MCAN FINANCIAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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 consolidated balance sheets and accompanying notes at December 31, 2023 and December 31, 2022 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which are the Generally Accepted Accounting Principles ("GAAP") in Canada, and presented in Canadian currency. This MD&A has been presented as of February 26, 2024.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- the current business environment, economic environment and outlook;
- 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, and government and Bank of Canada economic policy 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 impacts that any further or escalating geopolitical conflicts or infectious disease outbreaks, including measures to prevent their spread, and the 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, 2023, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

(in thousands except per share amounts, % and where indicated) At December 31	2023	2022	Change (%)	2021	Change (%)
Income Statement Highlights					
Mortgage interest - corporate assets [A]	$ 165,997	$ 101,286	64%	$ 71,823	131%
Term deposit interest and expenses [B]	$ 78,219	$ 44,222	77%	$ 31,430	149%
Net corporate mortgage spread income[1] [A-B]	$ 87,778	$ 57,064	54%	$ 40,393	117%
Equity income from MCAP Commercial LP	$ 22,010	$ 26,603	(17%)	$ 25,453	(14%)
Net loss on securities	$ (3,622)	$ (12,074)	(70%)	$ 14,763	125%
Net investment income - corporate assets	$ 107,547	$ 79,805	35%	$ 85,446	26%
Net investment income - securitization assets	$ 4,252	$ 3,898	9%	$ 5,966	(29%)
Net income	$ 77,498	$ 55,354	40%	$ 64,362	20%
Basic and diluted earnings per share	$ 2.22	$ 1.77	25%	$ 2.40	(7%)
Dividends per share - cash	$ 1.48	$ 1.44	3%	$ 1.36	9%
Dividends per share - stock	$ —	$ 0.97	(100%)	$ 0.85	(100%)
Next quarter's dividend per share - cash	$ 0.39				
Return on average shareholders' equity [1]	15.05 %	12.47 %	2.58%	16.86 %	(1.81%)
Taxable income per share[2]	$ 1.31	$ 1.29	2%	$ 2.63	(50%)
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	3.57 %	2.82 %	0.75%	2.80 %	0.77%
Spread of securitized mortgages over liabilities [1]	0.39 %	0.47 %	(0.08%)	0.70 %	(0.31%)
Average term to maturity (in months)					
Mortgages - corporate	12.7	11.4	11%	13.0	(2%)
Term deposits	18.5	16.0	16%	18.5	—%
Balance Sheet Highlights					
Total assets	$ 4,739,087	$ 4,078,676	16%	$ 3,808,070	24%
Mortgages - corporate	$ 2,414,855	$ 1,939,494	25%	$ 1,806,146	34%
Mortgages - securitized	$ 1,929,948	$ 1,751,303	10%	$ 1,583,697	22%
Total liabilities	$ 4,207,243	$ 3,589,366	17%	$ 3,374,812	25%
Shareholders' equity	$ 531,844	$ 489,310	9%	$ 433,258	23%
Capital Ratios					
Income tax assets to capital ratio[2]	5.52	4.93	12%	5.29	4%
CET 1 & Tier 1 capital ratio [4]	17.61 %	19.60 %	(1.99%)	20.26 %	(2.65%)
Total capital ratio [4]	17.91 %	19.83 %	(1.92%)	20.54 %	(2.63%)
Leverage ratio [3]	9.49 %	9.83 %	(0.34%)	9.41 %	0.08%
Credit Quality					
Impaired mortgage ratio (corporate) [1]	3.26 %	1.66 %	1.60%	0.05 %	3.21%
Impaired mortgage ratio (total) [1]	1.82 %	0.89 %	0.93%	0.03 %	1.79%
Mortgage Arrears					
Corporate	$ 112,789	$ 54,430	107%	$ 10,826	942%
Securitized	4,661	3,439	36%	4,865	(4%)
Total	$ 117,450	$ 57,869	103%	$ 15,691	649%
Common Share Information (end of period)					
Number of common shares outstanding	35,432	34,306	3%	29,621	20%
Book value per common share [1]	$ 15.01	$ 14.26	5%	$ 14.63	3%
Common share price - close	$ 15.89	$ 15.00	6%	$ 17.23	(8%)
Market capitalization ($ million)	$ 563	$ 515	9%	$ 510	10%

[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 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$47,406	$44,144	$38,691	$35,756	$30,747	$27,216	$22,815	$20,508
Term deposit interest and expenses [B]	$24,361	$21,083	$18,034	$14,741	$13,189	$12,330	$10,185	$ 8,518
Net corporate mortgage spread income[1] [A-B]	$23,045	$23,061	$20,657	$21,015	$17,558	$14,886	$12,630	$11,990
Equity income from MCAP Commercial LP	$ 4,429	$ 4,310	$ 5,268	$ 8,003	$ 6,860	$ 8,236	$ 6,288	$ 5,219
Net gain (loss) on securities	$ 1,977	$(1,581)	$(5,017)	$ 999	$ 1,735	$(5,092)	$(9,906)	$ 1,189
Net investment income - corporate assets	$28,130	$25,656	$23,139	$30,622	$30,734	$18,845	$ 9,468	$20,758
Net investment income - securitization assets	$ 1,451	$ 770	$ 1,159	$ 872	$ 838	$ 877	$ 1,068	$ 1,115
Net income	$19,855	$18,479	$15,887	$23,277	$24,088	$11,650	$ 4,137	$15,479
Basic and diluted earnings per share	$ 0.56	$ 0.53	$ 0.46	$ 0.67	$ 0.75	$ 0.37	$ 0.13	$ 0.52
Dividends per share - cash	$ 0.38	$ 0.38	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Dividends per share - stock	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.97
Return on average shareholders' equity [1]	15.01 %	14.20 %	12.47 %	18.60 %	21.17 %	10.52 %	3.75 %	14.19 %
Taxable income (loss) per share [2]	$ (0.13)	$ 0.45	$ 0.66	$ 0.33	$ 1.11	$ (0.47)	$ 0.30	$ 0.35
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.34 %	3.49 %	3.63 %	3.78 %	3.32 %	2.83 %	2.50 %	2.59 %
Spread of securitized mortgages over liabilities [1]	0.39 %	0.42 %	0.39 %	0.39 %	0.39 %	0.44 %	0.51 %	0.54 %
Average term to maturity (in months)								
Mortgages - corporate	12.7	13.1	12.7	11.5	11.4	12.9	13.9	13.8
Term deposits	18.5	19.2	16.1	14.9	16.0	17.1	17.7	17.7
Balance Sheet Highlights ($ million)								
Total assets	$ 4,739	$ 4,540	$ 4,427	$ 4,152	$ 4,079	$ 4,004	$ 4,066	$ 4,000
Mortgages - corporate	$ 2,415	$ 2,338	$ 2,224	$ 2,037	$ 1,939	$ 1,975	$ 1,977	$ 1,902
Mortgages - securitized	$ 1,930	$ 1,835	$ 1,755	$ 1,724	$ 1,751	$ 1,691	$ 1,700	$ 1,659
Total liabilities	$ 4,207	$ 4,013	$ 3,910	$ 3,645	$ 3,589	$ 3,562	$ 3,626	$ 3,558
Shareholders' equity	$ 532	$ 528	$ 517	$ 507	$ 489	$ 443	$ 441	$ 442
Capital Ratios								
Income tax assets to capital ratio [2]	5.52	5.14	5.22	5.02	4.93	5.76	5.53	5.53
CET 1 & Tier 1 capital ratios [4]	17.61 %	17.72 %	17.90 %	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %
Total capital ratio [4]	17.91 %	17.98 %	18.14 %	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %
Leverage ratio [3]	9.49 %	9.76 %	9.71 %	9.94 %	9.83 %	8.88 %	8.82 %	8.96 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	3.26 %	1.76 %	1.70 %	1.92 %	1.66 %	0.00 %	0.01 %	0.03 %
Impaired mortgage ratio (total) [1]	1.82 %	0.99 %	0.96 %	1.05 %	0.89 %	0.01 %	0.02 %	0.02 %
Mortgage Arrears								
Corporate	$112,789	$85,513	$63,651	$54,873	$54,430	$37,792	$ 9,908	$ 9,981
Securitized	4,661	4,438	5,130	4,096	3,439	2,842	3,397	4,124
Total	$117,450	$89,951	$68,781	$58,969	$57,869	$40,634	$13,305	$14,105
Common Share Information (end of period)								
Number of common shares outstanding	35,432	35,432	35,068	34,788	34,306	31,855	31,715	31,373
Book value of common share [1]	$ 15.01	$ 14.89	$ 14.73	$ 14.58	$ 14.26	$ 13.90	$ 13.89	$ 14.08
Common share price - close	$ 15.89	$ 15.13	$ 15.36	$ 15.00	$ 15.00	$ 14.57	$ 16.75	$ 17.85
Market capitalization ($ million)	$ 563	$ 536	$ 539	$ 522	$ 515	$ 464	$ 531	$ 560

[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.

Annual Trends

- Net income has seen significant fluctuations over the three year period due to unrealized fair value gains and losses from our REIT portfolio as a result of the pandemic, the interest rate environment and economic uncertainty post-pandemic. Our net corporate mortgage spread income has also increased compared to the previous periods due to growth in our mortgage portfolios and higher spread of corporate mortgages over term deposit interest and expenses.

