MCAN Financial

MCAN FINANCIAL GROUP

ANNUAL REPORT 2022

INVESTING IN COMMUNITIES AND HOMES FOR CANADIANS

With people-first financing and investing solutions that help Canadians achieve homeownership and build wealth through real estate, we are reframing our investment in community and home.

Our foundational experience and knowledge of Canadian real estate means we build mortgage solutions that reflect the needs of real Canadians, solutions inspired by real life, and we deliver access to unique financing and investment opportunities through exclusive partnerships and initiatives built for impact. Our offerings include:

- homeownership through mortgages.
- residential construction and commercial lending.
- a portfolio of REIT investments expertly managed for long-term investment income and capital appreciation.
- private investment funds that are focused on lending and developing in our communities.
- our ownership interest in MCAP, privately owned and Canada's largest mortgage financing company.

The MCAN Drive

To be the preferred mortgage lender and investor within our chosen real estate markets in Canada.

To deliver sustainable growth and value for our stakeholders through:

- relationship-driven mortgage lending and investing.
- quality work from an expert engaged, and committed team.
- dedication to excellence in service of our clients, our colleagues, and our community.

Diversity and inclusion powering our ONE team mindset.

Risk managers are in all of us.

Innovate, lean in to optimize and grow our business together.

Valuing a respectful, collaborative and relationship-focused team.

Empowered to act like an owner, think like a customer.

OUR EMBEDDED CULTURE

2022 HIGHLIGHTS

RESIDENTIAL SINGLE-FAMILY LENDING

- $829 million total uninsured portfolio
- $1.8 billion total insured securitized portfolio
- $369 million total uninsured originations
- $588 million total insured originations

COMMERCIAL AND CONSTRUCTION LENDING

- $930 million total portfolio
- $537 million total originations

$4.1B	TOTAL ASSETS
6%	CORPORATE ASSET GROWTH FROM DECEMBER 21, 2021
$55M	NET INCOME
41%	INCREASE IN NET CORPORATE MORTGAGE SPREAD INCOME FROM 2021
$1.77	EARNINGS PER SHARE
12.47%	RETURN ON AVERAGE[1] SHAREHOLDERS' EQUITY
$515M	MARKET CAPITALIZATION
$2.41	DIVIDENDS PER SHARE

- 30 year track record of dividend distribution
- Cash dividends of $1.44 per share in 2022 and a special stock dividend of $0.97 per share paid in Q1 2022

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" of our 2022 Management's Discussion and Analysis of Operations ("MD&A") available below or on SEDAR at www.sedar.com. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

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MESSAGE TO SHAREHOLDERS

Over the last four years, our strategies have achieved business growth and expansion that supports long term sustainability and high quality earnings. Our business has always been conducted based on our prudent lending and investing principles and a low cost funding strategy to provide attractive returns to our shareholders. We have seen the economy change in each of the last four years and I am proud to say that our entire team, has contributed to successfully growing our business while improving all aspects of our operations. We have focused on enhancing internal infrastructure and team capability to support lean operations and delivering differentiated service to our customers and partners.

2022 was a year of significant change in our external environment, in the economy, interest rates, housing market, inflation and population growth through immigration. Many of the impacts of the pandemic with respect to work styles, consumer preferences and low unemployment are still with us, indicating longer term changes are taking hold. We entered 2022 with some amount of caution regarding these factors and continued to adjust our business each time external impacts and changes unfolded. As in the three years prior, notably including the pandemic years, we focused on our long term strategic objectives, pivoting in each year to new opportunities and challenges. In 2022, we prioritized maintaining solid net interest margin over corporate asset growth. We worked with key partners and customers to resolve business challenges driven by market conditions. We also continued to advance our internal operating capability and efficiency. In the prior three years, we focused on growing our business and our balance sheet. We will continue to be focused on our long term strategic objectives, including moderate growth and business operations and capabilities. I believe that our strong team culture enhances our ability to effectively tackle change and opportunity in our business.

Today, the Company's assets collectively provide our shareholders with a comprehensive investment platform across the Canadian real estate landscape. We invest in residential mortgages, provide financing for residential construction in urban markets, hold and manage a REIT portfolio, participate in high yield mortgage funds, participate in real estate equity funds focused on asset value creation and the development of commercial and residential assets in key urban markets, and we hold our MCAP Commercial LP ownership interest of approximately 14%. Collectively, these quality investments are not available to typical shareholders and provide a curated portfolio for participation in the real estate market in Canada, with a focus on residential real estate. We believe in the resiliency of our portfolios through various economic cycles and therefore the resiliency in our financial performance over the long term.

2022 Year in Review

The Company's business activities continued to remain strong in 2022 fueled by our focus on our core lending business, including our mortgage and loan portfolios and related funding costs, while closely monitoring market conditions, credit quality and other factors that could impact our business. In the rising interest rate environment, our business has various levers and qualities that are positive for managing net mortgage interest including the primarily one year term of our uninsured residential mortgages, the primarily floating rates on our construction portfolio and realigning the duration of our term deposit funding.

We have proactively raised capital which has enabled us to grow our business, including through our at-the-market equity program and an oversubscribed rights offering. We have achieved growth in both our residential mortgage portfolio and our construction and commercial lending portfolio, without sacrificing our net mortgage interest. We have been opportunistic and ensured that we provide outstanding service to our brokers, originators, and customers.

Corporate assets (which excludes our securitization portfolios) totalled $2.3 billion and increased 6% in the year and 86% over the last four years. Our corporate mortgages component increased 7% to $1.9 billion at year end and 110% over the last four years.

Although mortgage originations were down from 2021 levels, partly due to our strategy of focusing on net interest margins over origination growth and the slowdown in the housing market, both our uninsured residential mortgages and our insured residential mortgages and securitized insured residential mortgages grew by 6%. We saw our spreads increase in the fourth quarter compared to the third quarter as a result of our efforts to focus on net interest margin. We continued to advance our capabilities, products, and customer service.

Our construction and commercial portfolio grew 20% for the year to $930 million which is a record outstanding balance for us. This portfolio benefited from the rising interest rate environment as it is mostly at floating rates and tends to provide higher yields. We proactively manage investments in our construction and commercial portfolio in terms of product composition, geographic mix, and exposure. Our lending and underwriting criteria for investing capital continues to generate a strong loan book. We have strong strategic partnerships with originators for investing in loans and expect to maintain the quality of our investments in this growing portfolio. During the year, we increased our portfolio in and around the urban markets of the Greater Vancouver area, the Greater Toronto area and to a lesser degree, Calgary, and Edmonton. These markets have strong demand for more entry level homes due to household formation driven by population dynamics and immigration.

We continue to proactively manage all of our income-earning corporate assets and recycle capital as appropriate. Our marketable securities, comprised of publicly traded REITs, saw a downturn in 2022 amid an uncertain economic outlook; however, we still had a year to date distribution yield[1] of 6.01% on this portfolio compared to 5.49% last year. We continue to hold these investments for the long term, for both current return and capital appreciation.

Our non-marketable securities portfolio consists of investments in development and loan funds. We have invested in, and are committed to, increasing our investments in various funds that provide either a current above-average yield or a longer term return greater than 15% over the life of the funds. Our strategy of laddering our investments in these longer term funds should provide above average returns as the funds mature and their strategies are executed. We are proud of the fact that certain of these funds focus on the development of affordable housing and connected neighbourhoods and reducing the impact of climate change.

Our equity investment in MCAP increased as a result of its earnings and growth less our distributions in 2022. MCAP is Canada's largest independent mortgage finance company. With the growth in its assets under management and its market leadership position, we expect that MCAP will continue to provide solid returns for MCAN.

During the year, we continued to invest in our team and in our infrastructure. Our 2022 activities were part of a multi-year strategic focus on our internal operations to deliver enhanced customer service and drive sustainable, profitable growth in a quality working environment for our team.

Overall, I am very pleased with our 2022 results and team performance. We will continue to be vigilant and adjust our business activities in the context of the market. Our targeted annual growth in corporate assets over the long term continues to be 10%.

We continue to support and invest in our most important asset – our team! As two measures of the success of our journey in 2022, we were proud to be included in the 2022 Best Workplaces™ in Canada and to be recognized as a 2022 Mortgage Employer of the Year by Canadian Mortgage Professional. We believe in an inclusive, diverse, and equal environment for our team and we believe in the strong support of our community.

Looking forward, we are focused on continued growth and profitability of our business to drive value for all our stakeholders. I am optimistic about achieving our business objectives as we have strong business partnerships, a talented and committed team, and excellent leadership from our management team and the Board of Directors. While we are pleased with our accomplishments in the year and over the past four years, we always have more to do. We will continue to execute on our strategic plan and follow our vision. I look forward to reporting on our achievements in the future.

Karen Weaver
President and CEO

[1] *Considered to be a non-GAAP and other financial measure and incorporated by reference and defined in the "Non-GAAP and Other Financial Measures" section of our 2022 MD&A available below or on SEDAR at www.sedar.com. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*

OUR BUSINESS AND STRATEGY

MCAN (TSX: MKP) provides sustainable growth and returns for our shareholders by leveraging our real estate expertise and providing our shareholders with unique access to investments in the Canadian real estate market and the returns that they generate. Our business includes real estate lending and investing, including residential mortgage lending, residential construction lending, non-residential construction and commercial lending, investing in a portfolio of REITs, and investing in and being invested in strategic private investments like (i) MCAP Commercial LP ("MCAP") (privately-owned and Canada's largest independent mortgage financing company) in which we own an almost 14% interest and (ii) non-marketable equity-based real estate development funds and mortgage funds. We provide a breadth of expertise in all facets of the real estate cycle that our shareholders benefit from. Our unique tax structure as a flow-through Mortgage Investment Corporation ("MIC") allows us to not be taxed at the corporate level by distributing all of our taxable earnings annually to shareholders. It also means that 67% of our non-consolidated tax assets are to be held in residential mortgages and cash.

MCAN's lines of business include three divisions - MCAN Home, MCAN Capital and MCAN Wealth.

MCAN Home

MCAN Home is our residential mortgage lender that partners exclusively with accredited mortgage professionals to offer both insured and uninsured mortgage solutions across Canada. MCAN Home operates through MCAN's wholly owned subsidiary, MCAN Home Mortgage Corporation (formerly XMC Mortgage Corporation).

MCAN Capital

MCAN Capital focuses on unique financing and investment opportunities in the construction and commercial loan markets, REITs, and private investment funds focused on lending to and developing Canadian communities. We also have an almost 14% equity interest in MCAP, Canada's largest privately-owned mortgage financing company.

MCAN Wealth

MCAN Wealth offers investors CDIC insured investment solutions at competitive rates, differing term options, and with no fees.

Business Model

MIC Structure		Low-Cost Funding		Effective Operations		Sustainable Growth		Shareholder Value
Income from diversified, quality, real estate mortgages and investments that is not taxed at the corporate level	+	As the only OSFI-regulated MIC, we offer conservative leverage with low cost deposits eligible for CDIC insurance, as well as other funding sources	+	• Balance sheet and business process optimization • Investment portfolio a source of nascent value with unique participation in top tier private real estate investment vehicles • Positive team culture	=	• Earnings • Book value • Capital	➡	• Strong ROE • Growth in dividends • Total shareholder returns

MCAN's business model provides focused investing in products and markets where we have extensive expertise and that are not generally accessible to our shareholders, to generate attractive financial returns. We employ leverage by issuing term deposits that are sourced through a network of independent financial agents.

Our business model helps us to achieve our long-term objectives:

- Sustained 10% average annual growth of assets;
- Sustained 13% to 15% average return on average shareholders' equity ("ROE"); and
- Sustained and prudent dividend growth.

We have made significant strides over the last several years under our current executive leadership team, to grow our business and achieve our long-term objectives. Comparing December 31, 2022 to December 31, 2018, we have:

- Increased our corporate mortgage portfolio by 110% to $1.9 billion from $0.9 billion;
- Increased our corporate assets by 86% to $2.3 billion from $1.2 billion;
- Increased our annual net income by 53% to $55.4 million from $36.3 million;
- Increased our regular cash dividends by 13% to 1.44 per share from 1.28 per share as well as distributed two special stock dividends of $0.97 per share and $0.85 per share; and
- Delivered average ROE[1] of 14.39% over the 4 year period vs 13.46% over the previous 4 year period.

Our 2022 Strategic Priorities

We believe we have been successful in executing on our strategic priorities in 2022. Those priorities included:

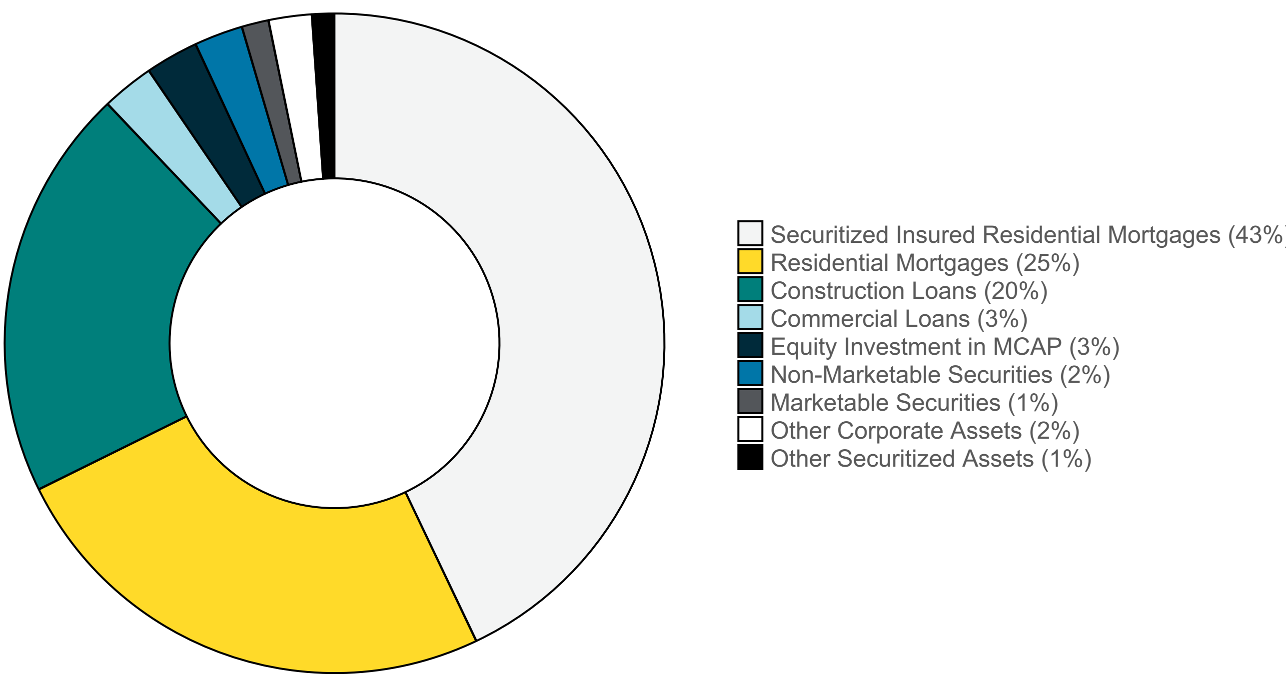
Strategic Priorities	Results
Grow, diversify and add new products to our portfolio of investments	• We have grown our corporate assets 6% since last year. • Achieved our highest outstanding commercial and construction portfolio balance. • We have added 2 new products to our residential mortgage product suite - second mortgages and adjustable rate mortgages. • We began focusing on increasing our mortgage lending in the Alberta and British Columbia urban markets. • We have added 5 new private partnership investments in our non-marketable securities portfolio and invested approximately $37.7 million during the year to this portfolio with $80.5 million of future commitments. • We launched our derivative and hedging program to manage our interest rate risk.
Expand our funding sources and capital	• We increased our senior secured mortgage warehouse facility with a Canadian Schedule I Chartered bank to $100 million. The facility is used to fund insured residential mortgages prior to securitization activities and it provides improved funding in response to our continued growth. • We increased our secured demand loan revolved facility with a Canadian Schedule I Chartered bank to $220 million. The facility is used for cash management operations. • We completed one oversubscribed rights offering in December 2022, which raised $34.1 million of capital to fund growth of our business. • We successfully raised $4 million of capital through our at-the-market equity program to fund growth of our business. • We began the process of developing a digital strategy for our MCAN Wealth division. • We added to our broker network within our MCAN Wealth division.
Investment in technology and process efficiencies	• We enhanced existing and new technology applications for continued business efficiencies. • We developed and implemented a data management strategy that enhances business efficiencies and cybersecurity capabilities.

Strategic Priorities	Results
Improve customer, partner and shareholder relations	• Launched a successful corporate rebranding characterized by a desire to better define our business and our place in our community as an employer that celebrates and elevates people, purpose and performance. • Launched our partner portal that enables seamless transfer of digital mortgage documents and easy deal management for our MCAN Home broker network - 76% adoption rate among our MCAN Home broker network. • Launched MCAN^{TV} to provide an accessible platform based on the principle of brokers helping brokers and expanding thought leadership. This also provides digital access of ideas and knowledge to remote areas. • Increased our marketing efforts through customized communications, campaigns and partner programs.
Enhance people management and capabilities, and team member experience	• Recognized in 2022 Great Places to Work^{TM}: ◦ 2022 Best Workplaces™ in Canada – 100-999 employees ◦ 2022 Best Workplaces™ for Inclusion ◦ 2022 Best Workplaces™ for Professional Development ◦ 2022 Best Workplaces™ for Women ◦ 2022 Best Workplaces™ in Financial Services & Insurance • Recognized as a 2022 Mortgage Employer of the Year by Canadian Mortgage Professional • We were an honoree for Women Lead Here by the Report on Business Magazine for the third year in a row. • Improved wellness benefits for team members.

Our Investment Portfolio

With extensive in-house expertise, MCAN is a strategic investor in the Canadian real estate market. Our portfolio is focused on residential mortgages and residential construction loans. We are also a strategic investor in REITs, MCAP and other non-marketable real estate based funds that are generally not accessible to shareholders.

Total Assets at December 31, 2022 of $4.1 billion



Residential Mortgage Lending (December 31, 2022 - $2.8 billion; December 31, 2021 - $2.6 billion)

We originate insured and uninsured residential mortgages across Canada primarily focused on first time and move up homebuyers. Although we lend across Canada, our geographical focus is in the major urban regions in Ontario and to a lesser extent in Alberta and Vancouver. We have in-house origination, underwriting and boots on the ground in our core markets. These residential mortgages are originated through our strategic relationships with mortgage brokers. We focus our uninsured residential mortgage lending to those customers with credit challenges and to those who are self-employed. Our products include purchases, refinances and renewals. We have strategies to either originate and securitize our on-balance sheet insured residential mortgages, which are included in securitized insured residential mortgages above, or sell our insured residential mortgage commitments, depending on market conditions.

Construction Lending (December 31, 2022 - $825 million; December 31, 2021 - $684 million)

Residential construction loans are made to developers to finance residential construction projects. We focus our lending on the construction of affordable housing in urban/suburban growth markets with a preference for proximity to transit. This approach aims to mitigate the impact of price volatility and tightened sales activity in the event of market corrections. As well, these markets are where we, or our originating partners, have experience and local expertise. We have long established strategic relationships with originators, partners and borrowers. In house, we apply our own seasoned experience and underwriting. The borrowers that we like to target are experienced developers with a successful track record of project completion and loan repayment, and often repeat customers to us. These loans generally have a floating interest rate, with a floor rate set at origination and loan terms typically ranging between 24 and 36 months. We also strategically lend at the land development stage to enhance longer term relationships with borrowers. Non-residential construction loans provide similar construction financing, but for retail shopping developments, office buildings and industrial developments.

Commercial Lending (December 31, 2022 - $105 million; December 31, 2021 - $93 million)

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

Investment in MCAP (December 31, 2022 - $106 million; December 31, 2021 - $96 million)

We have an approximate 14% equity interest in MCAP. MCAP is Canada's largest independent mortgage finance company with assets under management of $154 billion, serving many institutional investors and over 400,000 homeowners. This investment allows us to participate in the growth of MCAP that typically provides quarterly distributions on our investment.

Non-Marketable Securities (December 31, 2022 - $97 million; December 31, 2021 - $65 million)

We have equity investments in various strategic private real estate development and mortgage funds or instruments. Our strategy of laddering these investments in these funds should provide above average returns as the funds mature and their strategies are executed. All of the funds we invest in are backed by real estate in Canada and provide debt and equity capital to experienced and successful originators and developers. Certain of these funds focus on affordable housing, connected neighbourhoods and reducing the impact of climate change. These investments are mostly held for capital appreciation as well as distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, they tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds.

Marketable Securities (December 31, 2022 - $54 million; December 31, 2021 - $63 million)

We have a diversified and expertly managed REIT portfolio held for investment income and capital appreciation. We leverage our real estate investment expertise to actively manage this portfolio, with periodic recycling of capital. Our REIT investment objectives are to earn long term total returns in the range of 9 to 11%. This portfolio provides additional liquidity and diversification to our overall investment portfolio.

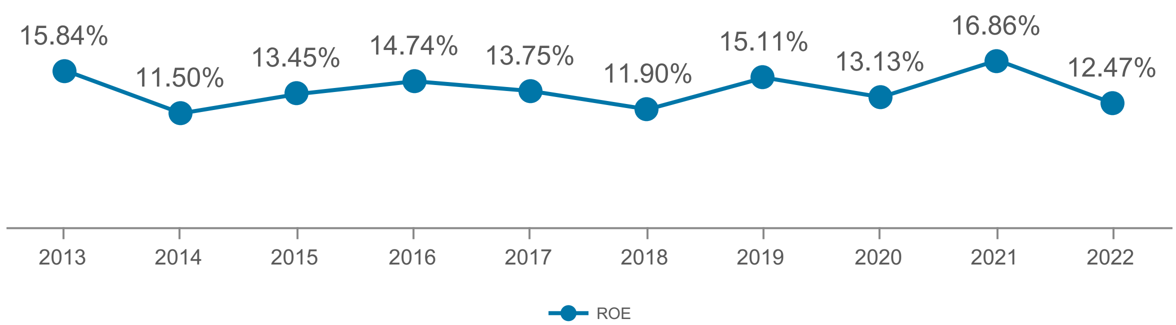
Our Loan Portfolio Quality

We believe we have a quality loan portfolio, with minimal mortgages in arrears. The majority of residential mortgage arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. We closely monitor and actively manage these arrears. We have historically had low arrears related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. We have a strong track record with our asset recovery programs should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

Our Shareholder Returns

ROE is a key performance metric for MCAN. With our diversified investment base, we believe that we are able to generate strong returns for shareholders through various cycles of the real estate market. Despite severe market volatility in 2022, broadly affecting public company share prices, we recorded a positive total shareholder return[1] (dividends plus share price appreciation) in 2022 at almost 1% and the compound annual growth rate of our total shareholder return[1] for the last 5 years was almost 8%.

Historical ROE[1]



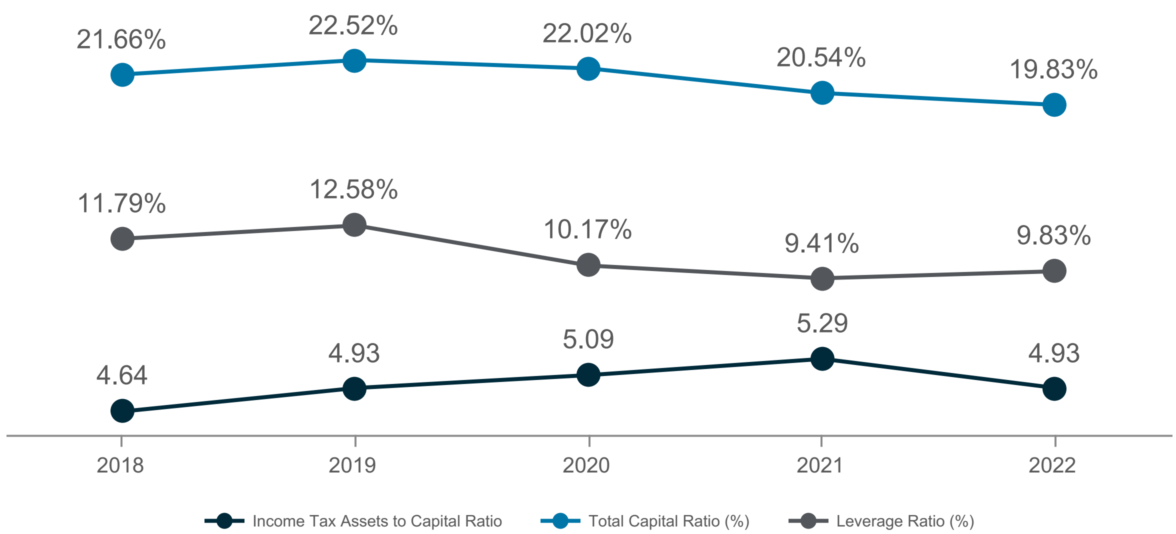
Our long-term objective is sustained 13% to 15% average ROE. The nature of our investing activities may result in fluctuations in our ROE year to year. ROE for year to date 2022 was negatively impacted by unrealized fair value losses on our REIT portfolio. In the last 10 years, we have delivered an average ROE[1] of almost 14%.

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" of our 2022 MD&A available below or on SEDAR at www.sedar.com. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Our Capital Strength

We manage our capital and asset balances based on the regulations and limits of the *Trust and Loan Companies Act* (the "Trust Act"), *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Our strong capital base over the years has allowed us to pursue our growth strategy while achieving our long-term objectives. We have made a conscious effort over the last few years to try to optimize our balance sheet in order to place ourselves well for future growth and returns.

Historical Capital Ratios

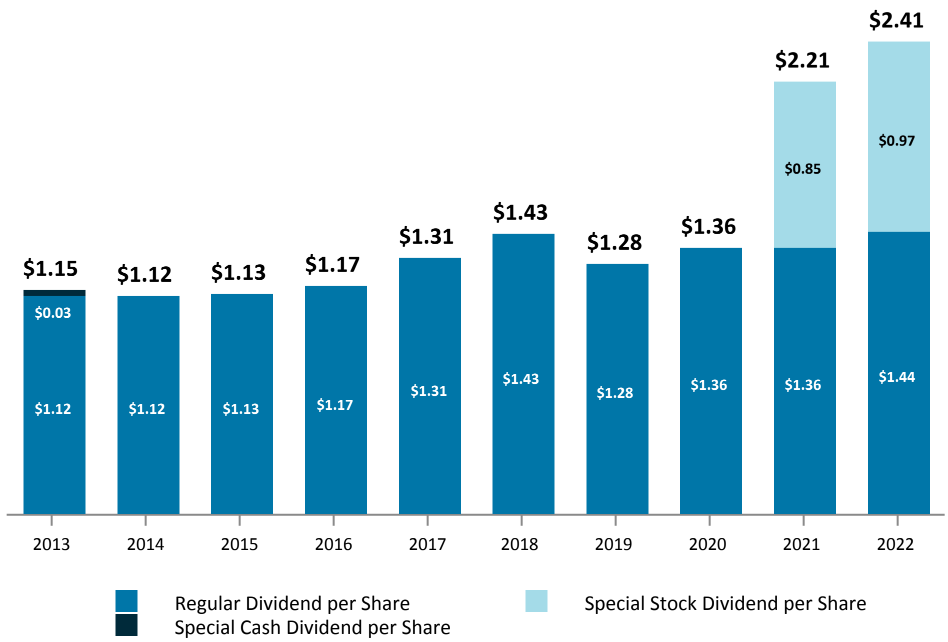


Our capital ratios have adjusted due to our growing assets compared to our capital base. Capital growth this year has come from our first quarter stock dividend, dividend reinvestment program, at-the-market equity raising program and our completed rights offering. Further growth will be dependent on better equity market conditions or shareholder appetite. All of our capital ratios are within our regulatory and internal risk appetite guidelines.

