ANNUAL REPORT

2019

DESCRIPTION OF BUSINESS

MCAN Mortgage Corporation (the "Company" or "MCAN") is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"). As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

Our objective is to generate a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments. We employ leverage by issuing term deposits that are eligible for Canada Deposit Insurance Corporation deposit insurance and are sourced through a network of independent financial agents. We manage our capital and asset balances based on the regulations and limits of the Trust Act, the Tax Act and OSFI.

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are treated as interest income to shareholders for income tax purposes. We are also able to pay capital gains dividends, which would be treated as capital gains to shareholders for income tax purposes. Dividends paid to foreign investors may be subject to withholding taxes. To meet the MIC criteria, 67% of our non-consolidated assets measured on a tax basis are required to be held in cash or cash equivalents and residential mortgages.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation, is an originator of single family residential mortgage products across Canada.

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2019 HIGHLIGHTS

$48.3 million
NET INCOME

$2.01
EARNINGS PER SHARE

15.11%
RETURN ON SHAREHOLDERS' EQUITY[1]

11.20%
CORPORATE ASSET GROWTH

$1.28
DIVIDENDS PER SHARE PAID IN 2019
27 year track record of dividend distribution

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

MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of $48.3 million ($2.01 per share) for the year ended December 31, 2019, an increase of 33% from $36.3 million ($1.54 per share) earned in 2018. Return on average shareholders' equity was 15.11%, compared to 11.90% in the prior year.

We earned net income of $10.6 million ($0.44 per share) for the fourth quarter ended December 31, 2019, an increase of 197% from $3.5 million ($0.15 per share) in the fourth quarter of 2018. Fourth quarter 2019 return on average shareholders' equity was 12.84% compared to 4.66% in the prior year.

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

2019 Year in Review

Corporate assets in 2019 totalled $1.4 billion, increasing 11% over 2018, well exceeding our initial expectations for the year and our targeted annual growth in corporate assets over the long term of 10%. Our Corporate mortgages increased 18% to $1.1 billion at year end. We are pleased with this growth, which was primarily in the single family portfolio, as we also achieved our objective of balancing the risk profile of our balance sheet.

Single family originations and acquisitions totalled $502 million, comprised primarily of $232 million of insured mortgages, a 127% increase over 2018, and $222 million of uninsured mortgages, an 84% increase over 2018. During the year, we securitized $308 million of insured single family mortgages through the National Housing Act Mortgage-Backed Securities program compared to $169 million during 2018. We also securitized $14 million of insured multi family mortgages. These accomplishments were the result of successful investments in our single family operations, internal infrastructure effectiveness and the strength of our strategic partnerships. While we achieved all of our growth objectives for our single family business in 2019, we will continue to advance our capabilities and customer service to support continued growth. In 2019, our growth was achieved in a competitive mortgage market, a testament to our commitment to growing our business and the drive and talent of our team.

We continue to be selective and are pleased with our construction and commercial portfolio in terms of product composition, geographic mix and exposure. We have strong strategic partnerships for origination and expect to continue to maintain the quality of our investment in these portfolios.

We are proactively managing all of our income earning corporate assets resulting in capital recycling, growth and better balance sheet optimization. We refined our liquidity management and increased our utilization of repurchase agreements to optimize our funding. Our marketable securities, comprised primarily of real estate income trusts, increased in value during the year, recovering early from the market wide decline at the end of 2018 and increasing later in response to the low interest rate environment and acquisition activities. During the last two quarters of 2019, we sold certain of these investments preparing for new investment opportunities, consistent with our focus on capital recycling.

During 2019, we added a new $18.0 million investment in Class A securitization notes, issued by a subsidiary of MCAP, to our non-marketable securities portfolio. We also participated in the growth of the KingSett High Yield Fund, committing an additional $3.75 million which is expected to be invested over the next 18 months. The Crown Realty II Limited Partnership ("Crown") investment value grew by $3.2

million. Subsequent to December 31, 2019, we sold our interest in the Crown core fund, which provides more capital recycling opportunities in 2020. Lastly, our equity investment in MCAP increased to $69.8 million as a result of their earnings and growth during 2019. With the growth in their assets under management and their market leadership position, we expect that MCAP will continue to provide solid returns for MCAN.

We conduct our business activities based on our views of the economy, interest rates, housing market dynamics and the overall real estate cycle in Canada. Our growth in single family mortgages and our various capital recycling activities have been executed based on these views. We will continue to be vigilant and adjust our business activities in the context of market dynamics. Our targeted annual growth in corporate assets over the long term continues to be 10%.

2019 was a year of transformation in our operating infrastructure where we enhanced our capabilities along with select systems and processes. Our 2019 activities were only the beginning of a continuing focus by the management team on the effectiveness of our internal operations to drive profitable growth. We will continue to enhance our infrastructure and processes to increase long term competitiveness and sustainability.

Looking forward, we will focus on growing and enhancing our business activities in alignment with our risk appetite, to increase our return on shareholders equity, dividends and long-term success in our chosen markets. We will look to further optimize the utilization of our balance sheet capacity and continue to increase our capacity to grow with the support of our shareholders through their continued participation in our Dividend Reinvestment Plan.

Our business model is based on strategic partnerships with brokers, originators and services providers. We appreciate their continued support in meeting our growth and business objectives. I would also like to recognize the members of our team for their dedication and work during the year and especially the leadership and focus by the executive team on achieving our objectives. We believe that a culture anchored by customer service delivered with effective business processes by a high performing team will enhance our future successes. This is our mission and I look forward to reporting on our achievements in the future.

Ian Sutherland has announced that he will step down as Chair of the Board (the “Chair”), however will remain on the Board to facilitate Board renewal and transition. Ian has held the Chair position since 2010. In previous years, since founding the Company in 1991, he has also served in various management and Board roles. As a founding partner, Ian’s leadership and guidance have advanced the Company’s strategy and contributed to our success and growth over the past 30 years. I have had the pleasure of working with Ian since joining the Board in 2011 and benefitted immensely from his support over the past year. Susan Doré and Verna Cuthbert will be retiring and not standing for re-election to the Board. Their counsel and advice as Board members has been instrumental to our successes over the years. Derek Sutherland has been appointed as Chair, bringing with him 12 years of experience with MCAN in management and, since 2017, as a Director. I look forward to continuing our work with all Board members in guiding MCAN in the future.

Karen Weaver
President and CEO

VISION

Our vision is to be the preferred mortgage lender and investor within our chosen real estate markets in Canada.

MISSION

Our mission every day is to provide sustainable growth and returns for our shareholders:

- through relationship-driven mortgage lending and investing;
- anchored by quality work delivered by an expert, engaged and committed team; and
- focused on our customers (internal and external) and partners.

CULTURE

MCAN is committed to cultivating an inclusive, collaborative and diverse culture. We are dedicated to excellence while serving our customers, our community, our strategic partners and our team members.

ESG

Our objective is to advance environmental, social and governance initiatives throughout our business operations with a focus on:

- Reducing the environmental footprint in our operations.
- Enhancing our team welfare while contributing to the community through charitable and volunteer programs.
- Maintaining our strong governance principles and practice for the benefit of our team and key stakeholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes as at December 31, 2019 and December 31, 2018 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and presented in Canadian currency. This MD&A has been presented as at February 26, 2020.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to:

- global market activity and trade policies;
- levels of foreign investment in Canada and its real estate market;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in climate and environmental policies;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;

- changes in interest rates;
- changes in Canada Mortgage Bonds (“CMB”) and mortgage-backed securities (“MBS”) spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation, including recent changes implemented by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- digital and technology evolution and disruptions;
- confidence levels of consumers;
- our ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investments in MCAP, marketable securities and non-marketable securities;
- our exposure to litigation;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with third-party mortgage originators and servicers;
- changes in operations within our equity investments; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

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

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

[1] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.
[2] For further information refer to the "Taxable Income" section of this MD&A.
[3] Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

Table 2: Financial Statement Highlights

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

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

HIGHLIGHTS

Financial Performance

Q4 2019

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

2019

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

Business Activity

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

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

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

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

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

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

Dividend

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

Credit Quality

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

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

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

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

Capital

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

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

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

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

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

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

Summary of Three Year Results of Operations

Financial Performance

In 2017, we recorded net income of $39.9 million. Although our total assets and corporate mortgage interest income decreased by 3% and 6% respectively from 2016, our spread of corporate mortgages over term deposits[1] increased by 0.15%. The performance from our equity investment in MCAP and non-marketable securities was strong with $14.4 million and $8.9 million of income, respectively. We also earned $0.8 million from the sale of a portion of our investment in MCAP. In 2017, we recorded $1.72 earnings per share and return on average shareholders' equity[1] of 13.75%.

In 2018, we recorded net income of $36.3 million, a decrease of 9% from 2017. Notably, net corporate mortgage spread income[1] increased by 3% from 2017. Equity income from MCAP was $13.2 million while non-marketable securities contributed $5.4 million, a decrease of approximately 39% from 2017. We also earned $1.7 million from the sale of a portion of our investment in MCAP. In 2018, we recorded $1.54 earnings per share and return on average shareholders' equity[1] of 11.90%.

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

Business Activity

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

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

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

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

OUTLOOK

Market Outlook

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

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

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

Business Outlook

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

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

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

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

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

RESULTS OF OPERATIONS

Table 3: Net Income

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

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

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

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

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

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018 and the years ended December 31, 2019 and December 31, 2018.*
[2] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

Table 6: Mortgage Originations

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

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

Overview

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

Single family

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

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

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

Construction and commercial

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

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

Mortgage renewal rights

Through our XMC Mortgage Corporation ("XMC") origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. As at December 31, 2019, we had the renewal rights to $1.2 billion of single family mortgages (September 30, 2019 - $1.1 billion; December 31, 2018 - $985 million).

Equity Income from MCAP

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

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

We recognize equity income from MCAP on a one-month lag such that our 2019 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2019. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

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

Marketable Securities

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

Net Gain (Loss) on Securities

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

Gain on Dilution of Investment in MCAP

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

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses from 2018 is primarily due to the increase in deposit funding and related costs to support growth in our mortgage portfolio. Market rate changes on new deposits have a more gradual impact on the average term deposit interest rate given the fixed-rate nature of the term deposit portfolio compared to the floating rate component of the corporate mortgage portfolio, which reprices immediately. Term deposit expenses include costs related to insurance, infrastructure and administration.

Net Investment Income - Securitization Assets

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

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

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

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

For the Years Ended December 31	2019			2018		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$ 802,970	$ 20,491	2.56%	$ 956,531	$ 24,540	2.57%
Financial liabilities from securitization	827,940	15,345	1.85%	972,180	17,793	1.83%
Net securitized mortgage spread income [2]		$ 5,146			$ 6,747	
Spread of mortgages over liabilities [2]			0.71%			0.74%

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to “Income/Expense” divided by “Average Balance”, as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018 and the years ended December 31, 2019 and December 31, 2018.

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

Provisions for Credit Losses

Table 9: Provisions for Credit Losses and Write-offs

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

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

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

Operating Expenses

Table 10: Operating Expenses

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

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

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

Taxable Income

The table below provides a reconciliation between consolidated net income for accounting purposes and non-consolidated taxable income. The adjustments below represent the difference between the components of net income for accounting and tax purposes. Taxable income is presented on a non-consolidated basis and does not incorporate taxable income from XMC and other subsidiaries as it does not directly impact MCAN's non-consolidated taxable income.

As a Mortgage Investment Corporation ("MIC"), we expect to pay out all of our taxable income over time through dividends. As a MIC, we are entitled to deduct dividends paid up to 90 days after year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

Taxable income is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 11: Taxable Income Reconciliation [1]

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

[1] Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.
[2] Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.
[3] Securitization program mortgage origination costs are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.
[4] Excluded from the calculation of taxable income; only includes net gains and losses recognized in the MIC entity.
[5] Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.
[6] For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.
[7] Not recognizable in the calculation of taxable income.

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

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

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

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

FINANCIAL POSITION

Table 12: Assets

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

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

Mortgages - Corporate & Securitized

Corporate Mortgages

Single family mortgages

Insured and Uninsured

We invest in insured and uninsured residential single family mortgages in select markets across Canada, primarily originated by XMC through its strategic relationships with mortgage brokers for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending on a niche borrower market concentrated in larger urban centres that include customers with credit challenges. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, the value at the time of funding is the lower of the appraised value of the property as determined by a qualified appraiser or purchase price (if applicable). Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured - Completed inventory loans

Uninsured - completed inventory loans are extended to developers to provide interim mortgage financing on residential units (condominium or freehold) that are completed or close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units near completion. We invest in this product type opportunistically and given the nature of unit closings, originations and repayments can be unpredictable.

Construction loans

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

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move-up buyers characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration. This approach mitigates the impact of price volatility and tightened sales activity in the event of market corrections. We only invest in markets where we have experience and local expertise, consisting primarily of major urban markets and their surrounding areas with a preference for proximity to transit. We target experienced developers with a successful track record of project completion and loan repayment and smaller multi-phased projects requiring evidence of strong pre-sales prior to loan funding. As at December 31, 2019, the average outstanding construction loan balance was $9 million (September 30, 2019 - $8 million; December 31, 2018 - $6 million) with a maximum individual loan commitment of $30 million. We utilize our relationships with strategic partners for loan participation, servicing and workout expertise.

Commercial loans

Commercial loans include multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of term mortgages (e.g. loans secured by retail or industrial buildings) and high ratio mortgage loans (e.g. loans that do not meet conventional residential construction loan parameters).

