MCAN FINANCIAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

SEPTEMBER 30, 2023

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MCAN Mortgage Corporation is doing business as ("d/b/a") MCAN Financial Group ("MCAN", the "Company" or "we"). This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter and the nine months ended September 30, 2023 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2022. These items and additional information regarding MCAN, including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.ca and our website at www.mcanfinancial.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2022 remain substantially unchanged. Information has been presented as of November 6, 2023.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Q3 2023

(in thousands except for per share amounts and %) **For the Periods Ended**	**Q3 2023**	**Q2 2023**	**Change (%)**	**Q3 2022**	**Change (%)**	**YTD 2023**	**YTD 2022**	**Change (%)**
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$ 44,144	$ 38,691	14%	$ 27,216	62%	$118,591	$ 70,539	68%
Term deposit interest and expenses [B]	$ 21,083	$ 18,034	17%	$ 12,330	71%	$ 53,858	$ 31,033	74%
Net corporate mortgage spread income[1] [A-B]	$ 23,061	$ 20,657	12%	$ 14,886	55%	$ 64,733	$ 39,506	64%
Equity income from MCAP Commercial LP	$ 4,310	$ 5,268	(18%)	$ 8,236	(48%)	$ 17,581	$ 19,743	(11%)
Net gain (loss) on securities	$ (1,581)	$ (5,017)	68%	$ (5,092)	69%	$ (5,599)	$ (13,809)	59%
Net investment income - corporate assets	$ 25,656	$ 23,139	11%	$ 18,845	36%	$ 79,417	$ 49,071	62%
Net investment income - securitization assets	$ 770	$ 1,159	(34%)	$ 877	(12%)	$ 2,801	$ 3,060	(8%)
Net income	$ 18,479	$ 15,887	16%	$ 11,650	59%	$ 57,643	$ 31,266	84%
Basic and diluted earnings per share	$ 0.53	$ 0.46	15%	$ 0.37	43%	$ 1.66	$ 1.01	64%
Dividends per share - cash	$ 0.38	$ 0.36	6%	$ 0.36	6%	$ 1.10	$ 1.08	2%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ —	$ 0.97	(100%)
Next quarter's dividend per share - cash	$ 0.38							
Return on average shareholders' equity [1]	14.20 %	12.47 %	1.73%	10.52 %	3.68%	15.06 %	9.47 %	5.59%
Taxable income per share [2]	$ 0.45	$ 0.66	(32%)	$ (0.47)	(196%)	$ 1.44	$ 0.16	800%
Yields								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.49 %	3.63 %	(0.14%)	2.83 %	0.66%	3.64 %	2.63 %	1.01%
Spread of securitized mortgages over liabilities [1]	0.42 %	0.39 %	0.03%	0.44 %	(0.02%)	0.39 %	0.50 %	(0.11%)
Average term to maturity (in months)								
Mortgages - corporate	13.1	12.7	3%	12.9	2%			
Term deposits	19.2	16.1	19%	17.1	12%			

	Sept 30 2023	**Jun 30 2023**	**Change (%)**	**Dec 31 2022**	**Change (%)**
Balance Sheet Highlights					
Total assets	$ 4,540,482	$ 4,427,122	3%	$ 4,078,676	11%
Mortgages - corporate	$ 2,337,717	$ 2,224,427	5%	$ 1,939,494	21%
Mortgages - securitized	$ 1,835,318	$ 1,754,886	5%	$ 1,751,303	5%
Total liabilities	$ 4,012,794	$ 3,910,474	3%	$ 3,589,366	12%
Shareholders' equity	$ 527,688	$ 516,648	2%	$ 489,310	8%
Capital Ratios					
Income tax assets to capital ratio [2]	5.14	5.22	(2%)	4.93	4%
CET 1 & Tier 1 capital ratio [4]	17.72 %	17.90 %	(0.18%)	19.60 %	(1.88%)
Total capital ratio [4]	17.98 %	18.14 %	(0.16%)	19.83 %	(1.85%)
Leverage ratio [3]	9.76 %	9.71 %	0.05%	9.83 %	(0.07%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	1.76 %	1.70 %	0.06%	1.66 %	0.10%
Impaired mortgage ratio (total) [1]	0.99 %	0.96 %	0.03%	0.89 %	0.10%
Mortgage Arrears					
Corporate	$ 85,513	$ 63,651	34%	$ 54,430	57%
Securitized	4,438	5,130	(13%)	3,439	29%
Total	$ 89,951	$ 68,781	31%	$ 57,869	55%
Common Share Information (end of period)					
Number of common shares outstanding	35,432	35,068	1%	34,306	3%
Book value per common share [1]	$ 14.89	$ 14.73	1%	$ 14.26	4%
Common share price - close	$ 15.13	$ 15.36	(1%)	$ 15.00	1%
Market capitalization	$ 536,086	$ 538,644	—%	$ 514,590	4%

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.
[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2021 and 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022. Prior period ratios have not been restated.

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$44,144	$38,691	$35,756	$30,747	$27,216	$22,815	$20,508	$20,436
Term deposit interest and expenses [B]	$21,083	$18,034	$14,741	$13,189	$12,330	$10,185	$ 8,518	$ 8,389
Net corporate mortgage spread income[1] [A-B]	$23,061	$20,657	$21,015	$17,558	$14,886	$12,630	$11,990	$12,047
Equity income from MCAP Commercial LP	$ 4,310	$ 5,268	$ 8,003	$ 6,860	$ 8,236	$ 6,288	$ 5,219	$ 6,246
Net gain (loss) on securities	$(1,581)	$(5,017)	$ 999	$ 1,735	$(5,092)	$(9,906)	$ 1,189	$ 3,374
Net investment income - corporate assets	$25,656	$23,139	$30,622	$30,734	$18,845	$ 9,468	$20,758	$21,875
Net investment income - securitization assets	$ 770	$ 1,159	$ 872	$ 838	$ 877	$ 1,068	$ 1,115	$ 1,408
Net income	$18,479	$15,887	$23,277	$24,088	$11,650	$ 4,137	$15,479	$16,070
Basic and diluted earnings per share	$ 0.53	$ 0.46	$ 0.67	$ 0.75	$ 0.37	$ 0.13	$ 0.52	$ 0.57
Dividends per share - cash	$ 0.38	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.97	$ —
Return on average shareholders' equity [1]	14.20 %	12.47 %	18.60 %	21.17 %	10.52 %	3.75 %	14.19 %	15.39 %
Taxable income (loss) per share [2]	$ 0.45	$ 0.66	$ 0.33	$ 1.11	$ (0.47)	$ 0.30	$ 0.35	$ 0.32
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.49 %	3.63 %	3.78 %	3.32 %	2.83 %	2.50 %	2.59 %	2.70 %
Spread of securitized mortgages over liabilities [1]	0.42 %	0.39 %	0.39 %	0.39 %	0.44 %	0.51 %	0.54 %	0.62 %
Average term to maturity (in months)								
Mortgages - corporate	13.1	12.7	11.5	11.4	12.9	13.9	13.8	13.0
Term deposits	19.2	16.1	14.9	16.0	17.1	17.7	17.7	18.5
Balance Sheet Highlights ($ million)								
Total assets	$ 4,540	$ 4,427	$ 4,152	$ 4,079	$ 4,004	$ 4,066	$ 4,000	$ 3,808
Mortgages - corporate	$ 2,338	$ 2,224	$ 2,037	$ 1,939	$ 1,975	$ 1,977	$ 1,902	$ 1,806
Mortgages - securitized	$ 1,835	$ 1,755	$ 1,724	$ 1,751	$ 1,691	$ 1,700	$ 1,659	$ 1,584
Total liabilities	$ 4,013	$ 3,910	$ 3,645	$ 3,589	$ 3,562	$ 3,626	$ 3,558	$ 3,375
Shareholders' equity	$ 528	$ 517	$ 507	$ 489	$ 443	$ 441	$ 442	$ 433
Capital Ratios								
Income tax assets to capital ratio [2]	5.14	5.22	5.02	4.93	5.76	5.53	5.53	5.29
CET 1 & Tier 1 capital ratios [4]	17.72 %	17.90 %	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %	20.26 %
Total capital ratio [4]	17.98 %	18.14 %	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %	20.54 %
Leverage ratio [3]	9.76 %	9.71 %	9.94 %	9.83 %	8.88 %	8.82 %	8.96 %	9.41 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	1.76 %	1.70 %	1.92 %	1.66 %	0.00 %	0.01 %	0.03 %	0.05 %
Impaired mortgage ratio (total) [1]	0.99 %	0.96 %	1.05 %	0.89 %	0.01 %	0.02 %	0.02 %	0.03 %
Mortgage Arrears								
Corporate	$85,513	$63,651	$54,873	$54,430	$37,792	$ 9,908	$ 9,981	$10,826
Securitized	4,438	5,130	4,096	3,439	2,842	3,397	4,124	4,865
Total	$89,951	$68,781	$58,969	$57,869	$40,634	$13,305	$14,105	$15,691
Common Share Information (end of period)								
Number of common shares outstanding	35,432	35,068	34,788	34,306	31,855	31,715	31,373	29,621
Book value of common share [1]	$ 14.89	$ 14.73	$ 14.58	$ 14.26	$ 13.90	$ 13.89	$ 14.08	$ 14.63
Common share price - close	$ 15.13	$ 15.36	$ 15.00	$ 15.00	$ 14.57	$ 16.75	$ 17.85	$ 17.23
Market capitalization ($ million)	$ 536	$ 539	$ 522	$ 515	$ 464	$ 531	$ 560	$ 510

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

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[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2021 and 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 50% in fiscal 2021 and 25% in fiscal 2022.

Quarterly Trends

- In 2021, the main drivers to net income were related to the ongoing pandemic impacts including a lower interest rate environment and a recovery in the fair value of our REIT portfolio following the initial onset of the pandemic. In 2022, we saw a rising interest rate environment and generally unrealized losses in our REIT portfolio. In 2023, we initially saw some stabilization in interest rates compared to 2022 but recent increases in interest rates and continued uncertainty on future increases by the Bank of Canada and on the Canadian economy's risk of recession, has led to volatility in REIT stock prices and unrealized losses. Other factors in 2023 include (i) higher average corporate mortgage portfolio balances from net originations and renewals; and (ii) lower spreads of corporate mortgages over term deposit interest and expenses mainly from higher interest rates on our recent term deposit originations. However, spreads of corporate mortgages over term deposit interest and expenses in 2023 are higher than prior periods presented above.

- At the end of 2021 to mid-2022, taxable income had generally been reducing or negative and was mainly impacted by lower taxable income from MCAP due to timing differences only, arising as a result of the tax treatment on sales of their loans into certain securitization programs. This had been partially offset by higher income from our core business. In Q4 2022, we executed an internal reorganization through a transfer of our equity investment in MCAP to a wholly-owned limited partnership which increased our taxable income.

- The spread of corporate mortgages over term deposit interest and expenses had been declining until Q3 2022. Through the latter quarter of 2021 and first half of 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread. Beginning in Q3 2022, the rising interest rate environment had increased rates in our floating rate residential construction portfolio above their floor rates and our greater focus on changing the laddering of the duration of our term deposits had kept average term deposit rates from rising faster than our mortgage rates, which has increased our spread of corporate mortgages over term deposit interest and expenses. In Q2 and Q3 2023, term deposit rates have increased faster than our mortgage rates given the current higher interest rate environment and uncertainty around future Bank of Canada rate decisions as well as continued market competition for residential mortgages.

