MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND

ANALYSIS OF OPERATIONS

DECEMBER 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes at December 31, 2021 and December 31, 2020 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 22, 2022.

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

TABLE OF CONTENTS - MD&A

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

The COVID-19 pandemic has 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, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. The duration, extent and severity of the impact the COVID-19 pandemic or any further 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 risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2021, 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

Figure 1: MCAN-at-a-Glance (at and for the year ended December 31, 2021)

$3.8 billion
TOTAL ASSETS

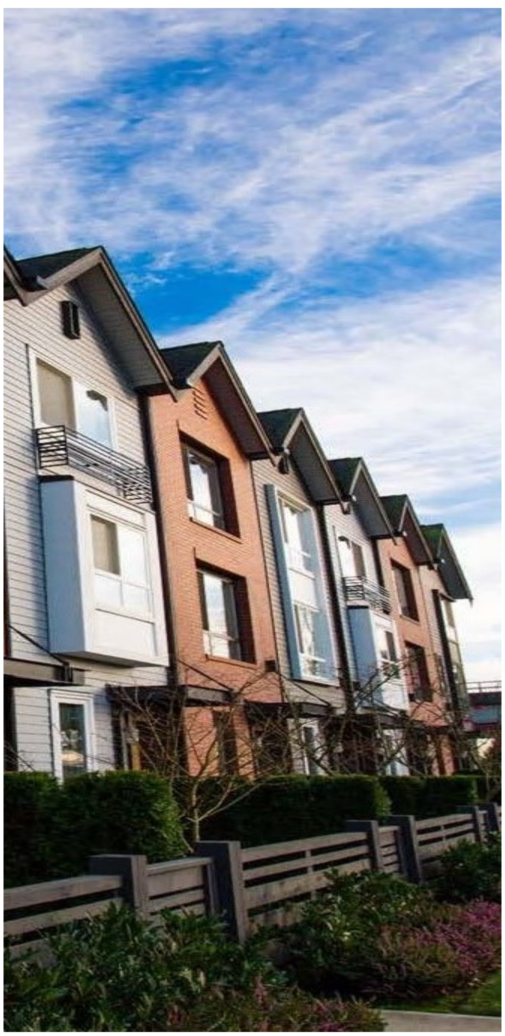
$510 million
MARKET CAPITALIZATION

31%
MARKET CAPITALIZATION INCREASE YEAR-OVER-YEAR

Residential Single-Family Lending
$783 million total uninsured portfolio
$1.6 billion total insured securitized portfolio
$575 million total uninsured originations
$801 million total insured originations

Commercial and Construction Lending
$777 million total portfolio
$728 million total originations

2021 HIGHLIGHTS



$64.4 million
NET INCOME (50% GROWTH FROM 2020)

$2.40
EARNINGS PER SHARE

16.86%
RETURN ON AVERAGE SHAREHOLDERS' EQUITY[1]

39%
CORPORATE ASSET GROWTH

$2.21
DIVIDENDS PER SHARE

- *29 year track record of dividend distribution*
- *Cash dividends of $1.36 per share in 2021 and a special stock dividend of $0.85 per share paid in Q1 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.*

Table 1: Financial Statement Highlights - Annual

(in thousands except per share amounts, % and where indicated)	2021	2020	Change (%)	2019	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 85,446	$ 60,294	42%	$ 64,943	32%
Net investment income - securitization assets	$ 5,966	$ 4,033	48%	$ 3,994	49%
Net income	$ 64,362	$ 42,893	50%	$ 48,294	33%
Basic and diluted earnings per share	$ 2.40	$ 1.75	37%	$ 2.01	19%
Dividends per share - cash	$ 1.36	$ 1.36	—%	$ 1.28	6%
Dividends per share - stock	$ 0.85	$ —	n/a	$ —	n/a
Next quarter's dividend per share - cash	$ 0.36				
Next quarter's dividend per share - stock	$ 0.97				
Return on average shareholders' equity [1]	16.86 %	13.13 %	3.73%	15.11 %	1.75%
Taxable income per share [2]	$ 2.63	$ 2.45	7%	$ 1.36	93%
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	2.80 %	2.62 %	0.18%	2.62 %	0.18%
Spread of securitized mortgages over liabilities [1]	0.70 %	0.71 %	(0.01%)	0.71 %	(0.01%)
Average term to maturity (in months)					
Mortgages - corporate	13.0	14.2	(8%)	10.7	21%
Term deposits	18.5	18.3	1%	18.4	1%
Balance Sheet Highlights					
Total assets	$ 3,808,070	$ 2,728,715	40%	$ 2,179,341	75%
Mortgages - corporate	$ 1,806,146	$ 1,252,762	44%	$ 1,089,401	66%
Mortgages - securitized	$ 1,583,697	$ 1,135,745	39%	$ 784,296	102%
Total liabilities	$ 3,374,812	$ 2,382,203	42%	$ 1,849,029	83%
Shareholders' equity	$ 433,258	$ 346,512	25%	$ 330,312	31%
Capital Ratios					
Income tax assets to capital ratio [2]	5.29	5.09	4%	4.93	7%
CET 1 & Tier 1 capital ratio [4]	20.26 %	21.67 %	(1.41%)	22.52 %	(2.26%)
Total capital ratio [4]	20.54 %	22.02 %	(1.48%)	22.52 %	(1.98%)
Leverage ratio [3]	9.41 %	10.17 %	(0.76%)	12.58 %	(3.17%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	0.05 %	0.30 %	(0.25%)	0.32 %	(0.27%)
Impaired mortgage ratio (total) [1]	0.03 %	0.18 %	(0.15%)	0.23 %	(0.20%)
Mortgage Arrears					
Corporate	$ 10,826	$ 24,288	(55%)	$ 12,161	(11%)
Securitized	4,865	5,660	(14%)	3,750	30%
Total	$ 15,691	$ 29,948	(48%)	$ 15,911	(1%)
Common Share Information (end of period)					
Number of common shares outstanding	29,621	24,727	20%	24,215	22%
Book value per common share [1]	$ 14.63	$ 14.01	4%	$ 13.64	7%
Common share price - close	$ 17.23	$ 15.77	9%	$ 17.10	1%
Market capitalization ($ million)	$ 510	$ 390	31%	$ 414	23%

[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 - Quarter

(in thousands except per share amounts, % and where indicated)	Q4/21	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20
Income Statement Highlights								
Net investment income (loss) - corporate assets	$21,875	$18,976	$24,390	$20,205	$25,704	$26,963	$12,649	$(5,022)
Net investment income - securitization assets	$ 1,408	$ 1,443	$ 1,570	$ 1,545	$ 1,694	$ 1,149	$ 389	$ 801
Net income (loss)	$16,070	$12,990	$19,378	$15,924	$22,086	$22,741	$ 7,796	$(9,730)
Basic and diluted earnings (loss) per share	$ 0.57	$ 0.47	$ 0.73	$ 0.64	$ 0.89	$ 0.92	$ 0.32	$ (0.40)
Dividends per share - cash	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ 0.85	$ —	$ —	$ —	$ —
Return on average shareholders' equity [1]	15.39 %	13.22 %	21.28 %	18.15 %	25.92 %	28.04 %	9.96 %	(11.84)%
Taxable income per share [2]	$ 0.32	$ 0.57	$ 0.89	$ 0.85	$ 1.05	$ 0.48	$ 0.21	$ 0.71
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	2.70 %	2.77 %	2.89 %	2.76 %	2.76 %	2.63 %	2.48 %	2.62 %
Spread of securitized mortgages over liabilities [1]	0.62 %	0.65 %	0.72 %	0.81 %	0.89 %	0.81 %	0.44 %	0.63 %
Average term to maturity (in months)								
Mortgages - corporate	13.0	13.9	12.8	13.7	14.2	13.5	12.3	12.2
Term deposits	18.5	19.9	19.6	17.7	18.3	19.2	18.7	17.0
Balance Sheet Highlights ($ million)								
Total assets	$ 3,808	$ 3,604	$ 3,305	$ 2,977	$ 2,729	$ 2,566	$ 2,248	$ 2,212
Mortgages - corporate	$ 1,806	$ 1,657	$ 1,401	$ 1,287	$ 1,253	$ 1,310	$ 1,119	$ 1,188
Mortgages - securitized	$ 1,584	$ 1,531	$ 1,435	$ 1,327	$ 1,136	$ 961	$ 812	$ 752
Total liabilities	$ 3,375	$ 3,210	$ 2,916	$ 2,620	$ 2,382	$ 2,233	$ 1,931	$ 1,897
Shareholders' equity	$ 433	$ 394	$ 389	$ 357	$ 347	$ 333	$ 317	$ 315
Capital Ratios								
Income tax assets to capital ratio [2]	5.29	5.50	5.05	5.05	5.09	5.44	4.95	5.03
CET 1 & Tier 1 capital ratios [4]	20.26 %	19.45 %	21.91 %	21.65 %	21.67 %	20.45 %	23.01 %	21.80 %
Total capital ratio [4]	20.54 %	19.73 %	22.24 %	22.02 %	22.02 %	20.80 %	23.40 %	22.17 %
Leverage ratio [3]	9.41 %	8.86 %	9.59 %	9.69 %	10.17 %	10.26 %	11.46 %	11.70 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	0.05 %	0.06 %	0.11 %	1.10 %	0.30 %	0.27 %	1.26 %	0.39 %
Impaired mortgage ratio (total) [1]	0.03 %	0.04 %	0.07 %	0.55 %	0.18 %	0.17 %	0.77 %	0.28 %
Mortgage Arrears								
Corporate	$10,826	$ 8,794	$ 8,968	$26,514	$24,288	$10,229	$36,083	$31,289
Securitized	4,865	3,818	7,359	4,710	5,660	3,522	4,005	5,016
Total	$15,691	$12,612	$16,327	$31,224	$29,948	$13,751	$40,088	$36,305
Common Share Information (end of period)								
Number of common shares outstanding	29,621	27,646	27,560	26,135	24,727	24,727	24,621	24,420
Book value of common share [1]	$ 14.63	$ 14.26	$ 14.13	$ 13.65	$ 14.01	$ 13.46	$ 12.88	$ 12.90
Common share price - close	$ 17.23	$ 18.00	$ 17.29	$ 16.46	$ 15.77	$ 13.41	$ 12.65	$ 12.18
Market capitalization ($ million)	$ 510	$ 498	$ 477	$ 430	$ 390	$ 332	$ 311	$ 297

[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.*

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Financial Statement Highlights - Annual Trends

For 2021 compared to 2020, our net income was positively impacted by growth in our mortgage portfolios as well as mark-to-market unrealized gains on our REIT portfolio compared to unrealized 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.

For 2020 compared to 2019, our net income was negatively impacted by a large mark-to-market adjustment to our REIT portfolio in March 2020 and higher provisions recorded for credit losses as a result of the pandemic and uncertain economic environment. Our investment in MCAP partially offset these impacts to our 2020 income results. Our corporate and securitized assets were higher in 2020 compared to 2019 due to high origination volumes in all our portfolios.

Taxable income was much higher in 2021 and 2020 compared to 2019, mainly due to higher taxable income from MCAP. 2021 was also impacted by higher core business income. As a result of this increase in taxable income in 2021, the Board declared a $0.97 per share special stock dividend on February 22, 2022, to be paid March 31, 2022 to shareholders of record as of March 15, 2022, in order to distribute all of MCAN's taxable income, net of loss carryforwards used. In 2021, as a result of the higher 2020 taxable income, an $0.85 per share special stock dividend was paid on March 31, 2021.

Financial Statement Highlights - Quarterly Trends

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

The corporate portfolio mix during the past 8 quarters shifted towards single family mortgages amidst COVID-19 and a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. In Q2 2020, the combination of these factors as well as market disruption experienced in the term deposit market due to COVID-19 contributed to the decrease in the spread of corporate mortgages over term deposit interest and expenses. In late 2020, term deposit funding and related costs began to decrease through this period and we have seen an increase in the spread of corporate mortgages over term deposit interest and expenses since then. In Q4 2021, continued market competition has kept mortgage rates compressed in our single family portfolio.

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

Capital ratios have remained relatively steady across the previous quarters as our tax-adjusted and risk-weighted assets have generally aligned with our capital base. The downward trend in our leverage ratio is driven by our growing assets, including securitization assets, and commitments compared to a slower moving capital base. The Company successfully initiated two capital raises by way of rights offerings in June and December 2021. These two offerings raised $53.1 million of capital.

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

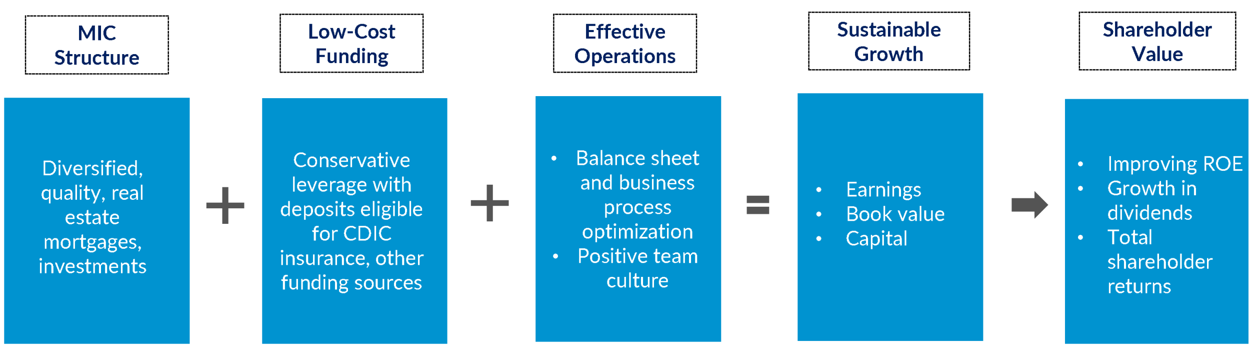
BUSINESS OVERVIEW AND STRATEGY

MCAN's (TSX: MKP) purpose is to provide sustainable growth and returns for all our shareholders. We do this 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 single family residential lending, residential construction lending, non-residential construction and commercial lending, real estate investments trusts ("REITs") investing, as well as strategic private investments in (i) MCAP Commercial LP ("MCAP") (Canada's largest independent mortgage finance company) 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 structure as a flow-through Mortgage Investment Corporation ("MIC") means that we are not taxed at the corporate level and we distribute all of our taxable earnings annually. It also means that 67% of our non-consolidated tax assets are to be held in residential mortgages and cash.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation ("XMC"), is the originator of our single family residential mortgage products across Canada.

