MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2018

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CEO MESSAGE TO SHAREHOLDERS

Fiscal 2018 Highlights

- Fiscal 2018 EPS (\$0.37); adjusted EPS \$0.00
- Mortgages under administration \$27.59 billion at December 31
- Prime mortgages sold of \$6.24 billion including \$2.44 billion of renewals
- Street Solutions originations of \$421.4 million

While the market environment remains challenging, the early results from the execution of our realignment along with a renewed go-to-market strategy are producing positive initial results as we enter 2019.

Fellow shareholders,

Street Capital faced several challenges during 2018, and as a management team and Board of Directors, we are facing them head-on. In late December, we announced a strategic realignment and since that time have made some difficult but necessary decisions to support responsible growth and sustained performance, while further exploring various available options to strengthen the Bank's capital base.

We achieved several key milestones during 2018, including:

- Strong growth in Street Solutions originations, which more than doubled in 2018, with a corresponding lift to recurring net interest income;
- The introduction of a new funding channel for the Bank, with the completion of an initial sale of funded Street Solutions mortgage loans to an international third-party institutional investor;
- Continued progress gaining access to third-party deposit platforms to support Street Solutions mortgage originations, and the addition of a loan sale funding solution for prime uninsurable mortgages;
- Strong prime insured renewals, which exceeded the Bank's targeted range for the year;
- Continued opportunistic expansion into insured multi-unit residential lending; and
- The roll-out of an enhanced risk and governance framework, aligned with our objective to always manage risk in a prudent and proactive manner.

Consistent with 2017, most of the pressure we faced during 2018 was in the prime mortgage segment of our business. This pressure was primarily a result of ongoing heightened levels of competitive activity, which negatively impacted both originations and gain on sale rates. These market forces limited our ability to generate internal capital during the year. Prudent balance sheet management limited Street Solutions originations, despite strong demand for the product.

While the market environment remains difficult, the early results from the execution of our strategic realignment, along with a renewed go-to-market strategy, are producing positive initial results as we enter 2019. We are focused on executing against three core priorities this year, enabled by our commitment to Agile project delivery:

Prime New Mortgage Originations – We have placed renewed focus on new broker onboarding, deepening share of wallet, and improving the end-to-end customer experience, to drive new prime origination volume growth across insured and uninsured segments.

Prime Mortgage Renewals – Our team is moving into 2019 with strengthened processes and enhanced capability to target offers to renewing customers. The goal here is to maximize customer retention and the overall profitability and contribution of mortgage renewals.

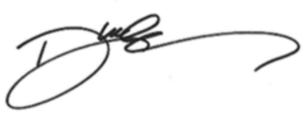
Loan Origination Systems and Process – We have assembled a team that is focussed on middle office transformation and digital delivery to improve throughput, customer experience and the overall efficiency of the Company's mortgage origination platform, with the objective of solidifying our competitive advantage and growing overall market share.

As we look ahead, we remain confident that we have the right team in place to effectively execute our strategies during 2019 for the benefit of all stakeholders.

I would like to take this opportunity to welcome Lea Ray as Chair of the Company's Board of Directors and to thank Allan Silber for his service over a distinguished, almost 40-year career with Street Capital. Lea is an experienced financial executive and Board member, who has been an invaluable resource since she joined the Board as an independent director in 2015.

In closing, I would also like to express my gratitude to our highly dedicated team at Street, our Board of Directors, our shareholders, and our valued mortgage broker, funding, and other partners, for their continued support and efforts during 2018. I look forward to updating you further as 2019 progresses.

Kind regards,



Duncan Hannay
President and CEO
Street Capital Group Inc. and Street Capital Bank of Canada

STREET CAPITAL GROUP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2018

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the results of operations of Street Capital Group Inc. ("Street Capital", "the Company", "SCGI", or the "Bank" when referring to Street Capital Bank of Canada) for the three months and the year ended December 31, 2018, and its financial condition as at December 31, 2018, is based on the Company's 2018 audited consolidated financial statements prepared in accordance with accounting principles generally accepted in Canada ("GAAP"), which incorporate International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. The effective date of this MD&A is March 5, 2019.

This MD&A is primarily related to the Company's wholly owned subsidiary, Street Capital Bank of Canada ("Street Capital Bank" or the "Bank"), a federally regulated Schedule I bank that carries out the majority of the Company's operations.

This MD&A contains non-GAAP measures that the Company uses to isolate the core operations and results of Street Capital Bank. These non-GAAP measures, and a glossary of terms used in this MD&A and the 2018 audited consolidated financial statements, are presented in the last section of this MD&A.

Additional information about the Company, including its continuous disclosure materials consisting of its interim filings, this MD&A, audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders, and Proxy Circular, can be found on the Company's website and on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at sedar.com.

At March 5, 2019 the Company had 122,184,182 common shares issued and outstanding.

FORWARD-LOOKING INFORMATION

This MD&A, and the Company's other regulatory filings and other communications, contain certain forward-looking statements and forward-looking information (collectively, forward-looking statements) within the meaning of applicable securities laws. In this and other documents, forward-looking statements can generally be identified by use of words such as "may", "will", "could", "should", "anticipate", "believe", "estimate", "expect", "intend", "forecast", "project", "plan", "schedule", and words of similar import. These forward-looking statements relate to matters including, but not limited to, the Company's objectives, strategies, financial and operating results, as well as to the Company's markets and the Canadian economy in general.

Forward-looking statements are presented for the purpose of assisting the Company's shareholders and other stakeholders in understanding the Company's financial position, objectives and priorities, as well as its anticipated financial performance as at and for the periods ended on the dates presented and may not be appropriate for other purposes.

Forward-looking statements reflect management's business judgement based on information available to management at the time they are made and on management's then-current view of future events and, as such, are subject to certain risks and uncertainties as outlined in this MD&A, including in, but not limited to, the sections titled "Business Update", "2019 Outlook", and "Risk Management and Risk Factors". Such risks and uncertainties are also discussed in the Company's Annual Information Form and other filings made with securities regulators, which are available on SEDAR (www.sedar.com) and on the Company's website (www.streetcapital.ca).

Relevant risks and uncertainties include, without limitation, possible unanticipated changes in: technology, regulatory requirements, mortgage insurance rules and the business and economic environment generally, including, but not limited to, Canadian housing market conditions and activity, interest rates, mortgage backed securities markets, timing and execution of anticipated transactions, employment conditions, taxation, and competitive factors.

Should one or more of these risks materialize, or should underlying assumptions prove incorrect, the Company's actual results could differ materially from those anticipated in these forward-looking statements. Although management believes that its expectations are based on reasonable assumptions, management can give no assurance that its expectations will materialize. Therefore, the reader should not place undue reliance on forward-looking statements made in this MD&A or in the Company's other regulatory filings and other communications. Management undertakes no obligation, and does not intend, to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events, except as required by applicable securities laws.

BUSINESS PROFILE

Street Capital (TSX: SCB) was established to create shareholder value by building a substantial, diversified financial services company. The Company's operations are currently concentrated in residential mortgage lending through its wholly owned subsidiary, Street Capital Bank, which was founded in 2007, and was approved on December 13, 2016 to commence business operations as a federally regulated Schedule I bank. It began banking operations on February 1, 2017. Prior to obtaining its bank licence, Street Capital Bank established itself as one of the largest non-bank mortgage lenders in Canada. The Bank operates in all provinces of Canada except Quebec.

In prior years, the Company also had operations in other business areas ("legacy operations"). In the first quarter of 2013, the Company's board of directors (the "Board of Directors" or the "Board") approved a plan to either dispose of, or exit from, these legacy operations to focus on financial services through Street Capital Bank. Most of the dispositions were completed by the end of the first quarter of 2014. The Company's exit from its Private Equity business was completed in Q2 2018.

BUSINESS OVERVIEW

Prime Insurable Residential Lending ($26.6 B MUA at December 31, 2018)

Since its inception in 2007, the Bank's primary operations have centered on the origination and subsequent sale of both high ratio and conventional prime insurable single-family residential mortgages at competitive interest rates. These prime insurable residential mortgages are originated through the Bank's network of approved independent mortgage brokers, and almost all of them are sold at the time of commitment to top-tier financial institutions (the "investors" or "funding partners"). The Bank is an approved issuer of National Housing Agency Mortgage-Backed Securities ("NHA MBS") and an approved seller under the Canada Mortgage Bonds ("CMB") program, and therefore can also securitize the mortgages and access the market directly. However, although direct securitization of prime insured mortgages at times can be more profitable over the life of the mortgage, depending on mortgage spreads, in the absence of a secondary transaction such as the sale of the interest-only strip, the underlying mortgages remain on the Bank's balance sheet and attract a commensurate increase in regulatory capital in the calculation of its leverage ratio. This, combined with the fact that the Bank can earn a better rate of return on capital on its uninsured mortgage product known as "Street Solutions", are disincentives to the Bank making prime insured mortgage securitization a major part of its funding model, and its participation in the direct securitization market has not been significant to date.

Although the Bank sells the majority of the prime mortgages it originates, thereby transferring the associated risks to the investor, the Bank has always focused on, and been committed to, the credit quality of the mortgages it underwrites. It maintains stringent underwriting and robust quality assurance processes. This is core as an originator of mortgages for third-party funding partners, and critical to the Bank's success in building a solid balance sheet with predictable recurring revenues.

The Bank outsources the servicing of its MUA to third-party service providers, but continues to administer the mortgages, and therefore remains the face of all direct communication with borrowers throughout the mortgage term. This ongoing customer relationship promotes renewals and is a key part of the long-term growth, profitability and recognition of the Street Capital Bank brand. Prime renewals are highly profitable due to their much lower acquisition costs as compared to newly originated mortgages. Additionally, existing customer relationships can be the source of potential cross-sell opportunities for the Bank's new products as its banking operations expand. Prime mortgage renewals are expected to remain an important part of the business model. While the Bank generally targets a renewal rate in the range of 75% - 80% of prime mortgages eligible for renewal, the primary focus is maximizing the financial returns of the renewal portfolio. Renewal rates were 73% in 2018 compared to 75% in 2017.

Prime Uninsurable Residential Lending ($64 MM MUA at December 31, 2018)

In Q2 2018 the Bank began originating prime uninsurable single-family mortgages, on a limited scale, through the Bank's network of approved independent mortgage brokers. Prime uninsurable mortgages are mortgages that have similar credit quality when compared to prime insurable mortgages, but that no longer qualify for mortgage insurance due to one or more criteria. These criteria include mortgages for the purpose of refinancing, mortgages on homes valued over $1 million, and mortgages with amortization periods over 25 years. As with the prime insurable mortgages discussed above, these prime uninsurable mortgages are sold at commitment to one of the Bank's funding partners. Meaningful growth in originations for this product will ultimately depend on the development of sufficiently liquid private residential mortgage backed securities ("RMBS") markets at sufficiently profitable spreads. At the date of this report, the originations and sale of prime uninsurable mortgages have been a relatively small proportion of the Company's operations but are expected to increase in 2019.

Street Solutions Uninsured Residential Mortgage Lending ($555 MM MUA at December 31, 2018)

Street Solutions are non-prime single-family residential mortgages that provide alternative lending options for achieving the goal of home ownership. The program targets a market segment that consists of credit-worthy, but generally under-served, borrowers who may not qualify for a prime residential mortgage. This segment of borrowers includes:

- New immigrants;
- Self-employed individuals;
- Rental investors; and
- Individuals with slightly bruised credit history.

The Street Solutions uninsured mortgage products consist entirely of first mortgages. Currently most of the mortgages are funded on the Bank's balance sheet with deposits and earn both net interest income and fee income. In Q4 2018, the Bank sold $26.2 million of funded Street Solutions mortgages to an institutional investor, and it may develop such sales as a new business segment going forward. Like its program for prime mortgages, the Bank earned an upfront gain on sale and transferred all the risks and rewards of the underlying mortgages upon sale, therefore derecognizing the mortgages from its balance sheet.

Insured Multi-Unit Residential Lending ($345 MM MUA at December 31, 2018)

In Q3 2017 the Bank began to originate and securitize insured multi-unit residential mortgages through the CMB program. The mortgages have 10-year terms and are fully insured through CMHC programs. The combination of the underlying terms of the mortgages and the sale structure allows these transactions to qualify for off-balance sheet accounting, resulting in derecognition and generating upfront gains on sale. The Bank has continued to participate in this product space to the extent of its 10-year CMB allocation, and will continue to do so as the mortgages individually and on a portfolio basis meet the Bank's risk tolerance.

Broker Deposit Products ($639 MM at December 31, 2018)

To build its balance sheet lending portfolio, since Q1 2017 the Bank has been offering CDIC insurance-eligible deposits through a network of licensed investment dealers. Products consist of one to five-year guaranteed investment certificates ("GICs") and a 90-day cashable GIC, all at competitive interest rates. The Bank does not offer demand deposit products such as High Interest Savings Accounts ("HISAs"). The GIC deposit base funds the Bank's Street Solutions program, its other mortgage loans that remain on-balance sheet, such as bridge loans or securitized mortgages awaiting sale, and its pool of high-quality liquid assets.

BUSINESS UPDATE

EPS was ($0.37) in Q4 2018 and for the year, down from $0.01 in Q4 2017 and $0.02 for 2017. Adjusted EPS was ($0.01) for Q4 2018 and $0.00 for the year, down from $0.01 in Q4 2017 and $0.06 for 2017. Adjusted EPS excludes non-recurring restructuring costs and non-cash asset write-downs (please see the *Non-GAAP Measures* section for more information).

Revenue of $12.3 million in the quarter and $55.0 million for the year was down from $14.8 million in Q4 2017 and $63.2 million for 2017, and down from $14.0 million last quarter. Increasing contribution from net interest income from Street Solutions mortgages was offset by the weakness in contribution from prime mortgage sales, which resulted from reduced origination volumes and spread compression in the quarter and in the year.

The Bank originated and renewed $1.36 billion in prime mortgages in Q4 2018 and $6.24 billion for the year, down approximately 18% from $1.67 billion in Q4 2017 and approximately 14% from $7.23 billion in 2017. The declines primarily reflect the heightened competition for a smaller addressable market of prime insurable mortgages and the Bank's lack of competitive funding for prime uninsurable mortgages for most of 2018, offset, as expected, by strong growth in prime renewals.

Additionally, as described in the Company's MD&As for Q2 and Q3 2018, as mortgage underwriting and mortgage insurance qualification requirements have become more stringent, both because of changes in regulatory requirements, as seen through the Department of Finance in October 2016 and most recently from OSFI in October 2017 with respect to updates to Guideline B-20, and through changes in general industry practice, the inherent risk of misrepresentation in mortgage documents has increased. This is particularly the case when income qualification rules are tightened and within the current environment of high home prices and increasing interest rates. To proactively mitigate this higher inherent risk, and in line with management's ongoing focus on credit quality, the Bank strengthened and continues to strengthen its internal capabilities by evolving its processes and use of technology as described in this MD&A under *Operational Risk Management*. The Bank also carefully evaluates its broker relationships on an ongoing basis and will take actions, as required, in the normal course of its business. All these measures serve to mitigate risk to the Bank and its business partners from the types of systemic issues that have affected other market participants. These actions, at times, can come at the expense of near-term volume growth and market share, as was experienced in 2018. The Bank sees these actions as important but generally transitory. Much of the process improvement has been implemented and service levels have improved, and management did observe improving prime originations and market share gain in the later part of Q4 2018. The Bank is well underway with a renewed go-to-market strategy, which is expected to result in improvements in prime originations in 2019.

The Bank experienced strong demand and uptake for the Street Solutions product, originating $121.6 million in Q4 2018 and $421.4 million in 2018. The on-balance sheet portfolio was at $526.8 million at the end of the year, up 162% from last year, with a healthy weighted average yield of 5.27% combined with strong credit quality and credit performance. Management is taking a prudent approach to managing the growth in Street Solutions, both in terms of credit quality, which remains very strong, and by managing funding and liquidity risk. While management originally targeted originations in the range of $600 - $700 million for 2018, given the slower than anticipated progress in the Bank's funding initiatives during 2018, originations were revised to the range of $375 - $400 million. Additionally, in a press release on February 19, 2019 management lowered its Street Solutions origination targets for 2019 to $300 - $450 million. Ultimately, originations for Street Solutions will depend on the success of Bank's current initiatives to deepen its funding sources both on-and off-balance sheet, and on the Bank's regulatory capital levels. The Bank continues to make good progress in gaining access to third-party broker deposit platforms with bank-owned and independent investment dealers, and has developed off-balance sheet funding relationships with institutional investors, completing its first sale of $26.2 million Street Solutions mortgages in Q4 2018. The ultimate sustainability of off-balance sheet funding is dependant upon several factors outside the control of the Company including, but not limited to, funding availability and funding costs relative to the yield on the underlying mortgages. For the Bank to materially increase its portfolio of Street Solutions funded on-balance sheet it will need a commensurate increase in its level of regulatory capital. The Company continues to explore various opportunities to strengthen the Bank's capital position.

Additionally, as announced on February 19, 2019, the Company recorded non-cash write-downs totalling $37.0 million in Q4 2018, noting these charges are at the parent, SCGI, and do not impact the Bank's capital. (Please see *Items of Note* below under *2018 and Q4 2018 Summary and Financial Highlights* for details). Subsequent to the February 19 announcement, management determined that a further non-cash write-down related to reversing deferred tax assets was required, bringing total pre-tax non-cash write-downs to $39.1 million.

In Q4 2018, after a detailed review of the Company's operations, management began executing on a strategic realignment with the intent of leveraging the Company's core strengths to return it to sustainable profitability. The strategic realignment called for immediate and decisive actions to reduce costs, drive profitability and efficiency, and strengthen the capital position of the Bank.

Key actions of the strategic realignment to date include:

- As announced on December 20, 2018 - the management team and Board of Directors decided to suspend the development of the Bank's core banking system, which would have been required to launch a web and mobile enabled banking platform, including a direct-to-consumer deposit offering, that was originally planned for launch in 2019. There was a charge against income of $7.4 million in Q4 2018 related to termination of the related IT contract and the development costs already incurred. Despite the termination of the project, the development and design work has been retained and the Company will re-evaluate the implementation of the core banking system towards the end of 2019.

- As announced on January 16, 2019 - as part of generating targeted efficiencies to improve profitability, management made the difficult decision to reduce its workforce by about 30 positions, taking its FTE count to 192 from 222. The Company expects to incur up to $2.3 million of restructuring charges in Q1 2019. As part of the restructuring, and to improve efficiency and accountability, the Company also reorganized its management team to align its operating model to the new strategic focus.

- The Company leveraged its shift towards Agile project delivery to initiate three core priorities in support of its strategic realignment:

    1. **Prime New Mortgage Originations** – supporting a renewed go-to-market strategy initiated in late 2018, this Agile workgroup is focused on new prime origination volume growth across insured and uninsured segments by focussing on new broker onboarding, deepening share of wallet, and improving the end-to-end customer experience.

    2. **Prime Mortgage Renewals** – this Agile workgroup plays a key role in increasing renewals and improving overall contribution by strengthening processes and targeting offers to maximize customer retention and overall profitability of mortgage renewals.

3. **Loan Origination Systems and Process** – this team is focussed on middle office transformation and digital delivery to improve throughput, customer experience and overall efficiency of the Company's mortgage origination platform, with the objective of driving competitive advantage and strengthening overall market share.

The Company's ongoing strategic realignment, which includes growing a profitable balance sheet, is designed to improve financial performance in the medium to long term and will also require the Company to take action to improve the Bank's capital levels in 2019. Management and the Board of Directors are committed to balancing the speed of execution of the Bank's plans and use of capital with the realities of the current market, to choose the path to strengthen capital that best recognizes the needs of all stakeholders.

2018 AND Q4 2018 SUMMARY AND HIGHLIGHTS

Table 1 – Financial Highlights

(in thousands of $, except where defined)	For the three months ended or as at			For the year ended or as at	
	December 31, 2018	September 30, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Financial performance					
Shareholders' net income (loss)	**$ (45,369)**	$ (1,361)	$ 1,239	**$ (44,789)**	$ 2,292
Shareholders' diluted earnings (loss) per share	**$ (0.37)**	$ (0.01)	$ 0.01	**$ (0.37)**	$ 0.02
Adjusted shareholders' net income (loss) (i)	**$ (1,665)**	$ 713	$ 1,544	**$ (97)**	$ 7,756
Adjusted shareholders' diluted earnings (loss) per share (i)	**$ (0.01)**	$ 0.01	$ 0.01	**$ 0.00**	$ 0.06
Total revenue (net of acquisition costs)	**$ 12,307**	$ 14,020	$ 14,788	**$ 54,961**	$ 63,157
Net gain on sale - new - excluding portfolio insurance (ii)	**$ 4,682**	$ 6,304	$ 8,536	**$ 24,193**	$ 43,602
Net gain on sale - new - % excluding portfolio insurance (ii)	**0.52%**	0.63%	0.75%	**0.64%**	0.81%
Net gain on sale of mortgages - renewals	**$ 5,249**	$ 7,271	$ 7,376	**$ 28,300**	$ 25,990
Net gain on sale - renewals - % of renewals	**1.15%**	1.05%	1.39%	**1.16%**	1.40%
Net interest income - non-securitized assets	**$ 3,207**	$ 2,768	$ 828	**$ 9,533**	$ 922
Net interest margin - non-securitized assets	**2.09%**	2.06%	1.27%	**1.99%**	0.82%
Return on tangible equity (i)	**(174.0%)**	(4.4%)	4.9%	**(40.8%)**	2.6%
Adjusted return on tangible equity (i)	**(5.9%)**	2.9%	6.1%	**0.4%**	7.7%
Mortgages originated and under administration					
Mortgages under administration *(in billions of $)*	**$ 27.59**	$ 27.64	$ 28.02	**$ 27.59**	$ 28.02
Prime mortgages originated and sold	**$ 904,442**	$ 1,005,705	$ 1,138,274	**$ 3,798,567**	$ 5,372,803
Prime mortgage renewals sold	**457,161**	695,609	531,080	**2,440,286**	1,859,267
Total prime mortgages sold	**$ 1,361,603**	$ 1,701,314	$ 1,669,354	**$ 6,238,853**	$ 7,232,070
Total Street Solutions originations	**$ 121,611**	$ 93,685	$ 62,116	**$ 421,386**	$ 203,717
Credit quality - mortgages					
Provision for Street Solutions credit losses	**$ (58)**	$ (67)	$ (80)	**$ (326)**	$ (216)
Provision for Street Solutions credit losses - rate	**0.06%**	0.08%	0.19%	**0.09%**	0.18%
Allowance for Street Solutions credit losses	**$ 595**	$ 538	$ 216	**$ 595**	$ 216
Allowance for Street Solutions credit losses - % of Street Solutions assets	**0.11%**	0.12%	0.11%	**0.11%**	0.11%
Regulatory Capital Ratios - Street Capital Bank					
Risk-weighted assets	**$ 479,866**	$ 460,448	$ 388,187		
Common equity Tier 1 (CET1) ratio	**19.84%**	22.05%	25.39%		
Total capital ratio	**19.96%**	22.16%	25.39%		
Leverage ratio	**10.07%**	10.81%	13.76%		
Equity and share information					
Shareholders' equity	**$ 94,960**	$ 139,743	$ 138,162		
Shares outstanding end of period (000s)	**122,184**	122,184	122,184		
Book value per share	**$ 0.78**	$ 1.14	$ 1.13		
Market capitalization	**$ 73,310**	$ 109,966	$ 125,850		
Share price at close of market	**$ 0.60**	$ 0.90	$ 1.03		

(please see definitions on following page)

Note: The table above includes non-GAAP measures that highlight the Company's core operating business (the Bank) by removing non-recurring items, including non-recurring restructuring costs or recoveries, non-cash asset write-downs, and material items associated with the Company's legacy businesses. Please see the section Non-GAAP Measures for further detail and numerical reconciliations of these non-GAAP measures to the most directly comparable measure specified, defined or determined under the GAAP presented in the Company's financial statements.