- We have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly since 2021. As a result, we had reduced our securitization volumes in 2022 and 2023. 2023 volumes have also been impacted by lower insured residential mortgage originations due to the higher interest rate environment. We participate in this market opportunistically.

- Common Equity Tier 1 ("CET 1"), Tier 1 Capital and Total Capital to risk-weighted assets ratio reductions are due to our growing risk-weighted assets compared to our capital base. The Company successfully initiated two capital raises by way of rights offerings in December 2021 and December 2022. These offerings raised $33 million of capital in 2021 and $34 million in 2022. In 2022 and so far in 2023, we also raised $4 million and $2 million, respectively, of capital through our at-the-market equity program ("ATM Program"). Our Dividend Reinvestment Program ("DRIP") has provided us with a reliable source of capital maintenance each quarter and we have seen an increase in participation beginning in Q4 2022. In Q2 2023, our total capital and leverage ratios decreased due to Office of the Superintendent of Financial Institutions Canada's ("OSFI") revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

- Mortgage arrears have varied on a quarterly basis given the nature of the 1-30 day arrears. The majority of residential mortgage arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. While greater than 30 days arrears have increased in our residential mortgages, it is still low compared to the size of our portfolio and low relative to historical norms. We believe that we have a quality residential mortgage loan portfolio. The increase in construction and commercial mortgage arrears is mainly due to mortgages that we did bring or we expect will be brought current, or where we have initiated asset recovery programs. We have recovered or expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND OUTLOOK

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

Economic Outlook

The Canadian economy is showing signs of weakening under the weight of higher interest rates. While inflation is trending downwards, higher mortgage costs, which are directly related to higher interest rates, and a resilient labour market with higher wage growth are keeping inflation above the 2% Bank of Canada target. Many economists expect rates to remain elevated into mid to late 2024 but citing that further rate hikes seem less likely given the expected effects of the 475 basis points increase that have taken place since 2022 and a slowing global market. Higher leveraged households and the prospects of a weakening job market have shifted consumer spending toward debt servicing. Strong immigration is also proving to be another unique factor for Canada's economy. Most economists believe that at least a mild recession is probable but forecasted for 2024, along with modest GDP growth and our unemployment rate to increase but still remain low. Although much of the Canadian consumer market continues to demonstrate credit strength, there is the beginning of increasing delinquency rates on non-housing-related consumer debt and some pullback on consumer spending that may indicate that the tighter monetary policy and high interest rates are working their way through the economy. We also expect continued uncertainty around current geopolitical conflicts that have impacts on the cost of commodities, consumer goods and food, and investor sentiment. We expect inflation and interest rates to continue to be the dominant concern for the rest of the year and into 2024.

Housing Market Outlook

The continuation of interest rate hikes and resilient house prices are headwinds that could cool housing demand, which we are now starting to see. Housing affordability continues to worsen in all provincial markets. In the long term, we believe that eventual cuts to interest rates, strong population growth and the continued supply-demand imbalance will provide upward pressure on home prices, particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. Further, robust immigration rates will keep lifting housing demand with the majority choosing to live within our core markets. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business. Even with current government actions, including the recent removal of GST on rental construction projects, the lack of supply of affordable housing is not easily resolved in the short term, as there are multiple factors to building new supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, lack of new construction technologies, etc.) that limit how many homes can be built in the short term.

Business Outlook

We believe that our business is well structured with its focus on multiple facets of the Canadian residential real estate market, giving us some flexibility in terms of income generation and allowing us to balance out volatility that we may experience at certain points and in certain areas of our business. We expect that continued high interest rates as well as the risk of recession will create some headwinds for the remainder of the year for our MCAN Home division in its origination of residential mortgages, our MCAN Capital division in its REIT portfolio, and our MCAN Wealth division in its origination and management of term deposits. That said, we have positive momentum in other parts of our business, such as MCAN Capital's construction lending business which benefits from floating interest rates, and renewal volumes from our maturing residential mortgages in our MCAN Home division. We believe that the housing market will ultimately remain strong over the long term given the lack of current supply and the pace of immigration. Notwithstanding the short-term headwinds, we believe that there is opportunity to grow our core business in this environment, without taking on significantly more risk. We continue to manage our spreads in our residential lending business and look to open up new products in that area, and there continues to be ample opportunity to lend to experienced and well capitalized residential construction developers, particularly in our core area of lending on more affordable housing projects near transit corridors around key urban markets. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in the short term. We will also continue to place an emphasis on investing in our business infrastructure and process improvements in order to help drive efficiencies and future growth.

MCAN Capital Division

Our MCAN Capital division manages our construction and commercial lending business, as well as our investments in REITs and private real estate-based development and loan funds. Notwithstanding current headwinds in the housing market from the higher interest rate environment, we expect continued high demand for more affordable housing, which is our focus generally with our investments and construction and commercial loans. We have seen tremendous growth in our residential construction and commercial portfolio, which is over $1 billion, and we expect a continued solid pipeline for the remainder of the year. With respect to our construction lending portfolio, although there continues to be construction zoning site delays as well as the aforementioned housing market headwinds, the vast majority of our loans are progressing towards completion and the few that have stalled are being actively managed to either be brought current or we expect to recover all past due interest and principal. We continue to monitor that entire portfolio and the market very closely in general, and we will continue to exercise our strong credit management practices in the context of the market. As well, the cost of construction has increased due to inflationary pressures in the cost of building materials and labour and there continues to be a shortage of skilled labour within the construction industry. All these factors have, and may continue to have, an impact on the timing of repayments as loans remain outstanding longer; however, they have not changed the overall expected success of these construction projects or the performance of the loans within this portfolio. Our philosophy within our MCAN Capital division is to apply a prudent approach to our underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential products, near transit corridors, with experienced borrowers and developers where we have existing relationships. We will continue to remain vigilant in our underwriting and loan management practices. With respect to our private real estate-based development funds, many of the fund sponsors have been sitting on the sidelines, not committing amounts to new projects given current market conditions. We believe this to be a prudent approach. MCAN has invested in these funds for long-term gains, not short-term returns. For projects currently being undertaken, we actively monitor their progress. With respect to our REIT portfolio, the expected relief to interest rates in 2024 and 2025 should help valuations there.

MCAN Home Division

Our MCAN Home division manages our residential lending business. Given the higher interest rate environment, our risk management, credit monitoring and assessment activities will continue to have a heightened focus in operating our business. We currently have a portfolio with a strong credit profile and a minimal level of arrears. Residential mortgages tend to provide comparatively lower yields given their risk profile. That said, we continue to focus on proactively protecting our net interest margins, where we are experiencing tightening versus the first half of the year, as new business is slow given higher interest rates and a decline in home purchase activity. The mortgage market has become more competitive in order to attract what smaller demand is coming in. We expect this trend to continue. We have been experiencing, and expect to continue to experience, strong renewals of our uninsured residential mortgages as OSFI's minimum qualifying rate for borrowers applying for new mortgages remains in place. Based on the current economic and housing market outlook, we will continue to focus on protecting our net interest margins within our capital requirements during this time of uncertainty. We are also looking to add new products to further broaden our offering to our customers. We remain dedicated to continuously improving our service for our borrowers and the broker community, and as such, we will continue to invest in our current and new systems and business infrastructure to further enhance our service experience. We are also increasing our mortgage lending in the Alberta and British Columbia urban markets and may look to expand in other markets within Canada. We will continue to keep abreast of the many changes in the market, the regulatory environment and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

MCAN Wealth Division

Our MCAN Wealth division manages our term deposit business. We employ leverage and fund our business by issuing term deposits that are eligible for CDIC deposit insurance that are sourced through a network of independent brokers and financial agents. We have raised record amounts of term deposits so far in 2023 given the level of growth and high mortgage renewals that we have experienced. This will likely continue for the balance of the year. We have also seen higher term deposit rates amid a higher interest rate environment. We typically see the term deposit market impacted first and immediately by higher interest rates, compared to residential mortgages that these term deposits fund given commitments for residential mortgages are done in advance. In the short term, there will continue to be volatility in the Government of Canada yield curve and, therefore, volatility in pricing in the term deposit market. In the mid term, we expect to see term deposit rates stabilize and even decrease as the likelihood for interest rate cuts becomes clearer. Given current and expected interest rates, we continue to look for opportunities to realign the laddering of the duration of our term deposits relative to our corporate mortgage portfolio and we have actively utilized our hedging strategies to minimize interest rate risk. We will continue to expand our broker network and look for other channels to source term deposits, including a direct-to-consumer channel, which we hope to launch soon. We have invested in, and expect to continue to invest in, our current and new systems and business infrastructure and processes to drive efficiencies. We are focused on a digital strategy, process improvements and eventually over the long term, new product offerings within our term deposit operations.

We are expanding and maturing our capital markets, investor relations and funding strategies over the long term to continue our growth. That growth will be dependent on capital availability and, therefore, the strength of capital markets or existing shareholder demand for our shares. We have leveraged our ATM program already this year, renewing it in August, and we will continue to use our ATM program and other share offerings when it makes sense. MCAN's management and Board are committed to proactively and effectively managing and evolving all our strategies, business activities and team into the future. Our targeted average annual growth in corporate assets over the long term is 10%; however, we expect to remain focused on protecting our bottom line and preserving capital over corporate asset growth in the mid term, given the uncertain economic environment.

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

HIGHLIGHTS

Q3 2023

- Net income totalled $18.5 million in Q3 2023, an increase of $6.8 million (59%) from $11.7 million in Q3 2022. Results for the third quarter of 2023 were positively impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $0.53 in Q3 2023, an increase of $0.16 (43%) from earnings per share of $0.37 in Q3 2022.

- Return on average shareholders' equity[1] was 14.20% for Q3 2023 compared to 10.52% in Q3 2022.

- Net corporate mortgage spread income[1] increased by $8.2 million from Q3 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued net mortgage originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread of corporate mortgages over term deposit interest and expenses is due to a larger increase in our average mortgage rates compared to our average term deposit rates. The increase in our average mortgage rates is primarily due to the impact of the higher interest rate environment on our mostly floating rate residential construction loans.

- Net securitized mortgage spread income[1] decreased by $0.3 million from Q3 2022. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance. Since 2022, we have seen the spread of securitized mortgages over liabilities decline on securitizations mainly as a result of higher securitization liability interest expense from higher Government of Canada bond yields in a rising interest rate environment.

- Provision for credit losses on our corporate mortgage portfolio of $0.4 million in Q3 2023 was mainly due to growth in our portfolio and less favourable underlying economic forecasts. In Q3 2022, we had a provision for credit losses of $0.9 million mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio.

- Equity income from MCAP totalled $4.3 million in Q3 2023, a decrease of $3.9 million (48%) from $8.2 million in Q3 2022, which was primarily due to (i) lower mortgage origination fees from lower mortgage originations and sales; (ii) a decrease in fair value adjustments on mortgages due to the higher interest rate environment; and (iii) higher interest expense on credit facilities. These were partially offset by (i) higher securitized mortgage interest income from a higher average securitized portfolio; (ii) higher hedge gains; (iii) higher investment revenue from higher average mortgage rates; and (iv) lower mortgage origination expenses from lower origination volumes.