MCAN's business model provides focused investing in products and markets where we have extensive expertise and that aren't generally accessible to our shareholders, to generate attractive financial returns. We employ leverage by issuing term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance and are sourced through a network of independent financial agents.

Figure 2: Business Model



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

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

We have made significant strides over the last several years to grow our business and achieve our long-term objectives. Comparing the fiscal year ending December 31, 2021 to December 31, 2018, we have:

- Increased our corporate mortgage portfolio by 96% to $1.8 billion from $922.4 million;
- Increased our corporate assets by 77% to $2.2 billion from $1.2 billion;
- Increased our net income by 77% to $64.4 million from $36.3 million;
- Increased our total dividend distributions (both cash and stock) by 55% to $2.21 per share from $1.43 per share; and
- Increased our ROE[1] to 16.86% from 11.90%.

Our 2021 Strategic Priorities

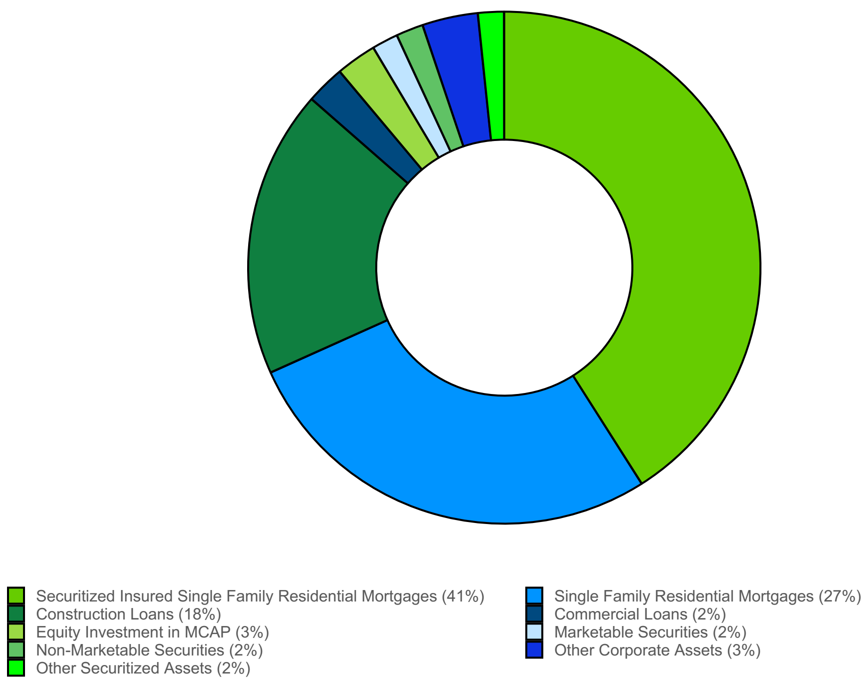
In 2021, our strategic priorities included:

Strategic Priorities	Results
Grow and diversify our portfolio of investments	• We have grown our corporate assets 39% since last year, particularly within higher yielding uninsured single family mortgages and residential construction loans. • We have added 4 new private partnership investments in our non-marketable securities portfolio and invested $14.1 million during the year to this portfolio with $19.4 million of future commitments.
Expand our funding sources and capital	• In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50 million senior secured mortgage warehouse facility. The facility is used to fund insured single family mortgages prior to securitization activities and it provides improved funding in response to our continued growth. • We completed two successful rights offering in June and December 2021, which raised $53.1 million of capital to fund the growth of our business. Both offerings were oversubscribed. • In August 2021, we filed a Base Shelf prospectus that will allow us to make public offerings of debt or equity securities of up to $400 million during a 25 month period. • In October 2021, the Company filed a Prospectus Supplement to the Base Shelf prospectus establishing an at-the-market equity program ("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.
Investments in technology	• All applications and infrastructure have been migrated to the cloud. • Invested in new technology applications to enhance efficiency, service and cybersecurity capabilities.
Improve customer and partner relations	• Won 2 Canadian Mortgage Professionals 5-Star Mortgage Products Awards: ◦ 5-Star Excellence in Service category winner; and ◦ Uninsured Mortgage Products category winner. • Recognized in 4 Canadian Mortgage Professionals Brokers on Lenders survey categories: ◦ Gold – Business development manager support; ◦ Silver – Broker support; ◦ Bronze – Overall top alternative lender; and ◦ Bronze - Satisfaction with credit policy.
Enhance people management and capabilities	• We became certified as a Great Place to Work®. • We were an honoree for Women Lead Here by the Report on Business Magazine for the second year in a row.

Our Investment Portfolio

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

Figure 3: Total Assets at December 31, 2021 of $3.8 billion



Single Family Residential Mortgage Lending ($2.6 billion at December 31, 2021)

We originate insured and uninsured residential single family 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 a strategy of securitizing our on-balance sheet insured residential mortgages, which are included in securitized insured single family residential mortgages above.

Construction Lending ($684 million at December 31, 2021)

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 ($93 million at December 31, 2021)

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 ($96 million at December 31, 2021)

We have a 13.94% equity interest in MCAP. MCAP is Canada's largest independent mortgage finance company with assets under management of $146 billion, serving many institutional investors and over 400,000 homeowners. This investment allows us to participate in the growth of MCAP and typically provides quarterly distributions on our investment which can be reinvested into other areas of our business.

Non-Marketable Securities ($65 million at December 31, 2021)

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 held for income and capital appreciation and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio.

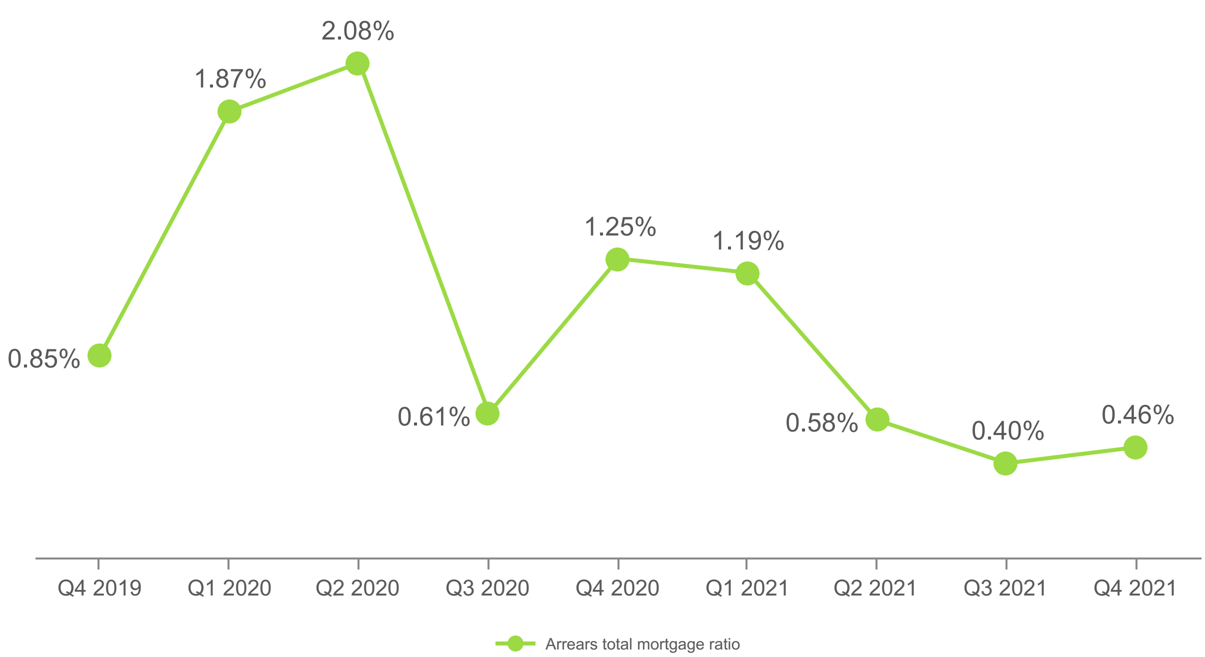
Marketable Securities ($63 million at December 31, 2021)

We have a diversified 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. This portfolio provides additional liquidity and diversification to our overall investment portfolio.

Our Loan Portfolio Quality

We have a quality loan portfolio, with minimal mortgages in arrears. The majority of single family 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.

Figure 4: Arrears Total Mortgage Ratio[1]

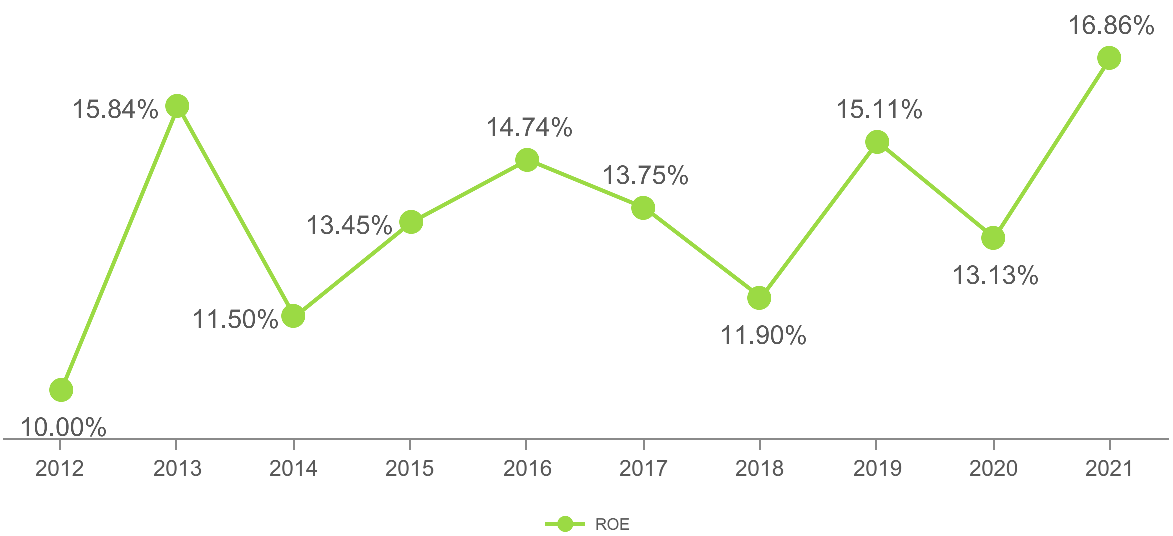


The two spikes relate to two construction loans, where asset recovery programs were initiated and successfully resulted in full recovery of past due amounts. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

Our Shareholder Returns

Return on average shareholders' equity 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. Total shareholder return[1] CAGR (Compound Annual Growth Rate) for 2021 (dividends plus share price appreciation) was almost 24% and for the last 5 years was 14%.

Figure 5: Historical ROE[1]

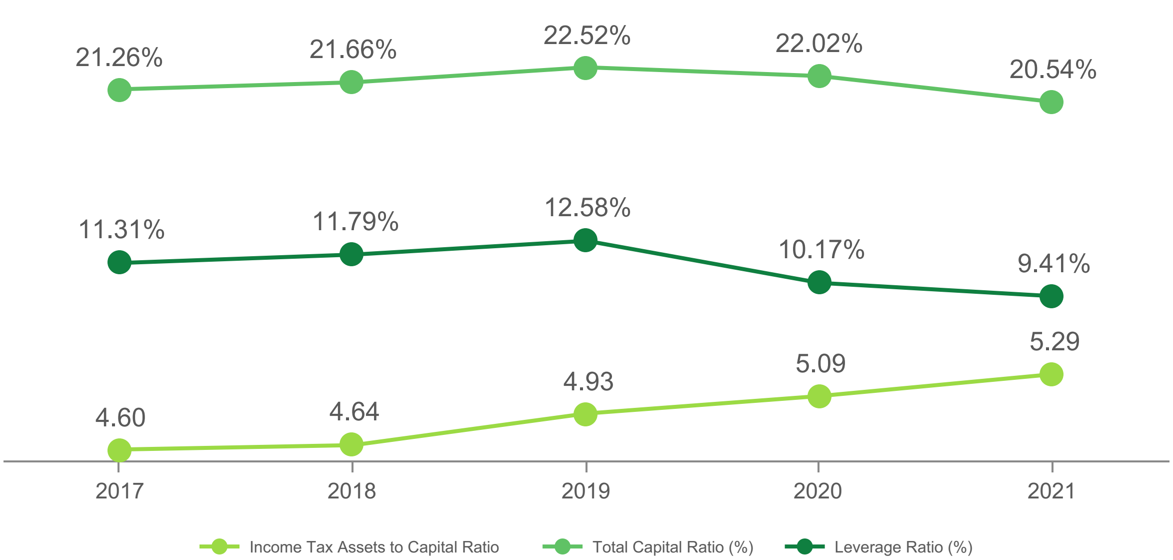


Our long-term objective is sustained 13-15% ROE. The nature of our investing activities may result in fluctuations in our ROE year to year. In the last 10 years, we have delivered an average ROE[1] of almost 14%.

