MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 20

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This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes at December 31, 2020 and December 31, 2019 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and presented in Canadian currency. This MD&A has been presented as of February 23, 2021.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- the current business environment and outlook;
- the impact of global health pandemics on the Canadian economy and globally, including the continuing impact 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;
- performance of our investments;
- factors affecting our competitive position within the housing markets;
- international trade and geopolitical uncertainties and their impact on the Canadian economy;
- 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, management, duration and potential worsening of the impact of COVID-19 or any other future pandemic virus;
- 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 particular 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 and related government actions adopted in response, will have on our business is highly uncertain and difficult to predict at this time.

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, 2020, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

(in thousands except for per share amounts and %)					
For the Years Ended December 31	2020	2019	Change (%)	2018	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 60,294	$ 64,943	(7%)	$ 50,139	20%
Net investment income - securitization assets	$ 4,033	$ 3,994	1%	$ 4,976	(19%)
Net income	$ 42,893	$ 48,294	(11%)	$ 36,293	18%
Basic and diluted earnings per share	$ 1.75	$ 2.01	(13%)	$ 1.54	14%
Dividends per share	$ 1.36	$ 1.28	6%	$ 1.43	(5%)
Next quarter's cash dividend per share	$ 0.34				
Next quarter's special stock dividend per share	$ 0.85				
Return on average shareholders' equity [1]	13.13 %	15.11 %	(1.98%)	11.90 %	1.23%
Taxable income per share [1,2]	$ 2.45	$ 1.36	80%	$ 1.29	90%
Yields					
Spread of corporate mortgages over term deposit interest [1]	2.62 %	2.62 %	—%	3.07 %	(0.45%)
Spread of securitized mortgages over liabilities [1]	0.71 %	0.71 %	—%	0.74 %	(0.03%)
Average term to maturity (in months)					
Mortgages - corporate	14.2	10.7	33%	11.5	23%
Term deposits	18.3	18.4	(1%)	18.7	(2%)

At December 31	2020	2019	Change (%)	2018	Change (%)
Balance Sheet Highlights					
Total assets	$ 2,728,715	$ 2,179,341	25%	$ 2,141,072	27%
Mortgages - corporate	$ 1,252,762	$ 1,089,401	15%	$ 922,390	36%
Mortgages - securitized	$ 1,135,745	$ 784,296	45%	$ 887,252	28%
Total liabilities	$ 2,382,203	$ 1,849,029	29%	$ 1,834,378	30%
Shareholders' equity	$ 346,512	$ 330,312	5%	$ 306,694	13%
Capital Ratios [1]					
Income tax assets to capital ratio	5.09	4.93	3%	4.64	10%
CET 1 & Tier 1 capital ratio [4]	21.67 %	22.52 %	(0.85%)	21.66 %	0.01%
Total capital ratio [4]	22.02 %	22.52 %	(0.50%)	21.66 %	0.36%
Leverage ratio [3]	10.17 %	12.58 %	(2.41%)	11.79 %	(1.62%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	0.30 %	0.32 %	(0.02%)	0.34 %	(0.04%)
Impaired mortgage ratio (total) [1]	0.18 %	0.23 %	(0.05%)	0.27 %	(0.09%)
Mortgage Arrears [1]					
Corporate	$ 24,288	$ 12,161	100%	$ 9,435	157%
Securitized	5,660	3,750	51%	6,527	(13%)
Total	$ 29,948	$ 15,911	88%	$ 15,962	88%
Common Share Information (end of period)					
Number of common shares outstanding	24,727	24,215	2%	23,798	4%
Book value per common share [1]	$ 14.01	$ 13.64	3%	$ 12.89	9%
Common share price - close	$ 15.77	$ 17.10	(8%)	$ 13.32	18%
Market capitalization [1]	$ 389,945	$ 414,077	(6%)	$ 316,989	23%

[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 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.*

Net income was higher in 2019 compared to 2018 due to higher realized and unrealized fair value gains on our REIT portfolio and Crown LP.

Taxable income was much higher in 2020 compared to 2019, mainly due to higher income from MCAP as a result of non-recurring new contracts and higher origination and processing fees related to higher whole loan sales volumes at wider spreads.

As a result of this increase in taxable income, the Board declared a $0.85 per share special stock dividend on February 23, 2021, to be paid March 31, 2021 to shareholders of record as of March 15, 2021, in order to distribute all of MCAN's taxable income, net of loss carryforwards used. Such special dividends declared annually (whether in cash or stock) are likely to continue in the near term, although not likely to be as high as the current level given the non-recurring nature of certain of MCAP's taxable earnings.

Table 2: Financial Statement Highlights - Quarter

(in thousands except for per share amounts and %) For the Periods Ended	Q4 2020	Q3 2020	Change (%)	Q4 2019	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 25,704	$ 26,963	(5%)	$ 14,839	73%
Net investment income - securitization assets	$ 1,694	$ 1,149	47%	$ 1,015	67%
Net income	$ 22,086	$ 22,741	(3%)	$ 10,550	109%
Basic and diluted earnings per share	$ 0.89	$ 0.92	(3%)	$ 0.44	102%
Dividends per share	$ 0.34	$ 0.34	—%	$ 0.32	6%
Next quarter's cash dividend per share	$ 0.34				
Next quarter's special stock dividend per share	$ 0.85				
Return on average shareholders' equity [1]	25.92 %	28.04 %	(2.12%)	12.84 %	13.08%
Taxable income per share [1,2]	$ 1.05	$ 0.48	119%	$ 0.46	128%
Yields					
Spread of corporate mortgages over term deposit interest [1]	2.76 %	2.63 %	0.13%	2.63 %	0.13%
Spread of securitized mortgages over liabilities [1]	0.89 %	0.81%	0.08%	0.72%	0.17%

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

HIGHLIGHTS

Q4 2020

- Net income of $22.1 million in Q4 2020, an increase of $11.5 million (109%) from $10.6 million in Q4 2019.
- Earnings per share totalled $0.89 in Q4 2020, an increase of $0.45 (102%) from $0.44 per share in Q4 2019.
- Return on average shareholders' equity[1] was 25.92% in Q4 2020, an increase of 13.08% from 12.84% in Q4 2019.
- Net corporate mortgage spread income[1] increased by $2.2 million from Q4 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,315 million in Q4 2020 compared to $1,094 million in Q4 2019 and an increase in the spread of corporate mortgages over term deposit interest[1] to 2.76% in Q4 2020 from 2.63% in Q4 2019. The increase in the spread of corporate mortgages over term deposit interest[1] is due to a larger reduction in term deposit rates compared to mortgage rates. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates and a reduction in the prime rate since the onset of COVID-19.
- Net securitized mortgage spread income[1] increased by $0.9 million from Q4 2019. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] from significantly higher originations of insured single family mortgages and an increase in the spread of securitized mortgages over liabilities[1].
- Our provision for credit losses on our corporate mortgage portfolio decreased by $0.1 million from Q4 2019. Increases due to the potential economic impacts of COVID–19 and growth in the portfolio were offset by refinements in model parameters to reflect our policies and business practices in our commercial and construction portfolio and various economic assumptions made during 2020.
- Equity income from MCAP totalled $9.4 million in Q4 2020, an increase of $5.4 million (133%) from $4.0 million in Q4 2019, which was primarily due to higher origination and processing fees related to higher whole loan sales volumes at wider spreads. MCAP also recorded fees from non-recurring new contracts in 2020. We expect that MCAP will continue to have strong earnings, however, more normal market and business dynamics are anticipated in 2021.
- In Q4 2020, we recorded a $5.7 million net gain on securities compared to a $2.1 million net gain on securities in Q4 2019. Activity in Q4 2020 related to unrealized fair value gains on our real estate investment trust ("REIT") portfolio and in Q4 2019 related to realized and unrealized fair value gains on both our REIT portfolio and Crown Reality II Limited Partnership ("Crown LP"). We continue to see volatility in the market value of our REIT portfolio due to COVID-19 with Q4 2020 posting a partial rebound amid optimism around the impending economic outlook given the COVID-19 vaccine.

Year to Date 2020

- Net income of $42.9 million for 2020 year to date, a decrease of $5.4 million (11%) from $48.3 million net income in 2019.
- Earnings per share totalled $1.75 for 2020 year to date, a decrease of $0.26 (13%) from $2.01 earnings per share in 2019.
- Return on average shareholders' equity[1] was 13.13% for 2020 compared to 15.11% in 2019.
- Net corporate mortgage spread income[1] increased by $5.0 million from 2019. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,217 million in 2020 from $1,041 million in 2019. The spread of corporate mortgages over term deposit interest[1] was 2.62% in both 2020 and 2019. The initial impact of COVID-19 caused a temporary higher demand for liquidity by financial institutions in the term deposit market resulting in higher term deposit funding costs primarily in the second quarter. During the second half of the year, the term deposit market dynamics were stable and spreads over mortgages normalized. Within the mortgage portfolio, there was a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates, and the yield on our primarily floating-rate construction loan portfolio decreased.

- Net securitized mortgage spread income[1] increased by $0.5 million from 2019. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] from significantly higher originations of insured single family mortgages partially offset by 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 $2.5 million from 2019. Increases due to the potential economic impacts of COVID–19 and growth in the portfolio were partly offset by refinements in model parameters to reflect our policies and business practices in our commercial and construction portfolio and various economic assumptions made during 2020.

- Equity income from MCAP totalled $33.9 million for 2020 year to date, an increase of $18.2 million (115%) from $15.8 million in 2019. For 2020 year to date, MCAP primarily realized higher mortgage origination and processing fees related to higher whole loan sales volumes at wider spreads. MCAP also recorded fees from non-recurring new contracts in 2020. We expect that MCAP will continue to have strong earnings, however, more normal market and business dynamics are anticipated in 2021.

- Year to date net loss on securities was $9.1 million for 2020 compared to a year to date net gain on securities of $14.0 million for 2019. Activity in 2020 related to unrealized fair value losses net of some realized fair value gains on our REIT portfolio and in 2019 related to realized and unrealized fair value gains on our REIT portfolio and Crown LP. In 2020, market prices for REITs were severely impacted by COVID-19 in March and we continued to see high market volatility during the year.

Business Activity and Balance Sheet

- Corporate assets totalled $1.56 billion at December 31, 2020, a decrease of $16 million (1%) from September 30, 2020 and an increase of $195 million (14%) from December 31, 2019.

- Corporate mortgage portfolio totalled $1.3 billion at December 31, 2020, a decrease of $57 million (4%) from September 30, 2020 and an increase of $163 million (15%) from December 31, 2019.

- Uninsured single family portfolio totalled $483 million at December 31, 2020, an increase of $47 million (11%) from September 30, 2020 and an increase of $101 million (26%) from December 31, 2019.

- Uninsured single family originations totalled $283 million in 2020, an increase of $61 million (27%) from 2019. Uninsured single family originations were $113 million in the fourth quarter of 2020, an increase of $56 million (98%) from the fourth quarter of 2019.