- In Q3 2023, we recorded a $1.6 million net unrealized fair value loss on our marketable and non-marketable securities compared to a $5.1 million net unrealized fair value loss in Q3 2022. In Q3 2023, we saw REIT prices decrease due to Bank of Canada interest rate increases resuming and uncertainty around future rate increases and recessionary pressures. In Q3 2022, we saw more significant declines in REIT prices mainly from the steeply rising interest rate environment. We are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments. In Q3 2023, we received distributions of $0.7 million (distribution yield[1] of 5.68%) from our REITs compared to $0.9 million (distribution yield[1] of 6.07%) in Q3 2022. In Q3 2023, we also had a $2.1 million unrealized gain on our non-marketable securities investments due to value-add leasing activity on one underlying property investment.

Year to Date 2023

- Net income totalled $57.6 million for 2023 year to date, an increase of $26.4 million (84%) from $31.3 million net income in 2022. Similar to Q3 2023, our year to date results were positively impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $1.66 for 2023 year to date, an increase of $0.65 (64%) from earnings per share of $1.01 in 2022.

- Return on average shareholders' equity[1] was 15.06% for 2023 compared to 9.47% in 2022.

- Net corporate mortgage spread income[1] increased by $25.2 million from 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses. For 2023 year to date, the increase in the spread of corporate mortgages over term deposit interest and expenses is due to the same factors as for Q3 2023 mentioned above.

- Net securitized mortgage spread income[1] decreased by $0.9 million from 2022. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. The decline in the spread of securitized mortgages over liabilities is due to the same factors as described above for Q3 2023.

- Provision for credit losses on our corporate mortgage portfolio of $2.4 million for 2023 was mainly due to the same factors as described above for Q3 2023. For 2022, there was a provision for credit losses of $27 thousand due to growth in the portfolio partially offset by improved economic forecasts following the pandemic.

- Equity income from MCAP totalled $17.6 million for 2023 year to date, a decrease of $2.1 million (11%) from $19.7 million in 2022. For 2023 year to date, the decrease is due mainly to lower mortgage origination fees from lower mortgage originations and sales.

- Year to date net unrealized loss on our marketable and non-marketable securities was $5.6 million for 2023 compared to a year to date net realized and unrealized loss of $13.8 million for 2022. Year to date 2023 net unrealized losses are due to the same factors as described above for Q3 2023. In year to date 2022, we also had a $1.8 million realized loss on one REIT in our portfolio that had a mandatory corporate action resulting in its privatization. Year to date, we received distributions of $2.8 million (distribution yield[1] of 6.22%) from our REITs compared to $2.7 million (distribution yield[1] of 5.86%) in 2022.

Business Activity and Balance Sheet

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

- Corporate assets totalled $2.67 billion at September 30, 2023, a net increase of $48 million (2%) from June 30, 2023 and a net increase of $384 million (17%) from December 31, 2022.

- Corporate mortgage portfolio totalled $2.3 billion at September 30, 2023, a net increase of $113 million (5%) from June 30, 2023 and a net increase of $398 million (21%) from December 31, 2022.

- Construction and commercial portfolios totalled $1.09 billion at September 30, 2023, a net increase of $30 million (3%) from June 30, 2023 and a net increase of $164 million (18%) from December 31, 2022. The movement in the portfolio is attributed to originations of $480 million year to date 2023 in new construction and commercial mortgages, partly offset by maturities and repayments. Originations have been strong this year and some extensions of projects due to normal construction delays or normal delays relating to the permitting and zoning process has meant that we have not experienced as much run-off in the portfolio as expected. To date, projects continue to progress toward completion. We will look to rebalance, where possible, to a higher proportion of construction and commercial loans that fit within our risk appetite and capital requirements.

- Uninsured residential mortgage portfolio totalled $956 million at September 30, 2023, a net increase of $50 million (6%) from June 30, 2023 and a net increase of $128 million (15%) from December 31, 2022. Uninsured residential mortgage originations were $107 million in Q3 2023, a decrease of $7 million (6%) from Q2 2023 and an increase of $35 million (48%) from Q3 2022 and $284 million year to date 2023 compared to $320 million year to date 2022. Overall, total origination volumes in 2023 were lower partly as a result of our focus on our net corporate mortgage spread income over portfolio growth in this heightened interest rate environment, as well as a broader market slowdown in new originations due to the high interest rate environment. That said, we have seen an increase in our uninsured residential mortgage renewals with $122 million in Q3 2023 compared to $108 million in Q3 2022 and $380 million year to date 2023 compared to $308 million year to date 2022 as borrowers find it more convenient to stay with their current lender in the current market environment. We actively manage origination and renewal volumes in order to protect our net interest margins and our bottom line.

- Insured residential mortgage originations were $163 million in Q3 2023, an increase of $20 million (14%) from Q2 2023 and an increase of $37 million (29%) from Q3 2022, and $375 million year to date 2023 compared to $499 million year to date 2022. This includes $3 million of insured residential mortgage commitments originated and sold in Q3 2023 under an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, compared to $9 million in Q2 2023 and $87 million in Q3 2022, and $25 million year to date 2023 compared to $184 million year to date 2022. We launched our insured adjustable rate residential mortgage product last year. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise. Insured residential mortgage securitization volumes were $144 million in Q3 2023, an increase of $68 million (89%) from Q2 2023 and an increase of $88 million (157%) from Q3 2022, and $232 million year to date 2023 compared to $314 million year to date 2022. Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages. We use various channels in funding the insured residential mortgage portfolio, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

Dividend

- The Board declared a fourth quarter regular cash dividend of $0.38 per share to be paid January 2, 2024 to shareholders of record as of December 15, 2023. As a Mortgage Investment Corporation ("MIC"), we are entitled to deduct the dividends that we pay to shareholders from our taxable income. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

Credit Quality

- Impaired corporate mortgage ratio[1] was 1.76% at September 30, 2023 compared to 1.70% at June 30, 2023 and 1.66% at December 31, 2022. At September 30, 2023, we have two impaired construction mortgages and one commercial loan where asset recovery programs have been initiated and we expect to recover all past due interest and principal.

- Impaired total mortgage ratio[1] was 0.99% at September 30, 2023 compared to 0.96% at June 30, 2023 and 0.89% at December 31, 2022.

- Arrears total mortgage ratio[1] was 2.16% at September 30, 2023 compared to 1.73% at June 30, 2023 and 1.57% at December 31, 2022. The majority of our residential mortgage arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. While greater than 30 days arrears have increased in our residential mortgages, it is still low compared to the size of our portfolio and low relative to historical norms. We believe that we have a quality residential mortgage loan portfolio. We have also had historically low arrears related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. We have a strong track record with our asset recovery programs should the need arise.

- Net write-offs were $nil (0.0 basis points of the average corporate portfolio) in Q3 2023 compared to $11 thousand (0.2 basis points) in Q3 2022.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 67.0% at September 30, 2023 compared to 67.4% at June 30, 2023 and 62.1% at December 31, 2022.

Capital

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

- During the current quarter, we renewed our (i) Base Shelf Prospectus; and (ii) ATM Program established pursuant to a Prospectus Supplement to our Base Shelf Prospectus allowing us to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. During Q3 2023, we sold 100,000 common shares at a weighted average price of $16.28 for gross proceeds of $1.6 million and net proceeds of $1.4 million including $33 thousand of agent commission paid and $0.2 million of other share issuance costs under the ATM Program. Year to date 2023, we sold 153,400 common shares at a weighted average price of $16.12 for gross proceeds of $2.5 million and net proceeds of $2.1 million including $50 thousand of agent commission paid and $0.3 million of other share issuance costs under the ATM Program.

- We issued $4.0 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in Q3 2023 compared to $3.6 million in Q2 2023 and $2.0 million in Q3 2022. The DRIP participation rate was 30% for the Q3 2023 dividend (Q2 2023 dividend - 29%; Q3 2022 dividend - 17%).

- Income tax assets to capital ratio[3] was 5.14 at September 30, 2023 compared to 5.22 at June 30, 2023 and 4.93 at December 31, 2022.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 17.72% at September 30, 2023 compared to 17.90% at June 30, 2023 and 19.60% at December 31, 2022. Total Capital to risk-weighted assets ratio[2] was 17.98% at September 30, 2023 compared to 18.14% at June 30, 2023 and 19.83% at December 31, 2022. Leverage ratio[2] was 9.76% at September 30, 2023 compared to 9.71% at June 30, 2023 and 9.83% at December 31, 2022. Beginning June 30, 2023, our total capital and leverage ratios decreased due to OSFI's revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*
[2] *These measures have been calculated in accordance with OSFI's Leverage Requirements and Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital were 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.*
[3] *For further information refer to the "Income Tax Capital" section of this MD&A. Tax balances are calculated in accordance with the Tax Act.*

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %) **For the Periods Ended**	**Q3 2023**	**Q2 2023**	**Change (%)**	**Q3 2022**	**Change (%)**	**YTD 2023**	**YTD 2022**	**Change (%)**
Net Investment Income - Corporate Assets								
Mortgage interest	$ 44,144	$ 38,691	14%	$ 27,216	62%	$118,591	$ 70,539	68%
Equity income from MCAP Commercial LP	4,310	5,268	(18%)	8,236	(48%)	17,581	19,743	(11%)
Non-marketable securities	2,056	2,428	(15%)	2,202	(7%)	6,706	5,732	17%
Marketable securities	693	1,177	(41%)	864	(20%)	2,797	2,692	4%
Fees	480	638	(25%)	682	(30%)	1,689	1,843	(8%)
Interest on cash and other income	1,071	1,047	2%	579	85%	3,147	858	267%
Net loss on securities	(1,581)	(5,017)	68%	(5,092)	69%	(5,599)	(13,809)	59%
Gain on dilution of investment in MCAP Commercial LP	—	1,048	(100%)	—	n/a	1,048	—	n/a
	51,173	**45,280**	**13%**	**34,687**	**48%**	**145,960**	**87,598**	**67%**
Term deposit interest and expenses	21,083	18,034	17%	12,330	71%	53,858	31,033	74%
Mortgage expenses	1,794	1,797	—%	1,592	13%	5,392	4,769	13%
Interest on loans payable	2,241	1,414	58%	1,064	111%	4,813	2,488	93%
Other financial expenses	—	100	(100%)	—	n/a	100	210	(52%)
Provision for (recovery of) credit losses	399	796	(50%)	856	(53%)	2,380	27	8,715%
	25,517	**22,141**	**15%**	**15,842**	**61%**	**66,543**	**38,527**	**73%**
	25,656	**23,139**	**11%**	**18,845**	**36%**	**79,417**	**49,071**	**62%**
Net Investment Income - Securitization Assets								
Mortgage interest	9,616	9,342	3%	7,949	21%	28,026	22,804	23%
Other securitization income	453	433	5%	195	132%	1,276	383	233%
	10,069	**9,775**	**3%**	**8,144**	**24%**	**29,302**	**23,187**	**26%**
Interest on financial liabilities from securitization	8,147	7,524	8%	6,214	31%	23,172	17,096	36%
Mortgage expenses	1,152	1,092	5%	1,050	10%	3,329	3,025	10%
Provision for credit losses	—	—	n/a	3	(100%)	—	6	(100%)
	9,299	**8,616**	**8%**	**7,267**	**28%**	**26,501**	**20,127**	**32%**
	770	**1,159**	**(34%)**	**877**	**(12%)**	**2,801**	**3,060**	**(8%)**
Operating Expenses								
Salaries and benefits	6,015	6,187	(3%)	5,044	19%	17,499	14,679	19%
General and administrative	2,527	2,589	(2%)	2,442	3%	7,884	6,831	15%
	8,542	**8,776**	**(3%)**	**7,486**	**14%**	**25,383**	**21,510**	**18%**
Net income before income taxes	17,884	15,522	15%	12,236	46%	56,835	30,621	86%
Provision for (recovery of) income taxes	(595)	(365)	63%	586	(202%)	(808)	(645)	25%
Net Income	**$ 18,479**	**$ 15,887**	**16%**	**$ 11,650**	**59%**	**$ 57,643**	**$ 31,266**	**84%**
Basic and diluted earnings per share	$ 0.53	$ 0.46	15%	$ 0.37	43%	$ 1.66	$ 1.01	64%
Dividends per share - cash	$ 0.38	$ 0.36	6%	$ 0.36	6%	$ 1.10	$ 1.08	2%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ —	$ 0.97	(100%)