Securitized Mortgages

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

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

Table 13: Mortgage Summary

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

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

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

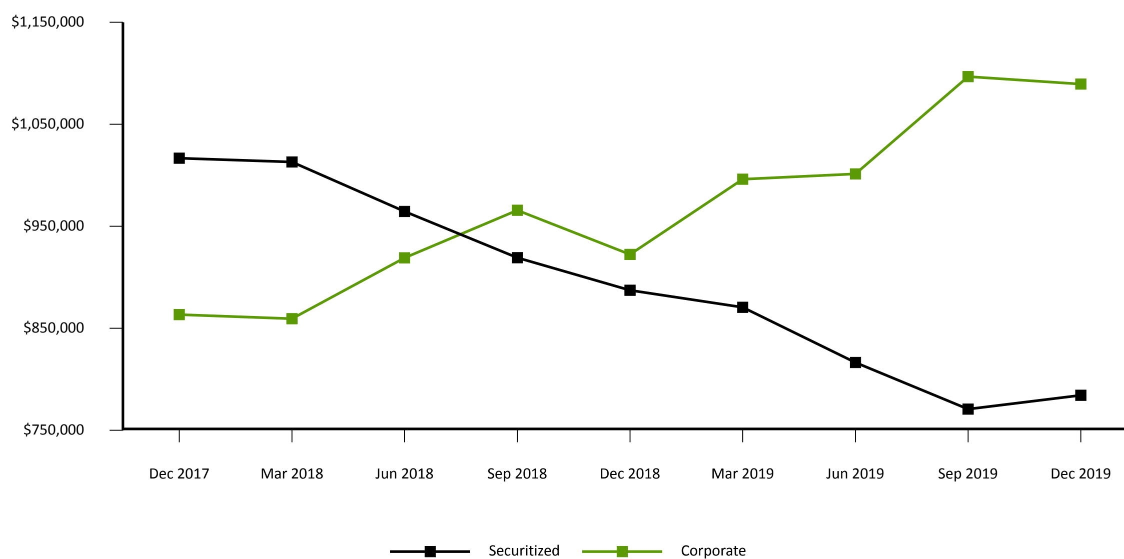
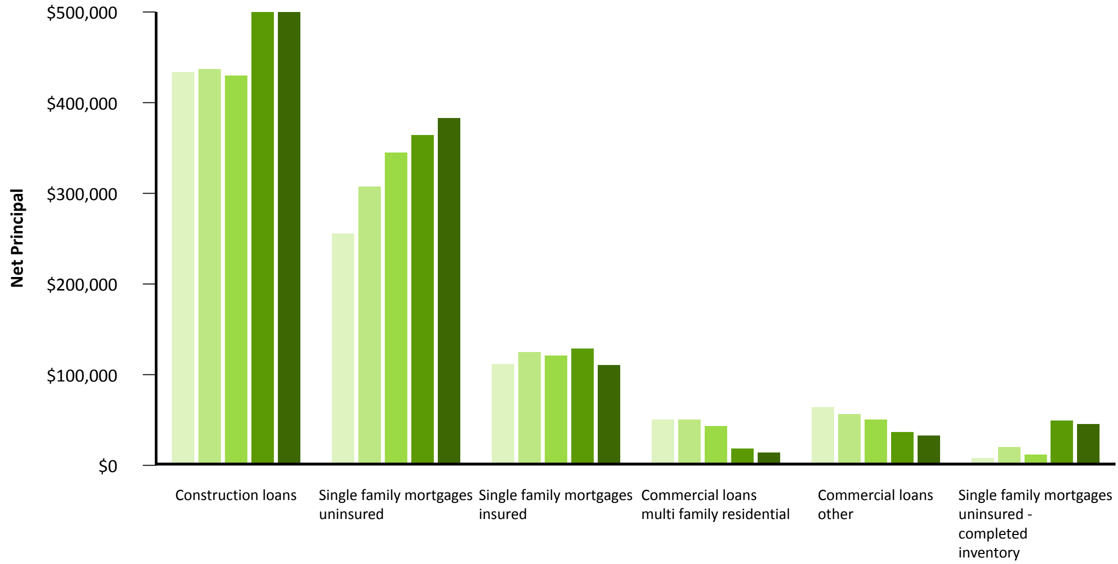


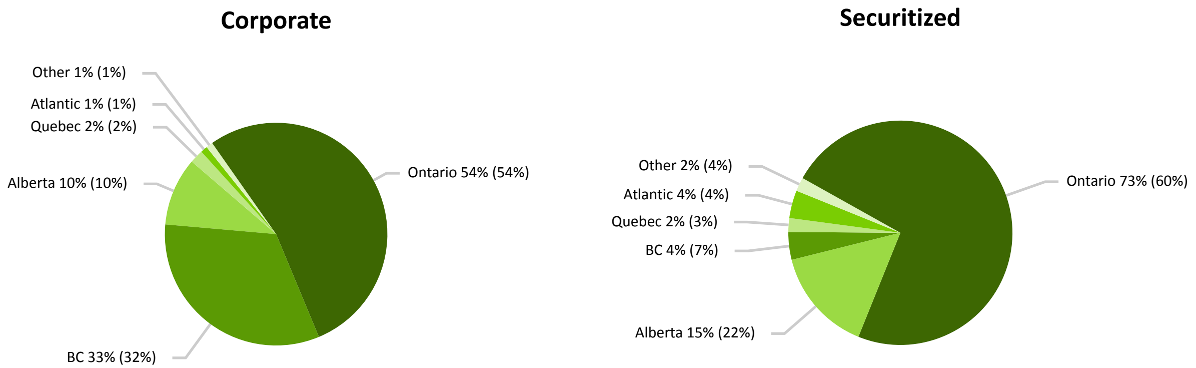
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



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

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

Figure 3: Mortgage Portfolio Geographic Distribution as at December 31, 2019 (December 31, 2018)



Credit Quality

Table 14: Arrears and Impaired Mortgages

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

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

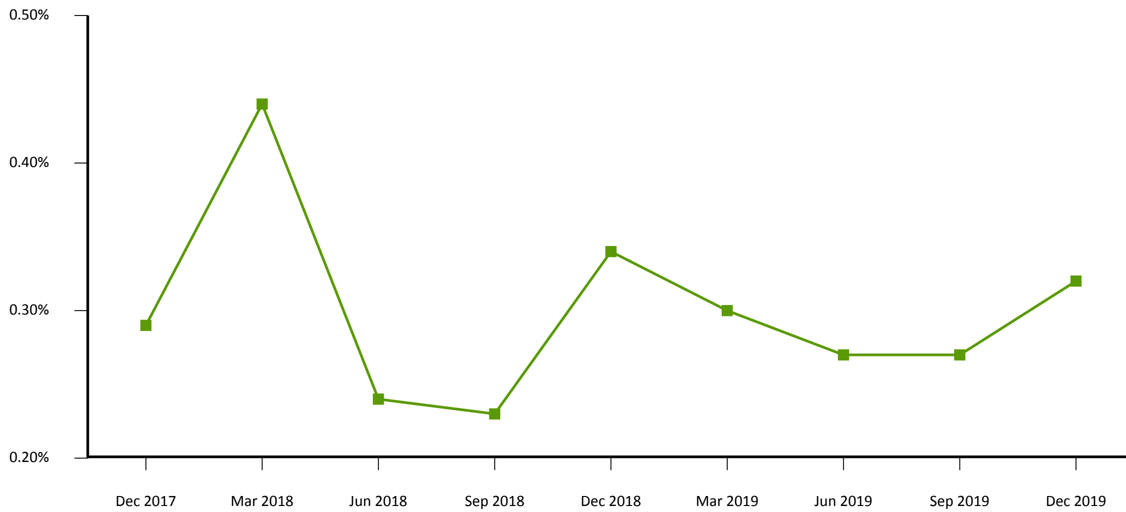
Arrears and Impaired Mortgage Summary

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

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

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

Figure 4: Impaired Corporate Mortgage Ratio



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

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

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

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

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

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

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

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

Table 16: Single Family Mortgages by Province as at December 31, 2018

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 71,381	64.1%	$ 167,998	63.8%	$ 136	81.9%	$ 532,817	60.1%	$ 772,332	61.1%
Alberta	21,599	19.4%	37,616	14.3%	30	18.1%	195,414	22.0%	254,659	20.2%
British Columbia	3,872	3.5%	41,829	15.9%	—	—%	65,229	7.4%	110,930	8.8%
Quebec	5,331	4.8%	3,657	1.4%	—	—%	29,952	3.4%	38,940	3.1%
Atlantic Provinces	7,523	6.8%	5,471	2.1%	—	—%	38,287	4.3%	51,281	4.1%
Other	1,547	1.4%	6,677	2.5%	—	—%	25,553	2.8%	33,777	2.7%
Total	**$ 111,253**	**100.0%**	**$ 263,248**	**100.0%**	**$ 166**	**100.0%**	**$ 887,252**	**100.0%**	**$ 1,261,919**	**100.0%**

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

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

Table 18: Single Family Mortgages by Amortization Period as at December 31, 2018

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 56,025	$ 109,615	$ 203,510	$ 5,517	$ 374,667
	15.0%	29.2%	54.3%	1.5%	100.0%
Securitized	$ 196,325	$ 461,363	$ 192,786	$ 36,778	$ 887,252
	22.1%	52.1%	21.7%	4.1%	100.0%
Total	**$ 252,350**	**$ 570,978**	**$ 396,296**	**$ 42,295**	**$ 1,261,919**
	20.0%	**45.2%**	**31.4%**	**3.4%**	**100.0%**

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

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

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

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

Based on experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn could include, for example, changes to unemployment rates, income levels and consumer confidence and spending which we would expect to increase single family defaults and arrears. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages.

Other Corporate Assets

Cash and Cash Equivalents

As at December 31, 2019, our cash balance was $54 million (September 30, 2019 - $59 million; December 31, 2018 - $99 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposit and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices.

Marketable Securities

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

Non-Marketable Securities

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

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

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

Equity Investment in MCAP

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

The investment had a net book value of $70 million as at December 31, 2019 (September 30, 2019 - $68 million; December 31, 2018 - $62 million). The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was $37 million as at December 31, 2019 (September 30, 2019 - $37 million; December 31, 2018 - $36 million). The difference between the net book value and the LP ARA reflects an unrealized gain that, if realized, would be recognized as a capital gain and may be applied against any tax loss carry forward. The LP ARA is considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

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

Amongst the interparty rights in the MCAP partnership agreement, the majority partner in MCAP has the right to acquire MCAN's entire partnership interest in MCAP at "fair market value", which would be determined by an independent valuator agreed upon by both parties.

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 21: Liabilities and Shareholders' Equity

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

Term Deposits

Our primary source of funding for our corporate operations is the issuance of term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. Deposits cannot be cashed prior to maturity or paid on demand except in the event of the death of a depositor. We believe that our term deposits provide a reliable low-cost funding source that can be strategically matched against the corporate mortgage portfolio. The role of term deposits in managing liquidity and funding risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Management" section of this MD&A.

Financial Liabilities from Securitization

Financial liabilities from securitization relate to our participation in the market MBS program and CMB program, where we have sold MBS to third parties but have not derecognized the related mortgages from our balance sheet. For further information on the market MBS and CMB programs, refer to the "Securitization Programs" section of this MD&A.

Share Capital

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

Retained Earnings

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

SELECTED QUARTERLY FINANCIAL DATA

Table 22: Selected Quarterly Financial Data

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

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *For further information refer to the "Taxable Income" section of this MD&A.*
[3] *Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.*
[4] *Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.*

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

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

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

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

Capital ratios have remained steady across the last eight quarters as the gradual increase in corporate assets has generally been matched by a growing capital base. Capacity tightened in Q3 2018 as a result of the accrual of the fourth quarter dividend during this period.

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

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

CAPITAL MANAGEMENT

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

Income Tax Capital

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

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

Table 23: Income Tax Capital [1]

(in thousands except ratios)

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

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

Regulatory Capital

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

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

Our CET 1 capital consists of share capital, contributed surplus and retained earnings. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital. We do not hold any additional Tier 1 or Tier 2 capital instruments; therefore, our CET 1 capital is equal to our Tier 1 and Total Capital.

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

Table 24: Regulatory Capital

(in thousands except %)

