



MCAN MORTGAGE CORPORATION

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

SEPTEMBER 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter and the nine months ended September 30, 2021 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2020. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2020 remain substantially unchanged. Information has been presented as of November 4, 2021.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

The COVID-19 pandemic has cast particular uncertainty on the Company’s internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. Given the rapid pace of change with respect to the impact of the COVID-19 pandemic, it is premature to make further assumptions about these matters. The duration, extent and severity of the impact the COVID-19 pandemic or any further outbreaks, including

measures to prevent its spread and related government actions adopted in response, will have on our business continues to be highly uncertain and difficult to predict at this time.

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to, the risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2020, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Quarter

(in thousands except for per share amounts and %)								
	Q3	Q2	Change	Q3	Change	YTD	YTD	Change
For the Periods Ended	2021	2021	(%)	2020	(%)	2021	2020	(%)
Income Statement Highlights								
Mortgage interest - corporate assets	\$ 19,072	\$ 16,543	15%	\$ 16,149	18%	\$ 51,387	\$ 46,955	9%
Net investment income - corporate assets	\$ 18,976	\$ 24,390	(22%)	\$ 26,963	(30%)	\$ 63,571	\$ 34,590	84%
Mortgage interest - securitization assets	\$ 7,478	\$ 7,266	3%	\$ 5,504	36%	\$ 21,376	\$ 15,073	42%
Net investment income - securitization assets	\$ 1,443	\$ 1,570	(8%)	\$ 1,149	26%	\$ 4,558	\$ 2,339	95%
Net income	\$ 12,990	\$ 19,378	(33%)	\$ 22,741	(43%)	\$ 48,292	\$ 20,807	132%
Basic and diluted earnings per share	\$ 0.47	\$ 0.73	(36%)	\$ 0.92	(49%)	\$ 1.84	\$ 0.85	116%
Dividends per share - cash	\$ 0.34	\$ 0.34	—%	\$ 0.34	—%	\$ 1.02	\$ 1.02	—%
Dividends per share - stock	\$ —	\$ —	n/a	\$ —	n/a	\$ 0.85	\$ —	n/a
Next quarter's dividend per share - cash	\$ 0.34							
Return on average shareholders' equity ¹	13.22 %	21.28 %	(8.06%)	28.04 %	(14.82%)	17.40 %	8.61 %	8.79%
Taxable income per share ^{1,2}	\$ 0.57	\$ 0.89	(36%)	\$ 0.48	19%	\$ 2.31	\$ 1.40	65%
Yields								
Spread of corporate mortgages over term deposit interest ¹	2.77 %	2.89 %	(0.12%)	2.63 %	0.14%	2.81 %	2.57 %	0.24%
Spread of securitized mortgages over liabilities ¹	0.65 %	0.72 %	(0.07%)	0.81 %	(0.16%)	0.72 %	0.63 %	0.09%
Average term to maturity (in months)								
Mortgages - corporate	13.9	12.8	9%	13.5	3%			
Term deposits	19.9	19.6	2%	19.2	4%			
	Sept 30	Jun 30	Change	Dec 31	Change			
	2021	2021	(%)	2020	(%)			
Balance Sheet Highlights								
Total assets	\$3,604,261	\$3,305,044	9%	\$2,728,715	32%			
Mortgages - corporate	1,657,168	1,401,290	18%	1,252,762	32%			
Mortgages - securitized	1,530,565	1,434,547	7%	1,135,745	35%			
Shareholders' equity	394,319	389,302	1%	346,512	14%			
Capital Ratios ¹								
Income tax assets to capital ratio	5.50	5.05	9%	5.09	8%			
CET 1 & Tier 1 capital ratio ⁴	19.45 %	21.91 %	(2.46%)	21.67 %	(2.22%)			
Total capital ratio ⁴	19.73 %	22.24 %	(2.51%)	22.02 %	(2.29%)			
Leverage ratio ³	8.86 %	9.59 %	(0.73%)	10.17 %	(1.31%)			
Credit Quality								
Impaired mortgage ratio (corporate) ¹	0.06 %	0.11 %	(0.05%)	0.30 %	(0.24%)			
Impaired mortgage ratio (total) ¹	0.04 %	0.07 %	(0.03%)	0.18 %	(0.14%)			
Mortgage Arrears ¹								
Corporate	\$ 8,794	\$ 8,968	(2%)	\$ 24,288	(64%)			
Securitized	3,818	7,359	(48%)	5,660	(33%)			
Total	\$ 12,612	\$ 16,327	(23%)	\$ 29,948	(58%)			
Common Share Information (end of period)								
Number of common shares outstanding	27,646	27,560	—%	24,727	12%			
Book value per common share ¹	\$ 14.26	\$ 14.13	1%	\$ 14.01	2%			
Common share price - close	\$ 18.00	\$ 17.29	4%	\$ 15.77	14%			
Market capitalization ¹	\$ 497,628	\$ 476,512	4%	\$ 389,945	28%			

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

² For further information refer to the "Taxable Income" section of this MD&A. ³ Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

³ Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

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

HIGHLIGHTS

Q3 2021

- Net income totalled \$13.0 million in Q3 2021, a decrease of \$9.7 million (43%) from \$22.7 million in Q3 2020. Results for the third quarter of 2021 were impacted by an expected decrease in equity income from MCAP related to non-recurring new contracts in the prior year, partially offset by growth in our core business compared to the third quarter of 2020.
- Earnings per share totalled \$0.47 in Q3 2021, a decrease of \$0.45 (49%) from \$0.92 earnings per share in Q3 2020.
- Return on average shareholders' equity¹ was 13.22% for Q3 2021 compared to 28.04% in Q3 2020.
- Net corporate mortgage spread income¹ increased by \$2.7 million from Q3 2020. The net corporate mortgage spread income¹ increased due to a higher average corporate mortgage portfolio balance¹ of \$1,584 million in Q3 2021 compared to \$1,232 million in Q3 2020 and an increase in the spread of corporate mortgages over term deposit interest¹ to 2.77% in Q3 2021 from 2.63% in Q3 2020. The increase in the spread of corporate mortgages over term deposit interest¹ is due to a larger reduction in term deposit rates compared to mortgage rates in 2021. Prior period term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions at the start of the pandemic resulting in higher term deposit funding costs, but these costs have since decreased as those earlier term deposits mature. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, and continued market competition which has compressed rates in our single family portfolio.
- Net securitized mortgage spread income¹ increased by \$0.6 million from Q3 2020. The net securitized mortgage spread income¹ increased due to a higher average securitized mortgage portfolio balance¹ from significantly higher originations of insured single family mortgages partially offset by a decrease in the spread of securitized mortgages over liabilities¹. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over the last nine months.
- Recovery of credit losses on our corporate mortgage portfolio of \$0.1 million in Q3 2021 was due to improved economic forecasts as we start making our way out of the pandemic partially offset by growth in our portfolio.
- Equity income from MCAP totalled \$5.6 million in Q3 2021, a decrease of \$12.4 million (69%) from \$18.0 million in Q3 2020, which was primarily due to lower financial instruments gains compared to the prior year and decreased mortgage origination and processing fees from (i) lower mortgage spreads, (ii) higher Government of Canada bond yields, and (iii) non-recurring new contracts in the prior year.
- In Q3 2021, we recorded a \$1.0 million net gain on securities compared to a \$0.5 million net loss on securities in Q3 2020. Activity in both periods relates to unrealized fair value changes on our real estate investment trust ("REIT") portfolio. We have seen a recovery in the market value of our REIT portfolio this year amid optimism in the economic forecasts, reopenings, and vaccination rates compared to prior year.

Year to Date 2021

- Net income totalled \$48.3 million for 2021 year to date, an increase of \$27.5 million (132%) from \$20.8 million net income in 2020. Year to date 2021 results were impacted by fair value gains on our marketable securities compared to fair value losses at the onset of the pandemic, and growth in our core business partially offset by a decrease in equity income from MCAP.
- Earnings per share totalled \$1.84 for 2021 year to date, an increase of \$0.99 (116%) from \$0.85 earnings per share in 2020.
- Return on average shareholders' equity¹ was 17.40% for 2021 compared to 8.61% in 2020.
- Net corporate mortgage spread income¹ increased by \$5.5 million from 2020. The net corporate mortgage spread income¹ increased due to a higher average corporate mortgage portfolio balance¹ of \$1,392 million in 2021 from \$1,184 million in 2020 and an increase in the spread of corporate mortgages over term deposit interest¹ to 2.81% in 2021 from 2.57% in 2020. The increase in the spread of corporate mortgages over term deposit interest¹ is due to the same factors as mentioned for Q3 2021 above.
- Net securitized mortgage spread income¹ increased by \$3.4 million from 2020. The net securitized mortgage spread income¹ increased due to a higher average securitized mortgage portfolio balance¹ from significantly higher

originations of insured single family mortgages and an increase in the spread of securitized mortgages over liabilities¹. The decrease in interest rates at the start of the pandemic led to an increase in the number of early repaid mortgages in Q1 and Q2 2020, causing higher indemnity expenses incurred compared to penalty income received which decreased the spread of securitized mortgages over liabilities¹ during that period.

- Recovery of credit losses on our corporate mortgage portfolio of \$0.3 million year to date 2021 was due to improved economic forecasts as we start to make our way out of the pandemic partially offset by growth in our portfolio. For year to date 2020, provision for credit losses of \$2.1 million was due to the onset of COVID-19 and continued uncertainty.
- Equity income from MCAP totalled \$19.2 million for 2021 year to date, a decrease of \$5.3 million (22%) from \$24.5 million in 2020. For 2021 year to date, the decrease is due to the same factors as for Q3 2021 mentioned above, except with partial offsets of (i) higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio, and (ii) economic hedge gains recorded this year versus losses recorded in the prior year.
- Year to date net gain on securities was \$11.4 million for 2021 compared to a year to date net loss on securities of \$14.8 million for 2020. Activity in both years relates to unrealized fair value changes on our REIT portfolio, with both years experiencing volatility due to COVID-19. The recovery this year comes amid optimism in economic forecasts, reopenings and higher vaccination rates.

Business Activity and Balance Sheet

- Corporate assets totalled \$2.02 billion at September 30, 2021, an increase of \$203 million (11%) from June 30, 2021 and an increase of \$463 million (30%) from December 31, 2020.
- Corporate mortgage portfolio totalled \$1.7 billion at September 30, 2021, a net increase of \$256 million (18%) from June 30, 2021 and a net increase of \$404 million (32%) from December 31, 2020.
- Uninsured single family portfolio totalled \$714 million at September 30, 2021, a net increase of \$97 million (16%) from June 30, 2021 and a net increase of \$230 million (48%) from December 31, 2020.
- Uninsured single family originations were \$165 million in Q3 2021, an increase of \$17 million (12%) from Q2 2021 and an increase of \$98 million (147%) from Q3 2020.
- Insured single family originations were \$202 million in Q3 2021, an increase of \$46 million (29%) from Q2 2021 and an increase of \$6 million (3%) from Q3 2020. In addition, we originated and sold \$56 million of insured single family commitments in Q3 2021 under a new agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP.
- Securitization volumes were \$179 million in Q3 2021, an increase of \$5 million (3%) from Q2 2021 and a decrease of \$39 million (18%) from Q3 2020. Securitization volumes consisted entirely of insured single family mortgages.
- Construction and commercial portfolios totalled \$740 million at September 30, 2021, a net increase of \$128 million (21%) from June 30, 2021 and a net increase of \$193 million (35%) from December 31, 2020.