(i) Non-GAAP measure the Company uses to measure its performance from continuing and recurring income from its core business.
(ii) Portfolio insurance refers to the amortization of the prepaid portfolio insurance asset which is included as an expense in the calculation of total revenue. This amortization of the asset is not variable based on the current period's volume, and, as such, can distort gain on sale trends. Please see Table 2 for additional information.

Items of Note

2018 was impacted by the following items:

- In Q4 2018 the Company recorded an impairment charge of $26.6 million, representing all the $23.5 million in goodwill recognized on the origination acquisition of the predecessor of the Bank and the remaining $3.1 million carrying value of intangible assets related to the same acquisition. Please see Note 13 in the 2018 2018 audited consolidated financial statements. These charges have been adjusted from net loss in the determination of non-GAAP performance measures.

- In Q4 2018 and Q3 2018 the Company reversed $12.5 million and $1.77 million, respectively, in previously recognized deferred tax assets after management determined that recovery was no longer probable. These reversals have been adjusted from net loss in the determination of non-GAAP performance measures.

- In Q4 2018 the Company recorded a restructuring charge of $7.4 million related to its decision to suspend its core banking project and the resulting termination of the related IT contract. This charge been adjusted from net loss in the determination of non-GAAP performance measures.

- In 2018 the Company realized $2.85 million in fair value gains, due to the Q2 exit from its remaining legacy Private Equity operations, of which $1.52 million was allocated to non-controlling interests. This gain has been adjusted from net loss in the determination of non-GAAP performance measures.

2017 was impacted by the following items:

- During 2017 the Company recorded $6.8 million in restructuring expenses relating to the retirement of former executives and organizational realignment that resulted in a reduction of the workforce. This charge been adjusted from net income in the determination of non-GAAP performance measures.

- During 2017 the Company recorded $0.89 million in net fair value losses associated with its legacy Private Equity business, of which $0.77 million was allocated to non-controlling interests. This loss has been adjusted from net income in the determination of non-GAAP performance measures.

FY 2018 Financial Highlights

- Net loss was $44.8 million or ($0.37) per share in 2018 compared to net income of $2.3 million or $0.02 per share in 2017. Net loss in 2018 was significantly affected by the non-cash write-downs and restructuring charges noted above.

- Adjusted net loss (primarily adjusted for the non-cash write-downs and restructuring charges) was $0.10 million or $0.00 per share compared to adjusted net income of $7.76 million or $0.06 in 2017.

- Mortgages under administration (MUA) were $27.59 billion at the end of 2018, down marginally from $28.02 billion at the end of 2017 as portfolio run-off exceeded new originations in the year.

- Total new prime single-family mortgages originated and sold were $3.80 billion in 2018, down 29.3% from $5.37 billion in 2017 with the decline slightly less than the 30-35% expected in the Q3 2018 report. Declines year over year reflect continued competitive pressures for prime insurable mortgages, and lack of a competitive offering for prime uninsurable mortgages, along with the internal measures (discussed in the Q3 2018 MD&A and above) that the Company implemented to mitigate the higher inherent risks in the product that temporarily affected its service levels and ultimate origination levels in 2018.

- Net gains on sale for new prime single-family mortgages were $24.19 million in 2018, down 44.5% from $43.60 million in 2017. This decline reflects the lower originations, discussed above, combined with lower net gain on sale rates of 0.64% compared to 0.81% last year. Lower net gain on sale rates this year reflect competitive markets and tighter spreads. Additionally, 2017 included a specific promotion with one investor where the Company earned higher premiums.

- Total prime mortgages renewed and sold were $2.44 billion in 2018, up 31.2% from $1.86 billion in 2017. The anticipated increase year over year reflects the underlying maturity profile of prime MUA and exceeded management's 2018 target of $2.20 – $2.40 billion. Renewal rates were 73% in 2018 and 75% in 2017.

- Net gains on sale for prime renewed mortgages were $28.30 million, up 8.9% from $26.0 million in 2017. The increase reflects the increased prime renewals, discussed above, offset by lower net gain on sales rates of 1.16% compared to 1.40% last year. Lower net gain on sale rates primarily reflect a higher proportion of renewals with an investor who pays lower premiums and a higher volume of renewals where the trailing commissions from the Company's former loyalty program applies.

- Originations of Street Solutions (uninsured non-prime) single-family mortgages were $421.4 million in 2018 compared to $203.7 million in 2017 and above management's target range of $375 – $400 million, which was updated in Q3 2018. The total Street Solutions portfolio stood at $554.5 million (on- and off-balance sheet) at the end of 2018 compared to $200.8 million at the end of 2017. Demand for Street Solutions remains strong and management continues to prudently grow the portfolio in line with available funding and its regulatory capital levels.

- Net interest income from non-securitized assets was $9.53 million in 2018, up from $0.92 million in 2017, reflecting the increase in the Street Solutions balances to $526.8 million at the end of 2018. Net interest margins were 1.99% in 2018 compared to 0.82% in 2017 with the improvement also reflecting the increase in Street Solutions, the utilization of liquidity and improved returns on liquid assets. The average spread of Street Solutions over deposits was 2.58% in 2018.

- Deposit balances increased to $638.7 million at the end of 2018 from $293.0 million at the end of 2017 primarily to fund Street Solutions mortgages. The Company continues to take deposits across terms and manage liquidity and funding risk conservatively.

- Street Solutions credit performance remains very strong with expected credit losses of $0.59 million or 0.11% of ending Street Solutions balances at the end of 2018, well within management's expectations. Non-performing loans were $0.95 million or 0.18% of ending balances, with 98.7% of the portfolio current at the end of 2018.

- The serious arrears rate (>90 days past due) for prime mortgages was 0.11% at the end of 2018 compared to 0.08% at the end of 2017.

- Adjusted expenses were $54.9 million in 2018, increasing from $52.1 million in 2017. This is primarily from increases in equity-based compensation, as well as increases in IT and servicing costs to support new products, including deposits and Street Solutions.

Q4 2018 Financial Highlights

- Net loss was $45.4 million or ($0.37) per share in Q4 2018 compared to net income of $1.2 million or $0.01 per share in Q4 2017 and a net loss of $1.4 million or ($0.01) per share in Q3 2018. Net loss in Q4 2018 was significantly affected by the non-cash write-downs and restructuring charges noted above.

- Adjusted net loss (primarily adjusted for the non-cash write-downs and restructuring charges) was $1.7 million or ($0.01) per share compared to adjusted net income of $1.5 million or $0.01 in Q4 2017 and $0.7 million or $0.01 per share in Q3 2018.

- Mortgages under administration (MUA) were $27.59 billion at the end of 2018, down marginally from $28.02 billion at the end of 2017 and $27.64 billion at the end of Q3 2018 as portfolio run-off exceeded new originations in the quarter and year.

- Total new prime single-family mortgages originated and sold were $0.90 billion in Q4 2018, down 20.5% from $1.14 billion in Q4 2017 and down seasonally from $1.01 billion in Q3 2018. Declines year over year reflect the same factors mentioned above but were improved from Q3 2018 when originations were down 33.9% year over year.

- Net gains on sale for new prime single-family mortgages were $4.7 million in Q4 2018, down 45.2% from $8.5 million in Q4 2017 and down seasonally from $6.3 million in Q3 2018. The decline year over year reflects the lower originations combined with lower net gain on sale rates of 0.52% in Q4 2018 compared to 0.75% last year. Lower net gain on sale rates this year reflect competitive markets and tighter spreads. Additionally, 2017 included a specific promotion with one investor where the Company earned higher premiums. Compared to last quarter, net gains on sale are down due to lower originations and lower net gain on sale rates (0.63% in Q3 2018), reflecting tighter spreads and competition.

- Total prime mortgages renewed and sold were $457.2 million in Q4 2018 compared to $531.1 million in Q4 2017 and $695.6 million in Q3 2018. Renewal volumes follow the maturity pattern of the underlying MUA and are within expectations.

- Net gains on sale for prime renewed mortgages were $5.2 million in Q4 2018 compared to $7.4 million in Q4 2017 and $7.3 million in Q3 2018. The year over year decline reflects the anticipated decline in prime renewals based on the maturity profile, and lower net gain on sales rates of 1.15% compared to 1.39% last year. Lower net gain on sale rates primarily reflect a higher volume of renewals where the trailing commissions from the Company's former loyalty program applies and a higher proportion of renewals with an investor who pays lower premiums. Compared to Q3 2018 net gains on sale are down due to seasonally lower prime renewals offset by higher net gain on sale rates (1.05% in Q3 2018) as a smaller proportion of prime renewals were with the investor who pays lower premiums.

- Originations of Street Solutions (uninsured non-prime) single-family mortgages were $121.6 million in Q4 2018 compared to $62.1 million in Q4 2017 and $93.7 million in Q3 2018.

- Net interest income from non-securitized assets was $3.21 million in Q4 2018, up from $0.83 million in Q4 2017 and $2.77 million in Q3 2018, reflecting the increase in the Street Solutions balances. Net interest margins were 2.09% in Q4 2018, up from 1.27% in Q4 2017 and up from 2.06% Q3 2018. The improvement reflects the increase in Street Solutions, the utilization of liquidity and improved returns on liquid assets. The average spread of Street Solutions over deposits was 2.51% in Q4 2018 compared to 2.56% in Q3 2018.

- Deposit balances increased to $638.7 million at the end of 2018 from $555.8 million at the end of Q3 2018 primarily to fund Street Solutions mortgages.

- Adjusted expenses were $14.4 million in Q4 2018, up from $12.2 million in Q4 2017 and $13.4 million in Q3 2018, largely due to increases in compensation expense.

ACHIEVEMENT AGAINST 2018 STRATEGIC PRIORITIES

In its 2017 Q4 and Annual Report the Bank set out five strategic priorities to support its growth objectives over the medium to long-term. During 2018 the Bank made progress on several fronts.

Strategic Priorities for 2018	2018 Accomplishments
Diversify funding sources	• Continued to add deposit brokers and increased deposits by $346 million • Sourced off-balance sheet funding for Street Solutions; completing first sale for $26.2 million in Q4 • Sourced off-balance sheet funding for prime uninsurable mortgages, selling $56.6 million in 2018 and improving product offer in late 2018
Build momentum in new addressable markets	• Originated $421.4 million in Street Solutions mortgages, exceeding management's revised target of $375 - $400 million (target as of Q3) and generating $9.5 million in net interest income • Continued expansion in insured multi-unit residential lending with $264.5 million in originations and net gains on sale of $1.6 million
Drive contribution from mortgage renewals	• Delivered revenue contribution of $28.3 million on prime renewals of $2.44 billion in 2018, exceeding management's 2018 renewal target of $2.20 to $2.40 billion
Enhance the risk and governance framework	• Leveraged the Bank's Quality Assurance findings, third-party reviews, and the revisions to OSFI Guideline B-20 to further evolve its Mortgage Underwriting Guideline • Continued to enhance the Bank's second line and third line oversight capabilities and embedded dedicated risk and compliance resources ("1b" positions) within the business front lines
Transform the organization	• Initiated ambitious core banking implementation, which was suspended pending successful execution of the strategic realignment first announced on December 20, 2018 • Continued to drive cultural shift towards Agile project delivery and digital with the specific objective of improving the customer and broker experience through, among other things, middle office transformation • Championed the "Smart Healthy" organizational mindset through building trust, inclusion, and collaboration while driving commitment and accountability across cross-functional teams

2019 OUTLOOK

Note to readers: This section includes forward-looking information and is qualified in its entirety by the discussion about Forward-Looking Information on page 2.

Prime Mortgage Lending

Market competition for prime insurable mortgages remains high, particularly in the high ratio segment, and this is anticipated to continue. Housing activity is expected to remain relatively consistent with the most recent experience. This view reflects current economic forecasts, national housing sale statistics, and the effect of anticipated future interest rate changes. As discussed above, management is actively working on renewed go-to-market strategies and improving service levels to increase prime originations and is targeting an improvement in prime originations and its broker market share in 2019.

Price competition for prime insurable mortgages is expected to continue to put some negative pressure on the gain on sale rates earned on prime mortgages, and as such management is not anticipating material increases in gain on sale rates over the near to mid-term.

Given the nascent funding model for prime uninsurable mortgages, for most of 2018 the Bank was not able to offer competitive rates for prime uninsured mortgages and as such it was a product the Bank was largely shut out of following the 2016 mortgage insurance eligibility rule changes. In 2018 the Bank secured some funding for prime uninsurable mortgages and the Bank funded and sold $56.6 million during the year. Early indicators in 2019 are showing more competitive pricing and improving originations. The ultimate success and sustainability of the prime uninsurable mortgage product, given the Bank's current business model, will depend on the further development of a sufficiently liquid and active non-government sponsored Residential Mortgage Backed Securities ("RMBS") market. Management is cautiously optimistic that originations will begin to improve for this product, although the profitability levels remain uncertain. In any case broadening of its mortgage shelf is expected to positively contribute to overall origination levels across the mortgage shelf.

Prime Mortgage Renewals

Softness in new originations of prime insurable mortgages continues to be partly offset by the Bank's expected highly profitable mortgage renewal activity. Management continues to expect prime renewals in range of $2.40 - $2.60 billion in 2019 and $2.60 - $2.80 billion in 2020.

This activity will continue at relatively lower net gain on sale rates due to a few factors. First, from the period January 2011 – July 2015, the Bank offered brokers a Loyalty Program that pays a trailer commission upon mortgage renewal. The bulk of mortgages originated under this program have maturity dates between 2018 and 2020, which began noticeably increasing acquisition costs for renewals in 2018. Second, the Bank has differing contracts with funders, which determine the premiums paid on renewal. A higher relative proportion of renewals in 2019 with a funder who pays a lower premium on renewal will put some downward pressure on gain on sale rates, but with some improvement compared to 2018. And, third, renewals are subject to the same margin pressure as new prime originations. Even with these pressures, the gain on sale rates for renewals remain materially more profitable than new originations and will continue to significantly contribute to the Bank's financial results.

It should be noted, as discussed above, that optimizing contribution from mortgage renewals is a strategic priority for management. In that regard the Bank will continue to focus on its service and retention activities. The Bank's almost $27 billion of prime MUA provides both a sustainable portfolio of quality revenue generating assets and a customer base to drive significant value over the coming years as the Bank expands into additional product areas.

Street Solutions Uninsured Residential Mortgage Lending

The Bank continues to experience strong demand for the Street Solutions product, at high levels of credit quality and ongoing solid credit performance. The Bank is targeting $300 - $450 million in originations in 2019 with spreads relatively consistent with Q4 2018.

Ultimate originations for Street Solutions in 2019 will depend on both the success of Bank's current initiatives to deepen its funding sources both on-and off-balance sheet and the Bank's regulatory capital levels. The Bank continues to make good progress in gaining access to third-party broker deposit platforms with bank-owned and independent investment dealers and has developed off-balance sheet funding relationships with institutional investors, and completed its first sale in Q4 2018. The ultimate sustainability of off-balance sheet funding is dependent upon several factors outside the control of the Company including, but not limited to, funding availability and funding costs relative to the yield on the underlying mortgages. For the Bank to materially increase its portfolio of Street Solutions on-balance sheet it will need a commensurate increase in its level of regulatory capital.

Funding and Liquidity

As noted above, when investors purchase prime insurable mortgages at commitment, the Bank transfers substantially all the risks associated with the mortgage. The Bank's access to this funding is currently adequate, and the Bank remains competitive in this mortgage segment. Also, as mentioned above, the Bank has been successful in obtaining funding for a prime uninsurable mortgage product.

The primary funding strategy for the Street Solutions product continues to be to originate deposits, sourced through the investment broker network, across tenors and to focus on deposits with fixed terms to manage liquidity risk. The Bank continues to onboard new brokers to increase diversification and volume in the channel and remains very active in this regard. Additionally, the Bank continues to develop off-balance sheet funding strategies for Street Solutions and will look to fund this way to manage its balance sheet, optimize the use of capital and grow originations when the economics are within targets.

Operating Expenses

The Bank will continue to target positive operating leverage as a key performance indicator in 2019.

Management has managed expenses prudently including a reorganization that resulted in a net reduction of just over 10% of the workforce in early 2019. Balancing all factors, including additional servicing costs and balancing improvements in efficiency against making the appropriate investments in people and technology to enable its priorities and the strengthening of the Bank's risk and compliance management programs, the Company anticipates expenses to run marginally above 2018 but does expects to achieve positive operating leverage in 2019.

Beyond 2019 management will continue to take proactive strategies to achieve positive operating leverage, both through planned cost saving initiatives and improved revenue.

Prime Mortgage Activity and MUA

Table 2 - Prime Mortgages Sold and Gains on Sale

	For the three months ended or as at					
	December 31, 2018		September 30, 2018		December 31, 2017	
Mortgages sold						
(in thousands of $)						
Prime insurable mortgages originated and sold	**$ 879,909**	**65.8%**	$ 977,144	58.4%	$ 1,138,274	68.2%
Prime insurable mortgage renewals sold	**457,161**	**34.2%**	695,609	41.6%	531,080	31.8%
Total prime insurable mortgages sold	**$ 1,337,070**		$ 1,672,753		$ 1,669,354	
Prime uninsurable mortgages sold	**$ 24,533**		$ 28,561		$ -	
Total prime mortgages sold	**$ 1,361,603**		$ 1,701,314		$ 1,669,354	
Mortgages under administration ***(in billions of $)***	**$ 27.59**		$ 27.64		$ 28.02	
Prime insurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale - new	**$ 12,121**	**1.38%**	$ 14,196	1.45%	$ 18,238	1.60%
Deferred gain on sale - new	**2,340**	**0.27%**	2,622	0.27%	3,898	0.34%
Gain on sale of mortgages - new	**$ 14,461**	**1.64%**	$ 16,818	1.72%	$ 22,136	1.94%
Acquisition expenses - new	**10,000**	**1.14%**	10,748	1.10%	13,600	1.19%
Gain on sale before portfolio insurance	**$ 4,461**	**0.51%**	$ 6,070	0.62%	$ 8,536	0.75%
Portfolio insurance expense	**2,619**	**0.30%**	2,618	0.27%	2,585	0.23%
Net gain on sale - new	**$ 1,842**	**0.21%**	$ 3,452	0.35%	$ 5,951	0.52%
Cash premium at sale - renewals	**$ 5,364**	**1.17%**	$ 7,115	1.02%	$ 6,583	1.24%
Deferred gain on sale - renewals	**1,093**	**0.24%**	1,673	0.24%	1,358	0.26%
Gain on sale of mortgages - renewals	**$ 6,457**	**1.41%**	$ 8,788	1.26%	$ 7,941	1.50%
Acquisition expenses - renewals	**1,208**	**0.26%**	1,517	0.22%	565	0.11%
Net gain on sale - renewals	**$ 5,249**	**1.15%**	$ 7,271	1.05%	$ 7,376	1.39%
Prime uninsurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale	**$ 355**	**1.45%**	$ 424	1.48%	$ -	N/A
Deferred gain on sale	**38**	**0.15%**	45	0.16%	-	N/A
Gain on sale of mortgages	**$ 393**	**1.60%**	$ 469	1.64%	$ -	N/A
Acquisition expenses	**172**	**0.70%**	235	0.82%	-	N/A
Net gain on sale	**$ 221**	**0.90%**	$ 234	0.82%	$ -	N/A

Table 2 (continued) - Prime Mortgages Sold and Gains on Sale

	For the year ended or as at					
		December 31, 2018			December 31, 2017	
Mortgages sold						
(in thousands of $)						
Prime insurable mortgages originated and sold	**$**	**3,742,008**	**60.5%**	$	5,372,803	74.3%
Prime insurable mortgage renewals sold		**2,440,286**	**39.5%**		1,859,267	25.7%
Total prime insurable mortgages sold	**$**	**6,182,294**		$	7,232,070	
Prime uninsurable mortgages sold	**$**	**56,559**		$	-	
Total prime mortgages sold	**$**	**6,238,853**		$	7,232,070	
Mortgages under administration *(in billions of $)*	**$**	**27.59**		$	28.02	
Prime insurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale - new	**$**	**53,728**	**1.44%**	$	90,269	1.68%
Deferred gain on sale - new		**10,669**	**0.29%**		15,577	0.29%
Gain on sale of mortgages - new	**$**	**64,397**	**1.72%**	$	105,846	1.97%
Acquisition expenses - new		**40,699**	**1.09%**	$	62,244	1.16%
Gain on sale before portfolio insurance	**$**	**23,698**	**0.63%**	$	43,602	0.81%
Portfolio insurance expense		**10,472**	**0.28%**		9,814	0.18%
Net gain on sale - new	**$**	**13,226**	**0.35%**	$	33,788	0.63%
Cash premium at sale - renewals	**$**	**27,916**	**1.14%**	$	23,149	1.25%
Deferred gain on sale - renewals		**6,156**	**0.25%**		4,777	0.26%
Gain on sale of mortgages - renewals	**$**	**34,072**	**1.40%**	$	27,926	1.50%
Acquisition expenses - renewals		**5,772**	**0.24%**		1,936	0.10%
Net gain on sale - renewals	**$**	**28,300**	**1.16%**	$	25,990	1.40%
Prime uninsurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale	**$**	**826**	**1.46%**	$	-	N/A
Deferred gain on sale		**93**	**0.16%**		-	N/A
Gain on sale of mortgages	**$**	**919**	**1.62%**	$	-	N/A
Acquisition expenses		**424**	**0.75%**		-	N/A
Net gain on sale	**$**	**495**	**0.88%**	$	-	N/A

2018 Discussion

2018 compared to 2017

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of $3.74 billion in 2018 was down 30.4% compared to $5.37 billion in 2017. The observed decline year over year continues to reflect the heightened competition for a smaller addressable market of prime insurable mortgages. Additionally, as discussed above in the *Business Update*, to mitigate the higher inherent risk of misrepresentation of mortgage documentation, given regulatory and insurance qualification changes, the Bank has strengthened, and continues to strengthen, its internal capabilities, and to evolve its processes and use of technology as described below under *Operational Risk Management.* These actions, at times, can come at the expense of near-term volume growth and market share, as the Bank experienced in 2018. The Bank sees these actions as important but generally transitory. The Bank is well underway with a new go-to-market strategy, which is expected to result in improvements in prime originations in 2019.