- For 2023 compared to 2022, our net income was positively impacted by growth in our mortgage portfolios as well as higher spread of corporate mortgages over term deposit interest and expenses. This was partially offset by unrealized fair value losses on our REIT portfolio. Our corporate and securitized assets continued to grow in 2023 compared to 2022 due to high net origination volumes, including strong renewals in our residential mortgages.

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

- Taxable income fluctuations in the three year period are mainly due to taxable income recorded from our investment in MCAP Commercial LP (“MCAP”). As a result of an increase in taxable income in 2020 and 2021, the Board of Directors (“Board”) declared special stock dividends in 2021 and 2022, respectively, in order to distribute all of MCAN’s taxable income, net of loss carryforwards used.

Quarterly Trends

- In 2022, we saw a rising interest rate environment and large unrealized losses in our REIT portfolio. In 2023, we saw some stabilization in interest rates compared to 2022 but with a total of 75 basis points increase in interest rates in 2023, as well as uncertainty on future increases by the Bank of Canada and on the Canadian economy’s risk of recession, there continued to be volatility in REIT stock prices and therefore unrealized losses recorded. In Q4 2023, we saw a re-stabilization of interest rates and a partial recovery in our REIT portfolio. Other trends impacting 2023 include (i) higher average corporate mortgage portfolio balances from net originations and renewals; and (ii) declining spreads of corporate mortgages over term deposit interest and expenses mainly from higher interest rates on our recent term deposit originations and competition in the residential mortgage market. However, spreads of corporate mortgages over term deposit interest and expenses in 2023 are higher than 2022.

- 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. In 2023, we had higher taxable income from our core business as well as from our investment in MCAP. In Q4 2023, we had lower taxable income as a result of tax timing differences on various investing strategies that we have engaged in.

- The spread of corporate mortgages over term deposit interest and expenses had been declining until Q3 2022. Through the end 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 increased our spread of corporate mortgages over term deposit interest and expenses. In Q2 to Q4 2023, average term deposit rates in our portfolio increased faster than our mortgage rates given the higher interest rate environment and uncertainty around future Bank of Canada rate decisions. As well there was 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 a capital raise by way of a rights offering in December 2022. This offering raised $34 million. In 2022 and 2023, we also raised $4 million and $2 million, respectively, of capital through our 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 to 30%. 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 industry norms. We believe that we have a quality residential mortgage loan portfolio. For the construction and commercial mortgage arrears, these loans have either been brought current or we expect them to be brought current, or 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 default management processes and asset recovery programs 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 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, and expanding, 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 has stalled and will likely remain that way under the weight of higher interest rates. While inflation is trending downwards, higher mortgage costs, which are directly related to higher interest rates, and wage growth continue to keep inflation above the 2% Bank of Canada target. Most economists believe that Bank of Canada rates have peaked, with interest rate cuts to begin in the second half of 2024 presuming there is further and sustained easing in core inflation. Higher leveraged households and the prospects of a weakening job market have shifted consumer spending toward debt servicing. Strong immigration is another unique factor for Canada's economy. Most economists believe that there will be modest GDP growth and our unemployment rate will 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 indicates that the tighter monetary policy and high interest rates are working their way through the economy. We expect inflation and interest rates to continue to be the dominant concern for 2024.

Housing Market Outlook

High interest rates and resilient house prices remain headwinds on housing affordability in all provincial markets in the short term. That said, resale activity has declined in most markets in Canada and house prices have also followed suit. Recent forecasts of interest rate cuts will help a little with demand for housing; however, we do not expect a sustained recovery until interest rates actually fall. 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. 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 and proposed actions, 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 believe that there is opportunity to grow our core business without taking on significantly more risk. 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. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in any of our divisions in the short term, as well as in managing interest rate risk as 2024 will likely see Bank of Canada rate cuts.

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, but we do expect runoff from maturities in 2024 and therefore we will have to carefully manage those runoffs to try to maintain invested balances. We do expect a continued solid pipeline for the year ahead. Specifically 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 and look to onboard new borrowers and developers that fit within our lending philosophy. 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 returns. For projects currently being undertaken, we actively monitor their progress and the fair values of those projects may experience volatility from quarter to quarter. With respect to our REIT portfolio, the expected relief to interest rates in the second half of 2024 and into 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. 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 expect that forecasted interest rate cuts will create some opportunity in the second half of the year on our originations of residential mortgages. 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. We are 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 increased our mortgage lending in 2023 in the Alberta and British Columbia urban markets and will look to expand in other urban 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, as well as through a newly launched digital direct-to-consumer platform. We have raised record amounts of term deposits in 2023 given the level of growth and high mortgage renewals that we have experienced. This will continue for the year ahead as we look to grow further. In the short term, there will continue to be volatility in the Government of Canada bond yield curve and, therefore, volatility in pricing in the term deposit market. In the mid term, we expect some relief in term deposit rates amid forecasted interest rate cuts, as we typically see the term deposit rates impacted first and immediately compared to residential mortgage rates that some of these term deposits fund. Given current and expected interest rates, we continue to look for opportunities to adjust the maturity terms of our term deposits relative to our corporate mortgage portfolio. We have actively utilized our hedging strategies to minimize interest rate risk in a rising rate environment and we will continue to do the same to protect our net interest margin in a forecasted declining rate environment, particularly as our floating rate construction lending portfolio floats down to floor rates. We will continue to expand our broker networks, grow our direct-to-consumer platform and look for other channels to source term deposits. 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 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 will continue to leverage 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 to achieve our targeted average annual growth in corporate assets over the long term of 10%.

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

HIGHLIGHTS

Q4 2023

- Net income totalled $19.9 million in Q4 2023, a decrease of $4.2 million (18%) from $24.1 million in Q4 2022. Results for the fourth quarter of 2023 were impacted by higher net corporate mortgage spread income offset by lower income from MCAP and a higher provision for credit losses as described below.

- Earnings per share totalled $0.56 in Q4 2023, a decrease of $0.19 (25%) from earnings per share of $0.75 in Q4 2022.

- Return on average shareholders' equity[1] was 15.01% for Q4 2023 compared to 21.17% in Q4 2022.

- Net corporate mortgage spread income[1] is derived from both our residential lending portfolio and our construction and commercial portfolio. It increased by $5.5 million from Q4 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued mortgage originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread was mainly attributable to the rising rate environment's impact on floating rates on residential construction loans that are now well above their floor rates.

- Net securitized mortgage spread income[1] increased marginally by $0.1 million from Q4 2022. The net securitized mortgage spread income increased due to a higher average securitized mortgage portfolio balance from insured residential mortgage originations as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets.

- Provision for credit losses on our corporate mortgage portfolio of $2.1 million in Q4 2023 was mainly due to growth in our portfolio, less favourable underlying economic forecasts relating to unemployment rates and housing prices, and model enhancements. In Q4 2022, we had a recovery of credit losses of $1.1 million mainly due to a more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from expectations that both inflation and Bank of Canada interest rate increases may be nearing a peak.

- Equity income from MCAP totalled $4.4 million in Q4 2023, a decrease of $2.5 million (35%) from $6.9 million in Q4 2022, which was primarily due to (i) lower mortgage origination fees from lower mortgage volumes sold; (ii) a decrease in fair value adjustments on mortgages due to the higher 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 servicing and administration income from higher assets under management; and (iii) higher investment revenue from higher average mortgage rates on non-securitized mortgages.

- In Q4 2023, we recorded a $2.0 million net unrealized fair value gain on our marketable and non-marketable securities compared to a $1.7 million net unrealized fair value gain in Q4 2022. Q4 2023's net unrealized gain is made up of an unrealized gain on marketable securities of $4.4 million and a net unrealized loss on non-marketable securities of $2.5 million. In Q4 2023, we saw REIT prices rebound as sentiment around future interest rate increases tapered. We are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments. In Q4 2023, we received distributions of $0.8 million (distribution yield[1] of 7.23%) from our REITs compared to $0.9 million (distribution yield[1] of 6.48%) in Q4 2022. With respect to our non-marketable securities, the net unrealized loss consists of both gains and losses from certain underlying property investments as a result of (i) updated appraisals/property valuations, net of related property debt and debt service costs; and (ii) actual executions on construction and leasing stabilization and value-add activities.

Year to Date 2023

- Net income totalled $77.5 million for 2023 year to date, an increase of $22.1 million (40%) from $55.4 million net income in 2022. Similar to Q4 2023, our year to date results were mainly impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $2.22 for 2023 year to date, an increase of $0.45 (25%) from earnings per share of $1.77 in 2022.

- Return on average shareholders' equity[1] was 15.05% for 2023 compared to 12.47% in 2022.

- Net corporate mortgage spread income[1] increased by $30.7 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 Q4 2023 mentioned above.

- Net securitized mortgage spread income[1] decreased by $0.7 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. 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 $4.5 million for 2023 compared to a recovery of credit losses of $1.1 million for 2022 mainly due to the same factors as described above for Q4 2023 and Q4 2022.

- Equity income from MCAP totalled $22.0 million for 2023 year to date, a decrease of $4.6 million (17%) from $26.6 million in 2022. For 2023 year to date, the decrease is due to the same factors as for Q4 2023 mentioned above.