Dividend

- The Board declared a fourth quarter cash dividend of \$0.34 per share to be paid January 4, 2022 to shareholders of record as of December 15, 2021.

Credit Quality

- Impaired corporate mortgage ratio¹ was 0.06% at September 30, 2021 compared to 0.11% at June 30, 2021 and 0.30% at December 31, 2020.
- Impaired total mortgage ratio¹ was 0.04% at September 30, 2021 compared to 0.07% at June 30, 2021 and 0.18% at December 31, 2020.
- Arrears total mortgage ratio¹ was 0.40% at September 30, 2021 compared to 0.58% at June 30, 2021 and 1.25% at December 31, 2020.
- Net write-offs were \$36,000 (0.9 basis points of the average corporate portfolio) in Q3 2021 compared to \$83,000 (2.7 basis points) in Q3 2020.

- Average loan to value ratio (“LTV”) of our uninsured single family portfolio based on an industry index of current real estate values was 59.3% at September 30, 2021 compared to 58.0% at June 30, 2021 and 60.6% at December 31, 2020.

Capital

- In order to add to our existing funding sources, on August 20, 2021, we filed a Base Shelf prospectus allowing us to make public offerings of up to \$400 million of debt or equity securities during the 25 month period that it is effective, through Prospectus Supplements. On October 6, 2021, we filed a Prospectus Supplement establishing an at-the-market equity program (“ATM Program”) to issue up to \$30 million of common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sales. The volume and timing of distributions under the ATM Program will be determined at our sole discretion and will allow us to raise capital incrementally as we grow. As of November 4, 2021, there has been no public offerings under these capital raising initiatives.
- We issued \$1.4 million in new common shares through the Dividend Reinvestment Plan (“DRIP”) in Q3 2021 compared to \$1.4 million in Q3 2020. The DRIP participation rate was 17% for the 2021 third quarter dividend (2020 third quarter dividend - 17%).
- 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.
- Income tax assets to capital ratio¹ was 5.50 at September 30, 2021 compared to 5.05 at June 30, 2021 and 5.09 at December 31, 2020.
- Common Equity Tier 1 (“CET 1”) and Tier 1 Capital to risk-weighted assets ratios^{1,2} were 19.45% at September 30, 2021 compared to 21.91% at June 30, 2021 and 21.67% at December 31, 2020. Total Capital to risk-weighted assets ratio^{1,2} was 19.73% at September 30, 2021 compared to 22.24% at June 30, 2021 and 22.02% at December 31, 2020.
- Leverage ratio¹ was 8.86% at September 30, 2021 compared to 9.59% at June 30, 2021 and 10.17% at December 31, 2020.

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

² Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company’s mortgage portfolio in Tier 2 capital. In accordance with OSFI’s transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

OUTLOOK

Economic Outlook

The Delta variant of COVID-19 has created some uncertainty on the road to recovery from the pandemic. That said, Canada now boasts some of the highest vaccination rates in the world, allowing provincial governments to ease restrictions, reopen schools and increase capacity in the hardest-hit service sector. International borders continue to have restrictions, but look to be fully reopen in November. We believe that eased restrictions will allow Canadians to spend more from the savings they have accumulated during the pandemic to help further stimulate the economy. We expect that the introduction of proof of vaccination passports in some provinces and the continued rise in vaccination rates should all aid the economic recovery into 2022.

Canadian governments at all levels, as well as the Bank of Canada, continue to provide support measures, though on a more targeted basis, effective late October. Inflation has been of concern lately, but the Bank of Canada continues to see the recent rise in inflation as transitory. The Bank of Canada's overnight rate of 0.25% is expected to remain steady until mid to late 2022 with some economists predicting multiple increases. Canada's GDP growth declined in Q2 2021 through the third wave of the virus as the introduction of new lockdown measures in various parts of the country took place. It is expected to rebound, however, not as quickly as initially anticipated earlier in the year. It should also be noted that the Canadian household savings rate and net worth have increased significantly since COVID-19 began due to living and travel expenses falling as a result of lockdown measures, credit deferrals extended by lenders, government stimulus, asset price appreciation and many households not being affected by job losses. Given inflationary pressures and slower GDP growth than expected, Canada's economic and employment future is still uncertain.

Housing Market Outlook

Notwithstanding somewhat subdued housing resale activity during the last few months due mainly to a lack of supply and when compared to prior period peaks, housing has been, and continues to be, a hot spot for the Canadian economy, with home prices continuing to increase significantly. Clearly low interest rates and remote working have been catalysts. We expect remote working to continue to lead buyers to explore other markets outside of city centres, which has driven up the prices of houses in these communities as well. We expect the ongoing housing supply shortage to continue increasing national average home prices for at least the balance of the year, particularly in and around certain markets like Toronto and Vancouver. Demand should continue to be strong given the economic outlook, continued low interest rates and household savings that increased during the pandemic. Lack of supply of housing was an issue pre-pandemic and isn't likely to be resolved in the short-term, as there are multiple factors to consider in increasing supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, etc.) that limit how many homes can be built in the short term. That said, both RBC and CMHC are predicting housing starts over the next two years to be higher than long-term averages, but in our view likely not enough to unwind the tight market conditions.

Housing affordability (including housing supply) has become an even more critical issue and improving it for Canadians is a common policy amongst all the major federal political parties. The federal government has proposed its "A Home for Everyone" plan that attempts to address both demand and supply of housing. These policies will have an impact on the housing market, however, will take time to have an effect, which means that once these policies are implemented, they may have the effect of stoking demand further, creating additional pressure on the housing market in the short term.

Business Outlook

We conduct our business based on our expectations of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. We continue to be focused on managing all our business activities in the context of the current economic, business and daily living environment in Canada and our risk appetite. Since we are a real estate lender and investor, we have a focus on the real estate market and the state of the housing market in particular. With current economic forecasts and a housing market that remains tight, we believe that our business is well structured with its focus on real estate. Our business will remain nimble in dealing with any market changes or opportunities that may arise in the short term, particularly as and if we see the new housing policies implemented by the federal government. One key theme in our business over the coming year is that we will look to rebalancing our portfolios and pivot to using our capital for higher-yielding products, like construction and commercial lending and non-marketable securities.

We believe that our strategy will continue to serve us well through the remainder of the year and into 2022. We believe that we are a prudent and disciplined lender and investor and that we have strong relationships with our brokers and strategic partners.

Single Family Business

Our risk management, credit monitoring and assessment activities continue to remain critical in operating our business. We are not seeing significant credit deterioration or prolonged financial distress among our borrowers. Originations year

to date were 74% higher than the same period last year and we hit a new record of \$985 million year to date. We also originated and sold \$65 million of insured single family commitments year to date. Various factors affecting the entire industry, such as the lack of housing supply, loan product preferences and potential impacts on mortgage rates from inflationary pressure are impacting volumes in our business in the fourth quarter and is expected to continue into the new year. Through all of the growth that we have achieved in our single family business thus far this year, we have remained dedicated to continuously improving our service for our borrowers and the broker community – as indicated by the recent Canadian Mortgage Professional's 5-Star Mortgage Products Award in the Alternative Lending category that we won. We will continue to invest in new technology and look to add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers. Although gross rates have come up somewhat in the last few months, we continue to believe that competitive market conditions in the single family lending space will remain for at least the balance of the year, thereby causing our overall spreads to remain tight. We will continue to keep abreast of the many changes in the market and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While there continues to be some construction site delays, our construction project finance loans are progressing forward to completion and without credit issues. Certain municipal staff inspections and approvals, supply chain challenges, social distancing protocols and workplace safety rules have been the cause of these delays, but with further easing of restrictions, not only in Canada but globally, we expect that these will become less of a constraint. The cost of construction has increased due to recent volatility in the cost of raw materials. All of these factors have, and may continue to have, an impact on the timing of repayments; however, they have not changed the overall expected outcome of project successes or loan performances.

As previously indicated, the Canadian housing market remains strong. We increased our year to date residential construction originations by 60% compared to the same period last year and currently our pipeline remains active. We will of course continue to monitor the Canadian economic landscape as we move through and past the pandemic. With continued high demand for housing and a lack of supply, we expect to continue to see strong pipelines for our construction and commercial business. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential product, near transit corridors with experienced borrowers where we have existing relationships.

A continued focus of ours is expanding and maturing our capital markets and other funding strategies. In that regard, we filed a Base Shelf prospectus in August 2021 and in October 2021 we announced the establishment of an ATM Program. The Base Shelf prospectus will allow us to make public offerings of debt or equity securities of up to \$400 million during the 25 month period that the Base Shelf prospectus is effective. As a subset of the Base Shelf Prospectus, the ATM Program allows us to raise up to \$30 million of equity from the public from time to time over a 2 year period at our discretion at the market prices prevailing at the time of sales - allowing us to raise capital incrementally. We view the ATM Program as one element of our long term source of capital. Both the Base Shelf prospectus and the ATM Program give us additional flexibility to raise funds as we grow.

Although there continues to remain uncertainty on our business, results of operations and financial condition as we move forward through the pandemic and onto economic recovery, we are encouraged by the strength of our single family and construction and commercial business, and the recovery in our marketable securities. We continue to invest in non-marketable securities, that are expected to solidly perform. MCAN's management and Board are committed to proactively and effectively managing and evolving the Company's strategy, business activities and team into the future. Our targeted annual growth in corporate assets over the long term is 10%. With the growth that we see in all of our lines of business and continued review of new funding sources, we will be well positioned to support our targeted growth within our risk appetite in the future.

On March 13, 2020, OSFI had instructed all federally regulated financial institutions that cash dividend increases should be halted for the time being. On November 4, 2021, OSFI has lifted these restrictions. The Company has paid out a \$0.34 per share cash quarterly dividend to shareholders since the restrictions began. The Board declared a fourth quarter cash dividend of \$0.34 per share payable on January 4, 2022 to shareholders of record on December 15, 2021 and will consider its regular cash dividends in 2022 in the context of the lifted restriction. In 2020, MCAN's taxable income per share was greater than its regular cash dividends per share and so it paid a special share dividend of \$0.85 per share in March 2021. Similar to 2020, the Company expects to have taxable income per share greater than its regular cash dividends per share and therefore anticipates to distribute a special dividend in the first quarter of 2022.