Net revenue from new sales was $23.7 million (excluding portfolio insurance amortization), down $19.9 million or 45.6% compared to 2017. This decline reflects the reduced volumes and a decrease in net gain on sale rates to 0.63% (excluding portfolio insurance amortization), compared to 0.81% in 2017.

The gross gain on sale rate of 1.72% was down from 1.97% in 2017, primarily reflecting increased competition which reduces margins, market spread compression, and because 2017 included a promotion where a specific investor paid higher premiums for certain products. The acquisition cost rate of 1.09% was down compared to 1.16% in 2017. This was due in part to the absence of a broker commission promotion that increased acquisition costs during a significant portion of 2017.

Portfolio insurance amortization was $10.5 million in 2018 and $9.8 million in 2017. This expense is not variable with volumes, as it represents an amortization pattern associated with the estimated remaining balances of the underlying portfolio-insured mortgages under administration.

(ii) Prime uninsurable mortgages

Beginning in Q2 2018, the Company began to access funding for prime uninsurable mortgages, with total sales volume of $56.6 million in 2018. Net gain on sale rates were 0.88% and reflect some pricing and broker commission differences to the prime insurable product. Changes to the product in 2019 are expected to bring the net gain on sale rates down from the 2018 levels.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume of $2.44 billion was up $0.58 billion or 31.2% over 2017, as expected based on the maturity profile of the MUA. Renewal rates were 73% in 2018 compared to 75% in 2017. While the Bank targets a renewal rate in the mid to high 70s, it is most focused on maximizing the revenue contribution from renewals, by balancing renewal rate with maximizing profit contribution.

Net revenue of $28.3 million was up 8.9% from $26.0 million in 2017 due to the increased volumes offset by lower net gain on sale rates. The net gain on sale rate declined to 1.16% in 2018 compared to 1.40% in 2017. This was expected due to higher acquisition costs reflecting the increased proportion of renewals that were part of the discontinued Loyalty Program that ran from January 2011 to July 2015. Additionally, there was a higher proportion of renewals with an investor that pays lower renewal premiums and continued rate competition that increased rate discounting on renewal. Despite these pressures prime renewal profits are still more than double that of new prime originations.

Q4 2018 Discussion

Q4 2018 compared to Q4 2017

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of prime insurable mortgages was $0.88 billion in Q4 2018, down 22.7% compared to $1.14 billion in Q4 2017, for the same reasons discussed above for full year declines.

Net revenue from new prime insurable sales (excluding portfolio insurance amortization) was $4.5 million in Q4 2018, down from $8.5 million Q4 2017, reflecting both lower volumes as described above and lower net gain on sale rates (before portfolio insurance amortization) of 0.51% compared to 0.75%.

The gross gain on sale rate was 1.64% in Q4 2018 compared to 1.94% in Q4 2017. The decline year over year reflects increased competition for prime insurable mortgages, which leads to overall lower spreads, as mortgage rates do not increase at the same rate as the underlying cost of funds in the market. In addition, most of Q4 2017 included additional promotional premiums earned on certain mortgages, which were not in place in 2018.

The acquisition cost rate of 1.14% in Q4 2018 is down compared to 1.19% in Q4 2017. Commission expenses were higher in Q4 2017 due to a broker promotion that was in place at that time, partially offsetting the promotional premiums referenced above.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume was $0.46 billion, down 13.9% from $0.53 billion in Q4 2017 reflecting the maturity profile of the underlying MUA. Renewal rates were 73% in Q4 2018 compared to 76% in Q4 2017.

Net revenue from renewal sales was $5.2 million, down 28.8% from $7.4 million in Q4 2017. The decrease is due to both lower volume, and the decrease in net gain on sale rates to 1.15% from 1.39%.

The gross gain on sale rate was 1.41% in Q4 2018 compared to 1.50% in Q4 2017. This is in line with management's anticipation of some lower premiums due to a larger proportion of renewal sales to an investor that pays a discounted premium. As with new originations, market competition, which puts downward pressure on offered mortgage rates, also factored into the reduced rate.

The acquisition cost rate was 0.26%, up from 0.11% in Q4 2017. This was expected and continues the trend seen throughout 2018, reflecting the increased proportion of renewals that were part of the discontinued Loyalty Program referenced above.

Q4 2018 compared to Q3 2018

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of $0.88 billion was down seasonally 10.0% compared to $0.98 billion in Q3 2018.

Net revenue of $4.5 million from new sales (excluding portfolio insurance amortization) was down $1.6 million or 26.5% compared to Q3 2018, due to lower volume and a decline in the net gain on sale rates to 0.51% compared to 0.62% in Q3.

The gross gain on sale rate of 1.64% in Q4 2018, compared to 1.72% in Q3 2018, reflects pricing pressure from market competition and some market spread compression.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume of $0.46 billion was down from $0.70 billion in Q3, based on the underlying maturity profile of the MUA and the seasonality of the profile.

Net revenue of $5.2 million was down 27.8% from $7.3 million in Q3, reflecting the decline in volume offset by an increase in the net gain on sale rate to 1.15% from 1.05% last quarter. The increase was largely due to a lower proportion of renewals with an investor who pays the lower premium, offset by a higher acquisition cost rate reflecting an increase in the Loyalty Program commissions.

Net interest and other income

Table 3 - Net interest, fee and other income (expense)

A breakdown of the Company's net interest and other income is shown below, allocated among the Company's core banking business components and other items.

	For the three months ended					
(in thousands of $)	**December 31, 2018**	**Average rate**	**September 30, 2018**	**Average rate**	**December 31, 2017**	**Average rate**
Interest income - Street Solutions	**$ 6,639**	**5.33%**	$ 5,702	5.28%	$ 2,306	5.13%
Interest income - bridge loans	**45**	**8.79%**	79	8.41%	53	6.33%
Interest income - other mortgages and loans	**278**	**3.61%**	168	3.11%	100	3.29%
Interest income - cash and liquidity	**470**	**2.24%**	375	1.87%	137	0.83%
Total interest income - non-securitized assets	**$ 7,432**	**4.83%**	$ 6,324	4.71%	$ 2,596	3.97%
Interest expense - deposits and other	**(4,225)**	**2.82%**	(3,556)	2.72%	(1,768)	2.81%
Net interest income - non-securitized assets	**$ 3,207**	**2.09%**	$ 2,768	2.06%	$ 828	1.27%
Provision for credit losses	**(58)**		(67)		(155)	
Net interest income - non-securitized	**$ 3,149**		$ 2,701		$ 673	
Interest income - securitized mortgages	**1,006**	**2.56%**	1,270	2.59%	1,404	2.50%
Interest expense - securitization liabilities	**(871)**	**2.19%**	(1,067)	2.19%	(1,130)	2.01%
Net interest income - securitized	**$ 135**	**0.34%**	$ 203	0.42%	$ 274	0.49%
Total net interest income [1]	**$ 3,284**	**1.73%**	$ 2,904	1.62%	$ 947	0.91%
Servicing and fee income - loan sales	**322**		236		427	
CMB securitization income	**669**		221		247	
Gain on sale of I/O strip	**470**		-			
Fair value adjustments - mortgages held for sale	**204**		-			
Other income (expense)	**(103)**		(298)		(160)	
Total fee and other income	**$ 1,562**		$ 159		$ 514	
Total fee, interest and other income	**$ 4,846**		$ 3,063		$ 1,461	

[1] based on interest earning assets only

Table 3 (continued) - Net interest, fee and other income (expense)

(in thousands of $)	For the year ended December 31, 2018	Average rate	December 31, 2017	Average rate
Interest income - Street Solutions	$ 20,012	5.27%	$ 3,239	5.05%
Interest income - bridge loans	219	8.00%	383	7.10%
Interest income - other mortgages and loans	627	3.15%	269	2.61%
Interest income - cash and liquidity	1,414	1.82%	249	0.77%
Total interest income - non-securitized assets	$ 22,272	4.64%	$ 4,140	3.68%
Interest expense - deposits and other	(12,739)	2.71%	(3,218)	3.00%
Net interest income - non-securitized assets	$ 9,533	1.99%	$ 922	0.82%
Provision for credit losses	(251)		(291)	
Net interest income - non-securitized	$ 9,282		$ 631	
Interest income - securitized mortgages	5,004	2.59%	5,827	2.42%
Interest expense - securitization liabilities	(4,138)	2.12%	(4,754)	1.97%
Net interest income - securitized	$ 866	0.42%	$ 1,073	0.45%
Total net interest income [1]	$ 10,148	1.54%	$ 1,704	0.14%
Servicing and fee income - loan sales	1,167		1,010	
CMB securitization income	1,691		574	
Gain on sale of I/O strip	470		-	
Fair value adjustments - mortgages held for sale	204		-	
Other income (expense)	(889)		91	
Total fee and other income	$ 2,643		$ 1,675	
Total fee, interest and other income	$ 12,791		$ 3,379	

[1] based on interest earning assets only

Net Interest Income (NII) and Net Interest Margin (NIM) – Non-Securitized

NII was $9.5 million for 2018, up significantly from $0.9 million in 2017 on material increases in average balances for Street Solution mortgages in the year. NIM increased meaningfully to 1.99% from 0.82% last year. The increase in NIM reflects both improved spreads on Street Solutions, from higher asset yields and lower cost of funds, as well as improved utilization and returns on liquid assets.

(Provisions for) Recovery of Credit Losses

The Bank adopted IFRS 9 on January 1, 2018, which affects the calculation of the provisions for credit losses. The adoption was not material to the financial position or operating results of the Bank.

The 2018 provision for credit losses was $0.25 million, compared to $0.29 million last year. In 2017 the Bank started its portfolio and its provisions from a zero balance, so the provision is not directly comparable to 2018. Provisions overall in 2018 remain low at 0.09% of the average portfolio, reflecting the strong credit profile of the Street Solutions portfolio and its actual experience of no realized losses since inception of the product. The allowance for expected credit losses was $0.59 million at the end of 2018 or 0.11% of the Street Solutions balances at December 31, 2018.

The Q4 2018 provision was $0.06 million or 0.06% of the average portfolio compared to $0.07 million last quarter and 0.08% of the average portfolio, and was $0.08 million or 0.19% of the average portfolio in Q4 2017. Please see *Expected credit losses*, under *Credit Risk Management*, below, for further information.

Net Interest Income – Securitized

Net interest income from this source is declining, as expected, as the related balances amortize. The Bank has not securitized mortgages for its own balance sheet since Q4 2016.

Fee and Other Income

Servicing and fee income - loan sales was $1.2 million in 2018 compared to $1.0 million last year and is composed of the net servicing fees and trailing interest spread earned by the Bank on mortgage loan sales. Fee income is miscellaneous mortgage lending fees, primarily earned from the Street Solutions portfolio.

CMB securitization income of $1.7 million in 2018 was earned from the Bank's securitization and sale of $264.5 million of NHA MBS mortgage loans on multi-unit residential properties, compared to gains of $0.6 million on $74.2 million in 2017. The increase reflects a full year of participation in the product together with a management focus to maximize contribution from the product when mortgages that meet the Bank's risk tolerance are available. Q4 2018 income was $0.7 million on $104.1 million mortgage sales and increased from both Q3 2018 and Q4 2017, as more loans were available in Q4 2018.

The Company earned $0.47 million in 2018 from the Q4 sale of an interest-only strip on its securitized mortgages. There were no similar transactions in 2017.

The fair value adjustments of $0.20 million in Q4 2018 relate to the $10.5 million of NHA MBS mortgages that were being held for sale at December 31, 2018.

Other income (expense) largely relates to the Company's legacy business and other non-core items. In 2018, it includes $0.44 million of cumulative interest expense on a payable to a former executive, and $0.24 million interest expense on the corporate loans detailed in Note 15 of the 2018 audited consolidated financial statements. In both years it also includes losses on the sale of artwork. In 2018, these losses are partially offset by a $0.15 million recovery of a legacy loan that had been adjusted to a carrying value of $0 in prior years.

Operating expenses

Table 4 – Adjusted Operating Expenses

Adjusted operating expenses are defined as the Company's total operating expenses net of the $7.6 million and $6.8 million reorganization expenses charged to income in 2018 and 2017, respectively, and net of the 2018 $26.6 million impairment of goodwill and intangible assets (please see the section *Non-GAAP Measures*, and the table below).

	For the three months ended			For the year ended	
(in thousands of $)	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Salaries and benefits	**$ 8,547**	$ 7,379	$ 6,774	**$ 31,812**	$ 30,859
Information technology and telecom	**1,043**	1,216	$ 713	**4,408**	3,063
Outsourcing and servicing	**1,030**	1,095	$ 871	**3,801**	3,261
Professional services	**928**	548	$ 708	**2,624**	2,174
Facilities and office	**769**	859	$ 755	**3,203**	3,011
Marketing and business development	**304**	678	$ 813	**2,174**	2,829
Depreciation and amortization	**357**	408	$ 467	**1,614**	1,799
Other	**1,422**	1,167	$ 1,122	**5,298**	5,119
Other operating expenses	**5,853**	5,971	5,449	**23,122**	21,256
Adjusted operating expenses	**14,400**	13,350	12,223	**54,934**	52,115
Restructuring costs (recoveries)	**7,633**	-	223	**7,633**	6,779
Impairment of goodwill and intangibles	**26,591**	-	-	**26,591**	-
Total operating expenses	**$ 48,624**	$ 13,350	$ 12,446	**$ 89,158**	$ 58,894
Employee headcount at quarter end	**222**	220	218	**222**	218

Salaries and benefits

Salaries and benefits in 2018 increased to $31.8 million from $30.9 million last year, mostly due to increases in equity-based compensation from the program introduced in 2017. Average staffing levels during 2018 were consistent with 2017.

Salaries and benefits in Q4 2018 were $8.5 million, up from both $7.4 million in Q3 2018 and $6.8 million in Q4 2017. The $1.1 million increase, quarter over quarter, primarily reflects additional accruals for variable pay as the 2018 program was finalized, while in Q4 2017 there was a release in variable pay from the same process.

Early in 2019, as discussed above in the 2019 Outlook, as part of the Company's strategic realignment approximately 30 staff and mid-level positions were eliminated. Over 2019, the Company will look to capitalize on these savings, but they will be partially offset by some additional FTE to execute on strategic priorities, increased equity compensation expense from 2018 based awards, and cost of living increases for non-executive staff.

Other operating expenses

Operating expenses of $23.1 million in 2018 were up from $21.3 million in 2017. The principal factors were increases in IT and telecom to support the growing infrastructure for new products, and an increase in servicing costs. Servicing costs are expected to increase as the balance sheet grows, as these expenses include the costs for both broker deposits and Street Solutions mortgages.

Operating expenses were $5.9 million in the quarter, consistent with $6.0 million last quarter and up from $5.4 million in Q4 2017. Year over year increases are consistent with the increase in the annual operating costs. Management is targeting positive operating leverage in 2019 and will prudently manage its costs to achieve the target.

Fair Value Adjustments, Discontinued Operations and Non-Controlling Interests

The Company's fair value adjustments relate to its legacy businesses, particularly its Private Equity investments. As discussed above, with the sale of its final portfolio investment in June 2018, the Company has effectively exited Private Equity.

Since discontinuing its real estate business in the first quarter of 2013, the Company has retained some related assets and liabilities that in aggregate are immaterial to both the Company's operations and its financial position. There were no significant transactions involving discontinued operations during either 2017 or 2018, although during 2018 the Company received approximately $0.50 million in cash relating to legacy receivables.

At December 31, 2018 the non-controlling interest of $(7.09) million reported on the Company's statement of financial position is associated with the Company's legacy investment in Fleetwood Fine Furniture, LP ("FFF"). No income or loss was attributable to the non-controlling interest associated with FFF during either 2018 or 2017.

At December 31, 2018, the non-controlling interest in the Private Equity business was reduced to zero due to the effective exit from the business in Q2. Prior to this liquidation, during the first six months of 2018, a total of $1.52 million net income was attributable to the Company's non-controlling interest associated with the Private Equity business.

Income Taxes

As noted above under *Items of Note*, the Company's net income tax expense in 2018 was impacted by $14.2 million reversals of deferred tax recoveries for prior tax years. When the reversals are excluded from the income tax calculation, the effective tax rate for the consolidated entity is approximately 20%. In general, the Company's net income tax expense is composed of tax expense related to the operating results of Street Capital Bank.

At December 31, 2018, the Company had approximately $243 million in non-capital loss carry-forwards that may be used to reduce future years' taxable income until 2038, although losses begin expiring in 2026.

The income tax expense or recovery reported in the statement of operations is based on a number of different estimates made by management. The effective tax rate can change from period to period, based on the mix of income or loss among the different jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, and changes in the estimated values of deferred tax assets and liabilities recorded on the statement of financial position. This is in addition to permanent differences that are either not in, or not deductible from, the computation of taxable income. For a given period, the reported income tax expense or recovery reflects an estimate of cash taxes in the current year, offset by the associated utilization of non-capital loss carry-forwards, and a provision for changes arising during the year in the value of the deferred tax assets and liabilities. The likelihood of recovering value from deferred tax assets such as loss carry-forwards, future tax depreciation of capital assets, and other assets, is assessed and recognized at each quarter-end. Material changes in income tax assets, liabilities, expense and recoveries may occur in the short term.

2018 AND Q4 2018 FINANCIAL POSITION REVIEW

The following table sets out the Company's consolidated financial position as at December 31, 2018 and 2017, as well as the financial position as at the most recent quarter ended September 30, 2018.

Table 5 - Financial Position

(in thousands of $)	As at December 31, 2018	As at September 30, 2018	As at December 31, 2017
Assets			
Cash and cash equivalents	**$ 65,018**	$ 77,529	$ 89,414
Restricted cash	**9,656**	17,437	35,543
Securities	**22,692**	7,414	-
Street Solutions uninsured mortgages	**526,782**	460,246	200,804
Other non-securitized mortgages and loans	**37,996**	26,492	13,259
Securitized mortgage loans	**123,362**	193,202	220,774
Deferred placement fees receivable	**48,670**	50,187	52,325
Prepaid portfolio insurance	**75,285**	77,251	82,511
Deferred income tax assets	**-**	13,062	14,568
Other assets	**33,204**	27,217	23,826
Goodwill and intangible assets	**1,500**	27,998	28,426
Total assets	**$ 944,165**	$ 978,035	$ 761,450
Liabilities			
Deposits	**$ 638,710**	$ 555,848	$ 292,976
Loans payable	**4,274**	4,107	4,039
Securitization liabilities	**125,472**	193,056	221,594
Accounts payable and accrued liabilities	**44,334**	45,126	64,840
Deferred income tax liabilities	**43,507**	47,247	45,889
Total liabilities	**856,297**	845,384	629,338
Total shareholders' equity	**94,960**	139,743	138,162
Non-controlling interests	**(7,092)**	(7,092)	(6,050)
Total liabilities and equity	**$ 944,165**	$ 978,035	$ 761,450
Total MUA ***(in billions of $)***	**$ 27.59**	$ 27.64	$ 28.02

CASH AND CASH EQUIVALENTS, RESTRICTED CASH, AND SECURITIES

Cash and cash equivalents at the balance sheet date represent funds on deposit with regulated Canadian financial institutions. They can include highly liquid investments such as Treasury Bills and bankers' acceptances.

Restricted cash represents mortgage loan repayments collected on behalf of third-party investors via a third-party service provider, cash collected that has not yet been allocated to securitization liabilities, and accrued interest from mortgage loan repayments collected in connection with securitization activities.

Securities, which were acquired during 2018, consist of publicly traded Canada Housing Trust mortgage-backed securities ("CMBs"). They are considered part of the Company's liquid assets. Please see Note 3 of the 2018 audited consolidated financial statements.

The Company's primary sources of cash are the premiums received on the sale of mortgages, deposits taking, the net servicing revenue and excess spread received on mortgages that have been sold, net interest income and fee income from balance sheet lending, and, to a lesser extent, securitizations.