- Year to date net unrealized loss on our marketable and non-marketable securities was $3.6 million for 2023 compared to a year to date net realized and unrealized loss of $12.1 million for 2022. The 2023 net unrealized loss is made up of a $3.2 million unrealized loss on marketable securities and a $0.4 million unrealized loss on non-marketable securities. Year to date 2023 and 2022 saw REIT prices decrease due to Bank of Canada interest rate increases and uncertainty around future rate increases and recessionary pressures. Year to date, we received distributions of $3.6 million (distribution yield[1] of 6.44%) from our REITs compared to $3.6 million (distribution yield[1] of 6.01%) in 2022. With respect to our non-marketable securities, we recorded (i) a $3.4 million unrealized loss mainly related to two underlying properties from general commercial real estate headwinds increasing capitalization rates as well as increased debt servicing costs that impact overall returns; and (ii) a $3.0 million unrealized gain related to construction and leasing completion and value-add activity on two underlying property investments. Our non-marketable securities are either held for long-term capital appreciation or distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, the real estate development funds tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds.

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 $2.76 billion at December 31, 2023, a net increase of $90 million (3%) from September 30, 2023 and a net increase of $473 million (21%) from December 31, 2022.

- Corporate mortgage portfolio totalled $2.4 billion at December 31, 2023, a net increase of $77 million (3%) from September 30, 2023 and a net increase of $475 million (25%) from December 31, 2022.

- Construction and commercial portfolios totalled $1.12 billion at December 31, 2023, a net increase of $23 million (2%) from September 30, 2023 and a net increase of $187 million (20%) from December 31, 2022. The movement in the portfolio is attributed to originations of $666 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.

- Uninsured residential mortgage portfolio totalled $967 million at December 31, 2023, a net increase of $11 million (1%) from September 30, 2023 and a net increase of $138 million (17%) from December 31, 2022. Uninsured residential mortgage originations were $68 million in Q4 2023, a decrease of $40 million (37%) from Q3 2023 and an increase of $19 million (40%) from Q4 2022 and $352 million year to date 2023 compared to $369 million year to date 2022. The economic and interest rate environment and its impact on the housing market and borrowers has caused a slowdown in origination volumes in 2023. That said, we have seen an increase in our uninsured residential mortgage renewals with $495 million year to date 2023 compared to $435 million year to date 2022, as borrowers find it more convenient to stay with their existing 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 $148 million in Q4 2023, a decrease of $15 million (9%) from Q3 2023 and an increase of $59 million (67%) from Q4 2022, and $523 million year to date 2023 compared to $588 million year to date 2022. This includes no insured residential mortgage commitments originated and sold in Q4 2023 under an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, compared to $3 million in Q3 2023 and $44 million in Q4 2022, and $25 million year to date 2023 compared to $228 million year to date 2022. Insured residential mortgage securitization volumes were $128 million in Q4 2023, a decrease of $17 million (11%) from Q3 2023 and an increase of $16 million (14%) from Q4 2022, and $359 million year to date 2023 compared to $426 million year to date 2022. Overall, for the year to date, total insured residential 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 first quarter regular cash dividend of $0.39 per share (a 5.4% increase on an annualized basis from 2023) to be paid March 28, 2024 to shareholders of record as of March 15, 2024. As a Mortgage Investment Corporation ("MIC"), we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Largely as a result of tax timing differences on various investing strategies that we undertook in the second half of 2023, we will not need to distribute a special dividend in the first quarter of 2024.

Credit Quality

- Impaired corporate mortgage ratio[1] was 3.26% at December 31, 2023 compared to 1.76% at September 30, 2023 and 1.66% at December 31, 2022. At December 31, 2023, impaired mortgages mainly represent five impaired construction mortgages where asset recovery programs have been initiated and we expect to recover all past due interest and principal.

- Impaired total mortgage ratio[1] was 1.82% at December 31, 2023 compared to 0.99% at September 30, 2023 and 0.89% at December 31, 2022. The increase to our impaired total mortgage ratio is related to the same construction mortgages discussed above.

- Arrears total mortgage ratio[1] was 2.70% at December 31, 2023 compared to 2.16% at September 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 industry norms. We believe that we have a quality residential mortgage loan portfolio. With respect to our construction and commercial loan portfolio, we have a strong track record with our default management processes and asset recovery programs as the need arises.

- Net write-offs were $341,000 (5.7 basis points of the average corporate portfolio) in Q4 2023 compared to 4,000 (0.1 basis points) in Q4 2022; annual write-offs were $341,000 (1.5 basis points) in 2023 compared to $15,053 (0.1 basis points) in 2022. Write-offs in 2023 related to one loan in our uninsured residential mortgage portfolio and interest on one paid out construction loan.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 63.4% at December 31, 2023 compared to 67.0% at September 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.

- In 2023, 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. 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 $0.1 million of agent commission paid and $0.3 million of other share issuance costs under the ATM Program.

- We issued $14.5 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in 2023 compared to $7.4 million in 2022. The DRIP participation rate was 30% for the 2023 fourth quarter dividend (2022 fourth quarter dividend - 28%). The DRIP participation rate for 2023 dividends was 29% (2022 - 20%).

- Income tax assets to capital ratio[3] was 5.52 at December 31, 2023 compared to 5.14 at September 30, 2023 and 4.93 at December 31, 2022.

- CET 1 and Tier 1 Capital to risk-weighted assets ratios[2] were 17.61% at December 31, 2023 compared to 17.72% at September 30, 2023 and 19.60% at December 31, 2022. Total Capital to risk-weighted assets ratio[2] was 17.91% at December 31, 2023 compared to 17.98% at September 30, 2023 and 19.83% at December 31, 2022. Leverage ratio[2] was 9.49% at December 31, 2023 compared to 9.76% at September 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	Q4 2023	Q3 2023	Change (%)	Q4 2022	Change (%)	Annual 2023	Annual 2022	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 47,406	$ 44,144	7%	$ 30,747	54%	$165,997	$101,286	64%
Equity income from MCAP Commercial LP	4,429	4,310	3%	6,860	(35%)	22,010	26,603	(17%)
Non-marketable securities	2,066	2,056	—%	2,318	(11%)	8,772	8,050	9%
Marketable securities	828	693	19%	876	(5%)	3,625	3,568	2%
Fees	728	480	52%	870	(16%)	2,417	2,713	(11%)
Interest on cash and other income	914	1,071	(15%)	675	35%	4,061	1,533	165%
Net loss on securities	1,977	(1,581)	225%	1,735	14%	(3,622)	(12,074)	70%
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	1,726	(100%)	1,048	1,726	(39%)
	58,348	**51,173**	**14%**	**45,807**	**27%**	**204,308**	**133,405**	**53%**
Term deposit interest and expenses	24,361	21,083	16%	13,189	85%	78,219	44,222	77%
Mortgage expenses	2,098	1,794	17%	1,568	34%	7,490	6,337	18%
Interest on loans payable	1,645	2,241	(27%)	1,407	17%	6,458	3,895	66%
Other financial expenses	—	—	n/a	—	n/a	100	210	(52%)
Provision for (recovery of) credit losses	2,114	399	430%	(1,091)	294%	4,494	(1,064)	522%
	30,218	**25,517**	**18%**	**15,073**	**100%**	**96,761**	**53,600**	**81%**
	28,130	**25,656**	**10%**	**30,734**	**(8%)**	**107,547**	**79,805**	**35%**
Net Investment Income - Securitization Assets								
Mortgage interest	11,309	9,616	18%	8,607	31%	39,335	31,411	25%
Other securitization income	958	453	111%	284	237%	2,234	667	235%
	12,267	**10,069**	**22%**	**8,891**	**38%**	**41,569**	**32,078**	**30%**
Interest on financial liabilities from securitization	9,597	8,147	18%	7,005	37%	32,769	24,101	36%
Mortgage expenses	1,219	1,152	6%	1,059	15%	4,548	4,084	11%
Recovery of credit losses	—	—	n/a	(11)	100%	—	(5)	100%
	10,816	**9,299**	**16%**	**8,053**	**34%**	**37,317**	**28,180**	**32%**
	1,451	**770**	**88%**	**838**	**73%**	**4,252**	**3,898**	**9%**
Operating Expenses								
Salaries and benefits	5,316	6,015	(12%)	4,928	8%	22,815	19,607	16%
General and administrative	2,873	2,527	14%	2,199	31%	10,757	9,030	19%
	8,189	**8,542**	**(4%)**	**7,127**	**15%**	**33,572**	**28,637**	**17%**
Net income before income taxes	21,392	17,884	20%	24,445	(12%)	78,227	55,066	42%
Provision for (recovery of) income taxes	1,537	(595)	(358%)	357	331%	729	(288)	(353%)
Net Income	**$ 19,855**	**$ 18,479**	**7%**	**$ 24,088**	**(18%)**	**$ 77,498**	**$ 55,354**	**40%**
Basic and diluted earnings per share	$ 0.56	$ 0.53	6%	$ 0.75	(25%)	$ 2.22	$ 1.77	25%
Dividends per share - cash	$ 0.38	$ 0.38	—%	$ 0.36	6%	$ 1.48	$ 1.44	3%
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	December 31, 2023			September 30, 2023			December 31, 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	$ 310,538	$ 3,428	4.40 %	$ 303,108	$ 3,295	4.04 %	$ 178,524	$ 1,450	3.23 %
Uninsured	955,780	15,593	6.50 %	930,150	14,750	6.32 %	830,097	9,638	4.63 %
Uninsured - completed inventory	39,041	1,001	10.17 %	9,576	259	10.73 %	37,462	779	8.25 %
Construction loans									
Residential	1,011,924	25,665	9.86 %	963,016	23,450	9.87 %	789,666	16,783	8.43 %
Non residential	2,546	65	10.15 %	3,222	55	6.71 %	4,970	109	8.70 %
Commercial loans									
Multi family residential	78,146	1,576	9.00 %	97,728	2,182	8.85 %	97,144	1,853	7.56 %
Other	4,515	78	9.40 %	6,291	153	9.62 %	2,609	135	6.53 %
Mortgages - corporate portfolio	$2,402,490	$ 47,406	7.80 %	$2,313,091	$ 44,144	7.63 %	$1,940,472	$ 30,747	6.27 %
Term deposit interest and expenses	2,118,745	24,361	4.46 %	2,019,738	21,083	4.14 %	1,719,440	13,189	2.95 %
Net corporate mortgage spread income[1]		$ 23,045			$ 23,061			$ 17,558	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.34 %			3.49 %			3.32 %
Average term to maturity (months)									
Mortgages - corporate	12.7			13.1			11.4		
Term deposits	18.5			19.2			16.0		