- Insured single family originations totalled $616 million in 2020, an increase of $384 million (166%) from 2019. Insured single family originations were $218 million in the fourth quarter of 2020, an increase of $158 million (266%) from the fourth quarter of 2019.

- Securitization volumes totalled $736 million in 2020, an increase of $415 million (129%) from $322 million in 2019. Securitization volumes in 2020 consisted of $685 million of insured single family mortgages (2019 - $308 million) and $52 million of insured multi family mortgages (2019 - $14 million). This increase in securitization volumes was partially offset by mortgage maturities for a net increase in our securitized portfolio of 43% from 2019.

- Our construction and commercial portfolio totalled $547 million at December 31, 2020, a decrease of $88 million (14%) from September 30, 2020 and a decrease of $4 million (1%) from December 31, 2019. Our construction portfolio totalled $487 million at December 31, 2020, a decrease of $106 million (18%) from September 30, 2020 and a decrease of $18 million (4%) from December 31, 2019. In 2020, the movement in the portfolio is attributed to originations of $498 million in new construction and commercial mortgages, an increase of 66% from December 31, 2019, offset by maturities and repayments.

Dividend

- The Board declared a first quarter cash dividend of $0.34 per share and a special stock dividend of $0.85 per share both to be paid March 31, 2021 to shareholders of record as of March 15, 2021. The special stock dividend represents the true up of our regular dividends to taxable income for 2020, net of loss carryforwards used. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we pay no income taxes at the corporate level. The special dividend will be paid in stock in accordance with our plan and conforms with OSFI's current restriction on increasing cash dividends.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.30% at December 31, 2020 compared to 0.27% at September 30, 2020 and 0.32% at December 31, 2019.

- The impaired total mortgage ratio[1] was 0.18% at December 31, 2020 compared to 0.17% at September 30, 2020 and 0.23% at December 31, 2019.

- Total mortgage arrears[1] were $30 million at December 31, 2020 compared to $14 million at September 30, 2020 and $16 million at December 31, 2019. The increase in total mortgage arrears[1] in the fourth quarter is primarily due to one construction mortgage where an asset recovery program has since been initiated. We anticipate full recovery of past due interest and principal. The impairment of this construction mortgage is not related to COVID-19.

- At December 31, 2020, there were no mortgages remaining in our payment deferral program.

- Net write-offs were $32,000 (1.0 basis point of the average corporate portfolio) in Q4 2020 compared to $58,000 (2.1 basis points) in Q4 2019; annual write-offs were $184,000 (1.5 basis points) in 2020 and $99,000 (1.0 basis point) in 2019. All write-offs relate to the uninsured single family mortgage portfolio.

- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 60.6% at December 31, 2020 compared to 61.5% at September 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.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[1] were 21.67% at December 31, 2020 compared to 20.45% at September 30, 2020 and 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio[1,2] was 22.02% at December 31, 2020 compared to 20.80% at September 30, 2020 and 22.52% at December 31, 2019.

- The leverage ratio[1] was 10.17% at December 31, 2020 compared to 10.26% at September 30, 2020 and 12.58% at December 31, 2019.

- The income tax assets to capital ratio[1] was 5.09 at December 31, 2020 compared to 5.44 at September 30, 2020 and 4.93 at December 31, 2019.

- We issued 417,384 new common shares through the Dividend Reinvestment Plan ("DRIP") in 2020 compared to 416,919 in 2019. The DRIP participation rate was 17% for the 2020 fourth quarter dividend (2019 fourth quarter dividend - 17%). The DRIP participation rate for 2020 dividends was 17% (2019 - 20%).

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

OUTLOOK

Market Outlook

The COVID-19 pandemic has impacted the Canadian and global economy for perhaps a longer period of time than originally anticipated 11 months ago, when Canada first imposed its lockdown measures. We now find ourselves squarely amid the second wave of infections, with new strains of the virus having entered the country and further lockdowns being the normal course. Many non-essential businesses and services that initially had reopened in Canada earlier with appropriate safety measures, are now closed or operating under new restrictions. International borders continue to either be closed or have restrictions. Vaccine approval and rollout had boosted confidence in medium-term forecasts; however, with a shortage of supply, this confidence has dampened somewhat. It is still too early to determine the impacts of this 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 a housing shortage, strong employment and were experiencing a positive impact from growing immigration.

Since March and continuing into the fourth 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 2020 GDP made up almost three quarters of the decline experienced in the first half of the year and Q4 GDP is expected to continue to grow despite lockdown measures instituted in December in various parts of the country. That said, many economists don't expect GDP to be back to its pre-pandemic level until at least 2022. Employment numbers also continue to take a positive direction as almost 80% of pre-COVID-19 level employment has recovered by the end of November 2020. Employment did fall, however, in December 2020 for the first time since April. Economic impacts have been uneven, with a very clear k-shaped recovery, with some industries having recovered quickly from the pandemic, and others with a very slow and long recovery that have been very hard hit. It should also be noted that the Canadian household savings rate has increased significantly since COVID-19 began due to living and travel expenses falling as a result of lockdown measures, credit deferrals extended by lenders, government stimulus and many households not being affected by job losses. It is still unclear, however, what Canada's economic and employment future will be - particularly when key support measures end and the hoard of savings that have accumulated in many households begins to deplete.

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 2020 that trend reversed. Housing continues to be a hot spot for the Canadian economy despite the pandemic. In fact, housing starts hit 13-year highs in both Q3 and Q4 2020. On the resale side of the housing business, 2020 ended with a record high number of units sold. Home prices also increased during 2020 due to the high demand, and supply is extremely tight, particularly for single family homes. Historically low interest rates and remote working has been the main reason for this outcome. Remote working has also meant that prices of houses have increased outside of the major urban markets as well. All of this has been the opposite of what many predicted would be the outcome at the start of the spring 2020 lockdowns. 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 initially, these activities did not stop. In fact, as previously mentioned, the 2020 housing market remained extremely strong and extremely active, fueled by the low interest rates and families seeking to advance their lives and homes. 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 have capitalized on this and in fact we have grown our market share significantly over 2019. We have had some of the highest origination volumes in our history and our pipeline continues to grow in 2021. In February 2021, we have signed a term sheet with a Canadian Schedule I Chartered bank for a new $50 million senior secured mortgage warehouse facility to provide improved funding in response to our continued growth. 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 2020. New mortgage volumes relating to uninsured home purchases and refinances have also increased across our target markets. Through the latter part of 2020 and currently, we are seeing a much more competitive environment in both the insured and uninsured mortgage market. We expect this to continue for much of the balance of 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 had included payment deferrals of up to six months on existing mortgages and by the end of December there were no mortgages remaining in the payment deferral program. We have also implemented appropriate measures to support these borrowers after their payment deferral periods ended, which has included increased amortizations and other payment arrangements. 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 the many 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. In fact, through the year, we have seen a significant amount of timely repayments within our construction and commercial book as loans matured.

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. Compared to 2019, we increased the amount of construction originations and currently our pipeline remains active. We will of course continue to monitor the Canadian economic landscape as we move through the pandemic. 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, this 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 2020, we are encouraged by the strength of other segments of our business such as our insured single family business, and our construction and commercial business, all fueled by the interest rate markets and our credit risk profile. MCAP has recorded enhanced earnings from non-recurring new business contracts and higher origination and processing fees related to higher whole loan sales volumes at wider spreads. Our other non-marketable securities also had solid performance which is expected to continue. MCAN's management and Board continue to be committed to proactively and effectively managing and evolving the Company's strategy, business activities and team through the pandemic into the future. Our targeted annual growth in corporate assets over the long term is 10%. We believe that we are well positioned in terms of capital and liquidity to support our targeted growth within our risk appetite into 2021.

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

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %) For the Periods Ended	Q4 2020	Q4 2019	Change (%)	Annual 2020	Annual 2019	Change (%)
Net Investment Income - Corporate Assets						
Mortgage interest	$ 17,115	$ 14,910	15%	$ 64,070	$ 56,379	14%
Equity income from MCAP Commercial LP	9,378	4,032	133%	33,918	15,759	115%
Non-marketable securities	1,483	1,802	(18%)	5,908	6,416	(8%)
Marketable securities	668	680	(2%)	2,430	3,027	(20%)
Fees	691	382	81%	1,767	2,002	(12%)
Interest on cash and other income	104	247	(58%)	611	1,101	(45%)
Net gain (loss) on securities	5,702	2,067	176%	(9,091)	14,008	(165%)
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	33	187	(82%)
	35,141	**24,120**	**46%**	**99,646**	**98,879**	**1%**
Term deposit interest and expenses	7,918	7,960	(1%)	32,006	29,321	9%
Mortgage expenses	1,300	1,111	17%	4,588	4,078	13%
Interest on loans payable	199	77	158%	683	638	7%
Other financial expenses	—	—	n/a	—	360	(100%)
Provision for (recovery of) credit losses	20	133	(85%)	2,075	(461)	550%
	9,437	**9,281**	**2%**	**39,352**	**33,936**	**16%**
	25,704	**14,839**	**73%**	**60,294**	**64,943**	**(7%)**
Net Investment Income - Securitization Assets						
Mortgage interest	6,461	4,950	31%	21,534	20,491	5%
Other securitization income	112	208	(46%)	595	792	(25%)
	6,573	**5,158**	**27%**	**22,129**	**21,283**	**4%**
Interest on financial liabilities from securitization	4,232	3,650	16%	15,898	15,345	4%
Mortgage expenses	637	494	29%	2,177	1,954	11%
Provision for (recovery of) credit losses	10	(1)	1,100%	21	(10)	310%
	4,879	**4,143**	**18%**	**18,096**	**17,289**	**5%**
	1,694	**1,015**	**67%**	**4,033**	**3,994**	**1%**
Operating Expenses						
Salaries and benefits	4,509	3,870	17%	15,047	13,905	8%
General and administrative	1,601	1,744	(8%)	6,631	7,292	(9%)
	6,110	**5,614**	**9%**	**21,678**	**21,197**	**2%**
Net income before income taxes	21,288	10,240	108%	42,649	47,740	(11%)
Provision for (recovery of) income taxes	(798)	(310)	(157%)	(244)	(554)	56%
Net Income	**$ 22,086**	**$ 10,550**	**109%**	**$ 42,893**	**$ 48,294**	**(11%)**
Basic and diluted earnings per share	$ 0.89	$ 0.44	102%	$ 1.75	$ 2.01	(13%)
Dividends per share	$ 0.34	$ 0.32	6%	$ 1.36	$ 1.28	6%