Our Capital Strength

We manage our capital and asset balances based on the regulations and limits of the *Trust and Loan Companies Act* 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.

Figure 6: Historical Capital Ratios

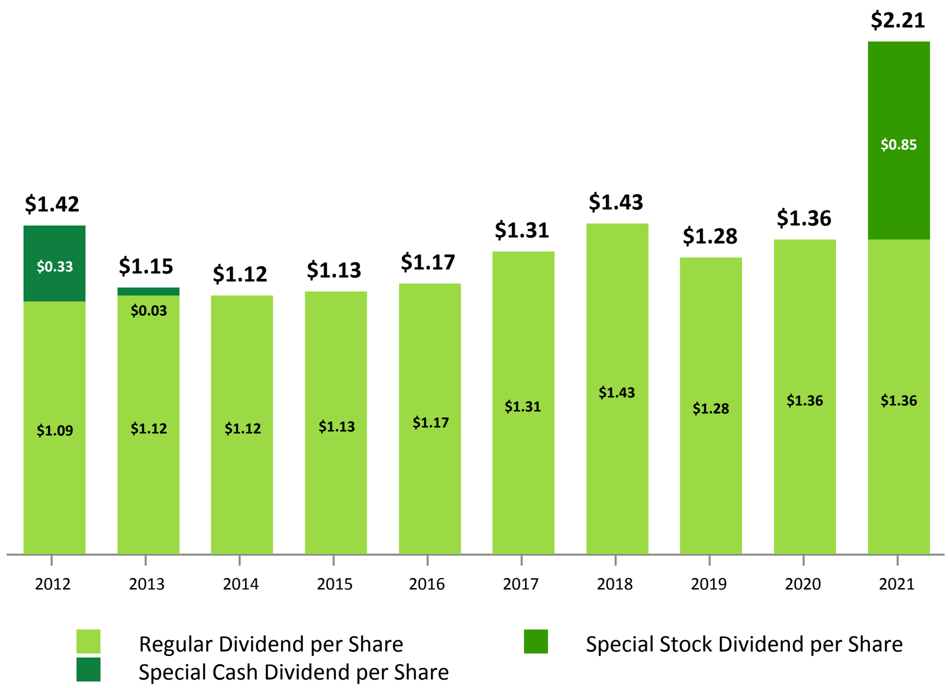


[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to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

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 expect to distribute special cash or stock dividends per our dividend policy. We have been paying regular dividends for the past 29 years.

Figure 7: Dividend History



In keeping with OSFI's announced lifting of the moratorium on increasing dividends, the Board declared a first quarter regular cash dividend of $0.36 per share (an increase of nearly 6% from quarterly levels since 2020). The Board also announced a first quarter special stock dividend of $0.97 per share reflecting the true up of our regular dividends to our taxable income for 2021.

Our ESG Highlights

MCAN's values and culture are rooted in our people, and we have been committed for many years to responsible environmental, social and governance practices with a focus on:

E	Providing single family residential loans using responsible underwriting and risk management practices that deal with climate risk on our portfolio and 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**
S	Cultivating a **highly capable, inclusive and diverse team**, whose foundation is backed by a set of comprehensive policies and programs to support team culture, career development, and community programs
G	**Strong governance and risk culture** aligned with being a public company and a regulated financial institution focused on our stakeholders, including our shareholders, customers, business partners and team members

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 infrastructure 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 this MD&A.

During 2021, we continued to build on our existing ESG foundation. The capital we provide for construction lending opportunities primarily focuses on residential development projects committed to reducing our environmental footprint and working with partners who are committed to responsible corporate citizenship. We continued to invest in learning and development opportunities for our team members and our support of various local charitable organizations. We also continued to support our team members as we navigated through the challenges of the COVID-19 pandemic, including sustaining a supportive work environment, allowing for a flexible working structure, and enhancing our wellness and benefits plans.

We are proud of our ESG journey to date. Some of our key achievements in 2021 are highlighted below:

Figure 8: 2021 ESG Achievements

E	S	G
>90% Percentage of total capital committed in our construction and commercial businesses that is focused on density development	**>90%** Employee engagement score in our 2021 annual team member survey	**87%** Percentage of Board members who are independent
$15 million Amount committed for investments in funds focused on affordable housing, connected neighbourhoods, and tackling climate change, and a commitment to increasing such future investments	**$35,000** Total monetary donations to our community and monetary support to employees through the pandemic	**100%** Fully independent Audit Committee, Conduct Review, Governance and HR Committee and Enterprise Risk Management and Compliance Committee
Commitment to reduce the environmental footprint of our operations, including supporting a hybrid working model and reducing energy use in our offices	**>70%** Percentage of employees who self-identify as a visible minority	**100%** Percentage of active employees who have attested to the Code of Conduct
Focus on working with partners that are committed to responsible corporate citizenship	Recognized by the Globe and Mail's 2021 Report on Business Women Lead Here list for gender diversity for the second straight year	**100%** Director attendance at Board meetings

OUTLOOK

We have positioned ourselves with a focus on growing our business and shareholder returns. We believe that our strategy will continue to serve us well through 2022. 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. This outlook is based on assumptions from sources we consider reliable including the big Canadian banks and industry regulators.

Economic Outlook

The end of 2021 brought the introduction of another new variant – Omicron - and the reintroduction of public health restrictions that have created some uncertainty and temporary setbacks on the road to recovery from the pandemic. That said, improved macro-economic conditions were already evident. For example, the Canadian unemployment rate fell to 5.9% in December, in line with what is considered a healthy labour market, and Canada's GDP growth grew in the last quarter of 2021. The Bank of Canada recently kept its overnight rate at 0.25%; however, inflation continues to be a concern, with the Bank of Canada forecasting inflation to average 4.2% in 2022. The Bank of Canada expects the economy to reach full capacity in the middle quarters of 2022, signaling the possibility of a rate hike as early as March or April. With macro-economic conditions improving and persisting inflation, we expect multiple forthcoming rate increases throughout 2022. We also believe that the continued easing of restrictions in 2022 will allow Canadians to spend more from the savings they have accumulated during the pandemic to help further stimulate the economy.

Housing Market Outlook

2021 was a record year for Canada's housing market, with housing resale activity surpassing the annual all-time high set in 2020, up 21%. Home prices also continued to increase significantly, underpinned by a chronic lack of supply particularly in urban markets. By the end of 2021, Canada's MLS Home Price Index was up a record 26.6% compared to the prior year. We believe that the supply-demand imbalance will continue to create an extremely tight market in 2022, which will continue providing upward pressure on home prices, particularly in and around certain markets like the Greater Toronto area, the Capital region and the Greater Vancouver area, three of our core markets. The lack of supply of 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, supply chain challenges, etc.) that limit how many homes can be built in the short-term. Rising interest rates may be a catalyst for additional demand in the first half of 2022 as home buyers advance their home-buying activity and lock in current low interest rates, but may provide some relief to cool demand somewhat by the latter half of 2022. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business. It is still unclear what programs or policies may be announced or come into effect. That said, any housing affordability policies implemented will take time to have an impact on the housing market and may in the short term stoke demand further depending on whether the measures are demand focused or supply focused. Higher interest rates will add additional pressure to housing affordability in Canada's major markets.

Business Outlook

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

Single Family Business

Our risk management, credit monitoring and assessment activities continue to remain critical in operating our business. We have a portfolio with a strong credit profile and minimal levels of arrears. Originations in 2021 were 50% higher than the same period last year, hitting a new record of $1.4 billion. Based on the housing market outlook, we expect to see increased origination volumes in our single family business in 2022, although the first quarter may be somewhat muted compared to the highs of 2021. Product preferences continue to shift, and we continue to pivot by adding new products. We recently launched a variable rate mortgage product that we expect will meet the current demands of our customers. Through all of the growth that we have achieved in our single family business, we have remained dedicated to continuously improving our service for our borrowers and the broker community. Our strength in service is indicated by our 2 Canadian Mortgage Professionals 5-Star Mortgage Products awards and being recognized in 4 categories in the Canadian Mortgage Professionals Brokers on Lenders survey. We plan to continue investing in our current and new systems and business infrastructure and look to add new lending products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers. Although gross rates have come up somewhat in the last few months, we continue to believe that competitive market conditions in the single family lending space will remain, thereby causing our overall spreads to remain tight. We will continue to keep abreast of the many changes in the market and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While there continues to be some construction site delays, our construction project finance loans are progressing forward to completion and without credit issues. Certain municipal staff inspections and approvals, supply chain and building material challenges, social distancing protocols, COVID-19 illnesses and workplace safety rules have been the cause of these delays, but with further easing of restrictions, not only in Canada but globally, we expect that some of these will become less of a constraint. The cost of construction has increased due to recent volatility in the cost of building materials. All of 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 outcome of project successes or loan performance.

As previously indicated, the Canadian housing market remains strong. We increased our year to date residential construction originations by 46% compared to last year, and currently our pipeline remains active. With our expectation of continued high demand for housing and a lack of supply, we expect to continue to see strong pipelines for our construction and commercial business, which we intend to focus on. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential product, near transit corridors, with experienced borrowers where we have existing relationships.

We will continue to focus on expanding and maturing our capital markets and other funding strategies in 2022 as we grow, an area that we made several strides in during 2021. We will also continue to invest in technology for efficient and effective operations. We saw tremendous growth in 2021 in all areas of our business and we are encouraged by the strength of our portfolio and the recovery in our marketable securities. We continue to invest in real estate based development and mortgage funds, that are expected to solidly perform and set MCAN up for future growth. MCAN's management and Board are committed to proactively and effectively managing and evolving the Company's strategy, business activities and team into the future. We will always invest in our greatest asset – our people. Our targeted annual growth in corporate assets over the long term is 10%. With the growth that we see in all of our lines of business and continued review of new funding sources, we think we are well positioned to support our targeted growth within our risk appetite in 2022.

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

HIGHLIGHTS

Q4 2021

- Net income totalled $16.1 million in Q4 2021, a decrease of $6 million (27%) from $22.1 million in Q4 2020. Results for the fourth quarter of 2021 were impacted by an expected decrease in equity income from MCAP related to non-recurring new contracts in the prior year, and lower unrealized gains on our REIT portfolio, partially offset by growth in our core business compared to the fourth quarter of 2020.

- Earnings per share totalled $0.57 in Q4 2021, a decrease of $0.32 (36%) from $0.89 earnings per share in Q4 2020.

- Return on average shareholders' equity[1] was 15.39% for Q4 2021 compared to 25.92% in Q4 2020.

- Net corporate mortgage spread income[1] increased by $2.9 million from Q4 2020. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from significantly higher mortgage originations partially offset by a reduction in the spread of corporate mortgages over term deposit interest and expenses. The decrease in the spread of corporate mortgages over term deposit interest and expenses is due to a larger reduction in mortgage rates compared to term deposit rates. The decline in our mortgage rate is primarily due to continued market competition which has kept rates compressed in our single family portfolio, as well as our portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans.

- Net securitized mortgage spread income[1] increased by $0.1 million from Q4 2020. The net securitized mortgage spread income increased due to a higher average securitized mortgage portfolio balance from significantly higher originations of insured single family mortgages partially offset by a decrease in the spread of securitized mortgages over liabilities. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly in 2021.

- Provision for credit losses on our corporate mortgage portfolio of $0.8 million in Q4 2021 was mainly due to growth in our portfolio.

- Equity income from MCAP totalled $6.2 million in Q4 2021, a decrease of $3.2 million (33%) from $9.4 million in Q4 2020, which was primarily due to (i) decreased mortgage origination and processing income as a result of lower net fees from lower mortgage spreads; and (ii) non-recurring new contracts in the prior year. This was partly offset by income from higher assets under management from growth in MCAP's portfolio.

- In Q4 2021, we recorded a $3.4 million net gain on securities compared to a $5.7 million net gain on securities in Q4 2020 as we continued to see a rebound in REIT prices amid optimism around the impending economic outlook in both periods, after an oversold market at the beginning of the pandemic. During Q4 2021, we took the opportunity to recycle capital by selling $16.6 million (Q4 2020 - $1.2 million) of REITs and realizing gains of $3.8 million (Q4 2020 - $0.3 million).

Year to Date 2021

- Net income totalled $64.4 million for 2021 year to date, an increase of $21.5 million (50%) from $42.9 million net income in 2020. Year to date 2021 results were impacted by unrealized fair value gains on our REIT portfolio compared to fair value losses at the onset of the pandemic, and growth in our core business partially offset by an expected decrease in equity income from MCAP.

- Earnings per share totalled $2.40 for 2021 year to date, an increase of $0.65 (37%) from $1.75 earnings per share in 2020.

- Return on average shareholders' equity[1] was 16.86% for 2021 compared to 13.13% in 2020.

- Net corporate mortgage spread income[1] increased by $8.3 million from 2020. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from higher 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 mainly due to a larger decrease in term deposit rates compared to mortgage rates during the year. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs in 2020. The reason for the decrease in mortgage rates is the same as described above for Q4 2021.