Our Dividends

Uniquely structured as a MIC, our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. Should taxable income per share exceed our regular cash dividends per share, we would distribute special cash or stock dividends per our dividend policy. We have been paying regular dividends for the past 30 years.

Dividend History



The Board of Directors ("Board") declared a first quarter regular cash dividend of $0.36 per share to be paid March 31, 2023 to shareholders of record on March 15, 2023. Our regular cash dividends for 2022 are sufficient to cover our taxable income, and therefore we will not be distributing a special stock dividend in March 2023 along with the regular cash dividend.

Our Environment, Social and Governance ("ESG") Highlights

People First. Purpose Driven. Performance Focused.

MCAN's values and culture are rooted in our stakeholders, including our shareholders, customers, business partners and team members, and their communities:

E	• Supporting sustainable residential communities by providing residential mortgages using **responsible underwriting and risk management** practices that **deal with climate risk** on our portfolio • Providing capital and loans to real estate developers and investment funds who are committed to **community and climate-based responsible development**, primarily for **residential density development in urban communities close to mass transit** • Operational efficiency to **reduce our carbon footprint**
S	• **Lending to, and investing in**, the development of more **affordable housing** • **Investing in the communities** where our shareholders, customers, business partners and team members call home • Creating a **positive experience by tailoring products and offerings** for our stakeholders and customers to achieve their objectives
G	• Ensuring **strong governance and risk management practices** aligned with our role as a publicly traded regulated financial institution focused on all our stakeholders and their communities.

At the core of our ESG program is our management team and the Board, who navigate the risks and opportunities in our business within our established sustainability framework. Our management team, along with our Board, have built a strong risk and governance framework by which we do business. We believe these practices are essential for the Company's success. Information about our risk governance structure is included in the "Risk Management" section of our 2022 MD&A available below or on SEDAR at www.sedar.com.

We remain committed to supporting sustainable residential development projects, investing in our team culture and professional growth, and supporting local charities. The capital we provide for construction lending opportunities primarily focuses on affordable residential development projects in urban markets that are committed to net zero emissions frameworks by 2050, including Toronto, Vancouver and Calgary. We also work with partners who are committed to responsible corporate citizenship. Many of these partners consider ESG at every phase of the real estate lifecycle and recognize that this creates the greatest value for stakeholders. We continue to invest in learning and development opportunities for our team members and support various local charitable organizations. We also support our team members by providing a work environment that allows for a flexible working structure, and enhancing our wellness, benefit and compensation plans.

Our MCAN DRIVE values support *lending* a hand…

- To Canadians dreaming of home ownership and wealth creation through investment in Canadian real estate;
- To communities through support and investment in programs that connect, empower and revitalize;
- To developers committed to social responsibility and building a low carbon world by reducing waste, emissions, and energy consumption;
- To shareholders by providing transparency on ESG risks and opportunities, and actively managing and improving on reporting on ESG performance to ensure alignment with their vision; and
- To team members through the cultivation of a diverse, inclusive, and collaborative culture.

We are proud of our ESG journey to date. Some of our key achievements in 2022 are highlighted below:

2022 ESG Achievements

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- **>90%**: percentage of total capital committed in our construction and commercial businesses that is focused on density development
- **>$55 million**: amount committed for investments in equity funds focused on environmental sustainability and adapting to climate change
- Low environmental footprint of our operations, including a hybrid working model and mostly digital and paperless processes, allowing us to naturally have low Scope 1 and 2 emissions
    - We launched our new partner portal enabling seamless transfer of digital documents
- **8,260**: number of trees planted under our new partner program whereby we plant 4 trees for every deal funded under the program. Our tree plantings were done in British Columbia and Ontario regions impacted by fire and deforestation.

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- **2022 Mortgage Employer of the Year:** recognized by Canadian Mortgage Professional
- **6**: number of categories we were recognized in by 2022 Great Places to Work™ including:
    - 2022 Best Workplaces™ in Canada – 100-999 employees
    - 2022 Best Workplaces™ for Inclusion
    - 2022 Best Workplaces™ for Professional Development
    - 2022 Best Workplaces™ for Women
    - 2022 Best Workplaces™ in Financial Services & Insurance
    - 2022 Best Workplaces™ in Ontario
- **$24 million:** amount funded in our residential construction portfolio in affordable housing projects
- **$51,000**: amount of free mortgage payments awarded to our customers as part of our partner program
- **$90,750:** amount of cash donations made during the year
    - **$63,250** donated on behalf of our team members to our local communities
    - **$27,500** donated on behalf of our brokers and partners as part of our new partner program
- **>70%**: percentage of employees who self-identify as a visible minority
- Recognized by the **Globe and Mail's 2022 Report on Business Women Lead Here list** for gender diversity for the third straight year
- **Team member volunteer days**, including participation in:
    - Habitat for Humanity Build Day
    - Multiple Sclerosis Million Dollar Tower Challenge by the Multiple Sclerosis Society of Canada

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- **100%**: percentage of independent Board members serving on the Audit Committee, Conduct Review, Corporate Governance and Human Resources Committee and Enterprise Risk Management and Compliance Committee
- **100%**: percentage of active employees who have attested to the Code of Conduct
- **99%**: percentage of Director attendance at Board meetings
- **8 out of 9**: number of Board members who are independent

As we continue to evolve our ESG efforts, we plan to incorporate more education, measurements (where possible) and further and continued investments in environmental programs and our social impact.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes at December 31, 2022 and December 31, 2021 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which are the Generally Accepted Accounting Principles ("GAAP") in Canada, and presented in Canadian currency. This MD&A has been presented as of February 23, 2023.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

External conflicts such as the Russia/Ukraine conflict and post-pandemic government and Bank of Canada actions taken, have resulted in uncertainty relating to the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, supply chain issues, inflation, levels of housing activity and household debt service levels. There can be no assurance that such expectations, estimates, projections, assumptions and beliefs will continue to be valid. The impact the COVID-19 pandemic or any further pandemics, variants or outbreaks, including measures to prevent their spread and related government actions adopted in response thereto, will have on our business continues to be uncertain and difficult to predict.

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to, the risk that any of the above opinions, estimates or assumptions are inaccurate and the other risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2022, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

(in thousands except per share amounts, % and where indicated) At December 31	2022	2021	Change (%)	2020	Change (%)
Income Statement Highlights					
Mortgage interest - corporate assets [A]	$ 101,286	$ 71,823	41%	$ 64,070	58%
Term deposit interest and expenses [B]	$ 44,222	$ 31,430	41%	$ 32,006	38%
Net corporate mortgage spread income[1] [A-B]	$ 57,064	$ 40,393	41%	$ 32,064	78%
Equity income from MCAP Commercial LP	$ 26,603	$ 25,453	5%	$ 33,918	(22%)
Net gain (loss) on securities	$ (12,074)	$ 14,763	(182%)	$ (9,091)	(33%)
Net investment income - corporate assets	$ 79,805	$ 85,446	(7%)	$ 60,294	32%
Net investment income - securitization assets	$ 3,898	$ 5,966	(35%)	$ 4,033	(3%)
Net income	$ 55,354	$ 64,362	(14%)	$ 42,893	29%
Basic and diluted earnings per share	$ 1.77	$ 2.40	(26%)	$ 1.75	1%
Dividends per share - cash	$ 1.44	$ 1.36	6%	$ 1.36	6%
Dividends per share - stock	$ 0.97	$ 0.85	14%	$ —	n/a
Next quarter's dividend per share - cash	$ 0.36				
Return on average shareholders' equity [1]	12.47 %	16.86 %	(4.39%)	13.13 %	(0.66%)
Taxable income per share[2]	$ 1.29	$ 2.63	(51%)	$ 2.45	(47%)
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	2.82 %	2.80 %	0.02%	2.62 %	0.20%
Spread of securitized mortgages over liabilities [1]	0.47 %	0.70 %	(0.23%)	0.71 %	(0.24%)
Average term to maturity (in months)					
Mortgages - corporate	11.4	13.0	(12%)	14.2	(20%)
Term deposits	16.0	18.5	(14%)	18.3	(13%)
Balance Sheet Highlights					
Total assets	$ 4,078,676	$ 3,808,070	7%	$ 2,728,715	49%
Mortgages - corporate	$ 1,939,494	$ 1,806,146	7%	$ 1,252,762	55%
Mortgages - securitized	$ 1,751,303	$ 1,583,697	11%	$ 1,135,745	54%
Total liabilities	$ 3,589,366	$ 3,374,812	6%	$ 2,382,203	51%
Shareholders' equity	$ 489,310	$ 433,258	13%	$ 346,512	41%
Capital Ratios					
Income tax assets to capital ratio[2]	4.93	5.29	(7%)	5.09	(3%)
CET 1 & Tier 1 capital ratio [4]	19.60 %	20.26 %	(0.66%)	21.67 %	(2.07%)
Total capital ratio [4]	19.83 %	20.54 %	(0.71%)	22.02 %	(2.19%)
Leverage ratio [3]	9.83 %	9.41 %	0.42%	10.17 %	(0.34%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	1.66 %	0.05 %	1.61%	0.30 %	1.36%
Impaired mortgage ratio (total) [1]	0.89 %	0.03 %	0.86%	0.18 %	0.71%
Mortgage Arrears					
Corporate	$ 54,430	$ 10,826	403%	$ 24,288	124%
Securitized	3,439	4,865	(29%)	5,660	(39%)
Total	$ 57,869	$ 15,691	269%	$ 29,948	93%
Common Share Information (end of period)					
Number of common shares outstanding	34,306	29,621	16%	24,727	39%
Book value per common share [1]	$ 14.26	$ 14.63	(3%)	$ 14.01	2%
Common share price - close	$ 15.00	$ 17.23	(13%)	$ 15.77	(5%)
Market capitalization ($ million)	$ 515	$ 510	1%	$ 390	32%

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.
[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022. Prior period ratios have not been restated.

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$30,747	$27,216	$22,815	$20,508	$20,436	$19,072	$16,543	$15,796
Term deposit interest and expenses [B]	$13,189	$12,330	$10,185	$ 8,518	$ 8,389	$ 8,013	$ 7,472	$ 7,556
Net corporate mortgage spread income[1] [A-B]	$17,558	$14,886	$12,630	$11,990	$12,047	$11,059	$ 9,071	$ 8,240
Equity income from MCAP Commercial LP	$ 6,860	$ 8,236	$ 6,288	$ 5,219	$ 6,246	$ 5,606	$ 6,859	$ 6,742
Net gain (loss) on securities	$ 1,735	$(5,092)	$(9,906)	$ 1,189	$ 3,374	$ 1,016	$ 6,453	$ 3,920
Net investment income - corporate assets	$30,734	$18,845	$ 9,468	$20,758	$21,875	$18,976	$24,390	$20,205
Net investment income - securitization assets	$ 838	$ 877	$ 1,068	$ 1,115	$ 1,408	$ 1,443	$ 1,570	$ 1,545
Net income	$24,088	$11,650	$ 4,137	$15,479	$16,070	$12,990	$19,378	$15,924
Basic and diluted earnings per share	$ 0.75	$ 0.37	$ 0.13	$ 0.52	$ 0.57	$ 0.47	$ 0.73	$ 0.64
Dividends per share - cash	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ 0.97	$ —	$ —	$ —	$ 0.85
Return on average shareholders' equity [1]	21.17 %	10.52 %	3.75 %	14.19 %	15.39 %	13.22 %	21.28 %	18.15 %
Taxable income per share [2]	$ 1.11	$ (0.47)	$ 0.30	$ 0.35	$ 0.32	$ 0.57	$ 0.89	$ 0.85
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.32 %	2.83 %	2.50 %	2.59 %	2.70 %	2.77 %	2.89 %	2.76 %
Spread of securitized mortgages over liabilities [1]	0.39 %	0.44 %	0.51 %	0.54 %	0.62 %	0.65 %	0.72 %	0.81 %
Average term to maturity (in months)								
Mortgages - corporate	11.4	12.9	13.9	13.8	13.0	13.9	12.8	13.7
Term deposits	16.0	17.1	17.7	17.7	18.5	19.9	19.6	17.7
Balance Sheet Highlights ($ million)								
Total assets	$ 4,079	$ 4,004	$ 4,066	$ 4,000	$ 3,808	$ 3,604	$ 3,305	$ 2,977
Mortgages - corporate	$ 1,939	$ 1,975	$ 1,977	$ 1,902	$ 1,806	$ 1,657	$ 1,401	$ 1,287
Mortgages - securitized	$ 1,751	$ 1,691	$ 1,700	$ 1,659	$ 1,584	$ 1,531	$ 1,435	$ 1,327
Total liabilities	$ 3,589	$ 3,562	$ 3,626	$ 3,558	$ 3,375	$ 3,210	$ 2,916	$ 2,620
Shareholders' equity	$ 489	$ 443	$ 441	$ 442	$ 433	$ 394	$ 389	$ 357
Capital Ratios								
Income tax assets to capital ratio [2]	4.93	5.76	5.53	5.53	5.29	5.50	5.05	5.05
CET 1 & Tier 1 capital ratios [4]	19.60 %	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %	21.91 %	21.65 %
Total capital ratio [4]	19.83 %	18.64 %	19.09 %	19.57 %	20.54 %	19.73 %	22.24 %	22.02 %
Leverage ratio [3]	9.83 %	8.88 %	8.82 %	8.96 %	9.41 %	8.86 %	9.59 %	9.69 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	1.66 %	0.00 %	0.01 %	0.03 %	0.05 %	0.06 %	0.11 %	1.10 %
Impaired mortgage ratio (total) [1]	0.89 %	0.01 %	0.02 %	0.02 %	0.03 %	0.04 %	0.07 %	0.55 %
Mortgage Arrears								
Corporate	$54,430	$37,792	$ 9,908	$ 9,981	$10,826	$ 8,794	$ 8,968	$26,514
Securitized	3,439	2,842	3,397	4,124	4,865	3,818	7,359	4,710
Total	$57,869	$40,634	$13,305	$14,105	$15,691	$12,612	$16,327	$31,224
Common Share Information (end of period)								
Number of common shares outstanding	34,306	31,855	31,715	31,373	29,621	27,646	27,560	26,135
Book value of common share [1]	$ 14.26	$ 13.90	$ 13.89	$ 14.08	$ 14.63	$ 14.26	$ 14.13	$ 13.65
Common share price - close	$ 15.00	$ 14.57	$ 16.75	$ 17.85	$ 17.23	$ 18.00	$ 17.29	$ 16.46
Market capitalization ($ million)	$ 515	$ 464	$ 531	$ 560	$ 510	$ 498	$ 477	$ 430

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.
[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.

Annual Trends

- Net income has seen significant fluctuations over the three year period due to unrealized fair value gains and losses from our REIT portfolio, due to market volatility as a result of the pandemic and the current economic uncertainty post-pandemic.

- For 2022 compared to 2021, our net income was positively impacted by growth in our mortgage portfolios as well as higher spread of corporate mortgages over term deposit interest and expenses. This was more than offset by unrealized fair value losses on our REIT portfolio. Our corporate and securitized assets continued to grow into 2022 compared to 2020 due to high net origination volumes in all our portfolios and increases in our capital base due to three successful rights offerings and our at-the-market equity program ("ATM Program").

- For 2021 compared to 2020, our net income was positively impacted by growth in our mortgage portfolios as well as unrealized fair value gains on our REIT portfolio compared to unrealized fair value losses during 2020 and higher provisions recorded for credit losses in 2020, both as a result of the pandemic and uncertain economic environment. Our corporate and securitized assets continued to grow in 2021 compared to 2020 due to high origination volumes in all our portfolios and increases in our capital base due to two successful rights offerings.

- Taxable income fluctuations in the three year period is mainly due to taxable income recorded from our investment in MCAP Commercial LP ("MCAP"). As a result of increases in taxable income in 2021 and 2020, the Board of Directors ("Board") declared special stock dividends in order to distribute all of MCAN's taxable income, net of loss carryforwards used. Due to lower taxable income from MCAP in 2022, we do not have taxable income per share greater than our regular cash dividend per share.

Quarterly Trends

- Net income has been driven by multiple factors. In 2021, the main drivers were related to the ongoing pandemic impacts including a lower interest rate environment and recovery in the fair value of our REIT portfolio following the initial onset of the pandemic. In 2022, we saw a rising interest rate environment and generally unrealized losses in our REIT portfolio. Other factors include higher average corporate mortgage portfolio balances from net originations, higher spreads of corporate mortgages over term deposit interest and expenses mainly from rising interest rates on our floating rate construction portfolio, and stable equity income from our investment in MCAP since 2021.

- Taxable income has generally been reducing and is mainly impacted by lower taxable income from MCAP. This has been partially offset by higher income from our core business.

- The spread of corporate mortgages over term deposit interest and expenses has been declining until Q3 2022. Through the latter half of 2021 and first half of 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread. In Q3 2022, the rising interest rate environment has increased rates in our floating rate residential construction portfolio well above their floor rates and the duration of our term deposit funding has kept average term deposit rates from rising faster than our mortgage rates, which has increased our spread of corporate mortgages over term deposit interest and expenses.

- We have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly since 2021. As a result, we have reduced our securitization volumes in 2022. We participate in this market opportunistically.

- Common Equity Tier 1 ("CET 1"), Tier 1 Capital and Total Capital to risk-weighted assets ratio reductions are due to our growing risk-weighted assets compared to our capital base. The Company successfully initiated three capital raises by way of rights offerings in June 2021, December 2021 and December 2022. These offerings raised $53 million of capital in 2021 and $34 million in 2022. In 2022, we also raised $4 million of capital through our ATM Program.

- Mortgage arrears have varied on a quarterly basis given the nature of the 1-30 day arrears. The increase in arrears in Q1 2021 is mainly due to one construction mortgage where an asset recovery program was initiated. We recovered all past due interest and principal in Q2 2021. In Q3 2022 and Q4 2022, the increase in arrears is mainly due to construction and commercial mortgages that we expect will either be brought current or where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND OUTLOOK

We continue to focus over the long term on growing our business and shareholder returns. We believe that our long-term strategy will continue to serve us well though we must also consider the current market conditions in the execution of that strategy. Over the short to mid term, our focus is on maintaining solid net interest margin and investing in our core business within our capital requirements and risk appetite, as well as continuing to invest in our infrastructure and process improvements. We believe that we are a prudent and disciplined real estate lender and investor and that we have strong relationships with our brokers and strategic partners that are foundational to our strategy. This strategy and long-term outlook is based on assumptions from our experience, our market knowledge, and sources we consider reliable.

Economic Outlook

The lagging impact of aggressive interest rate hikes by central banks continues to dominate the outlook for the Canadian and global economies. While inflation may be easing in Canada, labour markets remain strong and many Canadian economists believe that a moderate recession is looking more likely as inflation is still historically high and with 425 bps of interest rate hikes since early 2022. We expect continued uncertainty around current geopolitical conflicts and China's reopening on commodity prices, which have seen some improvement recently. While the Bank of Canada has signaled that further rate increases may not be anticipated, we expect that their policy rate will remain elevated for the remainder of 2023. Steep interest rate increases have moderated consumer spending and eased inflation somewhat, but at the risk of a recession. Current inflation and interest rates are expected to negatively impact overall household disposable income leading to further reductions in discretionary spending in the near term as prices for food and shelter remain elevated. Most economists expect slowing growth in Canadian GDP and our unemployment rate to increase but still remain low. A continued low unemployment rate may mitigate the severity or length of any recession. We expect inflation and interest rates to be the dominant concern in 2023.

Housing Market Outlook

Higher interest rates are a strong headwind that are expected to continue cooling housing demand in 2023 as housing affordability continues to worsen in all provincial markets. Most economists are expecting average home prices to decrease further in the short to mid term, underpinned by quickly rising borrowing costs and buyers waiting to see how high rates will go. This price correction we expect will provide some relief to home buyers. In the long term, we believe that the continued supply-demand imbalance will provide some upward pressure on home prices, or at least a counter-balance to higher rates, particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. Further, robust immigration rates will keep lifting housing demand. The lack of supply of affordable housing is not easily resolved in the short term, as there are multiple factors to consider in increasing supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, lack of new construction technologies, etc.) that limit how many homes can be built in the short term. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business. In Ontario, the provincial government has enacted Bill 23, "More Homes Built Faster Act, 2022" ("Act"), in order to help with the supply imbalance and affordability issues faced in Ontario. Notwithstanding this Act, it will still take time for supply to increase at an acceptable pace to keep up with demand for housing.

Business Outlook

We believe that our business is well structured with its focus on multiple facets of the Canadian residential real estate market, giving us some flexibility in terms of income generation and allowing us to balance out volatility that we may experience at certain points and in certain areas of our business. The pace and steepness of interest rate increases over the past year, as well as the risk of a moderate recession, created headwinds for our MCAN Home division which runs our residential lending business, our MCAN Capital division which manages our REIT portfolio, and our MCAN Wealth division which manages our term deposits, and we expect may continue to impact 2023. That said, we continue to experience positive momentum in other parts of our business, such as our construction lending business, which benefits from floating interest rates, and we believe that the housing market will remain strong given supply/demand imbalances and the pace of immigration. We believe that there is opportunity to grow our core business in this environment, without taking on significantly more risk. We have seen better spreads in our residential lending business in the second half of 2022 and there continues to be ample opportunity to lend to residential construction developers, particularly in our core area of lending on affordable housing projects near transit corridors around key urban markets. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in the short term, with a focus on continuing to protect our net interest margin over corporate asset growth. We will also continue to place an emphasis in 2023 on investing in our business infrastructure and process improvements in order to help drive efficiencies and future growth.

MCAN Capital Division

Our MCAN Capital division manages our construction and commercial lending business, as well as our investments in REITs and real estate-based development and loan funds. Over the next year, we will continue to deploy our capital within our construction and commercial lending business and fund committed capital into our real estate-based development funds. Notwithstanding headwinds in the housing market from the higher interest rate environment, we expect continued high demand for more affordable housing, which is our focus generally with our investments and construction and commercial loans. We therefore expect a solid pipeline for our residential construction lending business. We will also continue to benefit from the higher interest rates as this portfolio of loans is almost entirely at floating rates. Although there continues to be construction site delays as well as the aforementioned housing market headwinds, the vast majority of our loans are progressing towards completion and the few that have stalled are being actively managed to either be brought current or we expect to recover all past due interest and principal. We continue to very closely monitor our portfolio and the market in general. As well, the cost of construction has increased due to inflationary pressures in the cost of building materials and labour and there continues to be a shortage of skilled labour within the construction industry. All these factors have, and may continue to have, an impact on the timing of repayments as loans remain outstanding longer; however, they have not changed the overall expected success of these construction projects or the performance of the loans within this portfolio. With that in mind, in 2023 we will be carefully managing the run-off in our construction loan book from maturities and repayments expected in the second half of the year. Our philosophy within our MCAN Capital division is to apply a prudent approach to our underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential products, near transit corridors, with experienced borrowers and developers where we have existing relationships. We will continue to remain vigilant in our underwriting and loan management practices.

MCAN Home Division

Our MCAN Home division manages our residential lending business. Given the higher interest rate environment, our risk management, credit monitoring and assessment activities will continue to have a heightened focus in operating our business. We currently have a portfolio with a strong credit profile and a minimal level of arrears. Residential mortgages tend to provide comparatively lower yields given their risk profile. That said, we have seen spreads improve over the last several months, particularly in our uninsured residential mortgages, as interest rates have increased and we have focused on protecting our net interest margins. Based on the current economic and housing market outlook, we will continue to focus on protecting our net interest margins within our capital requirements during this time of uncertainty. We will also look to add new products in 2023 to further broaden our offering to our customers. We remain dedicated to continuously improving our service for our borrowers and the broker community, and as such, we will continue to invest in our current and new systems and business infrastructure to further enhance our service experience. We are also now focused on increasing our mortgage lending in the Alberta and British Columbia urban markets and may look to expand in other markets within Canada. We will continue to keep abreast of the many changes in the market, the regulatory environment and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

MCAN Wealth Division

Our MCAN Wealth division manages our term deposit business. We employ leverage and fund our business by issuing GICs that are eligible for CDIC deposit insurance that are sourced through a network of independent brokers and financial agents. More recently, we’ve seen higher term deposit rates amid a higher interest rate environment. We typically see the term deposit market impacted first and immediately by higher interest rates, compared to residential mortgages that these term deposits fund. Given the risk of a recession and the potential for reductions in the Bank of Canada overnight rate, in the short to mid term, we expect to see term deposit rates stabilize and even decrease, following more closely with Government of Canada bond yields. Given current and expected interest rates, we continue to look for opportunities to realign the duration of our term deposits relative to our corporate mortgage portfolio. We will continue to expand our broker network and look for other channels to source term deposits. We expect to invest in our current and new systems and business infrastructure to drive efficiencies and we are focused on digital strategies, process improvements and new product offerings within our term deposit operations.

We will continue to put a focus on expanding and maturing our capital markets, investor relations and funding strategies over the long term to continue our growth. That growth will be dependent on capital availability and therefore the strength of capital markets or existing shareholder demand for our shares. We are pleased to have recently completed a rights offering in December 2022 that was 1.75 times oversubscribed, raising $34.1 million in net equity capital. MCAN’s management and Board are committed to proactively and effectively managing and evolving all our strategies, business activities and team into the future, regardless of market conditions. We will always invest in our greatest asset – our people. Our targeted average annual growth in corporate assets over the long term is 10%; however, we expect to remain focused on protecting our bottom line and preserving capital over corporate asset growth in the short term, given the current economic environment.

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

HIGHLIGHTS

Q4 2022

- Net income totalled $24.1 million in Q4 2022, an increase of $8 million (50%) from $16.1 million in Q4 2021. Results for the fourth quarter of 2022 were positively impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $0.75 in Q4 2022, an increase of $0.18 (32%) from earnings per share of $0.57 in Q4 2021.

- Return on average shareholders' equity[1] was 21.17% for Q4 2022 compared to 15.39% in Q4 2021.

- Net corporate mortgage spread income[1] increased by $5.5 million from Q4 2021. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued net mortgage originations and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread of corporate mortgages over term deposit interest and expenses is due to a larger increase in our average mortgage rates compared to our average term deposit rates. The increase in our average mortgage rates is primarily due to the impact of the rising rate environment on our mostly floating rate residential construction loans. On the term deposit side, we have had a greater focus on raising shorter duration deposits, therefore resulting in the smaller increase in our average term deposit rates.

- Net securitized mortgage spread income[1] decreased by $0.7 million from Q4 2021. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. We have seen the spread of securitized mortgages over liabilities decline on securitizations mainly as a result of higher securitization liability interest expense from significantly increasing Government of Canada bond yields in 2022 in a rising interest rate environment.