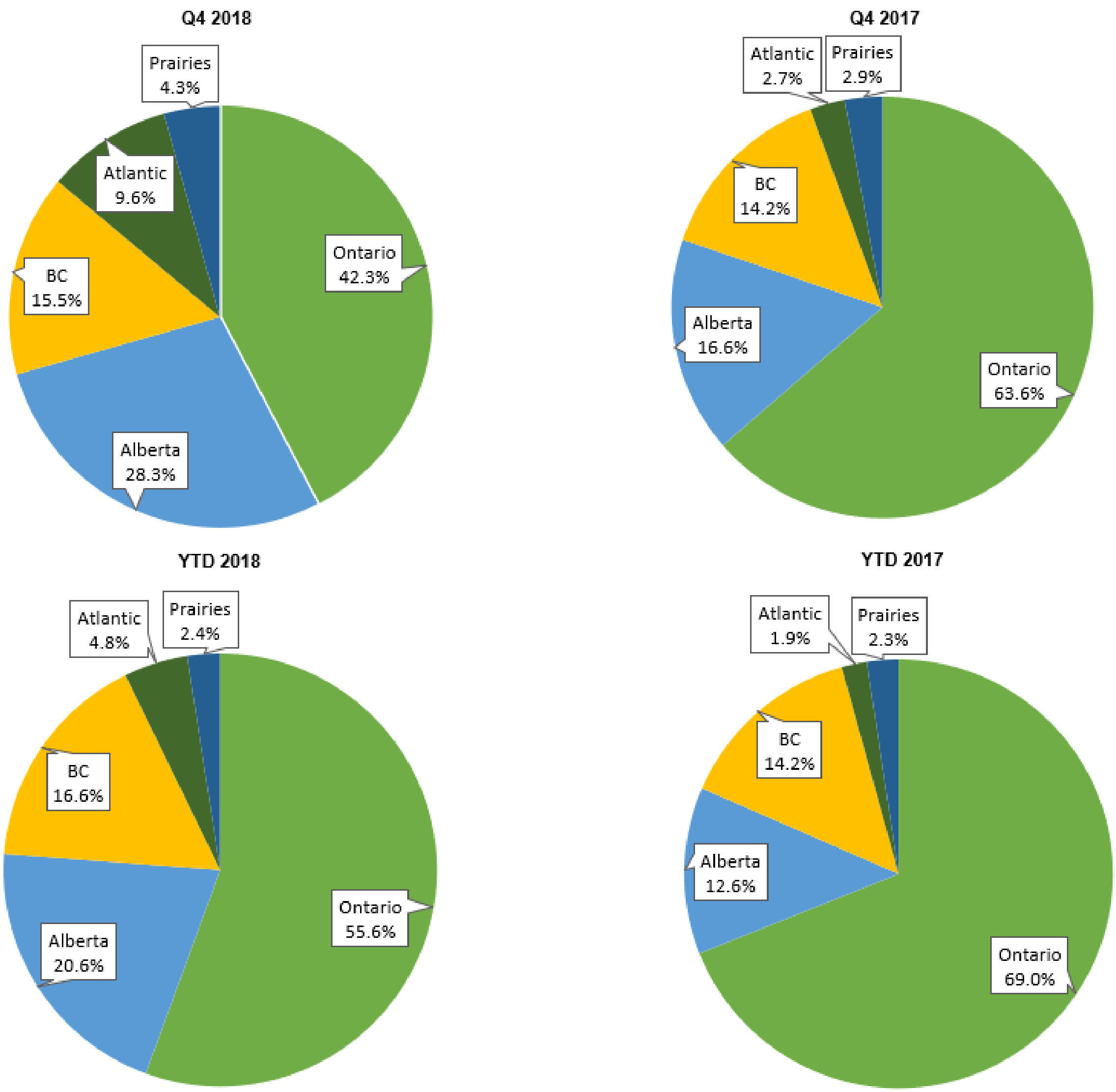
MORTGAGES UNDER ADMINISTRATION

Total mortgages under administration decreased to $27.59 billion at December 31, 2018 compared to $28.02 billion at December 31, 2017 and $27.64 billion last quarter, as portfolio run-off exceeded new originations.

Geographic Distribution – Prime Mortgages

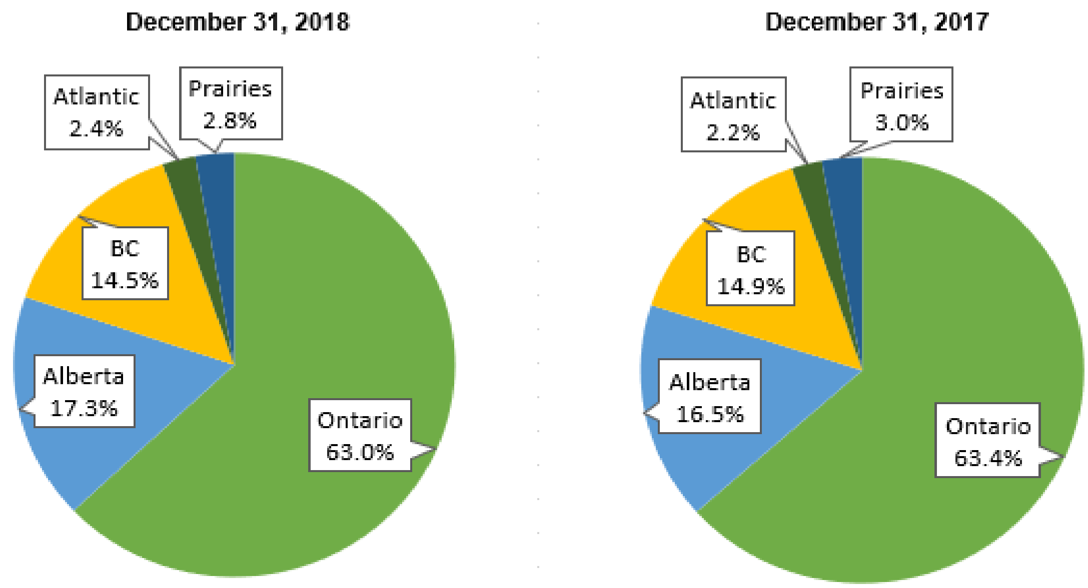
The charts below show the geographic distribution of prime mortgage originations and prime MUA.

Chart 1 – Geographic Distribution of Prime New Originations (% of $)



As noted in prior quarters, softer housing markets in Ontario, combined with the actions discussed above under *Business Update* that had more of an impact in Ontario, have reduced the relative proportion of originations in Ontario year over year.

Chart 2 – Geographic Distribution of Prime Mortgages under Administration (% of $)



The relative distribution of prime mortgages under administration at December 31, 2018, shown above, is relatively consistent with last year. As noted in prior quarters, the distribution reflects both the relative population density in urban centers of Ontario, and the historically higher average housing prices there compared to most of Canada. Although the relative geographic distribution of prime originations has changed noticeably in 2018 compared to 2017, to date the changes are not significant enough to affect the entire portfolio.

Shown below is the contractual remaining maturity profile of the Company's prime MUA at December 31, 2018.

Table 6 – Prime MUA Maturity Table

(in billions of $)	2019 $	2020 $	2021 $	2022 $	2023 $	2024 and beyond $	Total $
Prime MUA maturities	4.14	5.24	6.38	5.57	5.34	0.02	**26.69**

ON BALANCE SHEET LENDING ASSETS

Street Solutions Uninsured Mortgages

The Bank launched its uninsured lending product, Street Solutions, in Q2 2017 and the portfolio has grown to $555 million in mortgages outstanding at the end of 2018, including both mortgages held on-balance sheet and those derecognized through whole loan sales in Q4 2018. Street Solutions mortgages on-balance sheet are currently funded from the Bank's GIC deposit base. The mortgages are originated through the Bank's broker channel, with the target market consisting of credit-worthy, but under-served, borrowers who may not qualify for a prime insurable residential mortgage in the current lending environment.

Geographic Distribution

The geographic distribution of outstanding Street Solutions mortgages differs from that of the Bank's prime insured mortgages. At December 31, 2018 approximately 80% was concentrated in Ontario compared with 17% in British Columbia and 3% in Alberta and the Atlantic provinces combined. This is slightly changed from the geographic distribution as at September 30, 2018, at which point 83% was concentrated in Ontario and 15% in British Columbia. The distribution reflects the Bank's choice to initially focus the product on the areas of the country that have larger urban centers and correspondingly larger populations, along with strong employment trends and liquid housing markets. As the Street Solutions lending portfolio grows and expands geographically, management expects that loans will continue to be concentrated in larger urban centers.

Mortgage Continuity

The table below highlights the growth in the Street Solutions portfolio during 2018, as compared to 2017. The Company launched the Street Solutions lending program in Q2 2017, and therefore the 2017 amounts do not reflect a full year of lending activity.

Table 7 – Street Solutions mortgage principal continuity schedule

(in thousands of $)	For the year ended December 31, 2018	For the year ended December 31, 2017
Balance - beginning of year	**$ 201,425**	$ -
Originations	**421,386**	203,716
Renewals	**128,807**	
Capitalization and other	**95**	-
Repayments	**(8,697)**	(780)
Discharges [1]	**(188,464)**	(1,511)
Loan sales	**(26,210)**	-
Balance - end of year	**$ 528,342**	$ 201,425

[1] *This amount includes maturing mortgages that have been renewed.*

Other non-securitized and securitized mortgage loans

The Bank originates a low volume of mortgages and loans that are bridge loans, mortgages intended for future securitization and sale, or non-Street Solutions mortgages that will be held on-balance sheet.

Between 2014 and 2016 the Bank securitized and sold prime insured mortgage loans through the NHA MBS program, and it may engage in similar transactions in the future. Currently securitized mortgages and the related securitization liabilities are declining in line with contractual maturities and run-off. As well, $47.3 million of these mortgages were derecognized in Q4 2018 as part of an interest-only strip sale to a third-party investor.

DEFERRED PLACEMENT FEES RECEIVABLE AND PREPAID PORTFOLIO INSURANCE

When mortgages are sold on a fully serviced basis the Bank recognizes a gain on sale of mortgages and records a deferred placement fee receivable in the consolidated statement of financial position.

Prepaid portfolio insurance provides insurance coverage over a pool of mortgages and is amortized into income over a maximum period of 15 years, using a declining balance method.

Both Deferred placement fees receivable and Prepaid portfolio insurance have decreased from December 31, 2017 because amortization has exceeded increases from originations. This pattern is consistent with the overall decrease in MUA since that date. Please see Note 5 of the 2018 audited consolidated financial statements for further information.

DEPOSITS

The Bank offers CDIC insurance-eligible GIC deposits, sourced through third party deposit agents. At the end of 2018 deposits totaled $638.7 million, up from $293.0 million at the end of 2017. Deposits have terms ranging from 1 to 5 years, at interest rates between 0.80% and 3.69%. As noted above under *Street Solutions Uninsured Mortgages*, the deposits are the primary source of funding for the Bank's Street Solutions uninsured lending program. The table below shows the original term structure of the principal amount of the Bank's deposits. Please see Note 10 of the 2018 audited consolidated financial statements for a schedule of the remaining term to maturity.

Table 8 – Term Structure of Deposits

(in thousands of $, except %)							As at December 31, 2018
Contractual term	Cashable *	1 Year	2 Year	3 Year	4 Year	5 Year	Total
Deposit principal	**$ 3,488**	**$ 182,916**	**$ 213,152**	**$ 115,533**	**$ 27,047**	**$ 99,013**	**$ 641,149**
% of principal	**0.6%**	**28.5%**	**33.3%**	**18.0%**	**4.2%**	**15.4%**	**100.0%**
							As at September 30, 2018
Contractual term	Cashable *	1 Year	2 Year	3 Year	4 Year	5 Year	Total
Deposit principal	$ 4,109	$ 172,007	$ 173,615	$ 102,324	$ 21,754	$ 84,238	$ 558,047
% of principal	0.7%	30.8%	31.1%	18.4%	3.9%	15.1%	100.0%
							As at December 31, 2017
Contractual term	Cashable *	1 Year	2 Year	3 Year	4 Year	5 Year	Total
Deposit principal	$ 3,924	$ 90,213	$ 89,622	$ 45,549	$ 13,962	$ 50,949	$ 294,219
% of principal	1.3%	30.7%	30.5%	15.5%	4.7%	17.3%	100.0%

*** 90-day cashable 1 year GIC**

OTHER ASSETS

Other assets include receivables associated with mortgage sale activities, retained interests from securitization and interest-only transactions where derecognition is achieved, prepaid amounts, capital assets, and receivables associated with the Company's discontinued real estate operations. The year over increase, to $33.2 million at the end of 2018 from $23.8 million at the end of 2017, is primarily due to the increase in retained interests related to the securitization and sale of multi-unit residential mortgages through the CMB program. Please see Note 12 in the 2018 audited consolidated financial statements for more information.

GOODWILL

Street Capital Group Inc. recognized goodwill of $23.5 million when it acquired the predecessor company of the Bank, the Company's sole cash generating unit ("CGU"). All the goodwill was allocated to the Bank. The carrying amount of the goodwill is tested for impairment annually as at December 31, and whenever there are events or changes in circumstances which indicate that the goodwill may be impaired. Goodwill impairment testing compares the recoverable amount of the CGU to its carrying amount, with any deficiency recognized as goodwill impairment. The Company considers the relationship between its market capitalization and the book value of its equity, among other factors, when reviewing for indicators of impairment. Impairment losses relating to goodwill cannot be reversed in future periods.

In accordance with *IAS 36 - Impairment of Assets* ("IAS 36"), the recoverable amounts of the CGU's net assets have been determined using the higher of: i) the estimated fair value less costs to sell ("FVLCS"); and ii) its value-in-use ("VIU"). These approaches are based on future cash flow assumptions that carry a material degree of uncertainty in estimating the recoverable amounts of the CGU. In making such assumptions, management has used its best estimate of future economic and market conditions within the context of the Bank's mortgage lending activities. These valuations are categorized as Level 3 in the fair value hierarchy.

As at December 31, 2018, using the latest set of Board-approved financial plans, the estimated recoverable amount of the CGU was determined to be below its carrying value. Accordingly, an impairment charge representing the entire book value of the Company's goodwill was recorded as a component of Impairment of Goodwill and Intangibles in the Company's consolidated statements of operations.

INTANGIBLE ASSETS

Intangible assets included both acquired and internally generated intangible assets. Internally generated intangibles of $1.5 million at the end of the year are related to the Bank's internal development of own-use software. There were no indicators of impairment of internally generated intangible assets at the end of 2018 or through the year.

Acquired intangible assets were related to the acquisition of the predecessor of the Bank by Street Capital Group Inc. Impairment testing at the end of 2018 determined that the carrying value of the acquired intangible assets exceeded the recoverable amount, and the unamortized amount of $3.1 million was recorded as a component of Impairment of Goodwill and Intangibles in the Company's consolidated statements of operations.

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

The Company's deferred tax assets were associated with non-capital losses related to the Company's legacy businesses and head office operations. Based on management's judgement at the end of 2018, it was determined that it was no longer probable that sufficient future taxable income at the Street Capital Group Inc. entity would be available to utilize the tax losses. As a result, $14.2 million in deferred tax assets were reversed in the Company's consolidated statements of operations. These tax recoveries, while not recognized in the statement of financial position, remain available for use until 2038, although they begin expiring in 2026.

Deferred tax liabilities are almost exclusively associated with the Company's prime mortgage loan sale business and have declined year over year as loan sale activity declined year over year. Please see Note 16 of the 2018 audited consolidated financial statements.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These liabilities include accounts payable, accrued operating liabilities including restructuring costs, accrued mortgage acquisition costs, accrued interest primarily relating to the Bank's deposits, and liabilities associated with the Company's discontinued real estate operations. The decrease of $20.5 million since December 31, 2017 is largely due to a reduction of $24.9 million owed to mortgage servicers, which declined due to a change in the process to clear the account more frequently. This was offset by an increase in accrued deposit interest payable of $6.0 million reflecting the increase in deposit balances. Please see Note 14 of the 2018 audited consolidated financial statements.

LOANS PAYABLE

The $4.27 million of loans payable at December 31, 2018 are associated the Company's legacy businesses. They bear interest at 6%, are not subject to security or covenants, and can be prepaid by the Company without penalty. Please see Note 15 of the 2018 audited consolidated financial statements.

SHAREHOLDERS' EQUITY AND UPDATED SHARE INFORMATION

As shown on the 2018 statement of changes in equity, included in the 2018 audited consolidated financial statements, upon adoption of *IFRS 9 – Financial Instruments* on January 1, 2018, the Company recorded a $0.05 million negative adjustment to opening retained earnings. This was associated with an increase in the Bank's allowance for credit losses. Please see Note 3 of the audited consolidated financial statements for discussion regarding the adoption of IFRS 9, which was not material with respect to the Bank's financial position.

During 2018, shareholders' equity was decreased by the Company's $44.8 million loss from operations, offset slightly by a $1.4 million increase in contributed surplus that related to the amortization of stock-based compensation. 2.71 million options were awarded during 2018, and no options were exercised.

During 2018, the Company recorded $0.28 million of unrealized fair value gains, net of tax, relating to the CMBs that were purchased in Q3 and Q4. In conformance with IFRS 9, the gains are reported in the consolidated statements of other comprehensive income (loss).

At March 5, 2019, the Company had 122,184,182 common shares issued and outstanding. In addition, there were 7,171,568 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $8.6 million. Please see Note 20 of the 2018 audited consolidated financial statements.

CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

The Company, from time to time, is involved in various claims, legal and tax proceedings, and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

At December 31, 2018 the Company had $7.97 million of lease commitments, which are detailed further in Table 28, below.

OFF BALANCE SHEET ARRANGEMENTS

At December 31, 2018 the Bank had $140.2 million of outstanding commitments for advances on mortgage loans (December 31, 2017 - $35.9 million). These amounts are for mortgages the Bank intends to fund on its own balance sheet, and include offers made to customers that have not yet been accepted as of the reporting date. In the normal course of business, the Bank does not expect to fund 100% of the outstanding commitments. Such offers to extend credit are in the normal course of business and are planned through the Bank's liquidity and funding management practices.

At December 31, 2018 the Bank has $26.90 billion in loans under administration that are not included on the Bank's balance sheet, because they have been sold to third parties through a whole loan sale or derecognized through a securitization transaction.

RELATED PARTY TRANSACTIONS

The Company's related parties include the following individuals or entities:

- associates, or entities, that are controlled or significantly influenced by the Company;
- key management personnel, comprised of the Company and the Bank's directors and officers, and other employees having authority and responsibility for planning, directing and controlling the Company and the Bank's activities; and
- entities controlled by key management personnel.

The Company has few related party transactions, which are also described in Note 21 to the 2018 audited consolidated financial statements. These include shareholder loans to certain key employees and former employees.

During Q1 2018, the Chair, at that time [1] (the "Former Chair"), of the Company's Board of Directors purchased two artworks from the Bank, at prices determined by a combination of art dealer valuations and bids by unrelated potential purchasers. The Bank recognized a loss of $0.36 million on the sales, which was reported as a component of Other income (expense).

During Q3 2018, the Company entered into an agreement with the Former Chair regarding the terms of both an outstanding share purchase loan owing from the Former Chair and an accrued payable of $3.1 million owing to the Former Chair, which arose from the corporate reorganization that occurred in June 2015. Under the terms of the agreement, the share purchase loan bears simple interest at 1% per annum,

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[1] The former Chair of the Board of Directors retired on December 24, 2018, with the retirement becoming effective on January 3, 2019 upon the election of a new Chair.

and the accrued payable bears simple interest at the Canada Revenue Agency's prescribed annual interest rate applicable to overdue taxes owed by individuals (the "CRA rate"). The CRA rate is currently 6%. An additional term of the agreement is that the interest on both the loan receivable and the amount payable accrues from January 1, 2016. During 2018, the Company recorded interest receivable of $0.05 million and interest payable of $0.49 million, representing the cumulative amounts for the period beginning January 1, 2016 and ending December 31, 2018. Both the interest receivable and the interest payable have been recorded in Fee and other income in the 2018 audited consolidated statements of operations.

In the ordinary course of business, the Bank underwrites mortgages for its senior management, other related parties, and employees of the Bank. The mortgage terms are similar to those offered to unrelated parties, and incorporate an interest rate discount that is available to all employees.

QUARTERLY HIGHLIGHTS

The following table sets out financial highlights of the Company's consolidated quarterly results of operations for the eight quarters ended December 31, 2018. Please see the section *Non-GAAP Measures* for the definitions of adjusted net income and other related non-GAAP measures.