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

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

Table 25: Regulatory Risk-Weighted Assets

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

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

Other Capital Management Activity

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

SECURITIZATION PROGRAMS

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

Market MBS Program

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

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

CMB Program

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

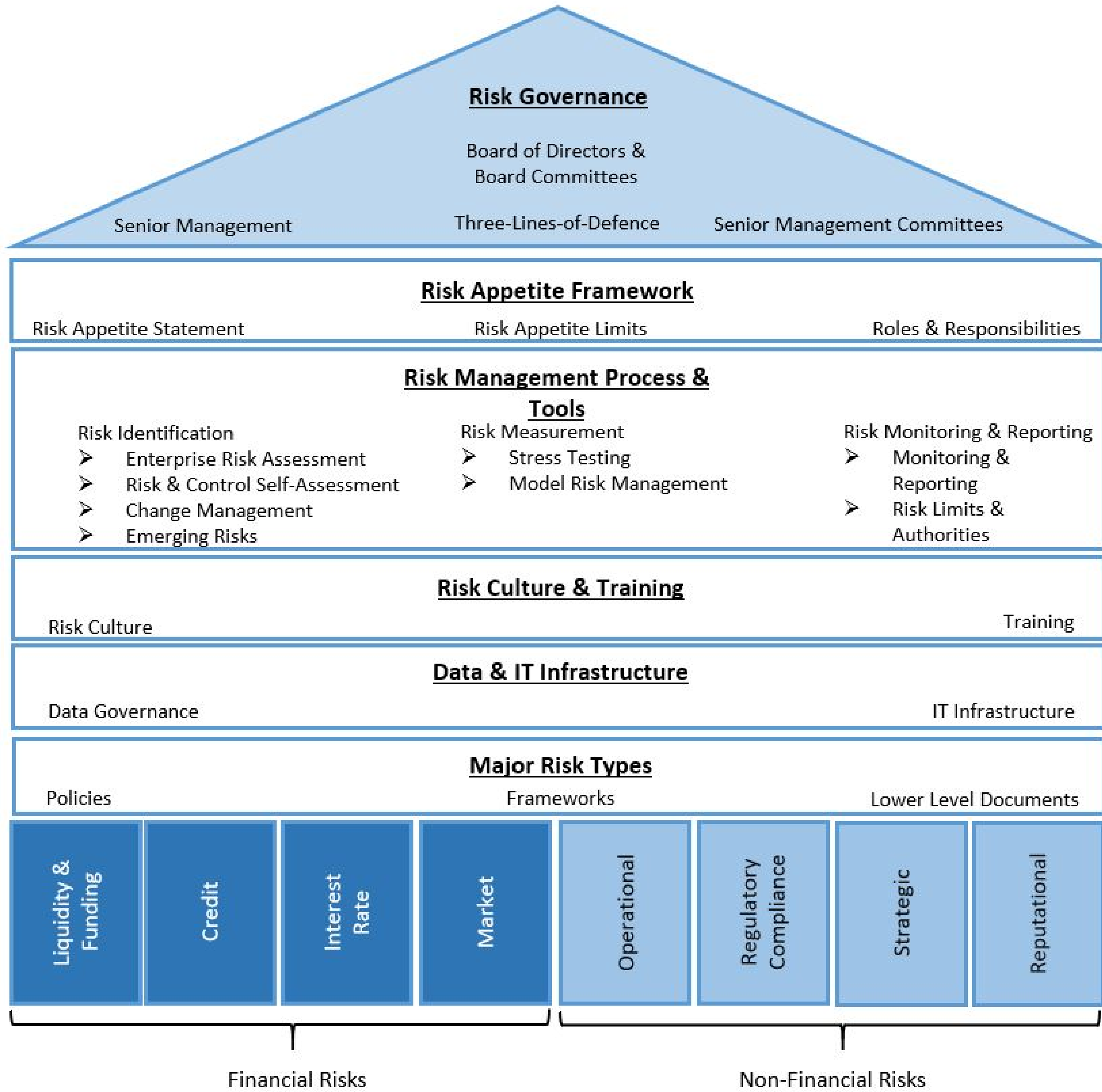
Other Considerations

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

RISK MANAGEMENT

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

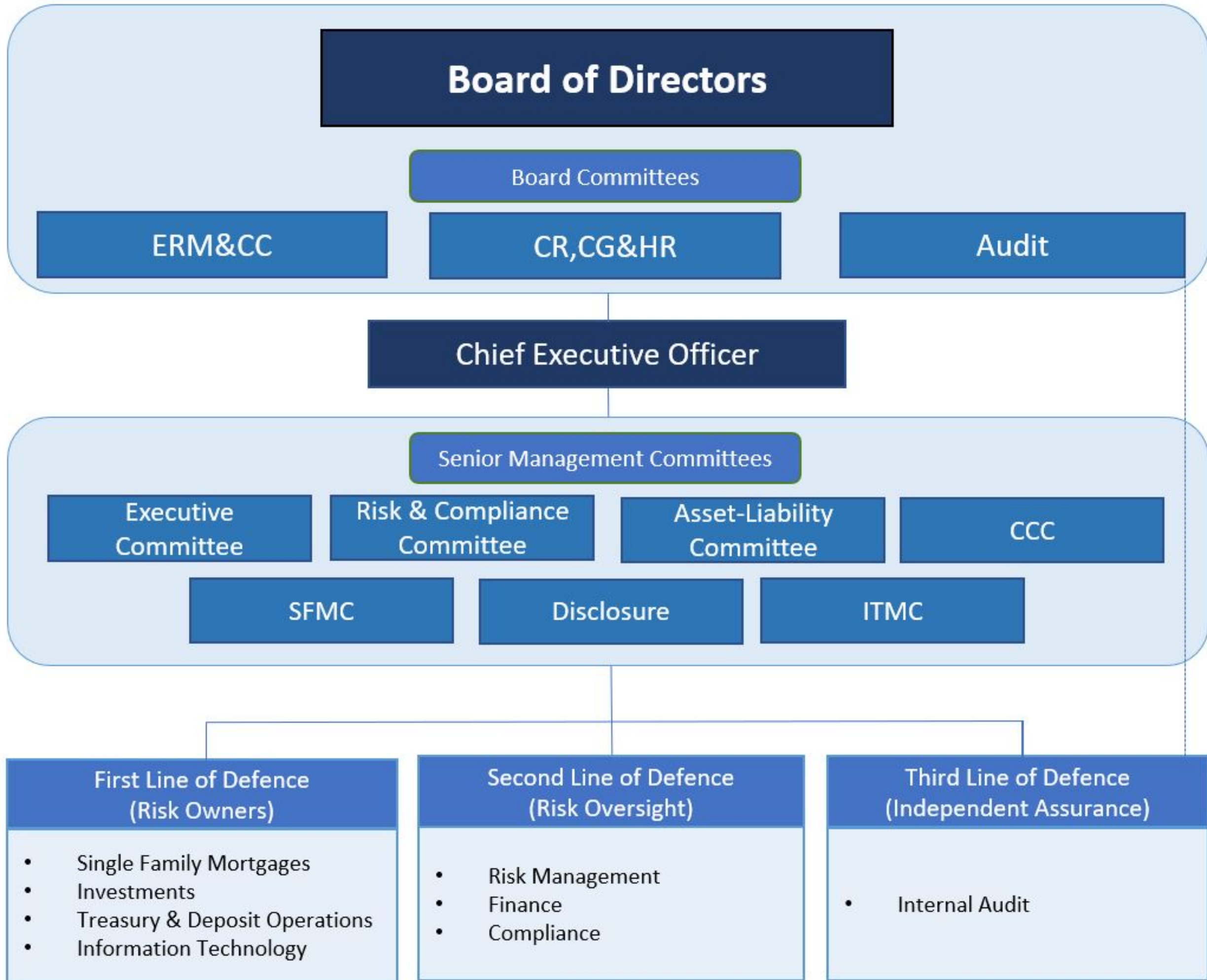
Roles and Accountabilities



Risk Governance

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

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



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

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

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

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

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

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

Three-Lines-of-Defence

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

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

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

  These activities are overseen by:

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

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

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

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

Risk Appetite

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

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

MCAN's overarching risk appetite statement is as follows:

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

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

Risk Culture

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

Stress Testing

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

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

Monitoring and Reporting

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

Major Risk Types

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

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

Liquidity and Funding Risk

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

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

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

stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. Further to the LRMF, we maintain a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair our access to funding and liquidity.

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

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

We have access to liquidity through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

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

We also have an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility provides liquidity and allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, we may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing. We will execute these repurchase agreements to provide alternative sources of liquidity when it is efficient and effective to do so.

OSFI’s Liquidity Adequacy Requirements (“LAR”) guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio (“LCR”) and Net Cumulative Cash Flow (“NCCF”) metrics. As at December 31, 2019 and 2018, we were in compliance with the LCR and NCCF metrics.

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

Table 26: Liquidity Analysis

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2019	December 31 2018
Sources of liquidity							
Cash and cash equivalents	$ 54,452	$ —	$ —	$ —	$ —	$ 54,452	$ 98,842
Marketable securities	46,141	—	—	29	—	46,170	53,247
Mortgages - corporate	289,240	473,737	256,583	59,380	10,461	1,089,401	922,390
Non-marketable securities	—	—	17,619	—	76,070	93,689	71,813
Other loans	882	217	—	—	—	1,099	2,640
	390,715	473,954	274,202	59,409	86,531	1,284,811	1,148,932
Uses of liquidity							
Term deposits	63,540	380,295	467,820	122,644	—	1,034,299	919,623
Loans payable	5,053	—	—	—	—	5,053	—
Other liabilities	9,538	529	1,512	1,679	2,738	15,996	13,169
	78,131	380,824	469,332	124,323	2,738	1,055,348	932,792
Net liquidity surplus (deficit)	**$ 312,584**	**$ 93,130**	**$ (195,130)**	**$ (64,914)**	**$ 83,793**	**$ 229,463**	**$ 216,140**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 116,945	$ 113,205	$ 86,126	$ —	$ —	$ 316,276	$ 389,072
Commitment - KSHYF	—	—	1,827	—	22,194	24,021	20,948
	$ 116,945	$ 113,205	$ 87,953	$ —	$ 22,194	$ 340,297	$ 410,020

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

Credit Risk

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

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

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

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

We identify potential risks in our mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the Board by management. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, post funding monitoring and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provide adequate monitoring of and control over our exposure to credit risk.

We assign a credit score and risk rating for all mortgages at the time of underwriting based on the assessed credit quality of the borrower and the value of the underlying real estate. Risk ratings are reviewed annually at a minimum, and more frequently whenever there is an amendment, or a material change such as a default or impairment.

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concerns. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2.

Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at December 31, 2019 and 2018 there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the consolidated financial statements.

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, where maximum credit exposure also includes outstanding commitments for future mortgage fundings and our investment in the KSHYF, where maximum credit exposure includes our total remaining commitment.

Credit Risk - Impairment Assessment Under IFRS 9

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

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

Probability of Default

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

Loss given default

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

Exposure at default

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

Grouping financial assets measured on a collective basis

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

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

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

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

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities including, both parallel and non-parallel changes in interest rates. By managing and strategically matching the terms of corporate assets and term deposits, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our interest rate exposure on a monthly basis using

an interest rate spread and gap analysis as well as an interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

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

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

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

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

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

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

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

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

Future Regulatory Changes

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

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Market risk includes price risk on marketable securities, real estate values and commodity prices, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Our marketable and non-marketable securities portfolios are susceptible to market price risk arising from uncertainties about future values of the securities. We manage the equity price risk through diversification and limits on both individual and total securities. Portfolio reporting is submitted to management on a regular basis and to the Board on a quarterly basis.

Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events.

The Operational Risk Management Framework ("ORMF") covers all components of MCAN's operational risk management including processes and control activities to ensure adherence with business and regulatory requirements. The ORMF sets out an integrated approach to identify, measure, monitor, manage and report on known and emerging operational risks. Senior management and the Board review operational risk assessments on a quarterly basis.

Outsourcing Risk

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

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

Information Technology and Cybersecurity Risk

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

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

Despite the Company's implementation of security measures, its systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's delivery of services and make the Company's applications unavailable or cause similar disruptions to the Company's operations. If the Company's network security is penetrated or its sensitive data is misappropriated, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on the Company's business, results of operations and financial condition.

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

Model Risk

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

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

Risk of Accuracy and Completeness of Borrower Information

In the single family mortgage underwriting process, we rely on information provided by potential borrowers and other third parties, including mortgage brokers. We may also rely on the representations of potential borrowers and third parties as to the accuracy and completeness of that information. Our financial position and performance may be negatively impacted if this information is intentionally misleading or does not fairly represent the financial condition of the potential borrower and is not detected by our internal controls.

We frequently review and enhance our underwriting procedures and control processes to strengthen our ability to detect such inaccurate and misleading information and to manage this risk. These enhancements include improvements to underwriting staff training, independent income verification procedures, and other quality control and quality assurance processes.

The Canadian mortgage industry periodically experiences falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed instances of this activity in our own underwriting processes. The implementation of significant changes to regulatory requirements reduces the number of borrowers that qualify for new mortgages, which increases the risk of document falsification.

To date, this document falsification has not had a material impact on MCAN or its financial position or performance. We do not expect to experience any material impact to our financial position or performance in the future relating to such document falsification.

Regulatory Compliance Risk

Regulatory compliance risk arises from the Company's potential non-conformance with existing and new laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates. Regulatory compliance risk also arises from the exercise of discretionary oversight by regulatory or other competent authorities that may adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, limiting pricing and availability of products in the market, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. Our failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation. Increasing regulations and expectations, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

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

Strategic Risk

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

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

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

Reputational Risk

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

The loss of reputation can greatly affect shareholder value through reduced public confidence, a loss of business, legal action, or increased regulatory oversight. Reputation refers to the perception of the enterprise by various stakeholders. Typically, key stakeholder groups include investors, borrowers, depositors, employees, suppliers, regulators, brokers and strategic partners. Perceptions may be impacted by various events including financial performance, specific adverse occurrences from events such as cybersecurity issues, unfavourable media coverage, and changes or actions of the Company's leadership. Failure to effectively manage reputational risk can result in reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

We believe that the most effective way for the Company to safeguard its public reputation is through embedding successful processes and controls, along with the promotion of appropriate conduct, risk culture and risk management. Reputational risk is mitigated by management of the underlying risks in the business and is monitored and reported to the Board on a quarterly basis.

Other Risk Factors

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of

the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Mortgage Renewal and Prepayment Risk

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

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

Economic and Geopolitical Conditions

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

Competition Risk

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

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

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

Environmental Risk

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

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

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

DESCRIPTION OF CAPITAL STRUCTURE

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

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

During 2019, we issued 416,919 new common shares under the DRIP (2018 - 367,942), which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Obligations

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

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

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

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6 million. MCAP was awarded a judgment for approximately $500,000 against the same plaintiff in related proceedings. We may be subject to the indemnification of MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision.

DVIDEND POLICY AND RECORD

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

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

Table 30: Dividend Per Share

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

Figure 5: Dividend History

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters and years ended December 31, 2019 and December 31, 2018 and related party balances as at December 31, 2019 and December 31, 2018 are discussed in Notes 9 and 22 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, cash held in trust, marketable securities, mortgages, non-marketable securities, other loans, financial liabilities from securitization, term deposits and loans payable, which are discussed throughout this MD&A.

The use of financial instruments exposes us to liquidity and funding, credit, interest rate and market risk. A discussion of these risks and how they are managed is found in the "Risk Management" section of this MD&A.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with financial instruments are located in the "Results of Operations" and "Financial Position" sections of this MD&A. Information on the determination of the fair value of financial instruments is located in the "Critical Accounting Estimates and Judgments" section of this MD&A.

PEOPLE

As at December 31, 2019, we had 98 team members (September 30, 2019 - 95; December 31, 2018 - 89).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

- The Company's criteria for assessing if there has been a significant increase in credit risk which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;

- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Forward-looking information used as economic inputs.

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

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

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2019, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2019.

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

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2019 and ending on December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our control framework.

Inherent Limitations of Controls and Procedures

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

NON-IFRS MEASURES

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

Return on Average Shareholders' Equity
Return on average shareholders' equity is a profitability measure that presents the annualized net income available to shareholders as a percentage of the capital deployed to earn the income. We calculate return on average shareholders' equity as a monthly average using all components of shareholders' equity.

Taxable Income Measures
Taxable income measures include taxable income and taxable income per share. Taxable income represents MCAN's net income on a non-consolidated basis calculated under the provisions of the Tax Act applicable to a MIC. Taxable income is calculated as an estimate until we complete our annual tax returns subsequent to year end, at which point it is finalized.