- Net securitized mortgage spread income[1] increased by $3.5 million from 2020. The net securitized mortgage spread income increased due to a higher average securitized mortgage portfolio balance from significantly higher originations of insured single family mortgages partly offset by a decrease in the spread of securitized mortgages over liabilities due to the same reason as described above for Q4 2021.

- Provision for credit losses on our corporate mortgage portfolio of $0.5 million year to date 2021 was due to growth in our portfolio, partly offset by improved economic forecasts as we start to make our way out of the pandemic. For year to date 2020, provision for credit losses of $2.1 million was due to the onset of COVID-19 and continued uncertainty.

- Equity income from MCAP totalled $25.5 million for 2021 year to date, a decrease of $8.5 million (25%) from $33.9 million in 2020. For 2021 year to date, the decrease is due to the same factors as for Q4 2021 mentioned above, except with partial offsets of higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio.

- Year to date net gain on securities was $14.8 million for 2021 compared to a year to date net loss on securities of $9.1 million for 2020. We saw a rebound in REIT prices in 2021 amid optimism around the impending economic outlook compared to an oversold market throughout most of 2020. Year to date sales and realized gains were the same as described above for Q4 2021.

Business Activity and Balance Sheet

- Corporate assets totalled $2.16 billion at December 31, 2021, a net increase of $143 million (7%) from September 30, 2021 and a net increase of $606 million (39%) from December 31, 2020.

- Corporate mortgage portfolio totalled $1.8 billion at December 31, 2021, a net increase of $149 million (9%) from September 30, 2021 and a net increase of $553 million (44%) from December 31, 2020.

- Uninsured single family portfolio totalled $783 million at December 31, 2021, a net increase of $70 million (10%) from September 30, 2021 and a net increase of $300 million (62%) from December 31, 2020.

- Uninsured single family originations totalled $575 million in 2021, an increase of $292 million (103%) from 2020. Uninsured single family originations were $159 million in the fourth quarter of 2021, an increase of $45 million (40%) from the fourth quarter of 2020.

- Insured single family originations totalled $801 million in 2021, which includes $76 million of commitments sold, an increase of $185 million (30%) from 2020. Insured single family originations were $166 million in the fourth quarter of 2021, which includes $11 million of commitments sold, a decrease of $51 million (24%) from the fourth quarter of 2020. Customer appetite for insured variable rate products increased during Q4 2021 which impacted our origination volumes; however, we introduced and we are originating an insured adjustable rate product in Q1 2022.

- Securitization volumes totalled $724 million in 2021, a decrease of $13 million (2%) from $736 million in 2020. Securitization volumes in 2021 consisted of $724 million of insured single family mortgages (2020 - $685 million) and $nil of insured multi family mortgages (2020 - $52 million). Securitization volumes were partially offset by mortgage maturities for a net increase in our securitized portfolio of 40% from 2020.

- Our construction and commercial portfolio totalled $777 million at December 31, 2021, a net increase of $37 million (5%) from September 30, 2021 and a net increase of $230 million (42%) from December 31, 2020. Our construction portfolio totalled $684 million at December 31, 2021, a net increase of $40 million (6%) from September 30, 2021 and a net increase of $198 million (41%) from December 31, 2020. In 2021, the movement in the portfolio is attributed to originations of $728 million in new construction and commercial mortgages, an increase of 46% from December 31, 2020, offset by maturities and repayments.

Dividend

- The Board declared a first quarter regular cash dividend of $0.36 per share (an increase of nearly 6% from last quarter) and a special stock dividend of $0.97 per share both to be paid March 31, 2022 to shareholders of record as of March 15, 2022. This increase to our regular dividend is reflective of OSFI's updated instruction on November 4, 2021, that all federally regulated institutions may again increase dividends. The first quarter special stock dividend represents the true up of our regular dividends to taxable income for 2021, net of loss carryforwards used. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we pay no income taxes at the corporate level. At this time, the Company does not expect to have taxable income per share greater than its regular cash dividends per share for 2022.

Credit Quality

- Impaired corporate mortgage ratio[1] was 0.05% at December 31, 2021 compared to 0.06% at September 30, 2021 and 0.30% at December 31, 2020.

- Impaired total mortgage ratio[1] was 0.03% at December 31, 2021 compared to 0.04% at September 30, 2021 and 0.18% at December 31, 2020.

- Arrears total mortgage ratio[1] was 0.46% at December 31, 2021 compared to 0.40% at September 30, 2021 and 1.25% at December 31, 2020. The increase in the arrears total mortgage ratio at December 31, 2020 was primarily due to one construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal. The arrears of this construction mortgage was not related to COVID-19. 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 $nil (0.0 basis point of the average corporate portfolio) in Q4 2021 compared to $32,000 (1.0 basis points) in Q4 2020; annual write-offs were $37,000 (0.3 basis points) in 2021 compared to $184,000 (1.5 basis point) in 2020. All write-offs relate to the uninsured single family mortgage portfolio.

- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 60.3% at December 31, 2021 compared to 59.3% at September 30, 2021 and 60.6% at December 31, 2020.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the Tax Act and OSFI.

- To support our continued growth and maintain our targeted capital requirements, we initiated two capital raises by way of rights offerings in June and December 2021, both of which were oversubscribed. These two offerings raised $53.1 million of capital.

- We issued $6.0 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in 2021 compared to $5.4 million in 2020. The DRIP participation rate was 16% for the 2021 fourth quarter dividend (2020 fourth quarter dividend - 17%). The DRIP participation rate for 2021 dividends was 17% (2020 - 17%).

- We issued $21.1 million in new common shares on March 31, 2021 for our 2021 first quarter special stock dividend to shareholders.

- The income tax assets to capital ratio[3] was 5.29 at December 31, 2021 compared to 5.50 at September 30, 2021 and 5.09 at December 31, 2020.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 20.26% at December 31, 2021 compared to 19.45% at September 30, 2021 and 21.67% at December 31, 2020. Total Capital to risk-weighted assets ratio[2] was 20.54% at December 31, 2021 compared to 19.73% at September 30, 2021 and 22.02% at December 31, 2020.

- The leverage ratio[2] was 9.41% at December 31, 2021 compared to 8.86% at September 30, 2021 and 10.17% at December 31, 2020.

[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 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 20,436	$ 19,072	7%	$ 17,115	19%	$ 71,823	$ 64,070	12%
Equity income from MCAP Commercial LP	6,246	5,606	11%	9,378	(33%)	25,453	33,918	(25%)
Non-marketable securities	1,519	1,549	(2%)	1,483	2%	5,828	5,908	(1%)
Marketable securities	837	938	(11%)	668	25%	3,502	2,430	44%
Fees	453	506	(10%)	691	(34%)	1,807	1,767	2%
Interest on cash and other income	186	93	100%	104	79%	472	611	(23%)
Net gain (loss) on securities	3,374	1,016	232%	5,702	(41%)	14,763	(9,091)	262%
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	—	n/a	326	33	888%
	33,051	**28,780**	**15%**	**35,141**	**(6%)**	**123,974**	**99,646**	**24%**
Term deposit interest and expenses	8,389	8,013	5%	7,918	6%	31,430	32,006	(2%)
Mortgage expenses	1,586	1,401	13%	1,300	22%	5,269	4,588	15%
Interest on loans payable	428	512	(16%)	199	115%	1,219	683	78%
Other financial expenses	5	—	n/a	—	n/a	130	—	n/a
Provision for (recovery of) credit losses	768	(122)	(730%)	20	3,740%	480	2,075	(77%)
	11,176	**9,804**	**14%**	**9,437**	**18%**	**38,528**	**39,352**	**(2%)**
	21,875	**18,976**	**15%**	**25,704**	**(15%)**	**85,446**	**60,294**	**42%**
Net Investment Income - Securitization Assets								
Mortgage interest	7,295	7,478	(2%)	6,461	13%	28,671	21,534	33%
Other securitization income	60	77	(22%)	112	(46%)	225	595	(62%)
	7,355	**7,555**	**(3%)**	**6,573**	**12%**	**28,896**	**22,129**	**31%**
Interest on financial liabilities from securitization	4,993	5,222	(4%)	4,232	18%	19,554	15,898	23%
Mortgage expenses	954	890	7%	637	50%	3,396	2,177	56%
Provision for (recovery of) credit losses	—	—	n/a	10	(100%)	(20)	21	(195%)
	5,947	**6,112**	**(3%)**	**4,879**	**22%**	**22,930**	**18,096**	**27%**
	1,408	**1,443**	**(2%)**	**1,694**	**(17%)**	**5,966**	**4,033**	**48%**
Operating Expenses								
Salaries and benefits	4,627	4,542	2%	4,509	3%	18,364	15,047	22%
General and administrative	2,416	1,946	24%	1,601	51%	9,083	6,631	37%
	7,043	**6,488**	**9%**	**6,110**	**15%**	**27,447**	**21,678**	**27%**
Net income before income taxes	16,240	13,931	17%	21,288	(24%)	63,965	42,649	50%
Provision for (recovery of) income taxes	170	941	(82%)	(798)	121%	(397)	(244)	(63%)
Net Income	**$ 16,070**	**$ 12,990**	**24%**	**$ 22,086**	**(27%)**	**$ 64,362**	**$ 42,893**	**50%**
Basic and diluted earnings per share	$ 0.57	$ 0.47	21%	$ 0.89	(36%)	$ 2.40	$ 1.75	37%
Dividends per share - cash	$ 0.34	$ 0.34	—%	$ 0.34	—%	$ 1.36	$ 1.36	—%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ 0.85	$ —	n/a

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, 2021			September 30, 2021			December 31, 2020		
(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]
Single family mortgages									
Insured	$ 174,793	$ 957	2.18 %	$ 175,746	$ 951	2.20 %	$ 199,861	$ 1,266	2.50 %
Uninsured	755,511	7,219	3.81 %	660,951	6,576	3.96 %	460,027	5,552	4.81 %
Uninsured - completed inventory	37,738	592	6.22 %	35,878	602	6.66 %	52,175	805	6.14 %
Construction loans									
Residential	647,685	10,351	6.17 %	616,756	9,679	6.22 %	543,869	8,682	6.35 %
Non residential	4,938	96	7.74 %	4,810	91	7.48 %	2,486	51	8.15 %
Commercial loans									
Multi family residential	74,855	965	5.11 %	59,299	740	4.94 %	24,425	327	5.32 %
Other	18,736	256	5.42 %	30,094	433	5.70 %	31,882	432	5.38 %
Mortgages - corporate portfolio	$1,714,256	$ 20,436	4.67 %	$1,583,534	$ 19,072	4.78 %	$1,314,725	$ 17,115	5.18 %
Term deposit interest and expenses	1,622,400	8,389	1.97 %	1,514,721	8,013	2.01 %	1,217,436	7,918	2.42 %
Net corporate mortgage spread income[1]		$ 12,047			$ 11,059			$ 9,197	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.70 %			2.77 %			2.76 %
Average term to maturity (months)									
Mortgages - corporate	13.0			13.9			14.2		
Term deposits	18.5			19.9			18.3		

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

For the Years Ended December 31	2021			2020		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Single family mortgages						
Insured	$ 168,526	$ 3,757	2.24 %	$ 178,782	$ 4,975	2.78 %
Uninsured	625,517	25,376	4.08 %	418,656	20,151	4.81 %
Uninsured - completed inventory	39,824	2,581	6.48 %	42,826	2,689	6.27 %
Construction loans						
Residential	552,805	35,478	6.42 %	528,477	33,524	6.35 %
Non residential	4,570	345	7.53 %	1,235	121	9.76 %
Commercial loans						
Multi family residential	54,699	2,766	5.05 %	14,459	873	5.71 %
Other commercial	27,456	1,520	5.53 %	32,230	1,737	5.05 %
Mortgages - corporate portfolio	$ 1,473,397	$ 71,823	4.89 %	$ 1,216,665	$ 64,070	5.25 %
Term deposit interest and expenses	1,421,566	31,430	2.09 %	1,117,299	32,006	2.63 %
Net corporate mortgage spread income[1]		$ 40,393			$ 32,064	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.80 %			2.62 %

[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.*

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Originations								
Single family - insured [3]	$ 166,470	$ 258,150	(36%)	$ 217,780	(24%)	$ 800,502	$ 615,664	30%
Single family - uninsured	158,626	164,500	(4%)	113,358	40%	575,210	283,045	103%
Single family - uninsured completed inventory [1]	27,531	6,247	341%	8,920	209%	54,759	55,249	(1%)
Residential construction [1]	149,539	186,275	(20%)	121,676	23%	680,914	474,475	44%
Non-residential construction [1]	79	205	(61%)	1,283	(94%)	1,625	3,340	(51%)
Commercial [1]	9,000	16,200	(44%)	20,000	(55%)	45,310	20,075	126%
	$ 511,245	**$ 631,577**	**(19%)**	**$ 483,017**	**6%**	**$2,158,320**	**$1,451,848**	**49%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 14,878	$ 13,876	7%	$ 25,063	(41%)	$ 36,033	$ 135,285	(73%)

[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 single family mortgage commitments sold to MSLP that the Company originated.

Overview

The lower interest rate environment impacted both mortgages and term deposits. For Q4 2021, the decrease in the spread of corporate mortgages over term deposit interest and expenses from Q3 2021 and Q4 2020 was due to a larger decrease in mortgage rates compared to term deposit rates from our current portfolio mix of a greater proportion of lower-yield single family to higher-yield construction and commercial loans and continued market competition which kept rates compressed in the single family space. For year to date 2021, the increase in the spread of corporate mortgages over term deposit interest and expenses from year to date 2020 was due to a larger reduction in term deposit rates compared to mortgage rates. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs in 2020.