- Recovery of credit losses on our corporate mortgage portfolio of $1.1 million in Q4 2022 was mainly due to a more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from expectations that both inflation and Bank of Canada interest rate increases may be nearing a peak. In Q4 2021, we had a provision for credit losses of $0.8 million mainly due to growth in our portfolio.

- Equity income from MCAP totalled $6.9 million in Q4 2022, an increase of $0.7 million (10%) from $6.2 million in Q4 2021, which was primarily due to higher servicing and administration revenue resulting from higher assets under management, and higher financial instrument gains resulting from (i) hedge gains; (ii) favourable fair value adjustments; and (iii) lower hedge costs. These were partially offset by (i) lower net interest income on securitized mortgages due to compressed spreads as a result of the rising interest rate environment; (ii) lower mortgage origination fees from lower spreads and origination volumes due to market conditions; (iii) higher interest expense; and (iv) higher operating expenses mainly attributed to higher headcount.

- In Q4 2022, we recorded a $1.7 million net unrealized fair value gain on securities compared to a $3.4 million net realized and unrealized fair value gain on securities in Q4 2021. In Q4 2022, we saw REIT prices increase due to market expectations that Bank of Canada interest rate increases may be nearing a peak. In Q4 2021, we had a realized gain of $3.8 million from the sale of REITs and a net unrealized loss of $0.5 million due to continued pandemic uncertainty. We are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments. In Q4 2022, we received distributions of $876 thousand (distribution yield[1] of 6.48%) from our REITs compared to $837 thousand (distribution yield[1] of 5.28%) in Q4 2021. While we expect continued volatility in the REIT market, we have seen continued recovery recently.

Year to Date 2022

- Net income totalled $55.4 million for 2022 year to date, a decrease of $9 million (14%) from $64.4 million net income in 2021. Year to date 2022 results were mainly impacted by $10.3 million of net unrealized fair value losses on our REIT portfolio compared to $10.9 million of net unrealized fair value gains in 2021 due to the different market environments, partially offset by higher net corporate mortgage spread income.

- Earnings per share totalled $1.77 for 2022 year to date, a decrease of $0.63 (26%) from earnings per share of $2.40 in 2021. Year to date 2022 net unrealized fair value losses on our REIT portfolio negatively impacted our earnings per share by $0.33 compared to net unrealized fair value gains positively impacting earnings per share by $0.41 in 2021.

- Return on average shareholders' equity[1] was 12.47% for 2022 compared to 16.86% in 2021.

- Net corporate mortgage spread income[1] increased by $16.7 million from 2021. The net corporate mortgage spread income increased mainly due to a higher average corporate mortgage portfolio balance from continued net mortgage originations. The spread of corporate mortgages over term deposit interest and expenses for the year was only marginally higher in 2022 compared to 2021.

- Net securitized mortgage spread income[1] decreased by $1.8 million from 2021. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. The decline in the spread of securitized mortgages over liabilities is due to the same factors as described above for Q4 2022.

- There was a recovery of credit losses on our corporate mortgage portfolio of $1.1 million for 2022 compared to a provision for credit losses of $0.5 million for 2021. The current year recovery of credit losses and the prior year provision for credit losses were due to the same factors as described above for Q4 2022.

- Equity income from MCAP totalled $26.6 million for 2022 year to date, an increase of $1.2 million (5%) from $25.5 million in 2021. For 2022 year to date, the increase is due to the same factors as for Q4 2022 mentioned above.

- Year to date net realized and unrealized loss on securities was $12.1 million for 2022 compared to a year to date net realized and unrealized gain on securities of $14.8 million for 2021. In 2022, we saw (i) REIT prices decrease due to inflation and Bank of Canada rate increases; and (ii) a $1.8 million realized loss during Q1 2022, on one REIT in our portfolio that had a mandatory corporate action resulting in its privatization. For 2021, the net realized and unrealized gain was due to REIT prices increasing from 2020 lows due to the ongoing recovery from the pandemic. Year to date, we received distributions of $3.6 million (distribution yield[1] of 6.01%) from our REITs compared to $3.5 million (distribution yield[1] of 5.49%) in 2021.

Business Activity and Balance Sheet

- Our balance sheet management reflects our focus in the short to mid term on maintaining solid net interest margin within our capital requirements and risk appetite.

- Corporate assets totalled $2.28 billion at December 31, 2022, a net increase of $10 million (0.4%) from September 30, 2022 and a net increase of $121 million (6%) from December 31, 2021.

- Corporate mortgage portfolio totalled $1.9 billion at December 31, 2022, a net decrease of $35 million (2%) from September 30, 2022 and a net increase of $133 million (7%) from December 31, 2021.

- Construction and commercial portfolios totalled $930 million at December 31, 2022, a net increase of $51 million (6%) from September 30, 2022 and a net increase of $153 million (20%) from December 31, 2021. Our construction portfolio totalled $825 million at December 31, 2022, a net increase of $56 million (7%) from September 30, 2022 and a net increase of $141 million (21%) from December 31, 2021. In 2022, the positive movement in the construction and commercial portfolios is attributed to net originations of $537 million in new construction and commercial mortgages, partially offset by maturities and repayments.

- Uninsured residential mortgage portfolio totalled $829 million at December 31, 2022, a net decrease of $20 million (2%) from September 30, 2022 and a net increase of $45 million (6%) from December 31, 2021. Uninsured residential mortgage originations totalled $369 million in 2022, a decrease of $206 million (36%) from 2021. Uninsured residential mortgage originations were $48 million in Q4 2022, a decrease of $24 million (33%) from Q3 2022 and a decrease of $110 million (69%) from Q4 2021. We actively managed originations in order to protect our net interest margins and our bottom line through the second half of 2022.

- Insured residential mortgage originations totalled $588 million in 2022 compared to $801 million in 2021. Insured residential mortgage originations were $89 million in Q4 2022, a decrease of $38 million (30%) from Q3 2022 and a decrease of $78 million (47%) from Q4 2021. Insured residential mortgage originations include $44 million of insured residential mortgage commitments originated and sold in Q4 2022 under an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, compared to $87 million in Q3 2022 and $11 million in Q4 2021, and $228 million year to date 2022 compared to $76 million year to date 2021. We launched our insured adjustable rate residential mortgage product in the first quarter of 2022. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise. Insured residential mortgage securitization volumes were $112 million in Q4 2022, an increase of $56 million (100%) from Q3 2022 and a decrease of $29 million (21%) from Q4 2021, and $426 million year to date 2022 compared to $724 million year to date 2021. We decreased our insured residential mortgage originations and securitization volumes and increased the volume of our insured residential mortgage commitment sales given the extremely tight and even negative securitization spreads during the year. We use various channels in the insured residential mortgage market, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

- We launched our derivative and hedging program during the year to manage our interest rate risk. We entered into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to minimize our net income volatility related to changes in interest rates.

Dividend

- The Board declared a first quarter regular cash dividend of $0.36 per share to be paid March 31, 2023 to shareholders of record as of March 15, 2023. As a Mortgage Investment Corporation ("MIC"), we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we pay no income taxes at the corporate level. Our regular cash dividends for 2022 are sufficient to cover our taxable income, and therefore we will not be distributing a special stock dividend in March 2023 along with the regular cash dividend.

Credit Quality

- Impaired corporate mortgage ratio[1] was 1.66% at December 31, 2022 compared to 0.00% at September 30, 2022 and 0.05% at December 31, 2021. At December 31, 2022, we have two impaired construction mortgages where asset recovery programs are being initiated and we expect to recover all past due interest and principal.

- Impaired total mortgage ratio[1] was 0.89% at December 31, 2022 compared to 0.01% at September 30, 2022 and 0.03% at December 31, 2021. The increase at December 31, 2022 is the same as described above.

- Arrears total mortgage ratio[1] was 1.57% at December 31, 2022 compared to 1.11% at September 30, 2022 and 0.46% at December 31, 2021. The increase in the arrears total mortgage ratio is primarily due to three construction and commercial mortgages where either asset recovery programs are being initiated and we expect to recover all past due interest and principal or we expect these mortgages to be brought current in the next quarter. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

- Net write-offs were $4,000 (0.1 basis points of the average corporate portfolio) in Q4 2022 compared to $nil (nil basis points) in Q4 2021; annual write-offs were $15,053 (0.1 basis points) in 2022 compared to $37,000 (0.3 basis points) in 2021. All write-offs relate to the uninsured residential mortgage portfolio.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 62.1% at December 31, 2022 compared to 58.1% at September 30, 2022 and 60.3% at December 31, 2021.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the Tax Act and the Office of the Superintendent of Financial Institutions Canada ("OSFI"). All of our capital ratios are within our regulatory and internal risk appetite guidelines.

- To support our continued growth and maintain our targeted capital requirements, we initiated a capital raise by way of a rights offering in December 2022 which was oversubscribed and raised $34.1 million of capital. In 2021, we raised $53.2 million through two oversubscribed rights offerings.

- In 2021, we filed a Prospectus Supplement to our Base Shelf prospectus establishing an ATM Program to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. We began issuing shares under the ATM Program in Q1 2022. During 2022, we successfully sold 236,600 common shares at a weighted average price of $17.88 for gross proceeds of $4.2 million and net proceeds of $4.1 million including $85,000 of commission paid to our agent and $30,000 of other share issuance costs under the ATM Program.

- We issued $7.4 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in 2022 compared to $5.8 million in 2021. The DRIP participation rate was 28% for the 2022 fourth quarter dividend (2021 fourth quarter dividend - 16%). The DRIP participation rate for 2022 dividends was 20% (2021 - 17%).

- We issued $28.8 million in new common shares on March 31, 2022 from our 2022 first quarter special stock dividend to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $18.9326. In 2021, we raised $21.1 million from our 2021 first quarter special stock dividend.

- Income tax assets to capital ratio[3] was 4.93 at December 31, 2022 compared to 5.76 at September 30, 2022 and 5.29 at December 31, 2021.

- CET 1 and Tier 1 Capital to risk-weighted assets ratios[2] were 19.60% at December 31, 2022 compared to 18.35% at September 30, 2022 and 20.26% at December 31, 2021. Total Capital to risk-weighted assets ratio[2] was 19.83% at December 31, 2022 compared to 18.64% at September 30, 2022 and 20.54% at December 31, 2021.

- Leverage ratio[2] was 9.83% at December 31, 2022 compared to 8.88% at September 30, 2022 and 9.41% at December 31, 2021.

[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*
[2] *These measures have been calculated in accordance with OSFI's Leverage Requirements and Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.*
[3] *For further information refer to the "Income Tax Capital" section of this MD&A. Tax balances are calculated in accordance with the Tax Act.*

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %) **For the Periods Ended**	**Q4 2022**	**Q3 2022**	**Change (%)**	**Q4 2021**	**Change (%)**	**Annual 2022**	**Annual 2021**	**Change (%)**
Net Investment Income - Corporate Assets								
Mortgage interest	$ 30,747	$ 27,216	13%	$ 20,436	50%	$101,286	$ 71,823	41%
Equity income from MCAP Commercial LP	6,860	8,236	(17%)	6,246	10%	26,603	25,453	5%
Non-marketable securities	2,318	2,202	5%	1,519	53%	8,050	5,828	38%
Marketable securities	876	864	1%	837	5%	3,568	3,502	2%
Fees	870	682	28%	453	92%	2,713	1,807	50%
Interest on cash and other income	675	579	17%	186	263%	1,533	472	225%
Net gain (loss) on securities	1,735	(5,092)	134%	3,374	(49%)	(12,074)	14,763	(182%)
Gain on dilution of investment in MCAP Commercial LP	1,726	—	n/a	—	n/a	1,726	326	429%
	45,807	**34,687**	**32%**	**33,051**	**39%**	**133,405**	**123,974**	**8%**
Term deposit interest and expenses	13,189	12,330	7%	8,389	57%	44,222	31,430	41%
Mortgage expenses	1,568	1,592	(2%)	1,586	(1%)	6,337	5,269	20%
Interest on loans payable	1,407	1,064	32%	428	229%	3,895	1,219	220%
Other financial expenses	—	—	n/a	5	(100%)	210	130	62%
Provision for (recovery of) credit losses	(1,091)	856	(227%)	768	(242%)	(1,064)	480	(322%)
	15,073	**15,842**	**(5%)**	**11,176**	**35%**	**53,600**	**38,528**	**39%**
	30,734	**18,845**	**63%**	**21,875**	**40%**	**79,805**	**85,446**	**(7%)**
Net Investment Income - Securitization Assets								
Mortgage interest	8,607	7,949	8%	7,295	18%	31,411	28,671	10%
Other securitization income	284	195	46%	60	373%	667	225	196%
	8,891	**8,144**	**9%**	**7,355**	**21%**	**32,078**	**28,896**	**11%**
Interest on financial liabilities from securitization	7,005	6,214	13%	4,993	40%	24,101	19,554	23%
Mortgage expenses	1,059	1,050	1%	954	11%	4,084	3,396	20%
Recovery of credit losses	(11)	3	(467%)	—	n/a	(5)	(20)	75%
	8,053	**7,267**	**11%**	**5,947**	**35%**	**28,180**	**22,930**	**23%**
	838	**877**	**(4%)**	**1,408**	**(40%)**	**3,898**	**5,966**	**(35%)**
Operating Expenses								
Salaries and benefits	4,928	5,044	(2%)	4,627	7%	19,607	18,364	7%
General and administrative	2,199	2,442	(10%)	2,416	(9%)	9,030	9,083	(1%)
	7,127	**7,486**	**(5%)**	**7,043**	**1%**	**28,637**	**27,447**	**4%**
Net income before income taxes	24,445	12,236	100%	16,240	51%	55,066	63,965	(14%)
Provision for (recovery of) income taxes	357	586	(39%)	170	110%	(288)	(397)	(27%)
Net Income	**$ 24,088**	**$ 11,650**	**107%**	**$ 16,070**	**50%**	**$ 55,354**	**$ 64,362**	**(14%)**
Basic and diluted earnings per share	$ 0.75	$ 0.37	103%	$ 0.57	32%	$ 1.77	$ 2.40	(26%)
Dividends per share - cash	$ 0.36	$ 0.36	—%	$ 0.34	6%	$ 1.44	$ 1.36	6%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ 0.97	$ 0.85	14%

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	December 31, 2022			September 30, 2022			December 31, 2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages									
Insured	$ 178,524	$ 1,450	3.23 %	$ 210,271	$ 1,418	2.74 %	$ 174,793	$ 957	2.18 %
Uninsured	830,097	9,638	4.63 %	855,224	8,772	4.09 %	755,511	7,219	3.81 %
Uninsured - completed inventory	37,462	779	8.25 %	33,047	609	7.31 %	37,738	592	6.22 %
Construction loans									
Residential	789,666	16,783	8.43 %	763,841	14,537	7.55 %	647,685	10,351	6.17 %
Non residential	4,970	109	8.70 %	5,077	93	7.28 %	4,938	96	7.74 %
Commercial loans									
Multi family residential	97,144	1,853	7.56 %	92,659	1,537	6.58 %	74,855	965	5.11 %
Other	2,609	135	6.53 %	17,800	250	5.56 %	18,736	256	5.42 %
Mortgages - corporate portfolio	$1,940,472	$ 30,747	6.27 %	$1,977,919	$ 27,216	5.47 %	$1,714,256	$ 20,436	4.67 %
Term deposit interest and expenses [2]	1,719,440	13,189	2.95 %	1,790,540	12,330	2.64 %	1,622,400	8,389	1.97 %
Net corporate mortgage spread income[1]		$ 17,558			$ 14,886			$ 12,047	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.32 %			2.83 %			2.70 %
Average term to maturity (months)									
Mortgages - corporate	11.4			12.9			13.0		
Term deposits	16.0			17.1			18.5		

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

For the Years Ended December 31	2022			2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages						
Insured	$ 199,731	$ 4,938	2.50 %	$ 168,526	$ 3,757	2.24 %
Uninsured	834,494	33,908	4.06 %	625,517	25,376	4.08 %
Uninsured - completed inventory	37,029	2,497	6.74 %	39,824	2,581	6.48 %
Construction loans						
Residential	740,442	53,152	7.17 %	552,805	35,478	6.42 %
Non residential	5,014	371	7.40 %	4,570	345	7.53 %
Commercial loans						
Multi family residential	87,100	5,458	6.26 %	54,699	2,766	5.05 %
Other commercial	14,049	962	6.30 %	27,456	1,520	5.53 %
Mortgages - corporate portfolio	$ 1,917,859	$ 101,286	5.28 %	$ 1,473,397	$ 71,823	4.89 %
Term deposit interest and expenses [2]	1,737,554	44,222	2.46 %	1,421,566	31,430	2.09 %
Net corporate mortgage spread income[1]		$ 57,064			$ 40,393	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.82 %			2.80 %

[1] Considered to be a Non-GAAP and other financial measure. The net corporate mortgage spread income and the spread of corporate mortgages over term deposit interest and expenses are indicators of the profitability of income earning assets less the cost of funding. Net corporate mortgage spread income is calculated as the difference between corporate mortgage interest and term deposit interest and expenses, both of which are IFRS measures. Average rate is equal to income/expense divided by the average balance over the period on an annualized basis. Income/expense incorporates items such as penalty income, commitment fee income, origination expense and commission expense. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average rate as applicable. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

[2] Beginning in Q4 2022, includes the net hedging impact. See "Derivatives and Hedging" sub-section of this MD&A.

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2022	Q3 2022	Change (%)	Q4 2021	Change (%)	Annual 2022	Annual 2021	Change (%)
Originations								
Residential mortgages - insured fixed [3]	$ 69,167	$ 44,951	54%	$ 166,470	(58%)	$ 274,443	$ 800,502	(66%)
Residential mortgages - insured adjustable rate [3]	19,566	81,341	(76%)	—	n/a	313,670	—	n/a
Residential mortgages - uninsured	48,462	72,361	(33%)	158,626	(69%)	368,752	575,210	(36%)
Residential mortgages - uninsured completed inventory [1]	286	12,567	(98%)	27,531	(99%)	17,685	54,759	(68%)
Residential construction [1]	117,444	120,226	(2%)	149,539	(21%)	504,534	680,914	(26%)
Non-residential construction [1]	—	34	(100%)	79	(100%)	115	1,625	(93%)
Commercial [1]	5,745	—	n/a	9,000	(36%)	32,600	45,310	(28%)
	$ 260,670	**$ 331,480**	**(21%)**	**$ 511,245**	**(49%)**	**$1,511,799**	**$2,158,320**	**(30%)**
Renewals of securitized mortgages [2]								
Residential mortgages - insured	$ 7,626	$ 8,266	(8%)	$ 14,878	(49%)	$ 34,263	$ 36,033	(5%)

[1] *Construction, commercial and completed inventory originations represent all advances on loans.*
[2] *Represents mortgages previously derecognized or held in the securitized portfolio that have been renewed into the corporate mortgage portfolio.*
[3] *Includes insured residential mortgage commitments sold to MSLP that the Company originated.*

Overview

The low interest rate environment in 2021 and the rising interest rate environment during 2022 impacted both average mortgage and average term deposit rates. For Q4 2022, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q3 2022 and Q4 2021 was mainly attributable to the rising interest rate environment's impact on floating rates on residential construction loans that are now well above their floor rates. In Q4 2022 compared to Q3 2022, we also saw residential mortgage rates more than exceeding the pace of increase in our average term deposit rates as we continued to make a conscious effort to focus on residential lending spreads. Average term deposit rates for the quarter are higher due to actual and expected Bank of Canada policy interest rates. That said, we have been actively managing our interest rate risk during this period of rising interest rates by realigning the duration of our term deposits portfolio relative to our corporate mortgage portfolio. For year to date 2022, the spread of corporate mortgages over term deposit interest and expenses was relatively consistent from year to date 2021. Continued market competition had kept the movement in residential mortgage rates low in the first half of 2022. Meanwhile, deposit customers sought higher rates due to actual and expected Bank of Canada policy interest rate increases.

Residential Mortgage Lending

Residential mortgages provide comparatively lower yields given their risk profile, with uninsured residential mortgages providing higher yields than insured residential mortgages. For the quarter, higher average rates despite slightly lower average balances contributed to a higher corporate mortgage interest compared to Q3 2022. Compared to Q4 2021, both higher average rates and higher average balances resulted in higher corporate mortgage interest. For year to date, higher average balances mainly contributed to higher corporate mortgage interest compared to the same period last year.

Total origination volumes in Q4 2022 and year to date 2022 on our residential mortgages were lower compared to Q4 2021 and year to date 2021. The economic environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes. As well, we have had a more purposeful focus on protecting our net interest margin over quantity of originations.

We launched our new insured adjustable rate residential mortgage product at the beginning of the year as a result of market demand for that product and as Table 6 shows, there has been great traction in that category. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise.

We continue to enhance our internal sales and marketing capabilities, and strengthen relationships and customer service with the broker community. We will continue to invest in new technology and add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers.

We have an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. In Q4 2022, we increased the amount of commitment sales into this program, given the extremely tight and even negative spreads from the securitization market. We originated and sold $44 million in commitments in Q4 2022 (Q3 2022 - $87 million; Q4 2021 - $11 million) and $228 million year to date 2022 (year to date 2021 - $76 million) under this agreement.

We have a $100 million senior secured mortgage warehouse facility with a Canadian Schedule I Chartered bank. The facility is used to fund insured residential mortgages prior to securitization activities. This facility is generally a lower cost form of short term financing compared to term deposits; however, we have seen the interest on this loan payable increase due to the rising interest rate environment.

We continue to maintain our insured residential mortgage originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. Our Q4 2022 residential mortgage securitization volumes were $112 million (Q3 2022 - $56 million; Q4 2021 - $141 million) and $426 million year to date 2022 (year to date 2021 - $724 million). We decreased our insured residential mortgage originations and securitization volumes and increased the volume of our insured residential mortgage commitment sales given the extremely tight and even negative securitization spreads during the year. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Construction and Commercial

We continue to focus on growing our balances in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile and they tend to provide comparatively higher yields given their risk profile. Higher average balances and higher average residential construction rates for the quarter and year to date mainly contributed to a higher corporate mortgage interest compared to prior periods.

Some projects have experienced construction delays due to labour shortages and cost overruns from higher interest costs, the current inflationary environment and ongoing supply chain issues as a result of geopolitical conflicts, which has led to some loan extension and amendment requests. To date, projects continue to progress toward completion. In Q4 2022, the increase in arrears is mainly due to three construction and commercial mortgages where either asset recovery programs are being initiated and we expect to recover all past due interest and principal or we expect these mortgages to be brought current in the next quarter. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets.

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated residential mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income including renewal income. At December 31, 2022, we had the renewal rights to $2.6 billion of residential mortgages (September 30, 2022 - $2.7 billion; December 31, 2021 - $2.4 billion).

Equity Income from MCAP

In Q4 2022, MCAP's origination volumes were $5.8 billion, a decrease from $8.1 billion in Q4 2021. For 2022, MCAP's origination volumes were $28.9 billion, a decrease from $30.9 billion in 2021. At November 30, 2022 (we account for MCAP on a one-month lag basis), MCAP had $153.7 billion of assets under management compared to $151.1 billion at August 31, 2022 and $146.2 billion at November 30, 2021. Equity income from MCAP totalled $6.9 million in Q4 2022, an increase of $0.7 million from $6.2 million in Q4 2021. For Q4 2022, the increase in equity income from MCAP was primarily due to higher servicing and administration revenue resulting from higher assets under management, and higher financial instrument gains resulting from (i) hedge gains; (ii) favourable fair value adjustments; and (iii) lower hedge costs. These were partially offset by (i) lower net interest income on securitized mortgages due to compressed spreads as a result of the rising interest rate environment; (ii) lower mortgage origination fees from lower spreads and origination volumes due to market conditions; (iii) higher interest expense; and (iv) higher operating expenses mainly attributed to higher headcount. For year to date 2022, equity income from MCAP totalled $26.6 million, an increase of $1.2 million from $25.5 million year to date 2021. For the year to date, the increase in equity income from MCAP was due to the same factors as for Q4 2022 mentioned above.

We recognize equity income from MCAP on a one-month lag such that our 2022 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2022. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.7 million in Q4 2022 (Q4 2021 - $1.3 million) and $6.2 million year to date 2022 (year to date 2021 - $4.9 million). The distribution yield[1] on this portfolio was 12.91% in Q4 2022 compared to 11.84% in Q4 2021. Year to date 2022, the distribution yield[1] on this investment was 12.70% compared to 11.33% during year to date 2021.

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.2 million in Q4 2022 and $0.7 million year to date 2022. The distribution yield[1] on this investment was 9.50% in Q4 2022 and 9.46% year to date 2022.

MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"): We received principal and interest of $1.4 million in Q4 2022 (Q4 2021 - $2.2 million) and $5.7 million year to date 2022 (year to date 2021 - $6.9 million), representing a distribution yield[1] of 8.00%.

Crown Realty V Limited Partnership ("Crown"): We received non-recurring distribution income of $0.3 million.

Pearl Group Growth Fund LP ("Pearl"): We received non-recurring distribution income of $0.4 million.

The distribution yield has been calculated based on the average portfolio carrying value. For further information, refer to the "Other Corporate Assets" section of this MD&A.

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 6.48% in Q4 2022 compared to 5.28% in Q4 2021. During 2022, the distribution yield[1] was 6.01% compared to 5.49% during 2021. The net unrealized loss on the REIT portfolio discussed below contributed to the higher 2022 distribution yield by decreasing the average portfolio balance.

Fees

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

Net Gain (Loss) on Securities

In Q4 2022, we recorded a $1.7 million net unrealized gain on securities compared to a $3.4 million net realized and unrealized gain in Q4 2021. In Q4 2022, we saw REIT prices increase due to market expectations that Bank of Canada rate increases may be nearing a peak. In Q4 2021, we had a realized gain of $3.8 million from the sale of REITs and a net unrealized loss of $0.5 million due to continued pandemic uncertainty. During 2022, we recorded a $12.1 million net realized and unrealized loss compared to a $14.8 million net realized and unrealized gain in 2021. In 2022, we saw (i) REIT prices decrease due to inflation and Bank of Canada rate increases; and (ii) a $1.8 million realized loss during Q1 2022, on one REIT in our portfolio that had a mandatory corporate action resulting in its privatization. For 2021, the net realized and unrealized gain was due to REIT prices increasing from 2020 lows due to the ongoing recovery from the pandemic.

Gain on Dilution of Investment in MCAP

In 2022, MCAP issued additional class B units which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $1.7 million (2021 - $0.3 million).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarters and year to date 2022 compared to prior periods was mostly due to a higher average term deposit balance and a higher average term deposit rate. Term deposit rates continued to decline during 2021 and as the higher rate term deposits matured, the average term deposit rate of the outstanding average term deposit balance had declined. Beginning in Q1 2022, average term deposit rates have increased due to the rising interest rate environment as well as dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits in Q1 2022. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. Our total new securitization volumes were $112 million in Q4 2022 (Q4 2021 - $141 million) and $426 million year to date 2022 (year to date 2021 - $724 million). The low interest rate environment and higher insured residential mortgage originations during 2021 had generated a high volume of securitizations. The decrease compared to the prior year was due to lower insured residential mortgage originations and sales of insured residential mortgage commitments, another funding source for our insured residential mortgage business, given much tighter securitization spreads.