Table 9 – Quarterly Financial Highlights

(in thousands of $, except where defined)	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	**2018 Q4**
Financial performance								
Shareholders' net income (loss)	$ (2,574)	$ (104)	$ 3,731	$ 1,239	$ (1,365)	$ 3,306	$ (1,361)	**$ (45,369)**
Adjusted shareholders' net income (loss)	$ 69	$ 1,845	$ 4,297	$ 1,544	$ (1,481)	$ 2,337	$ 713	**$ (1,665)**
Shareholders' diluted earnings (loss) per share	$ (0.02)	$ 0.00	$ 0.03	$ 0.01	$ (0.01)	$ 0.03	$ (0.01)	**$ (0.37)**
Adjusted shareholders' diluted earnings (loss) per share	$ 0.00	$ 0.02	$ 0.04	$ 0.01	$ (0.01)	$ 0.02	$ 0.01	**$ (0.01)**
Return on equity	(7.7%)	(0.3%)	11.1%	3.6%	(4.0%)	9.5%	(3.9%)	**(154.6%)**
Adjusted return on equity	0.2%	5.6%	12.8%	4.5%	(4.3%)	6.7%	2.0%	**(5.7%)**
Return on tangible equity	(9.3%)	0.1%	14.4%	4.9%	(4.5%)	12.2%	(4.4%)	**(174.0%)**
Adjusted return on tangible equity	0.7%	7.5%	16.5%	6.1%	(4.9%)	8.8%	2.9%	**(5.9%)**
Mortgages sold and under administration								
Prime mortgages sold - new	$ 1,213,257	$ 1,499,930	$ 1,521,342	$ 1,138,274	$ 826,528	$ 1,061,892	$ 1,005,705	**$ 904,442**
Prime mortgages sold - renewal	304,597	463,167	560,423	531,080	519,686	767,830	695,609	**457,161**
Prime mortgages sold - total	$ 1,517,854	$ 1,963,097	$ 2,081,765	$ 1,669,354	$ 1,346,214	$ 1,829,722	$ 1,701,314	**$1,361,603**
Total Street Solutions originations	N/A	$ 10,225	$ 131,376	$ 62,116	$ 98,285	$ 107,805	$ 93,685	**$ 121,611**
Mortgages under administration *(in billions of $)*	$ 27.81	$ 27.81	$ 27.98	$ 28.02	$ 27.83	$ 27.90	$ 27.64	**$ 27.59**
Total revenue	$ 11,572	$ 16,881	$ 19,916	$ 14,788	$ 11,593	$ 17,041	$ 14,020	**$ 12,307**
Gain on sale of mortgages	$ 26,886	$ 37,278	$ 39,531	$ 30,077	$ 22,274	$ 29,728	$ 26,075	**$ 21,459**
As a % of mortgages sold	1.77%	1.90%	1.90%	1.80%	1.65%	1.62%	1.53%	**1.58%**
Acquisition expenses	$ 15,523	$ 20,902	$ 20,819	$ 16,750	$ 12,360	$ 15,890	$ 15,118	**$ 13,998**
As a % of mortgages sold	1.02%	1.06%	1.00%	1.00%	0.92%	0.87%	0.89%	**1.03%**
Net gain on sale of mortgages	$ 11,363	$ 16,376	$ 18,712	$ 13,327	$ 9,914	$ 13,838	$ 10,957	**$ 7,461**
As a % of mortgages sold	0.75%	0.83%	0.90%	0.80%	0.74%	0.76%	0.64%	**0.55%**
Adjusted operating expenses	$ 11,561	$ 14,510	$ 13,821	$ 12,223	$ 13,357	$ 13,827	$ 13,350	**$ 14,400**
As a % of mortgages sold	0.76%	0.74%	0.66%	0.73%	0.99%	0.76%	0.78%	**1.06%**
Equity and share performance								
Shareholders' equity	$ 131,998	$ 132,252	$ 136,590	$ 138,162	$ 137,056	$ 140,763	$ 139,743	**$ 94,960**
Shares outstanding end of period **(in 000s)**	121,580	121,974	122,184	122,184	122,184	122,184	122,184	**122,184**
Book value per share	$ 1.09	$ 1.08	$ 1.12	$ 1.13	$ 1.12	$ 1.15	$ 1.14	**$ 0.78**
Market capitalization	$ 182,370	$ 164,665	$ 171,058	$ 125,850	$ 91,638	$ 103,856	$ 109,966	**$ 73,310**
Share price at close of market	$ 1.50	$ 1.35	$ 1.40	$ 1.03	$ 0.75	$ 0.85	$ 0.90	**$ 0.60**

Mortgage originations tend to follow seasonal housing market trends, where the spring and summer markets outperform the fall and winter ones, generally leading to relatively higher gains on sale in Q2 and Q3 compared to Q4 and Q1.

SELECTED Q4 2018 FINANCIAL INFORMATION

Table 10 – Consolidated Statements of Operations

(In thousands of Canadian dollars, except per share data) Unaudited

	Three months ended December 31,	
	2018	**2017**
	$	$
Revenue		
Gain on sale of mortgages	**21,459**	30,077
Acquisition costs	**(13,998)**	(16,750)
Net gain on sale of mortgages	**7,461**	13,327
Interest income - non-securitized assets	**7,432**	2,596
Interest expense - deposits and other	**(4,225)**	(1,768)
Net interest income - non-securitized assets	**3,207**	828
Provision for credit losses	**(58)**	(155)
Net interest income - non-securitized	**3,149**	673
Interest income - securitized mortgages	**1,006**	1,404
Interest expense - securitization liabilities	**(871)**	(1,130)
Net interest income - securitized mortgages	**135**	274
Total net interest income	**3,284**	947
Fee and other income	**1,562**	514
Total revenue	**12,307**	14,788
Expenses		
Salaries and benefits	**8,547**	6,774
Selling, general and administrative expenses	**5,853**	5,449
Restructuring costs	**7,633**	223
Impairment of goodwill and intangibles	**26,591**	-
Total expenses	**48,624**	12,446
Income (loss) before fair value adjustments	**(36,317)**	2,342
Fair value adjustments	**-**	(356)
Income (loss) before income taxes and discontinued operations	**(36,317)**	1,986
Income tax expense	**9,213**	1,016
Income (loss) from continuing operations	**(45,530)**	970
Income (loss) from discontinued operations	**161**	-
Net income (loss)	**(45,369)**	970
Net income (loss) attributable to non-controlling interest	**-**	(269)
Net income (loss) attributable to shareholders	**(45,369)**	1,239
Basic and diluted earnings (loss) per share		
Continuing operations	**$ (0.37)**	$ 0.01
Discontinued operations	**0.00**	0.00
Basic and diluted earnings (loss) per share	**$ (0.37)**	$ 0.01
Weighted average number of common shares outstanding (in thousands) - basic and diluted	**122,184**	122,184

Table 11 – Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars, except per share data) Unaudited

	Three months ended December 31,	
	2018	**2017**
	$	$
Net income (loss)	**(45,369)**	1,239
Other comprehensive income (loss)		
Net unrealized gains due to changes in fair value of securities	**407**	-
Income tax expense	**108**	-
Net other comprehensive income	**299**	-
Comprehensive income (loss)	**(45,070)**	1,239
Comprehensive income (loss) attributable to:		
Shareholders	**(45,070)**	1,508
Non-controlling interest	**-**	(269)
Comprehensive income (loss)	**(45,070)**	1,239

Table 12 – Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except per share data) Unaudited

	Three months ended December 31, 2018	2017
	$	$
Operating activities		
Income (loss) from continuing operations	**(45,530)**	970
Non-cash items		
Deferred income taxes	**9,213**	1,016
Foreign exchange on loans payable	**167**	16
Depreciation and amortization	**481**	582
Fair value adjustments	**(379)**	356
Provision for credit losses	**58**	155
Share-based compensation	**287**	333
Write off of goodwill	**23,465**	-
Write off of intangible assets	**3,126**	-
Other losses	**-**	131
Changes in assets and liabilities		
Restricted cash	**7,781**	(12,206)
Securities	**379**	-
Non-securitized mortgage loans	**(78,098)**	(58,572)
Securitized mortgage loans	**69,840**	7,388
Deferred placement fees receivable	**1,517**	(180)
Prepaid portfolio insurance	**1,966**	(955)
Other assets	**(6,769)**	(1,526)
Deposits	**82,862**	94,632
Securitization liabilities	**(67,584)**	(7,666)
Restructuring accruals	**4,217**	(628)
Other accounts payable and accrued liabilities	**(5,009)**	14,269
Cash provided by (used in) continuing operations	**1,990**	38,115
Cash provided by discontinued operations	**80**	-
Cash provided by (used in) operating activities	**2,070**	38,115
Investing activities		
Purchase of capital assets	**(134)**	(393)
Purchase of intangible assets	**(285)**	(500)
Purchase of securities	**(14,871)**	-
Proceeds from sale of artwork	**709**	64
Cash used in investing activities	**(14,581)**	(829)
Financing activities		
Cash provided by (used in) financing activities	**-**	-
Increase (decrease) in cash and cash equivalents	**(12,511)**	37,286
Cash and cash equivalents - beginning of period	**77,529**	52,128
Cash and cash equivalents - end of period	**65,018**	89,414
Supplementary information		
Cash paid and received during the period		
Interest received	**8,336**	3,891
Interest paid	**2,438**	428
Income taxes paid (tax refunds received)	**-**	3

Table 13 – Gain on Sale of Mortgages

(In thousands of Canadian dollars) Unaudited

The table below details the Company's gain on sale of mortgages for Q4 2018 and Q4 2017. The components are discussed above under *2018 and Q4 2018 Earnings Review*. Please see Note 5 of the 2018 audited consolidated financial statements.

	Three months ended December 31,			
		2018		**2017**
Prime insured mortgages sold - new	**$**	**879,909**	$	1,138,274
Prime insured mortgages sold - renewals		**457,161**		531,080
Prime insured mortgages sold - total	**$**	**1,337,070**	$	1,669,354
Prime uninsured mortgages sold		**24,533**		-
Street Solutions mortgages sold		**26,210**		-
Mortgages sold - total	**$**	**1,387,813**	$	1,669,354
Cash premium at sale - prime insured	**$**	**17,485**	$	24,821
Deferred gain on sale - prime insured		**3,433**		5,256
Acquisition costs - prime insured		**(13,827)**		(16,750)
Net gain on sale - prime insured	**$**	**7,091**	$	13,327
Cash premium at sale - prime uninsured		**355**		
Deferred gain on sale - prime uninsured		**38**		
Acquisition costs - prime uninsured		**(172)**		
Net gain on sale - prime uninsured	**$**	**221**	$	-
Cash premium at sale - Street Solutions	**$**	**131**		-
Deferred gain on sale - Street Solutions		**17**		-
Acquisition costs - Street Solutions		**1**		-
Net gain on sale - Street Solutions	**$**	**149**	$	-
Total net gain on sale of mortgages	**$**	**7,461**	$	13,327
% Gain		**0.54%**		0.80%

Table 14 – Mortgage Continuity and Credit Migration

(In thousands of Canadian dollars) Unaudited

The tables below show the continuity and credit migration of the principal balances of the Company's Street Solutions mortgage loans, and its on-balance sheet securitized mortgage loans, for the quarter ended December 31, 2018. Please see Notes 7, 8 and 9 of the 2018 audited consolidated financial statements for more detail.

(in thousands of $)	Three months ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Street Solutions				
Gross carrying amount, beginning of period	$ 407,115	$ 53,992	$ 483	$ 461,590
Mortgages issued, net of repayments and other derecognitions	99,584	(32,832)	-	66,752
Transfers in (out) to Stage 2	(57,644)	57,228	416	-
Transfers in (out) to Stage 3	(533)	-	533	-
Write-offs	-	-	-	-
Recoveries	483	-	(483)	-
Gross carrying amount, end of period	$ 449,005	$ 78,388	$ 949	$ 528,342

(in thousands of $)	Three months ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Securitized mortgage loans				
Gross carrying amount, beginning of period	$ 191,743	$ 215	$ -	$ 191,958
Mortgages issued, net of repayments and other derecognitions	(69,388)	-	-	(69,388)
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	215	(215)	-	-
Transfers in (out) to Stage 3	-	-	-	-
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Gross carrying amount, end of period	$ 122,570	$ -	$ -	$ 122,570

Table 15 – Prepaid Portfolio Insurance

(In thousands of Canadian dollars) Unaudited

Prepaid portfolio mortgage insurance is capitalized on purchase and amortized as an expense into income over a maximum period of 15 years, using a declining balance method that estimates the pattern of consumption. The net unamortized amount of prepaid portfolio insurance at December 31, 2018 and 2017 is shown below, as part of a continuity schedule for those quarters. Please see Note 5 of the 2018 audited consolidated financial statements for more detail.

(in thousands of $)

	Three months ended	
	December 31, 2018	**December 31, 2017**
Balance, beginning of period	**$ 77,251**	$ 81,556
Capitalized at purchase	**652**	3,538
Amortization during the period	**(2,618)**	(2,583)
Balance, end of period	**$ 75,285**	$ 82,511

Table 16 – Share Capital

(In thousands of Canadian dollars, except shares) Unaudited

The authorized capital stock consists of an unlimited number of common and preferred shares with no par value. There are no preferred shares outstanding.

	For the three months ended			
Common shares Issued and outstanding (000s)		**December 31, 2018**		**December 31, 2017**
	Number of Shares	**Amount**	**Number of Shares**	**Amount**
Outstanding, beginning of period	**122,184**	**$ 245,329**	122,184	$ 245,329
Options exercised	**-**	**-**	-	-
	122,184	**$ 245,329**	122,184	$ 245,329
Share purchase loans		**(1,912)**		(1,912)
Outstanding, end of period	**122,184**	**$ 243,417**	122,184	$ 243,417

Table 17 – Net Income (Loss) per Share

(In thousands of Canadian dollars, except share data) Unaudited

The following is a reconciliation of the numerators and denominators used in computing net income (loss) per share for the three months ended December 31:

Basic and diluted net income (loss) per share	Three months ended December 31, 2018	2017
Numerator:		
Income (loss) from continuing operations	$ (45,530)	$ 970
Income (loss) attributable to non-controlling interest	-	(269)
Income (loss) attributable to shareholders - continuing operations	(45,530)	1,239
Income (loss) from discontinued operations	161	-
Income attributable to non-controlling interest	-	-
Income (loss) attributable to shareholders - discontinued operations	161	-
Net income (loss) attributable to shareholders	$ (45,369)	$ 1,239
Denominator:		
Weighted average common shares outstanding - basic and diluted (000s)	122,184	122,184
Basic and diluted net income (loss) per share from continuing operations	$ (0.37)	$ 0.01
Basic and diluted net income (loss) per share from discontinued operations	0.00	0.00
Basic and diluted net income (loss) per share	$ (0.37)	$ 0.01

In computing the diluted net loss per share for the three months ended December 31, 2018, the Company did not include in the calculation potential common share equivalents, which consist of incremental shares from stock options and the outstanding DSUs held by directors, as they would be anti-dilutive. The potential common share equivalents are included in EPS only when the Company has earnings. The inclusion of the potential common share equivalents for the three months ended December 31, 2017 was not sufficiently dilutive to change the earnings per share.

SELECTED ANNUAL INFORMATION

(in thousands of $, except per share data)	2016	2017	**2018**
Total revenue	$ 68,272	$ 63,157	**$ 54,961**
Net income (loss) from continuing operations	$ 13,652	$ 1,541	**$ (43,435)**
Net income (loss) attributable to shareholders	$ 16,266	$ 2,292	**$ (44,789)**
Basic and diluted net income (loss) per share:			
Continuing operations	$ 0.13	$ 0.02	**$ (0.37)**
Discontinued operations	$ -	$ -	**$ -**
Basic and diluted net income (loss per share	$ 0.13	$ 0.02	**$ (0.37)**
Total assets	$ 498,407	$ 761,450	**$ 944,165**
Total non-current financial liabilities	$ 233,305	$ 369,011	**$ 487,540**
Dividends	$ -	$ -	**$ -**

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS AND POLICIES

The preparation of consolidated financial statements requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain. These affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, at the financial statements date, as well as the reported amounts of revenue and expenses during the reporting period. The Company's management reviews its estimates, assumptions and judgments on an ongoing basis, at least quarterly, and updates them as required by events or changes in circumstances. Changes to estimates and assumptions may therefore affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Additionally, actual results could differ from those estimates under different assumptions and conditions.

The Company's key areas of judgment and estimation include: amount of allowance for credit losses; valuation of mortgages and other loans receivable (including estimates such as duration factors on deferred placement fees receivable); the amount of variable mortgage broker compensation; the amount of trailer commission on certain products that will be paid in future periods; the useful life and residual value of certain assets including prepaid portfolio insurance, retained interests in securitization transactions, and intangible assets and goodwill; derecognition of mortgages that have been sold; valuation of securities and other investments; and accounting for deferred income taxes.

This MD&A should be read in conjunction with the Company's 2018 audited consolidated financial statements and the notes thereto. The significant accounting policies and critical accounting estimates are described in Note 3 of the 2018 audited consolidated financial statements. These policies have the potential to significantly impact the Company's financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature.

Future changes in accounting standards that may have an impact on the Company's financial position and results of operations are discussed in Note 3 to the 2018 audited consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for the fairness and integrity of financial information presented in the consolidated financial statements, which are prepared in accordance with GAAP. Management has therefore established a system of disclosure controls and procedures, and internal controls over financial reporting. These controls are designed to ensure that the Company's consolidated financial statements and MD&A present fairly, in all material respects, the Company's financial position and operating results.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws. They include controls and procedures that are designed to ensure that information is accumulated and communicated to senior management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures was conducted as of December 31, 2018. Based on that evaluation, the Company’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company’s disclosure controls and procedures, as defined by *National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings*, were effective as of December 31, 2018.

Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company’s internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions, and acquisitions and dispositions of the assets, of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made in accordance with authorizations of management and the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Due to inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. As a result, the Company’s management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company has used the *Integrated (2013) Framework* published by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* to evaluate the design of the Company’s internal controls over financial reporting.

An evaluation of the design and operating effectiveness of internal controls over financial reporting was conducted as of December 31, 2018. Based on that evaluation, the Company’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company’s internal controls over financial reporting were operating effectively as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes to the Company’s internal controls over financial reporting during the period ended December 31, 2018 that have materially affected, or are expected to have a material effect on, the Company’s financial reporting.

COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain items in the comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 audited consolidated financial statements.

CAPITAL MANAGEMENT

An adequate reserve of capital provides the Company with a buffer for reasonably foreseeable losses, to ensure that the Company may absorb such losses and to position the business to remain stable. Additionally, a strong capital position helps to promote confidence among stakeholders such as investors, depositors, regulators and shareholders.

The Company has a Board-approved Capital Management Policy that governs the quantity and quality of capital held. The policy was developed with significant reference to the operations of the Company's wholly owned Schedule I bank, Street Capital Bank, which is the Company's sole operating subsidiary, and it is aligned with the Company's risk appetite and strategic plan. The objective of the policy is to ensure that the Company appropriately balances its capital allocation between retention of a prudent margin above regulatory capital adequacy minimums in order to provide access to contingency capital, and maintenance of sufficient freely available capital to achieve business goals and objectives. Management defines capital as the Company's equity and deficit. The Company's Capital Management Policy is reviewed at least annually and more often if required by events or changing circumstances.

As a regulated financial institution that is subject to regulatory capital requirements, the Bank must continually monitor and assess its capital adequacy. Capital adequacy is in part affected by changes in the Bank's financial performance, its business plans, or regulatory requirements that could lead to a requirement for the Bank to implement strategies to improve capital adequacy.

Regulatory capital

Effective with the commencement of banking operations on February 1, 2017, the Bank is required to calculate capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI. These are based on *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* ("Basel II") and *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* ("Basel III"). The Bank must maintain minimum levels of capital in order to meet minimum risk-based capital ratios based on Basel II and Basel III. Accordingly, the Company manages the Bank's capital through utilization of an Internal Capital Adequacy Assessment Process ("ICAAP"), as discussed below. Street Capital Bank defines capital as meeting the definition of regulatory capital as defined by the capital adequacy requirements defined by OSFI, which in its case is Street Capital Bank's common equity and retained earnings.

The Bank's capital management policy addresses two regulatory capital requirements: the Leverage Ratio and the Risk-Based Capital Ratios. OSFI establishes Leverage Ratio targets for each financial institution, which are confidential. The Bank was fully compliant with its target regulatory capital and leverage ratio requirements at December 31, 2018.

Table 18 – Basel III Regulatory Capital (based only on the consolidated subsidiary, Street Capital Bank)

(in thousands of $, except %)	December 31, 2018 All-In Basis	December 31, 2017 All-In Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 16,426**	$ 16,426
Contributed surplus	**2,072**	767
Retained earnings	**77,673**	82,726
Accumulated other comprehensive income	**278**	-
Less: Regulatory adjustments to CET 1	**(1,234)**	(1,340)
Total CET 1 capital	**$ 95,215**	$ 98,579
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**$ 95,215**	$ 98,579
Total Tier 2 capital	**581**	-
Total regulatory capital	**$ 95,796**	$ 98,579
Total risk-weighted assets	**$ 479,866**	$ 388,187
Regulated capital to risk-weighted assets		
CET 1 ratio	**19.84%**	25.39%
Tier 1 capital ratio	**19.84%**	25.39%
Total regulatory capital ratio	**19.96%**	25.39%
Leverage ratio	**10.07%**	13.76%
National regulatory minimum		
CET 1 ratio	**7.00%**	7.00%
Tier 1 capital ratio	**8.50%**	8.50%
Total regulatory capital ratio	**10.50%**	10.50%
Leverage ratio	**3.00%**	3.00%

The Bank's regulatory capital ratios and leverage ratio remain above regulatory minimums and internal targets. The ratios have declined over the periods presented as the Bank began to deploy its capital towards on-balance sheet lending through the Street Solutions product.

Internal Capital Adequacy Assessment Process (ICAAP)

Under the Bank's capital and risk management policies, and OSFI's guidelines, the Bank is required to continually assess the adequacy of current and projected capital resources under expected and stressed conditions.

The Bank manages its capital risk through its Capital Management Policy and Internal Capital Adequacy Processes (ICAAP) and related standards (including stress-testing). The Bank's risk identification and assessment process for capital adequacy risk includes:

- Escalation of current and emerging risks to the Asset and Liability Committee ("ALCO") and the Enterprise Risk Management Committee of the Board ("ERMC") and review of actual results against plan at least monthly

- Use of stress testing and scenario analysis to assess the potential impact of severe but plausible scenarios / stress tests
- Integration of business, financial and capital planning processes to assess adequacy of the capital to meet business and financial plans
- Consideration of capital implications for new business initiatives
- Capital contingency planning

Based on management's assessment of the adequacy of the Bank's capital, the Bank is currently adequately capitalized to continue operations. However, as noted above, the Bank requires additional capital in order to achieve its mid- to long-range business plans and to grow the Bank prudently.

Dividends

There were no dividends declared or paid during 2017 or 2018. At this time the Company's best use of capital is reinvestment into the operations and growth of the Bank.

While there is no restriction on the Company's ability to declare dividends, the Bank is the sole operating subsidiary of the Company and is subject to regulatory capital and business requirements stipulated by OSFI that must be met before dividends can be declared and paid.

RISK MANAGEMENT AND RISK FACTORS

The shaded areas of the MD&A below form an integral part of the 2018 audited consolidated financial statements as they present required IFRS disclosures for risk management policies and procedures for certain risks as set out in *IFRS 7 Financial Instruments: Disclosures*, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 19 of the 2018 audited consolidated financial statements.

The Bank's business strategies and operations expose the Company to a wide range of risks. The Company's continual investment in, and commitment to, risk management is a key component of its long-term success. The Bank has exposure to risks that are similar to those of other regulated financial institutions. These include the symptoms and effects of domestic and global economic conditions, among others, many of which are beyond the Bank's control. Exposure to these risks could adversely affect the Bank's operations, financial condition or financial performance, and in turn could influence an investor to buy, hold or sell the Company's shares.

When evaluating risks, the Bank makes decisions with reference to its risk appetite framework. This framework defines the Bank's risk capacity and sets out which risks it will accept, which risks it mitigates, and which risks it will avoid. Both the framework and the principal risks to which the Bank is exposed are set out below.