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	December 31, 2020			September 30, 2020			December 31, 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	$ 199,861	$ 1,266	2.50 %	$ 189,505	$ 1,351	2.84 %	$ 121,690	$ 928	3.07 %
Uninsured	460,027	5,552	4.81 %	425,881	5,194	4.87 %	371,487	4,416	4.76 %
Uninsured - completed inventory	52,175	805	6.14 %	38,613	609	6.27 %	47,964	769	6.36 %
Construction loans									
Residential	543,869	8,682	6.35 %	533,617	8,392	6.25 %	497,878	7,993	6.38 %
Non residential	2,486	51	8.15 %	1,613	38	9.24 %	4,060	95	9.31 %
Commercial loans									
Multi family residential	24,425	327	5.32 %	10,089	142	5.58 %	15,917	237	5.90 %
Other	31,882	432	5.38 %	32,336	423	5.19 %	35,350	472	5.35 %
Mortgages - corporate portfolio	$1,314,725	$ 17,115	5.18 %	$1,231,654	$ 16,149	5.22 %	$1,094,346	$ 14,910	5.43 %
Term deposit interest and expenses	1,217,436	7,918	2.42 %	1,116,772	7,774	2.59 %	1,019,641	7,960	2.80 %
Net corporate mortgage spread income[2]		$ 9,197			$ 8,375			$ 6,950	
Spread of mortgages over term deposit interest [2]			2.76 %			2.63 %			2.63 %
Average term to maturity (months)									
Mortgages - corporate	14.2			13.5			10.7		
Term deposits	18.3			19.2			18.4		

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

For the Years Ended December 31	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	$ 178,782	$ 4,975	2.78 %	$ 134,839	$ 4,252	3.13 %
Uninsured	418,656	20,151	4.81 %	335,057	15,409	4.60 %
Uninsured - completed inventory	42,826	2,689	6.27 %	24,691	1,629	6.41 %
Construction loans						
Residential	528,477	33,524	6.35 %	451,416	29,199	6.47 %
Non residential	1,235	121	9.76 %	6,565	526	7.79 %
Commercial loans						
Multi family residential	14,459	873	5.71 %	38,394	2,143	5.58 %
Other commercial	32,230	1,737	5.05 %	49,998	3,221	6.44 %
Mortgages - corporate portfolio	$ 1,216,665	$ 64,070	5.25 %	$ 1,040,960	$ 56,379	5.41 %
Term deposit interest and expenses	1,117,299	32,006	2.63 %	969,121	29,321	2.79 %
Net corporate mortgage spread income[2]		$ 32,064			$ 27,058	
Spread of mortgages over term deposit interest [2]			2.62 %			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 December 31, 2020, September 30, 2020 and December 31, 2019 and the years ended December 31, 2020 and December 31, 2019.*
[2] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2020	Q4 2019	Change (%)	Annual 2020	Annual 2019	Change (%)
Originations						
Single family - insured	$ 217,780	$ 59,553	266%	$ 615,664	$ 231,823	166%
Single family - uninsured	113,358	57,276	98%	283,045	222,301	27%
Single family - uninsured completed inventory [1]	8,920	424	2,004%	55,249	47,917	15%
Residential construction [1]	121,676	104,745	16%	474,475	295,264	61%
Non-residential construction [1]	1,283	—	n/a	3,340	760	339%
Commercial [1]	20,000	2,000	900%	20,075	3,037	561%
	$ 483,017	**$ 223,998**	**116%**	**$1,451,848**	**$ 801,102**	**81%**
Renewals of securitized mortgages [2]						
Single family - insured	$ 25,063	$ 27,229	(8%)	$ 135,285	$ 82,808	63%

[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 was a focus of the Company during the year partly due to COVID-19. The lower interest rate environment impacted both mortgages and term deposits. For Q4 2020, the increase in the spread of mortgages over term deposit interest[1] from Q4 2019 was due to a larger decrease in term deposit rates and expenses compared to mortgages, partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans and continued market competition which compressed rates. For the year, the spread was consistent with the prior year, with an equal decline in term deposit rates and mortgage rates. Continued market competition and the aforementioned portfolio mix contributed to a decline in the average mortgage rate, as well as a decline in the yield on the primarily floating rate construction loan portfolio. With respect to term deposits, it should be noted that although the average rate is lower than in the 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 2020 supported a 123% increase in single family securitization volumes to $685 million in 2020 from $308 million in 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 in 2021 given the economic conditions under COVID-19. We have taken a prudent underwriting approach since COVID-19 and will continue to do so. We opportunistically invest in our single family uninsured completed inventory portfolio which generally migrate from our own construction book.

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 had decreased throughout the year and by December 31, 2020 there were no mortgages remaining in the payment deferral program.

Construction and Commercial

During 2020, we continued to focus on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile. We have seen a significant increase in originations, especially in Q3 2020 after briefly pausing new fundings during the initial onset of the pandemic. The increase in the commercial portfolio in 2020 from 2019 was mainly due to new originations particularly in Q4 2020.

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 December 31, 2020, we had the renewal rights to $1.7 billion of single family mortgages (September 30, 2020 - $1.5 billion; December 31, 2019 - $1.2 billion).

Equity Income from MCAP

The $18.2 million increase in equity income from MCAP in 2020 from 2019 was due to higher mortgage origination and processing fees related to higher whole loan sales volumes at wider spreads. MCAP also recorded fees from non-recurring new contracts in 2020.

In Q4 2020, MCAP's origination volumes were $6.5 billion, an increase from $4.7 billion in Q4 2019. For 2020, MCAP's origination volumes were $19.3 billion, an increase from $16.9 billion in 2019. At November 30, 2020, MCAP had $111.4 billion of assets under management compared to $109.0 billion at August 31, 2020 and $105.5 billion at November 30, 2019.

We recognize equity income from MCAP on a one-month lag such that our 2020 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2020. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

Income from non-marketable securities primarily consisted of distribution income of $1.2 million from the KingSett High Yield Fund ("KSHYF") in Q4 2020 compared to $1.2 million in Q4 2019 and $nil from Crown LP in Q4 2020 compared to $0.3 million in Q4 2019. For 2020, we received $4.6 million of distribution income from the KSHYF compared to $4.7 million during 2019 and $0.1 million from Crown LP compared to $1.4 million during 2019. We sold our investment in Crown LP in January 2020.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio increased to 5.46% in Q4 2020 compared to 4.79% in Q4 2019. During 2020, the yield was 6.14% compared to 5.19% during 2019. The yield has been calculated based on the average portfolio balance. The net loss on the REIT portfolio discussed below contributed to the higher 2020 yield by decreasing the average portfolio balance.

Fees

Fee income can vary between quarters given the fact that not all fees occur on a routine basis.

Net Gain (Loss) on Securities

In Q4 2020, we recorded a $5.7 million net gain on securities compared to a $2.1 million net gain in Q4 2019 as we saw a partial rebound amid optimism around the impending economic outlook given the COVID-19 vaccine. During 2020, we recorded a $9.1 million net loss almost entirely related to unrealized fair value losses on our REIT portfolio due to COVID-19, compared to a $14.0 million net gain in 2019, $6.3 million of which related to realized gains on dispositions within our REIT portfolio, $3.2 million of which related to our investment in Crown LP and the balance related to unrealized fair value gains in our REIT portfolio.

Gain on Dilution of Investment in MCAP

In 2020 and 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 2020 (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 lower than in the 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 Q4 2020, term deposit interest and expenses were relatively consistent from Q4 2019 and this was due to a decrease in term deposit rates 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 $266 million in Q4 2020 (Q4 2019 - $104 million) and $736 million in 2020 (2019 - $322 million). For further details on these programs, refer to the "Securitization Programs" section of this MD&A.

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

For the Quarters Ended	December 31, 2020			September 30, 2020			December 31, 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	$1,019,780	$ 6,461	2.54 %	$ 847,399	$ 5,504	2.61 %	$ 773,136	$ 4,950	2.56 %
Financial liabilities from securitization	1,030,716	4,232	1.65 %	859,683	3,841	1.80 %	793,569	3,650	1.84 %
Net securitized mortgage spread income [2]		$ 2,229			$ 1,663			$ 1,300	
Spread of mortgages over liabilities [2]			0.89 %			0.81 %			0.72 %

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

For the Years Ended December 31	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	$ 840,151	$ 21,534	2.58 %	$ 802,970	$ 20,491	2.56 %
Financial liabilities from securitization	856,413	15,898	1.87 %	827,940	15,345	1.85 %
Net securitized mortgage spread income [2]		$ 5,636			$ 5,146	
Spread of mortgages over liabilities [2]			0.71 %			0.71 %

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended December 31, 2020, September 30, 2020 and December 31, 2019 and the years ended December 31, 2020 and December 31, 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] during late Q1 2020 and into Q2 2020 due to indemnity expenses on early repaid mortgages that were 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 9: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) For the Periods Ended	Q4 2020	Q4 2019	Change (%)	Annual 2020	Annual 2019	Change (%)
Provision for (recovery of) on impaired corporate mortgages						
Single family mortgages uninsured	$ (3)	$ 6	(150%)	$ 46	$ 62	(26%)
Construction	—	—	n/a	—	(217)	100%
	(3)	6	(150%)	46	(155)	130%
Provision for (recovery of) on performing corporate mortgages						
Single family mortgages insured	(5)	—	n/a	(3)	19	(116%)
Single family mortgages uninsured	776	60	1,193%	1,653	(305)	642%
Single family mortgages uninsured - completed inventory	(25)	27	(193%)	452	140	223%
Construction loans	(812)	29	(2,900%)	(323)	474	(168%)
Commercial loans						
Multi family residential	105	(4)	2,725%	103	(346)	130%
Other commercial	(17)	23	(174%)	142	(269)	153%
	22	135	(84%)	2,024	(287)	805%
Other provisions (recoveries)	1	(8)	113%	5	(19)	126%
Total corporate provision for (recovery of) credit losses	20	133	(85%)	2,075	(461)	550%
Provision for (recovery of) on performing securitized mortgages	10	(1)	1,100%	21	(10)	310%
Total provision for (recovery of) credit losses	$ 30	$ 132	(77%)	$ 2,096	$ (471)	545%
Corporate mortgage portfolio data:						
Provision for (recovery of) credit losses, net	$ 19	$ 141	(87%)	$ 2,070	$ (442)	568%
Net write offs	$ 32	$ 58	(45%)	$ 184	$ 99	86%
Net write offs (basis points)	1.0	2.1	(52%)	1.5	1.0	50%

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 (both quarter and year to date) 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, partly offset by refinements in model parameters relating to our construction and commercial portfolio to better reflect our policies and practices on asset management. In Q4 2020, the provision for credit losses was largely unchanged from Q3 2020. Updated single family macroeconomic scenarios and economic inputs and higher portfolio balances that increased ECL were offset by updated commercial and construction macroeconomic scenarios and economic inputs and lower portfolio balances that decreased ECL. 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 December 31, 2020. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since December 31, 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 December 31, 2020, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect COVID-19-specific significant stress or deterioration and note that government support programs are still in effect. The increase in arrears in the fourth quarter is mainly due to one construction mortgage where an asset recovery program has since been initiated and is not related to COVID-19. We anticipate full recovery of past due interest and principal. We also note that notwithstanding COVID-19 and the loan mentioned previously, 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 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q4 2020	Q4 2019	Change (%)	Annual 2020	Annual 2019	Change (%)
Salaries and benefits	$ 4,509	$ 3,870	17%	$ 15,047	$ 13,905	8%
General and administrative	1,601	1,744	(8%)	6,631	7,292	(9%)
	$ 6,110	**$ 5,614**	**9%**	**$ 21,678**	**$ 21,197**	**2%**

The increase in salaries and benefits for the quarter and year to date is primarily due to additional resources to support our increased focus on single family originations, internal infrastructure and systems initiatives.