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

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

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

For the Quarters Ended	December 31, 2022			September 30, 2022			December 31, 2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$1,706,239	$ 8,607	2.01 %	$1,684,139	$ 7,949	1.89 %	$1,534,500	$ 7,295	1.90 %
Financial liabilities from securitization [2]	1,717,942	7,005	1.62 %	1,701,259	6,214	1.45 %	1,554,282	4,993	1.28 %
Net securitized mortgage spread income [1]		$ 1,602			$ 1,735			$ 2,302	
Spread of securitized mortgages over liabilities [1]			0.39 %			0.44 %			0.62 %

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

For the Years Ended December 31	2022			2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,665,512	$ 31,411	1.89 %	$ 1,390,287	$ 28,671	2.08 %
Financial liabilities from securitization [2]	1,681,607	24,101	1.42 %	1,406,351	19,554	1.38 %
Net securitized mortgage spread income [1]		$ 7,310			$ 9,117	
Spread of securitized mortgages over liabilities [1]			0.47 %			0.70 %

[1] Considered to be a non-GAAP and other financial measure. The net securitized mortgage spread income and spread of securitized mortgages over liabilities are indicators of the profitability of securitized assets less securitized liabilities. Net securitized mortgage spread income is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization, both of which are IFRS measures. Average rate is equal to income/expense divided by the average balance over the period on an annualized basis. Income/expense incorporates items such as penalty income and indemnity expense. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate, as applicable. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] Beginning in Q4 2022, includes the net hedging impact. See "Derivatives and Hedging" sub-section of this MD&A.

In 2022, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates compared to 2021. Government of Canada bond yields have risen significantly in the latter half of 2021 and into 2022 as we entered a rising interest rate environment.

Derivatives and Hedging

Beginning in Q4 2022, we began to enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to minimize our net income volatility related to changes in interest rates. All of our derivative transactions are with highly rated Canadian financial institutions.

Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in fair value of either the pool of fixed-rates mortgages or term deposits due to interest rate fluctuations. The term of these hedges is generally less than 60 days. The derivative instruments are settled at either the time of securitization or funding of the term deposits, as applicable. We apply cash flow hedge accounting to these derivative transactions with the intention to recognize the effective matching of the gain or loss on the derivative transactions with the recognition of the related interest expense for either the securitization or term deposit funding.

At December 31, 2022, the Company had no derivative financial instruments outstanding. At December 31, 2022, the net realized losses on our derivative transactions was $0.2 million recognized in the consolidated statements of comprehensive income.

For further information, refer to Note 13 to the consolidated financial statements.

Provision for (Recovery of) Credit Losses

Table 9: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) For the Periods Ended	Q4 2022	Q3 2022	Change (%)	Q4 2021	Change (%)	Annual 2022	Annual 2021	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Residential mortgages uninsured	$ 41	$ (7)	686%	$ (35)	217%	$ 21	$ (108)	119%
	41	(7)	686%	(35)	217%	21	(108)	119%
Provision for (recovery of) performing corporate mortgages								
Residential mortgages insured	(1)	—	n/a	—	n/a	—	(3)	100%
Residential mortgages uninsured	(10)	265	(104%)	182	(105%)	(962)	(57)	(1,588%)
Residential mortgages uninsured - completed inventory	(51)	57	(189%)	34	(250%)	(145)	(360)	60%
Construction loans	(1,170)	581	(301%)	611	(291%)	(132)	1,015	(113%)
Commercial loans								
Multi family residential	92	23	300%	(18)	611%	212	119	78%
Other commercial	14	(42)	133%	(5)	380%	(58)	(126)	54%
	(1,126)	884	(227%)	804	(240%)	(1,085)	588	(285%)
Other provisions (recoveries)	(6)	(21)	71%	(1)	(500%)	—	—	n/a
Total corporate provision for (recovery of) credit losses	(1,091)	856	(227%)	768	(242%)	(1,064)	480	(322%)
Provision for (recovery of) performing securitized mortgages	(11)	3	(467%)	—	n/a	(5)	(20)	75%
Total provision for (recovery of) credit losses	$ (1,102)	$ 859	(228%)	$ 768	(243%)	$ (1,069)	$ 460	(332%)
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ (1,085)	$ 877	(224%)	$ 769	(241%)	$ (1,064)	$ 480	(322%)
Net write offs	$ 4	$ 11	(64%)	$ —	n/a	$ 15	$ 37	(59%)
Net write offs (basis points)	0.1	0.2	(50%)	—	n/a	0.1	0.3	(67%)

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

We had a recovery of credit losses on our corporate mortgage portfolio of $1.1 million in Q4 2022 compared to a provision for credit losses of $0.8 million in Q4 2021. We had a recovery of credit losses on our corporate mortgage portfolio of $1.1 million year to date 2022 compared to a provision for credit losses of $0.5 million year to date 2021. The recovery of credit losses in 2022 was mainly due to a more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from expectations that both inflation and Bank of Canada interest rate increases may be nearing a peak. Comparatively, 2021 saw growth in our portfolio offset more positive economic forecasts due to the expected recovery from the pandemic. The current inflationary environment and geopolitical conflicts have increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at December 31, 2022. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since December 31, 2022, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to December 31, 2022, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect specific significant stress or deterioration.

All write-offs noted in the table above relate to the uninsured residential mortgages portfolio.

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q4 2022	Q3 2022	Change (%)	Q4 2021	Change (%)	Annual 2022	Annual 2021	Change (%)
Salaries and benefits	$ 4,928	$ 5,044	(2%)	$ 4,627	7%	$ 19,607	$ 18,364	7%
General and administrative	2,199	2,442	(10%)	2,416	(9%)	9,030	9,083	(1%)
	$ 7,127	**$ 7,486**	**(5%)**	**$ 7,043**	**1%**	**$ 28,637**	**$ 27,447**	**4%**

The increase in salaries and benefits in 2022 is primarily due to regular salary increases and additional specialized resources to support increased growth and internal infrastructure and systems initiatives.

In 2022, general and administrative expenses include professional fees relating to new technology to further enhance our business operations and customer experience. In 2021, general and administrative expenses include professional fees relating to a number of one-time initiatives, including our senior secured mortgage warehouse facility and preparing and filing our Base Shelf prospectus and ATM Program prospectus supplement.

Taxable Income

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

Table 11: Taxable Income Reconciliation

(in thousands) **For the Periods Ended**	**Q4 2022**	**Q4 2021**	**Annual 2022**	**Annual 2021**
Consolidated net income for accounting purposes	$ 24,088	$ 16,070	$ 55,354	$ 64,362
Adjustments to calculate taxable income (loss):				
Reverse: Equity income from MCAP - accounting purposes	(6,860)	(6,246)	(26,603)	(25,453)
Add: MCAP taxable income (loss)	(9,122)	3,430	(21,893)	49,635
Add: Taxable capital gain on re-organization of investment in MCAP	32,951	—	32,951	—
Reverse: Provision for (recovery of) credit losses [2]	(1,135)	799	(1,085)	596
Add: Amortization of upfront securitization program costs [3]	2,740	1,970	9,880	6,922
Deduct: Securitization program mortgage origination costs [3]	(238)	(1,047)	(78)	(8,870)
Add: Securitization program premium (discount)	(3,033)	(2,344)	(13,802)	(5,847)
Reverse: Net unrealized loss (gain) on securities [4]	(1,734)	(3,374)	12,083	(14,763)
Add: Capital gains (losses)	—	2,381	(285)	2,381
Reverse: Loss (income) earned in subsidiaries [5]	(581)	(2,062)	(5,091)	1,986
Deduct: Gain on dilution of MCAP [6]	(1,726)	—	(1,726)	(326)
Other items	201	(81)	722	(294)
Taxable Income (Loss)[1]	**$ 35,551**	**$ 9,496**	**$ 40,427**	**$ 70,329**

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

The decrease in taxable income in 2022 from 2021 is primarily due to tax losses from MCAP, partly offset by a taxable capital gain recorded on a reorganization of our investment in MCAP. The tax losses from MCAP are timing differences only and arise as a result of the tax treatment on sales of loans into certain securitization programs. During 2022, we executed an internal reorganization through a transfer of our equity investment in MCAP to a wholly-owned limited partnership. The reorganization increased MCAN's MIC asset capacity which allows us to continue to grow and operate our business. As a MIC, we pay out all of our taxable income to shareholders through dividends. Our regular cash dividends for 2022 are sufficient to cover our taxable income, and therefore we will not be distributing a special stock dividend in March 2023 along with the regular cash dividend.

During 2022, we incurred $0.1 million of net origination costs on securitized mortgages (including market MBS held by MCAN) (2021 - $8.9 million). These costs are deductible for income tax purposes in the period that the mortgages are securitized; however, for accounting purposes they are capitalized and amortized over the term of the mortgages. At December 31, 2022, the unamortized net origination cost balance was $16.4 million (December 31, 2021 - $23.0 million), which represents the net origination costs that are still to be amortized into income for accounting purposes but will be added back in the calculation of taxable income in the MIC in future periods.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	December 31 2022	September 30 2022	Change (%)	December 31 2021	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 78,210	$ 37,942	106%	$ 122,269	(36%)
Marketable securities	53,743	52,008	3%	62,693	(14%)
Mortgages	1,939,494	1,974,957	(2%)	1,806,146	7%
Non-marketable securities	97,228	93,302	4%	64,946	50%
Equity investment in MCAP Commercial LP	106,168	103,295	3%	96,186	10%
Deferred tax asset	1,095	1,453	(25%)	891	23%
Other assets	7,182	10,036	(28%)	9,323	(23%)
	2,283,120	**2,272,993**	**—%**	**2,162,454**	**6%**
Securitization Assets					
Cash held in trust	34,531	30,600	13%	53,148	(35%)
Mortgages	1,751,303	1,691,211	4%	1,583,697	11%
Other assets	9,722	9,589	1%	8,771	11%
	1,795,556	**1,731,400**	**4%**	**1,645,616**	**9%**
	$ 4,078,676	**$ 4,004,393**	**2%**	**$ 3,808,070**	**7%**

Our total corporate and securitization assets increased compared to September 30, 2022 and December 31, 2021 primarily due to origination volumes in our portfolios outpacing maturities.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time and move up homebuyers. These segments are characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas in proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At December 31, 2022, the average outstanding construction loan balance was $8 million (September 30, 2022 - $7 million; December 31, 2021 - $8 million) with a maximum individual loan commitment of $40 million (September 30, 2022 - $40 million; December 31, 2021 - $40 million).

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist of insured residential mortgages that have been securitized through our internal market MBS program and the CHT CMB program. For further information, refer to Note 11 to the consolidated financial statements.

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

We securitized $112 million in Q4 2022 (Q3 2022 - $56 million; Q4 2021 - $141 million) and $426 million year to date 2022 (year to date 2021 - $724 million) of insured residential mortgages through the market MBS program and CMB program. We decreased our insured residential mortgage originations and securitization volumes and increased the volume of our insured residential mortgage commitment sales given the extremely tight and even negative securitization spreads during the year.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At December 31, 2022, we held $63 million of retained MBS on our balance sheet (September 30, 2022 - $65 million; December 31, 2021 - $51 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 13: Mortgage Summary

(in thousands except %)	December 31 2022	September 30 2022	Change (%)	December 31 2021	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 144,569	$ 208,781	(31%)	$ 196,595	(26%)
Uninsured	828,540	848,164	(2%)	783,061	6%
Uninsured - completed inventory	36,680	38,970	(6%)	49,431	(26%)
Construction loans	825,126	768,671	7%	684,298	21%
Commercial loans					
Multi family residential	98,238	92,518	6%	74,696	32%
Other commercial	6,341	17,853	(64%)	18,065	(65%)
	1,939,494	**1,974,957**	**(2%)**	**1,806,146**	**7%**
Securitized portfolio	**1,751,303**	**1,691,211**	**4%**	**1,583,697**	**11%**
	$ 3,690,797	**$ 3,666,168**	**1%**	**$ 3,389,843**	**9%**

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships and relationships and we maintain a high quality of underwriting. We have also enhanced our internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and increased underwriting capacity. The increase in our construction and commercial portfolio is due to our focus on growing this portfolio in selected markets, with our preferred borrowers and risk profile given they tend to provide higher yields. The net decrease in residential mortgages from last quarter and December 31, 2021 is due to (i) lower origination volumes, partly as a result of market conditions and partly as a result of our purposeful focus on net interest margin over quantity of originations; and (ii) the increased sale of our insured residential mortgage commitments, given the spread compression in the securitization market. Our securitized mortgage portfolio has increased from last quarter and December 31, 2021 due to the impact of new securitization issuances buoyed by demand for our new insured adjustable rate residential mortgages in 2022.

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

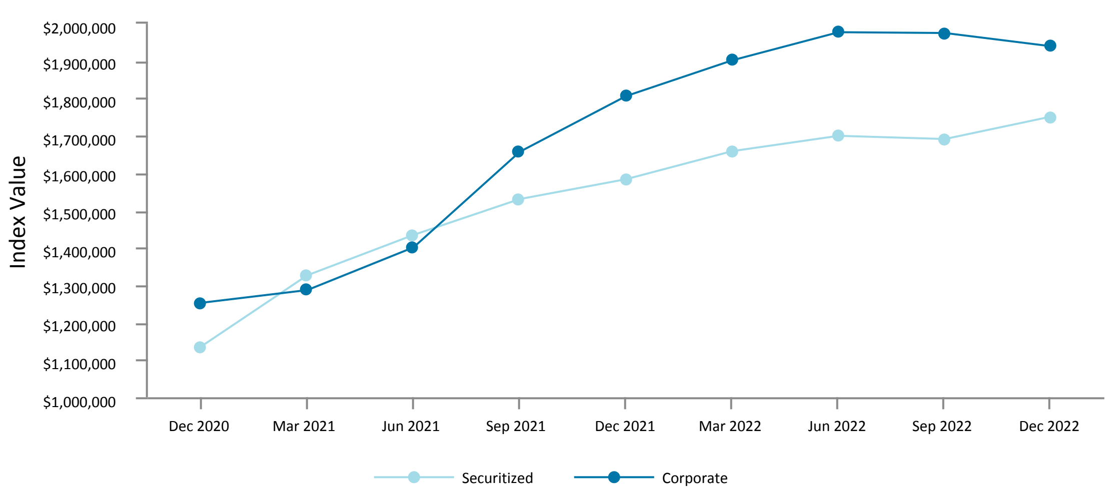
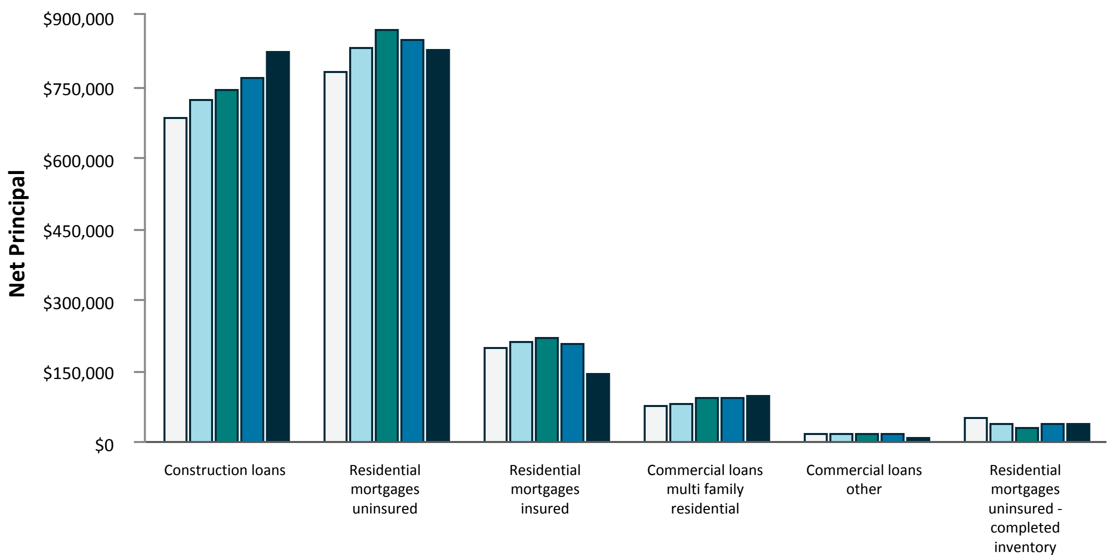


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
Dec 31, 2021	$684,298 (38%)	$783,061 (43%)	$196,595 (11%)	$74,696 (4%)	$18,065 (1%)	$49,431 (3%)
Mar 31, 2022	$722,827 (38%)	$833,824 (44%)	$210,401 (11%)	$78,879 (4%)	$18,073 (1%)	$37,936 (2%)
Jun 30, 2022	$744,020 (38%)	$870,633 (43%)	$220,885 (11%)	$92,392 (5%)	$17,821 (1%)	$31,349 (2%)
Sep 30, 2022	$768,671 (39%)	$848,164 (42%)	$208,781 (11%)	$92,518 (5%)	$17,853 (1%)	$38,970 (2%)
Dec 31, 2022	$825,126 (43%)	$828,540 (43%)	$144,569 (7%)	$98,238 (5%)	$6,341 (0%)	$36,680 (2%)

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

Table 14: Mortgage Portfolio Geographic Distribution

	December 31, 2022		September 30, 2022		December 31, 2021	
	Corporate	**Securitized**	**Corporate**	**Securitized**	**Corporate**	**Securitized**
Ontario	57.6 %	86.4 %	59.3 %	87.4 %	62.2 %	86.6 %
British Columbia	29.4 %	3.3 %	28.5 %	3.3 %	27.8 %	3.4 %
Alberta	11.0 %	8.0 %	10.0 %	6.8 %	7.6 %	7.1 %
Atlantic Provinces	0.3 %	1.3 %	0.4 %	1.4 %	0.4 %	1.5 %
Quebec	1.2 %	0.5 %	1.3 %	0.5 %	1.7 %	0.7 %
Other	0.5 %	0.5 %	0.5 %	0.6 %	0.3 %	0.7 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 15: Arrears and Impaired Mortgages

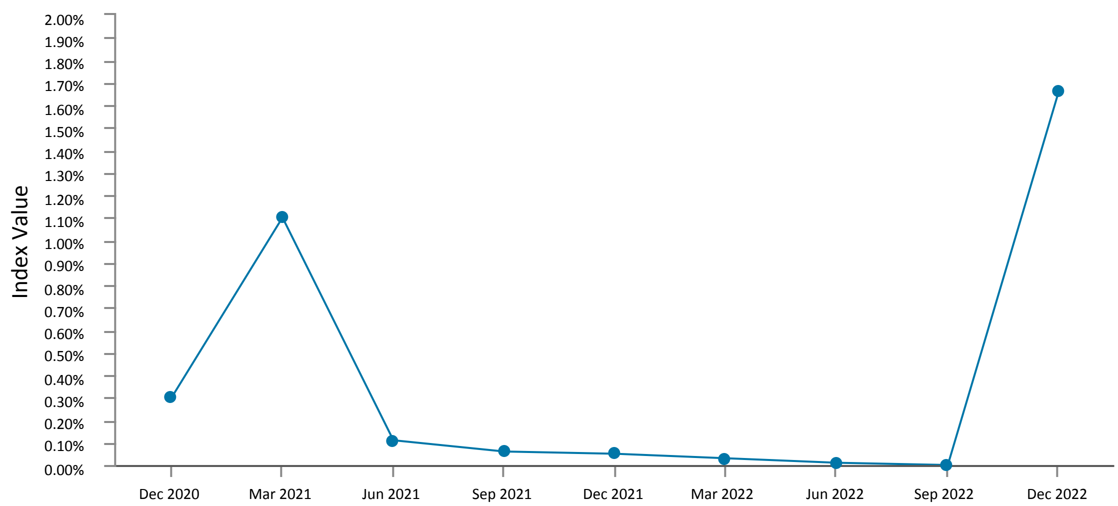
(in thousands except %)	December 31 2022	September 30 2022	Change (%)	December 31 2021	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ —	$ —	n/a	$ 790	(100%)
Residential mortgages - uninsured	186	57	226%	163	14%
Construction loans	32,085	—	n/a	—	n/a
	32,271	57	56,516%	953	3,286%
Securitized	550	174	216%	—	n/a
Total impaired mortgages	$ 32,821	$ 231	14,108%	$ 953	3,344%
Impaired corporate mortgage ratio [1]	1.66 %	0.00 %	1.66%	0.05 %	1.61%
Impaired total mortgage ratio [1]	0.89 %	0.01 %	0.88%	0.03 %	0.86%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 511	$ 1,113	(54%)	$ 849	(40%)
Residential mortgages - uninsured	14,177	11,514	23%	9,977	42%
Residential mortgages - uninsured - completed inventory	2,577	—	n/a	—	n/a
Commercial loans - other commercial	5,080	—	n/a	—	n/a
Construction loans	32,085	25,165	27%	—	n/a
Total corporate mortgage arrears	54,430	37,792	44%	10,826	403%
Total securitized mortgage arrears	3,439	2,842	21%	4,865	(29%)
Total mortgage arrears	$ 57,869	$ 40,634	42%	$ 15,691	269%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 5,157	$ 6,614	(22%)	$ 7,680	(33%)
Residential mortgages - uninsured	132,934	126,785	5%	99,090	34%
Residential mortgages - uninsured - completed inventory	2,577	—	n/a	3,449	(25%)
Construction loans	7,341	46,167	(84%)	17,570	(58%)
Commercial loans - multi-family residential	27,406	27,568	(1%)	27,346	—%
Commercial - other	5,080	—	n/a	16,794	(70%)
	180,495	207,134	(13%)	171,929	5%
Stage 3					
Residential mortgages - insured	—	—	n/a	790	(100%)
Residential mortgages - uninsured	186	57	226%	163	14%
Construction loans	32,085	—	n/a	—	n/a
	32,271	57	56,516%	953	3,286%
Total stage 2 and 3 corporate mortgages	$ 212,766	$ 207,191	3%	$ 172,882	23%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 5,549	$ 6,675	(17%)	$ 6,634	(16%)
Allowance on impaired mortgages	49	8	513%	13	277%
	5,598	6,683	(16%)	6,647	(16%)
Securitized - allowance on performing mortgages	—	10	(100%)	5	(100%)
Total allowance for credit losses	$ 5,598	$ 6,693	(16%)	$ 6,652	(16%)

[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*

Arrears and Impaired Mortgage Summary

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

Figure 3: Impaired Corporate Mortgage Ratio[1]



The impaired corporate mortgage ratio, as presented above, reflects impaired (stage 3) mortgages under IFRS 9 as a percentage of the total corporate portfolio. At March 31, 2021, we had one impaired construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of this construction mortgage was not related to the pandemic. At December 31, 2022, the increase in impaired mortgages is mainly due to two construction mortgages where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

In the event of a protracted economic downturn due to the current inflationary and rising interest rate environment, or for any other reason, we would expect to observe an increase in overall mortgage default and arrears rates as realization periods on collateral become longer and borrowers adjust to the new economic conditions and potentially changing real estate values in such an event. An economic downturn could also result in an increase in our allowance for credit losses. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on residential mortgages; however, traditional actions may not be available or effective.

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

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

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

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

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

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

Table 16: Residential Mortgages by Province at December 31, 2022

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 96,828	67.1 %	$ 745,343	86.2 %	$ 80	81.6 %	$1,514,305	86.4 %	$ 2,356,556	85.3 %
Alberta	34,926	24.2 %	30,319	3.5 %	18	18.4 %	139,420	8.0 %	204,683	7.4 %
British Columbia	4,762	3.3 %	66,010	7.6 %	—	— %	57,828	3.3 %	128,600	4.7 %
Quebec	3,239	2.2 %	16,045	1.9 %	—	— %	7,896	0.5 %	27,180	1.0 %
Atlantic Provinces	3,793	2.6 %	2,754	0.3 %	—	— %	22,817	1.3 %	29,364	1.1 %
Other	923	0.6 %	4,749	0.5 %	—	— %	9,037	0.5 %	14,709	0.5 %
Total	**$ 144,471**	**100.0 %**	**$ 865,220**	**100.0 %**	**$ 98**	**100.0 %**	**$1,751,303**	**100.0 %**	**$ 2,761,092**	**100.0 %**

Table 17: Residential Mortgages by Province at December 31, 2021

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 149,190	75.9 %	$ 709,435	85.2 %	$ 104	83.2 %	$1,372,801	86.6 %	$ 2,231,530	85.4 %
Alberta	31,394	16.0 %	41,663	5.0 %	21	16.8 %	112,500	7.1 %	185,578	7.1 %
British Columbia	6,331	3.2 %	50,919	6.1 %	—	— %	54,371	3.4 %	111,621	4.3 %
Quebec	3,638	1.9 %	22,445	2.7 %	—	— %	10,347	0.7 %	36,430	1.4 %
Atlantic Provinces	5,060	2.6 %	3,047	0.4 %	—	— %	23,244	1.5 %	31,351	1.2 %
Other	857	0.4 %	4,983	0.6 %	—	— %	10,434	0.7 %	16,274	0.6 %
Total	**$ 196,470**	**100.0 %**	**$ 832,492**	**100.0 %**	**$ 125**	**100.0 %**	**$1,583,697**	**100.0 %**	**$ 2,612,784**	**100.0 %**

Table 18: Residential Mortgages by Amortization Period at December 31, 2022

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 121,572	$ 171,941	$ 453,693	$ 262,583	$ 1,009,789
	12.0 %	17.1 %	44.9 %	26.0 %	100.0 %
Securitized	$ 415,475	$ 1,260,250	$ 75,231	$ 347	$ 1,751,303
	23.7 %	72.0 %	4.3 %	— %	100.0 %
Total	**$ 537,047**	**$ 1,432,191**	**$ 528,924**	**$ 262,930**	**$ 2,761,092**
	19.5 %	**51.8 %**	**19.2 %**	**9.5 %**	**100.0 %**

Table 19: Residential Mortgages by Amortization Period at December 31, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 137,700	$ 211,080	$ 475,910	$ 204,397	$ 1,029,087
	13.4 %	20.5 %	46.2 %	19.9 %	100.0 %
Securitized	$ 302,388	$ 1,268,238	$ 13,071	$ —	$ 1,583,697
	19.1 %	80.1 %	0.8 %	— %	100.0 %
Total	**$ 440,088**	**$ 1,479,318**	**$ 488,981**	**$ 204,397**	**$ 2,612,784**
	16.8 %	**56.6 %**	**18.7 %**	**7.8 %**	**100.0 %**

Table 20: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q4 2022**	**Average LTV**	**Q4 2021**	**Average LTV**	**Annual 2022**	**Average LTV**	**Annual 2021**	**Average LTV**
Ontario	$ 46,350	69.2%	$147,256	66.9%	$335,012	68.0%	$545,934	69.3%
Alberta	310	58.2%	8,499	70.0%	7,992	69.6%	34,447	70.2%
British Columbia	2,088	61.4%	9,765	67.9%	38,584	69.7%	28,297	68.9%
Quebec	—	—%	20,377	52.8%	4,432	52.8%	20,377	52.8%
Other	—	—%	260	73.2%	417	67.1%	914	75.2%
	$ 48,748	**68.8%**	**$186,157**	**65.6%**	**$386,437**	**68.1%**	**$629,969**	**68.8%**

Table 21: Average Mortgage LTV Ratios at Origination

	December 31 2022	**December 31 2021**
Corporate portfolio		
Residential mortgages		
Insured	68.0 %	72.4 %
Uninsured[1]	63.1 %	66.8 %
Uninsured - completed inventory	56.6 %	57.1 %
Construction loans		
Residential	65.7 %	64.2 %
Non-residential	— %	64.7 %
Commercial loans		
Multi family residential	74.6 %	72.3 %
Other commercial	62.1 %	63.6 %
	65.0 %	66.3 %
Securitized portfolio	80.1 %	81.9 %
	72.2 %	**73.5 %**

[1] *MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 65.6% at December 31, 2022 (December 31, 2021 - 66.2%). Based on an industry index that incorporates current real estate values, the ratios would be 62.1% at December 31, 2022 (December 31, 2021 - 60.3%).*

Other Corporate Assets

Cash and Cash Equivalents

At December 31, 2022, our cash balance was $78 million (September 30, 2022 - $38 million; December 31, 2021 - $122 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices. See "Liquidity and Funding Risk" sub-section of this MD&A.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At December 31, 2022, the portfolio balance was $54 million (September 30, 2022 - $52 million; December 31, 2021 - $63 million). During 2022, we (i) had one REIT in our portfolio with a mandatory corporate action resulting in privatization and as such we received proceeds of $4 million and recognized a $2 million realized loss; (ii) purchased $7 million of REITs; and (iii) had $10 million of unrealized fair value losses as we saw declines in REIT prices from geopolitical conflicts and a rising interest rate environment. We expect continued volatility in the REIT market. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Non-Marketable Securities

At December 31, 2022, our non-marketable securities balance was $97 million (September 30, 2022 - $93 million; December 31, 2021 - $65 million). We have $80 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. We expect to grow this component of our balance sheet over the mid to long term. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF, in which we have a 5.9% equity interest at December 31, 2022 (September 30, 2022 - 5.9%; December 31, 2021 - 6.2%). At December 31, 2022, the carrying value of our investment was $53 million (September 30, 2022 - $53 million; December 31, 2021 - $45 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At December 31, 2022, our total remaining commitment to the KSHYF was $35 million, consisting of $6 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. At December 31, 2022, the carrying value of the Securitization Notes was $1 million (September 30, 2022 - $2 million; December 31, 2021 - $6 million) which reflects scheduled principal repayments. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. Our expected final distribution date is no earlier than March 15, 2023.