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

For the Years Ended December 31	2023			2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages						
Insured	$ 249,985	$ 9,964	3.98 %	$ 199,731	$ 4,938	2.50 %
Uninsured	897,265	53,987	6.01 %	834,494	33,908	4.06 %
Uninsured - completed inventory	28,588	2,783	9.73 %	37,029	2,497	6.74 %
Construction loans						
Residential	929,416	90,687	9.65 %	740,442	53,152	7.17 %
Non residential	1,454	120	8.23 %	5,014	371	7.40 %
Commercial loans						
Multi family residential	94,674	8,133	8.59 %	87,100	5,458	6.26 %
Other commercial	5,851	323	5.51 %	14,049	962	6.30 %
Mortgages - corporate portfolio	$ 2,207,233	$ 165,997	7.47 %	$ 1,917,859	$ 101,286	5.28 %
Term deposit interest and expenses	1,956,612	78,219	3.90 %	1,737,554	44,222	2.46 %
Net corporate mortgage spread income[1]		$ 87,778			$ 57,064	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.57 %			2.82 %

[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, commission expense and hedging gains or losses. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average rate as applicable. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2023	Q3 2023	Change (%)	Q4 2022	Change (%)	Annual 2023	Annual 2022	Change (%)
Originations								
Residential mortgages - insured fixed [2]	$ 122,397	$ 159,495	(23%)	$ 69,167	77%	$ 481,409	$ 274,443	75%
Residential mortgages - insured adjustable rate [2]	25,763	3,878	564%	19,566	32%	41,605	313,670	(87%)
Residential mortgages - uninsured	67,751	107,421	(37%)	48,462	40%	352,238	368,752	(4%)
Residential mortgages - uninsured completed inventory [1]	46,227	9,502	386%	286	16,063%	65,168	17,685	268%
Residential construction [1]	185,939	200,672	(7%)	117,444	58%	658,735	504,534	31%
Non-residential construction [1]	72	3,311	(98%)	—	n/a	3,383	115	2,842%
Commercial [1]	—	—	n/a	5,745	(100%)	3,675	32,600	(89%)
	$ 448,149	**$ 484,279**	**(7%)**	**$ 260,670**	**72%**	**$1,606,213**	**$1,511,799**	**6%**

[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 Q4 2023 and year to date 2023, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q4 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. Factors influencing the small decline in spread in Q4 2023 compared to Q3 2023 were (i) an 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; (ii) higher competition for residential mortgage originations and forecasted interest rate cuts pushing mortgage rates lower. 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 as well as utilizing hedging strategies to lock-in spreads. 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 slightly lower compared to year to date 2022. The economic and interest rate environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes. Origination volumes for the second half of 2023 did improve compared to earlier in the year as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets. We also saw an increase in our uninsured residential mortgage renewals with $495 million year to date 2023 compared to $435 million year to date 2022, as borrowers find it more convenient to stay with their existing lender in the current market environment.

Our insured adjustable rate residential mortgage product also saw a slowdown in the current year due to higher short term interest rates and uncertainty around further Bank of Canada rate increases; however, in Q4 2023 we did see more appetite for this product versus earlier in the year as many borrowers believe that interest rates may have peaked. 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 product to change as interest rates change.

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 MSLP may buy our insured residential mortgage commitments. We originated and sold $nil in commitments in Q4 2023 (Q3 2023 - $3 million; Q4 2022 - $44 million) and $25 million year to date 2023 (year to date 2022 - $228 million) under this agreement.

We securitize our insured residential mortgages opportunistically through the CMHC National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") program. Our Q4 2023 residential mortgage securitization volumes were $128 million (Q3 2023 -

$144 million; Q4 2022 - $112 million) and $359 million year to date 2023 (year to date 2022 - $426 million). Overall, for the year to date, total insured residential 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 consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income including renewal income. At December 31, 2023, we had the renewal rights to $3.1 billion of residential mortgages (September 30, 2023 - $3.0 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. Current impaired construction and commercial mortgages include five construction 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 default management processes and asset recovery programs as the need arises. 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 Q4 2023, MCAP's origination volumes were $5.3 billion, a decrease from $5.8 billion in Q4 2022. At November 30, 2023 (we account for MCAP on a one-month lag basis), MCAP had $154.3 billion of assets under management compared to $153.7 billion at August 31, 2023 and $153.7 billion at November 30, 2022. Equity income from MCAP totalled $4.4 million in Q4 2023, a decrease of $2.5 million from $6.9 million in Q4 2022. For Q4 2023, the decrease in equity income from MCAP was primarily due to (i) lower mortgage origination fees from lower mortgage volumes sold; (ii) a decrease in fair value adjustments on mortgages due to the higher 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 servicing and administration income from higher assets under management; and (iii) higher investment revenue from higher average mortgage rates on non-securitized mortgages. For year to date 2023, equity income from MCAP totalled $22.0 million, a decrease of $4.6 million from $26.6 million year to date 2022. For the year to date, the decrease in equity income from MCAP was due to the same factors as for Q4 2023 mentioned above.

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 period ended November 30, 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 Q4 2023 (Q4 2022 - $1.7 million) and $7.5 million year to date 2023 (year to date 2022 - $6.2 million). The distribution yield[1] on this portfolio was 12.62% in Q4 2023 (Q4 2022 - 12.91%) and 13.90% year to date 2023 (year to date 2022 - 12.70%).

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.3 million in Q4 2023 (Q4 2022 - $0.2 million) and $1.3 million year to date 2023 (year to date 2022 - $0.7 million). The distribution yield[1] on this portfolio was 8.67% in Q4 2023 (Q4 2022 - 9.50%) and 9.37% year to date 2023 (year to date 2022 - 9.46%).

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 7.23% in Q4 2023 (Q4 2022 - 6.48%) and 6.44% year to date 2023 (year to date 2022 - 6.01%). For the current quarter and year to date, the higher distribution yield compared to prior year periods is mainly due to the decline in the fair market value of the REIT portfolio. 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 Gain (Loss) on Securities

In Q4 2023, we recorded a $2.0 million net unrealized gain on securities compared to a $1.7 million net unrealized gain on securities in Q4 2022. Our year to date net unrealized loss on securities was $3.6 million for 2023 compared to a year to date net realized and unrealized loss on securities of $12.1 million for 2022.

Q4 2023's net unrealized gain is made up of an unrealized gain on marketable securities of $4.4 million and an unrealized loss on non-marketable securities of $2.5 million. Year to date 2023's net unrealized loss is made up of a $3.2 million unrealized loss on marketable securities and a $0.4 million unrealized loss on non-marketable securities. Year to date 2023 and 2022 saw REIT prices decrease due to Bank of Canada interest rate increases and uncertainty around future rate increases and recessionary pressures. In Q4 2023, we saw REIT prices rebound as sentiment around future interest rate increases tapered. 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. In 2022, we had a $1.8 million realized loss on one REIT in our portfolio that had a mandatory corporate action resulting in its privatization. With respect to our non-marketable securities, our year to date unrealized loss is comprised of (i) a $3.4 million unrealized loss mainly related to two underlying properties from general commercial real estate headwinds increasing capitalization rates as well as increased debt servicing costs that impact overall returns; and (ii) a $3.0 million unrealized gain related to construction and leasing completion and value-add activity on two underlying property investments. Our non-marketable securities are either held for long-term capital appreciation or distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, the real estate development funds tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds.

Gain on Dilution of Investment in MCAP

In 2023, MCAP issued additional class B units which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $1.0 million (2022 - $1.7 million).

