgages - corporate	$ 1,310	$ 1,119	$ 1,188	$ 1,089	$ 1,097	$ 1,001	$ 996	$ 922
Mortgages - securitized	$ 961	$ 812	$ 752	$ 784	$ 771	$ 816	$ 871	$ 887
Total liabilities	$ 2,233	$ 1,931	$ 1,897	$ 1,849	$ 1,872	$ 1,811	$ 1,850	$ 1,834
Shareholders' equity	$ 333	$ 317	$ 315	$ 330	$ 328	$ 319	$ 317	$ 307
Capital Ratios								
Income tax assets to capital ratio [1]	5.44	4.95	5.03	4.93	5.13	4.71	4.69	4.64
CET 1 & Tier 1 Capital ratios [1,5]	20.45 %	23.01 %	21.80 %	22.52 %	21.77 %	22.40 %	22.09 %	21.66 %
Total Capital ratio [1,5]	20.80 %	23.40 %	22.17 %	22.52 %	21.77 %	22.40 %	22.09 %	21.66 %
Leverage ratio [3]	10.26 %	11.46 %	11.70 %	12.58 %	12.28 %	12.16 %	12.05 %	11.79 %
Credit Quality								
Impaired mortgage ratio (corporate) [1, 4]	0.27 %	1.26 %	0.39 %	0.32 %	0.27 %	0.27 %	0.30 %	0.34 %
Impaired mortgage ratio (total) [1, 4]	0.17 %	0.77 %	0.28 %	0.23 %	0.18 %	0.19 %	0.24 %	0.27 %
Mortgage Arrears								
Corporate [1]	$10,229	$36,083	$31,289	$12,161	$13,014	$11,334	$11,251	$ 9,435
Securitized [1]	3,522	4,005	5,016	3,750	3,367	4,122	7,431	6,527
Total [1]	$13,751	$40,088	$36,305	$15,911	$16,381	$15,456	$18,682	$15,962
Common Share Information (end of period)								
Number of common shares outstanding	24,727	24,621	24,420	24,215	24,215	24,129	24,040	23,798
Book value of common share [1]	$ 13.46	$ 12.88	$ 12.90	$ 13.64	$ 13.53	$ 13.23	$ 13.18	$ 12.89
Common share price - close	$ 13.41	$ 12.65	$ 12.18	$ 17.10	$ 15.95	$ 15.95	$ 15.93	$ 13.32
Market capitalization ($ million) [1]	$ 332	$ 311	$ 297	$ 414	$ 386	$ 385	$ 383	$ 317

[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 early Q2 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. 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. The additional Tier 2 capital introduced in Q1 2020 was offset by the net loss incurred. Changes in our capital ratios in Q3 2020 are mainly due to the increase in our equity investment in MCAP.

Total arrears and impaired ratios have varied on a quarterly basis given the nature of the 1-30 day arrears. Higher balances in Q2 2020 were due to an impaired construction mortgage where an asset recovery program was initiated and subsequently completed in Q3 2020 recovering fully all past due interest and principal, and another construction mortgage in arrears that was brought current in Q3 2020. The impairment of the one construction mortgage was not related to COVID-19.

[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 MCAN's non-consolidated 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)

	September 30 2020	December 31 2019
Income tax assets [1]		
Consolidated assets	$ 2,565,977	$ 2,179,341
Adjustment for assets in subsidiaries	16,087	11,250
Non-consolidated assets in MIC entity	2,582,064	2,190,591
Add: corporate mortgage allowances	6,069	4,135
Less: securitization assets [2]	(983,264)	(804,569)
Adjustments to equity investments in MCAP and subsidiaries	(66,897)	(60,146)
Other adjustments	7,069	(8,461)
	$ 1,545,041	$ 1,321,550
Income tax liabilities [1]		
Consolidated liabilities	$ 2,233,144	$ 1,849,029
Adjustment for liabilities in subsidiaries	(4,791)	(3,055)
Non-consolidated liabilities in MIC entity	2,228,353	1,845,974
Less: securitization liabilities [2]	(967,413)	(792,425)
	$ 1,260,940	$ 1,053,549
Income tax capital [1]	$ 284,101	$ 268,001
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.44	4.93
Income tax liabilities to capital ratio	4.44	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 September 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 %)