The decrease in general and administrative expenses for the quarter and year to date is primarily due to a reduction in professional fees compared to those incurred in 2019.

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 of a 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 11: Taxable Income Reconciliation [1]

(in thousands) **For the Periods Ended**	**Q4 2020**	**Q4 2019**	**YTD 2020**	**YTD 2019**
Consolidated net income for accounting purposes	$ 22,086	$ 10,550	$ 42,893	$ 48,294
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(9,378)	(4,032)	(33,918)	(15,759)
Add: MCAP taxable income	18,519	2,176	38,616	7,590
Reverse: Provision for (recovery of) credit losses [2]	32	135	2,047	(313)
Add: Amortization of upfront securitization program costs [3]	1,295	1,349	4,989	6,204
Deduct: Securitization program mortgage origination costs [3]	(5,558)	(1,553)	(16,546)	(7,874)
Add: Securitization program premium (discount)	1,334	(244)	5,110	1,118
Reverse: Net unrealized (gain)/loss on securities [4]	(5,702)	636	9,091	(10,780)
Add: Capital gains	274	3,625	274	4,043
Reverse: (Income)/loss earned in subsidiaries [5]	3,596	(1,342)	7,982	1,108
Deduct: Gain on dilution of MCAP[6]	—	—	(33)	(187)
Other items	(723)	(121)	(411)	(662)
Taxable Income	**$ 25,775**	**$ 11,179**	**$ 60,094**	**$ 32,782**

[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.*
[6] *Not recognizable in the calculation of taxable income.*

The increase in taxable income in 2020 from 2019 is primarily due to higher taxable income allocation from MCAP as well as our core operations partially offset by increased securitization activity which results in higher mortgage origination costs.

During 2020, we incurred $16.5 million of origination costs on securitized mortgages (including market MBS held by MCAN) (2019 - $7.9 million) due to higher insured single family origination volumes and increased participation in the securitization market (both single family and multi family). These costs are deductible for income tax purposes in the period that the mortgages are securitized; however, for accounting purposes they are capitalized and amortized over the term of the mortgages. At December 31, 2020, the unamortized origination fee balance was $21.4 million (December 31, 2019 - $9.8 million), which represents costs that are still to be expensed for accounting purposes but will be added back in the calculation of taxable income in the MIC in future periods.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	December 31 2020	September 30 2020	Change (%)	December 31 2019	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 88,929	$ 71,257	25%	$ 54,452	63%
Marketable securities	49,613	34,254	45%	46,170	7%
Mortgages	1,252,762	1,309,605	(4%)	1,089,401	15%
Non-marketable securities	56,117	57,340	(2%)	93,689	(40%)
Equity investment in MCAP Commercial LP	88,263	89,138	(1%)	69,844	26%
Deferred tax asset	407	368	11%	132	208%
Other assets	20,218	10,551	92%	7,771	160%
	1,556,309	**1,572,513**	**(1%)**	**1,361,459**	**14%**
Securitization Assets					
Cash held in trust	29,610	26,252	13%	28,575	4%
Mortgages	1,135,745	960,874	18%	784,296	45%
Other assets	7,051	6,338	11%	5,011	41%
	1,172,406	**993,464**	**18%**	**817,882**	**43%**
	$ 2,728,715	**$ 2,565,977**	**6%**	**$ 2,179,341**	**25%**

Our corporate asset portfolio increased from December 31, 2019 primarily due to strong origination volumes in the insured and uninsured single family portfolios. Our securitized mortgage portfolio has increased from September 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 December 31, 2020, the average outstanding construction loan balance was $7 million (September 30, 2020 - $9 million; December 31, 2019 - $9 million) with a maximum individual loan commitment of $30 million (September 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 that were in the deferred payment program as a result of COVID-19 were 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 remained eligible for future NHA MBS securitizations and issuers were 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 had not been collected from mortgagors. The insurers have issued guidance for addressing the deferrals in the securitized pools following the deferral period. At December 31, 2020, there were no remaining securitized mortgages in the deferral program.

For further information related to our securitization activities, refer to the "Securitization Programs" section of this 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 Q4 2020, we securitized $84 million (Q4 2019 - $77 million) of MBS through the market MBS program and retained $4 million (Q4 2019 - $nil) of the MBS on our corporate balance sheet and sold $80 million (Q4 2019 - $77 million) to third parties. Year to date 2020, we securitized $273 million (year to date 2019 - $116 million) of MBS through the market MBS program and retained $8 million (year to date 2019 - $nil) of the MBS on our corporate balance sheet and sold $265 million (year to date 2019 - $116 million) to third parties.

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

CMB Program

During Q4 2020, we securitized $165 million (Q4 2019 - $26 million) of insured single family mortgages through the CMB program and $17 million (Q4 2019 - $nil) of insured multi family mortgages. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of $0.1 million (Q4 2019 - $nil). Year to date 2020, we securitized $412 million (year to date 2019 - $191 million) of insured single family mortgages through the CMB program and $52 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 13: Mortgage Summary

(in thousands except %)	December 31 2020	September 30 2020	Change (%)	December 31 2019	Change (%)
Corporate portfolio:					
Single family mortgages					
Insured	$ 173,373	$ 183,556	(6%)	$ 110,181	57%
Uninsured	483,432	436,417	11%	382,820	26%
Uninsured - completed inventory	48,949	54,607	(10%)	45,455	8%
Construction loans	486,632	592,778	(18%)	504,520	(4%)
Commercial loans					
Multi family residential	29,839	10,031	197%	14,032	113%
Other commercial	30,537	32,216	(5%)	32,393	(6%)
	1,252,762	**1,309,605**	**(4%)**	**1,089,401**	**15%**
Securitized portfolio					
Single family insured - Market MBS program	437,831	406,040	8%	449,935	(3%)
Single family insured - CMB program	697,914	554,834	26%	334,361	109%
	1,135,745	**960,874**	**18%**	**784,296**	**45%**
	$ 2,388,507	**$ 2,270,479**	**5%**	**$ 1,873,697**	**27%**

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 was primarily due to increased new originations as a result of a buoyant housing market propelled by a very low interest rate environment. Our securitized mortgage portfolio has increased due to the impact of new securitization issuances as a result of higher volumes of insured single family originations.

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

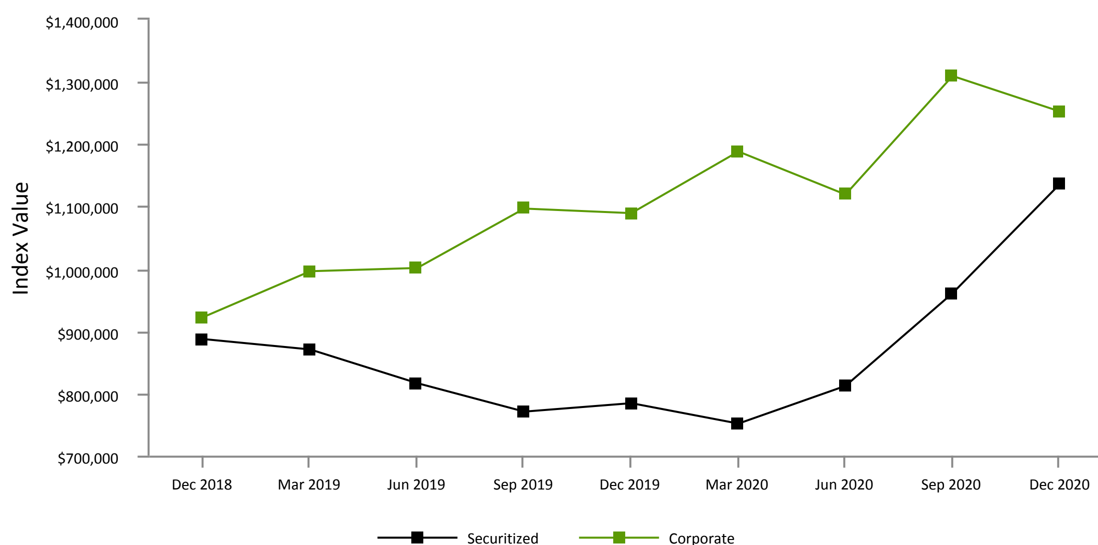
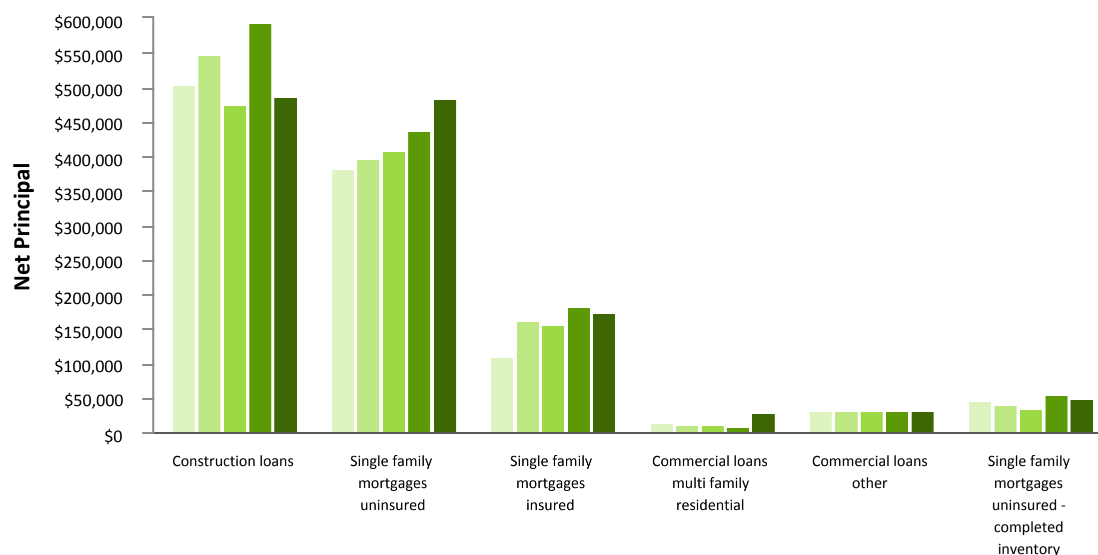


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
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%)
Dec 31, 2020	$486,632 (39%)	$483,432 (39%)	$173,373 (14%)	$29,839 (2%)	$30,537 (2%)	$48,949 (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 December 31, 2020 (December 31, 2019)

	December 31, 2020		December 31, 2019	
	Corporate	**Securitized**	**Corporate**	**Securitized**
Ontario	67.5 %	84.3 %	53.9 %	73.3 %
British Columbia	23.2 %	3.2 %	33.0 %	4.4 %
Alberta	7.5 %	8.4 %	9.7 %	14.6 %
Atlantic Provinces	0.7 %	2.2 %	1.0 %	3.7 %
Quebec	0.6 %	1.0 %	1.7 %	2.2 %
Other	0.5 %	0.9 %	0.7 %	1.8 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 14: Arrears and Impaired Mortgages