KSSMF: We invest in KSSMF, in which we have a 1.5% partnership interest at December 31, 2022 (September 30, 2022 - 1.4%; December 31, 2021 - 0.9%). At December 31, 2022, the carrying value of our investment was $9 million (September 30, 2022 - $8 million; December 31, 2021 - $4 million) with an additional $6 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 ("TAS"): We invest in TAS LP 3, in which we have a 9.7% partnership interest at December 31, 2022 (September 30, 2022 - 9.7%; December 31, 2021 - 9.7%). At December 31, 2022, the carrying value of our investment was $9 million (September 30, 2022 - $8 million; December 31, 2021 - $5 million) with an additional $1 million remaining commitment. TAS invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental, social and governance ("ESG") impacts.

TAS LP 3 Co-Invest LP ("TAS Co"): We invest in TAS Co, in which we have a 34.8% partnership interest at December 31, 2022 (September 30, 2022 - 34.8%; December 31, 2021 - 34.8%). At December 31, 2022, the carrying value of our investment was $4 million (September 30, 2022 - $4 million; December 31, 2021 - $3 million) with an additional $1 million remaining commitment. TAS Co has a 17.5% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans with a focus on ESG impacts.

Pearl: We invest in Pearl, in which we have a 6.9% partnership interest at December 31, 2022 (September 30, 2022 - 6.9%; December 31, 2021 - 6.9%). At December 31, 2022, the carrying value of our investment was $2 million (September 30, 2022 - $2 million; December 31, 2021 - $2 million) with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial and multi-unit residential properties in the Greater Toronto area.

Crown: During Q1 2022, we invested in Crown representing a 7.7% partnership interest. At December 31, 2022, the carrying value of our investment was $9 million (September 30, 2022 - $9 million) with an additional $11 million remaining commitment. Crown integrates ESG focused initiatives to acquire, lease, manage and reposition commercial real estate properties across Ontario.

Harbour Equity JV Development Fund VI ("Harbour"): During Q2 2022, we invested in Harbour representing a 12.1% partnership interest. At December 31, 2022, the carrying value of our investment was $2 million (September 30, 2022 - $2 million) with an additional $8 million remaining commitment. Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

TAS Impact Development LP 4 ("TAS 4"): During Q3 2022, the Company invested in TAS 4 representing a 17.6% partnership interest. At December 31, 2022, the carrying value of our investment was $2 million (September 30, 2022 - $4 million) with an additional $18 million remaining commitment. During Q4 2022, we received a return of capital distribution. TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive ESG impacts.

Broccolini Limited Partnership No. 8 ("Broccolini"): During Q3 2022, the Company invested in Broccolini representing a 5.7% partnership interest. At December 31, 2022, the carrying value of our investment was $2 million (September 30, 2022 - $1 million) with an additional $18 million remaining commitment. Broccolini manages real estate development funds primarily focused on ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Fiera Real Estate Development Fund IV, LP ("Fiera"): During Q4 2022, the Company invested in Fiera representing an 7.1% partnership interest. At December 31, 2022, the carrying value of our investment was $4 million with an additional $11 million remaining commitment. Fiera focuses on development and re-development of multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

Equity Investment in MCAP

We have a strategic investment in MCAP, which is Canada's largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.65% equity interest in MCAP (September 30, 2022 - 13.94%; December 31, 2021 - 13.94%), which represents 4.0 million units held by MCAN at December 31, 2022 (September 30, 2022 - 4.0 million; December 31, 2021 - 4.0 million) of the 29.3 million total outstanding MCAP partnership units (September 30, 2022 - 28.7 million; December 31, 2021 - 28.7 million). The investment had a net book value of $106 million at December 31, 2022 (September 30, 2022 - $103 million; December 31, 2021 - $96 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q4 2022, we received $5.7 million of unitholder distributions from MCAP (Q3 2022 - $4.6 million; Q4 2021 - $4.9 million). For year to date 2022, we have received $18.3 million of unitholder distributions from MCAP (year to date 2021 - $17.9 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

Pursuant to the MCAP partnership agreement, the majority partner in MCAP has the right to acquire MCAN's entire partnership interest in MCAP at "fair market value", which would be determined by an independent valuator agreed upon by both parties. Any sale by MCAN of its units in MCAP pursuant to this majority partner right, could result in a taxable gain, which could be material.

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 22: Liabilities and Shareholders' Equity

(in thousands except %)	December 31 2022	September 30 2022	Change (%)	December 31 2021	Change (%)
Corporate Liabilities					
Term deposits	$ 1,819,830	$ 1,744,096	4%	$ 1,660,992	10%
Loans payable	6,532	125,978	(95%)	57,340	(89%)
Other loan payable to MSLP	—	—	n/a	41,205	(100%)
Other liabilities	22,616	9,803	131%	21,134	7%
	1,848,978	**1,879,877**	**(2%)**	**1,780,671**	**4%**
Securitization Liabilities					
Financial liabilities from securitization	1,740,388	1,681,765	3%	1,594,141	9%
	1,740,388	**1,681,765**	**3%**	**1,594,141**	**9%**
	3,589,366	**3,561,642**	**1%**	**3,374,812**	**6%**
Shareholders' Equity					
Share capital	389,986	355,874	10%	315,339	24%
Contributed surplus	510	510	—%	510	—%
Retained earnings	98,990	86,367	15%	117,409	(16%)
Cash flow hedge reserve	(176)	—	n/a	—	n/a
	489,310	**442,751**	**11%**	**433,258**	**13%**
	$ 4,078,676	**$ 4,004,393**	**2%**	**$ 3,808,070**	**7%**

Term Deposits

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

Loans Payable

We have a secured demand revolver facility from a Canadian Schedule I Chartered bank with a facility limit of $220 million. The facility is due and payable upon demand. Under the facility, there is a sublimit for issued letters of credit which are used for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans.

We also have a $100 million senior secured mortgage warehouse facility with a Canadian Schedule I Chartered bank. The facility is used to fund insured residential mortgages prior to securitization activities.

Other loan payable to MSLP

On November 3, 2021, we obtained a loan with reference to the fair value of a pool of insured residential mortgages from MSLP. At December 31, 2021, $41.2 million represented the carrying value of the loan payable. On January 27, 2022, we settled the loan with MSLP at the same referenced fair value price of the same pool of insured residential mortgages and paid interest of $0.1 million on the loan.

Financial Liabilities from Securitization

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

Share Capital

Share capital activity may reflect new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and other share offerings and their related costs, as applicable. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 18 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for Q4 2022 consists of net income of $24.1 million (Q3 2022 - $11.7 million; Q4 2021 - $16.1 million) less dividends of $11.5 million (Q3 2022 - $11.4 million; Q4 2021 - $10.1 million). Retained earnings activity for year to date 2022 consists of a net income of $55.4 million (year to date 2021 - $64.4 million) less dividends of $73.8 million (year to date 2021 - $58.3 million).

Cash Flow Hedge Reserve

Beginning in Q4 2022, we began to enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to minimize our net income volatility related to changes in interest rates. At December 31, 2022, the net realized losses on our derivative transactions were $0.2 million recognized in our cash flow hedge reserve. For further information, refer to the "Derivative and Hedging" sub-section of this MD&A and Note 13 to the consolidated financial statements.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 23: Income Tax Capital

(in thousands except ratios)

	December 31 2022	December 31 2021
Income tax assets		
Consolidated assets	$ 4,078,676	$ 3,808,070
Adjustment for assets in subsidiaries	29,833	(69,227)
Non-consolidated assets in MIC entity	4,108,509	3,738,843
Add: corporate mortgage allowances	5,545	6,626
Less: securitization assets [1]	(1,768,828)	(1,618,866)
Adjustments to equity investments in MCAP and subsidiaries	(41,090)	(32,278)
Other adjustments	4,064	(9,452)
	$ 2,308,200	$ 2,084,873
Income tax liabilities		
Consolidated liabilities	$ 3,589,366	$ 3,374,812
Adjustment for liabilities in subsidiaries	(11,537)	(91,799)
Non-consolidated liabilities in MIC entity	3,577,829	3,283,013
Less: securitization liabilities [1]	(1,738,216)	(1,592,457)
	$ 1,839,613	$ 1,690,556
Income tax capital	$ 468,587	$ 394,317
Income tax capital ratios		
Income tax assets to capital ratio	4.93	5.29
Income tax liabilities to capital ratio	3.93	4.29

[1] The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes in accordance with the Tax Act.

Regulatory Capital

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

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

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

At December 31, 2022, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 24: Regulatory Capital [3]

(in thousands except %)

	December 31 2022	December 31 2021
OSFI Regulatory Ratios		
Share capital	$ 389,986	$ 315,339
Contributed surplus	510	510
Retained earnings	98,990	117,409
Cash flow hedge reserve	(176)	—
Deduction from equity investment in MCAP [1]	(57,201)	(52,734)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	357	1,258
Common Equity Tier 1 and Tier 1 Capital (A)	432,466	381,782
Tier 2 Capital	5,192	5,381
Total Capital (D)	$ 437,658	$ 387,163
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,078,676	$ 3,808,070
Less: deduction for equity investment in MCAP [1]	(57,201)	(52,734)
Other adjustments [2]	2,994	1,760
Total On-Balance Sheet Exposures	4,024,469	3,757,096
Mortgages and non-marketable securities funding commitments (50%)	352,069	279,255
Letters of credit (50%)	23,994	22,782
Total Off-Balance Sheet Items	376,063	302,037
Total Exposure/Regulatory Assets (B)	$ 4,400,532	$ 4,059,133
Leverage ratio (A / B)	9.83 %	9.41 %
Risk-weighted assets (C)	$ 2,206,580	$ 1,884,523
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.60 %	20.26 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.60 %	20.26 %
Total capital to risk-weighted assets ratio **(D / C)**	19.83 %	20.54 %

[1] The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.
[3] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements and Leverage Requirements guidelines. Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.

Table 25: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	December 31, 2022			December 31, 2021		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 78,210	21 %	$ 16,241	$ 122,269	20 %	$ 24,808
Cash held in trust	34,531	20 %	6,906	53,148	20 %	10,629
Marketable securities	53,743	100 %	53,743	62,693	100 %	62,693
Mortgages - corporate	1,939,494	66 %	1,279,396	1,806,146	62 %	1,111,356
Mortgages - securitized	1,751,303	6 %	96,599	1,583,697	6 %	89,723
Non-marketable securities	97,228	179 %	174,338	64,946	188 %	122,002
Equity investment in MCAP Commercial LP	106,168	46 %	48,967	96,186	45 %	43,452
Deferred tax asset	1,095	100 %	1,095	891	100 %	891
Other assets	16,904	100 %	16,904	18,094	100 %	18,094
			1,694,189			1,483,648
Off-Balance Sheet Items						
Letters of credit	47,988	50 %	23,994	45,564	50 %	22,782
Commitments	704,139	47 %	330,109	558,511	44 %	244,168
			354,103			266,950
Charge for operational risk [2]			158,288			133,925
Risk-Weighted Assets			**$ 2,206,580**			**$ 1,884,523**

[1] *This measure has been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines.*
[2] *We use the basic indicator approach for operational risk, which is equal to 15% of the previous three-year average of net investment income from corporate and securitized assets excluding provisions for credit losses multiplied by a factor of 12.5.*

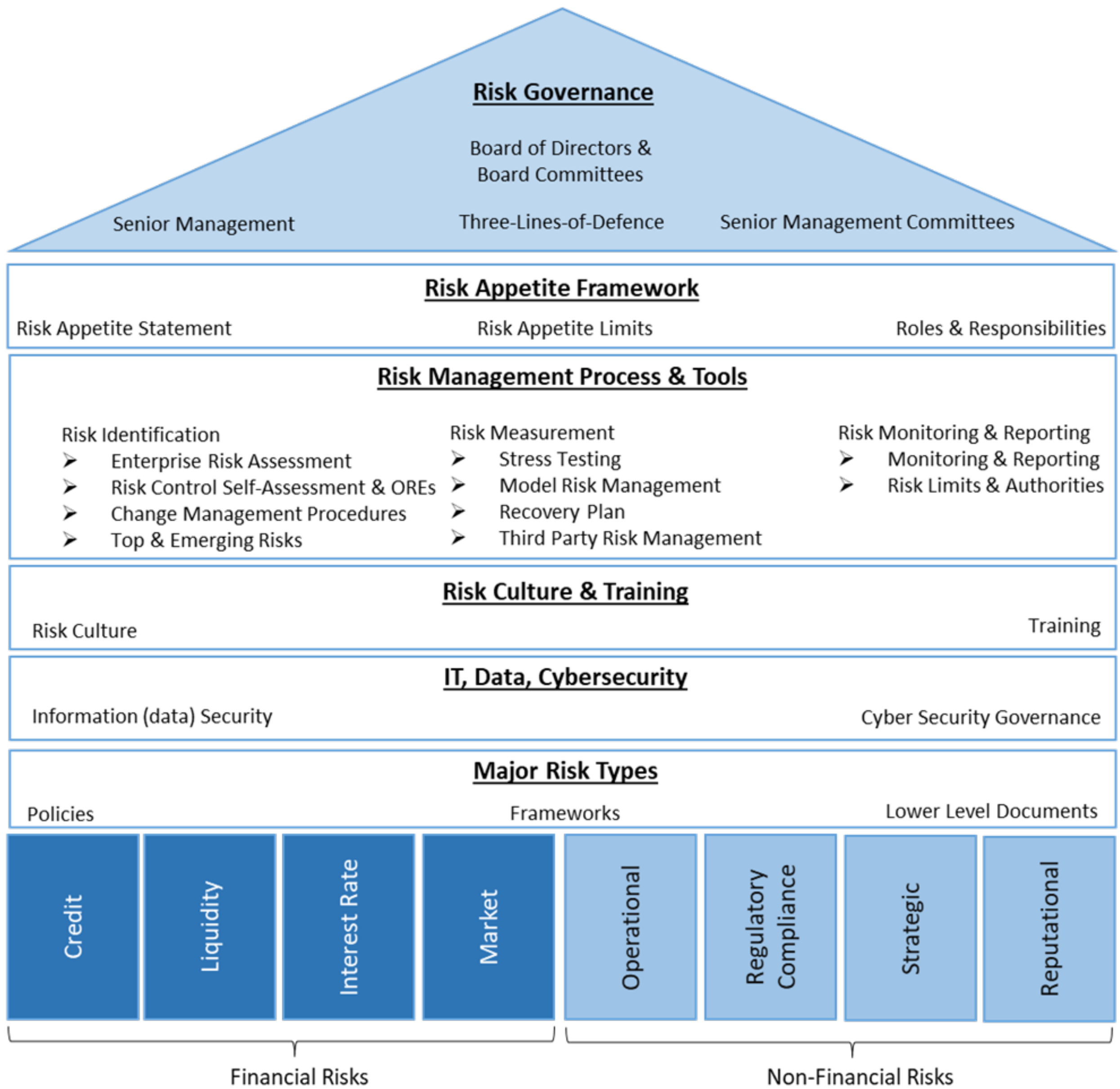
Other Capital Management Activity

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

RISK MANAGEMENT

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

Figure 4: Roles and Accountabilities

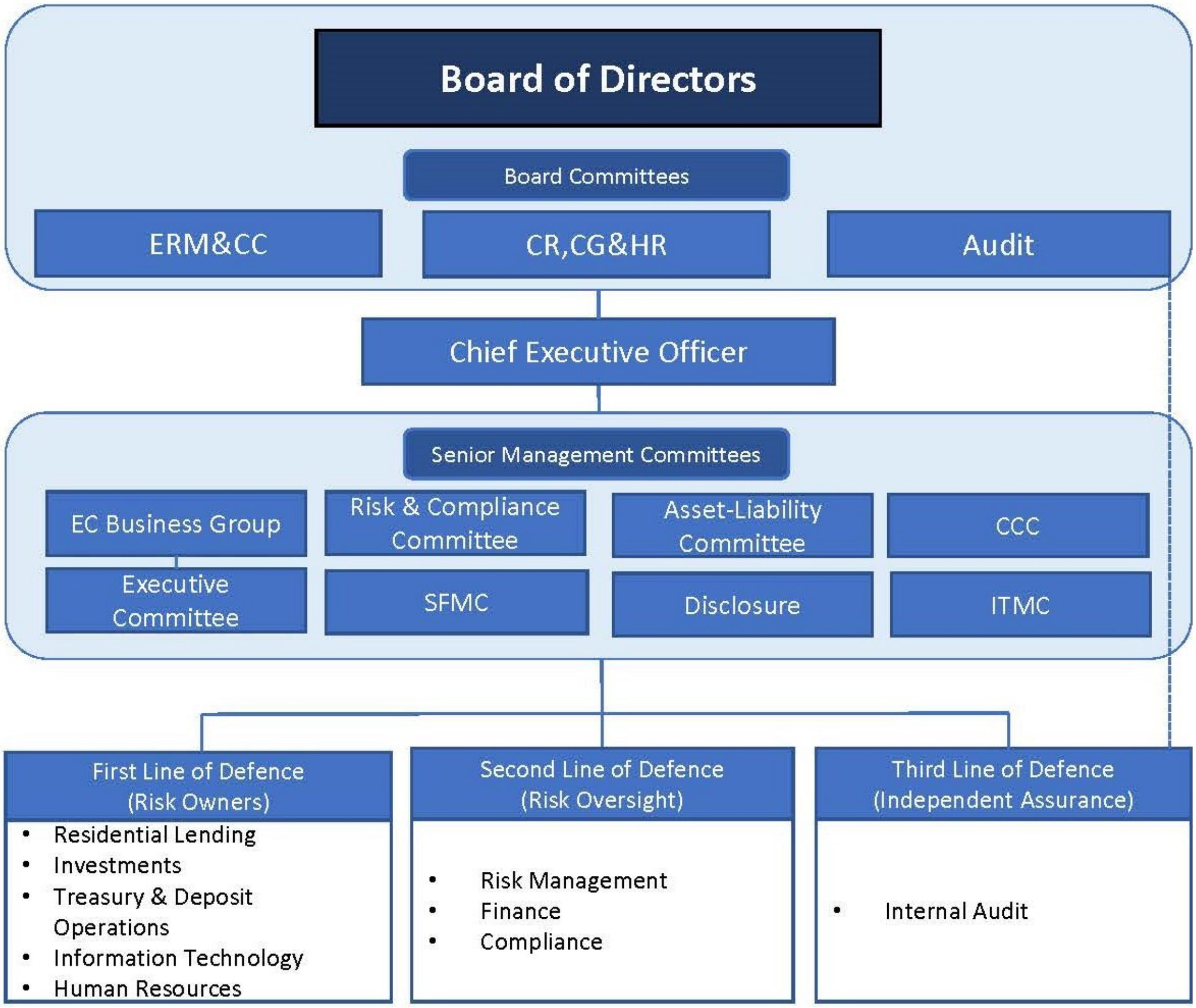


Risk Governance

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

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

Figure 5: Risk Governance Structure



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

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

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

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

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

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

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

Three-Lines-of-Defence

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

First Line (Business Units):

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

Second Line (Oversight Functions):

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

  These activities are overseen by:

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

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

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

Third Line (Internal Audit):

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

Risk Appetite

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

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

MCAN's overarching risk appetite statement is as follows:

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

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

Risk Culture

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

Stress Testing

Stress testing is a key risk management tool that supplements risk management practices by (i) providing an assessment of our effectiveness and capacity to withstand potential adverse events, including an increase in unemployment rates, rising interest rates, and a decline in real estate prices; and (ii) aiding in refining our risk limits and chosen strategies to mitigate the impact of potential adverse events. At least quarterly, MCAN conducts enterprise-wide stress testing covering a wide range of risks and correlations among risks.

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

Monitoring and Reporting

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

Major Risk Types

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

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

Liquidity and Funding Risk

Liquidity risk is the risk that cash and liquid assets are insufficient to honour all cash outflow commitments (both on- and off-balance sheet) as they come due. Funding risk is the risk that available sources of liquidity and long term funding are insufficient to sustain business growth or mitigate funding gaps.

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held, together with our ability to raise new deposits and other funding sources, are sufficient to meet our commitments, deposit maturity obligations, and other financial obligations.

On a monthly basis, we plan out our funding using a 12-month rolling forecast of expected business growth and balance sheet obligations. This provides us with a forward-looking perspective on the adequacy of our funding and liquidity channels.

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At December 31, 2022, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

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

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. At December 31, 2022, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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

The Company maintains a secured demand revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is $220 million.

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

We have a credit agreement with a Canadian Schedule I Chartered bank for a $100 million senior secured mortgage warehouse facility. The facility is used to fund insured residential mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

We have an agreement with MSLP, a wholly owned subsidiary of MCAP, whereby the Company can sell to MSLP insured residential mortgage commitments. This agreement provides liquidity and the opportunity to fund other core business activities in line with our strategy.

The Company continues to enhance monitoring of its liquidity risk profile, its funding markets such as the term deposit and securitization markets and its liquidity risk position.

OSFI's Liquidity Adequacy Requirements guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics. At December 31, 2022, we were in compliance with the LCR and NCCF metrics.

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

Table 26: Liquidity Analysis

At December 31, 2022 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	$ 78,210	$ —	$ —	$ —	$ —	$ 78,210
Marketable securities	53,743	—	—	—	—	53,743
Mortgages - corporate	342,608	955,098	526,203	113,668	1,917	1,939,494
Non-marketable securities	1,022	—	—	—	96,206	97,228
Other loans	2,276	—	—	—	—	2,276
	477,859	955,098	526,203	113,668	98,123	2,170,951
Uses of liquidity						
Term deposits	171,543	760,203	691,343	196,741	—	1,819,830
Loans payable	6,532	—	—	—	—	6,532
Other liabilities	17,423	774	1,679	1,956	784	22,616
	195,498	760,977	693,022	198,697	784	1,848,978
Net liquidity surplus (deficit)	**$ 282,361**	**$ 194,121**	**$ (166,819)**	**$ (85,029)**	**$ 97,339**	**$ 321,973**

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at December 31, 2022 and 2021 there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the consolidated financial statements.

As a response to economic uncertainty, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears reporting and pipeline monitoring. Real estate prices have, and may continue to be, impacted due to inflationary pressures on the economy and resulting actions by the Bank of Canada to tame inflation, which may adversely impact the ability of borrowers to make timely payments on mortgages.

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

Credit Risk - Impairment Assessment Under IFRS 9

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

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

Probability of default

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

Loss given default

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

Exposure at default

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

Grouping financial assets measured on a collective basis

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

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on- and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations.

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

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

We are exposed to interest rate risk on (i) movements in interest rates between the time residential mortgages are committed to borrowers and the time that the mortgage is funded; (ii) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (iii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. To manage these risks, we may employ various hedging strategies. For further information, refer to "Derivatives and Hedging" sub-section of this MD&A and Note 13 to the consolidated financial statements.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at December 31, 2022 would have an estimated positive effect of $8.3 million (September 30, 2022 - positive effect of $7.5 million; December 31, 2021 - positive effect of $4.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at December 31, 2022 would have an estimated adverse effect of $8.3 million (September 30, 2022 - adverse effect of $7.5 million; December 31, 2021 - adverse effect of $2.3 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at December 31, 2022 and December 31, 2021 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive items include marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 27: Interest Rate Sensitivity at December 31, 2022

At December 31, 2022								
(in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$1,047,280	$148,537	$520,269	$223,858	$ 76,963	$ 1,819	$ 264,394	$ 2,283,120
Securitization	132,705	5,314	51,191	730,114	831,979	—	44,253	1,795,556
	1,179,985	153,851	571,460	953,972	908,942	1,819	308,647	4,078,676
Liabilities								
Corporate	6,533	171,543	760,203	691,343	196,741	—	22,615	1,848,978
Securitization	131,077	4,259	48,331	688,660	868,061	—	—	1,740,388
	137,610	175,802	808,534	1,380,003	1,064,802	—	22,615	3,589,366
Shareholders' Equity	—	—	—	—	—	—	489,310	489,310
GAP	**$1,042,375**	**$(21,951)**	**$(237,074)**	**$(426,031)**	**$(155,860)**	**$ 1,819**	**$ (203,278)**	**$ —**
YIELD SPREAD	**4.97 %**	**1.34 %**	**1.49 %**	**0.79 %**	**0.04 %**	**4.87 %**		

Table 28: Interest Rate Sensitivity at December 31, 2021

At December 31, 2021 (in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$774,136	$185,507	$639,906	$172,639	$147,777	$ 76,081	$ 166,408	$ 2,162,454
Securitization	53,147	14,064	42,173	287,194	1,240,266	—	8,772	1,645,616
	827,283	199,571	682,079	459,833	1,388,043	76,081	175,180	3,808,070
Liabilities								
Corporate	57,340	156,221	717,288	556,155	272,533	—	21,134	1,780,671
Securitization	—	16,277	42,781	271,466	1,263,617	—	—	1,594,141
	57,340	172,498	760,069	827,621	1,536,150	—	21,134	3,374,812
Shareholders' Equity	—	—	—	—	—	—	433,258	433,258
GAP	**$769,943**	**$ 27,073**	**$(77,990)**	**$(367,788)**	**$(148,107)**	**$ 76,081**	**$ (279,212)**	**$ —**
YIELD SPREAD	**1.58 %**	**2.87 %**	**1.93 %**	**1.36 %**	**0.67 %**	**7.24 %**		

Market Risk

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

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

Our non-marketable securities portfolios are focused on equity investments in Canadian real estate focused funds. The portfolio is susceptible to the overall outlook of the real estate market, execution risk from respective fund managers, and other market conditions, such as spreads, housing prices, land prices, construction costs and adverse changes in interest rates or capitalization rates.