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	September 30, 2023			June 30, 2023			September 30, 2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages									
Insured	$ 303,108	$ 3,295	4.04 %	$ 225,621	$ 1,902	3.76 %	$ 210,271	$ 1,418	2.74 %
Uninsured	930,150	14,750	6.32 %	869,404	12,745	5.86 %	855,224	8,772	4.09 %
Uninsured - completed inventory	9,576	259	10.73 %	29,603	718	9.72 %	33,047	609	7.31 %
Construction loans									
Residential	963,016	23,450	9.87 %	894,919	21,051	9.43 %	763,841	14,537	7.55 %
Non residential	3,222	55	6.71 %	—	—	— %	5,077	93	7.28 %
Commercial loans									
Multi family residential	97,728	2,182	8.85 %	102,044	2,128	8.36 %	92,659	1,537	6.58 %
Other	6,291	153	9.62 %	6,300	147	9.38 %	17,800	250	5.56 %
Mortgages - corporate portfolio	$2,313,091	$ 44,144	7.63 %	$2,127,891	$ 38,691	7.32 %	$1,977,919	$ 27,216	5.47 %
Term deposit interest and expenses [2]	2,019,738	21,083	4.14 %	1,906,062	18,034	3.69 %	1,790,540	12,330	2.64 %
Net corporate mortgage spread income[1]		$ 23,061			$ 20,657			$ 14,886	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.49 %			3.63 %			2.83 %
Average term to maturity (months)									
Mortgages - corporate	13.1			12.7			12.9		
Term deposits	19.2			16.1			17.1		

Table 5: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Year to Date

For the Nine Months Ended September 30	2023			2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages						
Insured	$ 229,578	$ 6,537	3.80 %	$ 206,877	$ 3,522	2.30 %
Uninsured	877,546	38,394	5.83 %	835,976	24,270	3.87 %
Uninsured - completed inventory	25,065	1,782	9.50 %	36,883	1,718	6.22 %
Construction loans						
Residential	901,611	65,022	9.57 %	723,853	36,335	6.71 %
Non residential	1,086	55	6.67 %	5,029	262	6.97 %
Commercial loans						
Multi family residential	100,244	6,359	8.48 %	83,716	3,605	5.87 %
Other commercial	6,301	442	9.38 %	17,905	827	5.60 %
Mortgages - corporate portfolio	$ 2,141,431	$ 118,591	7.36 %	$ 1,910,239	$ 70,539	4.93 %
Term deposit interest and expenses [2]	1,901,975	53,858	3.72 %	1,743,658	31,033	2.30 %
Net corporate mortgage spread income[1]		$ 64,733			$ 39,506	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.64 %			2.63 %

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

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

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q3 2023	Q2 2023	Change (%)	Q3 2022	Change (%)	YTD 2023	YTD 2022	Change (%)
Originations								
Residential mortgages - insured fixed [2]	$ 159,495	$ 139,603	14%	$ 44,951	255%	$ 359,012	$ 205,276	75%
Residential mortgages - insured adjustable rate [2]	3,878	3,704	5%	81,341	(95%)	15,842	294,104	(95%)
Residential mortgages - uninsured	107,421	114,105	(6%)	72,361	48%	284,487	320,290	(11%)
Residential mortgages - uninsured completed inventory [1]	9,502	148	6,320%	12,567	(24%)	18,941	17,399	9%
Residential construction [1]	200,672	156,477	28%	120,226	67%	472,796	387,090	22%
Non-residential construction [1]	3,311	—	n/a	34	9,638%	3,311	115	2,779%
Commercial [1]	—	—	n/a	—	n/a	3,675	26,855	(86%)
	$ 484,279	**$ 414,037**	**17%**	**$ 331,480**	**46%**	**$1,158,064**	**$1,251,129**	**(7%)**

[1] Construction, commercial and completed inventory originations represent all advances on loans.
[2] Includes insured residential mortgage commitments sold to MSLP that the Company originated.

Overview

For Q3 2023 and year to date 2023, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q3 2022 and year to date 2022 was mainly attributable to the rising interest rate environment's impact on floating rates on residential construction loans that are now well above their floor rates. In Q3 2023 compared to Q2 2023, we saw the increase in average term deposit rates generally exceeding the pace of increase in our mortgage portfolio, given the amount of term deposits we originated coupled with the impact of maturing lower-rate term deposits. As well, deposit customers are seeking higher rates due to actual and expected Bank of Canada policy interest rate increases and current economic uncertainty. That said, we have been actively managing our interest rate risk during this period of higher interest rates by continually reviewing, and if necessary, changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio. We continue to make a conscious effort to focus on residential lending spreads, which have compressed.

Residential Mortgage Lending

Residential mortgages provide comparatively lower yields given their risk profile, with uninsured residential mortgages providing higher yields than insured residential mortgages. We opportunistically invest in our residential uninsured completed inventory portfolio which often migrate from our own construction book.

Total origination volumes year to date 2023 on our residential mortgages were lower compared to year to date 2022. The economic environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes. As well, we have continued to have a more purposeful focus on protecting our net interest margin over quantity of originations. However, we have seen an increase in our uninsured residential mortgage renewals with $380 million year to date 2023 compared to $308 million year to date 2022, as borrowers find it more convenient to stay with their current lender in the current market environment. Origination volumes for Q3 2023 did improve compared to Q2 2023 and Q3 2022 as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets.

Our insured adjustable rate residential mortgage product also saw a slowdown due to higher short term interest rates and uncertainty around further Bank of Canada rate increases. Of note, unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages adjust as interest rates change with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise.

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

We have an agreement with MSLP, a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. We originated and sold $3 million in commitments in Q3 2023 (Q2 2023 - $9 million; Q3 2022 - $87 million) and $25 million year to date 2023 (year to date 2022 - $184 million) under this agreement.

We securitize our insured residential mortgages opportunistically through the CMHC National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") program. Our Q3 2023 residential mortgage securitization volumes were $144 million (Q2 2023 - $76 million; Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million). Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated residential mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the interim consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income including renewal income. At September 30, 2023, we had the renewal rights to $3.0 billion of residential mortgages (June 30, 2023 - $2.8 billion; December 31, 2022 - $2.6 billion).

Construction and Commercial

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

Some projects have experienced construction delays due to labour shortages and cost overruns from higher interest costs and the inflationary impact on building supplies, which has led to some loan extension and amendment requests. To date, projects continue to progress toward completion. Impaired construction and commercial mortgages include three construction and commercial mortgages where asset recovery programs have already been initiated and we expect to recover all past due principal and interest. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets.

Equity Income from MCAP

As a result of the higher interest rate environment, in Q3 2023, MCAP's origination volumes were $6.3 billion, a decrease from $8.7 billion in Q3 2022. At August 31, 2023 (we account for MCAP on a one-month lag basis), MCAP had $153.7 billion of assets under management compared to $155.0 billion at May 31, 2023 and $151.1 billion at August 31, 2022. Equity income from MCAP totalled $4.3 million in Q3 2023, a decrease of $3.9 million from $8.2 million in Q3 2022. For Q3 2023, the decrease in equity income from MCAP was primarily due to (i) lower mortgage origination fees from lower mortgage originations and sales; (ii) a decrease in fair value adjustments on mortgages due to the higher interest rate environment; and (iii) higher interest expense on credit facilities. These were partially offset by (i) higher securitized mortgage interest income from a higher average securitized portfolio; (ii) higher hedge gains; (iii) higher investment revenue from higher average mortgage rates; and (iv) lower mortgage origination expenses from lower origination volumes. For year to date 2023, equity income from MCAP totalled $17.6 million, a decrease of $2.1 million from $19.7 million year to date 2022. For the year to date, the decrease in equity income from MCAP was due mainly to lower mortgage origination fees from lower mortgage originations and sales.

We recognize equity income from MCAP on a one-month lag such that our 2023 equity income from MCAP is based on MCAP's net income for the quarter ended August 31, 2023. For further information on our equity investment in MCAP, refer to the "Equity Investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.7 million in Q3 2023 (Q3 2022 - $1.5 million) and $5.7 million year to date 2023 (year to date 2022 - $4.5 million). The distribution yield[1] on this portfolio was 15.51% in Q3 2023 (Q3 2022 - 11.89%) and 15.24% year to date 2023 (year to date 2022 - 12.62%).

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.3 million in Q3 2023 (Q3 2022 - $0.2 million) and $0.9 million year to date 2023 (year to date 2022 - $0.5 million). The distribution yield[1] on this portfolio was 10.43% in Q3 2023 (Q3 2022 - 8.93%) and 10.23% year to date 2023 (year to date 2022 - 9.45%).

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

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

Marketable Securities

Marketable securities income consists of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 5.68% in Q3 2023 (Q3 2022 - 6.07%) and 6.22% year to date 2023 (year to date 2022 - 5.86%). For the current quarter, the lower distribution yield compared to Q3 2022 is mainly due to lower distribution income from one REIT in our portfolio partially offset by the decline in unrealized fair value. For year to date, the higher distribution yield is mainly due to the decline in unrealized fair value in the current year given increased volatility in REIT stocks from the uncertain interest rate and macroeconomic environment. The distribution yield has been calculated based on the average portfolio carrying value.

Fees

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

Net Loss on Securities

In Q3 2023, we recorded a $1.6 million net unrealized loss on securities compared to a $5.1 million net unrealized loss on securities in Q3 2022. Our year to date net unrealized loss on securities was $5.6 million for 2023 compared to a year to date net realized and unrealized loss on securities of $13.8 million for 2022. In Q3 2023, we had a $2.1 million unrealized gain on our non-marketable securities investments due to value-add leasing activity on one underlying property investment. In 2023, we saw REIT prices decrease due to Bank of Canada interest rate increases resuming and uncertainty around future rate increases, and recessionary pressures. In 2022, we saw more significant declines in REIT prices mainly from the steeply rising interest rate environment. During Q1 2022, one REIT in our portfolio had a mandatory corporate action resulting in privatization and as such we recognized a $1.8 million realized loss. We expect continued volatility in the REIT market, given the economic uncertainty and interest rate environment. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Gain on Dilution of Investment in MCAP

In Q2 2023, MCAP issued additional class B units to employees of MCAP which decreased our equity interest from 13.83% to 13.73%. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $1.0 million in Q2 2023.

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarters and year to date 2023 compared to prior periods was mostly due to a higher average term deposit balance and higher average term deposit rates. Beginning in 2022, average term deposit rates have increased due to the rising interest rate environment as well as dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits in Q1 2022. More recently, deposit customers are seeking higher rates due to actual and expected Bank of Canada policy interest rate increases and current economic uncertainty. That said, we have been actively managing our interest rate risk during this period of higher interest rates by changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. Our total new securitization volumes were $144 million in Q3 2023 (Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million). The increase in Q3 2023 was mainly due to higher insured residential mortgage originations as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets. The decrease compared to the prior year to date was mainly due to lower insured residential mortgage originations (a market trend as a result of the higher interest rate environment, making home purchases less affordable, especially for first time home buyers).