(in thousands except %)	December 31 2020	September 30 2020	Change (%)	December 31 2019	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 1,266	$ 1,087	16%	$ 1,783	(29%)
Single family mortgages - uninsured	2,505	2,465	2%	1,739	44%
	3,771	3,552	6%	3,522	7%
Securitized	472	410	15%	761	(38%)
Total impaired mortgages	$ 4,243	$ 3,962	7%	$ 4,283	(1%)
Impaired mortgage ratio (corporate) [1]	0.30 %	0.27 %	0.03%	0.32 %	(0.02%)
Impaired mortgage ratio (total) [1]	0.18 %	0.17 %	0.01%	0.23 %	(0.05%)
Mortgage arrears [1]					
Corporate					
Single family mortgages - insured	$ 1,948	$ 2,305	(15%)	$ 3,340	(42%)
Single family mortgages - uninsured	10,540	7,924	33%	8,821	19%
Construction loans	11,800	—	n/a	—	n/a
Total corporate mortgage arrears [1]	24,288	10,229	137%	12,161	100%
Total securitized mortgage arrears [1]	5,660	3,522	61%	3,750	51%
Total mortgage arrears [1]	$ 29,948	$ 13,751	118%	$ 15,911	88%
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 8,054	$ 6,648	21%	$ 11,815	(32%)
Single family mortgages - uninsured	68,517	61,027	12%	64,790	6%
Single family mortgages - uninsured - completed inventory	13,290	1,881	607%	2,411	451%
Construction loans	20,235	22,818	(11%)	44,504	(55%)
Commercial loans - multi-family residential	—	—	n/a	947	(100%)
Commercial - other	17,200	18,866	(9%)	—	n/a
	127,296	111,240	14%	124,467	2%
Stage 3					
Single family mortgages - insured	1,266	1,087	16%	1,783	(29%)
Single family mortgages - uninsured	2,505	2,465	2%	1,739	44%
	3,771	3,552	6%	3,522	7%
Total stage 2 and 3 corporate mortgages	$ 131,067	$ 114,792	14%	$ 127,989	2%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,047	$ 6,053	—%	$ 4,119	47%
Allowance on impaired mortgages	157	160	(2%)	194	(19%)
	6,204	6,213	—%	4,313	44%
Securitized - allowance on performing mortgages	25	15	67%	4	525%
Total allowance for credit losses	$ 6,229	$ 6,228	—%	$ 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.

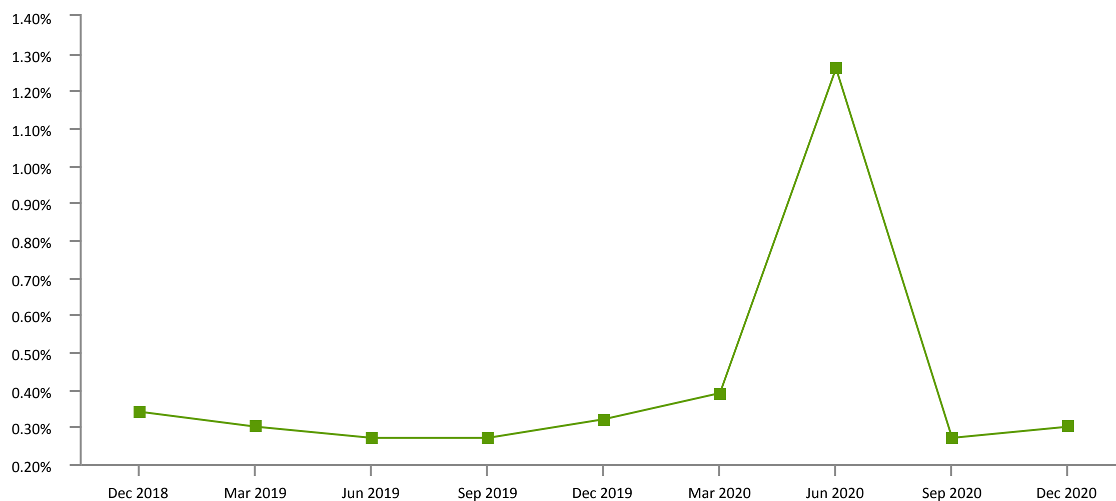
We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. The increase in arrears in the fourth quarter is mainly due to one construction mortgage where an asset recovery program has since been initiated and is not related to COVID-19. We anticipate full recovery of past due interest and principal.

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

Consistent with a government-sponsored initiative and with industry practice, the Company 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 did 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 did 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 because interest continues to accrue. Additionally, mortgages in the payment deferral program do not trigger a significant increase in credit risk ("SICR"). When 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 December 31, 2020, no mortgages remained in the payment deferral program. 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. Of the total mortgage arrears[1], 31% represents mortgages previously in our payment deferral program on a dollar basis. We will closely monitor and actively manage these arrears related to our payment deferral program.

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 7 to the 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 15: Single Family Mortgages by Province at December 31, 2020

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 137,757	79.5 %	$ 414,231	77.8 %	$ 67	73.6 %	$ 956,980	84.3 %	$ 1,509,035	81.9 %
Alberta	18,930	10.9 %	54,628	10.3 %	24	26.4 %	95,958	8.4 %	169,540	9.2 %
British Columbia	5,156	3.0 %	51,955	9.8 %	—	— %	36,082	3.2 %	93,193	5.1 %
Quebec	5,069	2.9 %	2,914	0.5 %	—	— %	11,840	1.0 %	19,823	1.1 %
Atlantic Provinces	4,991	2.9 %	3,733	0.7 %	—	— %	25,124	2.2 %	33,848	1.8 %
Other	1,379	0.8 %	4,920	0.9 %	—	— %	9,761	0.9 %	16,060	0.9 %
Total	**$ 173,282**	**100.0 %**	**$ 532,381**	**100.0 %**	**$ 91**	**100.0 %**	**$1,135,745**	**100.0 %**	**$ 1,841,499**	**100.0 %**

Table 16: 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 17: Single Family Mortgages by Amortization Period at December 31, 2020

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 116,987	$ 209,702	$ 287,265	$ 91,800	$ 705,754
	16.6 %	29.7 %	40.7 %	13.0 %	100.0 %
Securitized	$ 224,111	$ 881,872	$ 29,762	$ —	$ 1,135,745
	19.8 %	77.6 %	2.6 %	— %	100.0 %
Total	**$ 341,098**	**$ 1,091,574**	**$ 317,027**	**$ 91,800**	**$ 1,841,499**
	18.5 %	**59.3 %**	**17.2 %**	**5.0 %**	**100.0 %**

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

(in thousands except %) **For the Periods Ended**	**Q4 2020**	**Average LTV**	**Q4 2019**	**Average LTV**	**Annual 2020**	**Average LTV**	**Annual 2019**	**Average LTV**
Ontario	$105,758	72.1%	$ 52,180	70.2%	$276,340	70.8%	$199,412	70.6%
Alberta	9,120	63.4%	497	52.6%	29,708	60.7%	21,558	60.7%
British Columbia	7,400	72.8%	5,023	68.8%	32,136	74.5%	48,720	63.7%
Other	—	—%	—	—%	110	61.8%	528	71.9%
	$122,278	**71.5%**	**$ 57,700**	**69.9%**	**$338,294**	**70.7%**	**$270,218**	**68.6%**

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

	December 31 2020	**December 31 2019**
Corporate portfolio:		
Single family mortgages		
Insured	78.5 %	78.8 %
Uninsured[1]	68.6 %	68.1 %
Uninsured - completed inventory	62.3 %	63.9 %
Construction loans		
Residential	59.0 %	46.2 %
Non-residential	64.7 %	0.0 %
Commercial loans		
Multi family residential	74.0 %	58.0 %
Other commercial	53.7 %	58.4 %
	65.7 %	58.4 %
Securitized portfolio		
Single family insured - Market MBS Program	81.1 %	82.9 %
Single family insured - CMB Program	82.8 %	83.9 %
	82.1 %	83.3 %
	73.5 %	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 68.0% at December 31, 2020 (December 31, 2019 - 67.4%). Based on an industry index that incorporates current real estate values, the ratios would be 60.6% and 64.0%, respectively.*

Other Corporate Assets

Cash and Cash Equivalents

At December 31, 2020, our cash balance was $89 million (September 30, 2020 - $71 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. We actively manage our portfolio, as appropriate. At December 31, 2020, the portfolio balance was $50 million (September 30, 2020 - $34 million; December 31, 2019 - $46 million). During 2020, we purchased $14 million and sold $1 million of REITs.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 6.8% equity interest at December 31, 2020 (September 30, 2020 - 6.8%; December 31, 2019 - 7.3%). At December 31, 2020, the carrying value of our investment was $44 million (September 30, 2020 - $44 million; December 31, 2019 - $43 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages.

During Q4 2019, we invested in Securitization Notes. At December 31, 2020, the carrying value of the Securitization Notes was $13 million (September 30, 2020 - $14 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.

During 2020, we sold our investment in Crown LP core fund units for $33 million representing its fair value and received a final distribution of $31,000 on our investment in Crown LP opportunity fund units.

Equity Investment in MCAP

We hold a 14.03% equity interest in MCAP (September 30, 2020 - 14.03%; December 31, 2019 - 14.02%), which represents 4.0 million units held by MCAN at December 31, 2020 (September 30, 2020 - 4.0 million; December 31, 2019 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (September 30, 2020 - 28.5 million; December 31, 2019 - 28.5 million).

The investment had a net book value of $88 million at December 31, 2020 (September 30, 2020 - $89 million; December 31, 2019 - $70 million). The Limited Partner's At-Risk Amount ("LP ARA")[1], which represents the cost base of the equity investment in MCAP for income tax purposes, was $60 million at December 31, 2020 (September 30, 2020 - $51 million; December 31, 2019 - $37 million). The difference between the net book value and the LP ARA[1] reflects an unrealized gain that, if realized, would be recognized as a capital gain.

During Q4 2020, we received $10.3 million of unitholder distributions from MCAP (Q4 2019 - $2.3 million). For year to date 2020, we have received $15.5 million of unitholder distributions from MCAP (year to date 2019 - $7.7 million) 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.

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 21: Liabilities and Shareholders' Equity

(in thousands except %)	December 31 2020	September 30 2020	Change (%)	December 31 2019	Change (%)
Corporate Liabilities					
Term deposits	$ 1,234,769	$ 1,229,423	—%	$ 1,034,299	19%
Loans payable	—	25,116	(100%)	5,053	(100%)
Current taxes payable	—	758	(100%)	—	n/a
Deferred tax liabilities	—	—	n/a	21	(100%)
Other liabilities	4,825	8,970	(46%)	15,996	(70%)
	1,239,594	**1,264,267**	**(2%)**	**1,055,369**	**17%**
Securitization Liabilities					
Financial liabilities from securitization	1,142,609	968,877	18%	793,660	44%
	1,142,609	**968,877**	**18%**	**793,660**	**44%**
	2,382,203	**2,233,144**	**7%**	**1,849,029**	**29%**
Shareholders' Equity					
Share capital	234,635	234,635	—%	228,008	3%
Contributed surplus	510	510	—%	510	—%
Retained earnings	111,367	97,688	14%	101,794	9%
	346,512	**332,833**	**4%**	**330,312**	**5%**
	$ 2,728,715	**$ 2,565,977**	**6%**	**$ 2,179,341**	**25%**

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. For further information on the market MBS and CMB programs, refer to the "Securitization Programs" section of this MD&A.