Average Interest Rate
The average interest rate is a profitability measure that presents the average annualized interest rate of an asset or liability. Mortgage portfolio average interest rate (corporate and securitized), average term deposit interest rate, financial liabilities from securitization average interest rate, spread of corporate mortgages over term deposit interest and spread of securitized mortgages over liabilities are examples of average interest rates. The average asset or liability balance that is incorporated into the average interest rate calculation is calculated on either a daily or monthly basis depending on the nature of the asset or liability. Please refer to the applicable tables containing average balances for further details.

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

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

Mortgage Arrears
Mortgage arrears measures include total corporate mortgage arrears, total securitized mortgage arrears and total mortgage arrears. These measures represent the amount of mortgages from the corporate portfolio, securitized portfolio and the sum of the two, respectively, that are at least one day past due.

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with guidelines issued by OSFI and are located on Table 24 of this MD&A and Note 24 to the consolidated financial statements.

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

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including the accounting requirements of our regulator, the Office of the Superintendent of Financial Institutions Canada.

The Company's accounting system and related internal controls are designed, and supporting procedures are maintained to provide reasonable assurance that the Company's financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Office of the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the *Trust and Loan Companies Act* (Canada) are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

Karen Weaver
President and Chief Executive Officer

Dipti Patel
Vice President and Chief Financial Officer

Toronto, Canada
February 26, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of **MCAN Mortgage Corporation**

Opinion

We have audited the consolidated financial statements of MCAN Mortgage Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

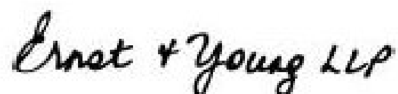
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Cox.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 26, 2020

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at December 31	Note	2019	2018
Assets			
Corporate Assets			
Cash and cash equivalents		$ 54,452	$ 98,842
Marketable securities	6	46,170	53,247
Mortgages	7	1,089,401	922,390
Non-marketable securities	8	93,689	71,813
Equity investment in MCAP Commercial LP	9	69,844	61,593
Deferred tax assets	14	132	2,961
Other assets	10	7,771	13,493
		1,361,459	**1,224,339**
Securitization Assets			
Cash held in trust		28,575	26,002
Mortgages	12	784,296	887,252
Other assets	12	5,011	3,479
		817,882	**916,733**
		$ 2,179,341	**$ 2,141,072**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	13	$ 1,034,299	$ 919,623
Demand loan payable	23	5,053	—
Current taxes payable	14	—	173
Deferred tax liabilities	14	21	3,478
Other liabilities	15	15,996	13,169
		1,055,369	**936,443**
Securitization Liabilities			
Financial liabilities from securitization	16	793,660	897,935
		793,660	**897,935**
		1,849,029	**1,834,378**
Shareholders' Equity			
Share capital	17	228,008	221,869
Contributed surplus		510	510
Retained earnings		101,794	84,315
		330,312	**306,694**
		$ 2,179,341	**$ 2,141,072**

The accompanying notes and shaded areas of the "Risk Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

On behalf of the Board:

Karen Weaver
President and CEO

Gordon Herridge
Director, Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME
(in thousands of Canadian dollars except for per share amounts)

Years Ended December 31	Note	2019	2018
Net Investment Income - Corporate Assets			
Mortgage interest		$ 56,379	$ 51,610
Equity income from MCAP Commercial LP	9	15,759	13,188
Non-marketable securities		6,416	5,357
Marketable securities		3,027	3,464
Fees		2,002	1,909
Interest on cash and other income		1,101	1,284
Net gain (loss) on securities	19	14,008	(512)
Gain on sale of investment in MCAP Commercial LP	9	—	1,701
Gain on dilution of investment in MCAP Commercial LP	9	187	314
		98,879	**78,315**
Term deposit interest and expenses		29,321	23,814
Mortgage expenses	20	4,078	4,031
Interest on loans payable		638	143
Other financial expenses		360	—
Provision for (recovery of) credit losses	21	(461)	188
		33,936	**28,176**
		64,943	**50,139**
Net Investment Income - Securitization Assets			
Mortgage interest		20,491	24,540
Other securitization income		792	360
		21,283	**24,900**
Interest on financial liabilities from securitization		15,345	17,793
Mortgage expenses	20	1,954	2,133
Recovery of credit losses	21	(10)	(2)
		17,289	**19,924**
		3,994	**4,976**
Operating Expenses			
Salaries and benefits		13,905	11,118
General and administrative		7,292	7,804
		21,197	**18,922**
Net Income Before Income Taxes		**47,740**	**36,193**
Provision for (recovery of) income taxes			
Current	14	73	283
Deferred	14	(627)	(383)
		(554)	(100)
Net Income		**$ 48,294**	**$ 36,293**
Basic and diluted earnings per share		$ 2.01	$ 1.54
Dividends per share		$ 1.28	$ 1.43
Weighted average number of basic and diluted shares		24,077	23,615

The accompanying notes and shaded areas of the "Risk Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)

Years Ended December 31	Note	2019	2018
Share Capital			
Balance, beginning of year		$ 221,869	$ 214,664
Share capital issued	17	6,139	7,205
Balance, end of year		**228,008**	**221,869**
Contributed Surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		—	—
Balance, end of year		**510**	**510**
Retained Earnings			
Balance, beginning of year		84,315	65,365
IFRS 9 transitional adjustment		—	16,420
Net income		48,294	36,293
Dividends declared		(30,815)	(33,763)
Balance, end of year		**101,794**	**84,315**
Accumulated Other Comprehensive Income			
Balance, beginning of year		—	16,438
IFRS 9 transitional adjustment		—	(16,438)
Balance, end of year		—	—
Total Shareholders' Equity		**$ 330,312**	**$ 306,694**

The accompanying notes and shaded areas of the "Risk Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

Years Ended December 31	**2019**	**2018**
Cash flows from (for):		
Operating Activities		
Net income	$ 48,294	$ 36,293
Adjustments to determine cash flows relating to operating activities:		
Deferred taxes	(627)	(383)
Equity income from MCAP Commercial LP	(15,759)	(13,188)
Gain on sale of investment in MCAP Commercial LP	—	(1,701)
Gain on dilution of investment in MCAP Commercial LP	(187)	(314)
Provision for (recovery of) credit losses	(471)	186
Net (gain) loss on securities	(14,008)	512
Amortization of securitized mortgage and liability transaction costs	3,746	4,950
Amortization of other assets	766	504
Amortization of mortgage discounts	—	(17)
Changes in operating assets and liabilities:		
Marketable securities	17,857	5,750
Corporate and securitized mortgages	(66,432)	66,717
Non-marketable securities	(18,648)	(615)
Other assets	6,540	(4,203)
Cash held in trust	(2,573)	(12,561)
Term deposits	114,676	35,163
Financial liabilities from securitization	(105,174)	(119,146)
Current taxes payable	(173)	173
Other liabilities	278	(1,859)
Cash flows for operating activities	**(31,895)**	**(3,739)**
Investing Activities		
Distributions from MCAP Commercial LP	7,695	8,278
Proceeds on sale of investment in MCAP Commercial LP	—	4,521
Acquisition of capital and intangible assets	(440)	(197)
Cash flows from investing activities	**7,255**	**12,602**
Financing Activities		
Proceeds from issuance of common shares	6,139	7,205
Proceeds from demand loan	5,053	—
Repayment of premises lease liability	(261)	—
Dividends paid	(30,681)	(34,797)
Cash flows for financing activities	**(19,750)**	**(27,592)**
Decrease in cash and cash equivalents	(44,390)	(18,729)
Cash and cash equivalents, beginning of period	98,842	117,571
Cash and cash equivalents, end of year	**$ 54,452**	**$ 98,842**
Supplementary Information		
Interest received	$ 77,649	$ 75,496
Interest paid	42,427	38,965
Distributions received from securities	8,520	7,867

The accompanying notes and shaded areas of the "Risk Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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1. Corporate Information

MCAN Mortgage Corporation (the "Company" or "MCAN") is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"). As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). MCAN is incorporated in Canada with its head office located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

MCAN's objective is to generate a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments, including our investment in MCAP Commercial LP ("MCAP"). MCAN employs leverage by issuing term deposits that are eligible for Canada Deposit Insurance Corporation deposit insurance and are sourced through a network of independent financial agents. The Company manages its capital and asset balances based on the regulations and limits of both the Tax Act and OSFI.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation, is an originator of single family residential mortgage products across Canada.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors (the "Board") on February 26, 2020.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for certain items carried at fair value as discussed in Note 4. The consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the consolidated financial statements include the significant accounting policies applied (Note 4) and the significant accounting judgments and estimates (Note 5) applicable to the preparation of the consolidated financial statements. Certain disclosures are included in the shaded sections of the "Risk Management" section of Management's Discussion and Analysis of Operations (the "MD&A"), as permitted by IFRS, and form an integral part of the consolidated financial statements.

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program and subsequently sold to third parties. These assets are funded by the cash received from the sale of the associated securities, from which the Company records a financial liability from securitization.

3. Basis of Consolidation

The consolidated financial statements include the balances of MCAN and its wholly owned subsidiaries, after the elimination of intercompany transactions and balances. The Company consolidates those entities which it controls. The Company has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements. Certain policies adopted in or relevant to fiscal 2019 and 2018 are also discussed below.

(1) Accounting for financial instruments under IFRS 9, *Financial Instruments* ("IFRS 9")

Classification and measurement

All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through the consolidated statements of income, directly attributable transaction costs. To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest rate method ("EIM"), except for transaction costs which are related to financial assets or financial liabilities at fair value through profit and loss ("FVPL"), which are expensed.

a. Debt instruments at amortized cost

The Company only measures debt instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

In contrast, contractual terms that introduce more than a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

b. Financial assets and liabilities at FVPL

Financial assets and financial liabilities in this category are those that are not held for trading purposes and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. This includes all marketable and non-marketable securities held by the Company.

Financial assets at FVPL are recorded in the consolidated balance sheets at fair value. Changes in fair value are recorded in profit and loss. Interest earned on instruments designated at FVPL is accrued in interest income. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rates. Dividend income from equity instruments measured at FVPL is recorded in profit and loss when the right to the payment has been established.

c. Financial liabilities

After initial recognition, interest-bearing financial liabilities are subsequently measured at amortized cost using the EIM. Amortized cost is calculated by taking into account any discount or premium, fees or other costs using the EIM. The amortization is included in the related line in the consolidated statements of income. Unamortized premiums and discounts are recognized in the consolidated statements of income upon extinguishment of the liability.

Impairment

IFRS 9 requires the Company to record an allowance for expected credit loss ("ECL") for all mortgages and other debt financial assets not held at FVPL, together with mortgage commitments and financial guarantee contracts not measured at FVPL.

Overview of ECL principles

The ECL allowance is based on the 12 month ECL of the asset, unless there has been a significant increase in credit risk ("SICR") since origination in which case the allowance is based on the lifetime ECL.

The Company groups its financial assets into stage 1, stage 2 and stage 3, as described below:

- Stage 1: When mortgages are first recognized, the Company recognizes an allowance based on 12 month ECLs, which represent ECLs which would occur over the life of the mortgage related to default events that are expected to occur within 12 months after the reporting date. Stage 1 mortgages also include facilities reclassified from stage 2 or stage 3 where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant.

- Stage 2: When a mortgage has shown a SICR since origination, the Company records an allowance for the ECLs related to default events that are expected to occur over the life of the asset. Stage 2 mortgages also include facilities reclassified from stage 3 where the credit risk has improved or the facility is no longer credit impaired.

- Stage 3: The Company records an allowance for the lifetime ECLs for mortgages considered to be credit-impaired (as outlined below in "Definition of default and cure").

Both lifetime ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Significant increase in credit risk ("SICR")

The Company has established a policy to assess, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The primary indicators of SICR are relative changes in credit scores for single family mortgages and changes in internal risk ratings for construction and commercial mortgages. The Company also applies a secondary qualitative method for identifying a SICR, such as changes in macroeconomic circumstances or the application of management's judgment. In certain cases, the Company may also consider that certain events are a SICR as opposed to a default. For a definition of default and cure, refer to the "Definition of default and cure" sub-section of this note. IFRS 9 provides a rebuttable presumption that a SICR has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption.

Calculation of ECLs

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. The cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. Default is only assessed if the facility has not been previously derecognized and is still in the portfolio. The PD model is comprised of forward looking macroeconomic projections and internal risk rating based segmentation.

- LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.

- EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date at the borrower level, taking into account expected changes in the exposure after the reporting date, including advances and repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The ECLs are calculated through three probability-weighted forward-looking scenarios (base, favourable, and unfavourable). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of

collateral or the amount that might be received from selling the asset. Outcomes under the favourable and unfavourable scenarios are generated based on management judgment, looking at a range of possible outcomes. A cross-functional internal management committee reviews the proposed probability weights assigned to each of the three scenarios. The above committee may apply judgment to adjust the weights when changes are noted in relevant macroeconomic variables.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call the instrument earlier.

Mortgage commitments and letters of credit

Undrawn mortgage commitments and letters of credit are commitments under which, over the duration of the commitment, the Company is required to advance funds to the borrower. These contracts are in the scope of the ECL requirements. The nominal contractual value of letters of credit and undrawn mortgage commitments, where the mortgage agreed to be provided is on market terms, are not recorded in the consolidated balance sheet. When estimating lifetime ECLs for undrawn mortgage commitments, the Company estimates the portion of the mortgage commitment that will be drawn down over its expected life.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In certain other cases, where qualitative thresholds indicate unlikeliness to pay as a result of a credit event, the Company carefully considers whether the event should result in an assessment at stage 2 or 3 for ECL calculations.

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. It is the Company's policy to consider a financial instrument as "cured" and, therefore, reclassified out of stage 3 when none of the default criteria remain present at the end of each quarter. The decision whether to classify an asset as stage 1 or stage 2 once cured depends on the current assessment of SICR.

Forward-looking information

In its ECL models, the Company relies on a broad range of forward-looking information as macroeconomic variables, such as but not limited to:

Single Family
- House price indices
- Unemployment rates
- Gross domestic product
- Interest rates

Commercial and Construction
- Market mortgage rates
- House price indices
- Unemployment rates
- Interest rates

The macroeconomic variables and models used for calculating ECLs may not always capture all characteristics of the market at the dates of the consolidated financial statements. To reflect this, the Company may make temporary qualitative adjustments or overlays using expert credit judgment.