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

RESULTS OF OPERATIONS

Table 2: Net Income

(in thousands except for per share amounts and %)								
	Q3	Q2	Change	Q3	Change	YTD	YTD	Change
For the Periods Ended	2021	2021	(%)	2020	(%)	2021	2020	(%)
Net Investment Income - Corporate Assets								
Mortgage interest	\$ 19,072	\$ 16,543	15%	\$ 16,149	18%	\$ 51,387	\$ 46,955	9%
Equity income from MCAP Commercial LP	5,606	6,859	(18%)	17,963	(69%)	19,207	24,540	(22%)
Non-marketable securities	1,549	1,377	12%	1,269	22%	4,309	4,425	(3%)
Marketable securities	938	922	2%	588	60%	2,665	1,762	51%
Fees	506	407	24%	555	(9%)	1,354	1,076	26%
Interest on cash and other income	93	76	22%	108	(14%)	286	507	(44%)
Net gain (loss) on securities	1,016	6,453	(84%)	(517)	297%	11,389	(14,793)	177%
Gain on dilution of investment in MCAP Commercial LP	—	326	(100%)	33	(100%)	326	33	888%
	28,780	32,963	(13%)	36,148	(20%)	90,923	64,505	41%
Term deposit interest and expenses	8,013	7,472	7%	7,774	3%	23,041	24,088	(4%)
Mortgage expenses	1,401	1,198	17%	1,130	24%	3,683	3,288	12%
Interest on loans payable	512	214	139%	269	90%	791	484	63%
Other financial expenses	—	125	(100%)	—	n/a	125	—	n/a
Provision for (recovery of) credit losses	(122)	(436)	(72%)	12	(1,117%)	(288)	2,055	(114%)
	9,804	8,573	14%	9,185	7%	27,352	29,915	(9%)
	18,976	24,390	(22%)	26,963	(30%)	63,571	34,590	84%
Net Investment Income - Securitization Assets								
Mortgage interest	7,478	7,266	3%	5,504	36%	21,376	15,073	42%
Other securitization income	77	46	67%	43	79%	165	483	(66%)
	7,555	7,312	3%	5,547	36%	21,541	15,556	38%
Interest on financial liabilities from securitization	5,222	4,913	6%	3,841	36%	14,561	11,666	25%
Mortgage expenses	890	829	7%	558	59%	2,442	1,540	59%
Provision for (recovery of) credit losses	—	—	n/a	(1)	100%	(20)	11	(282%)
	6,112	5,742	6%	4,398	39%	16,983	13,217	28%
	1,443	1,570	(8%)	1,149	26%	4,558	2,339	95%
Operating Expenses								
Salaries and benefits	4,542	4,924	(8%)	3,517	29%	13,737	10,538	30%
General and administrative	1,946	2,409	(19%)	1,525	28%	6,667	5,030	33%
	6,488	7,333	(12%)	5,042	29%	20,404	15,568	31%
Net income before income taxes	13,931	18,627	(25%)	23,070	(40%)	47,725	21,361	123%
Provision for (recovery of) income taxes	941	(751)	225%	329	186%	(567)	554	(202%)
Net Income	\$ 12,990	\$ 19,378	(33%)	\$ 22,741	(43%)	\$ 48,292	\$ 20,807	132%
Basic and diluted earnings per share	\$ 0.47	\$ 0.73	(36%)	\$ 0.92	(49%)	\$ 1.84	\$ 0.85	116%
Dividends per share - cash	\$ 0.34	\$ 0.34	—%	\$ 0.34	—%	\$ 1.02	\$ 1.02	—%
Dividends per share - stock	\$ —	\$ —	n/a	\$ —	n/a	\$ 0.85	\$ —	n/a

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended (in thousands except %)	September 30, 2021			June 30, 2021			September 30, 2020		
	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	\$ 175,746	\$ 951	2.20 %	\$ 143,402	\$ 832	2.33 %	\$ 189,505	\$ 1,351	2.84 %
Uninsured	660,951	6,576	3.96 %	574,974	6,069	4.22 %	425,881	5,194	4.87 %
Uninsured - completed inventory	35,878	602	6.66 %	40,416	671	6.65 %	38,613	609	6.27 %
Construction loans									
Residential	616,756	9,679	6.22 %	475,700	7,848	6.61 %	533,617	8,392	6.25 %
Non residential	4,810	91	7.48 %	4,601	84	7.33 %	1,613	38	9.24 %
Commercial loans									
Multi family residential	59,299	740	4.94 %	49,675	623	5.03 %	10,089	142	5.58 %
Other	30,094	433	5.70 %	30,479	416	5.47 %	32,336	423	5.19 %
Mortgages - corporate portfolio	\$1,583,534	\$ 19,072	4.78 %	\$1,319,247	\$ 16,543	5.02 %	\$1,231,654	\$ 16,149	5.22 %
Term deposit interest and expenses	1,514,721	8,013	2.01 %	1,308,470	7,472	2.13 %	1,116,772	7,774	2.59 %
Net corporate mortgage spread income ²		\$ 11,059			\$ 9,071			\$ 8,375	
Spread of mortgages over term deposit interest ²			2.77 %			2.89 %			2.63 %
Average term to maturity (months)									
Mortgages - corporate	13.9			12.8			13.5		
Term deposits	19.9			19.6			19.2		

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

For the Nine Months Ended September 30 (in thousands except %)	2021			2020		
	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}
Single family mortgages						
Insured	\$ 166,414	\$ 2,799	2.26 %	\$ 171,704	\$ 3,710	2.89 %
Uninsured	581,709	18,159	4.20 %	404,765	14,599	4.81 %
Uninsured - completed inventory	40,527	1,989	6.56 %	39,687	1,883	6.33 %
Construction loans						
Residential	520,831	25,129	6.45 %	523,309	24,842	6.34 %
Non residential	4,446	248	7.46 %	814	70	11.42 %
Commercial loans						
Multi family residential	47,907	1,800	5.02 %	11,113	546	6.00 %
Other commercial	30,394	1,263	5.55 %	32,346	1,305	4.94 %
Mortgages - corporate portfolio	\$ 1,392,228	\$ 51,387	4.95 %	\$ 1,183,738	\$ 46,955	5.28 %
Term deposit interest and expenses	1,353,886	23,041	2.14 %	1,083,676	24,088	2.71 %
Net corporate mortgage spread income ²		\$ 28,346			\$ 22,867	
Spread of mortgages over term deposit interest ²			2.81 %			2.57 %

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. Income/expense incorporates items such as penalty income, commitment fee income, origination expense and commission expense.

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

Table 5: Mortgage Originations

(in thousands except %)								
For the Periods Ended	Q3 2021	Q2 2021	Change (%)	Q3 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Originations								
Single family - insured	\$ 202,357	\$ 156,553	29%	\$ 196,161	3%	\$ 568,774	\$ 397,884	43%
Single family - uninsured	164,500	147,267	12%	66,481	147%	416,584	169,687	146%
Single family - uninsured completed inventory ¹	6,247	20,377	(69%)	27,108	(77%)	27,228	46,329	(41%)
Residential construction ¹	186,275	245,128	(24%)	181,827	2%	531,375	352,799	51%
Non-residential construction ¹	205	222	(8%)	1,004	(80%)	1,546	2,057	(25%)
Commercial ¹	16,200	510	3,076%	—	n/a	36,310	75	48,313%
	\$ 575,784	\$ 570,057	1%	\$ 472,581	22%	\$1,581,817	\$ 968,831	63%
Renewals of securitized mortgages ²								
Single family - insured	\$ 13,876	\$ 3,097	348%	\$ 46,914	(70%)	\$ 21,155	\$ 110,222	(81%)

¹ Construction, commercial and completed inventory originations represent all advances on loans.

² Represents mortgages previously derecognized or held in the securitized portfolio that have been renewed into the corporate mortgage portfolio.

Overview

Balancing of the risk profile of the mortgages on our balance sheet continues to be a focus of the Company. The lower interest rate environment impacted both mortgages and term deposits. For Q3 2021 and year to date 2021, the increase in the spread of mortgages over term deposit interest¹ from Q3 2020 and year to date 2020 was due to a larger decrease in term deposit rates and expenses compared to mortgages, partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans and continued market competition which compressed rates in the single family space. The average balance of term deposits has generally increased commensurate with the increase in the corporate mortgage portfolio. As we move forward, we will look to rebalancing our portfolios to higher-yielding products.

Single Family

We continue to focus on growing our single family originations in our corporate and securitized mortgage portfolio and accordingly our total volumes in Q3 2021 and year to date 2021 increased significantly from the prior year. This increase was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity. We will continue to invest in new technology and look to add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers.

In Q2 2021, we entered into an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby we can sell to MCAP Securities Limited Partnership insured single family mortgage commitments. We originated and sold \$56 million in commitments in Q3 2021 and \$65 million year to date 2021 under this agreement.

We continue to grow our insured single family originations to allow us to securitize opportunistically through the CMHC *National Housing Act* (“NHA”) Mortgage-Backed Securities (“MBS”) program. The continued increase in insured single family originations in 2021 supported year to date single family securitization volumes of \$582 million compared to \$453 million year to date 2020. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Single family mortgages provide comparatively lower yields given their risk profile. For the quarter and year to date, higher average balances in the uninsured single family portfolio contributed to a higher corporate mortgage interest compared to the prior year and Q2 2021. We continue to take a prudent underwriting approach. We opportunistically invest in our single family uninsured completed inventory portfolio which often migrate from our own construction book.

We worked with our borrowers on a case-by-case basis to provide effective alternatives that helped them manage the challenges they were facing due to COVID-19. We implemented appropriate measures to support borrowers which included increased amortizations and other payment arrangements. We are not seeing significant credit deterioration or prolonged financial distress among these borrowers. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term.

Construction and Commercial

During Q3 2021, we continued to focus on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile. We have seen an increase in originations in 2021 compared to 2020.

Some projects have experienced construction delays and cost overruns due to certain restrictions and supply chain issues as a result of COVID-19, which has led to some loan extension requests. To date, sites with the appropriate permits in place continue to progress toward completion. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets that can help mitigate these impacts.

Construction and commercial loans provide comparatively higher yields given their risk profile. Higher average balances for the quarter and higher average rates for the year contributed to a higher corporate mortgage interest compared to prior periods. Over the course of 2021, we have seen a higher mix of land development versus other residential construction loans contributing to the higher average rate for the year.

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 interim consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. At September 30, 2021, we had the renewal rights to \$2.3 billion of single family mortgages (June 30, 2021 - \$2.1 billion; December 31, 2020 - \$1.7 billion).

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

Equity Income from MCAP

In Q3 2021, MCAP’s origination volumes were \$9.5 billion, an increase from \$5.3 billion in Q3 2020. At August 31, 2021 (we account for MCAP on a one-month lag basis), MCAP had \$143.6 billion of assets under management compared to \$113.5 billion at May 31, 2021 and \$109.0 billion at August 31, 2020. Impacting assets under management was the acquisition of Paradigm Quest Inc. which closed in Q3 2021. Equity income from MCAP totalled \$5.6 million in Q3 2021, a decrease of \$12.4 million from \$18.0 million in Q3 2020. For Q3 2021, the decrease in equity income from MCAP was due to lower financial instruments gains compared to the prior year and decreased mortgage origination and processing fees from (i) lower mortgage spreads, (ii) higher Government of Canada bond yields, and (iii) non-recurring new contracts in the prior year. For year to date 2021, equity income from MCAP totalled \$19.2 million, a decrease of \$5.3 million from \$24.5 million year to date 2020. For the year to date, the decrease in equity income from MCAP was due to the same factors as for Q3 2021 mentioned above, except with partial offsets of (i) higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio, and (ii) economic hedge gains recorded this year versus losses recorded in the prior year. With respect to MCAP’s hedging activities, financial instrument gains and losses on funded mortgages are designed to be roughly offset by corresponding losses and gains related to the fair value of the mortgages; however, the timing of these offsets may lag.