Share Capital

Share capital activity for 2020 reflects new common shares issued through the DRIP and Executive Share Purchase Plan. The DRIP participation rate for 2020 dividends was 17% (2019 - 20%). For further information, refer to Note 17 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for 2020 consists of net income of $42.9 million (2019 - $48.3 million) less dividends of $33.3 million (2019 - $30.8 million).

SELECTED QUARTERLY FINANCIAL DATA

Table 22: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Income Statement Highlights								
Mortgage interest - corporate assets	$17,115	$16,149	$15,409	$15,397	$14,910	$14,609	$13,656	$13,204
Net investment income (loss) - corporate assets	$25,704	$26,963	$12,649	$(5,022)	$14,839	$18,207	$13,124	$18,773
Mortgage interest - securitization assets	$ 6,461	$ 5,504	$ 4,786	$ 4,783	$ 4,950	$ 4,800	$ 5,241	$ 5,500
Net investment income - securitization assets	$ 1,694	$ 1,149	$ 389	$ 801	$ 1,015	$ 962	$ 965	$ 1,052
Net income (loss)	$22,086	$22,741	$ 7,796	$(9,730)	$10,550	$14,551	$ 8,888	$14,305
Basic and diluted earnings (loss) per share	$ 0.89	$ 0.92	$ 0.32	$ (0.40)	$ 0.44	$ 0.60	$ 0.37	$ 0.60
Dividends per share	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Return on average shareholders' equity [1]	25.92 %	28.04 %	9.96 %	(11.84)%	12.84 %	18.05 %	11.27 %	18.36 %
Taxable income per share [1,2]	$ 1.05	$ 0.48	$ 0.21	$ 0.71	$ 0.46	$ 0.28	$ 0.28	$ 0.34
Spreads								
Spread of corporate mortgages over term deposit interest [1]	2.76 %	2.63 %	2.48 %	2.62 %	2.63 %	2.48 %	2.66 %	2.73 %
Spread of securitized mortgages over liabilities [1]	0.89 %	0.81 %	0.44 %	0.63 %	0.72 %	0.72 %	0.70 %	0.69 %
Average term to maturity (in months)								
Mortgages - corporate	14.2	13.5	12.3	12.2	10.7	11.3	11.6	11.9
Term deposits	18.3	19.2	18.7	17.0	18.4	19.1	20.1	17.2
Balance Sheet Highlights ($ million)								
Total assets	$ 2,729	$ 2,566	$ 2,248	$ 2,212	$ 2,179	$ 2,200	$ 2,130	$ 2,167
Mortgages - corporate	$ 1,253	$ 1,310	$ 1,119	$ 1,188	$ 1,089	$ 1,097	$ 1,001	$ 996
Mortgages - securitized	$ 1,136	$ 961	$ 812	$ 752	$ 784	$ 771	$ 816	$ 871
Total liabilities	$ 2,382	$ 2,233	$ 1,931	$ 1,897	$ 1,849	$ 1,872	$ 1,811	$ 1,850
Shareholders' equity	$ 347	$ 333	$ 317	$ 315	$ 330	$ 328	$ 319	$ 317
Capital Ratios								
Income tax assets to capital ratio [1]	5.09	5.44	4.95	5.03	4.93	5.13	4.71	4.69
CET 1 & Tier 1 Capital ratios [1,5]	21.67 %	20.45 %	23.01 %	21.80 %	22.52 %	21.77 %	22.40 %	22.09 %
Total Capital ratio [1,5]	22.02 %	20.80 %	23.40 %	22.17 %	22.52 %	21.77 %	22.40 %	22.09 %
Leverage ratio [3]	10.17 %	10.26 %	11.46 %	11.70 %	12.58 %	12.28 %	12.16 %	12.05 %
Credit Quality								
Impaired mortgage ratio (corporate) [1,4]	0.30 %	0.27 %	1.26 %	0.39 %	0.32 %	0.27 %	0.27 %	0.30 %
Impaired mortgage ratio (total) [1,4]	0.18 %	0.17 %	0.77 %	0.28 %	0.23 %	0.18 %	0.19 %	0.24 %
Mortgage Arrears								
Corporate [1]	$24,288	$10,229	$36,083	$31,289	$12,161	$13,014	$11,334	$11,251
Securitized [1]	5,660	3,522	4,005	5,016	3,750	3,367	4,122	7,431
Total [1]	$29,948	$13,751	$40,088	$36,305	$15,911	$16,381	$15,456	$18,682
Common Share Information (end of period)								
Number of common shares outstanding	24,727	24,727	24,621	24,420	24,215	24,215	24,129	24,040
Book value of common share [1]	$ 14.01	$ 13.46	$ 12.88	$ 12.90	$ 13.64	$ 13.53	$ 13.23	$ 13.18
Common share price - close	$ 15.77	$ 13.41	$ 12.65	$ 12.18	$ 17.10	$ 15.95	$ 15.95	$ 15.93
Market capitalization ($ million) [1]	$ 390	$ 332	$ 311	$ 297	$ 414	$ 386	$ 385	$ 383

[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 multiple factors. The main drivers during 2020 relate to COVID-19 impacts, causing a lower interest rate environment, a large unrealized fair value loss on our REIT portfolio recorded in Q1 2020 and an increase in our provision for credit losses. Offsetting these were higher average corporate mortgage portfolio balances and higher equity income from MCAP, particularly in the second half of 2020.

Since 2019, the corporate portfolio mix has shifted towards single family mortgages mainly due to our objective of balancing the risk profile of our balance sheet and amidst COVID-19 and a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. In Q2 2020, the combination of these two factors as well as market disruption experienced in the term deposit market due to COVID-19 contributed to the decrease in the spread of corporate mortgages over term deposit interest[1]. In late 2020, term deposit funding and related costs began to decrease through this period and we saw a gradual increase 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.

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. The increase in arrears in Q4 2020 is mainly due to one construction mortgage where an asset recovery program has since been initiated. We anticipate full recovery of past due interest and principal. The circumstances of both construction mortgages were unrelated 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, Executive Share Purchase Plan, rights offerings, public share offerings and stock dividends. Our capital management is primarily 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.

Table 23: Income Tax Capital [1]

(in thousands except ratios)

	December 31 2020	December 31 2019
Income tax assets [1]		
Consolidated assets	$ 2,728,715	$ 2,179,341
Adjustment for assets in subsidiaries	16,117	11,250
Non-consolidated assets in MIC entity	2,744,832	2,190,591
Add: corporate mortgage allowances	6,061	4,135
Less: securitization assets [2]	(1,160,073)	(804,569)
Adjustments to equity investments in MCAP and subsidiaries	(55,581)	(60,146)
Other adjustments	2,013	(8,461)
	$ 1,537,252	$ 1,321,550
Income tax liabilities [1]		
Consolidated liabilities	$ 2,382,203	$ 1,849,029
Adjustment for liabilities in subsidiaries	(6,183)	(3,055)
Non-consolidated liabilities in MIC entity	2,376,020	1,845,974
Less: securitization liabilities [2]	(1,140,991)	(792,425)
	$ 1,235,029	$ 1,053,549
Income tax capital [1]	$ 302,223	$ 268,001
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.09	4.93
Income tax liabilities to capital ratio	4.09	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 December 31, 2020, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 24: Regulatory Capital

(in thousands except %)

	December 31 2020	December 31 2019
Regulatory Ratios (OSFI)		
Share capital	$ 234,635	$ 228,008
Contributed surplus	510	510
Retained earnings	111,367	101,794
Deduction from equity investment in MCAP [2]	(53,475)	(36,813)
Eligible Stage 1 and Stage 2 mortgage allowances [4]	1,364	—
Common Equity Tier 1 and Tier 1 Capital [4] (A)	294,401	293,499
Tier 2 Capital [4]	4,707	—
Total Capital [4] (D)	$ 299,108	$ 293,499
Total Exposure/Regulatory Assets [1]		
Consolidated assets	$ 2,728,715	$ 2,179,341
Less: deduction for equity investment in MCAP [2]	(53,475)	(36,813)
Other adjustments [3]	3,018	3,804
Total On-Balance Sheet Exposures	2,678,258	2,146,332
Mortgage and investment funding commitments (50%)	197,069	170,148
Letters of credit (50%)	19,552	16,982
Total Off-Balance Sheet Items	216,621	187,130
Total Exposure/Regulatory Assets (B)	$ 2,894,879	$ 2,333,462
Leverage ratio [1] **(A / B)**	10.17 %	12.58 %
Risk-weighted assets [1] **(C)**	$ 1,358,261	$ 1,303,502
Regulatory Capital Ratios [1]		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.67 %	22.52 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.67 %	22.52 %
Total capital to risk-weighted assets ratio **(D / C)**	22.02 %	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 25: Regulatory Risk-Weighted Assets

(in thousands except %)	December 31, 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	$ 88,929	21 %	$ 18,389	$ 54,452	21 %	$ 11,651
Cash held in trust	29,610	20 %	5,922	28,575	20 %	5,715
Marketable securities	49,613	100 %	49,613	46,170	100 %	46,170
Mortgages - corporate	1,252,762	62 %	775,093	1,089,401	67 %	734,680
Mortgages - securitized	1,135,745	5 %	59,146	784,296	4 %	31,457
Non-marketable securities	56,117	173 %	97,020	93,689	175 %	163,601
Equity investment in MCAP Commercial LP	88,263	39 %	34,788	69,844	47 %	33,031
Deferred tax asset	407	100 %	407	132	100 %	132
Other assets	27,269	100 %	27,269	12,782	100 %	12,782
			1,067,647			1,039,219
Off-Balance Sheet Items						
Letters of credit	39,105	50 %	19,553	33,965	50 %	16,983
Commitments	394,139	38 %	151,598	340,297	41 %	139,437
			171,151			156,420
Charge for operational risk [1]			119,463			107,863
Risk-Weighted Assets			**$ 1,358,261**			**$ 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.

Other Capital Management Activity

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

SECURITIZATION PROGRAMS

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. We issue MBS through our internal market MBS program and the CHT CMB program. For further information, refer to Note 11 to the consolidated financial statements.

Market MBS Program

During 2020, we securitized $273 million of MBS through the market MBS program (2019 - $116 million).

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. At December 31, 2020, we held $48 million of retained MBS on our balance sheet (December 31, 2019 - $49 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

During 2020, we securitized $412 million of insured single family mortgages through the CMB program (2019 - $191 million) and $52 million of insured multi family mortgages (2019 - $14 million). 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).