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. Since the beginning of 2022, average term deposit rates have increased mainly due to the rising interest rate environment. In Q1 2022, we also saw dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits. More recently, deposit customers were seeking higher rates due to actual 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 and utilizing hedging strategies. 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 $128 million in Q4 2023 (Q4 2022 - $112 million) and $359 million year to date 2023 (year to date 2022 - $426 million). The increase in Q4 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	December 31, 2023			September 30, 2023			December 31, 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	$1,825,364	$ 11,309	2.48 %	$1,723,456	$ 9,616	2.28 %	$1,706,239	$ 8,607	2.01 %
Financial liabilities from securitization[2]	1,836,593	9,597	2.09 %	1,738,809	8,147	1.86 %	1,717,942	7,005	1.62 %
Net securitized mortgage spread income[1]		$ 1,712			$ 1,469			$ 1,602	
Spread of securitized mortgages over liabilities[1]			0.39 %			0.42 %			0.39 %

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

For the Years Ended December 31	2023			2022		
(in thousands except %)	Average Balance[1]	Interest Income	Average Rate[1]	Average Balance[1]	Interest Income	Average Rate[1]
Mortgages - securitized portfolio	$ 1,743,170	$ 39,335	2.25 %	$ 1,665,512	$ 31,411	1.89 %
Financial liabilities from securitization[2]	1,754,287	32,769	1.86 %	1,681,607	24,101	1.42 %
Net securitized mortgage spread income[1]		$ 6,566			$ 7,310	
Spread of securitized mortgages over liabilities[1]			0.39 %			0.47 %

[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 compared to 2022 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 stabilization in 2023 due to the impact of our hedging program discussed below.

Derivatives and Hedging

Cash Flow Hedging
We may 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. 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 our cash flow hedges is generally less than 60 days. The derivative instruments are settled at either the time of securitization or funding of the term deposits, as applicable. We apply cash flow hedge accounting to these derivative transactions with the intention to recognize the effective matching of the gain or loss on the derivative transactions with the recognition of the related interest expense for either the securitization or term deposit funding.

At December 31, 2023, we had $nil of derivative financial instruments outstanding relating to cash flow hedges (September 30, 2023 - $0.2 million; December 31, 2022 - $nil). In Q4 2023, we had net realized fair value losses of $2.1 million (Q3 2023 - $0.6 million fair value gains; Q4 2022 - $0.2 million fair value losses), and in 2023, we had net realized fair value gains of $0.4 million (year to date 2022 - $0.2 million fair value losses) on our derivative transactions recognized in accumulated other comprehensive income.

Fair Value Hedging
We may enter into interest rate swaps to hedge interest rate risk arising from fair value changes in our fixed-rate term deposits due to movements in interest rates. Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in fair value of the pool of term deposits due to interest rate fluctuations. The terms of our fair value hedges are generally less than 2 years. The derivative instruments are settled at the time of maturity of the pool of term deposits. We apply fair value hedge accounting to these derivative transactions with the intention to recognize the effective matching of the fair value gain or loss on the derivative transactions with the fair value gain or loss on the pool of term

deposits, within a reasonable range. Any unmatched fair value is recorded in term deposit interest and expenses as hedge ineffectiveness.

At December 31, 2023, the Company had $0.2 million of derivative financial instruments outstanding relating to fair value hedges (September 30, 2023 - $nil; December 31, 2022 - $nil).

Achieving hedge accounting for both our cash flow and fair values hedges 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.

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

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %) For the Periods Ended	Q4 2023	Q3 2023	Change (%)	Q4 2022	Change (%)	Annual 2023	Annual 2022	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Residential mortgages								
Uninsured	$ 244	204	20%	41	495%	$ 479	$ 21	2,181%
Construction loans	883	711	24%	—	n/a	1,594	—	n/a
Commercial loans								
Other commercial	(225)	(995)	77%	—	n/a	—	—	n/a
	902	(80)	1,228%	41	2,100%	2,073	21	9,771%
Provision for (recovery of) performing corporate mortgages								
Residential mortgages								
Insured	—	—	n/a	(1)	100%	—	—	n/a
Uninsured	527	208	153%	(10)	5,370%	996	(962)	204%
Uninsured - completed inventory	261	36	625%	(51)	612%	147	(145)	201%
Construction loans	431	355	21%	(1,170)	137%	1,527	(132)	1,257%
Commercial loans								
Multi family residential	(17)	(125)	86%	92	(118%)	(235)	212	(211%)
Other commercial	(1)	(3)	67%	14	(107%)	(31)	(58)	47%
	1,201	471	155%	(1,126)	207%	2,404	(1,085)	322%
Other provisions (recoveries)	11	8	38%	(6)	283%	17	—	n/a
Total corporate provision for (recovery of) credit losses	2,114	399	430%	(1,091)	294%	4,494	(1,064)	522%
Provision for (recovery of) performing securitized mortgages	—	—	n/a	(11)	100%	—	(5)	100%
Total provision for (recovery of) credit losses	$ 2,114	$ 399	430%	$ (1,102)	292%	$ 4,494	$ (1,069)	520%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 2,103	$ 391	438%	$ (1,085)	294%	$ 4,477	$ (1,064)	521%
Net write offs	$ 341	$ —	n/a	$ 4	8,425%	$ 341	$ 15	2,173%
Net write offs (basis points)	5.7	—	n/a	0.1	5,600%	1.5	0.1	1,400%

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 $2.1 million in Q4 2023, which was mainly due to growth in our portfolio, less favourable underlying economic forecasts relating to unemployment rates and housing prices, and model enhancements. In Q4 2022, we had a recovery of credit losses of $1.1 million mainly due to a more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from expectations that both inflation and Bank of Canada interest rate increases may be nearing a peak. We had a provision for credit losses on our corporate mortgage portfolio of $4.5 million for year to date 2023 mainly due to the same factors as described for Q4 2023. 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 December 31, 2023. IFRS 9, Financial Instruments ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since December 31, 2023, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to December 31, 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	Q4 2023	Q3 2023	Change (%)	Q4 2022	Change (%)	Annual 2023	Annual 2022	Change (%)
Salaries and benefits	$ 5,316	$ 6,015	(12%)	$ 4,928	8%	$ 22,815	$ 19,607	16%
General and administrative	2,873	2,527	14%	2,199	31%	10,757	9,030	19%
	$ 8,189	**$ 8,542**	**(4%)**	**$ 7,127**	**15%**	**$ 33,572**	**$ 28,637**	**17%**

The increase in salaries and benefits in 2023 is due to additional resources as well as pay increases, enhancements to our wellness, benefit and compensation plans and higher share unit plan accruals.

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**	**Q4 2023**	**Q4 2022**	**Annual 2023**	**Annual 2022**
Consolidated net income for accounting purposes	$ 19,855	$ 24,088	$ 77,498	$ 55,354
Adjustments to calculate taxable income (loss):				
Reverse: Equity income from MCAP - accounting purposes	(4,429)	(6,860)	(22,010)	(26,603)
Add: MCAP taxable income (loss)	(5,574)	(9,122)	(5,264)	(21,893)
Add: Taxable capital gain on re-organization of investment in MCAP	—	32,951	—	32,951
Reverse: Provision for (recovery of) credit losses [2]	1,428	(1,135)	2,747	(1,085)
Add: Amortization of upfront securitization program costs [3]	2,957	2,740	11,114	9,880
Deduct: Securitization program mortgage origination costs [3]	(15,210)	(238)	(17,249)	(78)
Add: Securitization program premium (discount)	(522)	(3,033)	(3,333)	(13,802)
Reverse: Net unrealized loss (gain) on securities [4]	(4,449)	(1,734)	3,212	12,083
Add: Capital gains (losses)	—	—	—	(285)
Reverse: Loss (income) earned in subsidiaries [5]	2,012	(581)	509	(5,091)
Deduct: Gain on dilution of MCAP [6]	—	(1,726)	(1,048)	(1,726)
Other items	(512)	201	(456)	722
Taxable Income (Loss)[1]	**$ (4,444)**	**$ 35,551**	**$ 45,720**	**$ 40,427**

[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 year to date 2023 compared to year to date 2022 was primarily due to higher net corporate mortgage spread income and lower taxable loss recorded by MCAP. This was partially offset by higher insured multi family securitization origination costs in Q4 2023 that are deducted for tax upfront. As well, in the prior year we recorded a taxable capital gain on re-organization of our investment in MCAP. As a MIC, we pay out all of our taxable income to shareholders through dividends. Largely as a result of tax timing differences on insured multi family securitizations, we will not need to distribute a special dividend in the first quarter of 2024.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	December 31 2023	September 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 60,345	$ 50,473	20%	$ 78,210	(23%)
Marketable securities	50,320	46,081	9%	53,743	(6%)
Mortgages	2,414,855	2,337,717	3%	1,939,494	25%
Non-marketable securities	109,943	111,590	(1%)	97,228	13%
Equity investment in MCAP Commercial LP	111,367	110,222	1%	106,168	5%
Deferred tax asset	336	1,872	(82%)	1,095	(69%)
Derivative financial instruments	198	247	(20%)	—	n/a
Other assets	8,965	8,534	5%	7,182	25%
	2,756,329	**2,666,736**	**3%**	**2,283,120**	**21%**
Securitization Assets					
Cash held in trust	30,909	28,307	9%	34,531	(10%)
Mortgages	1,929,948	1,835,318	5%	1,751,303	10%
Other assets	21,901	10,121	116%	9,722	125%
	1,982,758	**1,873,746**	**6%**	**1,795,556**	**10%**
	$ 4,739,087	**$ 4,540,482**	**4%**	**$ 4,078,676**	**16%**

Our total corporate and securitized assets increased compared to September 30, 2023 and December 31, 2022 primarily due to origination volumes, including strong renewal activity in our residential mortgage portfolio, outpacing maturities.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time and move up homebuyers. These segments are characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas in proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At December 31, 2023, the average outstanding construction loan balance was $11 million (September 30, 2023 - $10 million; December 31, 2022 - $8 million) with a maximum individual loan commitment of $40 million (September 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 11 to the consolidated financial statements.