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

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

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

For the Quarters Ended	September 30, 2023			June 30, 2023			September 30, 2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$1,723,456	$ 9,616	2.28 %	$1,699,947	$ 9,342	2.15 %	$1,684,139	$ 7,949	1.89 %
Financial liabilities from securitization [2]	1,738,809	8,147	1.86 %	1,708,854	7,524	1.76 %	1,701,259	6,214	1.45 %
Net securitized mortgage spread income [1]		$ 1,469			$ 1,818			$ 1,735	
Spread of securitized mortgages over liabilities [1]			0.42 %			0.39 %			0.44 %

Table 8: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Year to Date

For the Nine Months Ended September 30	2023			2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,715,471	$ 28,026	2.18 %	$ 1,651,788	$ 22,804	1.85 %
Financial liabilities from securitization [2]	1,726,550	23,172	1.79 %	1,669,363	17,096	1.35 %
Net securitized mortgage spread income [1]		$ 4,854			$ 5,708	
Spread of securitized mortgages over liabilities [1]			0.39 %			0.50 %

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

In 2023, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields rose significantly as we entered a higher interest rate environment. We have seen some improvement in Q3 2023 due to the impact of our hedging program discussed below.

Derivatives and Hedging

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

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

At September 30, 2023, the Company had derivative financial instruments outstanding with net unrealized fair value gains of $0.2 million recognized in the consolidated statements of comprehensive income (June 30, 2023 - $nil; December 31, 2022 - $nil). During Q3 2023, we recognized a net realized gain on our derivative transactions of $0.4 million (Q3 2022 - $nil) in the consolidated statements of comprehensive income.

For further information, refer to Note 11 to the interim consolidated financial statements.

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %) **For the Periods Ended**	**Q3 2023**	**Q2 2023**	**Change (%)**	**Q3 2022**	**Change (%)**	**YTD 2023**	**YTD 2022**	**Change (%)**
Provision for (recovery of) impaired corporate mortgages								
Residential mortgages								
Uninsured	$ 204	20	920%	(7)	3,014%	$ 235	$ (20)	1,275%
Construction loans	711	—	n/a	—	n/a	711	—	n/a
Commercial loans								
Other commercial	(995)	(378)	(163%)	—	n/a	225	—	n/a
	(80)	(358)	78%	(7)	(1,043%)	1,171	(20)	5,955%
Provision for (recovery of) performing corporate mortgages								
Residential mortgages								
Insured	—	—	n/a	—	n/a	—	1	(100%)
Uninsured	208	345	(40%)	265	(22%)	469	(952)	149%
Uninsured - completed inventory	36	(92)	139%	57	(37%)	(114)	(94)	(21%)
Construction loans	355	919	(61%)	581	(39%)	1,096	1,038	6%
Commercial loans								
Multi family residential	(125)	(17)	(635%)	23	(643%)	(218)	120	(282%)
Other commercial	(3)	(1)	(200%)	(42)	93%	(30)	(72)	58%
	471	1,154	(59%)	884	(47%)	1,203	41	2,834%
Other provisions (recoveries)	8	—	n/a	(21)	138%	6	6	0%
Total corporate provision for (recovery of) credit losses	399	796	(50%)	856	(53%)	2,380	27	8,715%
Provision for (recovery of) performing securitized mortgages	—	—	n/a	3	(100%)	—	6	(100%)
Total provision for (recovery of) credit losses	$ 399	$ 796	(50%)	$ 859	(54%)	$ 2,380	$ 33	7,112%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 391	$ 796	(51%)	$ 877	(55%)	$ 2,374	$ 21	11,205%
Net write offs	$ —	$ —	n/a	$ 11	(100%)	$ —	$ 11	(100%)
Net write offs (basis points)	—	—	n/a	0.2	(100%)	—	0.1	(100%)

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

We had a provision for credit losses on our corporate mortgage portfolio of $0.4 million in Q3 2023, which was mainly due to growth in our portfolio and less favourable underlying economic forecasts. In Q3 2022, we had a provision for credit losses of

$0.9 million mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio. We had a provision for credit losses on our corporate mortgage portfolio of $2.4 million for year to date 2023 mainly due to the same factors as described for Q3 2023. For year to date 2022, there was a provision for credit losses of $27 thousand due to growth in the portfolio partially offset by improved economic forecasts following the pandemic. The current inflationary and higher interest rate environment has increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at September 30, 2023. IFRS 9, Financial Instruments ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since September 30, 2023, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to September 30, 2023, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

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

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q3 2023	Q2 2023	Change (%)	Q3 2022	Change (%)	YTD 2023	YTD 2022	Change (%)
Salaries and benefits	$ 6,015	$ 6,187	(3%)	$ 5,044	19%	$ 17,499	$ 14,679	19%
General and administrative	2,527	2,589	(2%)	2,442	3%	7,884	6,831	15%
	$ 8,542	**$ 8,776**	**(3%)**	**$ 7,486**	**14%**	**$ 25,383**	**$ 21,510**	**18%**

The increase in salaries and benefits in 2023 is primarily due to additional resources as well as regular pay increases and enhancements to our wellness, benefit and compensation plans.

The increase in general and administrative expenses in 2023 is primarily due to professional fees and technology costs relating to new system enhancements for our business operations and customer experience.

Taxable Income

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

Table 11: Taxable Income Reconciliation

(in thousands) For the Periods Ended	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Consolidated net income for accounting purposes	$ 18,479	$ 11,650	$ 57,643	$ 31,266
Adjustments to calculate taxable income (loss):				
Reverse: Equity income from MCAP - accounting purposes	(4,310)	(8,236)	(17,581)	(19,743)
Add: MCAP taxable income (loss)	(1,409)	(23,284)	310	(12,771)
Reverse: Provision for (recovery of) credit losses [2]	463	864	1,319	50
Add: Amortization of upfront securitization program costs [3]	2,738	2,565	8,157	7,140
Deduct: Securitization program mortgage origination costs [3]	(356)	305	(2,039)	160
Add: Securitization program premium (discount)	(2,585)	(2,462)	(2,811)	(10,769)
Reverse: Net unrealized loss (gain) on securities [4]	3,643	5,005	7,661	13,817
Add: Capital gains (losses)	—	—	—	(285)
Reverse: Loss (income) earned in subsidiaries [5]	(775)	(1,447)	(1,503)	(4,510)
Deduct: Gain on dilution of MCAP [6]	—	—	(1,048)	—
Other items	(23)	164	56	521
Taxable Income (Loss)[1]	**$ 15,865**	**$ (14,876)**	**$ 50,164**	**$ 4,876**

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

The increase in taxable income for Q3 2023 and year to date 2023 compared to Q3 2022 and year to date 2022 was primarily due to higher net corporate mortgage spread income, higher taxable income or lower tax losses recorded by MCAP and lower discounts on our securitization transactions. As a MIC, we pay out all of our taxable income to shareholders through dividends. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 50,473	$ 116,588	(57%)	$ 78,210	(35%)
Marketable securities	46,081	49,723	(7%)	53,743	(14%)
Mortgages	2,337,717	2,224,427	5%	1,939,494	21%
Non-marketable securities	111,590	107,176	4%	97,228	15%
Equity investment in MCAP Commercial LP	110,222	109,818	—%	106,168	4%
Deferred tax asset	1,872	1,278	46%	1,095	71%
Derivative financial instruments	247	—	n/a	—	n/a
Other assets	8,534	9,886	(14%)	7,182	19%
	2,666,736	**2,618,896**	**2%**	**2,283,120**	**17%**
Securitization Assets					
Cash held in trust	28,307	43,653	(35%)	34,531	(18%)
Mortgages	1,835,318	1,754,886	5%	1,751,303	5%
Other assets	10,121	9,687	4%	9,722	4%
	1,873,746	**1,808,226**	**4%**	**1,795,556**	**4%**
	$ 4,540,482	**$ 4,427,122**	**3%**	**$ 4,078,676**	**11%**

Our total corporate and securitized assets increased compared to June 30, 2023 and December 31, 2022 primarily due to origination volumes, particularly renewal activity, in our portfolios outpacing maturities.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time and move up homebuyers. These segments are characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas in proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At September 30, 2023, the average outstanding construction loan balance was $10 million (June 30, 2023 - $9 million; December 31, 2022 - $8 million) with a maximum individual loan commitment of $40 million (June 30, 2023 - $40 million; December 31, 2022 - $40 million).

Securitized Mortgages

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

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

We securitized $144 million in Q3 2023 (Q2 2023 - $76 million; Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million) of insured residential mortgages through the market MBS program and CMB program. Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At September 30, 2023, we held $101 million of retained MBS on our balance sheet (June 30, 2023 - $102 million; December 31, 2022 - $63 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 13: Mortgage Summary

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 269,271	$ 244,600	10%	$ 144,569	86%
Uninsured	956,188	906,074	6%	828,540	15%
Uninsured - completed inventory	18,201	9,803	86%	36,680	(50%)
Construction loans	997,423	956,569	4%	825,126	21%
Commercial loans					
Multi family residential	90,285	102,114	(12%)	98,238	(8%)
Other commercial	6,349	5,267	21%	6,341	—%
	2,337,717	**2,224,427**	**5%**	**1,939,494**	**21%**
Securitized portfolio	**1,835,318**	**1,754,886**	**5%**	**1,751,303**	**5%**
	$ 4,173,035	**$ 3,979,313**	**5%**	**$ 3,690,797**	**13%**

Table 14: Corporate Mortgage Portfolio Continuity for Q3 2023

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 244,600**	**$ 906,074**	**$ 9,803**	**$ 956,569**	**$ 107,381**	**$ 2,224,427**
Originations[1]	198,914	215,103	9,502	203,882	—	627,401
Payments and prepayments	(2,846)	(3,923)	(1,046)	(163,581)	(12,021)	(183,417)
Maturities	(24,172)	(161,331)	—	—	—	(185,503)
Securitizations	(144,238)	—	—	—	—	(144,238)
Sale of commitments to MCAP	(3,081)	—	—	—	—	(3,081)
Capitalization and amortization of fees	94	265	(58)	553	1,274	2,128
Balance, end of the period	**$ 269,271**	**$ 956,188**	**$ 18,201**	**$ 997,423**	**$ 96,634**	**$ 2,337,717**

[1] includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.

Table 15: Corporate Mortgage Portfolio Continuity for Q3 2022

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 220,885**	**$ 870,633**	**$ 31,349**	**$ 744,020**	**$ 110,213**	**$ 1,977,100**
Originations[1]	149,121	163,883	12,484	170,956	—	496,444
Payments and prepayments	(2,555)	(6,379)	(4,856)	(143,683)	(25)	(157,498)
Maturities	(15,011)	(179,971)	—	—	—	(194,982)
Securitizations	(56,031)	—	—	—	—	(56,031)
Sale of commitments and loans to MCAP	(87,465)	—	—	(3,162)	—	(90,627)
Capitalization and amortization of fees	(163)	(2)	(7)	540	183	551
Balance, end of the period	**$ 208,781**	**$ 848,164**	**$ 38,970**	**$ 768,671**	**$ 110,371**	**$ 1,974,957**

[1] includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.