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

KingSett High Yield Fund (“KSHYF”): We received distribution income of \$1.3 million in Q3 2021 (Q3 2020 - \$1.0 million) and \$3.6 million year to date 2021 (year to date 2020 - \$3.4 million).

MCAP RMBS Issuer Corporation Class A securitization notes (the “Securitization Notes”): We received principal and interest of \$2.3 million in Q3 2021 (Q3 2020 - \$2.2 million) and \$4.6 million year to date 2021 (year to date 2020 - \$4.9 million).

For further information, refer to the “Other Corporate Assets” section of this MD&A.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.20% in Q3 2021 (Q3 2020 - 6.75%) and 5.56% year to date 2021 (year to date 2020 - 6.41%). The lower yield is due to the significant increases in market value since December 2020, after significant declines from the onset of the pandemic. The yield has been calculated based on the average portfolio carrying value.

Fees

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

Net Gain (Loss) on Securities

In Q3 2021, we recorded a \$1.0 million net gain on securities compared to a \$0.5 million net loss on securities in Q3 2020. Our year to date net gain on securities was \$11.4 million for 2021 compared to a year to date net loss on securities of \$14.8 million for 2020. We continue to see some volatility in the market value of our REIT portfolio due to COVID-19 with 2021 posting a significant rebound amid optimism around the impending economic outlook.

Gain on Dilution of Investment in MCAP

In 2021, MCAP issued additional class B units to employees 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 \$326,000 (2020 - \$33,000).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarter compared to prior periods was due to a higher average term deposit balance² partially offset by a lower average term deposit rate². The reduction in term deposit interest and expenses for year to date compared to the prior year was due to a decrease in the average term deposit rate² partially offset by a higher average term deposit balance². At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs for both Q3 2020 and year to date 2020. Term deposit rates have continued to decline since then and as the higher rate term deposits mature, the average term deposit rate² of the outstanding average term deposit balance² has declined. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust (“CHT”) Canada Mortgage Bonds (“CMB”) program. Our total new securitization volumes were \$179 million in Q3 2021 (Q3 2020 - \$218 million) and \$582 million year to date 2021 (year to date 2020 - \$488 million), of which \$nil were insured multi family loans in Q3 2021 (Q3 2020 - \$nil) and \$nil year to date 2021 (year to date 2020 - \$35 million) that were derecognized from the consolidated balance sheet at the time of securitization. The low interest rate environment and higher insured single family originations have generated a high volume of securitizations. The decrease compared to the prior year was due to sales of insured single family commitments to MCAP.

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

For the Quarters Ended	September 30, 2021			June 30, 2021			September 30, 2020		
	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}
(in thousands except %)									
Mortgages - securitized portfolio	\$1,447,718	\$ 7,478	2.07 %	\$1,365,786	\$ 7,266	2.14 %	\$ 847,399	\$ 5,504	2.61 %
Financial liabilities from securitization	1,468,811	5,222	1.42 %	1,380,827	4,913	1.42 %	859,683	3,841	1.80 %
Net securitized mortgage spread income ²		\$ 2,256			\$ 2,353			\$ 1,663	
Spread of mortgages over liabilities ²			0.65 %			0.72 %			0.81 %

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

For the Nine Months Ended September 30 (in thousands except %)	2021			2020		
	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}
Mortgages - securitized portfolio	\$ 1,341,688	\$ 21,376	2.15 %	\$ 779,838	\$ 15,073	2.59 %
Financial liabilities from securitization	1,356,499	14,561	1.43 %	797,888	11,666	1.96 %
Net securitized mortgage spread income ²		\$ 6,815			\$ 3,407	
Spread of mortgages over liabilities ²			0.72 %			0.63 %

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. Income/expense incorporates items such as penalty income and indemnity expense.

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

As a result of a decline in rates during 2020, there was an increase in the number of early repaid mortgages. This impacted the net securitized mortgage spread income² and spread of mortgages over liabilities² during late Q1 2020 and into Q2 2020 due to indemnity expenses on early repaid mortgages that were higher than penalty income received. Since Q2 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities² has widened accordingly. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over the last nine months.

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %)	Q3	Q2	Change	Q3	Change	YTD	YTD	Change
For the Periods Ended	2021	2021	(%)	2020	(%)	2021	2020	(%)
Provision for (recovery of) impaired corporate mortgages								
Single family mortgages uninsured	\$ 22	\$ (34)	165%	\$ 44	(50%)	\$ (73)	\$ 49	(249%)
	22	(34)	165%	44	(50%)	(73)	49	(249%)
Provision for (recovery of) performing corporate mortgages								
Single family mortgages insured	—	(1)	100%	—	n/a	(3)	2	(250%)
Single family mortgages uninsured	(343)	(199)	(72%)	(401)	14%	(239)	877	(127%)
Single family mortgages uninsured - completed inventory	(149)	(44)	(239%)	(140)	(6%)	(394)	477	(183%)
Construction loans	351	(17)	2,165%	368	(5%)	404	489	(17%)
Commercial loans								
Multi family residential	13	(104)	113%	(21)	162%	137	(2)	6,950%
Other commercial	(17)	(37)	54%	150	(111%)	(121)	159	(176%)
	(145)	(402)	64%	(44)	(230%)	(216)	2,002	(111%)
Other provisions (recoveries)	1	—	n/a	12	(92%)	1	4	(75%)
Total corporate provision for (recovery of) credit losses	(122)	(436)	72%	12	(1,117%)	(288)	2,055	(114%)
Provision for (recovery of) performing securitized mortgages	—	—	n/a	(1)	100%	(20)	11	(282%)
Total provision for (recovery of) credit losses	\$ (122)	\$ (436)	72%	\$ 11	(1,209%)	\$ (308)	\$ 2,066	(115%)
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	\$ (123)	\$ (436)	72%	\$ —	n/a	\$ (289)	\$ 2,051	(114%)
Net write offs	\$ 36	\$ —	n/a	\$ 83	(57%)	\$ 37	\$ 152	(76%)
Net write offs (basis points)	0.9	—	n/a	2.7	(67%)	0.3	1.9	(84%)

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

We had a recovery of credit losses on our corporate mortgage portfolio of \$122,000 in Q3 2021 compared to a provision for credit losses of \$12,000 in Q3 2020 and a recovery of credit losses on our corporate mortgage portfolio of \$288,000 year to date 2021 compared to a provision for credit losses of \$2.1 million year to date 2020. The recoveries are due to improved economic forecasts stemming from higher vaccination rates and reopenings, partially offset by growth in our portfolio. Key judgments and uncertainties include the speed and shape of economic recovery, the impact of government stimulus and the uncertainties around further variants. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at September 30, 2021. IFRS 9, *Financial Instruments* (“IFRS 9”) does not permit the use of hindsight in measuring provisions for credit losses. Since September 30, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to September 30, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect specific significant stress or deterioration and note that certain government support programs are still in effect.

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

Operating Expenses

Table 9: Operating Expenses

(in thousands except %)								
For the Periods Ended	Q3 2021	Q2 2021	Change (%)	Q3 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Salaries and benefits	\$ 4,542	\$ 4,924	(8%)	\$ 3,517	29%	\$ 13,737	\$ 10,538	30%
General and administrative	1,946	2,409	(19%)	1,525	28%	6,667	5,030	33%
	\$ 6,488	\$ 7,333	(12%)	\$ 5,042	29%	\$ 20,404	\$ 15,568	31%

The increase in salaries and benefits in 2021 is primarily due to additional resources to support our increased growth in single family originations, internal infrastructure and systems initiatives.

The increase in general and administrative expenses in 2021 is primarily due to higher professional fees relating to a number of initiatives including our \$50 million senior secured mortgage warehouse facility and preparing and filing our Base Shelf prospectus.

Taxable Income

The table below provides a reconciliation between consolidated net income (loss) for accounting purposes and non-consolidated taxable income. In order to take advantage of the tax benefits of a Mortgage Investment Corporation ("MIC") status, we pay out all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct dividends paid up to 90 days after year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

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

Table 10: Taxable Income Reconciliation ¹

(in thousands)				
For the Periods Ended	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Consolidated net income for accounting purposes	\$ 12,990	\$ 22,741	\$ 48,292	\$ 20,807
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(5,606)	(17,963)	(19,207)	(24,540)
Add: MCAP taxable income	10,985	6,648	46,205	20,097
Reverse: Provision for (recovery of) credit losses ²	(103)	(41)	(203)	2,015
Add: Amortization of upfront securitization program costs ³	1,826	1,226	4,952	3,694
Deduct: Securitization program mortgage origination costs ³	(2,501)	(5,433)	(7,823)	(10,988)
Add: Securitization program premium (discount)	(801)	2,126	(3,503)	3,776
Reverse: Net unrealized loss (gain) on securities ⁴	(1,016)	517	(11,389)	14,793
Reverse: Loss (Income) earned in subsidiaries ⁵	466	1,533	4,048	4,386
Deduct: Gain on dilution of MCAP ⁶	—	(33)	(326)	(33)
Other items	(122)	529	(213)	312
Taxable Income	\$ 16,118	\$ 11,850	\$ 60,833	\$ 34,319

¹ Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.

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

³ Securitization program mortgage origination costs are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.

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

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

⁶ Not recognizable in the calculation of taxable income.

The change in taxable income for Q3 2021 and year to date 2021 compared to Q3 2020 and year to date 2020 was primarily due to higher taxable income from MCAP and higher earnings from our core business, net of mark-to-market adjustments on marketable securities and net of MCAP.

FINANCIAL POSITION

Assets

Table 11: Assets

(in thousands except %)	September 30 2021	June 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Assets					
Cash and cash equivalents	\$ 123,219	\$ 179,666	(31%)	\$ 88,929	39%
Marketable securities	70,938	69,922	1%	49,613	43%
Mortgages	1,657,168	1,401,290	18%	1,252,762	32%
Non-marketable securities	60,201	60,192	—%	56,117	7%
Equity investment in MCAP Commercial LP	94,801	93,314	2%	88,263	7%
Deferred tax asset	1,061	2,001	(47%)	407	161%
Other assets	11,931	10,421	14%	20,218	(41%)
	2,019,319	1,816,806	11%	1,556,309	30%
Securitization Assets					
Cash held in trust	45,687	45,399	1%	29,610	54%
Mortgages	1,530,565	1,434,547	7%	1,135,745	35%
Other assets	8,690	8,292	5%	7,051	23%
	1,584,942	1,488,238	6%	1,172,406	35%
	\$ 3,604,261	\$ 3,305,044	9%	\$ 2,728,715	32%

Our corporate asset portfolio increased from June 30, 2021 and December 31, 2020 primarily due to strong origination volumes in the insured and uninsured single family portfolios. We also had strong origination volumes in our commercial and construction portfolio year to date 2021 compared to 2020. Our securitized mortgage portfolio has increased from June 30, 2021 and December 31, 2020 due to the impact of new securitization issuances as a result of higher insured single family originations.