Modified financial assets

In a case where the borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a mortgage. If the Company determines that a modification results in an expiry of cash flows, the original financial asset is derecognized while a new asset is recognized based on the new contractual terms. SICR is assessed relative to the risk of default on the date of modification. If the Company determines that a modification does not result in derecognition, SICR is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For mortgages that have been modified while having a lifetime ECL, the mortgages can revert to having a 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Write-offs

Financial assets are written off either partially or in their entirety only when the Company believes that there are no reasonably expected future recoveries. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

(2) Determination of fair value

Per IFRS 13, *Fair Value Measurement*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on directly or indirectly observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

For financial instruments not traded in active markets, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Where available, their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. The fair value of certain real estate assets is determined using independent appraisals. Models and valuations are adjusted to reflect counterparty credit risk and liquidity discounts or premiums and limitations in the models.

Changes in fair value are recognized in net gain (loss) on securities in the consolidated statements of income.

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a qualifying "pass-through" arrangement; and either:
  - The Company has transferred substantially all the risks and rewards of ownership of the financial asset, or
  - The Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset but has transferred control of the financial asset.

When substantially all the risks and rewards of ownership of the financial asset have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer. When substantially all the risks and rewards of ownership of the financial asset have been retained, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received. Certain transaction costs incurred are also capitalized and amortized using the EIM. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. In that case, the Company also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Realized gains and losses from the derecognition of financial assets and financial liabilities are recognized in net gain (loss) on securities in the consolidated statements of income.

(4) Taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current or deferred taxes within the MIC entity; however, provisions are recorded as applicable in all subsidiaries of MCAN.

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement dates.

(ii) Deferred tax

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax impact of temporary differences between the carrying amounts of certain assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled. Deferred tax assets are only recognized for deductible temporary differences and the carry forward of unused tax losses to the extent that it is probable that taxable income will be available and the carry forward of unused tax losses can be used.

(5) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity at the time that they are approved. Dividends that are approved after the consolidated financial statement date are not recognized as a liability in the consolidated financial statements but are disclosed as an event after the consolidated financial statement date.

(6) Investment in associate

The Company's investment in MCAP is accounted for using the equity method. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried on the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the associate.

The consolidated statements of income reflect the Company's proportionate share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The most recent available financial statements of the associate are used by the Company in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the Company, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Company's consolidated financial statements.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying value and recognizes the amount in the consolidated statements of income, thus reducing the carrying value by the amount of impairment.

(7) Revenue recognition

Interest income or expense

For all financial assets measured at amortized cost and interest-bearing financial assets measured at FVPL under IFRS 9, interest income or expense is accrued in interest income or expense. The calculation takes into account the contractual interest rate, along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts. Interest income or expense is included in the appropriate component of the consolidated statements of income.

Revenue from contracts with customers

Revenue from contracts with customers is recognized at an amount that reflects the consideration that the Company expects to receive in exchange for transferring goods or services to a customer.

(8) Cash and cash equivalents

Cash and cash equivalents (including cash held in trust) on the consolidated balance sheets comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(9) Share-based compensation payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is remeasured at fair value at each consolidated financial statement date up to and including the settlement date.

(10) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

(11) Provisions

Provisions for legal claims are recognized when (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is included in interest expense.

(12) Significant changes in accounting policies

IFRS 16, *Leases* ("IFRS 16")

On January 1, 2019, the Company adopted IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, the adoption of IFRS 16 eliminated the classification of leases as either operating leases or finance leases as was required by IAS 17, *Leases* and, instead, introduced a single lessee accounting model. Applying that model, a lessee is now required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statements of income.

On the adoption of IFRS 16, the Company recognized a right-of-use asset of $2,677 relating to its premises lease which will be amortized over the term of the lease. This asset is included in other assets (refer to Note 10). The Company also increased the existing liability for the principal component of future lease payments by $3,400, which will be repaid over the term of the lease. This liability is included in other liabilities (Note 15).

IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

On January 1, 2019, the Company adopted IFRIC 23. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes* ("IAS 12") when there is uncertainty over income tax treatments. In such a circumstance, the Company shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this Interpretation. There was no impact to the consolidated financial statements as a result of the adoption of IFRIC 23.

5. Summary of Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates 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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the affected assets or liabilities in future periods.

Significant influence

Significant influence represents the power to participate in the financial and operating policy decisions of an investee but does not represent control or joint control over the entity. In determining whether it has significant influence over an entity, the Company makes certain judgments to form the basis for the Company's policies in accounting for its equity investments. Although MCAN's voting interest in MCAP was less than 20% as at December 31, 2019, MCAN uses the equity basis of accounting for the investment as it has significant influence in MCAP per IAS 28, *Investments in Associates and Joint Ventures*, as a result of its entitlement to a position on MCAP's Board of Directors.

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.

Impairment of financial assets

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 when determining impairment losses. 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 SICR 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 PD, EAD, and LGD; and
- Forward-looking information used as economic inputs.

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates.

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 using the EIM.

6. Marketable Securities

As at December 31		**2019**		**2018**
Real estate investment trusts	$	46,141	$	53,218
Corporate bonds		29		29
	$	**46,170**	**$**	**53,247**

For details of net gains and losses on marketable securities, refer to Note 19.

7. Mortgages - Corporate

(a) Summary

As at December 31, 2019	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Single family mortgages						
Insured	$ 110,182	$ 1	$ —	$ —	$ 1	$ 110,181
Uninsured	383,638	405	219	194	818	382,820
Uninsured - completed inventory	45,708	226	27	—	253	45,455
Construction loans	507,643	2,731	392	—	3,123	504,520
Commercial loans						
Multi family residential	14,075	35	8	—	43	14,032
Other	32,468	75	—	—	75	32,393
	$ 1,093,714	**$ 3,473**	**$ 646**	**$ 194**	**$ 4,313**	**$ 1,089,401**

As at December 31, 2018	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Single family mortgages						
Insured	$ 111,419	$ —	$ —	$ —	$ —	$ 111,419
Uninsured	256,687	738	191	213	1,142	255,545
Uninsured - completed inventory	7,747	44	—	—	44	7,703
Construction loans	436,354	2,210	348	217	2,775	433,579
Commercial loans						
Multi family residential	50,613	468	12	—	480	50,133
Other	64,424	393	20	—	413	64,011
	$ 927,244	**$ 3,853**	**$ 571**	**$ 430**	**$ 4,854**	**$ 922,390**

Gross principal as presented in the tables above includes unamortized capitalized transaction costs and accrued interest.

(b) Mortgages by risk rating

The Company's internal risk rating system involves judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower's probability of default and ultimately classify the mortgage into one of the categories listed below. For single family mortgages, these factors include, but are not limited to, the loan to value ratio, the borrower's ability to service debt, property location and credit score. For construction, commercial and uninsured completed inventory loans, these factors include, but are not limited to, borrower net worth, project presales, experience with the borrower, project location, debt serviceability and loan to value ratio.

The internal risk ratings presented below are defined as follows:

- **Insured Performing:** Mortgages that are insured by a federally regulated mortgage insurer that are not in arrears or default.
- **Very Low/Low**: Mortgages that have below average probability of default with credit risk that is lower than the Company's risk appetite and risk tolerance levels.
- **Normal/Moderate:** Mortgages that have a standard probability of default with credit risk that is within the Company's risk appetite and risk tolerance.
- **High/Higher:** Mortgages that may have a higher probability of default but are within the Company's risk appetite or have subsequently experienced an increase in credit risk. The proportion of mortgages originated in this category is managed to the Company's overall risk appetite and tolerance levels.
- **Monitored/Arrears:** For single family mortgages, mortgages that are past due but less than 90 days in arrears or mortgages for which an escalated concern has arisen. For construction, commercial and uninsured completed inventory loans, mortgages where the performance trend is negative or where debt serviceability may be in jeopardy.
- **Impaired/Default**: Mortgages that are over 90 days past due or mortgages for which there is objective evidence of impairment.

The table below shows the credit quality of the Company's corporate mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECL allowances are calculated on an impaired or performing basis are set out in Note 4.

	December 31, 2019				December 31, 2018			
As at	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Single family mortgages								
Insured								
Insured performing	$ 95,026	$ 11,815	$ —	$ 106,841	$ 102,672	$ 7,153	$ —	$ 109,825
Monitored/Arrears	1,557	—	—	1,557	—	590	—	590
Impaired/Default	—	—	1,783	1,783	—	—	1,004	1,004
	96,583	11,815	1,783	110,181	102,672	7,743	1,004	111,419
Uninsured								
Very low/Low	$ 143,740	$ 32,912	$ —	$ 176,652	$ 99,272	$ 19,282	$ —	$ 118,554
Normal/Moderate	154,952	26,705	—	181,657	91,640	22,959	—	114,599
High/Higher	13,978	1,712	—	15,690	13,538	1,561	—	15,099
Monitored/Arrears	3,621	3,461	—	7,082	—	5,691	—	5,691
Impaired/Default	—	—	1,739	1,739	—	—	1,602	1,602
	316,291	64,790	1,739	382,820	204,450	49,493	1,602	255,545
Uninsured - completed inventory								
Normal/Moderate	$ —	$ —	$ —	$ —	$ 3,760	$ —	$ —	$ 3,760
High/Higher	43,044	2,411	—	45,455	3,943	—	—	3,943
	43,044	2,411	—	45,455	7,703	—	—	7,703
Construction loans								
Normal/Moderate	$ 43,427	$ —	$ —	$ 43,427	$ 49,161	$ —	$ —	$ 49,161
High/Higher	416,589	21,555	—	438,144	322,941	32,167	—	355,108
Monitored/Arrears	—	22,949	—	22,949	—	28,762	548	29,310
	460,016	44,504	—	504,520	372,102	60,929	548	433,579
Commercial loans								
Multi family residential								
Normal/Moderate	$ 13,085	$ —	$ —	$ 13,085	$ 24,183	$ —	$ —	$ 24,183
High/Higher	—	947	—	947	23,871	—	—	23,871
Monitored/Arrears	—	—	—	—	—	2,079	—	2,079
	13,085	947	—	14,032	48,054	2,079	—	50,133
Other								
Very low/Low	$ —	$ —	$ —	$ —	$ 3,081	$ —	$ —	$ 3,081
Normal/Moderate	31,043	—	—	31,043	30,859	—	—	30,859
High/Higher	1,350	—	—	1,350	26,536	3,535	—	30,071
	32,393	—	—	32,393	60,476	3,535	—	64,011
	$ 961,412	**$ 124,467**	**$ 3,522**	**$1,089,401**	**$ 795,457**	**$ 123,779**	**$ 3,154**	**$ 922,390**

(c) Mortgage allowances

For the Years Ended	December 31, 2019 Stage 1	Stage 2	Stage 3	Total	December 31, 2018 Stage 1	Stage 2	Stage 3	Total
Single family mortgages								
Insured								
Allowance, beginning of year	$ —	$ —	$ —	$ —	$ 2	$ —	$ —	$ 2
Net remeasurement of allowance [1]	21	—	—	21	11	—	—	11
Mortgages derecognized or repaid [2]	(2)	—	—	(2)	(2)	—	—	(2)
Total provision	19	—	—	19	9	—	—	9
Write-offs	(18)	—	—	(18)	(11)	—	—	(11)
Allowance, end of year	1	—	—	1	—	—	—	—
Uninsured								
Allowance, beginning of year	$ 738	$ 191	$ 213	$ 1,142	$ 205	$ 58	$ 121	$ 384
Transfer to stage 1 [3]	282	(282)	—	—	164	(164)	—	—
Transfer to stage 2 [3]	(485)	505	(20)	—	(276)	276	—	—
Transfer to stage 3 [3]	(78)	—	78	—	(9)	(71)	80	—
Net remeasurement of allowance [1]	(517)	(150)	186	(481)	302	125	460	887
Originations [4]	536	—	—	536	440	—	—	440
Mortgages derecognized or repaid [2]	(71)	(45)	(182)	(298)	(87)	(33)	(204)	(324)
Total provision (recovery)	(333)	28	62	(243)	534	133	336	1,003
Write-offs	—	—	(81)	(81)	(1)	—	(244)	(245)
Allowance, end of year	405	219	194	818	738	191	213	1,142
Uninsured - completed inventory								
Allowance, beginning of year	$ 44	$ —	$ —	$ 44	$ 338	$ 62	$ —	$ 400
Transfer to stage 2 [3]	(27)	27	—	—	—	—	—	—
Net remeasurement of allowance [1]	(21)	—	—	(21)	(42)	—	—	(42)
Originations [4]	212	—	—	212	73	—	—	73
Mortgages derecognized or repaid [2]	(51)	—	—	(51)	(325)	(62)	—	(387)
Total provision (recovery)	113	27	—	140	(294)	(62)	—	(356)
Reclassification of mortgages	69	—	—	69	—	—	—	—
Allowance, end of year	226	27	—	253	44	—	—	44
Construction loans								
Allowance, beginning of year	$ 2,210	$ 348	$ 217	$ 2,775	$ 2,293	$ 335	$ —	$ 2,628
Transfer to stage 1 [3]	683	(683)	—	—	113	(91)	(22)	—
Transfer to stage 2 [3]	(839)	839	—	—	(125)	125	—	—
Transfer to stage 3 [3]	—	—	—	—	(27)	—	27	—
Net remeasurement of allowance [1]	1,128	10	—	1,138	193	(8)	212	397
Originations [4]	101	—	—	101	832	—	—	832
Mortgages derecognized or repaid [2]	(643)	(122)	(217)	(982)	(1,039)	(13)	—	(1,052)
Total provision (recovery)	430	44	(217)	257	(53)	13	217	177
Reclassification of mortgages	91	—	—	91	(30)	—	—	(30)
Allowance, end of year	2,731	392	—	3,123	2,210	348	217	2,775