In 2023, we expect continued market volatility across our marketable securities, reflective of the uncertain macroeconomic environment and corresponding investor sentiment. Despite this potential volatility, our investment strategy is to invest in high quality REITs over the long term.

Operational Risk

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

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

Third Party Risk

Within operational risk, third party risk is the risk of third parties failing to provide goods and services or otherwise carrying out activities in accordance with the contract. This risk also considers similar risks as it relates to fourth and fifth parties. We outsource the majority of our construction and commercial mortgage origination, mortgage servicing and collections to MCAP and other third parties. There is a risk that the services provided by third parties will fail to adequately meet our standards.

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

Technology and Cybersecurity Risk

Technology and cybersecurity risk encompasses the risk of IT systems, tools, and practices being unable to support business and user needs, and the risk of loss of confidentiality, integrity, or availability of information, data, or information (or control) systems as a result of actions taken by internal or external malicious actors. In particular, the cybersecurity threat landscape remains elevated globally, where threat actors are increasingly utilizing sophisticated tools and technologies to disrupt business operations. Any such system failure or material data loss, either accidental through misconfiguration or purposeful through threat actors, could generate disruption to business practices, create financial loss, and damage MCAN's reputational risk profile.

The IT Management Committee, which is comprised of executive management, is accountable for overseeing technology and cybersecurity risk management activities and reports cybersecurity, system performance, and technology change management risks to the Audit Committee. Likewise, both the Vice President, IT and the Information Security Officer report on the technology and cyber risk profile to the Audit Committee of the Board on a quarterly basis. We also leverage third parties to provide cybersecurity insurance, incremental technical expertise, infrastructure and security monitoring support, and periodic cybersecurity assessment assistance, such as vulnerability/penetration testing and broader risk assessments. These activities are complemented by crisis management plans, including a Cybersecurity Incident Response Plan, Disaster Recovery Plan, and process-level Business Continuity Plans, all of which are supported by an executive Crisis Management Team.

Strategically, MCAN continues to invest in its technology and data infrastructure to enhance operational processes, resiliency, cyber security, analytical capabilities, and digital-first customer offerings.

Borrower Fraud Risk

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

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

MCAN controls and monitors for borrower misrepresentation and maintains awareness of industry reported instances of mortgage fraud. To date, document falsification has not had a material impact on MCAN or its financial position or performance. Nonetheless, MCAN acknowledges that the likelihood of borrower misrepresentation may increase as mortgage qualification requirements tighten.

Regulatory Compliance Risk

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

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

Regulatory Change

MCAN's regulatory relationships span federal and provincial bodies, each of whom continue to evolve their expectations to address systemic risks, such as debt serviceability, climate change, and key sub-categories of operational risk (e.g. technology and cyber risk, third party risk, resiliency, etc.). Regulatory changes have the potential to impact operational capacity or financial performance.

On January 31, 2022, OSFI announced the latest and final round of the internationally agreed-upon Basel III reforms into OSFI's capital, leverage, liquidity, and related disclosure guidelines for deposit-taking institutions. The revised rules released include (i) new leverage requirements; and (ii) new capital, liquidity and Pillar 3 disclosure requirements specifically for small and medium-sized banks. The revised rules begin to take effect in the second quarter of 2023.

OSFI has also announced updated guidance or consultations associated with Technology and Cyber Risk Management (B-13), Climate Change Risk Management (B-15), Third Party Risk Management (B-10), Residential Mortgage Underwriting (B-20), Culture Risk Management and Operational Resilience, all of which are being addressed by Management.

MCAN continues to remain abreast of the evolving regulatory landscape and maintains regular correspondence with regulators and industry partners.

Strategic Risk

Strategic risk is the risk of loss due to fluctuations in the external business environment, or failure to adjust strategies and business activities to adapt or respond appropriately. Strategic risk factors include the evolving business environment, an inability to proactively evolve business strategies or poor execution of strategic objectives.

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

Business and Economic Environment

MCAN's business is both directly and indirectly impacted by macroeconomic forces such as commodity prices, consumer confidence, geopolitical conflicts, and interest rate changes (see "Inflationary Pressures & Debt Serviceability" sub-section for additional detail on borrower impacts). Increased interest rates have negatively impacted the Canadian housing market, including sales activity and housing prices, and may similarly impact new housing starts by builders.

Conversely, MCAN's business is supported by strong underlying fundamentals associated with immigration and lack of housing supply, forecasted stabilizing interest rates, and legislative changes favourable to housing development in major markets. These fundamentals support the longer-term resiliency of the Canadian housing market. Nonetheless, with a potential recessionary environment in 2023, Management continues to monitor the increased uncertainty related to the economy and the housing market.

Inflationary Pressures & Debt Serviceability

The inflationary environment continues to be elevated by drivers such as sustained consumer demand, low unemployment, supply chain pressures, and geopolitical risks. With the pace of Bank of Canada's interest rate increases in 2022, Canadian households may be challenged in 2023, particularly those with higher mortgage payments as a result of increased interest rates. Additionally, construction budgets or sales strategies for construction projects subject to inflationary pressures from increased material costs and rising rates, may need to be amended.

Management actively manages, monitors, and stress tests its portfolio on a regular basis, and follows established practices of working collaboratively with borrowers across all segments.

For additional details on how MCAN manages its interest rate risk, specifically, refer to the "Interest Rate Risk" section of this MD&A.

Capital Adequacy Risk

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

Competition Risk

MCAN competes with other mortgage, construction, and commercial lenders. As prefaced in the "Business and Economic Environment" section of this MD&A, reduced volumes in housing sales and new housing starts may create an environment of increased competition for available new originations. MCAN remains focused on maintaining competitive rates while driving retention of its existing borrowers.

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

Qualification as a Mortgage Investment Corporation

If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes. MCAN's RAF notes the satisfaction of MIC requirements as one of its core risk appetite statements.

Reputational Risk

Reputational risk is a risk of loss or adverse impacts resulting from damages to MCAN's reputation.

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

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

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

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

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

ESG Risks

ESG risks are environmental, social and governance variables that affect a company's financial position or operating performance. Notably, environmental variables associated with climate change impacts MCAN both through physical risks (e.g. weather events, longer term climate shifts, etc.) associated with our new originations and underlying portfolio, and through transition risks associated with evolving consumer, legislative, or regulatory sentiment as the market transitions to a low greenhouse gas emissions economy.

To mitigate incremental physical risk impacts on our portfolio at origination, our underwriting practices restrict new lending on properties that are at higher risk of environmental harm (e.g. flood, forest fire, contamination, etc.). By extension, our current portfolio is regularly stress tested to analyze the potential impacts on assets in the geographic regions that are more prone to physical climate events, which assists our decision-making on geographic diversification and risk appetite.

Institutionally, MCAN minimizes its direct emissions (scope 1 and 2) as a fully hybrid organization and we further mitigate these risks by complying with all applicable environmental laws. Furthermore, we influence indirect emissions (scope 3) by following environmental assessment procedures in our commercial and development lending activities and working with real estate development partners who are committed to responsible stewardship.

In addition to our consideration of environmental stewardship, we also consider in our decision-making key social risk variables across demographic change, housing affordability, and diversity, equity, and inclusion. MCAN is focused on investing in residential density developments in urban communities close to mass transit while cultivating an inclusive and diverse team supported by a set of comprehensive policies and programs that promote ethical behaviours, team culture, career development, and community giving.

MCAN maintains strong governance practices across all risk types and engages regularly with industry partners and regulators to support ESG and is committed to accurate and transparent disclosures. In particular, the evolving landscape associated with climate change related disclosures and investing practices is an area management continues to actively monitor. There is an increasing focus by investors, institutional investors, market participants, and other stakeholders on sustainability practices and ESG initiatives of companies. Although we make disclosures surrounding ESG and prioritize diversity and sustainability initiatives, there can be no assurances that we will score highly on ESG matters in the future. Investors may use ESG scores to compare peer companies when evaluating their investment strategies. The criteria by which ESG practices are assessed are constantly evolving, which could result in greater expectations and may require us to undertake costly initiatives to satisfy any new criteria. If we elect not to or are unable to satisfy new criteria, including not meeting the criteria of a specific third-party evaluator of ESG scores, some investors may conclude that our business practices are inadequate. We may face reputational damages in the event that our corporate responsibility standards do not meet the standards that various stakeholders seek. In the event that we communicate to undertake certain ESG goals or initiatives, and should we fail or perceive to have failed in achieving the goals or initiatives, we could be criticized for the scope of our goals or initiatives. If we fail to meet or satisfy the ESG expectations of stakeholders or investors, or our initiatives are not executed as planned, this could negatively impact our financial condition and performance and cause the value of the Common Shares to decline. In addition, we could incur additional costs and require additional resources to help monitor, reply, and comply with various ESG practices. Investors may decide to refrain from investing in the Company as a result of their assessment of our approach and consideration of various ESG factors.

General Litigation

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

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2022, there were 34,305,704 common shares outstanding (September 30, 2022 - 31,855,297; December 31, 2021 - 29,620,939). At February 23, 2023, there were 34,536,019 common shares outstanding.

We issued $0.3 million in 2022 (2021 - $0.5 million) in new common shares through standard issuances under our Executive Share Purchase Plan. We also issued $0.1 million in new common shares in 2022 (2021 - $0.2 million) through the Executive Share Purchase Plan as part of our rights offering mentioned below.

We issued $7.4 million in 2022 (2021 - $5.8 million) in new common shares under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the 2022 fourth quarter dividend was 28% (2022 third quarter - 17%; 2021 fourth quarter - 16%).

We issued $28.8 million in 2022 (2021 - $21.1 million) in new common shares on March 31 for our first quarter special stock dividend to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $18.9326 (2021 - $17.3178).

We raised $34.1 million in 2022 (2021 - $53.2 million) to support our continued growth and maintain our targeted capital requirements by way of a rights offering which was oversubscribed.

In 2021, we filed a Prospectus Supplement to our Base Shelf prospectus establishing an ATM Program to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. We began issuing shares under the ATM Program in Q1 2022. Year to date 2022, we sold 236,600 common shares at a weighted average price of $17.88 for gross proceeds of $4.2 million and net proceeds of $4.1 million including $85,000 of commission paid to our agent and $30,000 of other share issuance costs under the ATM Program.

For additional information related to share capital, refer to Note 18 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Commitments

At December 31, 2022						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 185,204	$ 225,116	$ 184,492	$ —	$ —	$ 594,812
Commitment - TAS	500	887	—	—	—	1,387
Commitment - TAS Co	—	500	750	—	—	1,250
Commitment - TAS 4	—	8,177	5,497	3,926	—	17,600
Commitment - Harbour	500	3,675	2,500	1,000	—	7,675
Commitment - KSSMF	2,250	3,375	—	—	—	5,625
Commitment - Pearl	—	1,255	—	—	—	1,255
Commitment - Crown	—	3,300	7,747	—	—	11,047
Commitment - Fiera	1,137	1,397	6,930	1,730	—	11,194
Commitment - Broccolini	—	4,300	10,300	2,000	1,000	17,600
Commitment - KSHYF	1,000	3,000	1,850	—	28,844	34,694
	$ 190,591	**$ 254,982**	**$ 220,066**	**$ 8,656**	**$ 29,844**	**$ 704,139**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At December 31, 2022, these derecognized securitized insured multi family mortgages totalled $70 million. For further information on our securitization activities, refer to Note 11 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 24 to the consolidated financial statements.

DIVIDEND POLICY AND RECORD

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

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

Table 30: Dividends Per Share

For the Years Ended December 31	2022	2021	2020
First Quarter - regular cash	$ 0.36	$ 0.34	$ 0.34
First Quarter - special stock	0.97	0.85	—
Second Quarter - regular cash	0.36	0.34	0.34
Third Quarter - regular cash	0.36	0.34	0.34
Fourth Quarter - regular cash	0.36	0.34	0.34
	$ 2.41	**$ 2.21**	**$ 1.36**

The Board declared a first quarter regular cash dividend of $0.36 per share to be paid March 31, 2023 to shareholders of record on March 15, 2023. Our regular cash dividends for 2022 are sufficient to cover our taxable income, and therefore we will not be distributing a special stock dividend in March 2023 along with the regular cash dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2022 and December 31, 2021 and related party balances at December 31, 2022 and December 31, 2021 are discussed in Notes 9 and 23 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At December 31, 2022, we had 128 team members (September 30, 2022 - 127; December 31, 2021 - 128).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

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

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

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

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

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2022, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2022.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2022.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2022 and ending on December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our control framework.

Inherent Limitations of Controls and Procedures

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

Net Corporate Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning corporate assets less cost of funding for our corporate mortgage portfolio. It is calculated as the difference between corporate mortgage interest and term deposit interest and expenses as reported on the consolidated statements of income. Calculations can also be found in Tables 1, 2, 4 and 5 of this MD&A.

Table 31: Net Corporate Mortgage Spread Income

(in thousands) **At December 31**	**Q4 2022**	**Q4 2021**	**Change ($)**	**Annual 2022**	**Annual 2021**	**Change ($)**
Mortgage interest - corporate assets	$ 30,747	$ 20,436		$ 101,286	$ 71,823	
Term deposit interest and expenses	13,189	8,389		44,222	31,430	
Net Corporate Mortgage Spread Income	**$ 17,558**	**$ 12,047**	**$ 5,511**	**$ 57,064**	**$ 40,393**	**$ 16,671**

Securitized Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities for our securitized mortgage portfolio. It is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization as reported on the consolidated statements of income. Calculations can also be found in Tables 7 and 8 of this MD&A.

Table 32: Net Securitized Mortgage Spread Income

(in thousands) **At December 31**	**Q4 2022**	**Q4 2021**	**Change ($)**	**Annual 2022**	**Annual 2021**	**Change ($)**
Mortgage interest - securitized assets	$ 8,607	$ 7,295		$ 31,411	$ 28,671	
Interest on financial liabilities from securitization	7,005	4,993		24,101	19,554	
Net Securitized Mortgage Spread Income	**$ 1,602**	**$ 2,302**	**$ (700)**	**$ 7,310**	**$ 9,117**	**$ (1,807)**

Supplementary Financial Measures

Average Rates
Supplementary financial measures that are an indicator of interest profitability of income-earning assets or the cost of liabilities. It is calculated as income or expense as a percentage of average interest-earning assets or liabilities balance. This financial measure includes average interest rates for (i) mortgages - corporate portfolios; (ii) term deposit interest and expenses; (iii) mortgages - securitized portfolio; and (iv) financial liabilities from securitization. The average income-earning asset or liability balance that is incorporated into the average interest rate calculations is calculated on either a daily or monthly basis depending on the nature of the asset or liability.

Spread of Corporate Mortgages over Term Deposit Interest and Expenses
Supplementary financial measure that is an indicator of net interest profitability of income-earning corporate assets less cost of funding. The spread of corporate mortgages over term deposit interest and expenses is calculated by taking the total corporate mortgage interest as a percentage of the average corporate mortgage average portfolio balance less the average term deposit interest and expenses rate.

Spread of Securitized Mortgages over Liabilities
Supplementary financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities. The spread of securitized mortgages over liabilities is calculated by taking the securitized mortgage portfolio average interest rate less the financial liabilities average interest rate.

Return on Average Shareholders' Equity
Supplementary financial measure that measures profitability by presenting the annualized net income available (loss attributable) to shareholders as a percentage of the average capital deployed to earn the income (loss). It is calculated as net income (loss) divided by average shareholders' equity. Average shareholders' equity is calculated as a monthly average using all components of shareholders' equity.

Arrears and Impaired Mortgage Ratios
Supplementary financial measures that represent the ratio of arrears and impaired mortgages to mortgage principal for both the corporate and total (corporate and securitized) portfolios.

Distribution Yield
Supplementary financial measure that is an indicator of profitability on marketable and non-marketable securities. It is calculated by dividing the distribution income as a percentage of the average balance.

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

Total Shareholder Return
Supplementary financial measure that is defined as the total return of one share to a shareholder including stock appreciation and dividends.

GLOSSARY

CET 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with OSFI's Capital Adequacy Requirements and Leverage Requirements guidelines.

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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

Karen Weaver	Floriana Cipollone
President and Chief Executive Officer	Vice President and Chief Financial Officer

Toronto, Canada
February 23, 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of MCAN Mortgage Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key audit matter

A key audit matter is a matter that, in our professional judgment, was of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for expected credit loss

Key audit matter

MCAN describes its significant accounting judgments and estimates in relation to the allowance for expected credit loss (ECL) in Note 5 of the 2022 consolidated financial statements. As disclosed in Note 7 and Note 12 to the 2022 consolidated financial statements, MCAN recognized $5.6 million in ECL on its consolidated balance sheet using an ECL model. ECLs represent an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information (FLI), which involves significant judgment, is explicitly incorporated into the estimation of ECLs. ECLs are measured at amounts equal to either (i) 12 month ECL; or (ii) lifetime ECL for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment.

Auditing the ECLs was complex and required the application of significant judgment because of the forward-looking nature of the key assumptions, and the inherent interrelationship of the critical variables used in measuring the ECLs. Key areas of judgment included evaluating: (i) the models and methodologies used for measuring both the 12 month and lifetime expected credit losses; (ii) the assumptions used in the ECL scenarios including FLI and assigning probability weights; (iii) assessing SICR; and (iv) the qualitative adjustments applied to the modelled ECL based on management's expert credit judgment.

How our audit addressed the key audit matter

We obtained an understanding and evaluated the design of management's controls over the ECLs. We tested the controls over data completeness and accuracy of information used in determining the ECLs.

To test the ECLs, our audit procedures included, among others, involving our credit risk modelling specialists to assist in assessing the methodology and assumptions used in the models that estimate the ECLs across various portfolios and to assess management's SICR triggers. For a sample of key FLI variables, we compared the base forecasts produced by management against publicly available information, and also assessed the reasonability of the upside and downside scenarios within the current environment. We independently recalculated the ECLs and reperformed the staging to validate that the model methodology and staging triggers were correctly applied. With the assistance of our credit risk modelling specialists, we evaluated management's methodology over the qualitative adjustments contributing to the ECLs based on the application of expert credit judgment including management's assessment of regional differences in defaults. Furthermore, we assessed the adequacy of the presentation and disclosures of the ECLs in the notes to the consolidated financial statements.

Other Information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The other information comprises:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 23, 2023

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

At December 31	Note	2022	2021
Assets			
Corporate Assets			
Cash and cash equivalents		$ 78,210	$ 122,269
Marketable securities	6	53,743	62,693
Mortgages	7	1,939,494	1,806,146
Non-marketable securities	8	97,228	64,946
Equity investment in MCAP Commercial LP	9	106,168	96,186
Deferred tax assets	15	1,095	891
Other assets	10	7,182	9,323
		2,283,120	**2,162,454**
Securitization Assets			
Cash held in trust		34,531	53,148
Mortgages	12	1,751,303	1,583,697
Other assets	12	9,722	8,771
		1,795,556	**1,645,616**
		$ 4,078,676	**$ 3,808,070**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	14	$ 1,819,830	$ 1,660,992
Demand loans payable	24	6,532	57,340
Other loan payable to MCAP Securities Limited Partnership	23	—	41,205
Other liabilities	16	22,616	21,134
		1,848,978	**1,780,671**
Securitization Liabilities			
Financial liabilities from securitization	17	1,740,388	1,594,141
		1,740,388	**1,594,141**
		3,589,366	**3,374,812**
Shareholders' Equity			
Share capital	18	389,986	315,339
Contributed surplus		510	510
Retained earnings		98,990	117,409
Cash flow hedge reserve		(176)	—
		489,310	**433,258**
		$ 4,078,676	**$ 3,808,070**

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

On behalf of the Board:

Karen Weaver
President and CEO

Gordon Herridge
Director, Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars except for per share amounts)

Years Ended December 31	**Note**	**2022**	**2021**
Net Investment Income - Corporate Assets			
Mortgage interest		$ 101,286	$ 71,823
Equity income from MCAP Commercial LP	9	26,603	25,453
Non-marketable securities		8,050	5,828
Marketable securities		3,568	3,502
Fees		2,713	1,807
Interest on cash and other income		1,533	472
Net gain (loss) on securities	20	(12,074)	14,763
Gain on dilution of investment in MCAP Commercial LP	9	1,726	326
		133,405	**123,974**
Term deposit interest and expenses	13	44,222	31,430
Mortgage expenses	21	6,337	5,269
Interest on loans payable		3,895	1,219
Other financial expenses	23	210	130
Provision for (recovery of) credit losses	22	(1,064)	480
		53,600	**38,528**
		79,805	**85,446**
Net Investment Income - Securitization Assets			
Mortgage interest		31,411	28,671
Other securitization income		667	225
		32,078	**28,896**
Interest on financial liabilities from securitization	13	24,101	19,554
Mortgage expenses	21	4,084	3,396
Recovery of credit losses	22	(5)	(20)
		28,180	**22,930**
		3,898	**5,966**
Operating Expenses			
Salaries and benefits		19,607	18,364
General and administrative		9,030	9,083
		28,637	**27,447**
Net Income Before Income Taxes		**55,066**	**63,965**
Provision for (recovery of) income taxes			
Current	15	(84)	86
Deferred	15	(204)	(483)
		(288)	**(397)**
Net Income		**$ 55,354**	**$ 64,362**
Basic and diluted earnings per share		$ 1.77	$ 2.40
Cash dividends per share		$ 1.44	$ 1.36
Stock dividends per share		$ 0.97	$ 0.85
Weighted average number of basic and diluted shares (000’s)		31,262	26,766

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

Years Ended December 31	Note	2022	2021
Net Income		$ 55,354	$ 64,362
Cash flow hedge reserve items that may be subsequently reclassified to income (loss):			
Cash Flow Hedges	13		
Net losses from changes in fair value of cash flow hedges		(178)	—
Reclassification of net losses to net income		2	—
Total Cash Flow Hedge Reserve		**(176)**	**—**
Comprehensive Income		**$ 55,178**	**$ 64,362**

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

Years Ended December 31	Note	2022	2021
Share Capital			
Balance, beginning of year		$ 315,339	$ 234,635
Share capital issued, net of share issuance costs	18	74,647	80,704
Balance, end of year		**389,986**	**315,339**
Contributed Surplus		**510**	**510**
Retained Earnings			
Balance, beginning of year		117,409	111,367
Net income		55,354	64,362
Dividends declared	18	(73,773)	(58,320)
Balance, end of year		**98,990**	**117,409**
Cash Flow Hedge Reserve	13		
Balance, beginning of year		—	—
Other comprehensive loss		(176)	—
Balance, end of year		**(176)**	**—**
Total Shareholders' Equity		**$ 489,310**	**$ 433,258**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years Ended December 31	**Note**	**2022**	**2021**
Cash flows from (for):			
Operating Activities			
Net income		$ 55,354	$ 64,362
Adjustments to determine cash flows relating to operating activities:			
Deferred taxes		(204)	(483)
Equity income from MCAP Commercial LP	9	(26,603)	(25,453)
Gain on dilution of investment in MCAP Commercial LP	9	(1,726)	(326)
Provision for (recovery of) credit losses	22	(1,069)	460
Net (gain) loss on securities		12,074	(14,763)
Amortization of securitized mortgage and liability transaction costs		7,874	4,542
Amortization of other assets		588	683
Changes in operating assets and liabilities:			
Marketable securities		(3,132)	1,683
Corporate and securitized mortgages		(305,254)	(1,006,694)
Non-marketable securities		(32,273)	(8,829)
Other assets		1,178	8,654
Cash held in trust		18,617	(23,538)
Term deposits		158,838	426,223
Financial liabilities from securitization		143,564	451,889
Other liabilities		441	8,019
Cash flows from (for) operating activities		**28,267**	**(113,571)**
Investing Activities			
Distributions from MCAP Commercial LP	9	18,347	17,856
Acquisition of capital and intangible assets		(282)	(161)
Cash flows from investing activities		**18,065**	**17,695**
Financing Activities			
Proceeds from issuance of common shares, net of share issuance costs		38,157	53,218
Net change in demand loans		(50,808)	57,340
Other loan payable to MCAP Securities Limited Partnership		(41,205)	41,205
Repayment of premises lease liability		(356)	(344)
Dividends paid		(36,179)	(22,203)
Cash flows from (for) financing activities		**(90,391)**	**129,216**
Increase (decrease) in cash and cash equivalents		(44,059)	33,340
Cash and cash equivalents, beginning of year		122,269	88,929
Cash and cash equivalents, end of year		**$ 78,210**	**$ 122,269**
Supplementary Information			
Interest received		$ 136,304	$ 97,633
Interest paid		73,829	47,965
Distributions received from securities		9,574	8,311

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note

1. Corporate Information

MCAN Mortgage Corporation d/b/a MCAN Financial Group (the "Company" or "MCAN") is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"). MCAN has been doing business as MCAN Financial Group since April 1, 2022. As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). MCAN is incorporated in Canada with its head office located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

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

MCAN's wholly-owned subsidiary, MCAN Home Mortgage Corporation, is an originator of residential mortgage products across Canada. MCAN Home Mortgage Corporation legally changed its name from XMC Mortgage Corporation effective April 1, 2022.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors (the "Board") on February 23, 2023.

2. Basis of Preparation

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

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

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

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program and subsequently sold to third parties in transactions that do not achieve derecognition of the mortgages. These assets are funded by the cash received from the sale of the associated securities, from which the Company records a financial liability from securitization.

3. Basis of Consolidation

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

4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements.

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

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

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

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

a. Debt instruments at amortized cost

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

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

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

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

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

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

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

Debt instruments at amortized cost include all corporate and securitized mortgages held by the Company.

b. Financial assets at FVPL

Financial assets in this category are those that are not held for trading purposes and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

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

Financial assets at FVPL include all marketable and non-marketable securities held by the Company.

c. *Financial liabilities*

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

Financial liabilities include all term deposits and financial liabilities from securitization held by the Company.

Impairment

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

Overview of ECL principles

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

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

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

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

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

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

Significant increase in credit risk ("SICR")

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

Calculation of ECLs

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

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

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

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

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

The ECLs are calculated through three probability-weighted forward-looking scenarios (base, favourable, and unfavourable). Each of these is associated with different PDs, EADs and LGDs. The assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of collateral or the amount that might be received from selling the asset. Outcomes under the favourable and unfavourable scenarios are generated based on management judgment, looking at the likelihood of a range of macroeconomic variables. A cross-functional internal management committee reviews the proposed probability weights assigned to each of the three scenarios. The above committee applies judgment to adjust the weights when changes are noted in relevant macroeconomic variables.