	September 30 2020	December 31 2019
Regulatory Ratios (OSFI)		
Share capital	$ 234,635	$ 228,008
Contributed surplus	510	510
Retained earnings	97,688	101,794
Deduction from equity investment in MCAP [2]	(55,718)	(36,813)
Eligible Stage 1 and Stage 2 mortgage allowances [4]	1,363	—
Common Equity Tier 1 and Tier 1 Capital [4] (A)	278,478	293,499
Tier 2 Capital [4]	4,707	—
Total Capital [4] (D)	$ 283,185	$ 293,499
Total Exposure/Regulatory Assets [1]		
Consolidated assets	$ 2,565,977	$ 2,179,341
Less: deduction for equity investment in MCAP [2]	(55,718)	(36,813)
Other adjustments [3]	2,081	3,804
Total On-Balance Sheet Exposures	2,512,340	2,146,332
Mortgage and investment funding commitments (50%)	181,291	170,148
Letters of credit (50%)	20,740	16,982
Total Off-Balance Sheet Items	202,031	187,130
Total Exposure/Regulatory Assets (B)	$ 2,714,371	$ 2,333,462
Leverage ratio [1] **(A / B)**	10.26 %	12.58 %
Risk-weighted assets [1] **(C)**	$ 1,361,461	$ 1,303,502
Regulatory Capital Ratios [1]		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.45 %	22.52 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.45 %	22.52 %
Total capital to risk-weighted assets ratio **(D / C)**	20.80 %	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 %)	September 30, 2020			December 31, 2019		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 71,257	21 %	$ 14,668	$ 54,452	21 %	$ 11,651
Cash held in trust	26,252	20 %	5,250	28,575	20 %	5,715
Marketable securities	34,254	100 %	34,254	46,170	100 %	46,170
Mortgages - corporate	1,309,605	65 %	852,055	1,089,401	67 %	734,680
Mortgages - securitized	960,874	5 %	46,034	784,296	4 %	31,457
Non-marketable securities	57,340	167 %	95,875	93,689	175 %	163,601
Equity investment in MCAP Commercial LP	89,138	37 %	33,420	69,844	47 %	33,031
Deferred tax asset	368	100 %	368	132	100 %	132
Other assets	16,889	100 %	16,889	12,782	100 %	12,782
			1,098,813			1,039,219
Off-Balance Sheet Items						
Letters of credit	41,481	50 %	20,741	33,965	50 %	16,983
Commitments	362,582	35 %	126,232	340,297	41 %	139,437
			146,973			156,420
Charge for operational risk [1]			115,675			107,863
Risk-Weighted Assets			**$ 1,361,461**			**$ 1,303,502**

[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 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 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, level 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 implemented 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 Company's management has oversight over the 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 current liquid resources and expected cash inflows from operations and available funding and contingent lines will be insufficient to meet expected cash outflows (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, the Company maintains a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair its access to funding and liquidity. As a result of COVID-19, the Company's 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 September 30, 2020 and 2019, the Company was 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 September 30, 2020 and 2019, the Company 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 its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. During Q3 2020, the facility limit was increased from $120 million to $150 million until October 30, 2020. Subsequent to September 30, 2020, the increased facility limit was further extended to December 31, 2020.

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, the Company 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. The Company 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 September 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	September 30 2020
Sources of liquidity						
Cash and cash equivalents	$ 71,257	$ —	$ —	$ —	$ —	$ 71,257
Marketable securities	34,228	—	26	—	—	34,254
Mortgages - corporate	306,328	538,038	350,512	79,665	35,062	1,309,605
Non-marketable securities	—	—	13,647	—	43,693	57,340
Other loans	3,294	—	0	—	—	3,294
	415,107	538,038	364,185	79,665	78,755	1,475,750
Uses of liquidity						
Term deposits	94,208	459,321	520,438	155,456	—	1,229,423
Loans payable	25,116	—	—	—	—	25,116
Other liabilities	3,041	551	1,567	1,786	2,025	8,970
	122,365	459,872	522,005	157,242	2,025	1,263,509
Net liquidity surplus (deficit)	**$ 292,742**	**$ 78,166**	**$ (157,820)**	**$ (77,577)**	**$ 76,730**	**$ 212,241**
Off-Balance Sheet						
Unfunded mortgage commitments	$ 176,511	$ 82,062	$ 80,603	$ —	$ —	$ 339,176
Commitment - KSHYF	—	—	1,212	—	22,194	23,406
	$ 176,511	$ 82,062	$ 81,815	$ —	$ 22,194	$ 362,582