For the Years Ended	December 31, 2019 Stage 1	Stage 2	Stage 3	Total	December 31, 2018 Stage 1	Stage 2	Stage 3	Total
Commercial loans								
Multi family residential								
Allowance, beginning of year	$ 468	$ 12	$ —	$ 480	$ 563	$ 44	$ —	$ 607
Transfer to stage 1 [3]	25	(25)	—	—	—	—	—	—
Net remeasurement of allowance [1]	(337)	17	—	(320)	(70)	(4)	—	(74)
Originations [4]	—	—	—	—	314	—	—	314
Mortgages derecognized or repaid [2]	(26)	—	—	(26)	(339)	(28)	—	(367)
Total recovery	(338)	(8)	—	(346)	(95)	(32)	—	(127)
Reclassification of mortgages	(95)	4	—	(91)	—	—	—	—
Allowance, end of year	35	8	—	43	468	12	—	480
Other								
Allowance, beginning of year	$ 393	$ 20	$ —	$ 413	$ 597	$ 244	$ —	$ 841
Transfer to stage 1 [3]	—	—	—	—	53	(53)	—	—
Transfer to stage 2 [3]	(37)	37	—	—	(76)	76	—	—
Net remeasurement of allowance [1]	(183)	(33)	—	(216)	(383)	(85)	—	(468)
Originations [4]	—	—	—	—	458	—	—	458
Mortgages derecognized or repaid [2]	(33)	(20)	—	(53)	(286)	(162)	—	(448)
Total recovery	(253)	(16)	—	(269)	(234)	(224)	—	(458)
Reclassification of mortgages	(65)	(4)	—	(69)	30	—	—	30
Allowance, end of year	75	—	—	75	393	20	—	413
Total								
Allowance, beginning of year	$ 3,853	$ 571	$ 430	$ 4,854	$ 3,998	$ 743	$ 121	$ 4,862
Transfer to stage 1 [3]	990	(990)	—	—	330	(308)	(22)	—
Transfer to stage 2 [3]	(1,388)	1,408	(20)	—	(476)	476	—	—
Transfer to stage 3 [3]	(78)	—	78	—	(36)	(71)	107	—
Net remeasurement of allowance [1]	91	(156)	186	121	11	28	672	711
Originations [4]	849	—	—	849	2,116	1	—	2,117
Mortgages derecognized or repaid [2]	(826)	(187)	(399)	(1,412)	(2,078)	(298)	(204)	(2,580)
Total provision (recovery)	(362)	75	(155)	(442)	(133)	(172)	553	248
Write-offs	(18)	—	(81)	(99)	(12)	—	(244)	(256)
Allowance, end of year	**$ 3,473**	**$ 646**	**$ 194**	**$ 4,313**	**$ 3,853**	**$ 571**	**$ 430**	**$ 4,854**

[1] Represents the change in the allowance related to changes in model parameters, inputs, and assumptions. This includes remeasurement between twelve-month and lifetime ECLs following stage transfers, changes to forward-looking macroeconomic conditions, changes in the level of risk, and changes to other parameters used in the ECL model.
[2] Reflects the decrease in the allowance related to mortgages that were repaid or derecognized during the period.
[3] Represents movements between ECL stages and excludes the impact to the allowance of remeasurement between twelve-month and lifetime ECLs and changes in risk.
[4] Reflects the increase in allowance related to mortgages newly recognized during the period. This includes mortgages that were newly originated, purchased, or re-recognized following a modification of terms.

The allowance for credit losses is sensitive to the macroeconomic variables used in the three forward-looking scenarios and the probability weights assigned to those forecasts. The macroeconomic variables used in these scenarios are projected over the forecast period and could have a material impact in determining ECLs. Changes in these items would have an impact on the measurement of ECLs.

The following table represents the average values of the macroeconomic variables used in these forecasts:

As at December 31, 2019	Base		Favourable		Unfavourable	
Macroeconomic variables	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]
Housing Price Index (annual change)						
Canada	2.10%	2.10%	3.31%	2.25%	(3.36%)	1.92%
Greater Toronto Area	1.60%	2.69%	4.25%	2.89%	(4.29%)	2.47%
Greater Vancouver Area	1.00%	2.72%	4.28%	2.91%	(4.32%)	2.49%
Gross domestic product (annual change)	1.62%	1.85%	2.74%	2.51%	(0.18%)	0.61%
Unemployment rate	5.80%	5.80%	5.05%	5.26%	6.40%	6.14%
Interest rates						
Prime rate	3.75%	3.81%	4.25%	4.31%	3.50%	3.56%
5 year mortgage rate [2]	3.89%	3.95%	4.39%	4.45%	3.64%	3.70%

As at December 31, 2018	Base		Favourable		Unfavourable	
Macroeconomic variables	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]
Housing Price Index (annual change)						
Canada	2.00%	2.00%	6.56%	2.56%	(6.78%)	(0.87%)
Greater Toronto Area	3.30%	2.57%	8.45%	3.29%	(8.62%)	(1.11%)
Greater Vancouver Area	0.90%	2.93%	9.68%	3.76%	(9.78%)	(1.26%)
Gross domestic product (annual change)	1.78%	1.78%	2.32%	1.84%	(2.35%)	1.26%
Unemployment rate	5.73%	5.87%	5.11%	4.79%	7.19%	7.92%
Interest rates						
Prime rate	4.33%	4.76%	4.83%	5.26%	4.08%	4.51%
5 year Government of Canada bond	2.50%	2.86%	2.50%	3.35%	1.31%	0.51%
5 year mortgage rate [2]	4.51%	4.61%	4.49%	4.93%	4.14%	3.32%
Canadian/US dollar exchange rate [2]	$ 1.31	$ 1.28	$ 1.44	$ 1.42	$ 1.63	$ 1.74

[1] *The numbers represent the average values over the quoted period.*
[2] *Variables are derived from regression models which consider the other macroeconomic variables.*

Assuming a 100% base case economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the allowance for performing mortgages as at December 31, 2019 would be approximately $3,655 (December 31, 2018 - $3,953) compared to the reported allowance for performing mortgages of $4,119 (December 31, 2018 - $4,424).

Assuming a 100% unfavourable economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the allowance for performing mortgages as at December 31, 2019 would be approximately $5,066 (December 31, 2018 - $5,541) compared to the reported allowance for performing mortgages of $4,119 (December 31, 2018 - $4,424).

(d) Arrears and impaired mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2019	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family mortgages				
Insured	$ 1,557	$ —	$ —	$ 1,557
Uninsured	5,571	1,248	263	7,082
	$ 7,128	**$ 1,248**	**$ 263**	**$ 8,639**

As at December 31, 2018	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family mortgages				
Insured	$ 490	$ 100	$ —	$ 590
Uninsured	5,097	311	283	5,691
	$ 5,587	**$ 411**	**$ 283**	**$ 6,281**

Impaired mortgages (net of individual allowances) are as follows:

As at	December 31, 2019				December 31, 2018			
	Single Family Mortgages		Construction Loans	Total	Single Family Mortgages		Construction Loans	Total
	Insured	Uninsured			Insured	Uninsured		
Ontario	$ —	$ 423	$ —	$ 423	$ 146	$ 323	$ 548	$ 1,017
Alberta	1,565	416	—	1,981	276	312	—	588
British Columbia	—	545	—	545	—	488	—	488
Quebec	170	88	—	258	165	—	—	165
Atlantic Provinces	48	127	—	175	417	—	—	417
Other	—	140	—	140	—	479	—	479
	$ 1,783	**$ 1,739**	**$ —**	**$ 3,522**	**$ 1,004**	**$ 1,602**	**$ 548**	**$ 3,154**

(e) Geographic analysis

As at December 31, 2019	Single Family Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 360,245	$ 182,378	$ 45,478	$ 588,101	53.9%
Alberta	73,401	30,948	947	105,296	9.7%
British Columbia	78,359	281,088	—	359,447	33.0%
Quebec	8,662	10,106	—	18,768	1.7%
Atlantic Provinces	10,509	—	—	10,509	1.0%
Other	7,280	—	—	7,280	0.7%
	$ 538,456	**$ 504,520**	**$ 46,425**	**$ 1,089,401**	**100.0%**

As at December 31, 2018	Single Family Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 239,515	$ 195,662	$ 64,891	$ 500,068	54.2%
Alberta	59,245	28,943	2,079	90,267	9.8%
British Columbia	45,701	197,322	47,174	290,197	31.5%
Quebec	8,988	11,652	—	20,640	2.2%
Atlantic Provinces	12,994	—	—	12,994	1.4%
Other	8,224	—	—	8,224	0.9%
	$ 374,667	**$ 433,579**	**$ 114,144**	**$ 922,390**	**100.0%**

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

As at December 31	2019	2018
Single family mortgages		
Insured	$ 55,670	$ 26,875
Uninsured	10,549	27,954
Uninsured - completed inventory	2,012	209
Construction loans	248,045	332,989
Commercial loans		
Multi family residential	—	630
Other	—	415
	$ 316,276	**$ 389,072**

Of the total outstanding commitments for future fundings, only a portion issued are expected to fund. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

The fair value of the corporate mortgage portfolio as at December 31, 2019 was $1,091,545 (December 31, 2018 - $927,079). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages.

As at December 31, 2019, single family insured mortgages included $48,996 (December 31, 2018 - $67,972) of mortgages that had been securitized through the market MBS program; however, the underlying MBS security has been retained by the Company for liquidity purposes.

8. Non-Marketable Securities

As at December 31	2019	2018
KingSett High Yield Fund	$ 42,949	$ 42,202
Crown Realty II Limited Partnership	33,121	29,611
Securitization Notes	17,619	—
	$ 93,689	**$ 71,813**

The Company holds an investment in the KingSett High Yield Fund ("KSHYF"), in which it has a 7.3% equity interest (December 31, 2018 - 7.9%). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the KSHYF, the Company advances its proportionate share. The KSHYF pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. As at December 31, 2019, the Company's total remaining commitment to the KSHYF was $24,021 (December 31, 2018 - $20,948), consisting of $1,827 available for capital advances for the KSHYF (December 31, 2018 - $nil) and $22,194 that supports credit facilities throughout the life of the KSHYF (December 31, 2018 - $20,948). The fair value of the KSHYF is based on its redemption value.

The Company holds an investment in Crown Realty II Limited Partnership ("Crown LP"), in which it has a 14.1% equity interest (December 31, 2018 - 14.1%). Crown LP invests primarily in commercial office buildings and classifies them into its core fund, which represents buildings expected to provide stable cash flows over a longer time horizon, and its opportunity fund, which represents buildings with medium-term capital appreciation. Its fair value is based on building rental rates and current market capitalization rates. During 2018, Crown LP sold the last remaining property in its opportunity fund and paid a distribution of $5,070 which reduced the carrying value of the investment in Crown LP. As at December 31, 2019, the remaining properties held by Crown LP are held in its core fund. Subsequent to December 31, 2019, the Company sold its core fund units (refer to Note 28).

During 2019, the Company invested $18,000 in Class A securitization notes (the "Securitization Notes"). 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. As at December 31, 2019, the Company has accrued $62 of interest on the Securitization Notes.

For details of net gains and losses on non-marketable securities, refer to Note 19.

9. Equity Investment in MCAP Commercial LP

As at December 31, 2019, the Company held a 14.02% equity interest in MCAP (December 31, 2018 - 14.08%), representing 4.0 million units held by MCAN (December 31, 2018 - 4.0 million) of the 28.5 million total outstanding MCAP partnership units (December 31, 2018 - 28.4 million).

MCAP issued new class B units at a price in excess of MCAN's carrying value per unit, resulting in a dilution gain of $187 in 2019 (2018 - $314).

During 2019, MCAN sold no partnership units in MCAP. During 2018, MCAN sold 200,000 partnership units in MCAP at a price of $22.60 per unit, recognizing a gain on sale of $1,701.

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.

Years Ended December 31	**2019**	**2018**
Balance, beginning of year	$ 61,593	$ 59,189
Equity income	15,759	13,188
Dilution gain	187	314
Carrying value of portion of investment sold	—	(2,820)
Distributions received	(7,695)	(8,278)
Balance, end of year	**$ 69,844**	**$ 61,593**

Selected MCAP financial information is as follows:

As at November 30	**2019**	**2018**
MCAP's balance sheet:		
Assets	$ 38,853,655	$ 34,919,316
Liabilities	38,343,981	34,458,933
Equity	509,674	460,383

Years Ended November 30	**2019**	**2018**
MCAP's revenue and net income:		
Revenue	$ 579,080	$ 522,930
Net income	$ 112,153	$ 94,555

10. Other Assets

As at December 31	**2019**	**2018**
Corporate assets:		
Intangible assets, net	$ 613	$ 581
Capital assets, net	743	794
Right-of-use asset	2,371	—
Prepaid expenses	1,897	985
Other loans	1,099	2,640
Related party receivable - MCAP	175	8,032
Receivables	438	26
Foreclosed real estate	435	435
	$ 7,771	**$ 13,493**

The Company recorded a right-of-use asset of $2,677 upon the adoption of IFRS 16 on January 1, 2019. For further details on the adoption of IFRS 16, refer to Note 4. During the year ended December 31, 2019, the Company recognized $306 of depreciation expense on the right-of-use asset.

The related party receivable from MCAP consists primarily of net principal and interest collected by MCAP in its role as a mortgage servicer, which is remitted to MCAN on the next business day.

The capital assets and intangible assets continuity is as follows:

	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Capital Asset Total	Intangible Assets
Cost					
As at January 1, 2018	$ 824	$ 1,780	$ 1,867	$ 4,471	$ 5,473
Additions	5	173	9	187	7
As at December 31, 2018	829	1,953	1,876	4,658	5,480
Additions	—	96	17	113	327
As at December 31, 2019	**829**	**2,049**	**1,893**	**4,771**	**5,807**
Amortization					
As at January 1, 2018	805	1,578	1,322	3,705	4,555
Amortization for the year	7	104	48	159	344
As at December 31, 2018	812	1,682	1,370	3,864	4,899
Amortization for the year	7	108	49	164	295
As at December 31, 2019	**819**	**1,790**	**1,419**	**4,028**	**5,194**
Net Book Value					
As at December 31, 2018	17	271	506	794	581
As at December 31, 2019	**$ 10**	**$ 259**	**$ 474**	**$ 743**	**$ 613**

11. Securitization Activities

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. The Company issues MBS through its internal market MBS program and the Canada Housing Trust Canada Mortgage Bonds ("CMB") program.