Risk Factors that May Affect Future Results

The Company is exposed to a variety of risks, particularly macroeconomic and industry factors beyond the Company's control, which could cause the Company's results to differ significantly from the Company's plans, objectives and estimates. All forward looking statements, including those in this MD&A, are subject to inherent risks and uncertainties, both general and specific, which may cause the Company's actual results to differ materially from the expectations expressed. The material risk factors are described below.

Capital Adequacy

As a regulated financial institution that is subject to regulatory capital requirements, the Bank must continually monitor and assess its capital adequacy. Changes in the Company's financial performance, its business plans, or regulatory requirements could lead to a requirement for the Company to implement strategies to improve capital adequacy. As part of the strategic realignment first announced on December 20, 2018, the Company has stated that it is exploring various alternatives to strengthen the Bank's capital base. This could be accomplished in a variety of ways, including through a new capital raise that could significantly dilute the ownership interest of existing shareholders, a sale of assets by the Company or the Bank or a strategic relationship or merger with a third-party which could provide the Bank with additional capital resources. There can be no assurance that either the Company or the Bank will be successful in strengthening its capital position, and if unsuccessful the Company would need to adjust its business plans.

General Economic Conditions and Canadian Housing Markets

The housing and mortgage markets in Canada have in recent years benefitted from historically low and stable interest rates, rising house prices in most geographic regions, stable employment, stable GDP growth, and positive demographic trends. Negative trends or a decline in general economic conditions could adversely impact any or all of property sales, mortgage growth rates, default rates, and property values, and could have a negative effect on the Company's financial results.

Concentration of Investors

In 2018, the Company placed approximately 71% of newly originated mortgages with two institutional investors who are Canadian and US financial institutions, respectively, compared to 83% in 2017. If any institutional investor were to terminate its relationship with the Company, or materially reduce its purchases of mortgages, and the Company was unable to either replace the investor with another investor or sell the mortgages through securitization markets at similar prices, this could have a material adverse effect on the Company's financial results.

Government Regulation

As a Schedule I bank, the Bank is regulated under the federal Bank Act, and is also subject to the guidelines imposed by OSFI and other regulatory bodies. Changes in the Bank Act or the interpretation thereof, or in any other regulatory legislation that impacts the Bank's operations, or the introduction of any new regulatory requirements, could have a material negative effect on the Company and its operating results. Any material future banking initiatives or transactions would also likely require regulatory consent from OSFI. Finally, as an approved lender and MBS issuer under the *National Housing Act*, the Bank is able to originate CMHC, Genworth and Canada Guaranty insured mortgages, as well as securitize such mortgages within certain prescribed limits. Any change in the Bank's status as an approved lender under the *National Housing Act* could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on Independent Mortgage Brokers

The Company's mortgage lending operations are dependent on a network of mortgage brokers. The mortgage brokers with whom the Company does business are not contractually obligated to do business with the Company. Further, the Company's competitors also have relationships with the same brokers and actively compete with the Company in its efforts to expand its broker network and originate mortgage loans. If the Company is unable to sustain or increase its current level of mortgage origination from these sources, or chooses to cease doing business with any particular broker or brokers, it could have a material adverse effect on the Company's financial results.

Reliance on Independent Deposit Brokers

The Company relies on raising GIC deposits through independent and bank-owned deposit dealers. The Bank is exposed to concentration risk through having a limited number of dealers that offer its GICs to their clients. This limits the Bank's aggregate deposit-raising capabilities. In addition, as a result of external market events in the first half of 2017 impacting one of the Company's bank competitors, access to deposits from dealers has become more challenging, with dealers imposing aggregate institution-specific concentration limits on issuers and limiting placement of individual deposits to CDIC-insured maximums. If the Company is unable to raise the requisite amount of deposits, it will be unable to achieve its target uninsured mortgage originations. In addition, the Company may not be able to raise sufficient deposits to replace maturing GIC deposits, and may therefore not be able to renew maturing uninsured mortgages. These events could have a material adverse effect on the Company's financial results.

Reliance on Mortgage Insurers and Mortgage Insurance Rules

The Company relies on mortgage insurance provided by CMHC, as well as by other private mortgage insurers, to carry on business. If this insurance was not available, if the insurers were unable to fulfill their mortgage insurance payment obligations, or if the Company was unable to raise sufficient deposits and capital to increase its uninsured lending and other bank operations in order to compensate, this would have a negative impact on the Company's business and financial results.

Changes to mortgage insurance rules, and increased premiums that potentially limit the availability of mortgage insurance for prime mortgages or make mortgage rates uncompetitive, could have a negative impact on the Company's ability to offer competitive mortgage products and could reduce originations of prime mortgages. Mortgage rule changes in late 2016 and mortgage premium increases at the beginning of 2017 reduced new prime volumes by 32% in 2017 compared to 2016 and by 29% between 2017 and 2018. Further changes in regulation or changes in consumer behavior could negatively impact the Company's financial results though lower originations or higher insurance costs.

Reliance on Third Party Service Providers and Information Security

The Company, particularly its mortgage lending operations, is dependent upon the successful and uninterrupted functioning of the computer systems and data processing systems of its third-party service providers. It is also dependent on the provision of various contracted business process services, such as those with respect to mortgage loan servicing and funding operations. The failure of third-party service providers to provide the respective services could interrupt operations or materially impact the Company's ability to originate, monitor or service customer accounts, or to comply with contractual obligations to investors and third parties. A sustained or prolonged outage could negatively impact the Company's financial results.

In addition, the Company, and its service providers, maintain confidential information regarding customers in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties, or similar disruptive problems. A security breach of computer systems could disrupt operations, damage the Company's reputation, or result in liability.

The Company has implemented a business continuity and crisis management strategy to minimize the impact on its customers, investors and operations in the event of a disruption. The Company also relies on the availability and effectiveness of similar strategies from its third-party service providers. If any of these strategies proved to be ineffective or insufficient, the Company could suffer material losses.

Mortgage Repurchase Obligations

Historically, the Company has sold the majority of the prime insurable and prime uninsurable mortgages that it originates as soon as practicable after committing to the mortgages. When selling mortgages, the Company makes a variety of customary representations and warranties regarding itself, its mortgage origination activities, and the mortgages that are sold. These representations and warranties survive for the life of the mortgages and relate to, among other things, compliance with laws, mortgage underwriting and origination practices and standards, the accuracy and completeness of information in the mortgage documents and mortgage files, and the characteristics and enforceability of the mortgages.

The Company's mortgage origination, underwriting and quality assurance processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with all underwriting requirements and do not contain misrepresentations. However, there is no absolute assurance that the Company will not make mistakes or that certain employees, brokers or borrowers will not inadvertently or deliberately violate the Company's underwriting policy or other policies or misrepresent information in the mortgage application. The Company's mortgage sale agreements generally require it to repurchase or substitute mortgages in the event it has breached a representation or warranty made (generally including situations involving identification of mortgage fraud) to the mortgage purchaser, and/or to indemnify the mortgage purchaser against any loss it may suffer. Any requirement for the Company to repurchase or substitute a significant amount of mortgages that it has sold, or to indemnify mortgage purchasers, could have a negative impact on the Company's financial condition and results of operations. Significant breaches of mortgage sale agreements may also discourage mortgage purchasers from doing business with the Company, which could have a negative impact on its ability to sell mortgages and could have a material adverse effect on its business, financial condition and results of operations. To date the Company's mortgage repurchases have been immaterial, and therefore have not had a significant impact on its business or financial results.

Key Employees

The Company has certain key employees. These employees are involved in executing the strategy that is expected to lead to the Company's planned results. If these key employees cease to be employed with the Company, planned results could be delayed or might not materialize. The Company mitigates this risk through the use of employment contracts, the formalization of the Company strategy and business plans, retention strategies, competitive compensation and by ensuring the existence of timely knowledge exchange and collaboration.

Competition

The mortgages and other products offered by the Company, and the additional products and services that it plans to introduce, compete with similar products and services of banks, insurance companies and other lenders. Some of these competitors have more scale, greater resources and better access to capital than the Company. The Company's competition includes price competition. If price competition increases, the Company may not always be able to compete by raising or lowering the rates it charges its borrowers and/or depositors. This has the potential to reduce the level of mortgage originations or renewals, to reduce the value of the mortgages the Company sells to investors or securitizes, or to negatively impact the amount of deposits the Company can attract to fund its uninsured lending products. This may reduce profits and negatively impact financial results.

Accounting Policies and Estimates

The Company uses judgement in the application of accounting policies and in estimating certain values in its financial statements. The application of judgement using estimates requires management to rely on assumptions that are inherently uncertain and that may require revisions as additional information becomes available. These revisions can have material effects on the results of operations and financial position of the Company. Please see the Accounting Standards and Policies section of this MD&A and the notes to the 2018 audited consolidated financial statements for more information.

Risk Governance

The Company's strategies and the management of its risks are supported by an overall enterprise risk management ("ERM") framework, which includes policies, procedures and guidelines for each major risk category of the Company's operations, particularly the operations of Street Capital Bank. As the Bank only commenced operations as a regulated entity on February 1, 2017, its ERM framework continues to evolve. ERM requires the involvement of the Board of Directors, the Enterprise Risk Management Committee, senior management, and other employees to continually identify, measure, assess and manage risks that could affect the Company either positively or negatively. The Board is responsible for establishing the overall strategy and objectives of the Company and the Company's overall risk appetite. At all levels of the Company, ERM is applied in defining strategies and setting goals, helping to ensure that these can be accomplished within the Company's defined risk appetite. The ultimate goal of ERM is to maximize benefits to the Company's various stakeholders within the limits of the risk the Company is prepared to accept to accomplish this.

The Company's risk governance follows the three lines of defense model:

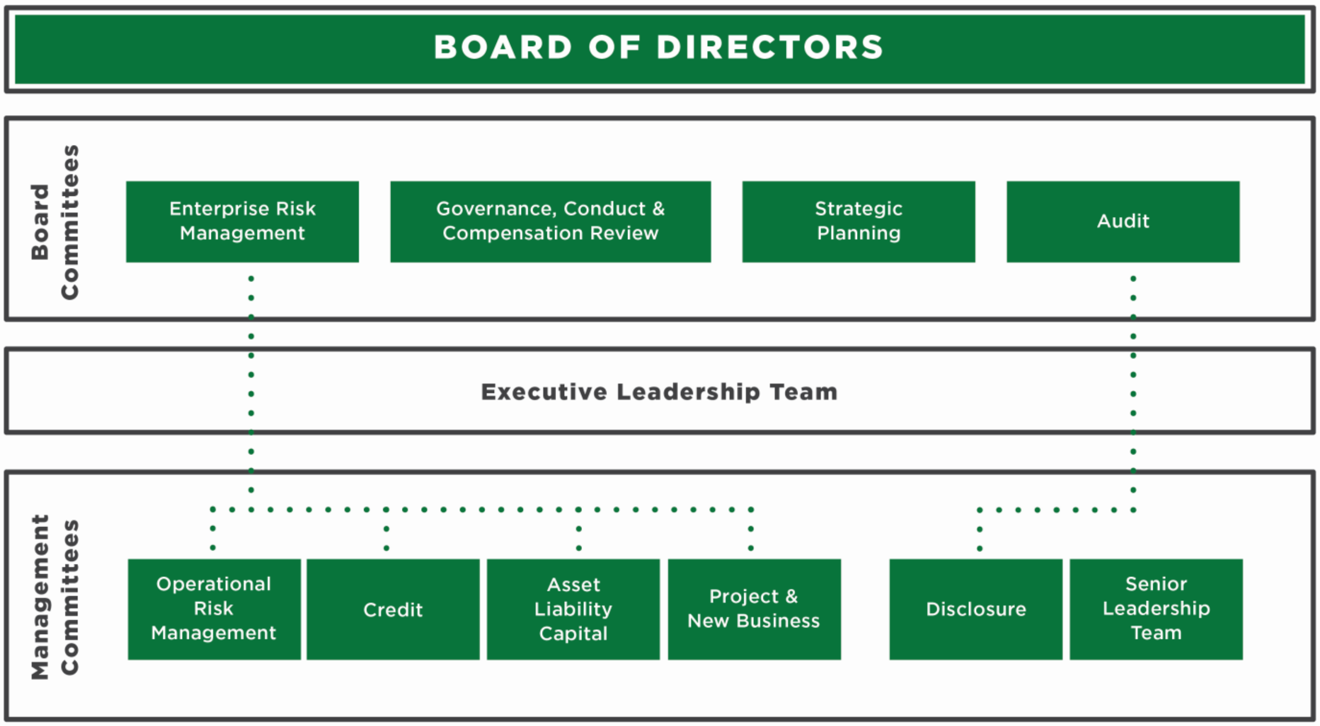
- 1st Line of Defense: business units and their support areas. Management within each business unit is accountable for identifying, assessing, monitoring, reporting and managing the associated risks. The Company deploys a computerized risk management tool to assist with compliance and reporting.

- 2nd Line of Defense: the Company's Risk, Finance and Compliance departments. They are responsible for the communication and implementation of the Company's risk management framework, along with independent assessment, monitoring and reporting on the Company's risk-taking activities.

- 3rd Line of Defense: Internal Audit. This function is responsible for assessing the effectiveness of the Company's governance, risk management and control processes, and for reporting their findings and conclusions to the Board of Directors. The Board's Audit Committee assists the Board with its oversight of the Company's financial reporting and internal audit functions.

The Company's actual risk profile is measured against the Board-approved risk appetite at least quarterly, and reported to the Board of Directors. Key risk policies are reviewed at least annually and updated as required.

The risk governance structure as shown below is in place to ensure appropriate risk oversight and accountability across the Company.



Risk Identification and Assessment

This includes business line risk and control self-assessments, which are designed to identify the Company's exposure to key operational risks, and to mitigate it through controls or other risk mitigation such as insurance. It also includes a risk assessment framework for new initiatives such as new products and services. This ensures that associated risks are identified, assessed and approved as being within the Company's risk appetite, and that they can be supported by the Company's control systems.

Risk Measurement

Through the Company's ERM framework, the Company measures risk levels within the organization and assesses the level of risk against the Bank's risk appetite. Other risk measurement techniques such as stress testing and scenario analytics are also used to measure risk.

Risk Monitoring and Reporting

Monitoring the Company's risks and reporting the associated observations are key to the Company's management of operational risk processes. Together, they ensure that the risks and issues are identified, escalated, managed and mitigated on a timely basis. The Company's Risk and Compliance units report regularly on current and emerging operational risks, key risk indicators, operational loss events, external event analyses, issues management, risk assessments of new initiatives, crisis management readiness and third-party risk management.

Measurement and monitoring of key risk and/or performance indicators takes place across the organization, and is designed to ensure that the Company's operations conform to its defined risk appetite. It is also a means for the Company to identify early warning signs of changes in the risk environment or control effectiveness, or of other potential issues, before they become significant enough to cause losses or other negative impacts.

Operational losses, including near misses, are recorded, analyzed and reported, with the objective of preventing recurrences. This may also highlight areas where risk management requires improvement. The Company also monitors and considers events reported by or about external organizations, in order to identify and prevent similar risks within the Company.

Risk Appetite Framework

The Board of Directors has the overall responsibility for both establishment and oversight of the Company's risk appetite framework. The framework addresses the limits of the risks that the Company assumes, and the Company's conduct with respect to its stakeholders such as customers and investors. The major principles of the risk appetite framework are as follows:

1. The Bank will **operate in markets where risks are understood** and where long term macro-economic indicators support retail lending.

2. The Bank will **manage credit risk prudently** by establishing and adhering to stringent **underwriting guidelines.**

3. The Bank will **maintain adequate capital and liquidity** for its operations above regulatory minimums and sufficient to sustain the entity during times of stressed conditions.

4. The Bank will **limit market risk by pricing mortgages effectively and managing interest rates prudently** in its banking book. Derivatives will only be used to enable effective risk management and product funding requirements.

5. The Bank will **maintain thorough and effective policies, standards, guidelines and other related measures including limits and key risk indicators** that guide risk-taking activities to protect Street Capital's brand and reputation while adhering to all legal and regulatory obligations.

6. The Bank will **promote a sound risk management culture and awareness** throughout the organization by promoting operational excellence, corporate governance, and risk and control practices that minimize the risk of any unforeseen adverse events from occurring.

7. The Bank will hire, retain and invest in quality and experienced staff that **operate with high ethical standards and conduct themselves with integrity, honesty and respect**.

8. The Bank will **not take risks that could expose it to any one single and severe loss event**, including acquisitions, business ventures/partnerships or products.

9. The Bank will continually **assess the adequacy of its IT and operational infrastructure** in relation to its business volumes and complexity and, where required, will make the necessary investment to scale supporting processes to required levels.

The following sections describe the Company's principal risks and how they are managed.

Credit Risk Management

Credit risk is the risk of financial loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Through its wholly owned subsidiary, the Bank, the Company's credit risk is mainly associated with its mortgage lending business, in the form of the risk of default on the part of the borrower.

Historically, the majority of the Bank's revenue has been earned from the placement, servicing and securitization activities of its mortgage lending business. Under this business model, most of the mortgages underwritten by the Bank are sold to institutional investors and are insured or insurable against default with Canada Mortgage and Housing Corporation ("CMHC") and other government backed private insurers. This makes the residual credit risk to the Company immaterial overall at this time. However, given that the vast majority of these mortgages have been sold to institutional investors, mortgage credit quality remains an important measure in ensuring continued demand from these investors.

Therefore, even though the Company is not exposed to material levels of credit risk associated with its mortgage origination and sale business, the Bank applies a detailed set of Board-approved credit policies and underwriting procedures to ensure mortgages are insurable and meet investor requirements. Given the Bank's funding model for insurable mortgages, its underwriting and credit policies are compliant with OSFI's Guideline *B-20 Residential Mortgage Underwriting Practices and Procedures*. At the individual transaction level the Bank applies a due diligence process to each mortgage underwritten, with oversight from an experienced management team. All mortgage applications are evaluated and assessed against risk criteria, and additional independent quality assurance procedures are performed on a significant percentage of mortgage files prior to funding. Post-funding reviews are also conducted in order to provide continuous feedback and monitoring of mortgage credit quality. The Bank's serious arrears rate of 0.11% on its prime mortgages, at December 31, 2018, reflects the Bank's due diligence and strong quality assurance processes. The Bank plans to continue selling insurable mortgages to institutional investors, and it will continue to apply these same rigorous policies and procedures. However, as the Bank's portfolio of prime insured loans seasons and becomes more weighted toward high-ratio insured loans, the Bank's serious arrears rate may increase over time as these loans typically experience higher delinquency rates compared to conventional insured mortgages.

Since Q2 2018 the Bank has been originating a limited amount of prime uninsurable mortgages, for sale to investors, through the Bank's network of approved independent mortgage brokers. Prime uninsurable mortgages are mortgages that meet the credit quality criteria of prime insurable mortgages, but no longer qualify for mortgage insurance due to one or more criteria. As the Bank expands its originations of this product for sale to institutional investors, the Bank will bear credit risk for any loans it may have to reacquire from investors if such loans are deemed by the investor at a later date to be ineligible.

In 2017 the Bank expanded its products and services to include uninsured mortgages and other financial products, which increased the Company's exposure to credit risk. The amount, geographic distribution, and other information relating to these mortgages are detailed below in Tables 22 to 25. In order to mitigate the credit risk associated with these products, the Bank has established appropriate credit policies and underwriting requirements, which are also in compliance with OSFI's Guideline B-20, and has ensured their consistent application. These policies have been developed, and will be updated as necessary, with regard to such key factors as asset quality, loan to value ratio, debt service ratio, property location, and economic factors. The Bank also mitigates its risk by targeting the market segment that consists of credit-worthy quality borrowers who may not qualify for a prime insurable residential mortgage under current regulations, and by limiting its lending areas primarily to urban locations.

In Q3 2017, the Bank began to securitize and sell, through the CMB program, 10-year insured NHA MBS mortgage loans on multi-unit residential properties. The underlying mortgage loans are closed to prepayment risk, and the Bank enters into third party arrangements to manage its seller swaps, thereby mitigating its interest rate risk. As a result, the Bank transfers control over the mortgage loans, and they are recognized on the Bank's balance sheet only to the extent of the Bank's continuing involvement in the mortgages. This is limited to a retained interest and the obligations and rights associated with servicing the mortgages, and the Bank does not retain any significant risks and rewards associated with the mortgages. The Bank would be obligated to fund any deficiency in any interest owing to CMB investors in the event that a loan became delinquent during the term of the loan, and to fund the balloon outstanding balance at maturity. However, as the loans under this program are insured, any funding by the Bank should be recoverable through an insurance claim.

As the Bank launches other financial products, the Bank will continue to develop and apply the appropriate credit policies and underwriting requirements, taking into consideration such key factors as asset quality, loan to value ratio, debt service ratio, property location, and economic factors.

The Company's credit risk on liquid assets, the majority of which are cash and cash equivalents, is relatively limited. All counterparties with respect to cash and cash equivalents are Schedule I Canadian banks with high credit ratings assigned by international rating agencies. The Bank can purchase highly liquid investments in the form of Government of Canada Treasury Bills and bankers' acceptances. The Bank uses these investments to meet its funding and liquidity requirements, particularly its mortgage lending operations. The investments are readily convertible into cash subject to immaterial changes in fair value, and therefore have not increased the Company's credit risk.

Expected credit losses

Effective January 1, 2018, the Company adopted *IFRS 9 – Financial Instruments*, which is discussed in more detail in Note 3 of the Company's 2018 audited consolidated financial statements. IFRS 9 bases the accounting for mortgage and other loan loss impairments on a forward-looking expected credit loss ("ECL") model, rather than the incurred loss approach that was applied under the previous accounting standard, IAS 39. The determination of the ECL at a given date involves significant management judgment, as the calculation depends on the following parameters:

- the probability of default ("PD") – an estimate of the likelihood of default over a specified time horizon;
- the loss given default ("LGD") – an estimate of the loss occurring at the time of default; and
- the exposure at default ("EAD") – an estimate of the exposure at the default date.

The general principle is that an entity's ECL should reflect the pattern of deterioration or improvement in the credit quality of the associated financial instruments, and therefore the calculated ECL amount at a given measurement date depends on the entity's identification of increases or decreases in credit risk since initial recognition. This is recorded by the movement of financial instruments among three "stages", as described in Note 3 of the 2018 audited consolidated financial statements.