Single Family

We continue to focus on growing our single family originations in our corporate and securitized mortgage portfolio and accordingly our total volumes in Q4 2021, Q3 2021 and year to date 2021 increased significantly from the prior year. This increase was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and an increased underwriting capacity. We will continue to invest in new technology and look to add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers.

In Q2 2021, we entered into an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured single family mortgage commitments. We originated and sold $11 million in commitments in Q4 2021 and $76 million year to date 2021 under this agreement.

We continue to grow our insured single family originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. The continued increase in insured single family originations in 2021 supported year to date single family securitization volumes of $724 million compared to $685 million year to date 2020. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Single family mortgages provide comparatively lower yields given their risk profile. For the quarter and year to date, higher average balances in the uninsured single family portfolio contributed to a higher corporate mortgage interest compared to the prior year and Q3 2021. We continue to take a prudent underwriting approach. We opportunistically invest in our single family uninsured completed inventory portfolio which often migrate from our own construction book.

Construction and Commercial

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

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

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

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. At December 31, 2021, we had the renewal rights to $2.4 billion of single family mortgages (September 30, 2021 - $2.3 billion; December 31, 2020 - $1.7 billion).

Equity Income from MCAP

The $8.5 million decrease in equity income from MCAP in 2021 from 2020 was due to (i) decreased mortgage origination and processing income as a result of lower net fees from lower mortgage spreads; and (ii) non-recurring new contracts in the prior year. This was partly offset by (i) income from higher assets under management from growth in MCAP's portfolio; and (ii) higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio.

In Q4 2021, MCAP's origination volumes were $8.1 billion, an increase from $6.5 billion in Q4 2020. For 2021, MCAP's origination volumes were $30.9 billion, an increase from $19.3 billion in 2020. At November 30, 2021, MCAP had $146.2 billion of assets under management compared to $143.6 billion at August 31, 2021 and $111.4 billion at November 30, 2020. The increase in assets under management since last year is mainly due to the acquisition of Paradigm Quest Inc. which closed in Q3 2021.

We recognize equity income from MCAP on a one-month lag such that our 2021 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2021. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.3 million in Q4 2021 (Q4 2020 - $1.2 million) and $4.9 million year to date 2021 (year to date 2020 - $4.6 million). The distribution yield[1] on this portfolio was 11.84% in Q4 2021 compared to 11.20% in Q4 2020. During 2021, the distribution yield[1] on this investment was 11.33% compared to 10.66% during 2020.

KingSett Senior Mortgage Fund LP ("KSSMF"): In Q2 2021, we invested in KSSMF and we received distribution income of $0.1 million in Q4 2021 and $0.1 million year to date 2021. The distribution yield[1] on this investment was 6.81% in Q4 2021 and 6.96% during 2021.

MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"): We received principal and interest of $2.2 million in Q4 2021 (Q4 2020 - $1.4 million) and $6.9 million year to date 2021 (year to date 2020 - $6.3 million), representing a distribution yield[1] of 8%.

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

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 5.28% in Q4 2021 compared to 5.46% in Q4 2020. During 2021, the distribution yield[1] was 5.49% compared to 6.14% during 2020. The net unrealized gain on the REIT portfolio discussed below contributed to the lower 2021 distribution yield by increasing 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 2021, we recorded a $3.4 million net gain on securities compared to a $5.7 million net gain in Q4 2020 as we continued to see a rebound in REIT prices amid optimism around the impending economic outlook in both periods, after an oversold market at the beginning of the pandemic. During 2021, we recorded a $14.8 million net gain related to fair value gains on our REIT portfolio compared to a $9.1 million net loss in 2020. As mentioned previously, 2021 posted a significant rebound amid optimism around the impending economic recovery compared to 2020 which saw the onset of the pandemic.

During 2021, we took the opportunity to recycle capital by selling $16.6 million (2020 - $1.2 million) of REITs and realizing gains of $3.8 million (2020 - $0.3 million). We reinvested $15 million in REITs during the year.

Gain on Dilution of Investment in MCAP

In 2021, MCAP issued additional class B units to employees of MCAP which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $326,000 (2020 - $33,000).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarter compared to prior periods was due to a higher average term deposit balance partially offset by a lower average term deposit rate. The reduction in term deposit interest and expenses for year to date compared to the prior year was due to a decrease in the average term deposit rate partially offset by a higher average term deposit balance. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs for both Q4 2020 and year to date 2020. Term deposit rates have continued to decline since then and as the higher rate term deposits mature, the average term deposit rate of the outstanding average term deposit balance has declined. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

[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.

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 $141 million in Q4 2021 (Q4 2020 - $266 million) and $724 million year to date 2021 (year to date 2020 - $736 million), of which $nil were insured multi family loans in Q4 2021 (Q4 2020 - $17 million) and $nil year to date 2021 (year to date 2020 - $52 million) that were derecognized from the consolidated balance sheet at the time of securitization. The low interest rate environment and higher insured single family originations have generated a high volume of securitizations since the start of the pandemic. The decrease compared to the prior year was due to sales of insured single family commitments, another funding source for our insured single family business. For further information on the market MBS and CMB programs, refer to the “Financial Position” section of this MD&A.

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

For the Quarters Ended	December 31, 2021			September 30, 2021			December 31, 2020		
(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	$1,534,500	$ 7,295	1.90 %	$1,447,718	$ 7,478	2.07 %	$1,019,780	$ 6,461	2.54 %
Financial liabilities from securitization	1,554,282	4,993	1.28 %	1,468,811	5,222	1.42 %	1,030,716	4,232	1.65 %
Net securitized mortgage spread income [1]		$ 2,302			$ 2,256			$ 2,229	
Spread of securitized mortgages over liabilities [1]			0.62 %			0.65 %			0.89 %

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

For the Years Ended December 31	2021			2020		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,390,287	$ 28,671	2.08 %	$ 840,151	$ 21,534	2.58 %
Financial liabilities from securitization	1,406,351	19,554	1.38 %	856,413	15,898	1.87 %
Net securitized mortgage spread income [1]		$ 9,117			$ 5,636	
Spread of securitized mortgages over liabilities [1]			0.70 %			0.71 %

[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.*

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

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 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Single family mortgages uninsured	$ (35)	$ 22	(259%)	$ (3)	(1,067%)	$ (108)	$ 46	(335%)
	(35)	22	(259%)	(3)	(1,067%)	(108)	46	(335%)
Provision for (recovery of) performing corporate mortgages								
Single family mortgages insured	—	—	n/a	(5)	100%	(3)	(3)	—%
Single family mortgages uninsured	182	(343)	153%	776	(77%)	(57)	1,653	(103%)
Single family mortgages uninsured - completed inventory	34	(149)	123%	(25)	236%	(360)	452	(180%)
Construction loans	611	351	74%	(812)	175%	1,015	(323)	414%
Commercial loans								
Multi family residential	(18)	13	(238%)	105	(117%)	119	103	16%
Other commercial	(5)	(17)	71%	(17)	71%	(126)	142	(189%)
	804	(145)	654%	22	3,555%	588	2,024	(71%)
Other provisions (recoveries)	(1)	1	(200%)	1	(200%)	—	5	(100%)
Total corporate provision for (recovery of) credit losses	768	(122)	730%	20	3,740%	480	2,075	(77%)
Provision for (recovery of) performing securitized mortgages	—	—	n/a	10	(100%)	(20)	21	(195%)
Total provision for (recovery of) credit losses	$ 768	$ (122)	730%	$ 30	2,460%	$ 460	$ 2,096	(78%)
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 769	$ (123)	725%	$ 19	3,947%	$ 480	$ 2,070	(77%)
Net write offs	$ —	$ 36	(100%)	$ 32	(100%)	$ 37	$ 184	(80%)
Net write offs (basis points)	—	0.9	(100%)	1.0	(100%)	0.3	1.5	(80%)

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 provision for credit losses on our corporate mortgage portfolio of $768,000 in Q4 2021 compared to a provision for credit losses of $20,000 in Q4 2020 and a provision for credit losses on our corporate mortgage portfolio of $480,000 year to date 2021 compared to a provision for credit losses of $2.1 million year to date 2020. The provisions are mainly due to growth in our portfolio partially offset by improved economic forecasts stemming from higher vaccination rates and reopenings compared to the onset of the pandemic in 2020. Key judgments and uncertainties include the speed and shape of economic recovery, the impact of government stimulus and the uncertainties around further variants and public health restrictions. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at December 31, 2021. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since December 31, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve given new variants and resulting public health restrictions. Any new forward-looking information subsequent to December 31, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

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

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

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) **For the Periods Ended**	**Q4 2021**	**Q3 2021**	**Change (%)**	**Q4 2020**	**Change (%)**	**Annual 2021**	**Annual 2020**	**Change (%)**
Salaries and benefits	$ 4,627	$ 4,542	2%	$ 4,509	3%	$ 18,364	$ 15,047	22%
General and administrative	2,416	1,946	24%	1,601	51%	9,083	6,631	37%
	$ 7,043	**$ 6,488**	**9%**	**$ 6,110**	**15%**	**$ 27,447**	**$ 21,678**	**27%**

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

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

Taxable Income

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

Table 11: Taxable Income Reconciliation

(in thousands) **For the Periods Ended**	**Q4 2021**	**Q4 2020**	**Annual 2021**	**Annual 2020**
Consolidated net income for accounting purposes	$ 16,070	$ 22,086	$ 64,362	$ 42,893
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(6,246)	(9,378)	(25,453)	(33,918)
Add: MCAP taxable income	3,430	18,519	49,635	38,616
Reverse: Provision for (recovery of) credit losses [2]	799	32	596	2,047
Add: Amortization of upfront securitization program costs [3]	1,970	1,295	6,922	4,989
Deduct: Securitization program mortgage origination costs [3]	(1,047)	(5,558)	(8,870)	(16,546)
Add: Securitization program premium (discount)	(2,344)	1,334	(5,847)	5,110
Reverse: Net unrealized loss (gain) on securities [4]	(3,374)	(5,702)	(14,763)	9,091
Add: Capital gains	2,381	274	2,381	274
Reverse: Loss (Income) earned in subsidiaries [5]	(2,062)	3,596	1,986	7,982
Deduct: Gain on dilution of MCAP [6]	—	—	(326)	(33)
Other items	(81)	(723)	(294)	(411)
Taxable Income	**$ 9,496**	**$ 25,775**	**$ 70,329**	**$ 60,094**

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

The increase in taxable income in 2021 from 2020 is primarily due to higher taxable income allocation from MCAP as well as our core operations.

During 2021, we incurred $8.9 million of origination costs on securitized mortgages (including market MBS held by MCAN) (2020 - $16.5 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, 2021, the unamortized origination fee balance was $23.0 million (December 31, 2020 - $21.4 million), which represents costs that are still to be expensed for accounting purposes but will be added back in the calculation of taxable income in the MIC in future periods.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 122,269	$ 123,219	(1%)	$ 88,929	37%
Marketable securities	62,693	70,938	(12%)	49,613	26%
Mortgages	1,806,146	1,657,168	9%	1,252,762	44%
Non-marketable securities	64,946	60,201	8%	56,117	16%
Equity investment in MCAP Commercial LP	96,186	94,801	1%	88,263	9%
Deferred tax asset	891	1,061	(16%)	407	119%
Other assets	9,323	11,931	(22%)	20,218	(54%)
	2,162,454	**2,019,319**	**7%**	**1,556,309**	**39%**
Securitization Assets					
Cash held in trust	53,148	45,687	16%	29,610	79%
Mortgages	1,583,697	1,530,565	3%	1,135,745	39%
Other assets	8,771	8,690	1%	7,051	24%
	1,645,616	**1,584,942**	**4%**	**1,172,406**	**40%**
	$ 3,808,070	**$ 3,604,261**	**6%**	**$ 2,728,715**	**40%**

Our corporate asset portfolio increased year over year primarily due to strong origination volumes in both the insured and uninsured single family portfolios as well as the commercial and construction portfolio. Our securitized mortgage portfolio has also increased year over year due to the impact of new securitization issuances as a result of higher insured single family originations.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move up buyers, characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas with a preference for proximity to transit. At December 31, 2021, the average outstanding construction loan balance was $8 million (September 30, 2021 - $8 million; December 31, 2020 - $7 million) with a maximum individual loan commitment of $40 million (September 30, 2021 - $40 million; December 31, 2020 - $30 million).

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist primarily of single family insured mortgages that have been securitized through our internal market MBS program and the CHT CMB program. For further information, refer to Note 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 $141 million in Q4 2021 (Q4 2020 - $249 million) and $724 million year to date (year to date 2020 - $685 million) of insured single family mortgages through the market MBS program and CMB program.

We securitized $nil in Q4 2021 (Q4 2020 - $17 million) and $nil year to date 2021 (year to date 2020 - $52 million) of insured multi family mortgages through the CMB program. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of $nil in Q4 2021 (Q4 2020 - $0.1 million) and $nil year to date 2021 (year to date 2020 - $0.2 million).