The Company may sell MBS to third parties and may also sell the net economics and cash flows from the underlying mortgages ("interest-only strips") to third parties. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing.

Pursuant to the NHA MBS program, MBS investors receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation ("CMHC") makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment guarantee to investors. All MBS issuers (including the Company) are required to remit scheduled mortgage principal and interest payments to Computershare, the designated Central Payor and Transfer Agent ("CPTA") for the program, even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by the Company, any outstanding principal must be paid to the CPTA. If the Company fails to make a scheduled principal and interest payment to CPTA, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued. In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to the CPTA until legal enforcement proceedings are terminated at which time MCAN is required to transfer the full amount of any outstanding principal to the CPTA as part of the Timely Payment obligation and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

Market MBS program

During 2019, MCAN securitized $116,166 of MBS through the market MBS program (2018 - $140,525) and sold the MBS to a third party. In 2019, we retained none of the MBS securitized in 2019 on our corporate balance sheet (2018 - $46,352) with the remainder sold to third parties.

CMB program

During 2019, MCAN securitized $191,372 of insured single family mortgages through the CMB program (2018 - $28,417) and $14,187 of insured multi family mortgages (2018 - $nil). At the time of the insured multi family securitization, the Company derecognized the mortgages from its consolidated balance sheet and recorded an upfront gain of $71 (2018 - $nil).

Other accounting considerations

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the requirement to fund 100% of any cash shortfall related to the above-noted Timely Payment obligation. Please refer to the “Risk Management” section of the MD&A where these risks are discussed further.

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transfers nor retains substantially all of the risks and rewards of ownership on sale and retains significant continuing involvement through the provision of the Timely Payment obligation with respect to the majority of the market MBS program and single family CMB program sale transactions, MCAN continues to recognize the securitized mortgages (Note 12) and financial liabilities from securitization (Note 16) on its consolidated balance sheets.

Transferred financial assets that are derecognized in their entirety but where the Company has a continuing involvement

MCAN securitizes insured multi family mortgages through the market MBS program and CMB program, and in some cases, sells MBS and the associated interest-only strips to third parties. In these instances, where MCAN transfers control of the asset or substantially all risks and rewards on sale, MCAN derecognizes the mortgages from its consolidated balance sheets. MCAN’s continuing involvement is the ongoing obligation in its role as MBS issuer to service the mortgages and MBS until maturity.

In these circumstances, the derecognized MBS balance related to the market MBS program and CMB program are not reflected as an asset or liability on MCAN’s consolidated balance sheets. As at December 31, 2019, the derecognized MBS mature as follows:

	2020	2021	2026	2029	Total
December 31, 2019	$ 80,332	$ 70,995	$ 9,196	$ 14,100	$ 174,623
December 31, 2018	94,348	72,403	9,440	—	176,191

12. Mortgages - Securitized

(a) Summary

	Gross	Allowance			Net
As at December 31, 2019	**Principal**	**Stage 1**	**Stage 2**	**Total**	**Principal**
Single family insured - Market MBS program	$ 449,937	$ 2	$ —	$ 2	$ 449,935
Single family insured - CMB program	334,363	2	—	2	334,361
	$ 784,300	**$ 4**	**$ —**	**$ 4**	**$ 784,296**

	Gross	Allowance			Net
As at December 31, 2018	**Principal**	**Stage 1**	**Stage 2**	**Total**	**Principal**
Single family insured - Market MBS program	$ 722,730	$ 4	$ —	$ 4	$ 722,726
Single family insured - CMB program	164,536	4	6	10	164,526
	$ 887,266	**$ 8**	**$ 6**	**$ 14**	**$ 887,252**

(b) Mortgages by risk rating

The Company’s internal risk rating system involves judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower’s probability of default and ultimately classify the mortgage into one of the categories listed in the table below. For single family mortgages, these factors include, but are not limited to, the loan to value ratio, the borrower’s ability to service debt, property location and credit score. For a definition of internal risk ratings, refer to Note 7.

The table below shows the credit quality of the Company’s securitized mortgage portfolio based on the Company’s internal risk rating system and stage classification. The Company’s policy that outlines whether ECL allowances are calculated on an impaired or performing basis is discussed in Note 4.

As at	December 31, 2019				December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Insured Performing	$ 706,498	$ 74,048	$ —	$ 780,546	$ 811,259	$ 69,466	$ —	$ 880,725
Monitored/Arrears	1,051	1,938	—	2,989	—	4,726	—	4,726
Impaired/Default	—	—	761	761	—	—	1,801	1,801
	$ 707,549	**$ 75,986**	**$ 761**	**$ 784,296**	**$ 811,259**	**$ 74,192**	**$ 1,801**	**$ 887,252**

(c) Mortgage allowances

The allowance for credit losses on the securitized portfolio as at December 31, 2019 was $4 (December 31, 2018 - $14). There was a recovery of credit losses on this portfolio recorded during 2019 of $10 (2018 - recovery of $2).

(d) Arrears and impaired mortgages

Securitized mortgages past due but not impaired are as follows:

As at	1 to 30 days	31 to 60 days	61 to 90 days	Total
December 31, 2019	$ 2,298	$ 691	$ —	**$ 2,989**
December 31, 2018	3,184	905	637	**4,726**

Impaired securitized mortgages are as follows:

As at December 31	2019	2018
Ontario	$ —	$ 311
Alberta	561	852
British Columbia	—	205
Quebec	200	—
Other	—	433
	$ 761	**$ 1,801**

(e) Geographic analysis

As at December 31	2019		2018	
Ontario	$ 575,122	73.3%	$ 532,817	60.1%
Alberta	114,509	14.6%	195,414	22.0%
British Columbia	34,442	4.4%	65,229	7.4%
Quebec	17,183	2.2%	29,952	3.4%
Atlantic Provinces	28,864	3.7%	38,287	4.3%
Other	14,176	1.8%	25,553	2.8%
	$ 784,296	**100.0%**	**$ 887,252**	**100.0%**

(f) Other information

Capitalized transaction costs are included in mortgages and are amortized using the EIM. As at December 31, 2019, the unamortized capitalized transaction cost balance was $4,106 (December 31, 2018 - $3,932).

The fair value of the securitized mortgage portfolio as at December 31, 2019 was $795,732 (December 31, 2018 - $891,938).

Other assets of $5,011 as at December 31, 2019 (December 31, 2018 - $3,479), consist of interest-only strips from the Company's CMB program multi family securitizations and prepaid expenses.

13. Term Deposits

As at December 31		2019		2018
Maturity Date				
Within 3 Months	$	63,540	$	41,664
3 Months to 1 Year		380,295		317,006
1 to 3 Years		467,820		472,342
3 to 5 Years		122,644		88,611
	$	**1,034,299**	**$**	**919,623**

The estimated fair value of term deposits as at December 31, 2019 was $1,039,732 (December 31, 2018 - $917,663) and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

14. Income Taxes

The composition of the provision for (recovery of) income taxes is as follows:

Years Ended December 31		2019		2018
Income before income taxes	$	47,740	$	36,193
Statutory rate of tax [1]		0%		0%
Tax provision (recovery) before the following:		—		—
Provision related to income subject to tax in subsidiaries		(554)		(100)
	$	**(554)**	**$**	**(100)**

[1] MCAN is subject to tax at a statutory tax rate of 38% to the extent that it does not pay sufficient dividends to eliminate its taxable income. As MCAN has historically paid sufficient dividends such that it does not have taxable income, a 0% tax rate is used above.

Years Ended December 31		2019		2018
Current tax				
Current tax provision		73		283
Deferred tax provision (recovery)				
Non-marketable securities		450		(80)
Relating to loss carry forward benefit		(918)		(696)
Other		(159)		393
		(627)		(383)
	$	**(554)**	**$**	**(100)**

A summary of temporary differences by type is as follows:

Years Ended December 31		2019		2018
Deferred tax assets				
Loss carry forward benefit	$	3,671	$	2,754
Other		334		207
	$	**4,005**	**$**	**2,961**
Deferred tax liabilities				
Non-marketable securities	$	3,894	$	3,444
Other		—		34
	$	**3,894**	**$**	**3,478**

Deferred tax assets and liabilities are assessed for each entity and presented as deferred tax assets of $132 (December 31, 2018 - $2,961) and deferred tax liabilities of $21 (December 31, 2018 - $3,478) on the consolidated balance sheets.

The loss carry forward benefit reflected in the deferred tax asset relates to losses in subsidiaries to which the Company has attributed a future benefit.

The Company has loss carry forward amounts in the non-consolidated MIC entity of $9,286 (December 31, 2018 - $8,250), the benefit of which has not been recorded in deferred tax assets. This balance only includes assessed fiscal years and does not incorporate taxable income for 2019. The tax loss carry forward amounts expire beginning in 2033.

15. Other Liabilities

As at December 31	2019	2018
Accounts payable and accrued charges	$ 5,108	$ 5,553
Premises lease liability	3,139	—
Dividends payable	7,749	7,616
	$ 15,996	**$ 13,169**

Upon the adoption of IFRS 16 on January 1, 2019, the Company increased its premises lease liability by $3,400. For further details on the adoption of IFRS 16, refer to Note 4.

The premises lease liability as at January 1, 2019 can be reconciled to the premises lease commitment as of December 31, 2018 as follows:

Premises lease commitment as at December 31, 2018	$ 3,975
Weighted average incremental borrowing rate as at January 1, 2019	3.5%
Discounted premises lease commitment at January 1, 2019	$ 3,400

During the year ended December 31, 2019, the Company recognized $137 of interest expense and $398 of payments relating to the premises lease liability.

The maturity of the premises lease liability as at December 31, 2019, is as follows:

Less than one year	$ 332
One to five years	1,964
More than 5 years	843
Total premises lease liability	**$ 3,139**

16. Financial Liabilities from Securitization

As at December 31	2019	2018
Financial liabilities - Market MBS program	$ 457,593	$ 734,525
Financial liabilities - CMB program	336,067	163,410
	$ 793,660	**$ 897,935**

Financial liabilities from securitization mature as follows:

As at December 31	2019	2018
2019	$ —	$ 323,635
2020	253,663	310,763
2021	86,188	98,671
2022	96,423	78,060
2023	80,851	86,806
2024	276,535	—
	$ 793,660	**$ 897,935**

17. Share Capital

	2019		2018	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Balance, January 1	23,798,464	$ 221,869	23,377,785	$ 214,664
Issued				
Dividend reinvestment plan	416,919	6,139	367,942	6,462
Executive Share Purchase Plan	—	—	52,737	743
Balance, December 31	**24,215,383**	**$ 228,008**	**23,798,464**	**$ 221,869**

The authorized share capital of the Company consists of unlimited common shares with no par value.

The Company issues shares under the dividend reinvestment plan ("DRIP") 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. The DRIP participation rate for the 2019 fourth quarter dividend was 17% (2018 fourth quarter - 18%).

For details on the Executive Share Purchase Plan, refer to Note 22.

The Company had no potentially dilutive instruments as at December 31, 2019 or December 31, 2018.

18. Dividends

On February 26, 2020, the Board declared a quarterly dividend of $0.34 per share payable on March 30, 2020 to shareholders of record as of March 13, 2020.

19. Net Gain (Loss) on Securities

Years Ended December 31	2019	2018
Net gain (loss) on marketable securities	$ 10,780	$ (3,521)
Net gain (loss) on non-marketable securities	3,228	3,009
	$ 14,008	**$ (512)**

For the year ended December 31, 2019, proceeds from dispositions in the Company's REIT portfolio were $17,857 (2018 - $7,463), resulting in a $6,273 realized gain (2018 - $1,857).

20. Mortgage Expenses

Corporate assets

Years Ended December 31	2019	2018
Mortgage servicing expense	$ 3,025	$ 2,918
Letter of credit expense	678	732
Other mortgage expenses	375	381
	$ 4,078	**$ 4,031**

Letter of credit expense relates to outstanding letters of credit under the Company's credit facility, discussed in Note 23.

Securitization assets

Mortgage expenses associated with securitization assets of $1,954 (2018 - $2,133) consist primarily of mortgage servicing expenses.

21. Provision for (Recovery of) Credit Losses

Years Ended December 31	Note	2019	2018
Corporate portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	7	$ (362)	$ (133)
Stage 2 - provisions for (recoveries of) performing mortgages	7	75	(172)
Stage 3 - provisions for (recoveries of) impaired mortgages	7	(155)	553
		(442)	248
Other provisions (recoveries), net		(19)	(60)
Provision for (recovery of) credit losses		**(461)**	**188**
Securitized portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	12	(4)	(7)
Stage 2 - provisions for (recoveries of) performing mortgages	12	(6)	5
Recovery of credit losses		**$ (10)**	**$ (2)**

22. Related Party Disclosures

Transactions between the Company and its subsidiaries meet the definition of related party transactions. As these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

Transactions with MCAP

In 2019, the Company entered into related party transactions with MCAP as follows:

- Purchase of mortgage origination and administration services of $3,660 (2018 - $3,338)
- Purchase of uninsured single family mortgages of $21,386 (2018 - $12,744)
- Purchase of insured multi family mortgages of $14,187 (2018 - $nil)
- Purchase of Securitization Notes of $18,000 (2018 - $nil) (Note 8)

All related party transactions noted above were in the normal course of business.

Compensation

Key management personnel of the Company consist of individuals that have authority and accountability for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the members of the Board.

The compensation of key management personnel is as follows:

Years Ended December 31	2019	2018
Short term employee benefits (salaries, benefits and director fees)	$ 3,895	$ 3,590
Share-based payments (DSU, RSU, PSU)	239	(271)
Termination benefits	422	570
	$ 4,556	**$ 3,889**

Executive Share Purchase Plan

The Company has an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to senior management for the purpose of purchasing the Company's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions; 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan. During 2019, the Board approved an amendment that precludes the granting of awards under the Share Purchase Plan before the sixth day after the end of a black-out period.

As at December 31, 2019, $727 of loans were outstanding under the Share Purchase Plan (December 31, 2018 - $1,784). During 2019, the Company did not advance new loans under the Share Purchase Plan (2018 - $743). The loans under the

Share Purchase Plan bear interest at prime plus 1% (4.95%) as at December 31, 2019 (December 31, 2018 - prime plus 1% (4.95%)) and have a five-year term. The shares are pledged as security for the loans and had a fair value of $1,509 as at December 31, 2019 (December 31, 2018 - $2,563). In 2019, MCAN recognized $57 of interest income (2018 - $54) on the Share Purchase Plan loans.