Mortgages - Corporate & Securitized

Corporate Mortgages

Single Family Mortgages

Insured and uninsured

We invest in insured and uninsured residential single family mortgages across Canada primarily focused on first time and move up buyer markets in the greater urban regions in Ontario and to a lesser extent in Alberta and Vancouver. These mortgages are originated by our XMC subsidiary, through its strategic relationships with mortgage brokers, for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending to those customers with credit challenges and to those who are self-employed. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, the value at the time of funding is the lower of the appraised value of the property as determined by a qualified appraiser or purchase price (if applicable). Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured - completed inventory loans

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

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 rate set at origination and loan terms typically ranging between 24 and 36 months, with extensions requiring additional underwriting and approval. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments. Some of our construction portfolio projects have experienced delays as a result of the impact of restrictions on the construction industry due to the pandemic, which has lengthened the time these loans are outstanding. We continue to be prudent and selective in our credit adjudication and we have enhanced our portfolio management given the fluid situation of the pandemic.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move up buyers, characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration. This approach aims to mitigate the impact of price volatility and tightened sales activity in the event of market corrections. We focus investments in markets where we have experience and where we, or our originating partners, have 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 pre-sales prior to loan funding. At September 30, 2021, the average outstanding construction loan balance was \$8 million (June 30, 2021 - \$7 million; December 31, 2020 - \$7 million) with a maximum individual loan commitment of \$40 million (June 30, 2021 - \$40 million; December 31, 2020 - \$30 million). We utilize our relationships with strategic partners for loan participation, servicing and workout expertise.

Commercial Loans

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

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist primarily of single family insured mortgages that have been securitized through our internal market MBS program and the CHT CMB program. For further information, refer to Note 9 to the interim consolidated financial statements.

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the interim consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of our 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.

We securitized \$179 million in Q3 2021 (Q3 2020 - \$218 million) and \$582 million year to date (year to date 2020 - \$453 million) of insured single family mortgages through the market MBS program and CMB program.

We securitized \$nil in Q3 2021 (Q3 2020 - \$nil) and \$nil year to date (year to date 2020 - \$35 million) of insured multi family mortgages through the CMB program. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of \$nil in Q3 2021 (Q3 2020 - \$nil) and \$nil year to date (year to date 2020 - \$0.2 million).

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At September 30, 2021, we held \$51 million of retained MBS on our balance sheet (December 31, 2020 - \$48 million), which is included in the insured single family portfolio in corporate mortgages.

Table 12: Mortgage Summary

(in thousands except %)	September 30 2021	June 30 2021	Change (%)	December 31 2020	Change (%)
Corporate portfolio					
Single family mortgages					
Insured	\$ 170,959	\$ 138,026	24%	\$ 173,373	(1%)
Uninsured	713,513	616,838	16%	483,432	48%
Uninsured - completed inventory	32,475	34,532	(6%)	48,949	(34%)
Construction loans	644,519	532,476	21%	486,632	32%
Commercial loans					
Multi family residential	65,581	49,303	33%	29,839	120%
Other commercial	30,121	30,115	—%	30,537	(1%)
	1,657,168	1,401,290	18%	1,252,762	32%
Securitized portfolio	1,530,565	1,434,547	7%	1,135,745	35%
	\$ 3,187,733	\$ 2,835,837	12%	\$ 2,388,507	33%

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 and relationships for origination and we maintain a high quality of underwriting related to our investments in these portfolios. The increase in single family mortgages was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity. We continued to focus on originations in our construction and commercial portfolio in selected markets, with our preferred borrowers and risk profile. We have seen an increase in originations in 2021 compared to 2020. Our securitized mortgage portfolio has increased due to the impact of new securitization issuances fuelled by higher insured single family originations.

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

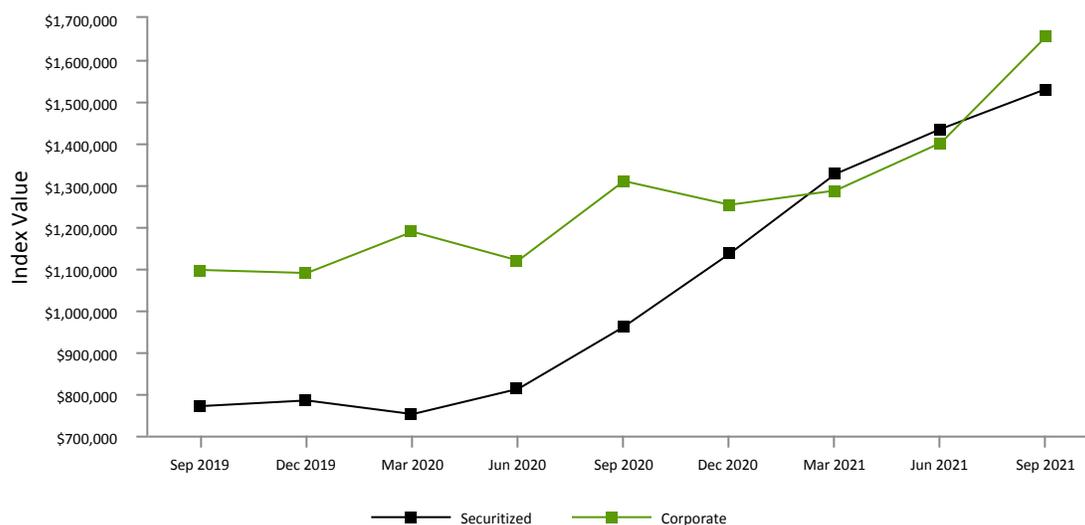
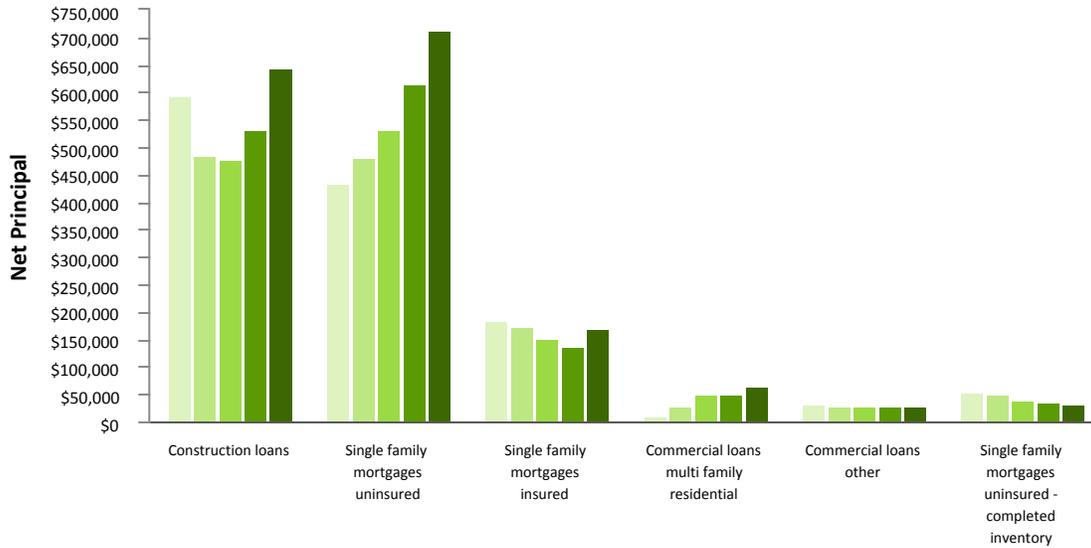


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Sep 30, 2020	\$592,778 (46%)	\$436,417 (33%)	\$183,556 (14%)	\$10,031 (1%)	\$32,216 (2%)	\$54,607 (4%)
Dec 31, 2020	\$486,632 (39%)	\$483,432 (39%)	\$173,373 (14%)	\$29,839 (2%)	\$30,537 (2%)	\$48,949 (4%)
Mar 31, 2021	\$479,545 (37%)	\$533,148 (42%)	\$152,858 (12%)	\$49,116 (4%)	\$30,594 (2%)	\$41,629 (3%)
Jun 30, 2021	\$532,476 (38%)	\$616,838 (44%)	\$138,026 (10%)	\$49,303 (4%)	\$30,115 (2%)	\$34,532 (2%)
Sep 30, 2021	\$644,519 (39%)	\$713,513 (43%)	\$170,959 (10%)	\$65,581 (4%)	\$30,121 (2%)	\$32,475 (2%)

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

Figure 3: Mortgage Portfolio Geographic Distribution

	September 30, 2021		June 30, 2021		December 31, 2020	
	Corporate	Securitized	Corporate	Securitized	Corporate	Securitized
Ontario	62.1 %	86.6 %	64.5 %	85.9 %	67.5 %	84.3 %
British Columbia	28.2 %	3.5 %	27.1 %	3.4 %	23.2 %	3.2 %
Alberta	8.1 %	7.0 %	6.9 %	7.5 %	7.5 %	8.4 %
Atlantic Provinces	0.5 %	1.6 %	0.6 %	1.7 %	0.7 %	2.2 %
Quebec	0.7 %	0.7 %	0.5 %	0.8 %	0.6 %	1.0 %
Other	0.4 %	0.6 %	0.4 %	0.7 %	0.5 %	0.9 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %)	September 30 2021	June 30 2021	Change (%)	December 31 2020	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	\$ 600	\$ 628	(4%)	\$ 1,266	(53%)
Single family mortgages - uninsured	391	853	(54%)	2,505	(84%)
	991	1,481	(33%)	3,771	(74%)
Securitized	365	550	(34%)	472	(23%)
Total impaired mortgages	\$ 1,356	\$ 2,031	(33%)	\$ 4,243	(68%)
Impaired mortgage ratio (corporate) ¹	0.06 %	0.11 %	(0.05%)	0.30 %	(0.24%)
Impaired mortgage ratio (total) ¹	0.04 %	0.07 %	(0.03%)	0.18 %	(0.14%)
Mortgage arrears¹					
Corporate					
Single family mortgages - insured	\$ 689	\$ 1,480	(53%)	\$ 1,948	(65%)
Single family mortgages - uninsured	8,105	7,488	8%	10,540	(23%)
Construction loans	—	—	n/a	11,800	(100%)
Total corporate mortgage arrears ¹	8,794	8,968	(2%)	24,288	(64%)
Total securitized mortgage arrears ¹	3,818	7,359	(48%)	5,660	(33%)
Total mortgage arrears ¹	\$ 12,612	\$ 16,327	(23%)	\$ 29,948	(58%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	\$ 5,003	\$ 5,616	(11%)	\$ 8,054	(38%)
Single family mortgages - uninsured	79,614	72,591	10%	68,517	16%
Single family mortgages - uninsured - completed inventory	—	5,267	(100%)	13,290	(100%)
Construction loans	7,840	7,316	7%	20,235	(61%)
Commercial loans - multi-family residential	27,303	27,249	—%	—	n/a
Commercial - other	16,809	16,803	—%	17,200	(2%)
	136,569	134,842	1%	127,296	7%
Stage 3					
Single family mortgages - insured	600	628	(4%)	1,266	(53%)
Single family mortgages - uninsured	391	853	(54%)	2,505	(84%)
	991	1,481	(33%)	3,771	(74%)
Total stage 2 and 3 corporate mortgages	\$ 137,560	\$ 136,323	1%	\$ 131,067	5%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	\$ 5,830	\$ 5,975	(2%)	\$ 6,047	(4%)
Allowance on impaired mortgages	48	62	(23%)	157	(69%)
	5,878	6,037	(3%)	6,204	(5%)
Securitized - allowance on performing mortgages	4	4	—%	25	(84%)
Total allowance for credit losses	\$ 5,882	\$ 6,041	(3%)	\$ 6,229	(6%)

