MCAN Financial

MCAN FINANCIAL GROUP

ANNUAL FINANCIAL STATEMENTS

December 31, 2022

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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

Karen Weaver
President and Chief Executive Officer

Floriana Cipollone
Vice President and Chief Financial Officer

Toronto, Canada
February 23, 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Key audit matter

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

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

Allowance for expected credit loss

Key audit matter

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

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

How our audit addressed the key audit matter

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 23, 2023

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

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

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

On behalf of the Board:

Karen Weaver
President and CEO

Gordon Herridge
Director, Chair of the Audit Committee

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note

1. Corporate Information

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

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

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

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

2. Basis of Preparation

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

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

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

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

3. Basis of Consolidation

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

4. Summary of Significant Accounting Policies

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

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

Classification and measurement

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

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

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

a. Debt instruments at amortized cost

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

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

Business model assessment

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

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

The SPPI test

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

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

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

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

b. Financial assets at FVPL

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

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

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

c. Financial liabilities

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

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

Impairment

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

Overview of ECL principles

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

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

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

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

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

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

Significant increase in credit risk ("SICR")

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

Calculation of ECLs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Write-offs

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

Hedge Accounting

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

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

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

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

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

(2) Determination of fair value

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

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

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

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

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

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

(4) Taxes

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

(i) Current tax

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

(ii) Deferred tax

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

(5) Dividends on common shares

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

(6) Investment in associate

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

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

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

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

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

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

(7) Revenue recognition

Interest income or expense

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

Revenue from contracts with customers

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

(8) Cash and cash equivalents

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

(9) Share-based compensation payment transactions

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

(10) Share capital

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

(11) Provisions

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

(12) Leases

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

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

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

5. Summary of Significant Accounting Judgments and Estimates

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

Significant influence

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

Fair value of financial instruments

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

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

(Dollar amounts in thousands except for per share amounts)

Impairment of financial assets

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

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

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

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

Mortgage prepayment rates

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

6. Marketable Securities

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

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

7. Mortgages - Corporate

(a) Summary

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

(b) Mortgages by risk rating

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

The internal risk ratings presented below are defined as follows:

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

(Dollar amounts in thousands except for per share amounts)

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

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

(Dollar amounts in thousands except for per share amounts)

(c) Mortgage allowances

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

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

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

(d) Mortgage arrears

Mortgages past due but not impaired are as follows:

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

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

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

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

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

(e) Geographic analysis

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

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

(Dollar amounts in thousands except for per share amounts)

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

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

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

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

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

8. Non-Marketable Securities

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

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

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

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

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

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

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

9. Equity Investment in MCAP Commercial LP

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

Selected MCAP financial information is as follows:

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

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

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

10. Other Assets

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

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

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

(Dollar amounts in thousands except for per share amounts)

The capital assets and intangible assets continuity is as follows:

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

11. Securitization Activities

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

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

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

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

Other accounting considerations

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

Transferred financial assets that are not derecognized in their entirety

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

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

12. Mortgages - Securitized

(a) Summary

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

(b) Mortgages by risk rating

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

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

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

(c) Mortgage allowances

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

(d) Mortgage arrears

Securitized mortgages past due but not impaired are as follows:

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

(Dollar amounts in thousands except for per share amounts)

Impaired securitized mortgages are as follows:

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

(e) Geographic analysis

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

(f) Other information

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

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

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

13. Derivative Financial Instruments

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

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

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

Derivative-Related Risks

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

14. Term Deposits

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

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

15. Income Taxes

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

A summary of temporary differences by type is as follows:

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

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

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

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

16. Other Liabilities

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

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

The maturity of the premises lease liability is as follows:

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

17. Financial Liabilities from Securitization

Total financial liabilities from securitization mature as follows:

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

(Dollar amounts in thousands except for per share amounts)

18. Share Capital

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

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

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

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

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

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

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

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

19. Dividends

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

20. Net Gain (Loss) on Securities

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

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

(Dollar amounts in thousands except for per share amounts)

21. Mortgage Expenses

Corporate assets

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

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

Securitization assets

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

22. Provision for (Recovery of) Credit Losses

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

23. Related Party Disclosures

Transactions with MCAP

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

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

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

Compensation

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

(Dollar amounts in thousands except for per share amounts)

The compensation of key management personnel is as follows:

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

Executive Share Purchase Plan

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

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

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

Employee Share Ownership Plan

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

Share Unit Plans

Deferred Share Units Plan

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

Restricted Share Units Plan

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

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

Performance Share Units Plan

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

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

24. Credit Facilities

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

25. Capital Management

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

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

Regulatory capital

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

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

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

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

Income tax capital

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

Other Capital Management Activity

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

26. Financial Instruments

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

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

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

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

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

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

(Dollar amounts in thousands except for per share amounts)

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

(Dollar amounts in thousands except for per share amounts)

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

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

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

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

Risk management

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

27. Commitments and Contingencies

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