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

Table 13: Mortgage Summary

(in thousands except %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate portfolio					
Single family mortgages					
Insured	$ 196,595	$ 170,959	15%	$ 173,373	13%
Uninsured	783,061	713,513	10%	483,432	62%
Uninsured - completed inventory	49,431	32,475	52%	48,949	1%
Construction loans	684,298	644,519	6%	486,632	41%
Commercial loans					
Multi family residential	74,696	65,581	14%	29,839	150%
Other commercial	18,065	30,121	(40%)	30,537	(41%)
	1,806,146	**1,657,168**	**9%**	**1,252,762**	**44%**
Securitized portfolio	**1,583,697**	**1,530,565**	**3%**	**1,135,745**	**39%**
	$ 3,389,843	**$ 3,187,733**	**6%**	**$ 2,388,507**	**42%**

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

Figure 9: Total Corporate and Securitized Mortgage Portfolio (in thousands)

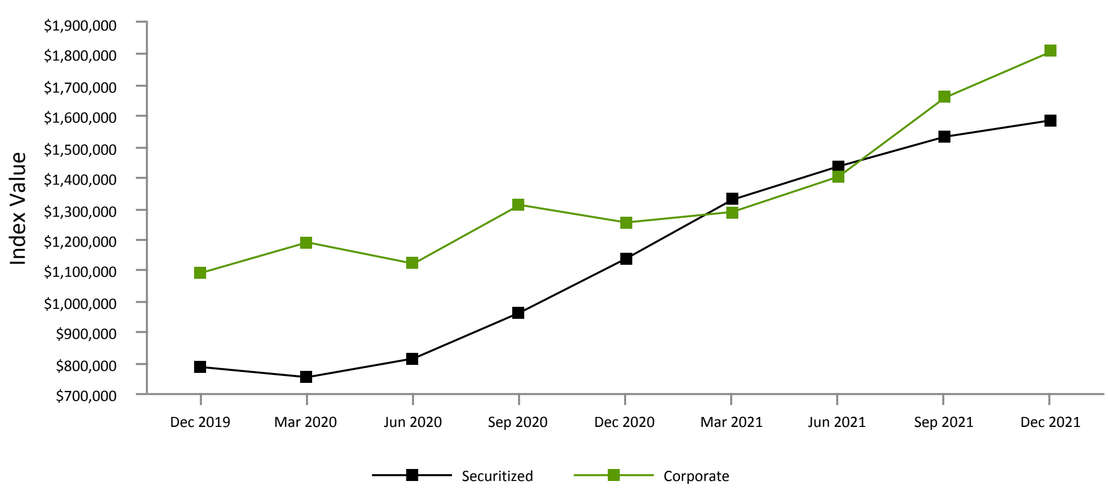
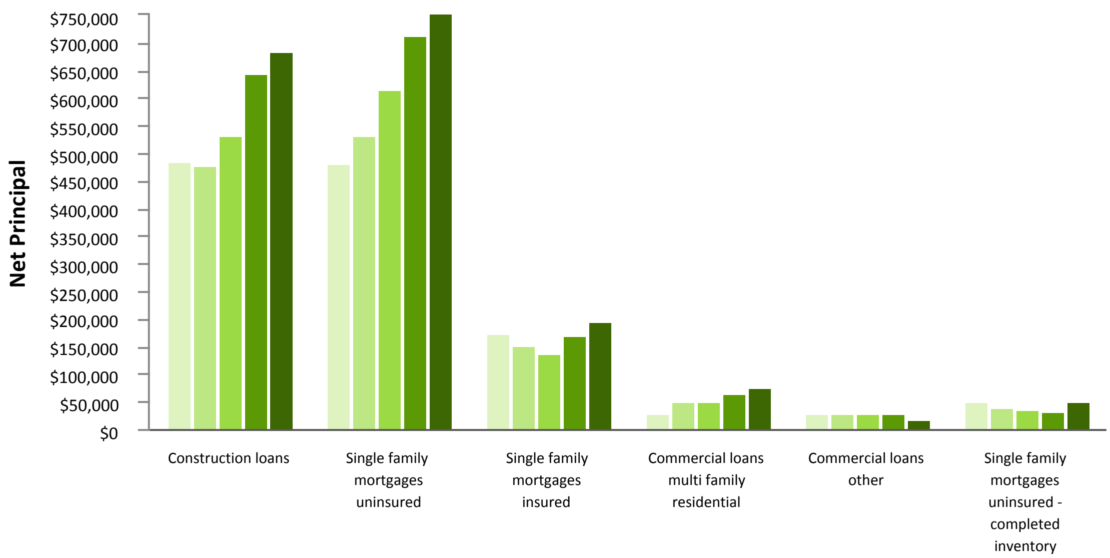


Figure 10: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Dec 31, 2020	$486,632 (39%)	$483,432 (39%)	$173,373 (14%)	$29,839 (2%)	$30,537 (2%)	$48,949 (4%)
Mar 31, 2021	$479,545 (37%)	$533,148 (42%)	$152,858 (12%)	$49,116 (4%)	$30,594 (2%)	$41,629 (3%)
Jun 30, 2021	$532,476 (38%)	$616,838 (44%)	$138,026 (10%)	$49,303 (4%)	$30,115 (2%)	$34,532 (2%)
Sep 30, 2021	$644,519 (39%)	$713,513 (43%)	$170,959 (10%)	$65,581 (4%)	$30,121 (2%)	$32,475 (2%)
Dec 31, 2021	$684,298 (38%)	$783,061 (43%)	$196,595 (11%)	$74,696 (4%)	$18,065 (1%)	$49,431 (3%)

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, 2021		September 30, 2021		December 31, 2020	
	Corporate	**Securitized**	**Corporate**	**Securitized**	**Corporate**	**Securitized**
Ontario	62.2 %	86.6 %	62.1 %	86.6 %	67.5 %	84.3 %
British Columbia	27.8 %	3.4 %	28.2 %	3.5 %	23.2 %	3.2 %
Alberta	7.6 %	7.1 %	8.1 %	7.0 %	7.5 %	8.4 %
Atlantic Provinces	0.4 %	1.5 %	0.5 %	1.6 %	0.7 %	2.2 %
Quebec	1.7 %	0.7 %	0.7 %	0.7 %	0.6 %	1.0 %
Other	0.3 %	0.7 %	0.4 %	0.6 %	0.5 %	0.9 %
	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 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 790	$ 600	32%	$ 1,266	(38%)
Single family mortgages - uninsured	163	391	(58%)	2,505	(93%)
	953	991	(4%)	3,771	(75%)
Securitized	—	365	(100%)	472	(100%)
Total impaired mortgages	$ 953	$ 1,356	(30%)	$ 4,243	(78%)
Impaired corporate mortgage ratio [1]	0.05 %	0.06 %	(0.01%)	0.30 %	(0.25%)
Impaired total mortgage ratio [1]	0.03 %	0.04 %	(0.01%)	0.18 %	(0.15%)
Mortgage arrears					
Corporate					
Single family mortgages - insured	$ 849	$ 689	23%	$ 1,948	(56%)
Single family mortgages - uninsured	9,977	8,105	23%	10,540	(5%)
Construction loans	—	—	n/a	11,800	(100%)
Total corporate mortgage arrears	10,826	8,794	23%	24,288	(55%)
Total securitized mortgage arrears	4,865	3,818	27%	5,660	(14%)
Total mortgage arrears	$ 15,691	$ 12,612	24%	$ 29,948	(48%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 7,680	$ 5,003	54%	$ 8,054	(5%)
Single family mortgages - uninsured	99,090	79,614	24%	68,517	45%
Single family mortgages - uninsured - completed inventory	3,449	—	n/a	13,290	(74%)
Construction loans	17,570	7,840	124%	20,235	(13%)
Commercial loans - multi-family residential	27,346	27,303	—%	—	n/a
Commercial - other	16,794	16,809	—%	17,200	(2%)
	171,929	136,569	26%	127,296	35%
Stage 3					
Single family mortgages - insured	790	600	32%	1,266	(38%)
Single family mortgages - uninsured	163	391	(58%)	2,505	(93%)
	953	991	(4%)	3,771	(75%)
Total stage 2 and 3 corporate mortgages	$ 172,882	$ 137,560	26%	$ 131,067	32%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,634	$ 5,830	14%	$ 6,047	10%
Allowance on impaired mortgages	13	48	(73%)	157	(92%)
	6,647	5,878	13%	6,204	7%
Securitized - allowance on performing mortgages	5	4	25%	25	(80%)
Total allowance for credit losses	$ 6,652	$ 5,882	13%	$ 6,229	7%

[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

During the year, we had one impaired construction loan where an asset recovery program was initiated. We collected all past due interest and principal in Q2 2021.

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

In the event of a protracted economic downturn due to COVID-19, 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. This could also result in an increase in our allowance for credit losses. An economic downturn could include, for example, changes to unemployment rates, income levels and consumer confidence and spending not fully compensated for by government stimulus measures which we would expect would increase single family defaults and arrears. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages; however, traditional actions may not be available or effective.

Figure 11: 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 June 30, 2020, we had one impaired construction mortgage where an asset recovery program was initiated and we received full recovery of past due interest and principal in Q3 2020. At March 31, 2021, we also had one impaired construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of both construction mortgages was not related to COVID-19. 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.

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 single family mortgage portfolio by insurance status and province, as well as amortization periods and LTV by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

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

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

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

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

Table 18: Single Family Mortgages by Amortization Period at December 31, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 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 %	**56.7 %**	**18.7 %**	**7.8 %**	**100.0 %**

Table 19: Single Family Mortgages by Amortization Period at December 31, 2020

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

Table 20: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q4 2021**	**Average LTV**	**Q4 2020**	**Average LTV**	**Annual 2021**	**Average LTV**	**Annual 2020**	**Average LTV**
Ontario	$147,256	66.9%	$105,758	72.1%	$545,934	69.3%	$276,340	70.8%
Alberta	8,499	70.0%	9,120	63.4%	34,447	70.2%	29,708	60.7%
British Columbia	9,765	67.9%	7,400	72.8%	28,297	68.9%	32,136	74.5%
Quebec	20,377	52.8%	—	—%	20,377	52.8%	—	—%
Other	260	73.2%	—	—%	914	75.2%	110	61.8%
	$186,157	**65.6%**	**$122,278**	**71.5%**	**$629,969**	**68.8%**	**$338,294**	**70.7%**

Table 21: Average Mortgage Loan to Value (LTV) Ratios at Origination

	December 31 2021	**December 31 2020**
Corporate portfolio		
Single family mortgages		
Insured	72.4 %	78.5 %
Uninsured[1]	66.8 %	68.6 %
Uninsured - completed inventory	57.1 %	62.3 %
Construction loans		
Residential	64.2 %	59.0 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	72.3 %	74.0 %
Other commercial	63.6 %	53.7 %
	66.3 %	65.7 %
Securitized portfolio	81.9 %	82.1 %
	73.5 %	73.5 %

[1] MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.2% at December 31, 2021 (December 31, 2020 - 68.0%). Based on an industry index that incorporates current real estate values, the ratios would be 60.3% at December 31, 2021 (December 31, 2020 - 60.6%).

Other Corporate Assets

Cash and Cash Equivalents

At December 31, 2021, our cash balance was $122 million (September 30, 2021 - $123 million; December 31, 2020 - $89 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. In times of uncertainty, we ensure that we take a prudent approach to liquidity management which may result in holding additional liquidity. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At December 31, 2021, the portfolio balance was $63 million (September 30, 2021 - $71 million; December 31, 2020 - $50 million). During 2021, we purchased $15 million and sold $17 million of REITs realizing $4 million of fair value gains and we had $15 million of unrealized fair value gains.

Non-Marketable Securities

At December 31, 2021, our non-marketable securities balance was $65 million (September 30, 2021 - $60 million; December 31, 2020 - $56 million). We are seeking further investments and expect to grow this component of our balance sheet over the mid to long term. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF, in which we have a 6.2% equity interest at December 31, 2021 (September 30, 2021 - 6.5%; December 31, 2020 - 6.8%). At December 31, 2021, the carrying value of our investment was $45 million (September 30, 2021 - $44 million; December 31, 2020 - $44 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At December 31, 2021, our total remaining commitment to the KSHYF was $22 million, consisting of $0.3 million of capital advances for the KSHYF and $22 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. At December 31, 2021, the carrying value of the Securitization Notes was $6 million (September 30, 2021 - $9 million; December 31, 2020 - $13 million) which reflects scheduled principal repayments. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022.

KSSMF: During 2021, we invested $4 million in KSSMF representing a 0.9% partnership interest, with an additional $11 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 (“TAS”): During 2021, we invested $5 million in TAS representing a 9.7% partnership interest, with an additional $5 million remaining commitment. TAS invests in, and develops, residential and mixed use properties.

TAS LP 3 Co-Invest LP (“TAS Co”): During 2021, we invested $3 million in TAS Co representing a 34.8% partnership interest, with an additional $2 million remaining commitment. TAS Co has a 24% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans.

Pearl Group Growth Fund LP (“Pearl”): During 2021, the Company invested $2 million in Pearl representing a 6.9% partnership interest, with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial properties in the Greater Toronto area.

Equity Investment in MCAP

MCAP is Canada’s largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.94% equity interest in MCAP (September 30, 2021 - 13.94%; December 31, 2020 - 14.03%), which represents 4.0 million units held by MCAN at December 31, 2021 (September 30, 2021 - 4.0 million; December 31, 2020 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (September 30, 2021 - 28.7 million; December 31, 2020 - 28.5 million).

The investment had a net book value of $96 million at December 31, 2021 (September 30, 2021 - $95 million; December 31, 2020 - $88 million). The Limited Partner’s At-Risk Amount (“LP ARA”), which represents the cost base of the equity investment in MCAP for income tax purposes in accordance with the Tax Act, was estimated to be $89 million at December 31, 2021 (September 30, 2021 - $91 million; December 31, 2020 - $60 million). The difference between the net book value and the LP ARA reflects an unrealized gain that, if realized, would be recognized as a capital gain.