The identification and assessment of significant increases in credit risk involve significant management judgment. The assessment is made at least quarterly, and incorporates the following factors:

- increases in lifetime PD, compared to PD at initial recognition, measured on an absolute and/or percentage basis;

- qualitative reviews of internally generated credit risk data, to ensure all instruments are appropriately assigned to Stage 1, 2 or 3; and
- identification of all instruments that are 30 days past due, which are migrated to Stage 2 regardless of management's assessment of other credit risk factors.

The adoption of IFRS 9 has changed the way the Bank defines impairment. Under IFRS 9, all loans that are contractually 90 days in arrears are classified as impaired and in Stage 3. Under IAS 39, the evaluation of impairment was generally the same, except that government-sponsored insured mortgages were not considered impaired until they were 365 days past due.

Due to the forward-looking nature of the ECL determined under IFRS 9, it is possible that the Bank's provisions could be both larger, and more volatile, than under IAS 39.

Upon adoption of IFRS 9, the Bank was required to book an adjustment to increase its ECL, as shown below.

Table 19 – Impact of IFRS 9 Adoption on the Bank's provision for credits losses

	Allowance per IAS 39 at December 31, 2017				ECL per IFRS 9 at January 1, 2018			
(in thousands of $)	Collective Allowance	Individual Allowance	Total Allowance	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
Uninsured loans	$ 216	$ 75	$ 291	$ 53	$ 269	$ -	$ 75	$ 344
Insured loans	-	-	-	-	-	-	-	-
	$ 216	$ 75	$ 291	$ 53	$ 269	$ -	$ 75	$ 344

Aging tables for the outstanding principal balances of the non-securitized mortgage loans are shown below:

Table 20 – Aging – non-securitized mortgage loans

(in thousands of $)

December 31, 2018	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Street Solutions mortgages	$ 521,422	$ 4,913	$ 1,058	$ 416	$ 533	$ 528,342
Stamped insured mortgages	14,062	-	-	-	-	14,062
Single-family mortgages	22,803	336	-	-	-	23,139
Bridge loans - secured	236	-	-	-	-	236
Bridge loans - unsecured	559	-	-	-	-	559
Total non-securitized loans	$ 559,082	$ 5,249	$ 1,058	$ 416	$ 533	$ 566,338

December 31, 2017	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Street Solutions mortgages	$ 201,425	$ -	$ -	$ -	$ -	$ 201,425
Stamped insured mortgages	5,270	-	-	-	-	5,270
Single-family mortgages	6,572	-	-	-	-	6,572
Bridge loans - secured	836	-	-	-	161	997
Bridge loans - unsecured	250	-	-	-	-	250
Total non-securitized loans	$ 214,353	$ -	$ -	$ -	$ 161	$ 214,514

The Bank's ECL on uninsured mortgages at December 31, 2018, as determined under IFRS 9, is as shown below:

Table 21 – Provisions and allowances for credit losses

(in thousands of $)	Year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Uninsured mortgages and loans				
ECL allowance, beginning of year	$ 269	$ -	$ 75	$ 344
Net originations	388	(204)	-	184
Transfers in (out) to Stage 2	(325)	325	-	-
Transfers in (out) to Stage 3	(44)	-	44	-
Changes to models and inputs used for ECL calculation	85	57	-	142
Write-offs	-	-	-	-
Recoveries	30	-	(105)	(75)
ECL allowance, end of year	$ 403	$ 178	$ 14	$ 595

As of December 31, 2018 the Bank had not recorded any write-offs in the Street Solutions portfolio. However, it had identified two loans totalling $0.95 million as impaired, and individually assessed (Stage 3) allowances for credit losses of $0.014 million were recorded. There was no change in the status of these loans at January 31, 2019.

At December 31, 2018, 98.9% of the unimpaired balance of Street Solutions mortgages were current. The Bank has enhanced default management and collection strategies associated with Street Solutions mortgages, as these mortgages carry higher credit risk and higher propensity to default.

At December 31, 2018, there are no expected credit losses on the Bank's securitized mortgage assets as the mortgages are insured against default. No securitized mortgages were impaired at December 31, 2018. Further, all 10-year insured NHA MBS mortgage loans on multi-unit residential properties securitized through the CMB program and held off-balance-sheet were current as at December 31, 2018.

During 2018 the Bank invested in CMBs with a par value of $22.5 million and a fair value of $22.7 million at December 31, 2018. The CMBs are also readily converted to cash and the Bank considers them to be part of its liquid assets.

The Company has credit risk associated with specific loans and accounts receivable that are related to its discontinued real estate, asset liquidation and case goods businesses. The carrying value of these loans at December 31, 2018 was $0.5 million (December 31, 2017 - $1.2 million).

The maximum credit exposures of the financial assets are their carrying values as reflected on the consolidated statements of financial position. The Bank's uninsured mortgages that are held on-balance sheet are concentrated in the provinces of Ontario and British Columbia. The Company's $345 million 10-year NHA insured mortgages for multi-unit residential loans, $334 million of which had been derecognized through sale as at December 31, 2018, are concentrated in the provinces of Nova Scotia and Ontario, and approximately 75% of balances outstanding at December 31, 2018 are owed by five borrowers or borrowing groups. Aside from this, the Company does not have any significant concentrations of credit risk within any geographic region or group of customers.

Additional Information – Mortgage Lending

The Bank reviews the credit performance and credit quality of its mortgage portfolio on an ongoing basis and performs stress testing that includes scenarios that are based on adverse economic events. These scenarios include combinations of increasing unemployment, increasing interest rates and a decline in real-estate values, as well as specific operational and reputational stress tests. Generally, mortgage defaults are correlated to increases in unemployment rates, and in an economic downturn the Bank would expect an increase in mortgage defaults and losses on uninsured mortgages associated with declining real estate values. Given the size of the uninsured mortgage portfolio and the LTV ratios in the portfolio, the Bank's stress testing indicates that the Bank has sufficient capital to absorb stress events associated with an adverse economic event, albeit with reduced income from increased credits losses, but, more importantly, from declines in revenue from expected decreases in prime origination volumes, given the Bank's current business mix.

The table below shows Street Solutions originations and weighted average origination LTVs for the period following the product's initiation in Q2 2017. The LTV range is consistent with the Company's targets and its risk appetite.

Table 22 – Street Solutions weighted average LTVs at origination

Date	Originations *(in thousands of $)*	Weighted Average LTV
Q2 2017	$ 10,225	72.4%
Q3 2017	131,376	72.6%
Q4 2017	62,116	70.1%
Q1 2018	98,285	72.9%
Q2 2018	107,805	71.4%
Q3 2018	93,685	70.7%
Q4 2018	121,611	70.2%
	$ 625,103	71.4%

At December 31, 2018, the Company's total uninsured lending portfolio held on-balance sheet was $533 million with Street Solutions mortgages comprising almost all of that amount. The weighted average LTV at origination associated with outstanding Street Solutions mortgages was 71.4% at December 31, 2018, compared to 71.7% at the end of Q3 2018.

The tables below detail the geographic distribution and remaining amortization of the insured and uninsured loans that the Bank holds on-balance sheet, inclusive of credit provisions.

Table 23 – Single-family Residential Loans by Province

	As at December 31, 2018							
(in thousands of $, except %)		**Insured Residential Mortgages**	**Percentage of Total by Province**		**Uninsured Residential Mortgages**	**Percentage of Total by Province**		**Total**
British Columbia	**$**	**11,791**	**11.4%**	**$**	**91,898**	**88.6%**	**$**	**103,689**
Alberta		**18,292**	**57.1%**		**13,743**	**42.9%**		**32,035**
Prairies		**2,216**	**100.0%**		**-**	**-**		**2,216**
Ontario		**114,566**	**21.3%**		**423,708**	**78.7%**		**538,274**
Atlantic		**7,162**	**76.0%**		**2,257**	**24.0%**		**9,419**
Quebec		**1,712**	**100.0%**		**-**	**0.0%**		**1,712**
	$	**155,739**	**22.7%**	**$**	**531,606**	**77.3%**	**$**	**687,345**

	As at September 30, 2018							
(in thousands of $, except %)		**Insured Residential Mortgages**	**Percentage of Total by Province**		**Uninsured Residential Mortgages**	**Percentage of Total by Province**		**Total**
British Columbia	$	16,698	19.8%	$	67,432	80.2%	$	84,130
Alberta		21,229	67.5%		10,223	32.5%		31,452
Prairies		3,152	100.0%		-	-		3,152
Ontario		167,835	30.3%		386,665	69.7%		554,500
Atlantic		2,686	69.1%		1,199	30.9%		3,885
	$	211,600	31.3%	$	465,519	68.7%	$	677,119

	As at December 31, 2017							
(in thousands of $, except %)		**Insured Residential Mortgages**	**Percentage of Total by Province**		**Uninsured Residential Mortgages**	**Percentage of Total by Province**		**Total**
British Columbia	$	18,848	49.6%	$	19,143	50.4%	$	37,991
Alberta		23,644	91.7%		2,153	8.3%		25,797
Prairies		3,222	100.0%		-	-		3,222
Ontario		179,394	49.4%		184,086	50.6%		363,480
Atlantic		2,781	92.1%		239	7.9%		3,020
	$	227,889	52.6%	$	205,621	47.4%	$	433,510

The Bank defines "insured" residential mortgage loans as any loan that has been insured individually or as part of a portfolio of loans, by either CMHC or one of two government backed private insurers in the Canadian market.

Table 24 – Insured and Uninsured Single-Family Residential Mortgages by Effective Remaining Amortization Period

	As at December 31, 2018				
(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	**$ 18,265**	**$ 124,645**	**$ 541,241**	**$ 3,194**	**$ 687,345**
Percentage of total	**2.7%**	**18.1%**	**78.7%**	**0.5%**	**100.0%**

	As at September 30, 2018				
(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	$ 19,300	$ 176,367	$ 481,452	$ -	$ 677,119
Percentage of total	2.9%	26.0%	71.1%	0.0%	100.0%

	As at December 31, 2017				
(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	$ 1,427	$ 181,668	$ 248,824	$ 1,591	$ 433,510
Percentage of total	0.3%	41.9%	57.4%	0.4%	100.0%

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated during Q4 2018, Q3 2018 and Q4 2017, which consist primarily of Street Solutions mortgages.

Table 25 – Weighted Average LTV Ratios – Uninsured Single-Family Residential Mortgages Originated Q4 2017, Q3 2018 and Q4 2018

	For the three months ended December 31, 2018					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	**$ 29,761**	**71.1%**	**$ 5,023**	**64.8%**	**$ 34,784**	**70.2%**
Ontario	**87,212**	**69.6%**	**14,281**	**68.7%**	**101,493**	**69.5%**
Alberta	**3,574**	**75.6%**	**3,780**	**73.4%**	**7,354**	**74.5%**
Prairies	**-**	**N/A**	**441**	**77.5%**	**441**	**77.5%**
Atlantic	**1,068**	**70.5%**	**1,007**	**77.3%**	**2,075**	**75.9%**
	$ 121,615	**70.2%**	**$ 24,532**	**65.2%**	**$146,147**	**70.0%**

	For the three months ended September 30, 2018					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 21,237	65.1%	$ 5,002	64.6%	$ 26,239	65.0%
Ontario	69,076	72.3%	20,825	68.6%	89,901	71.4%
Alberta	3,046	73.6%	2,178	66.6%	5,224	70.7%
Prairies	-	N/A	-	N/A	-	N/A
Atlantic	326	70.9%	557	61.3%	883	64.8%
	$ 93,685	70.7%	$ 28,561	66.4%	$ 122,246	70.0%

	For the three months ended December 31, 2017					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 10,480	72.3%	$ -	N/A	$ 10,480	72.3%
Ontario	50,523	69.6%	-	N/A	50,523	69.6%
Alberta	1,113	74.1%	-	N/A	1,113	74.1%
	$ 62,116	70.1%	$ -	N/A	$ 62,116	70.1%

Liquidity and Funding Risk Management

Liquidity and funding risk is the risk that the Company is unable to generate sufficient funds, in a timely and reasonably priced manner, to meet its financial obligations as they come due. This risk arises from the fluctuations in the Company's cash flows that are associated with the Bank's loan sales, securitizations, lending and deposits, investing, and other business activities. As the Bank continues its expansion of on-balance sheet lending and deposit taking, fluctuations in these cash flows will become significant contributors to liquidity and funding risk.

The Bank has a low tolerance for liquidity and funding risk and has a Liquidity and Funding Management policy that is managed in conjunction with other policies, all of which are designed to ensure that cash balances and other high-quality liquid assets are a) sufficient to meet all cash outflows, in both ordinary and stressed conditions, and b) in compliance with regulatory requirements, including the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics prescribed by OSFI. The LCR reports net cumulative cash flow requirements in a stressed environment over a short-term period of 30 days. The NCCF measures detailed cash flows to capture the risk posed by funding mismatches over and up to a 12-month time horizon. The Company currently manages liquidity risk through both daily monitoring and measurement of the Bank's liquidity position, and regular liquidity forecasting. Monitoring includes liquidity metrics such as maturity gap analysis and survival horizons. Even with the Bank's underlying policies and monitoring there is a risk of disruption in the funding markets beyond the Bank's control. In cases where the disruption is severe or prolonged the Bank may need to take further contingency actions, which could include curtailing lending activity.

The Company's main sources of cash and operating liquidity are the cash premiums received from the sale of mortgages to investors, deposits, cash received from the Bank's share of servicing fees and excess spread, and, to a lesser extent, securitizations. As described above, the Bank underwrites for sale only high-quality mortgages and maintains stringent underwriting and quality assurance processes, in order to maximize investor demand and therefore liquidity. Generally, liquidity risk associated with prime insurable and prime uninsurable mortgage commitments is limited, as most investors commit to funding at the time of mortgage commitment.

With respect to the Bank's on-balance sheet mortgages, in particular Street Solutions uninsured loans, this lending activity is funded by the Bank's deposit taking activity. The Bank's funding strategy, where possible, is to be long on deposits relative to the expected duration of its on-balance sheet mortgage lending. Any maturity gaps are managed within risk limits. Shown below is a maturity gap table comparing the Bank's on-balance sheet mortgages to its GIC deposits.

Table 26 – On-balance sheet loans and GIC deposits by remaining contractual term to maturity

(in thousands of $)					As at December 31, 2018
	0 - 3 Months	3 - 12 Months	1 to 3 Years	Over 3 Years	Total
Remaining contractual term					
Single-family residential mortgages	$ 82,640	$ 421,948	$ 32,717	$ 17,523	$ 554,828
Deposits (GICs)	50,678	225,349	253,024	112,098	641,149
Net maturity	$ 31,962	$ 196,599	$ (220,307)	$ (94,575)	$ (86,321)

The Bank’s access to deposits depends upon a number of factors including access to third-party deposit platforms, interest rates offered by competing lenders, general economic conditions, regulatory requirements, and the securities markets in general. The Bank’s deposits are currently sourced through the deposit broker network, and are CDIC-insured fixed-term GICs. This network is expected to have more than sufficient liquidity to meet the Bank’s funding needs for the next few years. The Bank is, however, exposed from time to time to deposit dealer-imposed concentration limit restrictions.

Since Q2 2018 the Bank has been originating a limited amount of prime uninsurable mortgages through its network of approved independent mortgage brokers. As the Bank expands its originations of such loans for sale to institutional investors, the Bank will bear the liquidity risk for any loans it may have to reacquire from investors if such loans are deemed by the investor to be ineligible. This could have a material impact on the Bank’s liquidity reserves if it were required to either fund at closing, or subsequently repurchase, a large amount of loans at once without the ability to replenish its pool of liquid assets. Such funding or repurchases due to ineligibility of loans could also compromise the ongoing funding from investors supporting the prime uninsurable lending program and force the Bank to curtail the product offering.

In Q4 2018, the Bank completed a $26.2 million sale of funded Street Solutions mortgages to an international third-party institutional investor. The Company hopes to continue accessing this funding capability through future loan sales to this investor. However, given the nascent nature of both this relationship and the off-balance sales program for this product, there is no certainty that future funding will be available from this funding source, or that such sales will be sufficiently profitable to the Company to justify continuation of the program. As well, curtailment or elimination of the program could have a material impact on the Company’s loan origination targets.

The Company holds liquid assets primarily in the form of cash in bank deposits, NHA MBS, and Canada Mortgage Bonds. At December 31, 2018 the Company had $65.0 million in cash and cash equivalents on deposit with Schedule I Canadian banks (December 31, 2017 - $89.4 million). As noted above, the Company also holds CMBs, maturing in 2023, with a par value of $22.5 million and a fair value of $22.7 million at December 31, 2018.

As an approved NHA MBS issuer, the Bank can also access the NHA MBS market to fund insured mortgages. The Bank’s access to liquidity through investors and the NHA MBS securitization market depends on a number of factors, including general economic conditions, spreads on mortgages relative to other investments, and conditions in both the securities markets in general and the MBS market specifically. Accordingly, a decline in investor demand or securitization markets could adversely affect the Bank’s ability to originate mortgages, which could negatively impact future financial results.

At December 31, 2018 the Bank held $24.8 million (December 31, 2017 - $5.3 million) of mortgages that it had securitized through the NHA MBS program and not yet sold to investors (“stamped mortgages”), which can be readily converted to cash. The liquid assets of the Bank are shown in the table below.

Table 27 – Liquid assets (based only on the consolidated subsidiary, Street Capital Bank)

	As at	
(in thousands of $)	December 31, 2018	December 31, 2017
Deposits with regulated financial institutions	**$ 64,495**	$ 87,070
Securities	**22,692**	-
Stamped mortgages	**24,778**	5,270
Total liquid assets	**$ 111,965**	$ 92,340

During Q3 2018 the Company received $1.03 million in cash related to its Private Equity business, in connection with the disposition of the sole remaining portfolio investment held by KBCP Fund I. No further cash receipts related to the Private Equity business are expected.

The Company's contractual liabilities are summarized in the table below.

Table 28 – Contractual Liabilities

(in thousands of $)	Within 1 Year	1 -3 Years	3 -5 Years	After 5 Years	Total
Accounts payable and accrued liabilities	**$ 41,371**	**$ 1,995**	**$ 902**	**$ 66**	**$ 44,334**
Securitization liabilities	**8,209**	**117,263**	**-**	**-**	**125,472**
Loans payable	**-**	**4,274**	**-**	**-**	**4,274**
Operating leases	**1,446**	**2,644**	**2,291**	**1,586**	**7,967**
Total	**$ 51,026**	**$ 126,176**	**$ 3,193**	**$ 1,652**	**$ 182,047**

The Company expects to fund the securitization liabilities from collection of the securitized receivables. The remaining items will be funded from operating income and cash on hand. See Note 17 of the 2018 audited consolidated financial statements for discussion of the Company's commitments and contingencies.

Market Risk Management

Market risk is largely composed of two related risks: interest rate risk and investment risk. These are discussed below.

Interest Rate Risk

Interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings, over specific time periods, despite fluctuations in interest rates. The Bank has a Board-approved market risk management framework that defines strategies and policies that are aligned with the Company's risk appetite. In addition, the framework specifies stress-testing and sensitivity analysis with regard to interest rates and related factors, along with appropriate use of hedging as a risk management technique. The policies are reviewed at least annually and more often if required by events or changing circumstances.

The Company's primary exposure to interest rate risk arises from the possibility that a significant portion of the Bank's assets and liabilities could have unmatched terms and/or interest rates. Generally, the Bank is not exposed to material levels of interest rate risk arising from prime insurable or prime uninsurable mortgage commitments, because the purchase price for mortgages sold to investors is normally based on customer commitment rates rather than the interest rate at time of funding, thereby passing on the interest rate risk to the investors. Interest rate risk may also arise if committed and allocated loans no longer qualify at funding based on individual investor criteria, and are then either funded by the Bank directly or sold to another investor who has different funding criteria. In a rate-rising environment, interest rate risk increases. When the Bank securitizes prime insured mortgages directly, or sells loans on a whole loan basis after funding, it is exposed to interest rate risk arising from both mortgage commitments issued, and from the point of loan funding to the point of pooling the loan for securitization. The level of risk has historically been low overall given low relative volumes of both securitizations and whole loan sales after funding.

The Company is also exposed to interest rate risk from the Bank's mortgage commitments issued with respect to Street Solutions mortgages designated for sale to a third-party investor, as these loans are funded by the Bank prior to their subsequent sale to the investor. Any increase in interest rates between the time of commitment and time of funding could decrease the Bank's expected level of profitability from the loan sale.

The table below details the results, for the Bank, of sensitivity modelling interest rate increases and decreases during the 12-month period beginning on December 31, 2018. The model is based on a number of assumptions, and actual results could vary from these assumptions should an actual rate change occur.

Table 29 – Net interest income shock (for the consolidated subsidiary, Street Capital Bank)

	As at December 31, 2018	
(in thousands of $, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point shift		
Impact on net interest income	**$ 943**	**$ (1,783)**
Impact on EVE	**3,556**	**(4,534)**
EVE as a % of shareholders' equity	**2.79%**	**(3.56%)**
200 basis point shift		
Impact on net interest income	**$ 1,720**	**$ (3,567)**
Impact on EVE	**6,796**	**(9,246)**
EVE as a % of shareholders' equity	**5.33%**	**(7.25%)**

Although interest rate risk is concentrated within the Bank's operations, the Company does have legacy items that, while immaterial to overall operations, must also be considered. At December 31, 2018, an immediate and sustained 100 basis point increase in interest rates on these legacy items would result in approximately $0.04 million expense over the next 12 months.

Shown below is the December 31, 2018 position of the Bank, with regard to the interest rate sensitivity of its assets, liabilities and equity. The information presented is based on the contractual maturity date.