Table 16: Corporate Mortgage Portfolio Continuity for Year to Date 2023

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 144,569**	**$ 828,540**	**$ 36,680**	**$ 825,126**	**$ 104,579**	**$ 1,939,494**
Originations[1]	448,886	607,494	18,941	474,626	3,675	1,553,622
Payments and prepayments	(7,252)	(12,824)	(37,357)	(306,444)	(12,063)	(375,940)
Maturities	(62,294)	(468,345)	—	—	—	(530,639)
Securitizations	(231,332)	—	—	—	—	(231,332)
Sale of commitments to MCAP	(24,876)	—	—	—	—	(24,876)
Capitalization and amortization of fees	1,570	1,323	(63)	4,115	443	7,388
Balance, end of the period	**$ 269,271**	**$ 956,188**	**$ 18,201**	**$ 997,423**	**$ 96,634**	**$ 2,337,717**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

Table 17: Corporate Mortgage Portfolio Continuity for Year to Date 2022

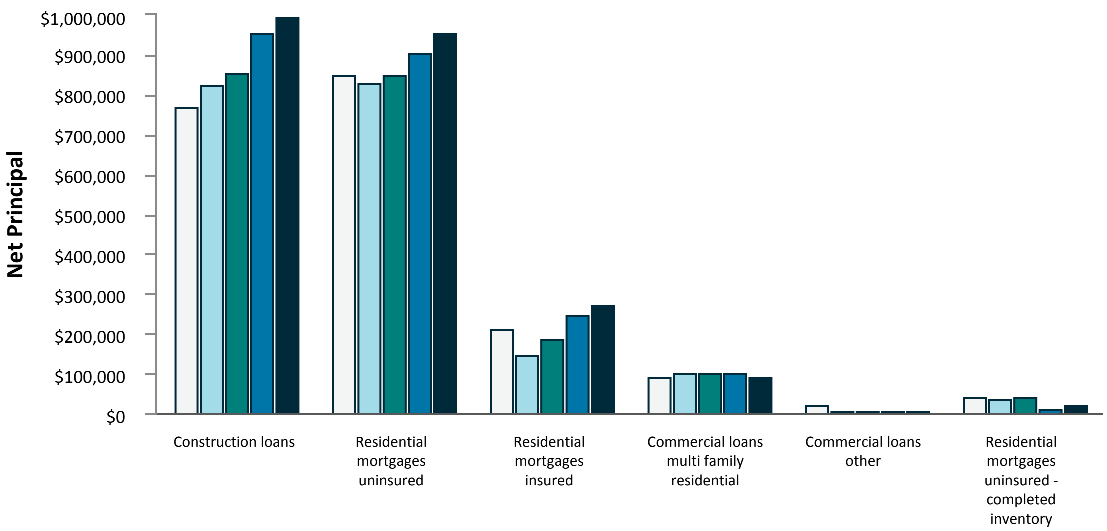
(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 196,580**	**$ 783,075**	**$ 49,431**	**$ 684,297**	**$ 92,761**	**$ 1,806,144**
Originations[1]	569,262	544,439	15,696	543,120	26,855	1,699,372
Payments and prepayments	(7,156)	(18,022)	(26,363)	(386,039)	(9,333)	(446,913)
Maturities	(51,981)	(463,211)	—	—	—	(515,192)
Securitizations	(313,742)	—	—	—	—	(313,742)
Sale of commitments and loans to MCAP	(184,315)	—	—	(73,877)	—	(258,192)
Capitalization and amortization of fees	133	1,883	206	1,170	88	3,480
Balance, end of the period	**$ 208,781**	**$ 848,164**	**$ 38,970**	**$ 768,671**	**$ 110,371**	**$ 1,974,957**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships and relationships and we maintain a high quality of underwriting. We have also enhanced our internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and increased underwriting capacity. We continue to focus on our construction and commercial portfolio growing it in selected markets, with our preferred borrowers and risk profile given they tend to provide higher yields compared to our residential mortgages.

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

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



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
Sep 30, 2022	$768,671 (39%)	$848,164 (42%)	$208,781 (11%)	$92,518 (5%)	$17,853 (1%)	$38,970 (2%)
Dec 31, 2022	$825,126 (43%)	$828,540 (43%)	$144,569 (7%)	$98,238 (5%)	$6,341 (0%)	$36,680 (2%)
Mar 31, 2023	$856,165 (42%)	$848,342 (42%)	$187,218 (9%)	$102,114 (5%)	$4,845 (0%)	$38,060 (2%)
Jun 30, 2023	$956,569 (43%)	$906,074 (41%)	$244,600 (11%)	$102,114 (5%)	$5,267 (0%)	$9,803 (0%)
Sep 30, 2023	$997,423 (42%)	$956,188 (41%)	$269,271 (12%)	$90,285 (4%)	$6,349 (0%)	$18,201 (1%)

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

Table 18: Mortgage Portfolio Geographic Distribution

	September 30, 2023		June 30, 2023		December 31, 2022	
	Corporate	**Securitized**	**Corporate**	**Securitized**	**Corporate**	**Securitized**
Ontario	59.4 %	87.1 %	57.6 %	86.7 %	57.6 %	86.4 %
British Columbia	29.4 %	3.1 %	30.6 %	3.3 %	29.4 %	3.3 %
Alberta	9.9 %	7.7 %	10.5 %	7.8 %	11.0 %	8.0 %
Atlantic Provinces	0.4 %	1.1 %	0.3 %	1.2 %	0.3 %	1.3 %
Quebec	0.3 %	0.4 %	0.3 %	0.5 %	1.2 %	0.5 %
Other	0.6 %	0.6 %	0.7 %	0.5 %	0.5 %	0.5 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

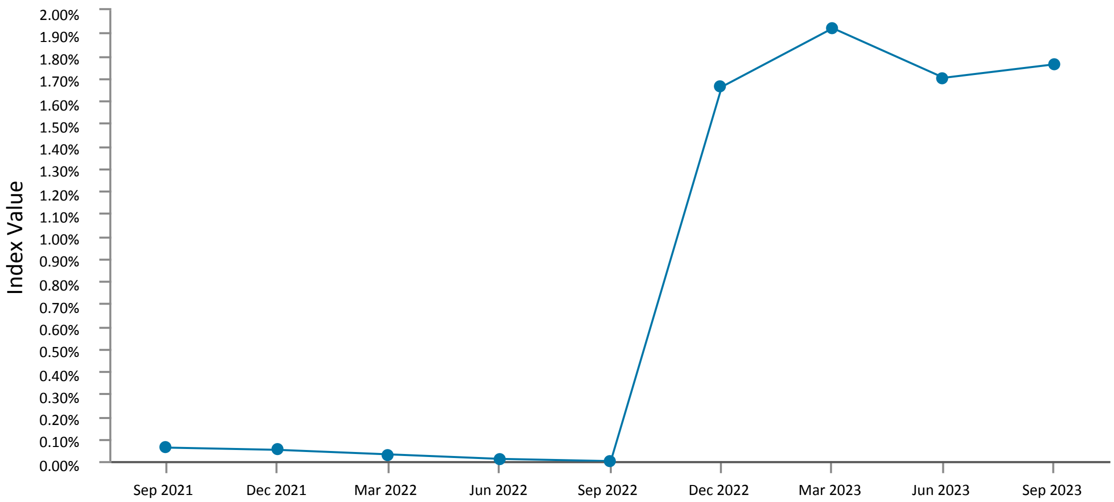
Credit Quality

Table 19: Arrears and Impaired Mortgages

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ 483	$ 481	—%	$ —	n/a
Residential mortgages - uninsured	3,931	1,382	184%	186	2,013%
Residential mortgages - uninsured - completed inventory	—	—	n/a	—	n/a
Construction loans	31,787	32,088	(1%)	32,085	(1%)
Commercial loans - other	4,855	3,858	26%	—	n/a
	41,056	37,809	9%	32,271	27%
Securitized	310	322	(4%)	550	(44%)
Total impaired mortgages	$ 41,366	$ 38,131	8%	$ 32,821	26%
Impaired corporate mortgage ratio [1]	1.76 %	1.70 %	0.06%	1.66 %	0.10%
Impaired total mortgage ratio [1]	0.99 %	0.96 %	0.03%	0.89 %	0.10%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 849	$ 1,226	(31%)	$ 511	66%
Residential mortgages - uninsured	35,246	26,479	33%	14,177	149%
Residential mortgages - uninsured - completed inventory	2,218	—	n/a	2,577	(14%)
Construction loans	42,345	32,088	32%	32,085	32%
Commercial loans - other	4,855	3,858	26%	5,080	(4%)
Total corporate mortgage arrears	85,513	63,651	34%	54,430	57%
Total securitized mortgage arrears	4,438	5,130	(13%)	3,439	29%
Total mortgage arrears	$ 89,951	$ 68,781	31%	$ 57,869	55%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 9,808	$ 6,658	47%	$ 5,157	90%
Residential mortgages - uninsured	186,623	167,461	11%	132,934	40%
Residential mortgages - uninsured - completed inventory	2,218	2,566	(14%)	2,577	(14%)
Construction loans	32,388	7,714	320%	7,341	341%
Commercial loans - multi-family residential	39,821	39,739	—%	27,406	45%
Commercial loans - other	—	—	n/a	5,080	(100%)
	270,858	224,138	21%	180,495	50%
Stage 3					
Residential mortgages - insured	483	481	—%	—	n/a
Residential mortgages - uninsured	3,931	1,382	184%	186	2,013%
Residential mortgages - uninsured - completed inventory	—	—	n/a	—	n/a
Construction loans	31,787	32,088	(1%)	32,085	(1%)
Commercial loans - other	4,855	3,858	26%	—	n/a
	41,056	37,809	9%	32,271	27%
Total stage 2 and 3 corporate mortgages	$ 311,914	$ 261,947	19%	$ 212,766	47%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,752	$ 6,281	7%	$ 5,549	22%
Allowance on impaired mortgages	1,220	1,300	(6%)	49	2,390%
	7,972	7,581	5%	5,598	42%
Securitized - allowance on performing mortgages	—	—	n/a	—	n/a
Total allowance for credit losses	$ 7,972	$ 7,581	5%	$ 5,598	42%

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

Figure 3: Impaired Corporate Mortgage Ratio[1]



The impaired corporate mortgage ratio, as presented above, reflects impaired (stage 3) mortgages under IFRS 9 as a percentage of the total corporate portfolio. At September 30, 2023, impaired mortgages are mainly two construction mortgages and one commercial mortgage where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

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

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

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

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

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

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

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

Table 20: Residential Mortgages by Province at September 30, 2023

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 186,044	68.8 %	$ 874,875	89.8 %	$ 82	83.7 %	$1,596,560	87.1 %	$ 2,657,561	86.3 %
Alberta	60,339	22.6 %	28,711	2.9 %	16	16.3 %	141,955	7.7 %	231,021	7.5 %
British Columbia	8,733	3.3 %	61,953	6.4 %	—	— %	57,338	3.1 %	128,024	4.2 %
Quebec	1,755	0.7 %	1,233	0.1 %	—	— %	7,776	0.4 %	10,764	0.3 %
Atlantic Provinces	7,256	2.7 %	2,457	0.3 %	—	— %	20,826	1.1 %	30,539	1.0 %
Other	5,046	1.9 %	5,160	0.5 %	—	— %	10,863	0.6 %	21,069	0.7 %
Total	**$ 269,173**	**100.0 %**	**$ 974,389**	**100.0 %**	**$ 98**	**100.0 %**	**$1,835,318**	**100.0 %**	**$ 3,078,978**	**100.0 %**