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

Arrears and Impaired Mortgage Summary

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

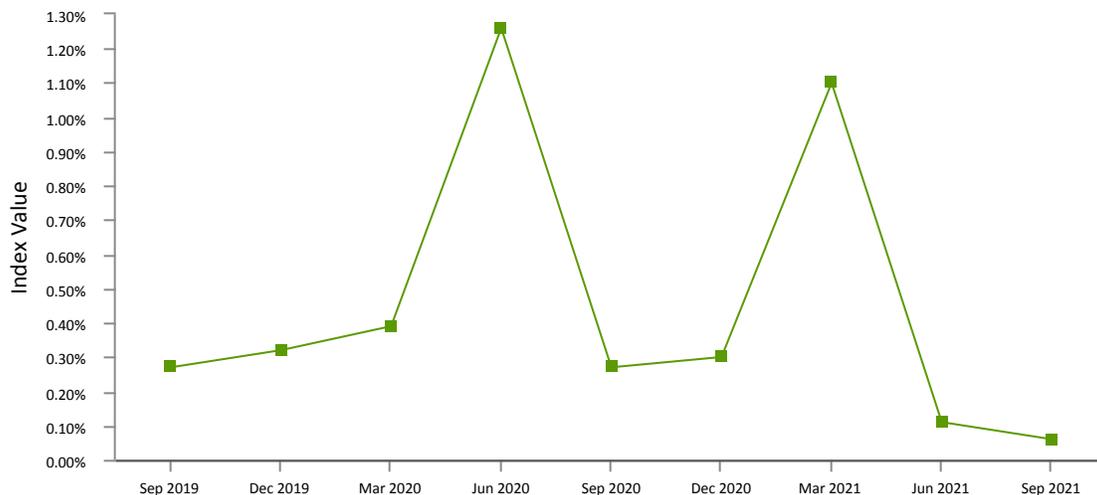
We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. During the year, we had one impaired construction loan where an asset recovery program was initiated. We collected all past due interest and principal in Q2 2021.

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

Consistent with a government-sponsored initiative and with industry practice, the Company had offered up to a six-month payment deferral program for borrowers in 2020 as a result of COVID-19. Total mortgages previously in our payment deferral program that are now included in total mortgage arrears¹ represent less than 1% of our single family and securitized portfolio on a dollar basis. Of the total mortgage arrears¹, 27% represent mortgages previously in our payment deferral program on a dollar basis, down from 40% at June 30, 2021 and 31% at December 31, 2020. We closely monitor and actively manage these arrears related to our payment deferral program.

We would expect to observe an increase in overall mortgage default and arrears rates in the event of a protracted economic downturn due to COVID-19 as realization periods on collateral become longer and borrowers adjust to the new economic conditions and potentially changing real estate values in such an event. This could also result in an increase in our allowance for credit losses. An economic downturn could include, for example, changes to unemployment rates, income levels and consumer confidence and spending not fully compensated for by government stimulus measures which we would expect would increase single family defaults and arrears. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages; however, given the systemic nature of the COVID-19 impacts, traditional actions may not be available or effective.

Figure 4: Impaired Corporate Mortgage Ratio¹



The impaired corporate mortgage ratio¹, as presented above, reflects impaired (stage 3) mortgages under IFRS 9. At June 30, 2020, we had one impaired construction mortgage where an asset recovery program was initiated and we received full recovery of past due interest and principal in Q3 2020. As previously mentioned, at March 31, 2021, we also had one impaired construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of both construction mortgages was not related to COVID-19.

For further information regarding corporate mortgages by risk rating, refer to Note 6 to the interim consolidated financial statements.

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

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

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

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

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

Table 14: Single Family Mortgages by Province at September 30, 2021

(in thousands except %)	Corporate						Securitized		Total	%
	Insured	%	Uninsured	%	HELOCs	%	Insured	%		
Ontario	\$ 127,004	74.4 %	\$ 638,679	85.8 %	\$ 111	83.5 %	\$1,324,001	86.6 %	\$ 2,089,795	85.4 %
Alberta	28,046	16.4 %	44,989	6.0 %	22	16.5 %	107,747	7.0 %	180,804	7.4 %
British Columbia	5,120	3.0 %	51,745	6.9 %	—	— %	53,984	3.5 %	110,849	4.5 %
Quebec	4,076	2.4 %	2,575	0.3 %	—	— %	11,130	0.7 %	17,781	0.7 %
Atlantic Provinces	4,816	2.8 %	3,250	0.4 %	—	— %	23,774	1.6 %	31,840	1.3 %
Other	1,764	1.0 %	4,750	0.6 %	—	— %	9,929	0.6 %	16,443	0.7 %
Total	\$ 170,826	100.0 %	\$ 745,988	100.0 %	\$ 133	100.0 %	\$1,530,565	100.0 %	\$ 2,447,512	100.0 %

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

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

Table 16: Single Family Mortgages by Amortization Period at September 30, 2021

(in thousands except %)	Up to 20	>20 to 25	>25 to 30	>30	Total
	Years	Years	Years	Years	
Corporate	\$ 115,204 12.5 %	\$ 193,951 21.2 %	\$ 432,029 47.1 %	\$ 175,763 19.2 %	\$ 916,947 100.0 %
Securitized	\$ 275,783 18.0 %	\$ 1,233,107 80.6 %	\$ 21,675 1.4 %	\$ — — %	\$ 1,530,565 100.0 %
Total	\$ 390,987 16.0 %	\$ 1,427,058 58.3 %	\$ 453,704 18.5 %	\$ 175,763 7.2 %	\$ 2,447,512 100.0 %

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

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	\$ 116,987 16.6 %	\$ 209,702 29.7 %	\$ 287,265 40.7 %	\$ 91,800 13.0 %	\$ 705,754 100.0 %
Securitized	\$ 224,111 19.8 %	\$ 881,872 77.6 %	\$ 29,762 2.6 %	\$ 0 0.0 %	\$ 1,135,745 100.0 %
Total	\$ 341,098 18.5 %	\$ 1,091,574 59.3 %	\$ 317,027 17.2 %	\$ 91,800 5.0 %	\$ 1,841,499 100.0 %

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

(in thousands except %)	Q3 Average		Q3 Average		YTD Average		YTD Average	
For the Periods Ended	2021	LTV	2020	LTV	2021	LTV	2020	LTV
Ontario	\$153,730	70.8%	\$ 76,459	71.5%	\$398,683	70.2%	\$170,582	70.8%
Alberta	6,562	69.1%	928	60.9%	25,948	70.3%	20,588	60.7%
British Columbia	10,078	72.3%	16,202	75.0%	18,532	69.5%	24,736	74.5%
Other	377	76.0%	—	—%	649	73.1%	110	61.8%
	\$170,747	70.8%	\$ 93,589	72.0%	\$443,812	70.2%	\$216,016	70.2%

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

	September 30 2021	December 31 2020
Corporate portfolio		
Single family mortgages		
Insured	72.4 %	78.5 %
Uninsured ¹	68.0 %	68.6 %
Uninsured - completed inventory	65.1 %	62.3 %
Construction loans		
Residential	63.3 %	59.0 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	74.2 %	74.0 %
Other commercial	57.6 %	53.7 %
	66.6 %	65.7 %
Securitized portfolio	82.5 %	82.1 %
	74.1 %	73.5 %

¹ MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 67.9% at September 30, 2021 (December 31, 2020 - 68.0%). Based on an industry index that incorporates current real estate values, the ratios would be 59.3% at September 30, 2021 (December 31, 2020 - 60.6%).

Other Corporate Assets

Cash and Cash Equivalents

At September 30, 2021, our cash balance was \$123 million (June 30, 2021 - \$180 million; December 31, 2020 - \$89 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. In times of uncertainty, we ensure that we take a prudent approach to liquidity management which may result in holding additional liquidity. Cash and

cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits 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 of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At September 30, 2021, the portfolio balance was \$71 million (June 30, 2021 - \$70 million; December 31, 2020 - \$50 million). During 2021, we purchased \$10 million of REITs and recorded \$11 million of unrealized fair value gains.

Non-Marketable Securities

At September 30, 2021, our non-marketable securities balance was \$60 million (June 30, 2021 - \$60 million; December 31, 2020 - \$56 million). We are seeking further investments and expect to grow this component of our balance sheet over the mid to long term. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF, in which we have a 6.5% equity interest at September 30, 2021 (June 30, 2021 - 6.8%; December 31, 2020 - 6.8%). At September 30, 2021, the carrying value of our investment was \$44 million (June 30, 2021 - \$44 million; December 31, 2020 - \$44 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At September 30, 2021, our total remaining commitment to the KSHYF was \$23 million, consisting of \$1 million of capital advances for the KSHYF and \$22 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested \$18 million in Securitization Notes. At September 30, 2021, the carrying value of the Securitization Notes was \$9 million (June 30, 2021 - \$11 million; December 31, 2020 - \$13 million) which reflects scheduled principal repayments. 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.

KingSett Senior Mortgage Fund LP (“KSSMF”): During 2021, we invested \$3 million in KSSMF representing a 0.6% partnership interest, with an additional \$12 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 (“TAS”): During 2021, we invested \$4 million in TAS representing a 9.7% partnership interest, with an additional \$6 million remaining commitment. TAS invests in, and develops, residential and mixed use properties.

TAS LP 3 Co-Invest LP (“TAS Co”): During 2021, we invested \$1 million in TAS Co representing a 34.8% partnership interest, with an additional \$4 million remaining commitment. TAS Co has a 24% interest in urban residential and mixed use property investments that are being developed under a repositioning plan.

Equity Investment in MCAP

We hold a 13.94% equity interest in MCAP (June 30, 2021 - 13.94%; December 31, 2020 - 14.03%), which represents 4.0 million units held by MCAN at September 30, 2021 (June 30, 2021 - 4.0 million; December 31, 2020 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (June 30, 2021 - 28.7 million; December 31, 2020 - 28.5 million).

The investment had a net book value of \$95 million at September 30, 2021 (June 30, 2021 - \$93 million; December 31, 2020 - \$88 million). The Limited Partner’s At-Risk Amount (“LP ARA”)¹, which represents the cost base of the equity investment in MCAP for income tax purposes, was \$91 million at September 30, 2021 (June 30, 2021 - \$84 million; December 31, 2020 - \$60 million). The difference between the net book value and the LP ARA¹ reflects an unrealized gain that, if realized, would be recognized as a capital gain.