During Q4 2021, we received $4.9 million of unitholder distributions from MCAP (Q4 2020 - $10.3 million). For year to date 2021, we have received $17.9 million of unitholder distributions from MCAP (year to date 2020 - $15.5 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.

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 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Liabilities					
Term deposits	$ 1,660,992	$ 1,606,785	3%	$ 1,234,769	35%
Loans payable	57,340	52,800	9%	—	n/a
Other loan payable to MSLP	41,205	—	n/a	—	n/a
Other liabilities	21,134	10,914	94%	4,825	338%
	1,780,671	**1,670,499**	**7%**	**1,239,594**	**44%**
Securitization Liabilities					
Financial liabilities from securitization	1,594,141	1,539,443	4%	1,142,609	40%
	1,594,141	**1,539,443**	**4%**	**1,142,609**	**40%**
	3,374,812	**3,209,942**	**5%**	**2,382,203**	**42%**
Shareholders' Equity					
Share capital	315,339	282,396	12%	234,635	34%
Contributed surplus	510	510	—%	510	—%
Retained earnings	117,409	111,413	5%	111,367	5%
	433,258	**394,319**	**10%**	**346,512**	**25%**
	$ 3,808,070	**$ 3,604,261**	**6%**	**$ 2,728,715**	**40%**

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.

Other loan payable to MSLP

On November 3, 2021, we obtained a loan with reference to the fair value of a pool of insured single family mortgages from MSLP. At December 31, 2021, $41.2 million represents the carrying value of the loan payable. On January 27, 2022, the Company settled the loan with MSLP at the same referenced fair value price of the same pool of insured single family 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 for 2021 reflects new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and two rights offerings net of their related costs. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 17 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for 2021 consists of net income of $64.4 million (2020 - $42.9 million) less dividends of $58.3 million (2020 - $33.3 million).

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 2021	December 31 2020
Income tax assets		
Consolidated assets	$ 3,808,070	$ 2,728,715
Adjustment for assets in subsidiaries	(69,227)	16,117
Non-consolidated assets in MIC entity	3,738,843	2,744,832
Add: corporate mortgage allowances	6,626	6,061
Less: securitization assets [1]	(1,618,866)	(1,160,073)
Adjustments to equity investments in MCAP and subsidiaries	(32,278)	(55,581)
Other adjustments	(9,452)	2,013
	$ 2,084,873	$ 1,537,252
Income tax liabilities		
Consolidated liabilities	$ 3,374,812	$ 2,382,203
Adjustment for liabilities in subsidiaries	(91,799)	(6,183)
Non-consolidated liabilities in MIC entity	3,283,013	2,376,020
Less: securitization liabilities [1]	(1,592,457)	(1,140,991)
	$ 1,690,556	$ 1,235,029
Income tax capital	$ 394,317	$ 302,223
Income tax capital ratios		
Income tax assets to capital ratio	5.29	5.09
Income tax liabilities to capital ratio	4.29	4.09

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

Table 24: Regulatory Capital [3]

(in thousands except %)

	December 31 2021	December 31 2020
OSFI Regulatory Ratios		
Share capital	$ 315,339	$ 234,635
Contributed surplus	510	510
Retained earnings	117,409	111,367
Deduction from equity investment in MCAP [1]	(52,734)	(53,475)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	1,258	1,364
Common Equity Tier 1 and Tier 1 Capital (A)	381,782	294,401
Tier 2 Capital	5,381	4,707
Total Capital (D)	$ 387,163	$ 299,108
Total Exposure/Regulatory Assets		
Consolidated assets	$ 3,808,070	$ 2,728,715
Less: deduction for equity investment in MCAP [1]	(52,734)	(53,475)
Other adjustments [2]	1,760	3,018
Total On-Balance Sheet Exposures	3,757,096	2,678,258
Mortgage and investment funding commitments (50%)	279,255	197,069
Letters of credit (50%)	22,782	19,552
Total Off-Balance Sheet Items	302,037	216,621
Total Exposure/Regulatory Assets (B)	$ 4,059,133	$ 2,894,879
Leverage ratio (A / B)	9.41 %	10.17 %
Risk-weighted assets (C)	$ 1,884,523	$ 1,358,261
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.26 %	21.67 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.26 %	21.67 %
Total capital to risk-weighted assets ratio **(D / C)**	20.54 %	22.02 %

[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, 2021			December 31, 2020		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 122,269	20 %	$ 24,806	$ 88,929	21 %	$ 18,389
Cash held in trust	53,148	20 %	10,629	29,610	20 %	5,922
Marketable securities	62,693	100 %	62,693	49,613	100 %	49,613
Mortgages - corporate	1,806,146	62 %	1,111,356	1,252,762	62 %	775,093
Mortgages - securitized	1,583,697	6 %	89,723	1,135,745	5 %	59,146
Non-marketable securities	64,946	188 %	122,002	56,117	173 %	97,020
Equity investment in MCAP Commercial LP	96,186	45 %	43,452	88,263	39 %	34,788
Deferred tax asset	891	100 %	891	407	100 %	407
Other assets	18,094	100 %	18,096	27,269	100 %	27,269
			1,483,648			1,067,647
Off-Balance Sheet Items						
Letters of credit	45,564	50 %	22,782	39,105	50 %	19,553
Commitments	558,511	44 %	244,168	394,139	38 %	151,598
			266,950			171,151
Charge for operational risk [2]			133,925			119,463
Risk-Weighted Assets			**$ 1,884,523**			**$ 1,358,261**

[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.*

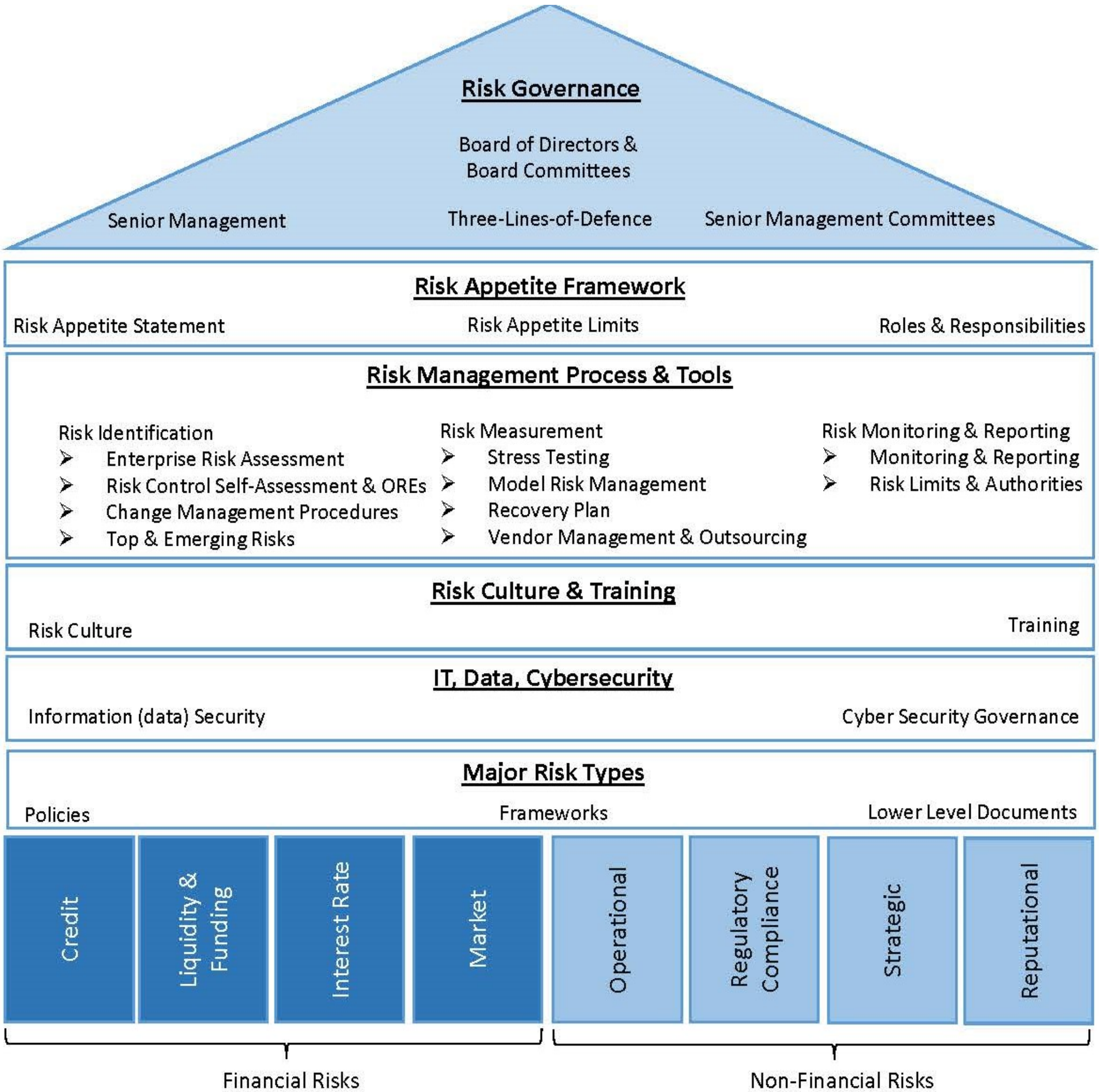
Other Capital Management Activity

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 12: Roles and Accountabilities

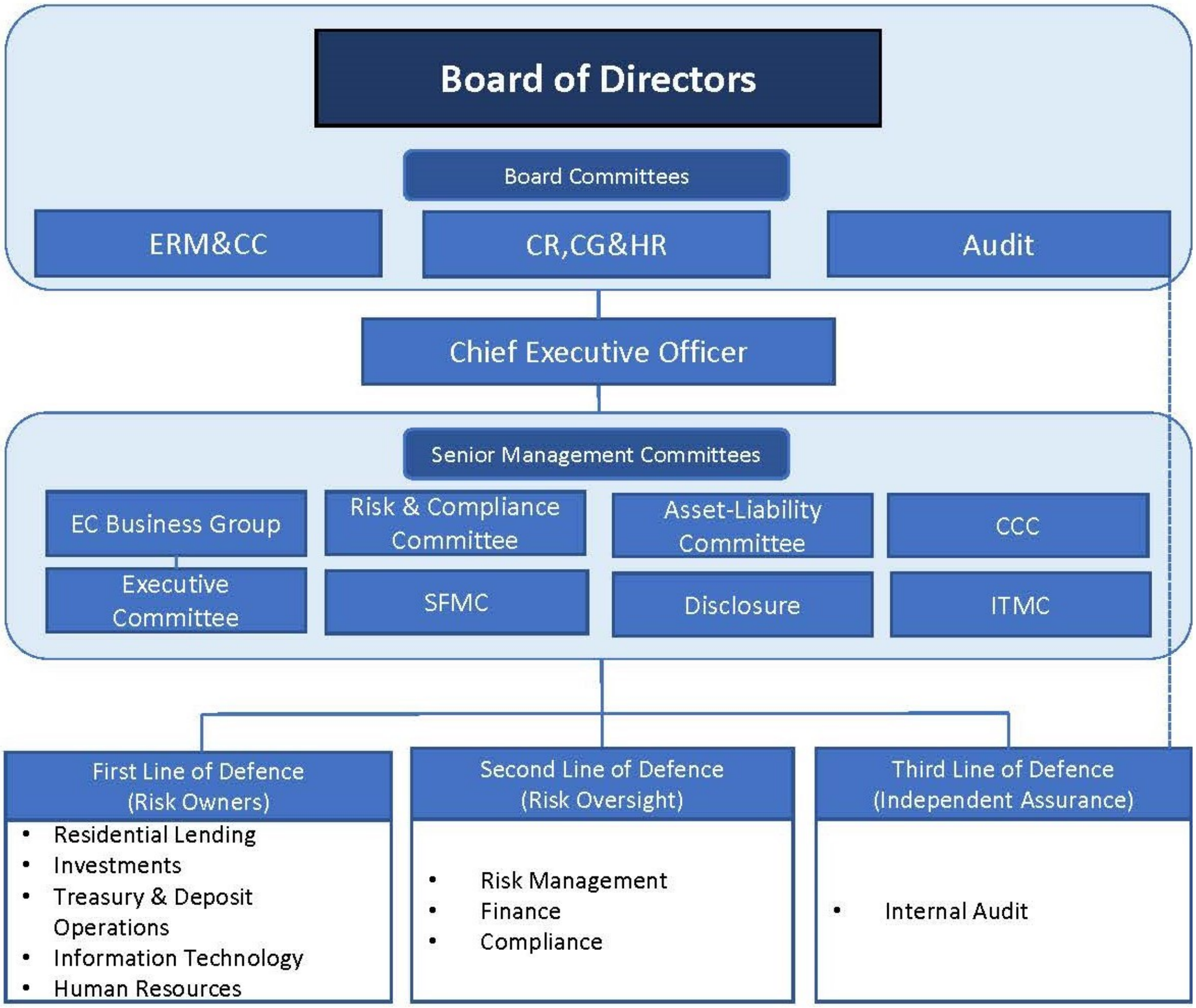


Risk Governance

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 13: Risk Governance Structure



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.