Table 21: Residential Mortgages by Province at December 31, 2022

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

Table 22: Residential Mortgages by Amortization Period at September 30, 2023

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 144,651	$ 291,836	$ 446,075	$ 361,098	$ 1,243,660
	11.6 %	23.4 %	35.9 %	29.1 %	100.0 %
Securitized	$ 531,849	$ 1,300,231	$ 3,238	$ —	$ 1,835,318
	29.0 %	70.8 %	0.2 %	— %	100.0 %
Total	**$ 676,500**	**$ 1,592,067**	**$ 449,313**	**$ 361,098**	**$ 3,078,978**
	22.0 %	**51.7 %**	**14.6 %**	**11.7 %**	**100.0 %**

Table 23: Residential Mortgages by Amortization Period at December 31, 2022

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

Table 24: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q3 2023**	**Average LTV**	**Q3 2022**	**Average LTV**	**YTD 2023**	**Average LTV**	**YTD 2022**	**Average LTV**
Ontario	$110,359	67.1%	$ 66,521	70.6%	$271,915	68.6%	$288,663	67.9%
Alberta	916	74.7%	1,895	66.5%	7,050	70.8%	7,683	70.1%
British Columbia	5,648	68.8%	16,223	71.6%	24,313	68.2%	36,496	70.2%
Quebec	—	—%	82	52.8%	—	—%	4,432	52.8%
Other	—	—%	207	80.0%	150	22.2%	415	67.1%
	$116,923	**67.2%**	**$ 84,928**	**70.7%**	**$303,428**	**68.6%**	**$337,689**	**68.0%**

Table 25: Average LTV Ratios at Origination by Mortgage Portfolio

	September 30 2023	**December 31 2022**
Corporate portfolio		
Residential mortgages		
Insured	71.1 %	68.0 %
Uninsured[1]	65.7 %	63.1 %
Uninsured - completed inventory	52.9 %	56.6 %
Construction loans		
Residential	64.0 %	65.7 %
Commercial loans		
Multi family residential	75.8 %	74.6 %
Other commercial	89.6 %	62.1 %
	66.0 %	65.0 %
Securitized portfolio	79.9 %	80.1 %
	72.1 %	**72.2 %**

[1] *MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 68.4% at September 30, 2023 (December 31, 2022 - 65.6%). Based on an industry index that incorporates current real estate values, the ratios would be 67.0% at September 30, 2023 (December 31, 2022 - 62.1%).*

Other Corporate Assets

Cash and Cash Equivalents

At September 30, 2023, our cash balance was $50 million (June 30, 2023 - $117 million; December 31, 2022 - $78 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices. See "Liquidity and Funding Risk" sub-section of this MD&A.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At September 30, 2023, the portfolio balance was $46 million (June 30, 2023 - $50 million; December 31, 2022 - $54 million). Year to date 2023, we had $8 million of unrealized fair value losses due to volatility in REIT stocks as a result of Bank of Canada interest rate increases resuming and uncertainty around future rate increases and recessionary pressures. We expect continued volatility in the REIT market, given the economic uncertainty and interest rate environment. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Non-Marketable Securities

At September 30, 2023, our non-marketable securities balance was $112 million (June 30, 2023 - $107 million; December 31, 2022 - $97 million). The increase to our security balance from prior periods mainly relates to (i) funding of capital advances; and (ii) a $2 million unrealized gain on our investments in TAS 3 and TAS Co due to value-add leasing activity on one underlying property investment held by both TAS 3 and TAS Co in Q3 2023. We have $78 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF representing a 5.9% equity interest at September 30, 2023 (June 30, 2023 - 5.9%; December 31, 2022 - 5.9%). At September 30, 2023, the carrying value of our investment was $55 million (June 30, 2023 - $55 million; December 31, 2022 - $53 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At September 30, 2023, our total remaining commitment to the KSHYF was $33 million, consisting of $4 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. The final distribution date was March 15, 2023 and we received all scheduled principal and interest repayments over the life of the Securitization Notes. The issuer of the Securitization Notes was a wholly-owned subsidiary of MCAP.

KSSMF: We invest in KSSMF representing a 2.1% partnership interest at September 30, 2023 (June 30, 2023 - 2.1%; December 31, 2022 - 1.5%). At September 30, 2023, the carrying value of our investment was $16 million (June 30, 2023 - $15 million; December 31, 2022 - $9 million) with an additional $9 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 ("TAS 3"): We invest in TAS 3 representing a 9.7% partnership interest at September 30, 2023 (June 30, 2023 - 9.7%; December 31, 2022 - 9.7%). At September 30, 2023, the carrying value of our investment was $10 million (June 30, 2023 - $10 million; December 31, 2022 - $9 million) with an additional $104 thousand remaining commitment. TAS 3 invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental and social impacts.

TAS LP 3 Co-Invest LP ("TAS Co"): We invest in TAS Co representing a 34.8% partnership interest at September 30, 2023 (June 30, 2023 - 34.8%; December 31, 2022 - 34.8%). At September 30, 2023, the carrying value of our investment was $6 million (June 30, 2023 - $4 million; December 31, 2022 - $4 million) with an additional $1 million remaining commitment. TAS Co has an approximately 17.5% to 24% interest in some of the same properties invested in by TAS 3 as noted above.

Pearl Group Growth Fund LP ("Pearl"): We invest in Pearl representing a 6.9% partnership interest at September 30, 2023 (June 30, 2023 - 6.9%; December 31, 2022 - 6.9%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial and multi-unit residential properties in the Greater Toronto area.

Crown Realty V Limited Partnership ("Crown"): We invest in Crown representing a 7.7% partnership interest at September 30, 2023 (June 30, 2023 - 7.7%; December 31, 2022 - 7.7%). At September 30, 2023, the carrying value of our investment was $9 million (June 30, 2023 - $9 million; December 31, 2022 - $9 million) with an additional $11 million remaining commitment. Crown integrates environmental and social focused initiatives to acquire, lease, manage and reposition commercial real estate properties across Ontario.

Harbour Equity JV Development Fund VI ("Harbour"): We invest in Harbour representing a 12.1% partnership interest at September 30, 2023 (June 30, 2023 - 12.1%; December 31, 2022 - 12.1%). At September 30, 2023, the carrying value of our investment was $3 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $7 million remaining commitment. Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

TAS Impact Development LP 4 ("TAS 4"): We invest in TAS 4 representing a 14.8% partnership interest (June 30, 2023 - 14.8%; December 31, 2022 - 17.6%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $18 million remaining commitment. TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive environmental and social impacts.

Broccolini Limited Partnership No. 8 ("Broccolini"): We invest in Broccolini representing a 5.7% partnership interest at September 30, 2023 (June 30, 2023 - 5.7%; December 31, 2022 - 5.7%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $18 million remaining commitment. Broccolini manages real estate development funds primarily focused on ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Fiera Real Estate Development Fund IV, LP ("Fiera"): We invest in Fiera representing a 6.5% partnership interest at September 30, 2023 (June 30, 2023 - 6.5%; December 31, 2022 - 7.1%). At September 30, 2023, the carrying value of our investment was $6 million (June 30, 2023 - $5 million; December 31, 2022 - $4 million) with an additional $9 million remaining commitment. Fiera focuses on development and re-development of multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

Equity Investment in MCAP

We have a strategic investment in MCAP, which is Canada's largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.73% equity interest in MCAP (June 30, 2023 - 13.73%; December 31, 2022 - 13.65%), which represents 4.0 million units held by MCAN at September 30, 2023 (June 30, 2023 - 4.0 million; December 31, 2022 - 4.0 million) of the 29.1 million total outstanding MCAP partnership units (June 30, 2023 - 29.1 million; December 31, 2022 - 29.3 million). The investment had a net book value of $110 million at September 30, 2023 (June 30, 2023 - $110 million; December 31, 2022 - $106 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q3 2023, we received $3.9 million of unitholder distributions from MCAP (Q2 2023 - $5.7 million; Q3 2022 - $4.6 million). For year to date 2023, we have received $14.6 million of unitholder distributions from MCAP (year to date 2022 - $12.6 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 26: Liabilities and Shareholders' Equity

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Liabilities					
Term deposits	$ 2,094,788	$ 2,021,372	4%	$ 1,819,830	15%
Loans payable	83,235	132,110	(37%)	6,532	1,174%
Other liabilities	10,513	9,008	17%	22,616	(54%)
	2,188,536	**2,162,490**	**1%**	**1,848,978**	**18%**
Securitization Liabilities					
Financial liabilities from securitization	1,824,258	1,747,984	4%	1,740,388	5%
	1,824,258	**1,747,984**	**4%**	**1,740,388**	**5%**
	4,012,794	**3,910,474**	**3%**	**3,589,366**	**12%**
Shareholders' Equity					
Share capital	406,581	401,231	1%	389,986	4%
Contributed surplus	510	510	—%	510	—%
Retained earnings	118,315	113,183	5%	98,990	20%
Accumulated other comprehensive income	2,282	1,724	32%	(176)	(1,397%)
	527,688	**516,648**	**2%**	**489,310**	**8%**
	$ 4,540,482	**$ 4,427,122**	**3%**	**$ 4,078,676**	**11%**

Term Deposits

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

Loans Payable

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

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

Financial Liabilities from Securitization

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

Share Capital

Share capital activity may reflect new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and other share offerings and their related costs, as applicable. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 13 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2023 consists of net income of $18.5 million (Q2 2023 - $15.9 million; Q3 2022 - $11.7 million) less dividends of $13.3 million (Q2 2023 - $12.5 million; Q3 2022 - $11.4 million). Retained earnings activity for year to date 2023 consists of a net income of $57.6 million (year to date 2022 - $31.3 million) less dividends of $38.3 million (year to date 2022 - $62.3 million).

Accumulated Other Comprehensive Income

We enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to reduce our net income volatility related to changes in interest rates. In Q3 2023, we had net realized fair value gains of $0.4 million (Q2 2023 - $1.9 million fair value gains; Q3 2022 - $nil) and net unrealized fair value gains of $0.2 million (Q2 2023 - $0.2 million fair value losses; Q3 2022 - $nil) on our derivative transactions recognized in accumulated other comprehensive income. For further information, refer to the "Derivatives and Hedging" sub-section of this MD&A and Note 11 to the interim consolidated financial statements.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 27: Income Tax Capital

(in thousands except ratios)

	September 30 2023	December 31 2022
Income tax assets		
Consolidated assets	$ 4,540,482	$ 4,078,676
Adjustment for assets in subsidiaries	(49,895)	29,833
Non-consolidated assets in MIC entity	4,490,587	4,108,509
Add: corporate mortgage allowances	6,843	5,545
Less: securitization assets [1]	(1,848,363)	(1,768,828)
Adjustments to equity investments in MCAP and subsidiaries	(47,409)	(41,090)
Other adjustments	10,304	4,064
	$ 2,611,962	$ 2,308,200
Income tax liabilities		
Consolidated liabilities	$ 4,012,794	$ 3,589,366
Adjustment for liabilities in subsidiaries	(87,791)	(11,537)
Non-consolidated liabilities in MIC entity	3,925,003	3,577,829
Less: securitization liabilities [1]	(1,821,446)	(1,738,216)
	$ 2,103,557	$ 1,839,613
Income tax capital	$ 508,405	$ 468,587
Income tax capital ratios		
Income tax assets to capital ratio	5.14	4.93
Income tax liabilities to capital ratio	4.14	3.93

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

Regulatory Capital

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

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

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

At September 30, 2023, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. Our total capital and leverage ratios have decreased due to OSFI's new revised rules that incorporate Basel III reforms. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 28: Regulatory Capital [3]

(in thousands except %)

	September 30 2023	December 31 2022
OSFI Regulatory Ratios		
Share capital	$ 406,581	$ 389,986
Contributed surplus	510	510
Retained earnings	118,315	98,990
Accumulated other comprehensive income	2,282	(176)
Deduction from equity investment in MCAP [1]	(57,453)	(57,201)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	—	357
Common Equity Tier 1 and Tier 1 Capital (A)	470,235	432,466
Tier 2 Capital	6,752	5,192
Total Capital (D)	$ 476,987	$ 437,658
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,540,482	$ 4,078,676
Less: deduction for equity investment in MCAP [1]	(57,453)	(57,201)
Other adjustments [2]	2,627	2,994
Total On-Balance Sheet Exposures	4,485,656	4,024,469
Mortgages and non-marketable securities funding commitments	307,564	352,069
Letters of credit	23,479	23,994
Total Off-Balance Sheet Items	331,043	376,063
Total Exposure/Regulatory Assets (B)	$ 4,816,699	$ 4,400,532
Leverage ratio (A / B)	9.76 %	9.83 %
Risk-weighted assets (C)	$ 2,653,164	$ 2,206,580
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.72 %	19.60 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.72 %	19.60 %
Total capital to risk-weighted assets ratio **(D / C)**	17.98 %	19.83 %

[1] The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.
[3] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements and Leverage Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.