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 September 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. The Company is participating in mortgage deferral programs to borrowers. On August 31, 2020, OSFI issued revisions to the treatment of mortgage deferrals. If the mortgage deferral was granted before August 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to six calendar months from the effective date of the deferral. For deferrals granted from August 30, 2020 to September 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to three calendar months from the effective date of the deferral.

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 September 30, 2020 would have an estimated positive effect of $5.5 million (June 30, 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 September 30, 2020 would have an estimated adverse effect of $1.6 million (June 30, 2020 - $1.7 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 September 30, 2020 and June 30, 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. Non-interest sensitive includes marketable securities, equity investment in MCAP and other assets and liabilities. 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 September 30, 2020

At September 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	$424,899	$220,093	$417,928	$221,593	$ 78,347	$ 78,632	$ 131,021	$ 1,572,513
Securitization	26,252	40,267	46,138	191,811	682,658	—	6,338	993,464
	451,151	260,360	464,066	413,404	761,005	78,632	137,359	2,565,977
Liabilities								
Corporate	25,116	94,208	459,321	520,438	155,456	—	9,728	1,264,267
Securitization	—	43,774	32,092	193,762	699,249	—	—	968,877
	25,116	137,982	491,413	714,200	854,705	—	9,728	2,233,144
Shareholders' Equity	—	—	—	—	—	—	332,833	332,833
GAP	**$426,035**	**$122,378**	**$(27,347)**	**$(300,796)**	**$(93,700)**	**$ 78,632**	**$ (205,202)**	**$ —**
YIELD SPREAD	**1.74 %**	**2.38 %**	**2.41 %**	**1.70 %**	**1.18 %**	**9.55 %**		

Table 27: Interest Rate Sensitivity at December 31, 2019

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

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 could lead 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 proactive 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 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 due to the inability of MCAN's IT systems, tools and practices to support business and user needs and loss due to the compromise of client confidentiality, unauthorized access and use of MCAN's systems, and 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. 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 the Company, including by limiting the products or services that the Company provides, restricting the scope of its operations or business lines, limiting pricing and availability of products in the market, increasing the ability of competitors to compete with its products and services or requiring it to cease carrying on business. The Company's failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact its earnings and damage its 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 its 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 the Company's strategic objectives.

The Company believes that the most effective way 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 9 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.

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 September 30, 2020, there were 24,727,145 common shares outstanding (December 31, 2019 - 24,215,383). At November 6, 2020, there were 24,727,145 common shares outstanding.

We issued 106,248 new common shares in Q3 2020 (Q3 2019 - 86,085) and 417,384 new common shares year to date 2020 (year to date 2019 - 416,919) 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 12 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	September 30 2020
Mortgage funding commitments	$ 258,573	$ 80,603	$ —	$ —	$ 339,176
Commitment - KSHYF	—	1,212	—	22,194	23,406
	$ 258,573	**$ 81,815**	**$ —**	**$ 22,194**	**$ 362,582**

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 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 18 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 November 6, 2020, the Board declared a quarterly dividend of $0.34 per share to be paid on January 4, 2021 to shareholders of record as at December 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.

In order to take advantage of the tax benefits provided by its MIC status, we typically pay out substantially all of MCAN's non-consolidated taxable income to shareholders through dividends. 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 September 30, 2020 and September 30, 2019 and related party balances at September 30, 2020 and December 31, 2019 are discussed in Notes 8 and 17 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 September 30, 2020, we had 105 team members (June 30, 2020 - 103; 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 September 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 September 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 September 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 19 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.