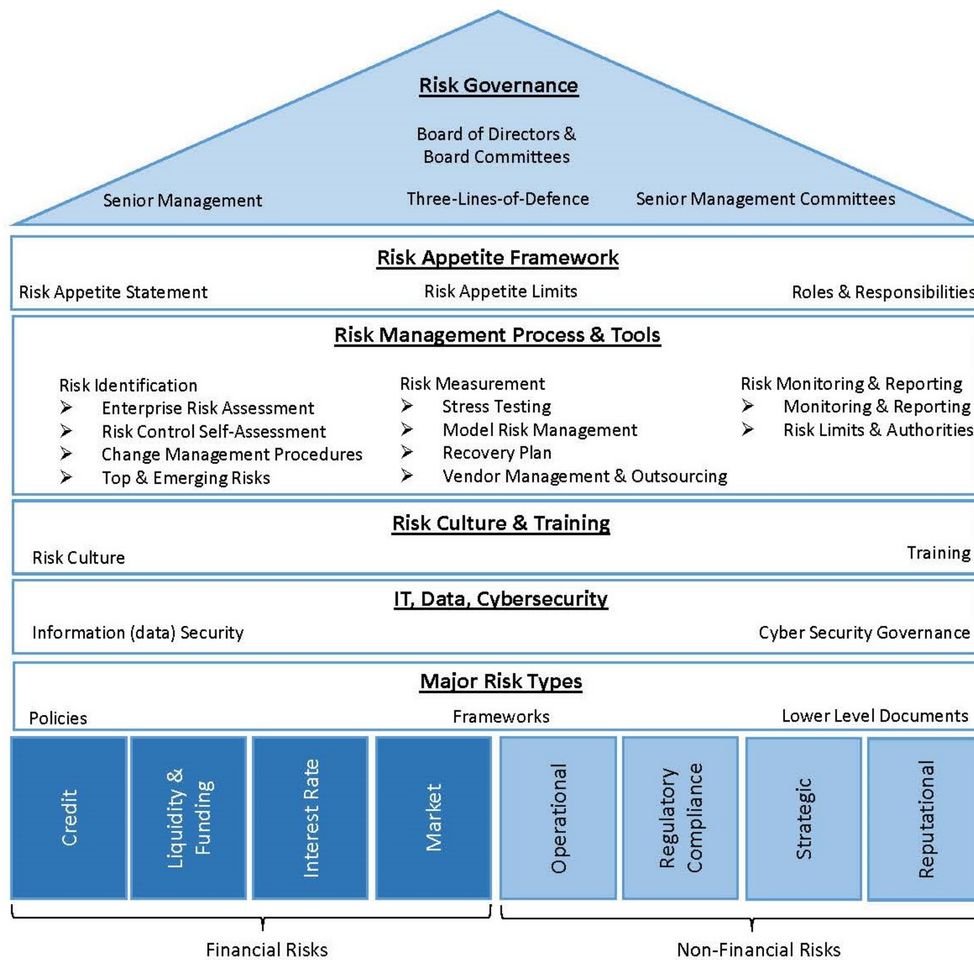
Other Considerations

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio. However, for income tax purposes, all mortgages securitized by MCAN are excluded from income tax assets. For further details on total exposures, regulatory capital and income tax assets and capital, refer to the "Capital Management" and "Non-IFRS Measures" sections of this MD&A.

RISK MANAGEMENT

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

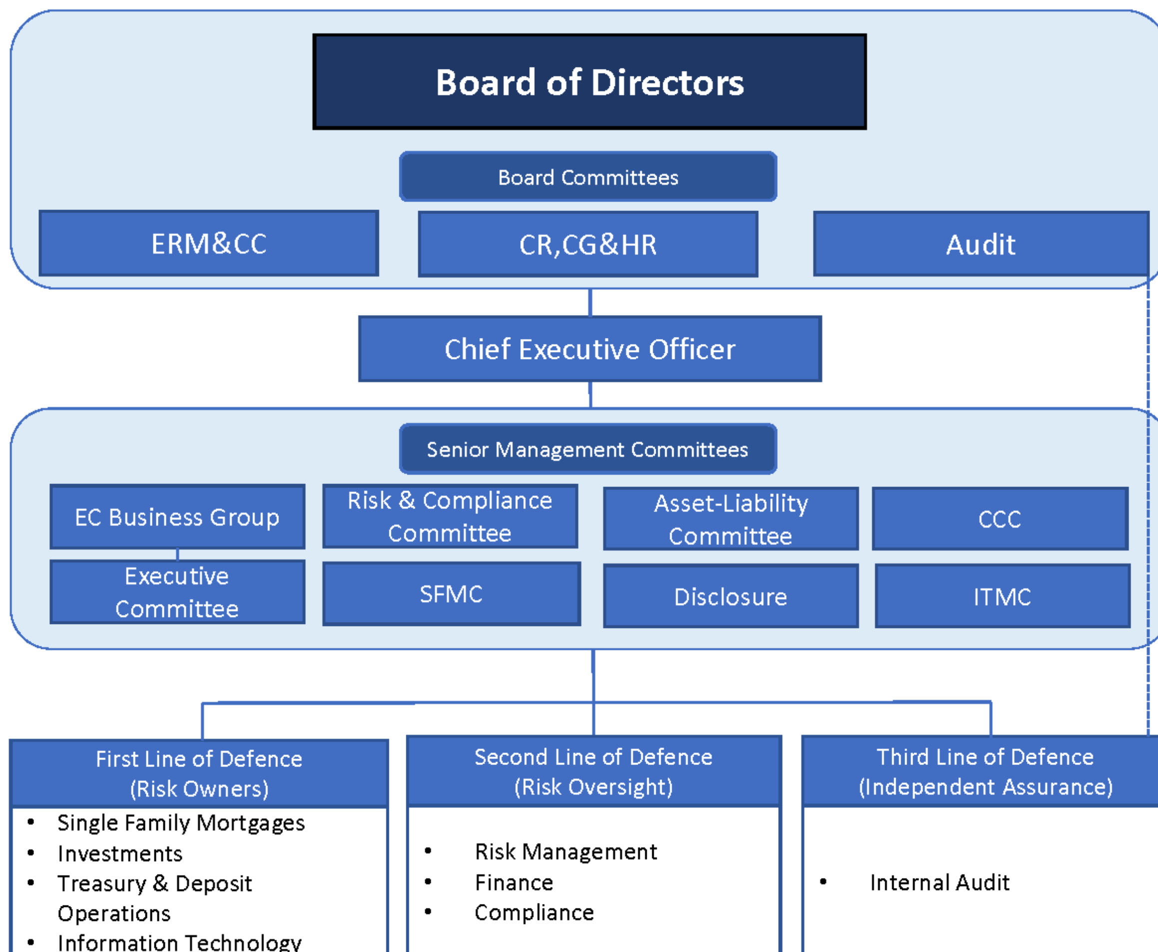
Roles and Accountabilities



Risk Governance

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

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



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

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

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

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

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

The Board is supported by management level committees, including but not limited to:

- The Executive Committee: ensures the orderly flow of business, provides governance over business activities, and oversees strategic, emerging and reputational risk.
  - Executive Committee Business Group: provides oversight of key strategic activities with the primary focus on the market, business development and alignment with the strategy and annual plan.
- Risk and Compliance Committee (“RCC”): provides a forum for enterprise-wide risk management and compliance oversight and facilitates objective and independent challenge over risk taking activities. The Committee provides oversight of the Company’s risk profile, risk mitigation strategies, and reviews business activities in relation to the established risk appetite framework.
- Asset-Liability Committee (“ALCO”): provides a forum for oversight and management of assets and liabilities of the Company in the context of balance sheet structure and size. The Committee serves as an important component of liquidity and interest rate risk management by providing strategic direction of these risk types.
- Capital Commitments Committee (“CCC”): is mandated to govern, evaluate and approve the construction & commercial lending activities and investments in marketable & non-marketable securities.

Three-Lines-of-Defence

The Three-Lines-of-Defence model is employed to provide clarity with respect to the risk management structure and assigns roles and accountabilities to enhance effective risk management and control.

First Line (Business Units):

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

Second Line (Oversight Functions):

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

  These activities are overseen by:

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

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

  - The Finance function, under the leadership of the Chief Financial Officer (“CFO”), is accountable for the accuracy and integrity of the Company’s accounting and financial reporting systems, including financial internal controls, financial statements, planning and budgeting systems and all other financial matters. The CFO is accountable for developing and monitoring performance and compliance against the Company’s capital management strategy.

Third Line (Internal Audit):

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

Risk Appetite

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

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

MCAN's overarching risk appetite statement is as follows:

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

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

Risk Culture

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

Stress Testing

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

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

Monitoring and Reporting

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

Major Risk Types

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

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to liquidity, credit, interest rate and market risks as required under IFRS 7, *Financial Instruments: Disclosures*. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of the consolidated financial statements.

The Company's operations could also be adversely affected by the impact of global health pandemics such as the outbreak and continuing impact 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. 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 is monitoring the evolving pandemic and has oversight with respect to 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 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.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows including the ability to raise term deposits and access to other sources of funding, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on- and off-balance sheet) as they come due.

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held (including insured single family mortgages, which are readily marketable within a time frame of one to three months), together with our ability to raise new deposits and other funding sources, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations.

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. Further to the LRMF, 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.

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 December 31, 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 December 31, 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.

The Company maintains 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. The facility limit is $120 million. During 2020, there were temporarily increases of the facility limit from $120 million to $150 million.

We also have an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility provides liquidity and allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, 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.

In February 2021, the Company signed a term sheet with a Canadian Schedule I Chartered bank for $50 million for a senior secured mortgage warehouse facility that will bear interest at either prime plus 0.05% or BAs plus 1.05%. The facility will be used to fund insured single family mortgages prior to securitization activities. This facility will provide improved funding in response to our continued growth.

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.

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 December 31, 2020 and 2019, we were in compliance with the LCR and NCCF metrics.

Our sources and uses of liquidity are outlined in the table below. For further information on our off-balance sheet commitment associated with our investment in the KSHYF, refer to the "Off-Balance Sheet Arrangements" section of this MD&A.

Table 26: Liquidity Analysis

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2020	December 31 2019
Sources of liquidity							
Cash and cash equivalents	$ 88,929	$ —	$ —	$ —	$ —	$ 88,929	$ 54,452
Marketable securities	49,583	—	30	—	—	49,613	46,170
Mortgages - corporate	247,910	510,966	385,307	71,876	36,703	1,252,762	1,089,401
Non-marketable securities	—	—	12,534	—	43,583	56,117	93,689
Other loans	2,382	—	—	—	—	2,382	1,099
	388,804	510,966	397,871	71,876	80,286	1,449,803	1,284,811
Uses of liquidity							
Term deposits	123,727	426,047	519,630	165,365	—	1,234,769	1,034,299
Loans payable	—	—	—	—	—	—	5,053
Other liabilities	(922)	556	1,586	1,822	1,783	4,825	15,996
	122,805	426,603	521,216	167,187	1,783	1,239,594	1,055,348
Net liquidity surplus (deficit)	**$ 265,999**	**$ 84,363**	**$ (123,345)**	**$ (95,311)**	**$ 78,503**	**$ 210,209**	**$ 229,463**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 173,853	$ 105,466	$ 91,414	$ —	$ —	$ 370,733	$ 316,276
Commitment - KSHYF	—	—	1,212	—	22,194	23,406	24,021
	$ 173,853	$ 105,466	$ 92,626	$ —	$ 22,194	$ 394,139	$ 340,297

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

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our investments and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings.