During Q3 2021, we received \$4.1 million of unitholder distributions from MCAP (Q3 2020 - \$1.6 million). For year to date 2021, we have received \$13.0 million of unitholder distributions from MCAP (year to date 2020 - \$5.3 million) which is reflective of MCAP’s higher taxable income. As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 20: Liabilities and Shareholders' Equity

(in thousands except %)	September 30 2021	June 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Liabilities					
Term deposits	\$ 1,606,785	\$ 1,413,678	14%	\$ 1,234,769	30%
Loans payable	52,800	44,491	19%	—	n/a
Other liabilities	10,914	10,098	8%	4,825	126%
	1,670,499	1,468,267	14%	1,239,594	35%
Securitization Liabilities					
Financial liabilities from securitization	1,539,443	1,447,475	6%	1,142,609	35%
	1,539,443	1,447,475	6%	1,142,609	35%
	3,209,942	2,915,742	10%	2,382,203	35%
Shareholders' Equity					
Share capital	282,396	280,999	—%	234,635	20%
Contributed surplus	510	510	—%	510	—%
Retained earnings	111,413	107,793	3%	111,367	—%
	394,319	389,302	1%	346,512	14%
	\$ 3,604,261	\$ 3,305,044	9%	\$ 2,728,715	32%

Term Deposits

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

Financial Liabilities from Securitization

Financial liabilities from securitization relate to our participation in the market MBS and CMB programs, 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 "Financial Position" section of this MD&A.

Share Capital

Share capital activity may reflect new common shares issued through the DRIP, Executive Share Purchase Plan and other share offerings and their related costs. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 12 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2021 consists of net income of \$13.0 million less dividends of \$9.4 million. Retained earnings activity for year to date 2021 consists of a net income of \$48.3 million less dividends of \$48.2 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Income Statement Highlights								
Mortgage interest - corporate assets	\$19,072	\$16,543	\$15,796	\$17,115	\$16,149	\$15,409	\$15,397	\$14,910
Net investment income (loss) - corporate assets	\$18,976	\$24,390	\$20,205	\$25,704	\$26,963	\$12,649	\$(5,022)	\$14,839
Mortgage interest - securitization assets	\$ 7,478	\$ 7,266	\$ 6,632	\$ 6,461	\$ 5,504	\$ 4,786	\$ 4,783	\$ 4,950
Net investment income - securitization assets	\$ 1,443	\$ 1,570	\$ 1,545	\$ 1,694	\$ 1,149	\$ 389	\$ 801	\$ 1,015
Net income (loss)	\$12,990	\$19,378	\$15,924	\$22,086	\$22,741	\$ 7,796	\$(9,730)	\$10,550
Basic and diluted earnings (loss) per share	\$ 0.47	\$ 0.73	\$ 0.64	\$ 0.89	\$ 0.92	\$ 0.32	\$ (0.40)	\$ 0.44
Dividends per share - cash	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.32
Dividends per share - stock	\$ —	\$ —	\$ 0.85	\$ —	\$ —	\$ —	\$ —	\$ —
Return on average shareholders' equity ¹	13.22 %	21.28 %	18.15 %	25.92 %	28.04 %	9.96 %	(11.84)%	12.84 %
Taxable income per share ^{1,2}	\$ 0.57	\$ 0.89	\$ 0.85	\$ 1.05	\$ 0.48	\$ 0.21	\$ 0.71	\$ 0.46
Spreads								
Spread of corporate mortgages over term deposit interest ¹	2.77 %	2.89 %	2.76 %	2.76 %	2.63 %	2.48 %	2.62 %	2.63 %
Spread of securitized mortgages over liabilities ¹	0.65 %	0.72 %	0.81 %	0.89 %	0.81 %	0.44 %	0.63 %	0.72 %
Average term to maturity (in months)								
Mortgages - corporate	13.9	12.8	13.7	14.2	13.5	12.3	12.2	10.7
Term deposits	19.9	19.6	17.7	18.3	19.2	18.7	17.0	18.4
Balance Sheet Highlights (\$ million)								
Total assets	\$ 3,604	\$ 3,305	\$ 2,977	\$ 2,729	\$ 2,566	\$ 2,248	\$ 2,212	\$ 2,179
Mortgages - corporate	\$ 1,657	\$ 1,401	\$ 1,287	\$ 1,253	\$ 1,310	\$ 1,119	\$ 1,188	\$ 1,089
Mortgages - securitized	\$ 1,531	\$ 1,435	\$ 1,327	\$ 1,136	\$ 961	\$ 812	\$ 752	\$ 784
Total liabilities	\$ 3,210	\$ 2,916	\$ 2,620	\$ 2,382	\$ 2,233	\$ 1,931	\$ 1,897	\$ 1,849
Shareholders' equity	\$ 394	\$ 389	\$ 357	\$ 347	\$ 333	\$ 317	\$ 315	\$ 330
Capital Ratios								
Income tax assets to capital ratio ¹	5.50	5.05	5.05	5.09	5.44	4.95	5.03	4.93
CET 1 & Tier 1 Capital ratios ^{1,5}	19.45 %	21.91 %	21.65 %	21.67 %	20.45 %	23.01 %	21.80 %	22.52 %
Total Capital ratio ^{1,5}	19.73 %	22.24 %	22.02 %	22.02 %	20.80 %	23.40 %	22.17 %	22.52 %
Leverage ratio ³	8.86 %	9.59 %	9.69 %	10.17 %	10.26 %	11.46 %	11.70 %	12.58 %
Credit Quality								
Impaired mortgage ratio (corporate) ^{1,4}	0.06 %	0.11 %	1.10 %	0.30 %	0.27 %	1.26 %	0.39 %	0.32 %
Impaired mortgage ratio (total) ^{1,4}	0.04 %	0.07 %	0.55 %	0.18 %	0.17 %	0.77 %	0.28 %	0.23 %
Mortgage Arrears								
Corporate ¹	\$ 8,794	\$ 8,968	\$26,514	\$24,288	\$10,229	\$36,083	\$31,289	\$12,161
Securitized ¹	3,818	7,359	4,710	5,660	3,522	4,005	5,016	3,750
Total ¹	\$12,612	\$16,327	\$31,224	\$29,948	\$13,751	\$40,088	\$36,305	\$15,911
Common Share Information (end of period)								
Number of common shares outstanding	27,646	27,560	26,135	24,727	24,727	24,621	24,420	24,215
Book value of common share ¹	\$ 14.26	\$ 14.13	\$ 13.65	\$ 14.01	\$ 13.46	\$ 12.88	\$ 12.90	\$ 13.64
Common share price - close	\$ 18.00	\$ 17.29	\$ 16.46	\$ 15.77	\$ 13.41	\$ 12.65	\$ 12.18	\$ 17.10
Market capitalization (\$ million) ¹	\$ 498	\$ 477	\$ 430	\$ 390	\$ 332	\$ 311	\$ 297	\$ 414

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

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

³ Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

⁴ Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

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

Corporate net investment income (loss) has been driven by multiple factors. The main drivers relate to COVID-19 impacts including a lower interest rate environment, volatility in the fair value of our REIT portfolio and an overall increase in our provision for credit losses. Other factors include higher average corporate mortgage portfolio balances and generally higher equity income from MCAP since the second half of 2020.

Since 2019, the corporate portfolio mix has shifted towards single family mortgages mainly due to our objective of balancing the risk profile of our balance sheet and amidst COVID-19 and a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. In Q2 2020, the combination of these factors as well as market disruption experienced in the term deposit market due to COVID-19 contributed to the decrease in the spread of corporate mortgages over term deposit interest¹. In late 2020, term deposit funding and related costs began to decrease through this period and we saw a gradual increase in the spread of corporate mortgages over term deposit interest¹.

The size of the securitized mortgage portfolio has increased due to increased volume of insured single family mortgage originations. As a result of a decline in interest rates in 2020, there was an increase in the number of early repaid mortgages. This impacted the net securitized mortgage spread income² and spread of mortgages over liabilities² during late Q1 2020 and into Q2 2020 due to indemnity expenses incurred on early repaid mortgages that were higher than penalty income received. Since Q2 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities² has widened accordingly. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over the last nine months. We participate in this market opportunistically.

Capital ratios have remained relatively steady across the previous quarters as our tax-adjusted and risk-weighted assets have generally aligned with our capital base. The downward trend in our leverage ratio is driven by our growing assets, including securitization assets, and commitments compared to a slower moving capital base.

Total arrears and impaired ratios have varied on a quarterly basis given the nature of the 1-30 day arrears. Higher balances in Q2 2020 were due to an impaired construction mortgage where an asset recovery program was initiated and subsequently completed in Q3 2020, recovering fully all past due interest and principal. The increase in arrears in Q4 2020 and into Q1 2021 is mainly due to one construction mortgage where an asset recovery program was initiated. We recovered all past due interest and principal in Q2 2021. The circumstances of both construction mortgages were unrelated to COVID-19.

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

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 22: Income Tax Capital ¹

(in thousands except ratios)

	September 30 2021	December 31 2020
Income tax assets ¹		
Consolidated assets	\$ 3,604,261	\$ 2,728,715
Adjustment for assets in subsidiaries	(29,921)	16,117
Non-consolidated assets in MIC entity	3,574,340	2,744,832
Add: corporate mortgage allowances	5,828	6,061
Less: securitization assets ²	(1,562,694)	(1,160,073)
Adjustments to equity investments in MCAP and subsidiaries	(28,069)	(55,581)
Other adjustments	(10,698)	2,013
	\$ 1,978,707	\$ 1,537,252
Income tax liabilities ¹		
Consolidated liabilities	\$ 3,209,942	\$ 2,382,203
Adjustment for liabilities in subsidiaries	(53,160)	(6,183)
Non-consolidated liabilities in MIC entity	3,156,782	2,376,020
Less: securitization liabilities ²	(1,537,640)	(1,140,991)
	\$ 1,619,142	\$ 1,235,029
Income tax capital ¹	\$ 359,565	\$ 302,223
Income tax capital ratios ¹		
Income tax assets to capital ratio	5.50	5.09
Income tax liabilities to capital ratio	4.50	4.09

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" subsection above.

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

Our CET 1 capital consists of share capital, contributed surplus and retained earnings. We do not hold any additional Tier 1 capital instruments; therefore, our CET 1 capital is equal to our Tier 1 capital. Our Tier 2 capital consists of Stage 1 and Stage 2 mortgage allowances calculated under IFRS, a portion of which is allowed to be included in CET 1 under OSFI transitional arrangements issued March 27, 2020. Total Capital equals CET 1 or Tier 1 capital plus Tier 2 capital. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital.