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

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

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

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

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

The Company's operations could also be adversely affected by the impact of global health pandemics such as the outbreak and continuing impact of COVID-19. The COVID-19 pandemic has cast uncertainty on the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, level of housing activity and household debt service levels. Significant uncertainties continue to exist, particularly in light of further variant strains of the virus, with respect to the severity and duration of the pandemic, and regulations, restrictions and the effectiveness of stimulus and other policy measures implemented by the government in minimizing the impact of the pandemic.

As a response to COVID-19, the Company enhanced the oversight of its portfolio and operations with more frequent monitoring and management activities to proactively identify and address emerging risks. The Company continues to monitor the evolving pandemic and has oversight with respect to its effects on operations and the Company. Additionally, we increased the frequency of reporting to, and interaction with, the Board to facilitate their role in providing oversight as information and developments are fluid. The Company's management is prepared to continue to adapt to the situation and will take necessary actions to protect the Company's business while keeping the safety of the Company's employees and other stakeholders at the centre of all decision-making.

Liquidity and Funding Risk

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

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

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations 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 liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. At December 31, 2021, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. At December 31, 2021, the Company held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

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

The Company maintains a demand loan revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is currently $120 million.

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

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50 million senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or bankers' acceptance rate plus 1.05%. The facility can be increased by another $50 million upon notice by the Company and with the lender's consent. On November 26, 2021, the facility limit was temporarily increased to $75 million until December 31, 2021. The facility is used to fund insured single family mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

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

As a response to COVID-19, the Company has enhanced the monitoring and reporting 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, 2021, 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

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2021
Sources of liquidity						
Cash and cash equivalents	$ 122,269	$ —	$ —	$ —	$ —	$ 122,269
Marketable securities	62,693	—	—	—	—	62,693
Mortgages - corporate	224,453	917,494	494,603	151,887	17,709	1,806,146
Non-marketable securities	—	—	6,449	—	58,497	64,946
Other loans	2,685	—	—	—	—	2,685
	412,100	917,494	501,052	151,887	76,206	2,058,739
Uses of liquidity						
Term deposits	115,016	717,288	556,155	272,533	—	1,660,992
Loans payable	57,340	—	—	—	—	57,340
Other liabilities	15,944	774	1,679	1,956	781	21,134
	188,300	718,062	557,834	274,489	781	1,739,466
Net liquidity surplus (deficit)	**$ 223,800**	**$ 199,432**	**$ (56,782)**	**$ (122,602)**	**$ 75,425**	**$ 319,273**

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, 2021 and 2020 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 COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears reporting and pipeline monitoring. Employment levels and real estate prices have, and may continue to be, impacted due to the national response to the pandemic or additional variants, 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 segmented by product type. EAD is forecast up to the expected lifetime of each individual loan, capped at 12 months for IFRS 9 stage 1 loans.

Grouping financial assets measured on a collective basis

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

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

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

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

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities including both parallel and non-parallel changes in interest rates. By managing and strategically matching the terms of corporate assets and term deposits, we seek to reduce the risks associated with interest rate changes, especially in the current expected 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 an interest rate spread and gap analysis as well as an interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at December 31, 2021 would have an estimated positive effect of $4.8 million (September 30, 2021 - positive effect of $4.0 million; December 31, 2020 - positive effect of $4.1 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at December 31, 2021 would have an estimated adverse effect of $2.3 million (September 30, 2021 - adverse effect of $0.9 million; December 31, 2020 - positive affect of $0.1 million) to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

We have an integrated balance sheet approach to interest rate risk and our management of liquidity and funding risk. We expect that the impact of an immediate and sustained interest rate change would normally be partially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given our balance sheet composition.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at December 31, 2021 and December 31, 2020 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. 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, 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 %**		

Table 28: Interest Rate Sensitivity at December 31, 2020

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

Regulatory Changes

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

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.

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.

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices, including in the REIT sector. In 2021, there was a rebound in REIT prices amid optimism in economic forecasts, reopenings and vaccination rates.

Operational Risk

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

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

As a response to COVID-19, the Company has taken proactive actions to protect the health and well-being of our employees by implementing a company-wide remote working policy. To ensure operational resiliency, the Company has enhanced and implemented its Business Continuity Plan, bolstered its employee communications, provided effective tools to work from home, and has increased training on cybersecurity risks and other areas where appropriate.

Outsourcing Risk

Within operational risk, outsourcing risk is the risk of losses resulting from: (i) inadequate levels of services provided by third parties; or (ii) suddenly unavailable services by third parties that are not readily replaceable. We outsource the majority of our construction and commercial mortgage origination, mortgage servicing and collections to MCAP and other third parties. There is a risk that the services provided by third parties will fail to adequately meet our standards. The continued impact of COVID-19 may also have an adverse impact on the operations of third parties and their ability to meet their obligations to the Company.

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

Information Technology and Cybersecurity Risk

Within operational risk, information technology ("IT") and cybersecurity risk is the risk of inadequate or misconfigured IT systems, tools and practices to support business and user needs. Such risks can compromise client confidentiality and lead to unauthorized access and disruption to business as usual practices.

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

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

Since the start of the pandemic, our business operations have been conducted remotely, which may impact the physical security of Company devices and an increased risk of unauthorized access to, or disclosure of, personal information. Cyber risk has increased since the onset of the COVID-19 pandemic through various forms of attacks such as phishing emails. The Company expects to continue with a hybrid work environment following the pandemic.

The IT Management Committee, which is comprised of management, is accountable for overseeing technology and cybersecurity risk exposures and management activities and reports cybersecurity risks, together with the VP, Information Technology and Information Security Officer to the Audit Committee. We also use external third party advisors and service providers to provide technical expertise, to assist with periodic cybersecurity assessments and to continuously monitor our IT infrastructure for cybersecurity risks. We periodically undertake internal and external vulnerability tests performed by an independent third party security vendor. We maintain a Cybersecurity Incident Response Plan and have designated officers responsible for the oversight of cybersecurity risks. We also maintain cybersecurity insurance coverage for both direct and third party coverage in the event of a cybersecurity incident that would result in a financial loss.

Digitization

Customer's heightened demands for quicker service and more timely updates, coupled with the pressure on lenders to compete profitably in a competitive marketplace, further accentuates the requirement for digital transformation. The pandemic has accelerated this trend, and has proved that manual processes can be digitized and will continue be utilized for the foreseeable future. If financial institutions do not adapt to the evolving digital environment, they may be less competitive or less profitable within this landscape. MCAN has strategically identified areas of short and long-term focus to build upon our business applications, IT infrastructure and data management program to support the digitization strategy.

Model Risk

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

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

Risk of Accuracy and Completeness of Borrower Information

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

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

To date, document falsification has not had a material impact on MCAN or its financial position or performance.

Regulatory Compliance Risk

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

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

Strategic Risk

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

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

Strategic risk is managed by the CEO and management. The Board approves the Company's strategies at least annually and 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.

Reputational Risk

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

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

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

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

We retain renewal rights on mortgages that we originate that are either sold to third parties or retained on 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 single family mortgages, proceeds are received from mortgage insurers following the sale of mortgaged properties.

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

Economic Uncertainty

Factors that could impact the overall market and economic stability of the Company's operations include changes in short-term and long-term interest rates, inflation, commodity prices, international trade, consumer confidence, business and government spending, real estate market activity, real estate prices and adverse economic events.

The macroeconomic environment is complex stemming from the evolving COVID-19 pandemic, characterized with high headline inflation, supply chain pressures, social unrest, and uncertainty over the pace and timing of future central bank rate hikes. Additionally, home sales remain elevated relative to new listings, contributing to rising prices. Canadian households may be challenged, particularly those with lower incomes in an environment where there are rising consumer prices, increasing housing costs, and uncertainty related to economic conditions. Though the nature and extent of these risks may vary depending on the circumstances, monitoring the increased level of uncertainty relating to economic growth and market volatility remains an area of focus. Management actively manages, monitors, and stress tests these risks on a regular basis; however, our inability to respond to changes effectively may have an adverse effect on our financial condition and results of operations.

Competition Risk

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

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

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

Environmental and Climate Change Risk

Environmental and climate change risks have the potential to impact the Company in several ways, including regulatory changes that can impact the Company’s compliance risks, or physical risks due to change in climate that increases the frequency and severity of wildfires, floods, wind events, rising sea levels and other potentially hazardous events that can impact our customers, employees and other key business partners. We recognize that environmental hazards are a potential liability. We aim to mitigate this risk by complying with all environmental laws and by applying an environmental policy and procedures to our commercial and development lending activities and working with real estate development partners, as part of our investment strategy, who are committed to responsible stewardship. We also conduct regular stress testing analyses to determine potential impacts on assets in certain geographic regions that are prone to climate events, which assists with decision making processes for geographic diversification and risk appetite.

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2021, there were 29,620,939 common shares outstanding (December 31, 2020 - 24,727,145). At February 22, 2022, there were 29,716,033 common shares outstanding.

During 2021, we issued $0.8 million in new common shares through the Executive Share Purchase Plan (2020 - $1.2 million), including $0.2 million new common shares through the Executive Share Purchase Plan as part of our rights offerings in June and December 2021.

We issued $6.0 million in new common shares in 2021 (2020 - $5.4 million) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the 2021 fourth quarter dividend was 16% (2021 third quarter - 17%; 2020 fourth quarter - 17%).

To support our continued growth and maintain our targeted capital requirements, we initiated two capital raises by way of rights offerings in June and December 2021, both of which were oversubscribed. These two offerings raised $53.1 million of capital.

As a part of expanding and maturing our funding activities, we filed a Base Shelf prospectus in August 2021 and in October 2021 we announced the establishment of an ATM Program. The Base Shelf prospectus will allow us to make public offerings of debt or equity securities of up to $400 million during the 25 month period that the Base Shelf prospectus is effective. The ATM Program allows us to raise up to $30 million of equity from the public from time to time over a 2 year period at our discretion at the market prices prevailing at the time of sales - allowing us to raise capital incrementally. We view the ATM Program as adding to our capital raising capabilities and one element of our long term source of capital. Both the Base Shelf prospectus and the ATM Program will give us additional flexibility for diversification and expansion of our funding sources. To date, no shares have been issued under the ATM program.

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

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to outstanding commitments for future fundings of corporate mortgages and our 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, 2021 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 214,182	$ 164,256	$ 138,502	$ —	$ —	$ 516,940
Commitment - TAS	—	1,000	1,577	1,741	311	4,629
Commitment - TAS Co	875	250	1,000	—	—	2,125
Commitment - KSSMF	2,250	4,500	4,125	—	—	10,875
Commitment - Pearl	429	—	1,041	—	—	1,470
Commitment - KSHYF	278	—	—	—	22,194	22,472
	$ 218,014	**$ 170,006**	**$ 146,245**	**$ 1,741**	**$ 22,505**	**$ 558,511**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At December 31, 2021, these derecognized securitized insured multi family mortgages totalled $72 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 23 to the consolidated financial statements.

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

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.

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

On February 22, 2022, the Board declared a quarterly regular cash dividend of $0.36 per share and a special stock dividend of $0.97 per share both to be paid on March 31, 2022 to shareholders of record as of March 15, 2022. The special stock dividend will be paid to shareholders in common shares (with fractional shares paid in cash) issued out of treasury at the weighted average trading price for the five days preceding the record date. The special stock dividend represents the true up of our regular dividends to taxable income for 2021, net of loss carryforwards used. At this time, the Company does not expect to have taxable income per share greater than its regular cash dividends per share for 2022.

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

Table 30: Dividends Per Share

For the Years Ended December 31	2021	2020	2019
First Quarter [1]	$ 1.19	$ 0.34	$ 0.32
Second Quarter	0.34	0.34	0.32
Third Quarter	0.34	0.34	0.32
Fourth Quarter	0.34	0.34	0.32
	$ 2.21	**$ 1.36**	**$ 1.28**

[1] First quarter of 2021 includes $0.34 cash dividend and $0.85 special stock dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2021 and December 31, 2020 and related party balances at December 31, 2021 and December 31, 2020 are discussed in Notes 9 and 22 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At December 31, 2021, we had 128 team members (September 30, 2021 - 124; December 31, 2020 - 112).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

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

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

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

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2021, 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, 2021.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2021.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2021 and ending on December 31, 2021 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. A detailed calculation can also be found in Table 4 and 5 of this MD&A.

Table 31: Net Corporate Mortgage Spread Income

(in thousands) **For the Periods Ended**	**Q4 2021**	**Q4 2020**	**Change ($)**	**Annual 2021**	**Annual 2020**	**Change ($)**
Mortgage interest - corporate assets	$ 20,436	$ 17,115		$ 71,823	$ 64,070	
Term deposit interest and expenses	8,389	7,918		31,430	32,006	
Net Corporate Mortgage Spread Income	**$ 12,047**	**$ 9,197**	**$ 2,850**	**$ 40,393**	**$ 32,064**	**$ 8,329**

Net 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. A detailed calculation can also be found in Table 7 and 8 of this MD&A.

Table 32: Net Securitized Mortgage Spread Income

(in thousands) **For the Periods Ended**	**Q4 2021**	**Q4 2020**	**Change ($)**	**Annual 2021**	**Annual 2020**	**Change ($)**
Mortgage interest - securitized assets	$ 7,295	$ 6,461		$ 28,671	$ 21,534	
Interest on financial liabilities from securitization	4,993	4,232		19,554	15,898	
Net Securitized Mortgage Spread Income	**$ 2,302**	**$ 2,229**	**$ 73**	**$ 9,117**	**$ 5,636**	**$ 3,481**

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.

Total Shareholder Return

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

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.

GLOSSARY

Common Equity Tier 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with 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.

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