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

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

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

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

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

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

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

<u>Modified financial assets</u>
In a case where the borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a mortgage. If the Company determines that a modification results in an expiry of cash flows, the original financial asset is derecognized while a new asset is recognized based on the new contractual terms. SICR is assessed relative to the risk of default on the date of modification. If the Company determines

that a modification does not result in derecognition, SICR is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For mortgages that have been modified while having a lifetime ECL, the mortgages can revert to having a 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Write-offs

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

Hedge Accounting

The Company makes use of bond forwards to manage interest rate exposures. In order to manage particular risks, the Company applies hedge accounting for transactions which meet specified criteria. If derivative instruments do not meet all of the criteria for hedge accounting, the changes in fair value of such derivatives are recognized in non-interest income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IFRS 9. The Company's documentation, in accordance with these requirements, includes a specific risk management objective and strategy being applied, the specific cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation between the changes in the cash flows between the hedged and hedging item.

Hedge effectiveness is assessed at the inception of the hedging relationship and on an ongoing basis. Hedge ineffectiveness occurs when the changes in cash flows of the hedging item (bond forward) differ from the cash flow changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

The Company's cash flow hedges use bond forwards to hedge changes in future cash flows attributable to interest rate fluctuations arising in highly probable forecasted issuances of fixed-rate liabilities. The effective portion of the change in fair value of the derivative instrument (the bond forward) is recognized in other comprehensive income (loss) ("OCI") until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, the cash flow hedge reserve related to those cash flows is reclassified from OCI to income. If the forecasted transaction is no longer expected to occur, the related cumulative gain or loss in OCI is immediately recognized in non-interest income.

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IFRS 9, the hedge relationship is terminated. Any cumulative gain or loss recognized at the time remains in OCI until the forecasted transaction impacts the consolidated statements of income. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognized in OCI is immediately recognized in non-interest income.

(2) Determination of fair value

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

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

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

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

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

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

(4) Taxes

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

(i) Current tax

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

(ii) Deferred tax

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

(5) Dividends on common shares

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

(6) Investment in associate

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

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

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

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

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

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

(7) Revenue recognition

Interest income or expense

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

Revenue from contracts with customers

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

(8) Cash and cash equivalents

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

(9) Share-based compensation payment transactions

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

(10) Share capital

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

(11) Provisions

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

(12) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use assets and lease liabilities are recognized at the lease commencement date, that is, on the date when the underlying asset is available for use by the Company. The Company's right-of-use asset relating to its premises lease does not meet the definition of investment property.

Right-of-use assets are initially and subsequently measured at cost and depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis. The right-of-use assets are remeasured in the event of impairment in accordance with IAS 36, *Impairment of Assets*.

Lease liabilities are initially and subsequently measured at the present value of the lease payments which are unpaid as of the commencement date. The future lease payments are discounted using the interest rate implicit in the lease, if readily determinable. If not readily determinable, the Company's incremental borrowing rate is used, which is the rate to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. After the commencement date, the carrying amount of lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Adjustments to the carrying amount of the lease obligation as a result of remeasurement are accounted for as a corresponding adjustment to the right-of-use asset.

5. Summary of Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the affected assets or liabilities in future periods.

Significant influence

Significant influence represents the power to participate in the financial and operating policy decisions of an investee but does not represent control or joint control over the entity. In determining whether it has significant influence over an entity, the Company makes certain judgments to form the basis for the Company's policies in accounting for its equity investments. Although MCAN's voting interest in MCAP was less than 20% at December 31, 2022, MCAN uses the equity basis of accounting for the investment as it has significant influence in MCAP per IAS 28, *Investments in Associates and Joint Ventures*, as a result of its entitlement to a position on MCAP's Board of Directors.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that may include the use of:

- mathematical models - the inputs to mathematical models are derived from observable market data where possible, but where observable market data is not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.
- market approach - the inputs include the use of recently observable market transactions and appraisals.
- cost approach - for new property developments, the inputs include the cost of the land and construction costs.

(Dollar amounts in thousands except for per share amounts)

Impairment of financial assets

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

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

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

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates which have been heightened due to the current inflationary and rising interest rate environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government policy and stimulus measures, will be heavily influenced by the extent and severity of these events. These judgments have been made with reference to the facts, projections and other circumstances at the consolidated balance sheet dates. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Any new forward-looking information subsequent to the consolidated balance sheet dates are reflected in the measurement of provisions for credit losses in future periods, as appropriate.

Mortgage prepayment rates

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

6. Marketable Securities

At December 31	2022	2021
Real estate investment trusts	$ 53,743	$ 62,693
	$ 53,743	**$ 62,693**

For details of net gains and losses on marketable securities, refer to Note 20.

7. Mortgages - Corporate

(a) Summary

At December 31, 2022	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Residential mortgages						
Insured	$ 144,569	$ —	$ —	$ —	$ —	$ 144,569
Uninsured	829,745	514	642	49	1,205	828,540
Uninsured - completed inventory	36,880	200	—	—	200	36,680
Construction loans	828,809	3,503	180	—	3,683	825,126
Commercial loans						
Multi family residential	98,715	348	129	—	477	98,238
Other commercial	6,374	8	25	—	33	6,341
	$ 1,945,092	**$ 4,573**	**$ 976**	**$ 49**	**$ 5,598**	**$ 1,939,494**

(Dollar amounts in thousands except for per share amounts)

At December 31, 2021	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Residential mortgages						
Insured	$ 196,595	$ —	$ —	$ —	$ —	$ 196,595
Uninsured	785,192	1,754	364	13	2,131	783,061
Uninsured - completed inventory	49,776	337	8	—	345	49,431
Construction loans	688,113	3,599	216	—	3,815	684,298
Commercial loans						
Multi family residential	74,961	150	115	—	265	74,696
Other commercial	18,156	7	84	—	91	18,065
	$ 1,812,793	**$ 5,847**	**$ 787**	**$ 13**	**$ 6,647**	**$ 1,806,146**

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

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

(b) Mortgages by risk rating

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

The internal risk ratings presented below are defined as follows:

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

(Dollar amounts in thousands except for per share amounts)

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

At December 31	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Insured								
Insured performing	$ 139,351	$ 4,707	$ —	$ 144,058	$ 188,125	$ 7,621	$ —	$ 195,746
Monitored/Arrears	61	450	—	511	—	59	—	59
Impaired/Default	—	—	—	—	—	—	790	790
	139,412	5,157	—	144,569	188,125	7,680	790	196,595
Uninsured								
Very low/Low	361,995	69,030	—	431,025	327,302	53,315	—	380,617
Normal/Moderate	295,807	50,738	—	346,545	317,481	41,903	—	359,384
High/Higher	29,916	6,877	—	36,793	30,040	3,043	—	33,083
Monitored/Arrears	7,702	6,289	—	13,991	8,985	829	—	9,814
Impaired/Default	—	—	186	186	—	—	163	163
	695,420	132,934	186	828,540	683,808	99,090	163	783,061
Uninsured - completed inventory								
Normal/Moderate	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
High/Higher	34,103	—	—	34,103	45,982	3,449	—	49,431
Monitored/Arrears	—	2,577	—	2,577	—	—	—	—
	34,103	2,577	—	36,680	45,982	3,449	—	49,431
Construction loans								
Normal/Moderate	5,886	—	—	5,886	—	—	—	—
High/Higher	779,814	—	—	779,814	666,728	14,048	—	680,776
Monitored/Arrears	—	7,341	—	7,341	—	3,522	—	3,522
Impaired/Default	—	—	32,085	32,085	—	—	—	—
	785,700	7,341	32,085	825,126	666,728	17,570	—	684,298
Commercial loans								
Multi family residential								
Very low/Low	—	—	—	—	10,081	—	—	10,081
Normal/Moderate	37,012	—	—	37,012	33,109	—	—	33,109
High/Higher	33,820	27,406	—	61,226	4,160	27,346	—	31,506
	70,832	27,406	—	98,238	47,350	27,346	—	74,696
Other								
Normal/Moderate	1,261	—	—	1,261	1,271	—	—	1,271
Monitored/Arrears	—	5,080	—	5,080	—	16,794	—	16,794
	1,261	5,080	—	6,341	1,271	16,794	—	18,065
	$1,726,728	**$ 180,495**	**$ 32,271**	**$1,939,494**	**$1,633,264**	**$ 171,929**	**$ 953**	**$1,806,146**

(Dollar amounts in thousands except for per share amounts)

(c) Mortgage allowances

Years Ended December 31	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Insured								
Allowance, beginning of year	$ —	$ —	$ —	$ —	$ 3	$ —	$ —	$ 3
Net remeasurement of allowance [1]	—	—	—	—	(1)	—	—	(1)
Mortgages derecognized or repaid [2]	—	—	—	—	(2)	—	—	(2)
Total recovery	—	—	—	—	(3)	—	—	(3)
Allowance, end of year	—	—	—	—	—	—	—	—
Uninsured								
Allowance, beginning of year	$ 1,754	$ 364	$ 13	$ 2,131	$ 1,513	$ 663	$ 157	$ 2,333
Transfer to stage 1 [3]	327	(327)	—	—	425	(425)	—	—
Transfer to stage 2 [3]	(891)	918	(27)	—	(787)	813	(26)	—
Transfer to stage 3 [3]	(76)	—	76	—	(42)	—	42	—
Net remeasurement of allowance [1]	(1,037)	(179)	(15)	(1,231)	(946)	(476)	28	(1,394)
Originations [4]	707	—	—	707	2,197	—	—	2,197
Mortgages derecognized or repaid [2]	(270)	(134)	(13)	(417)	(605)	(211)	(152)	(968)
Total provision (recovery)	(1,240)	278	21	(941)	242	(299)	(108)	(165)
Write-off (recovery)	—	—	15	15	(1)	—	(36)	(37)
Allowance, end of year	514	642	49	1,205	1,754	364	13	2,131
Uninsured - completed inventory								
Allowance, beginning of year	$ 337	$ 8	$ —	$ 345	$ 500	$ 205	$ —	$ 705
Transfer to stage 1 [3]	49	(49)	—	—	9	(9)	—	—
Transfer to stage 2 [3]	(34)	34	—	—	(8)	8	—	—
Net remeasurement of allowance [1]	(146)	15	—	(131)	(250)	(185)	—	(435)
Originations [4]	—	—	—	—	128	—	—	128
Mortgages derecognized or repaid [2]	(6)	(8)	—	(14)	(42)	(11)	—	(53)
Total recovery	(137)	(8)	—	(145)	(163)	(197)	—	(360)
Allowance, end of year	200	—	—	200	337	8	—	345
Construction loans								
Allowance, beginning of year	$ 3,599	$ 216	$ —	$ 3,815	$ 2,609	$ 191	$ —	$ 2,800
Transfer to stage 1 [3]	1,848	(1,848)	—	—	1,301	(1,301)	—	—
Transfer to stage 2 [3]	(2,074)	2,074	—	—	(1,241)	1,241	—	—
Transfer to stage 3 [3]	(117)	—	117	—	—	—	—	—
Net remeasurement of allowance [1]	381	(233)	(117)	31	736	91	—	827
Originations [4]	616	—	—	616	1,076	—	—	1,076
Mortgages derecognized or repaid [2]	(750)	(29)	—	(779)	(882)	(6)	—	(888)
Total provision (recovery)	(96)	(36)	—	(132)	990	25	—	1,015
Allowance, end of year	3,503	180	—	3,683	3,599	216	—	3,815

(Dollar amounts in thousands except for per share amounts)

Years Ended December 31	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commercial loans								
Multi family residential								
Allowance, beginning of year	$ 150	$ 115	$ —	$ 265	$ 146	$ —	$ —	$ 146
Transfer to stage 2 [3]	—	—	—	—	(246)	246	—	—
Net remeasurement of allowance [1]	130	14	—	144	112	(131)	—	(19)
Originations [4]	83	—	—	83	138	—	—	138
Mortgages derecognized or repaid [2]	(15)	—	—	(15)	—	—	—	—
Total provision	198	14	—	212	4	115	—	119
Allowance, end of year	348	129	—	477	150	115	—	265
Other								
Allowance, beginning of year	$ 7	$ 84	$ —	$ 91	$ 36	$ 181	$ —	$ 217
Transfer to stage 1 [3]	54	(54)	—	—	—	—	—	—
Transfer to stage 2 [3]	(41)	41	—	—	—	—	—	—
Net remeasurement of allowance [1]	—	(46)	—	(46)	(5)	(97)	—	(102)
Mortgages derecognized or repaid [2]	(12)	—	—	(12)	(24)	—	—	(24)
Total provision (recovery)	1	(59)	—	(58)	(29)	(97)	—	(126)
Allowance, end of year	8	25	—	33	7	84	—	91
Total								
Allowance, beginning of year	$ 5,847	$ 787	$ 13	$ 6,647	$ 4,807	$ 1,240	$ 157	$ 6,204
Transfer to stage 1 [3]	2,278	(2,278)	—	—	1,735	(1,735)	—	—
Transfer to stage 2 [3]	(3,040)	3,067	(27)	—	(2,282)	2,308	(26)	—
Transfer to stage 3 [3]	(193)	—	193	—	(42)	—	42	—
Net remeasurement of allowance [1]	(672)	(429)	(132)	(1,233)	(354)	(798)	28	(1,124)
Originations [4]	1,406	—	—	1,406	3,539	—	—	3,539
Mortgages derecognized or repaid [2]	(1,053)	(171)	(13)	(1,237)	(1,555)	(228)	(152)	(1,935)
Total provision (recovery)	(1,274)	189	21	(1,064)	1,041	(453)	(108)	480
Write-off (recovery)	—	—	15	15	(1)	—	(36)	(37)
Allowance, end of year	**$ 4,573**	**$ 976**	**$ 49**	**$ 5,598**	**$ 5,847**	**$ 787**	**$ 13**	**$ 6,647**

[1] Represents the change in the allowance related to changes in model parameters, inputs, and assumptions. This includes remeasurement between 12 month and lifetime ECLs following stage transfers, changes to forward-looking macroeconomic conditions, changes in the level of risk, and changes to other parameters used in the ECL model.
[2] Reflects the decrease in the allowance related to mortgages that were repaid or derecognized during the period.
[3] Represents movements between ECL stages and excludes the impact to the allowance of remeasurement between 12 month and lifetime ECLs and changes in risk.
[4] Reflects the increase in allowance related to mortgages newly recognized during the period. This includes mortgages that were newly originated, purchased, or re-recognized following a modification of terms.

ECLs are calculated through three probability-weighted forward-looking scenarios: base, favourable, and unfavourable. ECLs are sensitive to the macroeconomic variables used in the three forward-looking scenarios and the probability weights assigned to those forecasts. The macroeconomic variables used in these scenarios are projected over the specified forecast period and could have a material impact in determining ECLs.

(Dollar amounts in thousands except for per share amounts)

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

At December 31, 2022	Base		Favourable		Unfavourable	
Macroeconomic variables	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]
Housing Price Index (annual change)						
Canada	(7.28%)	3.97%	(0.49%)	4.48%	(9.16)%	3.24%
Greater Toronto Area	(8.93%)	3.74%	(0.51%)	4.67%	(9.51)%	3.37%
Greater Vancouver Area	(8.70%)	3.70%	(0.50%)	4.58%	(9.34)%	3.30%
Gross domestic product (annual change)	0.08%	1.64%	1.08%	1.76%	(1.55)%	1.51 %
Unemployment rate	5.94%	6.53%	5.44%	6.44%	6.94%	6.72%
Interest rates						
Prime rate	6.53%	5.36%	7.03%	5.86%	6.28%	5.11%

At December 31, 2021	Base		Favourable		Unfavourable	
Macroeconomic variables	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]
Housing Price Index (annual change)						
Canada	8.12%	0.80%	15.73%	1.31%	(4.06)%	0.30%
Greater Toronto Area	10.83%	0.95%	20.47%	1.69%	(5.16)%	1.69%
Greater Vancouver Area	8.99%	0.94%	20.64%	1.70%	(5.20)%	1.70%
Gross domestic product (annual change)	4.36%	2.49%	5.36%	2.61%	1.61 %	2.24%
Unemployment rate	5.72%	5.20%	5.22%	5.14%	6.97%	5.30%
Interest rates						
Prime rate	2.97%	3.74%	3.47%	4.24%	2.72%	3.49%

[1] *The numbers represent the average values over the quoted period.*

Historical regression methodology is used to relate ECL to key macroeconomic indicators including housing price indices, gross domestic product, unemployment rate and interest rates. Economic forecasts are determined based on a combination of external information and internal management judgements and estimates at the reporting date. The current inflationary environment and geopolitical conflicts have increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. Since December 31, 2022, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to December 31, 2022, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

The base scenario represents management's best estimate using all available economic forecasts in light of the current inflationary and rising interest rate environment. It assumes the unemployment rate will increase. Gross domestic product is expected to increase slightly in 2023 and gradually increase going forward. Housing prices are expected to decrease significantly in the short-term before increasing in the mid to long term. The favourable scenario represents a softer downturn in housing prices overall, a decrease to unemployment, and faster increases to gross domestic product compared to the base scenario. The unfavourable scenario represents the possibility of a recession and a slower recovery, resulting in increases in the unemployment rate and decreases in housing prices and gross domestic product.

Assuming a 100% base case economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at December 31, 2022 would be approximately $4,829 (December 31, 2021 - $5,255) compared to the reported ECL for corporate mortgages of $5,598 (December 31, 2021 - $6,647).

Assuming a 100% unfavourable economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at December 31, 2022 would be approximately $8,504 (December 31, 2021 - $9,079) compared to the reported ECL for corporate mortgages of $5,598 (December 31, 2021 - $6,647).

(Dollar amounts in thousands except for per share amounts)

(d) Mortgage arrears

Mortgages past due but not impaired are as follows:

At December 31, 2022	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages				
Insured	$ 60	$ 234	$ 217	$ 511
Uninsured	11,454	1,825	712	13,991
Uninsured - completed inventory	2,577	—	—	2,577
Commercial loans - other commercial	5,080	—	—	5,080
	$ 19,171	**$ 2,059**	**$ 929**	**$ 22,159**

At December 31, 2021	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages				
Insured	$ —	$ 59	$ —	$ 59
Uninsured	9,814	—	—	9,814
	$ 9,814	**$ 59**	**$ —**	**$ 9,873**

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

At December 31	2022			2021		
	Residential Mortgages	Construction		Residential Mortgages		
	Uninsured	Loan	Total	Insured	Uninsured	Total
Alberta	$ 186	—	$ 186	$ 627	$ 163	$ 790
British Columbia	—	32,085	32,085	—	—	—
Atlantic Provinces	—	—	—	163	—	163
	$ 186	**$ 32,085**	**$ 32,271**	**$ 790**	**$ 163**	**$ 953**

At December 31, 2022, the total appraised value of the collateral related to the impaired construction loans was $50,360.

(e) Geographic analysis

At December 31, 2022	Residential Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 842,251	$ 183,088	$ 90,377	$ 1,115,716	57.6 %
Alberta	65,263	142,151	5,109	212,523	11.0 %
British Columbia	70,772	499,887	—	570,659	29.4 %
Quebec	19,284	—	4,113	23,397	1.2 %
Atlantic Provinces	6,547	—	—	6,547	0.3 %
Other	5,672	—	4,980	10,652	0.5 %
	$ 1,009,789	**$ 825,126**	**$ 104,579**	**$ 1,939,494**	**100.0 %**

At December 31, 2021	Residential Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 858,727	$ 174,909	$ 88,601	$ 1,122,237	62.2 %
Alberta	73,079	65,010	—	138,089	7.6 %
British Columbia	57,250	444,379	—	501,629	27.8 %
Quebec	26,084	—	4,160	30,244	1.7 %
Atlantic Provinces	8,107	—	—	8,107	0.4 %
Other	5,840	—	—	5,840	0.3 %
	$ 1,029,087	**$ 684,298**	**$ 92,761**	**$ 1,806,146**	**100.0 %**

(Dollar amounts in thousands except for per share amounts)

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

At December 31	2022	2021
Residential mortgages		
Insured	$ 32,270	$ 57,083
Uninsured	19,804	23,411
Uninsured - completed inventory	129	808
Construction loans	542,609	435,638
	$ 594,812	**$ 516,940**

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

The fair value of the corporate mortgage portfolio at December 31, 2022 was $1,939,615 (December 31, 2021 - $1,809,656). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages.

At December 31, 2022, insured residential mortgages included $63,229 (December 31, 2021 - $50,828) of mortgages that had been securitized through the market MBS program; however, the underlying MBS security has been retained by the Company for liquidity purposes.

8. Non-Marketable Securities

At December 31	2022	2021
KingSett High Yield Fund	$ 52,642	$ 44,595
Securitization Notes	1,022	6,449
TAS LP 3	8,714	5,371
KingSett Senior Mortgage Fund LP	9,462	4,125
TAS LP 3 Co-Invest LP	3,750	2,875
Crown Realty V Limited Partnership	8,962	—
Pearl Group Growth Fund LP	1,745	1,531
TAS Impact Development LP 4	2,400	—
Broccolini Limited Partnership No. 8	2,400	—
Fiera Real Estate Development Fund IV, LP	3,806	—
Harbour Equity JV Development Fund VI	2,325	—
	$ 97,228	**$ 64,946**

KingSett High Yield Fund (“KSHYF”): The Company holds an investment in the KSHYF representing a 5.9% equity interest (December 31, 2021 - 6.2%). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the KSHYF, the Company advances its proportionate share. The KSHYF pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. At December 31, 2022, the Company’s total remaining commitment to the KSHYF was $34,694 (December 31, 2021 - $22,472), consisting of $5,850 available for capital advances for the KSHYF (December 31, 2021 - $278) and $28,844 that supports credit facilities throughout the life of the KSHYF (December 31, 2021 - $22,194).

Securitization Notes: During 2019, the Company invested $18,000 in Class A Securitization Notes. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than March 15, 2023. During 2022, the Company received $5,427 (2021 - $6,085) in principal repayment and recorded $307 (2021 - $769) of interest income at the contractual rate of the Securitization Notes in net investment income from non-marketable securities on the consolidated statements of income.

TAS LP 3 (“TAS”): The Company holds an investment in TAS representing a 9.7% partnership interest (December 31, 2021 - 9.7%). At December 31, 2022, the Company’s total remaining commitment is $1,387. The Company advances its proportionate share as TAS invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental, social and governance (“ESG”) impacts.

(Dollar amounts in thousands except for per share amounts)

KingSett Senior Mortgage Fund LP ("KSSMF"): The Company holds an investment in KSSMF representing a 1.5% partnership interest (December 31, 2021 - 0.9%). At December 31, 2022, the Company's total remaining commitment is $5,625. The Company advances its proportionate share as KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 Co-Invest LP ("TAS Co"): The Company holds an investment in TAS Co, in which it has a 34.8% partnership interest (December 31, 2021 - 34.8%). At December 31, 2022, the Company's total remaining commitment is $1,250. The Company advances its proportionate share as TAS Co invests in urban residential and mixed use properties that are being developed under repositioning plans with a focus on ESG impacts.

Pearl Group Growth Fund LP ("Pearl"): The Company holds an investment in Pearl, in which it has a 6.9% partnership interest (December 31, 2021 - 6.9%). At December 31, 2022, the Company's total remaining commitment is $1,255. The Company advances its proportionate share as Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial and multi-unit residential properties in the Greater Toronto area.

Crown Realty V Limited Partnership ("Crown"): During 2022, the Company invested in Crown representing a 7.7% partnership interest, with an additional $11,047 remaining commitment. The Company advances its proportionate share as Crown integrates ESG-focused initiatives to acquire, lease, manage and reposition commercial real estate properties across Ontario.

TAS Impact Development LP 4 ("TAS 4"): During 2022, the Company invested in TAS 4 representing a 17.6% partnership interest, with an additional $17,600 remaining commitment. The Company advances its proportionate share as TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive ESG impacts.

Broccolini Limited Partnership No. 8 ("Broccolini"): During 2022, the Company invested in Broccolini representing a 5.7% partnership interest, with an additional $17,600 remaining commitment. The Company advances its proportionate share as Broccolini invests in ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Harbour Equity JV Development Fund VI ("Harbour"): During 2022, the Company invested in Harbour representing a 12.1% partnership interest, with an additional $7,675 remaining commitment. The Company advances its proportionate share as Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

Fiera Real Estate Development Fund IV, LP ("Fiera"): During 2022, the Company invested in Fiera representing an 7.1% partnership interest, with an additional $11,194 remaining commitment. The Company advances its proportionate share as Fiera develops and re-develops multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

For details of net gains and losses on non-marketable securities, refer to Note 20.

9. Equity Investment in MCAP Commercial LP

At December 31, 2022, the Company held a 13.65% equity interest in MCAP (December 31, 2021 - 13.94%), representing 4.0 million units held by MCAN (December 31, 2021 - 4.0 million) of the 29.3 million total outstanding MCAP partnership units (December 31, 2021 - 28.7 million).

The Company recognizes equity income from MCAP on a one-month lag such that equity income from MCAP is based on MCAP's net income for the years ended November 30 adjusted for the impacts of significant transactions or events up to the date of our financial statements.

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

At December 31	**2022**	**2021**
Balance, beginning of year	$ 96,186	$ 88,263
Equity income	26,603	25,453
Dilution gain	1,726	326
Distributions received	(18,347)	(17,856)
Balance, end of year	**$ 106,168**	**$ 96,186**

(Dollar amounts in thousands except for per share amounts)

Selected MCAP financial information is as follows:

At November 30	2022	2021
MCAP's balance sheet:		
Assets	$ 50,903,680	$ 44,844,502
Liabilities	50,117,275	44,143,848
Equity	786,405	700,654

Years Ended November 30	2022	2021
MCAP's revenue and net income:		
Revenue	$ 1,007,497	$ 854,453
Net income	192,677	182,270

During 2022, MCAP issued new class B units at a price in excess of the carrying value per unit, resulting in a dilution gain of $1,726 (2021 - $326).

10. Other Assets

At December 31	2022	2021
Corporate assets:		
Intangible assets, net	$ 373	$ 346
Capital assets, net	601	628
Right-of-use asset	1,453	1,759
Prepaid expenses	1,212	975
Other loans	2,276	2,685
Related party receivable - MCAP	782	2,476
Receivables	50	19
Foreclosed real estate	435	435
	$ 7,182	**$ 9,323**

During the year ended December 31, 2022, the Company recognized $306 (2021 - $306) of depreciation expense and recorded no additions on the right-of-use asset.

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

(Dollar amounts in thousands except for per share amounts)

The capital assets and intangible assets continuity is as follows:

	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Capital Asset Total	Intangible Assets
Cost					
At January 1, 2021	$ 835	$ 2,061	$ 1,979	$ 4,875	$ 6,010
Additions	—	38	24	62	99
At December 31, 2021	835	2,099	2,003	4,937	6,109
Additions	—	114	—	114	168
At December 31, 2022	**835**	**2,213**	**2,003**	**5,051**	**6,277**
Amortization					
At January 1, 2021	824	1,876	1,472	4,172	5,523
Amortization for the year	4	74	59	137	240
At December 31, 2021	828	1,950	1,531	4,309	5,763
Amortization for the year	3	79	59	141	141
At December 31, 2022	**831**	**2,029**	**1,590**	**4,450**	**5,904**
Net Book Value					
At December 31, 2021	7	149	472	628	346
At December 31, 2022	**$ 4**	**$ 184**	**$ 413**	**$ 601**	**$ 373**

11. Securitization Activities

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create and sell MBS through Canada Mortgage and Housing Corporation ("CMHC") market MBS and Canada Mortgage Bonds ("CMB") programs.