At September 30, 2021, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 23: Regulatory Capital

(in thousands except %)

	September 30 2021	December 31 2020
Regulatory Ratios (OSFI)		
Share capital	\$ 282,396	\$ 234,635
Contributed surplus	510	510
Retained earnings	111,413	111,367
Deduction from equity investment in MCAP ²	(55,284)	(53,475)
Eligible Stage 1 and Stage 2 mortgage allowances ⁴	856	1,364
Common Equity Tier 1 and Tier 1 Capital⁴ (A)	339,891	294,401
Tier 2 Capital ⁴	4,978	4,707
Total Capital⁴ (D)	\$ 344,869	\$ 299,108
Total Exposure/Regulatory Assets¹		
Consolidated assets	\$ 3,604,261	\$ 2,728,715
Less: deduction for equity investment in MCAP ²	(55,284)	(53,475)
Other adjustments ³	4,969	3,018
Total On-Balance Sheet Exposures	3,553,946	2,678,258
Mortgage and investment funding commitments (50%)	261,134	197,069
Letters of credit (50%)	22,692	19,552
Total Off-Balance Sheet Items	283,826	216,621
Total Exposure/Regulatory Assets (B)	\$ 3,837,772	\$ 2,894,879
Leverage ratio ¹ (A / B)	8.86 %	10.17 %
Risk-weighted assets ¹ (C)	\$ 1,747,960	\$ 1,358,261
Regulatory Capital Ratios¹		
Common Equity Tier 1 capital to risk-weighted assets ratio (A / C)	19.45 %	21.67 %
Tier 1 capital to risk-weighted assets ratio (A / C)	19.45 %	21.67 %
Total capital to risk-weighted assets ratio (D / C)	19.73 %	22.02 %

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

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

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

⁴ Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

Table 24: Regulatory Risk-Weighted Assets

(in thousands except %)	September 30, 2021			December 31, 2020		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	\$ 123,219	21 %	\$ 25,638	\$ 88,929	21 %	\$ 18,389
Cash held in trust	45,687	20 %	9,137	29,610	20 %	5,922
Marketable securities	70,938	100 %	70,938	49,613	100 %	49,613
Mortgages - corporate	1,657,168	62 %	1,031,988	1,252,762	62 %	775,093
Mortgages - securitized	1,530,565	6 %	86,336	1,135,745	5 %	59,146
Non-marketable securities	60,201	178 %	107,384	56,117	173 %	97,020
Equity investment in MCAP Commercial LP	94,801	42 %	39,518	88,263	39 %	34,788
Deferred tax asset	1,061	100 %	1,061	407	100 %	407
Other assets	20,621	100 %	20,619	27,269	100 %	27,269
			<u>1,392,619</u>			<u>1,067,647</u>
Off-Balance Sheet Items						
Letters of credit	45,384	50 %	22,692	39,105	50 %	19,553
Commitments	522,268	39 %	203,336	394,139	38 %	151,598
			<u>226,028</u>			<u>171,151</u>
Charge for operational risk ¹			<u>129,313</u>			<u>119,463</u>
Risk-Weighted Assets			\$ 1,747,960			\$ 1,358,261

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

RISK MANAGEMENT

Effective risk management and an established risk management framework support a strong risk culture and help the Company provide sustainable growth and returns while maintaining an appropriate balance between risk and return. The Company's key risk management practices, including risk governance, setting risk appetite, risk culture, stress testing, and monitoring and reporting are continually monitored, reviewed and enhanced from those outlined in the "Risk Management" section of the 2020 Annual MD&A.

Major Risk Types

For a complete discussion of major risk types to which the Company is exposed, refer to the "Risk Management" section of the 2020 Annual MD&A.

The COVID-19 pandemic continues to be a top and emerging risk for the Company. Refer to the "Risk Management" section of the 2020 Annual MD&A for a discussion on how the COVID-19 pandemic may affect the Company's future results and operations.

Liquidity and Funding Risk

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

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

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

limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. Further to the LRMF, the Company maintains a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair its access to funding and liquidity. As a result of COVID-19, the Company's Contingency Funding Plan was invoked.

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At September 30, 2021, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. At September 30, 2021, the Company held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

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

The Company maintains a demand loan revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is \$120 million. On July 21, 2021, the facility limit was temporarily increased to \$160 million until September 30, 2021.

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

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a \$50 million senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or BAs plus 1.05%. The facility is used to fund insured single family mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

In May 2021, the Company entered into an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured single family mortgage commitments. This agreement provides liquidity and the opportunity to fund other core business activities in line with our strategy.

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

Table 25: Liquidity Analysis

At September 30, 2021						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	\$ 123,219	\$ —	\$ —	\$ —	\$ —	123,219
Marketable securities	70,938	—	—	—	—	70,938
Mortgages - corporate	226,999	817,668	468,534	113,231	30,736	1,657,168
Non-marketable securities	—	—	8,545	—	51,656	60,201
Other loans	3,795	—	—	—	—	3,795
	424,951	817,668	477,079	113,231	82,392	1,915,321
Uses of liquidity						
Term deposits	89,133	695,200	568,496	253,956	—	1,606,785
Loans payable	52,800	—	—	—	—	52,800
Other liabilities	5,350	563	1,605	1,860	1,536	10,914
	147,283	695,763	570,101	255,816	1,536	1,670,499
Net liquidity surplus (deficit)	\$ 277,668	\$ 121,905	\$ (93,022)	\$ (142,585)	\$ 80,856	\$ 244,822

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The “monitored/arrears” category includes construction and commercial loans that may experience events such as slow sales, cost

overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at September 30, 2021, there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

The maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, where maximum credit exposure also includes outstanding commitments for future mortgage fundings and our investments in non-marketable securities, where maximum credit exposure includes our total remaining commitments.

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.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at September 30, 2021 would have an estimated positive effect of \$4.0 million (June 30, 2021 - positive effect of \$2.9 million; December 31, 2020 - positive effect of \$4.1 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2021 would have an estimated adverse effect of \$0.9 million (June 30, 2021 - adverse effect of \$0.6 million; December 31, 2020 - positive affect of \$0.1 million) to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

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

The following tables present the assets and liabilities of the Company by interest rate sensitivity at September 30, 2021 and December 31, 2020 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive includes marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 26: Interest Rate Sensitivity at September 30, 2021

At September 30, 2021								
(in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	\$709,917	\$159,012	\$597,220	\$186,925	\$109,051	\$ 82,258	\$ 174,936	\$ 2,019,319
Securitization	45,687	31,226	47,673	244,031	1,207,636	—	8,689	1,584,942
	<u>755,604</u>	<u>190,238</u>	<u>644,893</u>	<u>430,956</u>	<u>1,316,687</u>	<u>82,258</u>	<u>183,625</u>	<u>3,604,261</u>
Liabilities								
Corporate	52,800	89,133	695,200	568,496	253,956	—	10,914	1,670,499
Securitization	—	22,283	50,522	228,409	1,238,229	—	—	1,539,443
	<u>52,800</u>	<u>111,416</u>	<u>745,722</u>	<u>796,905</u>	<u>1,492,185</u>	<u>—</u>	<u>10,914</u>	<u>3,209,942</u>
Shareholders' Equity	—	—	—	—	—	—	394,319	394,319
GAP	\$702,804	\$ 78,822	\$(100,829)	\$(365,949)	\$(175,498)	\$ 82,258	\$ (221,608)	\$ —
YIELD SPREAD	1.71 %	1.94 %	2.08 %	1.59 %	0.76 %	6.84 %		

Table 27: Interest Rate Sensitivity at December 31, 2020

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

Future Regulatory Changes

In May 2019, OSFI issued revisions to Guideline B-12 - *Interest Rate Risk Management*, which provides guidance on the Basel Committee on Banking Supervision's interest rate risk in the banking book measures, standardized stress scenarios, and enhancements to governance processes, controls and modelling. The Company will adopt these revised requirements on January 1, 2022.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Market risk includes price risk on marketable securities, real estate values and commodity prices, among others.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At September 30, 2021, there were 27,646,210 common shares outstanding (June 30, 2021 - 27,559,606; December 31, 2020 - 24,727,145). At November 4, 2021, there were 27,646,210 common shares outstanding.

We issued \$1.4 million in new common shares in Q3 2021 (Q3 2020 - \$1.4 million) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the Q3 2021 third quarter dividend was 17% (2021 second quarter - 17%; 2020 third quarter - 17%).

As a part of expanding and maturing our funding activities, we filed a Base Shelf prospectus in August 2021 and in October 2021 we announced the establishment of an ATM Program. The Base Shelf prospectus will allow us to make public offerings of debt or equity securities of up to \$400 million during the 25 month period that the Base Shelf prospectus is effective. The ATM Program allows us to raise up to \$30 million of equity from the public from time to time over a 2 year period at our discretion at the market prices prevailing at the time of sales - allowing us to raise capital incrementally. We view the ATM Program as adding to our capital raising capabilities and one element of our long term source of capital. Both the Base Shelf prospectus and the ATM Program will give us additional flexibility for diversification and expansion of our funding sources.

For additional information related to share capital, refer to Note 12 to the interim consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 28: Contractual Commitments

At September 30, 2021						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	\$ 209,770	\$ 148,800	\$ 118,452	\$ —	\$ —	\$ 477,022
Commitment - TAS	3,294	535	616	1,206	311	5,962
Commitment - TAS Co	1,750	1,875	250	—	—	3,875
Commitment - KSSMF	750	3,000	8,625	—	—	12,375
Commitment - KSHYF	563	277	—	—	22,194	23,034
	\$ 216,127	\$ 154,487	\$ 127,943	\$ 1,206	\$ 22,505	\$ 522,268

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At September 30, 2021, these derecognized securitized insured multi family mortgages totalled \$107 million. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 17 to the interim consolidated financial statements.

MCAP was 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 had claimed improvident sale and had claimed damages of approximately \$6 million. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with \$300,000 in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. On March 24, 2021, the Court dismissed the appeal. Based on this, we do not have any material liability arising out of the indemnification obligation to MCAP and accordingly have not recorded a provision.

DIVIDENDS

On November 4, 2021, the Board declared a quarterly dividend of \$0.34 per share to be paid on January 4, 2022 to shareholders of record as at December 15, 2021.

On March 13, 2020, OSFI had instructed all federally regulated financial institutions that dividend increases should be halted for the time being. An increase in dividends was defined as an increase in the total dollar amount of dividends paid after March 13, 2020 and non-cash dividends such as stock dividends were not included in the limitation. On November 4, 2021, OSFI instructed all federally regulated financial institutions that they may again increase dividends.

In order to take advantage of the tax benefits provided by the MIC status, we pay out all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. The Company has historically paid out dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended September 30, 2021 and September 30, 2020 and related party balances at September 30, 2021 and December 31, 2020 are discussed in Notes 8 and 16 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At September 30, 2021, we had 124 team members (June 30, 2021 - 124; December 31, 2020 - 112).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

For a detailed discussion of critical accounting estimates and judgments, refer to the "Critical Accounting Estimates and Judgments" section of the 2020 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At September 30, 2021, the President and CEO, and CFO of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

As a result of changes to our operations due to the impact of COVID-19, we have automated certain of our internal controls over financial reporting. There were no changes in our ICFR during the interim period ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our control framework.

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

NON-IFRS MEASURES

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

Return on Average Shareholders' Equity

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

Taxable Income Measures

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

Average Interest Rate

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

Net Corporate Mortgage Spread Income and Net Securitized Mortgage Spread Income

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

Arrears and Impaired Mortgage Ratios

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

Mortgage Arrears

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

Common Equity Tier 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios

These measures are calculated in accordance with guidelines issued by OSFI and are located on Table 23 of this MD&A and Note 18 to the interim consolidated financial statements.

Income Tax Capital Measures

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

Market Capitalization

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

Book Value per Common Share

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

Limited Partner's At-Risk Amount

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