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

We securitized $128 million in Q4 2023 (Q3 2023 - $144 million; Q4 2022 - $112 million) and $359 million year to date 2023 (year to date 2022 - $426 million) of insured residential mortgages through the market MBS program and CMB program. Overall, for the year to date, total insured residential 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 securitized $150 million in Q4 2023 (Q4 2022 - $nil) and $150 million year to date 2023 (year to date 2022 - $nil) of insured multi family mortgages through the CMB program. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of $1 million in Q4 2023 (Q4 2022 - $nil) and $1 million year to date 2023 (year to date 2022 - $nil).

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At December 31, 2023, we held $125 million of retained MBS on our balance sheet (September 30, 2023 - $101 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 %)	December 31 2023	September 30 2023	Change (%)	December 31 2022	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 276,685	$ 269,271	3%	$ 144,569	91%
Uninsured	966,726	956,188	1%	828,540	17%
Uninsured - completed inventory	54,367	18,201	199%	36,680	48%
Construction loans	1,045,768	997,423	5%	825,126	27%
Commercial loans					
Multi family residential	70,103	90,285	(22%)	98,238	(29%)
Other commercial	1,206	6,349	(81%)	6,341	(81%)
	2,414,855	**2,337,717**	**3%**	**1,939,494**	**25%**
Securitized portfolio	**1,929,948**	**1,835,318**	**5%**	**1,751,303**	**10%**
	$ 4,344,803	**$ 4,173,035**	**4%**	**$ 3,690,797**	**18%**

Table 14: 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]	622,369	768,195	65,167	660,384	3,675	2,119,790
Payments and prepayments	(10,960)	(18,236)	(47,301)	(444,544)	(37,231)	(558,272)
Maturities	(79,251)	(612,970)	—	—	—	(692,221)
Securitizations	(376,902)	—	—	—	—	(376,902)
Sale of commitments to MCAP	(24,876)	—	—	—	—	(24,876)
Capitalization and amortization of fees	1,736	1,197	(179)	4,802	286	7,842
Balance, end of the period	**$ 276,685**	**$ 966,726**	**$ 54,367**	**$ 1,045,768**	**$ 71,309**	**$ 2,414,855**

[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 Year to Date 2022

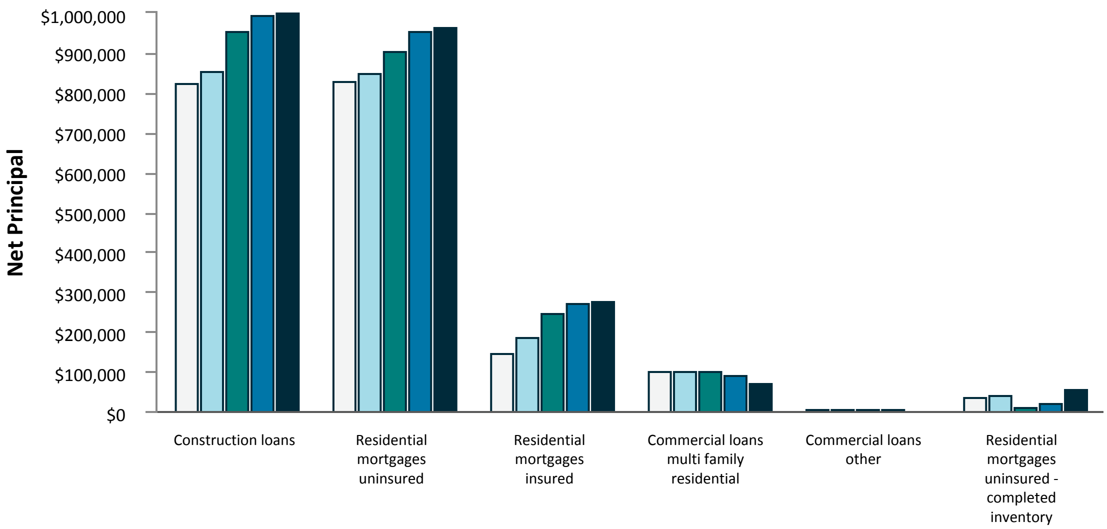
(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 196,595**	**$ 783,061**	**$ 49,431**	**$ 684,298**	**$ 92,761**	**$ 1,806,146**
Originations[1]	679,500	706,505	15,982	660,948	37,680	2,100,615
Payments and prepayments	(9,497)	(22,569)	(29,083)	(520,927)	(25,903)	(607,979)
Maturities	(68,352)	(640,869)	—	—	—	(709,221)
Securitizations	(425,696)	—	—	—	—	(425,696)
Sale of commitments and loans to MCAP	(227,449)	—	—	(2,549)	—	(229,998)
Capitalization and amortization of fees	(532)	2,412	350	3,356	41	5,627
Balance, end of the period	**$ 144,569**	**$ 828,540**	**$ 36,680**	**$ 825,126**	**$ 104,579**	**$ 1,939,494**

[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
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%)
Dec 31, 2023	$1,045,768 (44%)	$966,726 (40%)	$276,685 (11%)	$70,103 (3%)	$1,206 (0%)	$54,367 (2%)

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

Table 16: Mortgage Portfolio Geographic Distribution

	December 31, 2023		September 30, 2023		December 31, 2022	
	Corporate	**Securitized**	**Corporate**	**Securitized**	**Corporate**	**Securitized**
Ontario	60.4 %	85.7 %	59.4 %	87.1 %	57.6 %	86.4 %
British Columbia	30.3 %	3.3 %	29.4 %	3.1 %	29.4 %	3.3 %
Alberta	8.2 %	8.5 %	9.9 %	7.7 %	11.0 %	8.0 %
Atlantic Provinces	0.4 %	1.4 %	0.4 %	1.1 %	0.3 %	1.3 %
Quebec	0.1 %	0.4 %	0.3 %	0.4 %	1.2 %	0.5 %
Other	0.6 %	0.7 %	0.6 %	0.6 %	0.5 %	0.5 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

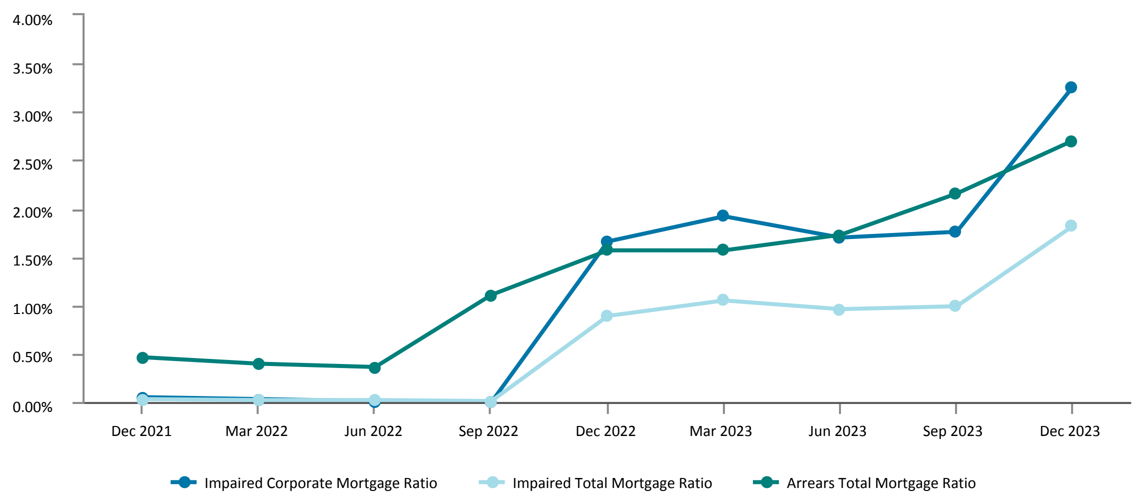
Credit Quality

Table 17: Arrears and Impaired Mortgages

(in thousands except %)	December 31 2023	September 30 2023	Change (%)	December 31 2022	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ 599	$ 483	24%	$ —	n/a
Residential mortgages - uninsured	5,971	3,931	52%	186	3,110%
Construction loans	72,206	31,787	127%	32,085	125%
Commercial loans - other	—	4,855	(100%)	—	n/a
	78,776	41,056	92%	32,271	144%
Securitized	343	310	11%	550	(38%)
Total impaired mortgages	$ 79,119	$ 41,366	91%	$ 32,821	141%
Impaired corporate mortgage ratio [1]	3.26 %	1.76 %	1.50%	1.66 %	1.60%
Impaired total mortgage ratio [1]	1.82 %	0.99 %	0.83%	0.89 %	0.93%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 813	$ 849	(4%)	$ 511	59%
Residential mortgages - uninsured	39,770	35,246	13%	14,177	181%
Residential mortgages - uninsured - completed inventory	—	2,218	(100%)	2,577	(100%)
Construction loans	72,206	42,345	71%	32,085	125%
Commercial loans - other	—	4,855	(100%)	5,080	(100%)
Total corporate mortgage arrears	112,789	85,513	32%	54,430	107%
Total securitized mortgage arrears	4,661	4,438	5%	3,439	36%
Total mortgage arrears	$ 117,450	$ 89,951	31%	$ 57,869	103%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 11,572	$ 9,808	18%	$ 5,157	124%
Residential mortgages - uninsured	184,514	186,623	(1%)	132,934	39%
Residential mortgages - uninsured - completed inventory	2,221	2,218	—%	2,577	(14%)
Construction loans	5,967	32,388	(82%)	7,341	(19%)
Commercial loans - multi-family residential	39,798	39,821	—%	27,406	45%
Commercial loans - other	—	—	n/a	5,080	(100%)
	244,072	270,858	(10%)	180,495	35%
Stage 3					
Residential mortgages - insured	599	483	24%	—	n/a
Residential mortgages - uninsured	5,971	3,931	52%	186	3,110%
Construction loans	72,206	31,787	127%	32,085	125%
Commercial loans - other	—	4,855	(100%)	—	n/a
	78,776	41,056	92%	32,271	144%
Total stage 2 and 3 corporate mortgages	$ 322,848	$ 311,914	4%	$ 212,766	52%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 7,953	$ 6,752	18%	$ 5,549	43%
Allowance on impaired mortgages	1,972	1,220	62%	49	3,924%
	9,925	7,972	24%	5,598	77%
Securitized - allowance on performing mortgages	—	—	n/a	—	n/a
Total allowance for credit losses	$ 9,925	$ 7,972	24%	$ 5,598	77%