Share Unit Plans

Restricted Share Units Plan

The Company has a Restricted Share Units Plan (the "RSU Plan") whereby the Board grants units under the RSU Plan to certain members of senior management of the Company (the "RSU Participants"). Each unit is equivalent in value to one common share of the Company. The RSU Participants are entitled to receive cash for each unit three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years.

Performance Share Units Plan

The Company has established a Performance Share Units Plan (the "PSU Plan") whereby the Board grants units under the PSU Plan to certain members of senior management of the Company (the "PSU Participants"). Each unit is equivalent in value to one common share of the Company. Issuances prior to 2019 vest three years subsequent to the awarding of the units subject to continued employment with the Company. Units issued in 2019 and thereafter vest annually over a three year period, however these units are not payable until three years from the issuance date. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the PSU Participants are entitled to receive dividend distributions in the form of additional units. At the time of vesting, a "Performance Factor" of 0-150% is applied to the number of units awarded which is based on earnings per share and other performance metrics in the years subsequent to the grant date.

The units granted under the PSU Plan may be either PSU units or Performance Deferred Share Units ("PDSU units"). Holders of PSU units issued prior to 2019 are paid in cash at the time of vesting. Holders of PSU units issued in 2019 and thereafter are paid in cash three years from the issuance date. Holders of PDSU units are paid in cash at their individual retirement or termination, whichever is earlier, provided that the units have vested. Additionally, the PDSU units earn dividends subsequent to vesting until the retirement or termination, whichever is earlier.

Deferred Share Units Plan

The Company has a Deferred Share Units Plan (the "DSU Plan") whereby the Board grants units under the DSU Plan to certain members of senior management of the Company (the "DSU Participants"). Each unit is equivalent in value to one common share of the Company. The DSU Participants are entitled to receive cash for each unit following their individual retirement or termination dates, whichever is earlier. The individual unit values are based on the average market value of the Company's common shares for the five days preceding the retirement/termination date.

The tables below outline activity relating to the RSU Plan, the PSU Plan and DSU Plan. As at December 31, 2019, none of the outstanding units from the RSU, PSU or DSU Plans had vested (December 31, 2018 - nil). During 2019, the Company paid the RSU Participants $76 (2018 - $581) upon vesting of the 4,882 RSU Plan units (2018 - 31,429 units). During 2019, the Company paid the PSU Participants $nil (2018 - $nil) upon vesting of the 16,802 PSU Plan units (2018 - nil). During 2019, there were no payments to DSU Participants (2018 - $1,029).

For the Years Ended December 31	2019			2018		
	RSU	PSU	DSU	RSU	PSU	DSU
Units outstanding, beginning of year	15,322	59,104	12,250	40,014	74,791	57,790
New units granted	43,284	39,359	—	5,508	31,446	12,250
Units issued as dividends	3,303	6,162	560	3,053	8,010	4,933
Units vested	(4,882)	(16,802)	—	(31,429)	—	(62,723)
Units forfeited	(6,571)	(8,970)	(12,810)	(1,824)	(55,143)	—
Units outstanding, end of year	**50,456**	**78,853**	**—**	**15,322**	**59,104**	**12,250**
Compensation expense for the year	$ 261	$ 130	$ 52	$ 235	$ (492)	$ 23
Outstanding liability, end of year	$ 292	$ 130	$ —	$ 107	$ —	$ 16

23. Credit Facilities

The Company has a demand loan revolver facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (4.70%) (December 31, 2018 - prime plus 0.75% (4.70%)). During 2019, the facility limit was increased from $75,000 to $120,000. The facility is due and payable upon demand. As at December 31, 2019, the outstanding demand loan payable was $5,053 (December 31, 2018 - $nil).

Under the facility, there is a sublimit for issued letters of credit. Letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case the Company is obligated to fund the letters of credit. As at December 31, 2019, there were letters of credit in the amount of $33,965 issued (December 31, 2018 - $43,757) and additional letters of credit in the amount of $17,950 committed but not issued (December 31, 2018 - $28,541).

The Company has an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility 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. As at December 31, 2019, the outstanding facility balance was $nil (December 31, 2018 - $nil).

24. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns. For further information, refer to the "Capital Management" section of the MD&A.

Regulatory capital

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. For this purpose, OSFI has imposed minimum capital to risk-weighted asset ratios and a minimum leverage ratio.

For further information on the Company's regulatory capital management, refer to the "Regulatory Capital" sub-section of the "Capital Management" section of the MD&A.

As at December 31	2019	2018
Regulatory ratios (OSFI)		
Share capital	$ 228,008	$ 221,869
Contributed surplus	510	510
Retained earnings	101,794	84,315
Deduction for equity investment in MCAP [1]	(36,813)	(30,925)
Common Equity Tier 1, Tier 1 and Total Capital	**$ 293,499**	**$ 275,769**
Total exposures/Regulatory assets		
Consolidated assets	$ 2,179,341	$ 2,141,072
Less: Deduction for equity investment in MCAP [1]	(36,813)	(30,925)
Other adjustments [2]	3,804	1,295
Total on-balance sheet exposures	**2,146,332**	**2,111,442**
Mortgage and investment funding commitments	340,297	410,020
Less: conversion to credit equivalent amount (50%)	(170,149)	(205,010)
Letters of credit	33,965	43,757
Less: conversion to credit equivalent amount (50%)	(16,983)	(21,879)
Off-balance sheet items	**187,130**	**226,888**
Total exposures/Regulatory assets	**$ 2,333,462**	**$ 2,338,330**
Leverage ratio	**12.58%**	**11.79%**

[1] *The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity.*
[2] *Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.*

Income tax capital

As a MIC under the Tax Act, the Company is 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 the non-consolidated balance sheet in the MIC entity measured at its tax value. For further information on the Company's income tax capital management, refer to the "Income Tax Capital" sub-section of the "Capital Management" section of the MD&A.

25. Financial Instruments

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, cash held in trust, marketable securities, mortgages, non-marketable securities, other loans, financial liabilities from securitization, term deposits and demand loan payable.

To measure financial instruments that are carried at fair value on the consolidated balance sheets, or for which fair value is disclosed, the following fair value hierarchy is used based on the inputs to the valuation:

Level 1: Quoted market prices observed in active markets for identical assets and liabilities.
Level 2: Directly or indirectly observable inputs for the assets or liabilities not included in Level 1.
Level 3: Unobservable market inputs.

Financial instruments are classified at the lowest level of the hierarchy for which a significant input has been used. The fair value hierarchy requires the use of observable market inputs whenever obtainable.

There were no transfers between levels during the years ended December 31, 2019 and 2018.

The following tables summarize the fair values of financial assets measured at FVPL and financial assets and liabilities measured at amortized cost for which fair values are disclosed.

As at December 31, 2019	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 46,141	$ 29	$ —	$ 46,170	$ 46,170
Non-marketable securities - Crown LP [1]	—	—	33,121	33,121	33,121
Non-marketable securities - KSHYF [2]	—	—	42,949	42,949	42,949
Non-marketable securities - Securitization Notes [3]	—	—	17,619	17,619	17,619
	$ 46,141	$ 29	$ 93,689	$ 139,859	$ 139,859
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 54,452	$ —	$ —	$ 54,452	$ 54,452
Mortgages - corporate [4]	—	—	1,091,545	1,091,545	1,089,401
Other loans [5]	—	—	1,099	1,099	1,099
Securitization program cash held in trust	28,575	—	—	28,575	28,575
Mortgages - securitized [4]	—	—	795,732	795,732	784,296
	$ 83,027	$ —	$ 1,888,376	$ 1,971,403	$ 1,957,823
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [7]	$ —	$ —	$ 1,039,732	$ 1,039,732	$ 1,034,299
Demand loan payable [6]	—	—	5,053	5,053	5,053
Other liabilities - corporate [6]	—	—	15,996	15,996	15,996
Financial liabilities from securitization [8]	—	—	797,794	797,794	793,660
	$ —	$ —	$ 1,858,575	$ 1,858,575	$ 1,849,008

As at December 31, 2018	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 53,218	$ 29	$ —	$ 53,247	$ 53,247
Non-marketable securities - Crown LP [1]	—	—	29,611	29,611	29,611
Non-marketable securities - KSHYF [2]	—	—	42,202	42,202	42,202
	$ 53,218	$ 29	$ 71,813	$ 125,060	$ 125,060
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 98,842	$ —	$ —	$ 98,842	$ 98,842
Mortgages - corporate [4]	—	—	927,079	927,079	922,390
Other loans [5]	—	—	2,640	2,640	2,640
Securitization program cash held in trust	26,002	—	—	26,002	26,002
Mortgages - securitized [4]	—	—	891,938	891,938	887,252
	$ 124,844	$ —	$ 1,821,657	$ 1,946,501	$ 1,937,126
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [7]	$ —	$ —	$ 917,663	$ 917,663	$ 919,623
Other liabilities - corporate [6]	—	—	13,169	13,169	13,169
Financial liabilities from securitization [8]	—	—	894,038	894,038	897,935
	$ —	$ —	$ 1,824,870	$ 1,824,870	$ 1,830,727

[1] Fair value of investment is based on the underlying real estate properties determined by the discounted cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on the redemption value of the KSHYF.
[3] Fair value of investment in securitized notes is based on the transaction price.
[4] Fair value of corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as Level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.
[5] Fair value is assumed to be the carrying value as underlying loans are variable rate.

[6] The carrying value of the asset/liability approximates fair value.
[7] As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.
[8] Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.

The following table shows the continuity of Level 3 financial assets recorded at fair value:

Years Ended December 31	2019	2018
Balance, beginning of year	$ 71,813	$ 68,190
Advances	19,089	5,685
Repayments	(441)	(5,071)
Changes in fair value, recognized in net income	3,228	3,009
Balance, end of year	**$ 93,689**	**$ 71,813**

Risk management

The types of risks to which the Company is exposed include but are not limited to liquidity and funding risk, credit risk, interest rate risk and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board. These policies are developed and implemented by management and reviewed and approved periodically by the Board. The nature of these risks and how they are managed is provided in the "Risk Management" section of the MD&A. The shaded sections of the MD&A relating to liquidity and funding, credit, interest rate and market risks inherent in financial instruments form an integral part of these consolidated financial statements.

26. Commitments and Contingencies

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 $6,000. MCAP was awarded a judgment for approximately $500 against the same plaintiff in related proceedings. We may be subject to the indemnification of MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision.

The shaded section of the MD&A relating to commitment liquidity risk forms an integral part of these consolidated financial statements.

27. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

28. Subsequent Events

On January 1, 2020, the Company sold its Crown LP core fund units for $33,090 representing the fair value as at December 31, 2019.

DIRECTORS AND EXECUTIVE OFFICERS - AS AT DECEMBER 31, 2019

DIRECTORS

Verna Cuthbert
Corporate Director, MCAN Mortgage Corporation
Member of Enterprise Risk Management and Compliance Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since September 2013

Susan Doré
Corporate Director, MCAN Mortgage Corporation
Chair of Conduct Review, Corporate Governance and Human Resources Committee
Member of Audit Committee
Director since May 2010

Gordon Herridge
Corporate Director, MCAN Mortgage Corporation
Chair of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2018

Loraine McIntosh
Corporate Director, MCAN Mortgage Corporation
Chair of Enterprise Risk Management and Compliance Committee
Member of Audit Committee
Director since May 2017

Gaelen Morphet
Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since January 2018

Derek Sutherland
President, Canadazil Capital Inc.
Member of Enterprise Risk Management and Compliance Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2017

Ian Sutherland
Chair of the Board, MCAN Mortgage Corporation
Director since January 1991

Karen Weaver
President and Chief Executive Officer, MCAN Mortgage Corporation
Director since November 2011

EXECUTIVE OFFICERS

Karen Weaver
President and Chief Executive Officer

Dipti Patel
Vice President and Chief Financial Officer

Martin Beaudry
Vice President, Single Family Mortgage Operations

Carl Brown
Vice President, Investments

Emily Randle
Vice President and Chief Risk Officer

Mike Jensen
Vice President and Chief Compliance Officer
(Chief Anti Money Laundering & Privacy Officer)

Sylvia Pinto
Vice President, Corporate Secretary & Governance Officer

Milica Pejic
Vice President and Chief Audit Officer

Paul Gill
Vice President, Information Technology

CORPORATE INFORMATION

Head Office
200 King Street West, Suite 600
Toronto, Ontario M5H 3T4
Tel: 416-572-4880
Tel: 1-855-213-6226 (toll free)
Fax: 416-598-4142
mcanexecutive@mcanmortgage.com

Term Deposits
Tel: 1-800-387-9096 (toll free)
Fax: 1-877-821-0710
termdeposits@mcanmortgage.com

Stock Listing
Toronto Stock Exchange
Symbol: MKP

Corporate Counsel
Goodmans LLP
Toronto, Ontario

Auditors
Ernst & Young LLP
Toronto, Ontario

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Websites
www.mcanmortgage.com
www.xmcmortgage.com

Dividend Reinvestment Plan (DRIP)
For further information regarding MCAN's Dividend Reinvestment Plan, please visit: www.mcanmortgage.com/investors/dividends.

An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www-us.computershare.com/investor/.

Shareholders
For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar, Computershare (see left for contact).

Report Copies
This MCAN Mortgage Corporation 2019 Annual Report is available for viewing/printing on our website at www.mcanmortgage.com, and also on SEDAR at www.sedar.com.

To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary & Governance Officer, or e-mail mcanexecutive@mcanmortgage.com.

General Information
For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary & Governance Officer (head office details at left) or e-mail mcanexecutive@mcanmortgage.com.

Annual General Meeting of Shareholders
Tuesday, May 12, 2020
4:30pm (local time)

The meeting will be held in a virtual only format via live audio webcast.

All shareholders and prospective investors are invited to attend.

MCAN Mortgage Corporation
600-200 King Street West, Toronto, ON M5H 3T4

(855) 213-6226 | mcanmortgage.com | mcanexecutive@mcanmortgage.com