Table 29: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	September 30, 2023			December 31, 2022		
	Amounts	Average Rate	Risk-Weighted Assets	Amounts	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 50,473	21 %	$ 10,620	$ 78,210	21 %	$ 16,241
Cash held in trust	28,307	20 %	5,661	34,531	20 %	6,906
Marketable securities	46,081	100 %	46,081	53,743	100 %	53,743
Mortgages - corporate	2,337,717	67 %	1,558,282	1,939,494	66 %	1,279,396
Mortgages - securitized	1,835,318	5 %	100,070	1,751,303	6 %	96,599
Non-marketable securities	111,590	161 %	180,005	97,228	179 %	174,338
Equity investment in MCAP Commercial LP	110,222	120 %	131,922	106,168	46 %	48,967
Deferred tax asset	1,872	100 %	1,872	1,095	100 %	1,095
Other assets	18,655	100 %	18,655	16,904	100 %	16,904
Derivative Financial Instruments	247	— %	—	—	— %	—
	4,540,482		2,053,168	4,078,676		1,694,189
Off-Balance Sheet Items						
Letters of credit	46,959	50 %	23,480	47,988	50 %	23,994
Commitments	768,910	43 %	328,346	704,139	47 %	330,109
Derivative Financial Instruments	18,447	2 %	345	—	— %	—
			352,171			354,103
Charge for operational risk [2]			247,825			158,288
Risk-Weighted Assets			**$ 2,653,164**			**$ 2,206,580**

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

Other Capital Management Activity

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

RISK MANAGEMENT

Effective risk management and an established risk management framework support a strong risk and resilient culture, and help the Company provide sustainable growth and returns while maintaining an appropriate balance between risk and return. The Company's risk management framework is subject to constant evaluation in order to meet operational demands, regulatory requirements and industry best practices, and it is updated in alignment with our strategy and risk appetite. The Company's framework which is designed to identify, measure, monitor and report risks and vulnerabilities is outlined in the "Risk Management" section of the 2022 Annual MD&A.

Major Risk Types

For a complete discussion of major risk types to which the Company is exposed, refer to the "Risk Management" section of the 2022 Annual MD&A.

Economic uncertainty risks remain persistent with ongoing inflationary pressures, foreign bank hardships or failures, higher debt servicing costs, volatility in interest rate sensitive products and geopolitical conflicts. Though the nature and extent of these risks may vary depending on circumstances, these factors continue to impact the demand and affordability of mortgages and the financial health of the Canadian economy and borrowers. An inability to respond and manage these risks effectively may have an adverse effect on our future results and operations.

Liquidity and Funding Risk

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

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

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

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At September 30, 2023, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

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

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At September 30, 2023, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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

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

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

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

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

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

Table 30: Liquidity Analysis

At September 30, 2023						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	$ 50,473	$ —	$ —	$ —	$ —	$ 50,473
Marketable securities	46,081	—	—	—	—	46,081
Mortgages - corporate	527,406	1,009,610	637,648	146,801	16,252	2,337,717
Non-marketable securities	—	—	—	—	111,590	111,590
Derivative Financial Instruments	247	—	—	—	—	247
Other loans	2,309	—	—	—	—	2,309
	626,516	1,009,610	637,648	146,801	127,842	2,548,417
Uses of liquidity						
Term deposits	234,211	762,923	304,448	793,206	—	2,094,788
Loans payable	83,235	—	—	—	—	83,235
Other liabilities	6,702	841	1,934	1,036	—	10,513
	324,148	763,764	306,382	794,242	—	2,188,536
Net liquidity surplus (deficit)	**$ 302,368**	**$ 245,846**	**$ 331,266**	**$ (647,441)**	**$ 127,842**	**$ 359,881**

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2.

Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at September 30, 2023, there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

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

Interest Rate Risk

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

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at September 30, 2023 would have an estimated positive effect of $7.7 million (June 30, 2023 - positive effect of $6.6 million; December 31, 2022 - positive effect of $8.3 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2023 would have an estimated adverse effect of $7.4 million (June 30, 2023 - adverse effect of $6.5 million; December 31, 2022 - adverse effect of $8.3 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at September 30, 2023 and December 31, 2022 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive items include marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 31: Interest Rate Sensitivity at September 30, 2023

At September 30, 2023 (in thousands except %)	**Floating Rate**	**Within 3 Months**	**> 3 Months to 1 Year**	**> 1 to 3 Years**	**> 3 to 5 Years**	**> 5 Years**	**Non Interest Sensitive**	**Total**
Assets								
Corporate	$1,169,759	$172,023	$449,522	$446,076	$136,277	$ 14,780	$ 278,299	$ 2,666,736
Securitization	130,145	14,982	108,970	1,133,286	447,935	—	38,428	1,873,746
	1,299,904	187,005	558,492	1,579,362	584,212	14,780	316,727	4,540,482
Liabilities								
Corporate	83,235	234,211	762,923	304,448	793,206	—	10,513	2,188,536
Securitization	128,684	12,907	96,708	1,087,467	498,492	—	—	1,824,258
	211,919	247,118	859,631	1,391,915	1,291,698	—	10,513	4,012,794
Shareholders' Equity	—	—	—	—	—	—	527,688	527,688
GAP	**$1,087,985**	**$(60,113)**	**$(301,139)**	**$187,447**	**$(707,486)**	**$ 14,780**	**$ (221,474)**	**$ —**
YIELD SPREAD	**4.20 %**	**1.75 %**	**1.90 %**	**1.23 %**	**(0.80)%**	**5.26 %**		

Table 32: Interest Rate Sensitivity at December 31, 2022

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

Market Risk

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At September 30, 2023, there were 35,431,938 common shares outstanding (June 30, 2023 - 35,067,948; December 31, 2022 - 34,305,704). At November 6, 2023, there were 35,431,938 common shares outstanding.

We issued $4.0 million in new common shares in Q3 2023 (Q3 2022 - $2.0 million) and $14.5 million year to date 2023 ($7.4 million - year to date 2022) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the 2023 third quarter dividend was 30% (2023 second quarter - 29%; 2022 third quarter - 17%).

During the current quarter, we renewed our (i) Base Shelf Prospectus; and (ii) ATM Program established pursuant to a Prospectus Supplement to our Base Shelf Prospectus allowing us to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. During Q3 2023, we sold 100,000 common shares at a weighted average price of $16.28 for gross proceeds of $1,629 thousand and net proceeds of $1,366 thousand including $33 thousand of agent commission paid and $230 thousand of other share issuance costs under the ATM Program. Year to date 2023, we sold 153,400 common shares at a weighted average price of $16.12 for gross proceeds of $2,473 thousand and net proceeds of $2,137 thousand including $50 thousand of agent commission paid and $285 thousand of other share issuance costs under the ATM Program.

For additional information related to share capital, refer to Note 13 to the interim consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 33: Contractual Commitments

At September 30, 2023						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 380,985	$ 225,812	$ 55,691	$ —	$ —	$ 662,488
Commitment - TAS 3	104	—	—	—	—	104
Commitment - TAS Co	—	326	750	—	—	1,076
Commitment - TAS 4	—	8,177	5,497	3,926	—	17,600
Commitment - Harbour	700	2,800	2,500	1,000	—	7,000
Commitment - KSSMF	500	2,000	6,800	—	—	9,300
Commitment - Pearl	327	721	—	—	—	1,048
Commitment - Crown	964	3,564	6,519	—	—	11,047
Commitment - Fiera	1,103	2,480	2,857	1,013	1,500	8,953
Commitment - Broccolini	—	6,000	8,600	2,000	1,000	17,600
Commitment - KSHYF	—	3,000	850	—	28,844	32,694
	$ 384,683	**$ 254,880**	**$ 90,064**	**$ 7,939**	**$ 31,344**	**$ 768,910**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At September 30, 2023, these derecognized securitized insured multi family mortgages totalled $68 million. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 19 to the interim consolidated financial statements.

DIVIDENDS

On November 6, 2023, the Board declared a regular quarterly cash dividend of $0.38 per share to be paid on January 2, 2024 to shareholders of record as at December 15, 2023.

In order to take advantage of the tax benefits provided by the MIC status, we pay out all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. The Company has historically paid out regular dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended September 30, 2023 and September 30, 2022 and related party balances at September 30, 2023 and December 31, 2022 are discussed in Notes 8 and 18 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At September 30, 2023, we had 136 team members (June 30, 2023 - 138; December 31, 2022 - 128) including full-time, part-time, contract and summer students.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

For a detailed discussion of critical accounting estimates and judgments, refer to the "Critical Accounting Estimates and Judgments" section of the 2022 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At September 30, 2023, the CEO and CFO of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our ICFR during the interim period ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our control framework. Beginning in 2024, we expect to implement a new enterprise resource planning ("ERP") system. This ERP implementation is not expected to result in any significant changes in internal controls. We will have appropriate testing on the new system to ensure a proper transition as well as appropriate procedures to ensure internal controls over financial reporting are in place during and after this implementation.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

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

Table 34: Net Corporate Mortgage Spread Income

(in thousands) For the Periods Ended September 30	Q3 2023	Q3 2022	Change ($)	YTD 2023	YTD 2022	Change ($)
Mortgage interest - corporate assets	$ 44,144	$ 27,216		$ 118,591	$ 70,539	
Term deposit interest and expenses	21,083	12,330		53,858	31,033	
Net Corporate Mortgage Spread Income	**$ 23,061**	**$ 14,886**	**$ 8,175**	**$ 64,733**	**$ 39,506**	**$ 25,227**

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

Table 35: Net Securitized Mortgage Spread Income

(in thousands) For the Periods Ended September 30	Q3 2023	Q3 2022	Change ($)	YTD 2023	YTD 2022	Change ($)
Mortgage interest - securitized assets	$ 9,616	$ 7,949		$ 28,026	$ 22,804	
Interest on financial liabilities from securitization	8,147	6,214		23,172	17,096	
Net Securitized Mortgage Spread Income	**$ 1,469**	**$ 1,735**	**$ (266)**	**$ 4,854**	**$ 5,708**	**$ (854)**

Supplementary Financial Measures

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

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

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

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

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

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

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

GLOSSARY

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

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

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