[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: Arrears and Impaired Mortgage Ratios[1]



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 industry norms. We believe that we have a quality residential mortgage loan portfolio. With respect to our construction and commercial loan portfolio, we have a strong track record with our default management processes and asset recovery programs as the need arises. The impaired corporate and total mortgage ratios, as presented above, reflects impaired (stage 3) mortgages under IFRS 9 as a percentage of the corporate or total mortgage portfolios, as applicable. At December 31, 2023, impaired mortgages are mainly five construction mortgages where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. 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 7 to the consolidated financial statements.

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

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

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

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

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

Table 18: Residential Mortgages by Province at December 31, 2023

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 202,183	73.0 %	$ 888,284	87.1 %	$ 59	79.7 %	$1,655,249	85.7 %	$ 2,745,775	85.1 %
Alberta	52,071	18.9 %	27,844	2.7 %	15	20.3 %	164,398	8.5 %	244,328	7.6 %
British Columbia	8,516	3.1 %	96,305	9.4 %	—	— %	62,971	3.3 %	167,792	5.2 %
Quebec	2,090	0.8 %	1,221	0.1 %	—	— %	7,298	0.4 %	10,609	0.3 %
Atlantic Provinces	6,405	2.3 %	2,307	0.2 %	—	— %	26,521	1.4 %	35,233	1.1 %
Other	5,346	1.9 %	5,132	0.5 %	—	— %	13,511	0.7 %	23,989	0.7 %
Total	**$ 276,611**	**100.0 %**	**$1,021,093**	**100.0 %**	**$ 74**	**100.0 %**	**$1,929,948**	**100.0 %**	**$ 3,227,726**	**100.0 %**

Table 19: 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 20: Residential Mortgages by Amortization Period at December 31, 2023

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 182,403	$ 292,137	$ 450,377	$ 372,861	$ 1,297,778
	14.1 %	22.4 %	34.7 %	28.8 %	100.0 %
Securitized	$ 585,539	$ 1,343,070	$ 1,339	$ —	$ 1,929,948
	30.3 %	69.6 %	0.1 %	— %	100.0 %
Total	**$ 767,942**	**$ 1,635,207**	**$ 451,716**	**$ 372,861**	**$ 3,227,726**
	23.8 %	**50.6 %**	**14.0 %**	**11.6 %**	**100.0 %**

Table 21: 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 22: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q4 2023**	**Average LTV**	**Q4 2022**	**Average LTV**	**Annual 2023**	**Average LTV**	**Annual 2022**	**Average LTV**
Ontario	$ 63,778	67.4%	$ 46,350	69.2%	$335,693	68.4%	$335,012	68.0%
Alberta	601	61.2%	310	58.2%	7,651	70.1%	7,992	69.6%
British Columbia	49,599	68.5%	2,088	61.4%	73,912	68.4%	38,584	69.7%
Quebec	—	—%	—	—%	—	—%	4,432	52.8%
Other	—	—%	—	—%	150	22.2%	417	67.1%
	$113,978	**67.8%**	**$ 48,748**	**68.8%**	**$417,406**	**68.4%**	**$386,437**	**68.1%**

Table 23: Average LTV Ratios at Origination by Mortgage Portfolio

	December 31 2023	**December 31 2022**
Corporate portfolio		
Residential mortgages		
Insured	69.6 %	68.0 %
Uninsured[1]	66.0 %	63.1 %
Uninsured - completed inventory	63.4 %	56.6 %
Construction loans		
Residential	63.7 %	65.7 %
Commercial loans		
Multi family residential	75.9 %	74.6 %
Other commercial	63.0 %	62.1 %
	65.7 %	65.0 %
Securitized portfolio	79.9 %	80.1 %
	72.0 %	**72.2 %**

[1] MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 65.9% at December 31, 2023 (December 31, 2022 - 65.6%). Based on an industry index that incorporates current real estate values, the ratios would be 63.4% at December 31, 2023 (December 31, 2022 - 62.1%).

Other Corporate Assets

Cash and Cash Equivalents

At December 31, 2023, our cash balance was $60 million (September 30, 2023 - $50 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 December 31, 2023, the portfolio balance was $50 million (September 30, 2023 - $46 million; December 31, 2022 - $54 million). Year to date 2023, we had $3 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 December 31, 2023, our non-marketable securities balance was $110 million (September 30, 2023 - $112 million; December 31, 2022 - $97 million). The movement to our security balance from prior periods mainly relates to funding of capital advances and a $0.4 million unrealized loss comprised of (i) a $3.4 million unrealized loss mainly related to two underlying properties from general commercial real estate headwinds increasing capitalization rates as well as increased debt servicing costs that impact overall returns; and (ii) a $3.0 million unrealized gain related to construction and leasing completion and value-add activity on two underlying property investments. Our non-marketable securities are either held for long-term capital appreciation or distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, the real estate development funds tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds. We have $76 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. Some of the real estate funds that we are invested in, have been slower to deploy committed capital then initially expected as finding the right opportunities in the current market environment takes more time. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF representing a 5.9% equity interest at December 31, 2023 (September 30, 2023 - 5.9%; December 31, 2022 - 5.9%). At December 31, 2023, the carrying value of our investment was $55 million (September 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 December 31, 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.

KSSMF: We invest in KSSMF representing a 2.1% partnership interest at December 31, 2023 (September 30, 2023 - 2.1%; December 31, 2022 - 1.5%). At December 31, 2023, the carrying value of our investment was $16 million (September 30, 2023 - $16 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 December 31, 2023 (September 30, 2023 - 9.7%; December 31, 2022 - 9.7%). At December 31, 2023, the carrying value of our investment was $8 million (September 30, 2023 - $10 million; December 31, 2022 - $9 million) with a $3 million additional commitment finalized subsequent to year end. 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 December 31, 2023 (September 30, 2023 - 34.8%; December 31, 2022 - 34.8%). At December 31, 2023, the carrying value of our investment was $4 million (September 30, 2023 - $6 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 December 31, 2023 (September 30, 2023 - 6.9%; December 31, 2022 - 6.9%). At December 31, 2023, the carrying value of our investment was $2 million (September 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 December 31, 2023 (September 30, 2023 - 7.7%; December 31, 2022 - 7.7%). At December 31, 2023, the carrying value of our investment was $8 million (September 30, 2023 - $9 million; December 31, 2022 - $9 million) with an additional $10 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 December 31, 2023 (September 30, 2023 - 12.1%; December 31, 2022 - 12.1%). At December 31, 2023, the carrying value of our investment was $3 million (September 30, 2023 - $3 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 (September 30, 2023 - 14.8%; December 31, 2022 - 17.6%). At December 31, 2023, the carrying value of our investment was $2 million (September 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 December 31, 2023 (September 30, 2023 - 5.7%; December 31, 2022 - 5.7%). At December 31, 2023, the carrying value of our investment was $5 million (September 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 December 31, 2023 (September 30, 2023 - 6.5%; December 31, 2022 - 7.1%). At December 31, 2023, the carrying value of our investment was $6 million (September 30, 2023 - $6 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.

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.