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

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 Lines of Defence. The RCC, 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 December 31, 2020 and 2019 there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the 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 was 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 did 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 did not affect the performing status of mortgage payments up to three calendar months from the effective date of the deferral. As at December 31, 2020, there were no mortgages remaining in the deferral program. We have also implemented appropriate measures to support these borrowers after their payment deferral periods ended, which has included increased amortizations and other payment arrangements. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term.

Credit Risk - Impairment Assessment Under IFRS 9

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

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

Probability of Default

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

Loss given default

LGD is an estimate of the loss arising in the case where a default occurs. LGD is built utilizing statistical regression to determine a relationship between LGD and macroeconomic variables, using external LGD data from comparable historical portfolios to forecast LGD under macroeconomic scenarios. Like the PD model, the construction and commercial LGD model also segments the portfolio by internal risk ratings to differentiate LGDs at the borrower level.

Exposure at default

EAD is the estimate of exposure at a future default date at the borrower level, taking into account expected changes in the exposure after the reporting date. EAD is the borrower level exposure in the event of default, determined by forecasting advances and repayments on the portfolio. The forecast is determined utilizing historical advance and repayment trends and

segmented by product type. EAD is forecast up to the expected lifetime of each individual loan, capped at 12 months for IFRS 9 stage 1 loans.

Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or specific basis for the corporate mortgage portfolio based on the line of business (per Note 7 to the consolidated financial statements). ECLs are calculated on a specific basis for all mortgages in stage 3 and are calculated on a collective basis for all mortgages in stage 1 and stage 2.

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on- and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations. Risk factors that MCAN regularly considers are credit spread, gap, basis and yield curve risks.

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

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

We are exposed to interest rate risk on insured single family mortgages between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded, and, in the case of mortgages securitized through the market MBS or CMB programs, the time that the mortgage is securitized. To manage this risk, we may employ various hedging strategies.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at December 31, 2020 would have an estimated positive effect of $4.1 million (September 30, 2020 - $5.5 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 December 31, 2020 would have an estimated adverse effect of $0.1 million (September 30, 2020 - $1.6 million; December 31, 2019 - $3.4 million) to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

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 December 31, 2020 and December 31, 2019 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 27: Interest Rate Sensitivity at December 31, 2020

At December 31, 2020 (in thousands except %)	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$413,977	$199,490	$393,550	$242,439	$ 70,568	$ 80,196	$ 156,089	$ 1,556,309
Securitization	29,610	5,198	78,310	168,243	883,994	—	7,051	1,172,406
	443,587	204,688	471,860	410,682	954,562	80,196	163,140	2,728,715
Liabilities								
Corporate	—	123,727	426,047	519,630	165,365	—	4,825	1,239,594
Securitization	—	8,617	69,403	173,141	891,448	—	—	1,142,609
	—	132,344	495,450	692,771	1,056,813	—	4,825	2,382,203
Shareholders' Equity	—	—	—	—	—	—	346,512	346,512
GAP	**$443,587**	**$ 72,344**	**$(23,590)**	**$(282,089)**	**$(102,251)**	**$ 80,196**	**$ (188,197)**	**$ —**
YIELD SPREAD	**4.08 %**	**2.71 %**	**2.05 %**	**1.86 %**	**1.13 %**	**6.56 %**		

Table 28: 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 %**	**9.54 %**		

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, including in the REIT sector. In Q4 2020, there was a partial rebound in REIT prices amid optimism around the impending economic outlook given the COVID-19 vaccine, however, high volatility is expected to continue as a result of the pandemic.

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 on a quarterly basis.

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 factors generally arise from either choosing the wrong strategy, or poor execution of the right strategy. The inability to proactively develop business strategies, plans or clearly define objectives, or failure to develop internal capabilities can also result in strategic risk.

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.

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

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Mortgage Renewal and Prepayment Risk

We retain renewal rights on mortgages that we originate that are either sold to third parties or retained on the consolidated balance sheet. If mortgagors are unable to renew their mortgages at their scheduled maturities, we may be required to use our own financial resources to fund these obligations until mortgage arrears are collected or, in the case of insured single family mortgages, proceeds are received from mortgage insurers following the sale of mortgaged properties.

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment obligation. For further information on the Timely Payment obligation, refer to Note 11 to the consolidated financial statements. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

Economic and Geopolitical Conditions

Factors that could impact the overall market and economic stability of the Company's operations include changes in short-term and long-term interest rates, commodity prices, international trade, inflation, consumer confidence, business and government spending, real estate market activity, real estate prices and adverse economic events. Though the nature and extent of these risks may vary depending on circumstances, an increased level of uncertainty for economic growth and market volatility in interest rates may arise. Our inability to respond to changes effectively may have an adverse effect on our financial condition and results of operations.

Competition Risk

Our operations and income are a function of the interest rate environment, the availability and acceptance of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability and acceptance of mortgage products for the Company and the yields thereon are dependent on market competition. In the event that we are unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities at reasonable rates, there may be an adverse effect on our financial condition and results of operations.

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

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

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying an environmental policy and procedures to our commercial and development lending activities.

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2020, there were 24,727,145 common shares outstanding (December 31, 2019 - 24,215,383). At February 23, 2021, there were 24,821,671 common shares outstanding.

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

We issued 417,384 new common shares in 2020 (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 17 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Obligations

(in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2020
Mortgage funding commitments	$ 279,319	$ 91,414	$ —	$ —	$ 370,733
Commitment - KSHYF	—	1,212	—	22,194	23,406
	$ 279,319	**$ 92,626**	**$ —**	**$ 22,194**	**$ 394,139**

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

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting borrower obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the

municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 23 to the consolidated financial statements.

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6 million. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with $300,000 in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. MCAP was awarded a judgment for approximately $500,000 against the same plaintiff in related proceedings. We may be obligated to indemnify 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.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. In addition, as a MIC, we can pay certain capital gains dividends which are taxed as capital gains to our shareholders. We intend to continue to declare and pay dividends on a quarterly basis. The Company has historically paid out dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations.

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. Non-cash dividends such as stock dividends are not included in the limitation.

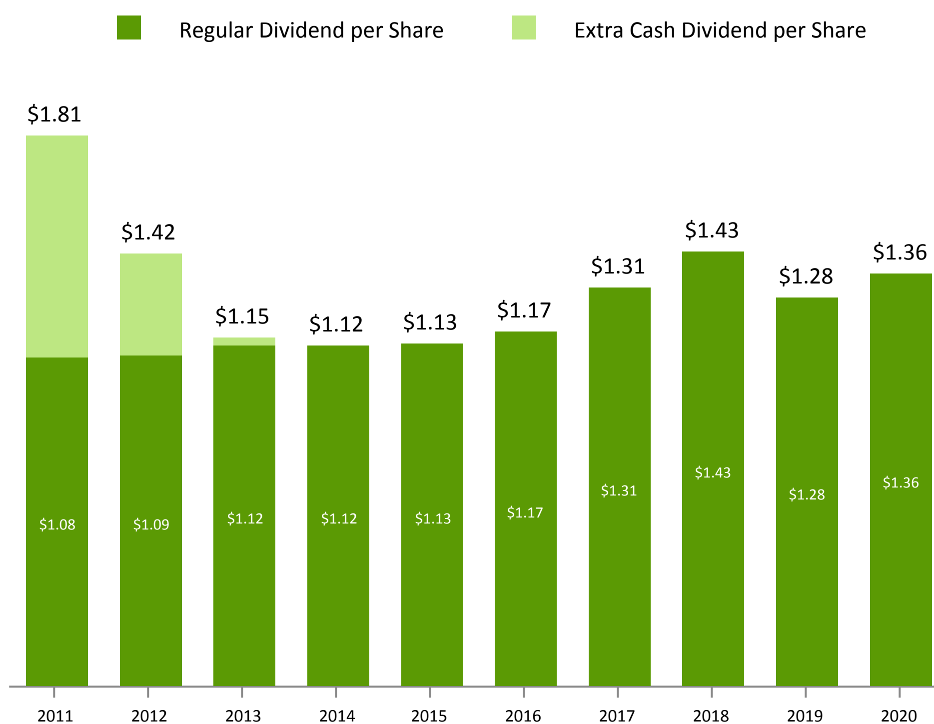
On February 23, 2021, the Board declared a quarterly cash dividend of $0.34 per share and a special stock dividend of $0.85 per share both to be paid on March 31, 2021 to shareholders of record as of March 15, 2021. The special stock dividend will be paid to shareholders in common shares (with fractional shares paid in cash) issued out of treasury at the weighted average trading price for the five days preceding the record date. The special stock dividend represents the true up of our regular dividends to taxable income for 2020, net of loss carryforwards used. The special dividend will be paid in stock in accordance with our plan and conforms with OSFI's current restriction on increasing cash dividends. The increase in taxable income in 2020 is primarily due to higher taxable income allocation from MCAP as well as our core operations partially offset by increased securitization activity which results in higher mortgage origination costs.

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

Table 30: Dividend Per Share

For the Years Ended December 31	2020	2019	2018
First Quarter	$ 0.34	$ 0.32	$ 0.37
Second Quarter	0.34	0.32	0.37
Third Quarter	0.34	0.32	0.37
Fourth Quarter	0.34	0.32	0.32
	$ 1.36	**$ 1.28**	**$ 1.43**

Figure 5: Dividend History



TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2020 and December 31, 2019 and related party balances at December 31, 2020 and December 31, 2019 are discussed in Notes 9 and 22 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income (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 December 31, 2020, we had 112 team members (September 30, 2020 - 105; December 31, 2019 - 98).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

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

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

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

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums, as applicable, using the effective interest rate method.

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

In determining whether it has significant influence over an entity, the Company makes certain judgments based on the applicable accounting standards. These judgments form the basis for the Company's policies in accounting for its equity method investments.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2020, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2020.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2020.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2020 and ending on December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our control framework.

Inherent Limitations of Controls and Procedures

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

NON-IFRS MEASURES

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

Return on Average Shareholders' Equity
Return on average shareholders' equity is a profitability measure that presents the annualized net income available (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 24 of this MD&A and Note 24 to the consolidated financial statements.

Income Tax Capital Measures
Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts.

Market Capitalization
Market capitalization is calculated as the number of common shares outstanding multiplied by the closing common share price as of that date.

Book Value per Common Share
Book value per common share is calculated as total shareholders' equity divided by the number of common shares outstanding as of that date.

Limited Partner's At-Risk Amount
The value of our equity investment in MCAP for income tax purposes is referred to as the Limited Partner's At-Risk Amount, which represents the cost base of the limited partner's investment in the partnership. The LP ARA is increased (decreased) by the partner's share of partnership income on a tax basis, increased by the amount of capital contributions into the partnership and reduced by distributions received from the partnership.