Table 30 – Interest rate sensitivity (for the consolidated subsidiary, Street Capital Bank)

(in thousands of $)	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Greater than 5 Years	Non Rate Sensitive	Total [1]
							December 31, 2018
Assets							
Cash and restricted cash	$ -	$ 74,151	$ -	$ -	$ -	$ -	$ 74,151
Weighted Average Contractual Rate	-	1.75%	-	-	-	-	1.75%
Securities	-	-	-	22,692	-	-	22,692
Weighted Average Contractual Rate	-	-	-	2.48%	-	-	2.48%
Non-securitized mortgages - Street Solutions	-	82,304	420,660	25,378	-	(1,560)	526,782
Weighted Average Contractual Rate	-	4.76%	4.87%	5.34%	-	-	4.89%
Non-securitized mortgages - stamped mortgages	8,018	-	-	6,044	10,716	-	24,778
Weighted Average Contractual Rate	3.15%	-	-	2.71%	3.41%	-	3.15%
Non-securitized mortgages - other	1,129	336	1,287	9,671	-	-	12,423
Weighted Average Contractual Rate	3.10%	3.49%	3.86%	3.19%	-	-	3.26%
Bridge loans	795	-	-	-	-	-	795
Weighted Average Contractual Rate	8.95%	-	-	-	-	-	8.95%
Securitized mortgages held on-balance sheet	62,645	3,897	-	56,028	-	792	123,362
Weighted Average Contractual Rate	3.45%	3.22%	-	2.63%	-	-	3.05%
Other assets	-	-	-	1,200	-	158,865	160,065
Weighted Average Contractual Rate	-	-	-	1.00%		-	0.01%
Total assets	$ 72,587	$ 160,688	$ 421,947	$ 121,013	$ 10,716	$ 158,097	$ 945,048
Weighted Average Contractual Rate	3.47%	3.33%	4.87%	2.74%	3.41%	-	3.40%
Liabilities							
Cashable GICs [2]	$ -	$ 3,488	$ -	$ -	$ -	$ (13)	$ 3,475
Weighted Average Contractual Rate	-	1.45%	-	-	-	-	1.45%
Non-cashable GICs	-	47,189	225,349	365,122	-	(2,425)	635,235
Weighted Average Contractual Rate	-	2.22%	2.50%	2.84%	-	-	2.68%
Securitization liabilities	62,899	6,878	-	56,028	-	(333)	125,472
Weighted Average Contractual Rate	2.58%	2.36%	-	1.71%	-	-	2.19%
Other liabilities	-	-	-	-	-	84,417	84,417
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	96,449	96,449
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ 62,899	$ 57,555	$ 225,349	$ 421,150	$ -	$ 178,095	$ 945,048
Weighted Average Contractual Rate	2.58%	2.19%	2.50%	2.69%	-	-	2.10%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 9,688	$ 103,133	$ 196,598	$ (300,137)	$ 10,716	$ (19,998)	$ -

[1] Accrued interest is included in "Other assets" and "Other liabilities", respectively.
[2] Cashable GICs are redeemable by the depositor after 90 days from the issue date.

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company has adopted a Board-approved investment policy that specifies the sources of cash to be invested and the constraints within which investments can be made. The policy is designed to help mitigate credit, liquidity and market risk. It is reviewed at least annually, and more often if required by events or changing circumstances.

The Company's investment risk was historically linked to its portfolio investments, as the Company was not a deposit taking institution prior to the Bank beginning operations as a Schedule I bank. As noted above, the Company exited its sole remaining portfolio investment during Q2 2018. As also noted above, in 2018 the Company invested in CMBs having a par value of $22.5 million and a fair value of $22.7 million at December 31, 2018. More complex investing activities are expected to occur as the Bank's deposit taking and uninsured lending operations expand, although the timing of such activities is uncertain.

Operational Risk Management

Operational risk is the risk of loss resulting from either inadequate or failed internal processes, people and systems, or from external events. Operational risk cannot be completely eliminated, since it is inherent in all business activities, and it can occur in such diverse areas as fraud, equipment damage, system failure, cyber security, business disruption, human error, and natural disasters.

As part of normal operations as a mortgage lender, the Bank is exposed to an inherently high level of fraud risk through the mortgage origination and underwriting processes. The Bank has quality control and fraud management practices in place to mitigate these risks, which practices and processes are evaluated and modified on an ongoing basis. As mortgage underwriting and mortgage insurance qualification requirements become more stringent, either as a result of changes in regulatory requirements, as seen through updates from the Department of Finance in October 2016 and most recently from OSFI in October 2017 with respect to updates to Guideline B-20, or through changes in general industry practice, the inherent risk of mortgage fraud such as misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within the current environment of high home prices and increasing interest rates. In response, the Bank further strengthened its internal controls in 2018 to include measures such as: further enhancing documentation requirements for higher risk borrowers, performing greater due diligence on the on-boarding of new mortgage brokers, upskilling in certain key areas such as its quality assurance function, and further improving its portfolio monitoring and reporting capabilities to proactively identify potential misrepresentation.

Further, the Bank's mortgage sale agreements generally require the Bank to repurchase or substitute mortgages in the event there has been a breach of a representation or warranty made to the mortgage purchaser (generally including situations involving identification of mortgage fraud), and/or to indemnify the mortgage purchaser against any loss it may suffer. Any requirement for the Bank to repurchase or substitute a significant amount of mortgages that it has sold, or to indemnify mortgage purchasers, could have a negative impact on the Company's financial condition and results of operations. Significant breaches of mortgage sale agreements may also discourage mortgage purchasers from doing business with the Bank, which could have a negative impact on its ability to sell mortgages and could have a material adverse effect on the Company's business, financial condition and results of operations.

As well, the Bank's mortgage lending operations are dependent on a network of mortgage brokers, some of whom may represent a material volume of the Bank's aggregate mortgage originations. If the Bank chooses to cease doing business with any particular broker or brokers as a result of identifying mortgage fraud or any other misrepresentation on the part of the broker, this could have a material adverse effect on the Company's financial results.

The Bank’s mortgage origination, underwriting and quality assurance processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with all underwriting requirements and do not contain misrepresentations. However, there is no absolute assurance that the Company will not make mistakes or that certain employees, brokers or borrowers will not inadvertently or deliberately violate the Bank’s underwriting or other policies, or misrepresent information in the mortgage application. The Bank is aware of the inherently high level of mortgage fraud risk in the mortgage industry and the associated effect of the above risks on its business model, and believes its current practices and processes to prevent and detect mortgage fraud are reasonable. However, even with reasonable and prudent controls in place, operational risks such as fraud cannot be fully mitigated or eliminated and therefore the practices and processes continue to be evaluated and improved as required.

While aware of these and other operational constraints, the Company takes proactive steps to mitigate its operational risk. The Company has adopted an ERM Framework that includes strategies to manage operational risk, including avoidance, transfer, insurance, acceptance, and mitigation by controls. The Company employs a risk and compliance information system that facilitates the application of enhanced operational risk management techniques. Key components of the Company’s risk management framework are discussed elsewhere herein.

Business Continuity and Crisis Management

The Company relies upon the uninterrupted functioning of its computer systems and other technology. It also relies on the uninterrupted functioning of the computer systems and other technology of its third-party service providers. The failure of any of these components could interrupt operations or materially impact the Company’s ability to originate, monitor or service customer accounts, or to comply with contractual obligations to investors and third parties. A sustained or prolonged outage could negatively impact the Company’s financial results. The Company has adopted a business continuity and crisis management strategy to minimize the impact of a disruption or other adverse event.

Cyber Risk Management

Companies that provide financial services, including the Company and its service providers, are exposed to cyber-risk. Cyber threats continue to increase in size and complexity. While the Company and, more broadly, the industry, are continuously monitoring and improving their information and cyber security programs, they are also expanding their use of newer information technology, such as outsourced cloud computing arrangements. In the face of this growing complexity, the Company and its third-party service providers may not be able to fully mitigate all risks associated with increased threats. Cyber security breaches may lead to the loss of confidential information and related privacy issues.

Strategic and Business Risk

Strategic and business risk is the risk of loss associated with changes in the external business environment, management’s failure to implement appropriate strategies and business activities in response to changing environments and/or financial results, or management’s inability to adjust costs to mitigate these changes. As the Bank continues to grow its banking operations, its products and services compete with those offered by other banks and financial institutions, many of whom are strongly capitalized and hold significant market share. Similarly, the Bank’s mortgage lending business depends on continuing to attract business from independent mortgage brokers, who are not contractually obligated to do business with the Bank, and who also do business with the Bank’s competitors. Funding for prime mortgages originated through this channel depends on third-party funders who may cease doing business with the Bank. Furthermore, funding for the Bank’s non-prime uninsured lending program is dependent on sourcing deposits from third-party deposit brokers who are not contractually obligated to do business with the Bank, and who also do business with the Bank’s competitors.

Strategic and business risk for individual business segments is managed and monitored by senior management through regular weekly meetings. The Board of Directors approves the Company's strategies at least annually, and reviews results against strategies at least quarterly.

Insurance Management

The Company maintains insurance coverage in order to mitigate, where possible, the various forms of operational risk outlined above. This insurance coverage includes commercial property, general liability, computer crime, cyber liability, directors' and officers' liability, umbrella, and errors and omissions, and other standard business policies. Although the Company is insured for a variety of risks, in the event of a loss event the Company may not fully recover all of its losses.

Compliance Risk

Compliance risk is the risk of the Company's non-compliance with applicable legislation, regulatory requirements, or Board-mandated policies. It is particularly significant in instances where non-compliance could negatively impact the Company's reputation and/or soundness. Compliance risk is managed primarily by the Bank's Chief Compliance Officer and Chief Anti-Money Laundering Officer, with assistance from other senior management.

Reputational Risk

Reputational risk is the risk that shareholders, the general public, third parties with whom the Company deals, employees, or regulators, will, with or without basis, judge the Company's operations, actions or business practices unfavorably, potentially resulting in a decline in the Company's value, brand, liquidity, or customer base. Reputational risk is pervasive through all of the Company's activities.

To manage its reputational risk, the Company has developed a Reputational Risk framework, which includes a Reputation Risk Management Policy that sets out the principles and organization structures and process related to managing reputational risk. Reputational risk is managed through:

- value setting;
- risk management and internal control (through Bank-level ERM policies);
- specific identification and prevention of reputational risk events; and
- incident management (includes a communication response plan).

Specific risk management actions to manage reputational risk include:

- providing adequate employee job-specific training;
- mandating and ensuring compliance by all employees with the Bank's Code of Conduct and Ethical Behaviour;
- conflict of interest training and annual attestation;
- ensuring strong corporate governance standards are adhered to and that compliance and risk management practices and policies are complied with; and
- monitoring potential sources of reputational risk such as negative media, emerging risks, employee engagement and survey results, etc.

NON-GAAP MEASURES

Management uses a variety of financial measures in its assessment and description of the Company's performance. In addition to GAAP-defined measures, such as earnings per share ("EPS"), management uses non-GAAP measures in order to provide investors with useful information regarding the Company's financial condition and results of operations. These non-GAAP measures do not have any standardized meaning under GAAP. These measures, therefore, may not be comparable to, or consistent with, similarly titled non-GAAP measures presented by other companies. The non-GAAP measures used in this MD&A are defined as follows:

Adjusted shareholders' net income and adjusted diluted shareholders' earnings per share

The adjusted results are intended to highlight the core operating business of the Company (the Bank) by removing non-recurring items, and items associated with the Company's legacy businesses. These items include i) non-recurring restructuring expenses or recoveries, net of applicable taxes, ii) impairment of goodwill and intangible assets, and iii) fair value adjustments, provisions, and the results of discontinued operations associated with the Company's legacy businesses. The reconciliation of shareholders' net income (loss) to adjusted shareholders' net income (loss), and the resulting adjusted earnings (loss) per share, are presented below. Adjusted diluted earnings (loss) per share is calculated using adjusted net income (loss).

Reconciliation of Shareholders' Net Income (Loss) to Adjusted Shareholders' Net Income (Loss)

(in thousands of $, except per share data)	For the three months ended			For the year ended	
	December 31, 2018	**September 30, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Net income (loss)	**$ (45,369)**	$ (1,361)	$ 1,239	**$ (44,789)**	$ 2,292
Write off of goodwill and intangible assets (net of tax)	**25,763**	-	-	**25,763**	-
Deferred tax adjustment (reassessment of loss carryforwards)	**12,458**	1,770	-	**14,228**	-
Net interest accrual on legacy payable (net of tax)	**32**	293	-	**324**	-
Restructuring expense (net of tax)	**5,612**	-	164	**5,612**	4,985
Fair value adjustments (net of non-controlling interest)	-	11	87	**(1,331)**	119
Private equity management expense (net of tax)	-	-	54	**257**	345
Discontinued operations (net of tax)	**(161)**	-	-	**(161)**	15
Adjusted net income (loss)	**$ (1,665)**	$ 713	$ 1,544	**$ (97)**	$ 7,756
Shareholders' diluted earnings (loss) per share	**$ (0.37)**	$ (0.01)	$ 0.01	**$ (0.37)**	$ 0.02
Adjusted shareholders' diluted earnings (loss) per share	**$ (0.01)**	$ 0.01	$ 0.01	**$ 0.00**	$ 0.06

Return on equity is defined as the net income (loss) available to common shareholders as a percentage of average shareholders' equity. It is calculated on an annualized basis.

Adjusted return on equity is calculated as the adjusted net shareholders' net income (loss) as a percentage of average shareholders' equity. It is calculated on an annualized basis.

Reconciliation of shareholders' equity to shareholders' tangible equity

Shareholders' tangible equity is defined as shareholders' equity less the Goodwill and Customer Intangibles related to Street Capital's acquisition of the Bank in 2011.

(in thousands of $)	December 31, 2018	September 30, 2018	December 31, 2017
			As at
Shareholders' equity	**$ 94,960**	$ 139,743	$ 138,162
Deduct: goodwill from purchase of Street Capital Bank	-	(23,465)	(23,465)
Deduct: intangible assets from purchase of Street Capital Bank	-	(3,250)	(3,621)
Shareholders' tangible equity	**$ 94,960**	$ 113,028	$ 111,076

Return on tangible shareholders' equity ("ROTE") is defined as the net income (loss) available to common shareholders, excluding the amortization of the Customer Intangibles referenced above, as a percentage of average shareholders' tangible equity. It is calculated on an annualized basis.

	For the three months ended			For the year ended	
(in thousands of $)	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income (loss)	**$ (45,369)**	$ (1,361)	$ 1,239	**$ (44,789)**	$ 2,292
Add back: amortization of intangible assets	**122**	124	123	**493**	493
Net income (loss) for return on shareholders' tangible equity	**$ (45,247)**	$ (1,237)	$ 1,362	**$ (44,296)**	$ 2,785
ROTE	**(174.0%)**	(4.4%)	4.9%	**(40.8%)**	2.6%

Adjusted return on shareholders' tangible equity ("Adjusted ROTE") is defined as the adjusted net income (loss) available to common shareholders, excluding the amortization of the Customer Intangibles referenced above, as a percentage of average shareholders' tangible equity. It is calculated on an annualized basis.

	For the three months ended			For the year ended	
(in thousands of $)	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net adjusted income	**$ (1,665)**	$ 713	$ 1,544	**$ (97)**	$ 7,756
Add back: amortization of intangible assets	**122**	124	123	**494**	493
Adjusted net income for return on shareholders' tangible equity	**$ (1,543)**	$ 837	$ 1,667	**$ 397**	$ 8,249
Adjusted ROTE	**(5.9%)**	2.9%	6.1%	**0.4%**	7.7%

Average beacon

Average beacon refers to the credit scores of new mortgage clients, and is calculated as the portfolio weighted average at the date of mortgage origination.

Book value per share

Book value per share is calculated by dividing shareholders' equity by the number of common shares outstanding.

Economic Value of Shareholders' Equity ("EVE")

Economic value of shareholders' equity is a risk analysis tool that is used to model the effect of interest rate changes on an entity's total capital. EVE is calculated by subtracting the present value of liability cash flows from the present value of asset cash flows.

Leverage Ratio

The Leverage Ratio provided in this MD&A is that of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI. The Leverage Ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as percentage. The Capital Measure is the all-in Tier 1 capital of Street Capital Bank. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures.

Loan to value ratio

The loan to value ratio ("LTV") is calculated as the portfolio weighted average ratio of outstanding loan balance to collateral value at origination.

Market capitalization

Market capitalization at a given date is calculated by multiplying that day's closing price of the Company's common shares by the number of common shares outstanding.

Mortgages under administration ("MUA")

Mortgages under administration includes all securitized and non-securitized mortgage loans held on-balance sheet, as well as all off-balance sheet mortgages that qualify for derecognition under IFRS.

New mortgage originations

New mortgage originations includes all mortgages sold to investors, all new mortgage originations held on-balance sheet, conversions of adjustable rate mortgages to fixed rate mortgages, and mortgages that are securitized under the NHA MBS program.

Adjusted operating expenses

Adjusted operating expenses are defined as the total of the Company's i) salaries and benefits expense, plus ii) selling, general and administrative expense, excluding iii) restructuring expenses, and iv) impairments of goodwill and intangible assets.

(in thousands of $)	For the three months ended			For the year ended	
	December 31, 2018	**September 30, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Expenses					
Salaries and benefits	**$ 8,547**	$ 7,379	$ 6,774	**$ 31,812**	$ 30,859
Selling, general and administrative expenses	**5,853**	5,971	5,449	**23,122**	21,256
Restructuring expense	**7,633**	-	223	**7,633**	6,779
Impairment of goodwill and intangibles	**26,591**	-	-	**26,591**	-
Total expenses	**48,624**	13,350	12,446	**89,158**	58,894
Deduct: restructuring expense	**(7,633)**	-	(223)	**(7,633)**	(6,779)
Deduct: impairment charges	**(26,591)**	-	-	**(26,591)**	-
Adjusted operating expenses	**$ 14,400**	$ 13,350	$ 12,223	**$ 54,934**	$ 52,115

Renewed Mortgages

Renewed mortgages includes all mortgages that are renewed at the end of their contractual term, with no changes to the contractual terms except interest rate.

Risk-Based Capital Ratios

The risk-based capital ratios are composed of the Common Equity Tier 1, Tier1, and Total Capital Ratios. The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI.

Risk-weighted assets

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI.

Serious arrears rate

Serious arrears rate is defined as the number of mortgages that are greater than 90 days in arrears, plus the number of mortgages involved in legal action due to non-payment, divided by the number of mortgages under administration. The calculation includes mortgages that have been sold to institutional investors.

Total debt service ratio

The total debt service ratio (**"TDSR"**) refers to the debt service ratios of new mortgage clients, and is calculated as the portfolio weighted average at the date of mortgage origination.

GLOSSARY

Allowance for credit losses

An allowance for credit losses is a deduction from mortgages and loans receivable at a given balance sheet date. It represents management's best estimate of the amount of impaired loans that will ultimately be deemed uncollectible. It is increased by provisions for credit losses (see below) and decreased when individual loans are written off.

Basis point

A basis point ("bp") is one hundredth of a percentage point.

Canada Deposit Insurance Corporation ("CDIC")

The Canada Deposit Insurance Corporation is a Canadian federal Crown corporation that insures Canadians' deposits held at Canadian banks up to CDN $100 thousand per issuer in case of a bank failure.

Canada Mortgage and Housing Corporation ("CMHC")

The Canada Mortgage and Housing Corporation is a Canadian federal Crown corporation whose main function is to sell insurance to Canadian residential mortgage lenders to protect them against mortgage defaults. The cost of the insurance premiums is typically passed along to the borrower when a loan's LTV is > 80%, and paid by the lender when a loan's LTV is < 80%.

Guaranteed Investment Certificate ("GIC")

A Guaranteed Investment Certificate is an investment security, sold by Canadian banks and trust companies, which offers a guaranteed rate of return (interest rate) over a fixed period of time, commonly 1 to 5 years.

Impaired Loans

Loans are considered to be impaired when there is no reasonable assurance that principal and interest will be remitted to the lender on a timely basis. Upon adoption of IFRS 9, the Bank considers uninsured and insured mortgage loans to be impaired when they are more than 90 days past due.

Liquidity Adequacy Requirements ("LAR")

A guideline published by OSFI (see below) that requires banks, bank holding companies, trust and loan companies and cooperative retail associations to maintain adequate and appropriate forms of liquidity.

Liquidity Coverage Ratio ("LCR")

The Liquidity Coverage Ratio is a standard, and a component of the LAR, that aims to ensure that an institution has an adequate stock of unencumbered high-quality liquid assets ("**HQLA**") that consists of cash, or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

National Housing Act Mortgage-Backed Securities ("NHA MBS") Program

NHA mortgage-backed securities are pools of CMHC-insured residential mortgages that are sold to investors ("securitized" – see "Securitization", below).

Net Cumulative Cash Flow ("NCCF")

The Net Cumulative Cash Flow is a tool, and a component of the LAR, that measures an institution's cash flows beyond the 30-day horizon in order to capture the risk posed by funding mismatches between assets and liabilities, after the application of assumptions around the functioning of assets and modified liabilities (i.e. where rollover of certain liabilities is permitted). The NCCF measures an institution's cash flow horizon both on the basis of the consolidated balance sheet as well as by major individual balance sheets and components. The metric helps identify gaps between contractual inflows and outflows for various time bands over and up to a 12-month time horizon, which indicate potential liquidity shortfalls an institution may need to address.

Net Interest Margin ("NIM")

Net Interest Margin is a significant measure of the profitability of the Bank's operations. It is calculated as the excess of interest revenues over funding costs, as a percentage of average interest earning assets.

Office of the Superintendent of Financial Institutions Canada ("OSFI")

The Office of the Superintendent of Financial Institutions Canada is the federal government agency that is responsible for regulation and supervision of banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Prime insurable mortgage loans

A prime mortgage loan is considered insurable when it can be insured individually, or insured as part of a portfolio of loans. Prime insurable mortgages originated by the Bank and sold to third parties may be insured either by the Bank or by the investor.

Prime uninsurable mortgage loans

A prime uninsurable mortgage loan is a mortgage transaction that is ineligible for either individual or portfolio insurance. Uninsurable mortgage loans include re-finances of existing mortgages, mortgages greater than $1 million, mortgages with amortization periods greater than 25 years, purchased or transferred loans, and many mortgages on small multi-unit residential properties.

Provision for credit losses

A provision for credit losses is a charge to income that represents management's best estimate of the amount required to fully provide for impaired loans that will ultimately be deemed uncollectible.

Securitization

Securitization is the sale of pools of assets, such as insured residential mortgages, to third parties.