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

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

During 2022, MCAN securitized $426,217 insured residential mortgages through the market MBS and CMB programs (2021 - $723,514).

Other accounting considerations

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

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transfers nor retains substantially all of the risks and rewards of ownership on sale and retains significant continuing involvement through the provision of the Timely Payment obligation with respect to the majority of the market MBS program and residential mortgage CMB program sale transactions, MCAN continues to recognize the securitized mortgages (Note 12) and financial liabilities from securitization (Note 17) on its consolidated balance sheet.

(Dollar amounts in thousands except for per share amounts)

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

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

In these circumstances, the derecognized MBS balance related to the market MBS program and CMB program are not reflected as an asset or liability on MCAN's consolidated balance sheets. The derecognized MBS mature as follows:

	2025	2026	2029	2030	Total
At December 31, 2022	$ 15,341	$ 8,429	$ 13,281	$ 32,997	**$ 70,048**

12. Mortgages - Securitized

(a) Summary

	Gross	Allowance		Net
	Principal	Stage 1	Total	Principal
At December 31, 2022	**$ 1,751,303**	$ —	**$ —**	**$ 1,751,303**
At December 31, 2021	**$ 1,583,702**	$ 5	**$ 5**	**$ 1,583,697**

(b) Mortgages by risk rating

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

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

At December 31	**2022**				**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Insured Performing	$1,654,140	$ 93,724	$ —	$1,747,864	$1,506,925	$ 71,907	$ —	$1,578,832
Monitored/Arrears	803	2,086	—	2,889	3,761	1,104	—	4,865
Impaired/Default	—	—	550	550	—	—	—	—
	$1,654,943	**$ 95,810**	**$ 550**	**$1,751,303**	**$1,510,686**	**$ 73,011**	**$ —**	**$1,583,697**

(c) Mortgage allowances

The allowance for credit losses on the securitized portfolio at December 31, 2022 was $nil (December 31, 2021 - $5). The recovery of credit losses recorded during 2022 was $5 (2021 - recovery of credit losses of $20).

(d) Mortgage arrears

Securitized mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At December 31, 2022	$ 1,641	$ 1,248	$ —	**$ 2,889**
At December 31, 2021	$ 4,674	$ 191	$ —	**$ 4,865**

(Dollar amounts in thousands except for per share amounts)

Impaired securitized mortgages are as follows:

At December 31	2022	2021
Ontario	$ 447	$ —
Atlantic Provinces	$ 103	—
	$ 550	**$ —**

(e) Geographic analysis

At December 31	2022		2021	
Ontario	$ 1,514,305	86.4 %	$ 1,372,801	86.6 %
Alberta	139,420	8.0 %	112,500	7.1 %
British Columbia	57,828	3.3 %	54,371	3.4 %
Quebec	7,896	0.5 %	10,347	0.7 %
Atlantic Provinces	22,817	1.3 %	23,244	1.5 %
Other	9,037	0.5 %	10,434	0.7 %
	$ 1,751,303	**100.0 %**	**$ 1,583,697**	**100.0 %**

(f) Other information

Capitalized transaction costs are included in mortgages and are amortized using the EIM. At December 31, 2022, the unamortized capitalized transaction cost balance was $11,268 (December 31, 2021 - $12,380).

The fair value of the securitized mortgage portfolio at December 31, 2022 was $1,675,759 (December 31, 2021 - $1,603,120).

Other assets of $9,722 at December 31, 2022 (December 31, 2021 - $8,771) includes interest-only strips of $1,325 (December 31, 2021 - $1,593) from the Company's CMB insured multi family securitizations.

13. Derivative Financial Instruments

The Company enters into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Realized gains or losses on these derivatives are reclassified to interest on financial liabilities from securitization and term deposit interest and expenses on the consolidated statements of income over the expected life of the underlying hedged item.

At December 31, 2022, the Company had no derivative financial instruments outstanding (December 31, 2021 - nil).

The following table presents the effects of cash flow hedges entered into during the year on the consolidated statements of income and the consolidated statements of comprehensive income:

At December 31	2022	2021
Liabilities - Interest Rate Risk		
Change in value of hedged item for ineffectiveness measurement	$ 178	$ —
Change in value of hedging item for ineffectiveness measurement	(178)	—
Hedge Ineffectiveness	—	—
Hedging losses recognized in OCI	(178)	—
Amount reclassified from cash flow hedge reserve to net income	2	—
Effect on OCI	$ (176)	$ —

(Dollar amounts in thousands except for per share amounts)

The following table provides a reconciliation of OCI related to cash flow hedges entered into during the year:

At December 31		2022		2021
Liabilities - Interest Rate Risk				
Cash flow hedge reserve at the beginning of the year	$	—	$	—
OCI		(176)		—
Cash Flow Hedge Reserve at the End of the Year	$	176	$	—
OCI on designated hedges	$	(176)	$	—
OCI on de-designated hedges	$	—	$	—

Derivative-Related Risks

The potential for derivatives to increase or decrease in value as a result of changes in relevant factors, such as interest rate changes is referred to as market risk. Credit risk on derivatives, also known as counterparty credit risk, is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligation to the Company. The risks are actively monitored and managed by the Company.

14. Term Deposits

At December 31		2022		2021
Maturity Date				
Within 3 Months	$	171,543	$	115,016
> 3 Months to 1 Year		760,203		717,288
> 1 to 3 Years		691,343		556,155
> 3 to 5 Years		196,741		272,533
	$	**1,819,830**	**$**	**1,660,992**

The estimated fair value of term deposits at December 31, 2022 was $1,792,257 (December 31, 2021 - $1,661,368) and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

15. Income Taxes

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

Years Ended December 31		2022		2021
Income before income taxes	$	55,066	$	63,965
Statutory rate of tax [1]		0 %		0 %
Tax provision (recovery) before the following:	$	—	$	—
Provision related to income subject to tax in subsidiaries		(288)		(397)
	$	**(288)**	**$**	**(397)**

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

Years Ended December 31		2022		2021
Current tax				
Current tax provision	$	(84)	$	86
Deferred tax provision (recovery)				
Relating to loss carry forward benefit		(239)		(402)
Other		35		(81)
		(204)		(483)
	$	**(288)**	**$**	**(397)**

(Dollar amounts in thousands except for per share amounts)

A summary of temporary differences by type is as follows:

At December 31	2022	2021
Deferred tax assets		
Loss carry forward benefit	$ 786	$ 547
Other	309	344
	$ 1,095	**$ 891**

At December 31, 2022, deferred tax assets and liabilities were assessed for each entity and are presented as deferred tax assets of $1,095 (December 31, 2021 - $891) and deferred tax liabilities of $nil (December 31, 2021 - $nil) on the consolidated balance sheets.

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

At December 31, 2022, the Company has loss carry forward amounts in the non-consolidated MIC entity of $2,804 (December 31, 2021 - $5,609), the benefit of which has not been recorded in deferred tax assets. This balance only includes assessed fiscal years. The tax loss carry forward amounts expire beginning in 2034.

16. Other Liabilities

At December 31	2022	2021
Accounts payable and accrued charges	$ 9,078	$ 8,637
Premises lease liability	2,070	2,426
Dividends payable	11,468	10,071
	$ 22,616	**$ 21,134**

During 2022, the Company recognized $80 (2021 - $92) of interest expense and $436 (2021 - $436) of payments relating to the premises lease liability.

The maturity of the premises lease liability is as follows:

At December 31	2022
Within 1 year	$ 370
> 1 to 5 years	1,700
Total premises lease liability	**$ 2,070**

17. Financial Liabilities from Securitization

Total financial liabilities from securitization mature as follows:

At December 31	2022	2021
2022	$ —	$ 59,058
2023	52,590	64,355
2024	167,671	207,111
2025	520,989	577,081
2026	635,435	686,536
2027	363,703	—
	$ 1,740,388	**$ 1,594,141**

(Dollar amounts in thousands except for per share amounts)

18. Share Capital

At December 31	2022			2021		
	Number of Shares		Share Capital	Number of Shares		Share Capital
Balance, January 1	29,620,939	$	315,339	24,727,145	$	234,635
Issued						
Dividend reinvestment plan	458,781		7,376	358,219		5,842
At-the-market program	236,600		4,116	—		—
Rights offerings	2,450,407		34,112	3,281,196		53,218
Stock dividend	1,522,308		28,750	1,223,499		21,096
Executive Share Purchase Plan	16,669		293	30,880		548
Balance, December 31	**34,305,704**	**$**	**389,986**	**29,620,939**	**$**	**315,339**

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

The Company issues shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%.

On February 22, 2022 (2021 - February 23, 2021), the Board declared a special stock dividend of $0.97 per share (2021 - $0.85 per share) paid on March 31, 2022 (2021 - March 31, 2021) to shareholders of record as of March 15, 2022 (2021 - March 15, 2021). The Company issued $28,750 (2021 - $21,096) in common shares out of treasury to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $18.9326 (2021 - $17.3178).

In 2021, the Company filed a Prospectus Supplement to its Base Shelf prospectus establishing an at-the-market equity program ("ATM Program") to issue up to $30,000 common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at MCAN's sole discretion. The Company began issuing shares under the ATM Program in 2022. During 2022, the Company sold 236,600 common shares at a weighted average price of $17.88 for gross proceeds of $4,231 and net proceeds of $4,116 including $85 of agent commission paid and $30 of other share issuance costs under the ATM Program.

On November 17, 2022, the Company announced a rights offering that closed on December 22, 2022. The Company issued 2,450,407 common shares out of treasury to shareholders at a price of $14.00 per common share. Total proceeds net of share issuance costs of $193 was $34,112.

For details on the Executive Share Purchase Plan, refer to Note 23.

The Company had no potentially dilutive instruments at December 31, 2022 or December 31, 2021.

19. Dividends

On February 23, 2023, the Board declared a quarterly regular cash dividend of $0.36 per share to be paid on March 31, 2023 to shareholders of record as of March 15, 2023.

20. Net Gain (Loss) on Securities

Years Ended December 31		2022		2021
Net realized gain (loss) on marketable securities	$	(1,786)	$	3,845
Net unrealized gain (loss) on marketable securities		(10,297)		10,918
Net unrealized gain (loss) on non-marketable securities		9		—
	$	**(12,074)**	**$**	**14,763**

For the year ended December 31, 2022, proceeds from disposition in the Company's REIT portfolio were $4,365 (2021 - $16,617), resulting in a $1,786 realized loss (2021 - $3,845 realized gain). During 2022, the realized loss related to one REIT that had a mandatory corporate action resulting in privatization.

(Dollar amounts in thousands except for per share amounts)

21. Mortgage Expenses

Corporate assets

Years Ended December 31	2022	2021
Mortgage servicing expense	$ 4,877	$ 3,695
Letter of credit expense	748	776
Other mortgage expenses	712	798
	$ 6,337	**$ 5,269**

Letter of credit expense relates to outstanding letters of credit under the Company's credit facility, discussed in Note 24.

Securitization assets

At December 31, 2022, mortgage expenses associated with securitization assets of $4,084 (2021 - $3,396) consist primarily of mortgage servicing expenses.

22. Provision for (Recovery of) Credit Losses

Years Ended December 31	Note	2022	2021
Corporate portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	7	$ (1,274)	$ 1,041
Stage 2 - provisions for (recoveries of) performing mortgages	7	189	(453)
Stage 3 - provisions for (recoveries of) impaired mortgages	7	21	(108)
Provision for (recovery of) credit losses		**(1,064)**	**480**
Securitized portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	12	(5)	(18)
Stage 2 - provisions for (recoveries of) performing mortgages	12	—	(2)
Recovery of credit losses		**$ (5)**	**$ (20)**

23. Related Party Disclosures

Transactions with MCAP

In 2022, the Company entered into related party transactions with MCAP as follows:

- Purchase of mortgage origination and administration services of $6,176 (2021 - $5,014)
- Purchase of uninsured residential mortgages of $8,331 (2021 - $31,656)
- Purchase of construction loans of $154,962 (2021 - $41,383) and sale of construction loans at par of $155,799 (2021 - $45,690) with no gain or loss on sale.
- The Company has an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured residential mortgage commitments. The Company sold commitments of $227,949 (2021 - $76,179) under this agreement and received revenue of $2,535 (2021 - $853) recorded in interest on cash and other income on the consolidated statements of income.
- On November 3, 2021, the Company obtained a loan with reference to the fair value of a pool of insured residential mortgages from MCAP Securities Limited Partnership. At December 31, 2021, the carrying value of the loan payable was $41,205. On January 27, 2022, the Company settled the loan with MCAP Securities Limited Partnership at the same referenced fair value price of the same pool of insured residential mortgages. Interest on the loan is included in interest on loans payable on the consolidated statements of income.

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

Compensation

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

(Dollar amounts in thousands except for per share amounts)

The compensation of key management personnel is as follows:

Years Ended December 31		**2022**		**2021**
Short term employee benefits (salaries, benefits and director fees)	$	5,903	$	4,674
Share-based payments (RSU, PSU)		974		800
	$	**6,877**	**$**	**5,474**

Executive Share Purchase Plan

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

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions; 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan. The granting of awards under the Share Purchase Plan may only be done before a black-out period begins or after the sixth day following the end of a black-out period.

At December 31, 2022, $2,276 of loans were outstanding under the Share Purchase Plan (December 31, 2021 - $2,088). During 2022, the Company advanced new loans under the Share Purchase Plan of $415 (2021 - $788). The loans under the Share Purchase Plan bore interest at 7.45% at December 31, 2022 (December 31, 2021 - 3.45%) which represents prime plus 1% and have a five-year term. The shares are pledged as security for the loans and had a fair value of $2,617 at December 31, 2022 (December 31, 2021 - $2,962). In 2022, MCAN recognized $105 of interest income (2021 - $66) on the Share Purchase Plan loans.

Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan whereby employees can elect to purchase common shares of the Company up to 6% of their annual earnings. The Company matches 50% of each employee's contribution amount. During each pay period, all contributions are used by the plan's trustee to purchase the common shares in the open market. The common shares acquired with the Company's contributions fully vest immediately. The Company's contributions are expensed as paid and totalled $199 for 2022 (2021 - $191).

Share Unit Plans

Deferred Share Units Plan

The Company has a Deferred Share Units Plan (the "DSU Plan") whereby the Board grants units under the DSU Plan to certain members of senior management of the Company (the "DSU Participants"). Each unit is equivalent in value to one common share of the Company. The DSU Participants are entitled to receive cash for each unit following their individual retirement or termination dates, whichever is earlier. The individual unit values are based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. During 2022 and 2021, there were no DSU Plan units outstanding.

Restricted Share Units Plan

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

During 2022, the Company paid the RSU Participants $634 (2021 - $37) upon vesting of 32,697 RSU Plan units (2021 - 2,135 units).

Performance Share Units Plan

The Company has established a Performance Share Units Plan (the "PSU Plan") whereby the Board grants units under the PSU Plan to certain members of senior management of the Company (the "PSU Participants"). Each unit is equivalent in value to one common share of the Company. Issuances prior to 2019 vest three years subsequent to the awarding of the units subject to continued employment with the Company. Units issued in 2019 and thereafter vest annually over a three year period, however these units are not payable until three years from the issuance date. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the PSU Participants are entitled to receive dividend distributions in the form of additional units. At the time of vesting, a "Performance Factor" of 0-200% is applied to the number of units awarded which is based on earnings per share and other performance metrics in the years subsequent to the grant date.

(Dollar amounts in thousands except for per share amounts)

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

During 2022, the Company paid the PSU Participants $696 (2021 - $nil) upon vesting of 31,322 PSU Plan units (2021 - 9,743). At December 31, 2022 and 2021, the Company recorded a liability on all outstanding units as it expected to payout on these units.

Activity related to the RSU Plan and PSU Plan is as follows:

At December 31	2022		2021	
	RSU	PSU	RSU	PSU
Units outstanding, beginning of year	102,440	86,280	78,314	70,290
New units granted	32,808	41,799	29,813	29,863
Units issued as dividends	12,792	11,676	10,898	8,863
Units vested	(32,697)	(31,322)	(2,135)	(9,743)
Units forfeited	(10,349)	(8,093)	(14,450)	(12,993)
Units outstanding, end of year	**104,994**	**100,340**	**102,440**	**86,280**
Compensation expense for the year	$ 524	$ 313	$ 555	$ 648
Outstanding liability, end of year	$ 940	$ 883	$ 1,004	$ 1,182

24. Credit Facilities

On April 13, 2022, the Company revised and increased its facility from a Canadian Schedule I Chartered bank to be a secured demand revolver facility bearing interest at prime plus 0.25% (December 31, 2021 - prime plus 0.75%), with a facility limit of $220,000 (December 31, 2021 - $120,000). The facility is due and payable upon demand. At December 31, 2022, the outstanding loan principal payable was $nil (December 31, 2021 - $10,046).

Under the facility, there is a sublimit for issued letters of credit. Letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case the Company is obligated to fund the letters of credit. At December 31, 2022, there were letters of credit in the amount of $47,988 issued (December 31, 2021 - $45,564) and additional letters of credit in the amount of $25,965 committed but not issued (December 31, 2021 - $11,795).

The Company has an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, the Company may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing. At December 31, 2022, the outstanding facility balance was $nil (December 31, 2021 - $nil).

The Company has a demand loan credit agreement with a Canadian Schedule I Chartered bank for a $100,000 senior secured mortgage warehouse facility (December 31, 2021 - $50,000) at either prime plus 0.05% or bankers' acceptance rate plus 1.05%. The facility is used to fund insured residential mortgages prior to securitization activities. At December 31, 2022, the outstanding loan principal payable was $6,370 (December 31, 2021 - $47,290).

(Dollar amounts in thousands except for per share amounts)

25. Capital Management

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

For further information, refer to the "Capital Management" section of the MD&A.

Regulatory capital

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. For this purpose, OSFI has imposed minimum capital to risk-weighted asset ratios and a minimum leverage ratio. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% common equity tier 1 capital, 8.5% tier 1 capital and 10.5% total capital.

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

At December 31	2022	2021
Regulatory ratios (OSFI)		
Share capital	$ 389,986	$ 315,339
Contributed surplus	510	510
Retained earnings	98,990	117,409
Cash flow hedge reserve	(176)	—
Deduction for equity investment in MCAP [1]	(57,201)	(52,734)
Eligible stage 1 and stage 2 allowances [3]	357	1,258
Common Equity Tier 1 and Tier 1 Capital [3] (A)	**432,466**	**381,782**
Tier 2 Capital [3]	5,192	5,381
Total Capital [3]	**$ 437,658**	**$ 387,163**
Total exposures/Regulatory assets		
Consolidated assets	$ 4,078,676	$ 3,808,070
Less: deduction for equity investment in MCAP [1]	(57,201)	(52,734)
Other adjustments [2]	2,994	1,760
Total on-balance sheet exposures	**4,024,469**	**3,757,096**
Mortgage and investment funding commitments	704,139	558,511
Less: conversion to credit equivalent amount (50%)	(352,070)	(279,256)
Letters of credit	47,988	45,564
Less: conversion to credit equivalent amount (50%)	(23,994)	(22,782)
Off-balance sheet items	**376,063**	**302,037**
Total exposures/Regulatory assets (B)	**$ 4,400,532**	**$ 4,059,133**
Leverage ratio (A / B)	**9.83%**	**9.41%**

[1] The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 allowances.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.
[3] Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.

Income tax capital

As a MIC under the Tax Act, the Company is limited to an income tax liabilities to capital ratio of 5:1 (or an income tax assets to capital ratio of 6:1), based on the non-consolidated balance sheet in the MIC entity measured at its tax value. For further information on the Company's income tax capital management, refer to the "Income Tax Capital" sub-section of the "Capital Management" section of the MD&A.

Other Capital Management Activity

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

26. Financial Instruments

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

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

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

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

There were no transfers between levels during the years ended December 31, 2022 and 2021.

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

(Dollar amounts in thousands except for per share amounts)

At December 31, 2022	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 53,743	$ —	$ —	$ 53,743	$ 53,743
Non-marketable securities - KSHYF [1]	—	—	52,642	52,642	52,642
Non-marketable securities - Securitization Notes [2]	—	—	1,022	1,022	1,022
Non-marketable securities - TAS [9]	—	—	8,714	8,714	8,714
Non-marketable securities - KSSMF [1]	—	—	9,462	9,462	9,462
Non-marketable securities - TAS Co [9]	—	—	3,750	3,750	3,750
Non-marketable securities - Crown [8]	—	—	8,962	8,962	8,962
Non-marketable securities - Pearl [9]	—	—	1,745	1,745	1,745
Non-marketable securities - TAS 4 [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Broccolini [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Fiera [8]	—	—	3,806	3,806	3,806
Non-marketable securities - Harbour [8]	—	—	2,325	2,325	2,325
	$ 53,743	**$ —**	**$ 97,228**	**$ 150,971**	**$ 150,971**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 78,210	$ —	$ —	$ 78,210	$ 78,210
Mortgages - corporate [3]	—	—	1,939,615	1,939,615	1,939,494
Other assets - other loans [4]	—	—	2,276	2,276	2,276
Securitization program cash held in trust	34,531	—	—	34,531	34,531
Mortgages - securitized [3]	—	—	1,675,759	1,675,759	1,751,303
	$ 112,741	**$ —**	**$ 3,617,650**	**$ 3,730,391**	**$ 3,805,814**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,792,257	$ 1,792,257	$ 1,819,830
Demand loans payable [5]	—	—	6,532	6,532	6,532
Other liabilities - corporate [5]	—	—	22,616	22,616	22,616
Financial liabilities from securitization [7]	—	—	1,641,692	1,641,692	1,740,388
	$ —	**$ —**	**$ 3,463,097**	**$ 3,463,097**	**$ 3,589,366**

(Dollar amounts in thousands except for per share amounts)

At December 31, 2021	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 62,693	$ —	$ —	$ 62,693	$ 62,693
Non-marketable securities - KSHYF [1]	—	—	44,595	44,595	44,595
Non-marketable securities - Securitization Notes [2]	—	—	6,449	6,449	6,449
Non-marketable securities - TAS [8]	—	—	5,371	5,371	5,371
Non-marketable securities - KSSMF [1]	—	—	4,125	4,125	4,125
Non-marketable securities - TAS Co [8]	—	—	2,875	2,875	2,875
Non-marketable securities - Pearl [8]	—	—	1,531	1,531	1,531
	$ 62,693	**$ —**	**$ 64,946**	**$ 127,639**	**$ 127,639**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 122,269	$ —	$ —	$ 122,269	$ 122,269
Mortgages - corporate [3]	—	—	1,809,656	1,809,656	1,806,146
Other assets - other loans [4]	—	—	2,685	2,685	2,685
Securitization program cash held in trust	53,148	—	—	53,148	53,148
Mortgages - securitized [3]	—	—	1,603,120	1,603,120	1,583,697
	$ 175,417	**$ —**	**$ 3,415,461**	**$ 3,590,878**	**$ 3,567,945**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,661,368	$ 1,661,368	$ 1,660,992
Other loan payable to MCAP Securities Limited Partnership [5]	—	—	41,205	41,205	41,205
Demand loan payable [6]	—	—	57,340	57,340	57,340
Other liabilities - corporate [5]	—	—	21,134	21,134	21,134
Financial liabilities from securitization [7]	—	—	1,579,812	1,579,812	1,594,141
	$ —	**$ —**	**$ 3,360,859**	**$ 3,360,859**	**$ 3,374,812**

[1] *Fair value is based on the redemption value.*
[2] *Fair value of investment in securitized notes is determined by discounting the expected future cash flows of the future fee income from the renewals of a securitized insured mortgage portfolio. The significant unobservable input is the discount rate.*
[3] *Fair value of corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For insured adjustable rate residential mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as Level 3 given the fact that although many of the inputs to the valuation models used are observable, non-observable inputs include the discount rate and the assumed level of prepayments.*
[4] *Fair value is assumed to be the carrying value as underlying loans are variable rate.*
[5] *The carrying value of the asset/liability approximates fair value.*
[6] *As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.*
[7] *Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.*
[8] *Fair value based on recent transaction price.*
[9] *Fair value based on the net asset value of the underlying partnerships.*

The following table shows the continuity of Level 3 financial assets measured at FVPL:

At December 31	2022	2021
Balance, beginning of year	$ 64,946	$ 56,117
Advances / Purchases	40,382	14,913
Repayments / Dispositions	(8,109)	(6,084)
Changes in fair value, recognized in net income	9	—
Balance, end of year	**$ 97,228**	**$ 64,946**

Risk management

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

27. Commitments and Contingencies

For the nature of the Company's commitments and contingencies, please refer to the shaded sections of the "Off-Balance Sheet Arrangements" section of the MD&A. The shaded section of the MD&A relating to off-balance sheet arrangements forms an integral part of these consolidated financial statements.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

Bonnie Agostinho
Chief Information Officer, Canadian Tire Financial Services
Member of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2022

Brian Chu
Founding Partner, Bogart Robertson & Chu LLP
Member of Conduct Review, Corporate Governance and Human Resources Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2021

John Coke
Corporate Director, MCAN
Member of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2021

Glenn Doré
President, Teff Administration Inc.
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2020

Philip Gillin
Corporate Director, MCAN
Member of Audit Committee
Chair of Enterprise Risk Management and Compliance Committee
Director since May 2020

Gordon Herridge
Corporate Director, MCAN
Chair of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2018

Gaelen Morphet
President, Morphet Family Wealth Advisors Inc.
Chair of Conduct Review, Corporate Governance and Human Resources Committee
Member of Enterprise Risk Management and Compliance Committee
Director since January 2018

Derek Sutherland
Chair of the Board, MCAN
President, Canadazil Capital Inc.
Director since May 2017

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

EXECUTIVE OFFICERS

Karen Weaver
President and Chief Executive Officer

Floriana Cipollone
Senior Vice President and Chief Financial Officer

Avish Buck
Senior Vice President and Chief Operating Officer

Carl Brown
Senior Vice President, Investments & Corporate Development

Aaron Corr
Vice President and Chief Risk Officer

Michelle Liotta
Vice President, Human Resources

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

Sylvia Pinto
Vice President, Corporate Secretary & Governance Officer

Paul Gill
Vice President, Information Technology

Nazeera Khan
Vice President and Chief Audit Officer

Alysha Rahim
Vice President, Finance

Peter Ryan
Vice President, Controller

Justin Silva
Vice President, Treasurer

CORPORATE INFORMATION

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Stock Listing
Toronto Stock Exchange
Symbol: MKP

Registrar and Transfer Agent
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100 University Avenue, 9th Floor
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Websites
www.mcanfinancial.com

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

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

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

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

Report Copies
This MCAN Mortgage Corporation 2022 Annual Report is available for viewing/printing on our website at www.mcanfinancial.com, and also on SEDAR at www.sedar.com.

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

Annual and Special Meeting of Shareholders
Tuesday, May 9, 2023
4:30pm (Toronto time)
All shareholders and prospective investors are invited to attend.

INVESTING IN COMMUNITIES AND HOMES FOR CANADIANS

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