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 (September 30, 2023 - 13.73%; December 31, 2022 - 13.65%), which represents 4.0 million units held by MCAN at December 31, 2023 (September 30, 2023 - 4.0 million; December 31, 2022 - 4.0 million) of the 29.1 million total outstanding MCAP partnership units (September 30, 2023 - 29.1 million; December 31, 2022 - 29.3 million). The investment had a net book value of $111 million at December 31, 2023 (September 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 Q4 2023, we received $3.3 million of unitholder distributions from MCAP (Q3 2023 - $3.9 million; Q4 2022 - $5.7 million). For year to date 2023, we have received $17.9 million of unitholder distributions from MCAP (year to date 2022 - $18.3 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 24: Liabilities and Shareholders' Equity

(in thousands except %)	December 31 2023	September 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Liabilities					
Term deposits	$ 2,200,102	$ 2,094,788	5%	$ 1,819,830	21%
Loans payable	64,683	83,235	(22%)	6,532	890%
Other liabilities	25,575	10,513	143%	22,616	13%
	2,290,360	**2,188,536**	**5%**	**1,848,978**	**24%**
Securitization Liabilities					
Financial liabilities from securitization	1,916,883	1,824,258	5%	1,740,388	10%
	1,916,883	**1,824,258**	**5%**	**1,740,388**	**10%**
	4,207,243	**4,012,794**	**5%**	**3,589,366**	**17%**
Shareholders' Equity					
Share capital	406,528	406,581	—%	389,986	4%
Contributed surplus	510	510	—%	510	—%
Retained earnings	124,708	118,315	5%	98,990	26%
Accumulated other comprehensive income	98	2,282	(96%)	(176)	(156%)
	531,844	**527,688**	**1%**	**489,310**	**9%**
	$ 4,739,087	**$ 4,540,482**	**4%**	**$ 4,078,676**	**16%**

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 18 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for Q4 2023 consists of net income of $19.9 million (Q3 2023 - $18.5 million; Q4 2022 - $24.1 million) less dividends of $13.5 million (Q3 2023 - $13.3 million; Q4 2022 - $11.5 million). Retained earnings activity for year to date

2023 consists of a net income of $77.5 million (year to date 2022 - $55.4 million) less dividends of $51.8 million (year to date 2022 - $73.8 million).

Accumulated Other Comprehensive Income

We may 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 Q4 2023, we had net realized fair value losses of $2.1 million (Q3 2023 - $0.6 million fair value gains; Q4 2022 - $0.2 million fair value losses), and in 2023, we had net realized fair value gains of $0.4 million (year to date 2022 - $0.2 million fair value losses) 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 13 to the consolidated financial statements.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 25: Income Tax Capital

(in thousands except ratios)

	December 31 2023	December 31 2022
Income tax assets		
Consolidated assets	$ 4,739,087	$ 4,078,676
Adjustment for assets in subsidiaries	(27,520)	29,833
Non-consolidated assets in MIC entity	4,711,567	4,108,509
Add: corporate mortgage allowances	8,149	5,545
Less: securitization assets [1]	(1,953,086)	(1,768,828)
Adjustments to equity investments in MCAP and subsidiaries	(59,274)	(41,090)
Other adjustments	5,501	4,064
	$ 2,712,857	$ 2,308,200
Income tax liabilities		
Consolidated liabilities	$ 4,207,243	$ 3,589,366
Adjustment for liabilities in subsidiaries	(71,761)	(11,537)
Non-consolidated liabilities in MIC entity	4,135,482	3,577,829
Less: securitization liabilities [1]	(1,913,719)	(1,738,216)
	$ 2,221,763	$ 1,839,613
Income tax capital	$ 491,094	$ 468,587
Income tax capital ratios		
Income tax assets to capital ratio	5.52	4.93
Income tax liabilities to capital ratio	4.52	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 December 31, 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 26: Regulatory Capital [3]

(in thousands except %)

	December 31 2023	December 31 2022
OSFI Regulatory Ratios		
Share capital	$ 406,528	$ 389,986
Contributed surplus	510	510
Retained earnings	124,708	98,990
Accumulated other comprehensive income	98	(176)
Deduction from equity investment in MCAP [1]	(58,183)	(57,201)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	—	357
Common Equity Tier 1 and Tier 1 Capital (A)	473,661	432,466
Tier 2 Capital	7,953	5,192
Total Capital (D)	$ 481,614	$ 437,658
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,739,087	$ 4,078,676
Less: deduction for equity investment in MCAP [1]	(58,183)	(57,201)
Other adjustments [2]	1,900	2,994
Total On-Balance Sheet Exposures	4,682,804	4,024,469
Mortgages and non-marketable securities funding commitments	286,655	352,069
Letters of credit	24,318	23,994
Total Off-Balance Sheet Items	310,973	376,063
Total Exposure/Regulatory Assets (B)	$ 4,993,777	$ 4,400,532
Leverage ratio (A / B)	9.49 %	9.83 %
Risk-weighted assets (C)	$ 2,689,764	$ 2,206,580
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.61 %	19.60 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.61 %	19.60 %
Total capital to risk-weighted assets ratio **(D / C)**	17.91 %	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 27: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	December 31, 2023			December 31, 2022		
	Amounts	Average Rate	Risk-Weighted Assets	Amounts	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 60,345	21 %	$ 12,449	$ 78,210	21 %	$ 16,241
Cash held in trust	30,909	20 %	6,182	34,531	20 %	6,906
Marketable securities	50,320	100 %	50,320	53,743	100 %	53,743
Mortgages - corporate	2,414,855	67 %	1,626,403	1,939,494	66 %	1,279,396
Mortgages - securitized	1,929,948	5 %	104,989	1,751,303	6 %	96,599
Non-marketable securities	109,943	172 %	188,885	97,228	179 %	174,338
Equity investment in MCAP Commercial LP	111,367	119 %	132,961	106,168	46 %	48,967
Deferred tax asset	336	100 %	336	1,095	100 %	1,095
Other assets	30,866	100 %	30,867	16,904	100 %	16,904
Derivative Financial Instruments	198	— %	—	—	— %	—
	4,739,087		2,153,392	4,078,676		1,694,189
Off-Balance Sheet Items						
Letters of credit	48,637	50 %	24,319	47,988	50 %	23,994
Commitments	716,638	43 %	306,764	704,139	47 %	330,109
Derivative Financial Instruments	314,197	— %	276	—	— %	—
			331,359			354,103
Charge for operational risk [2]			205,013			158,288
Risk-Weighted Assets			**$ 2,689,764**			**$ 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.

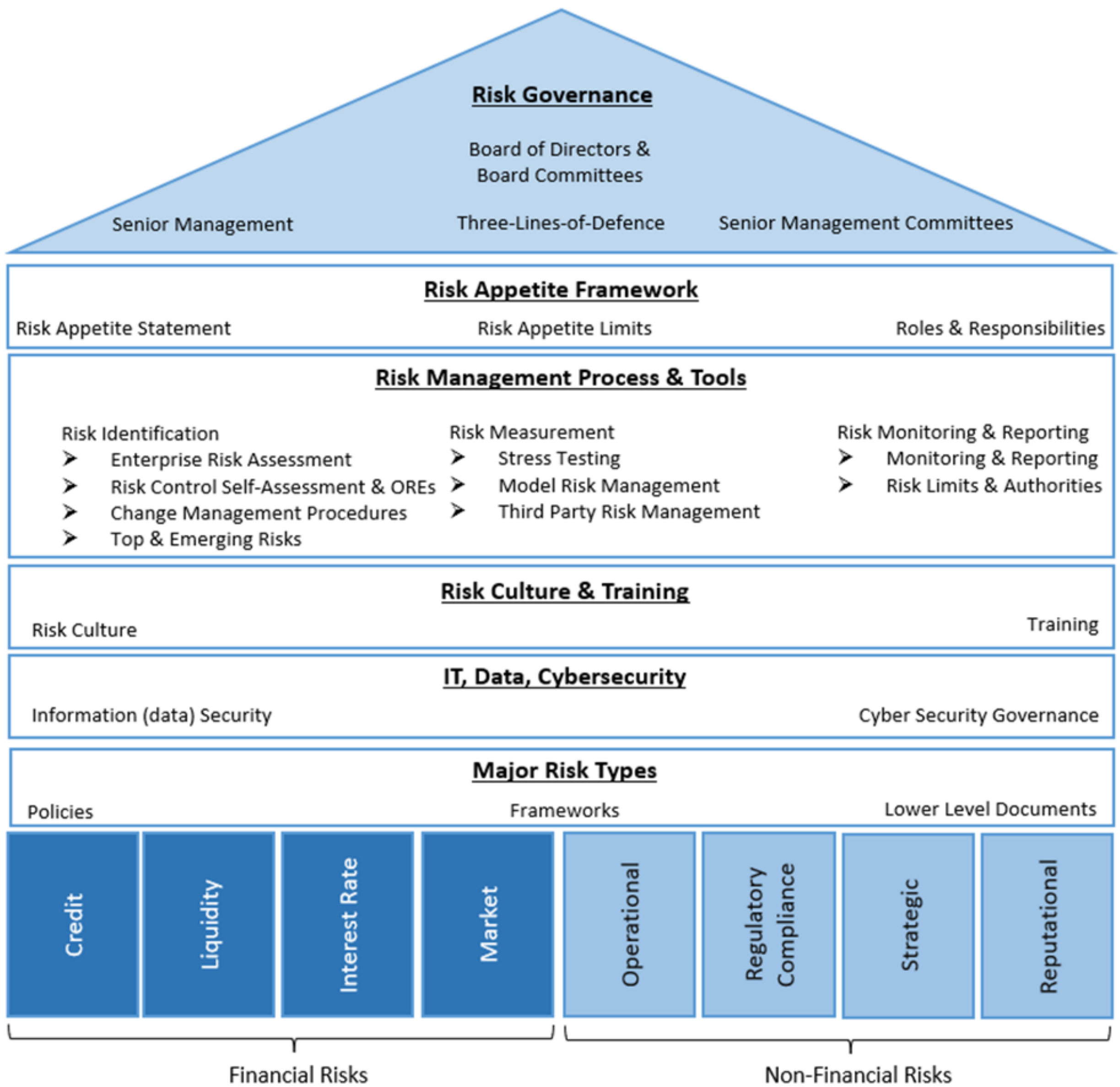
Other Capital Management Activity

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

Figure 4: Roles and Accountabilities

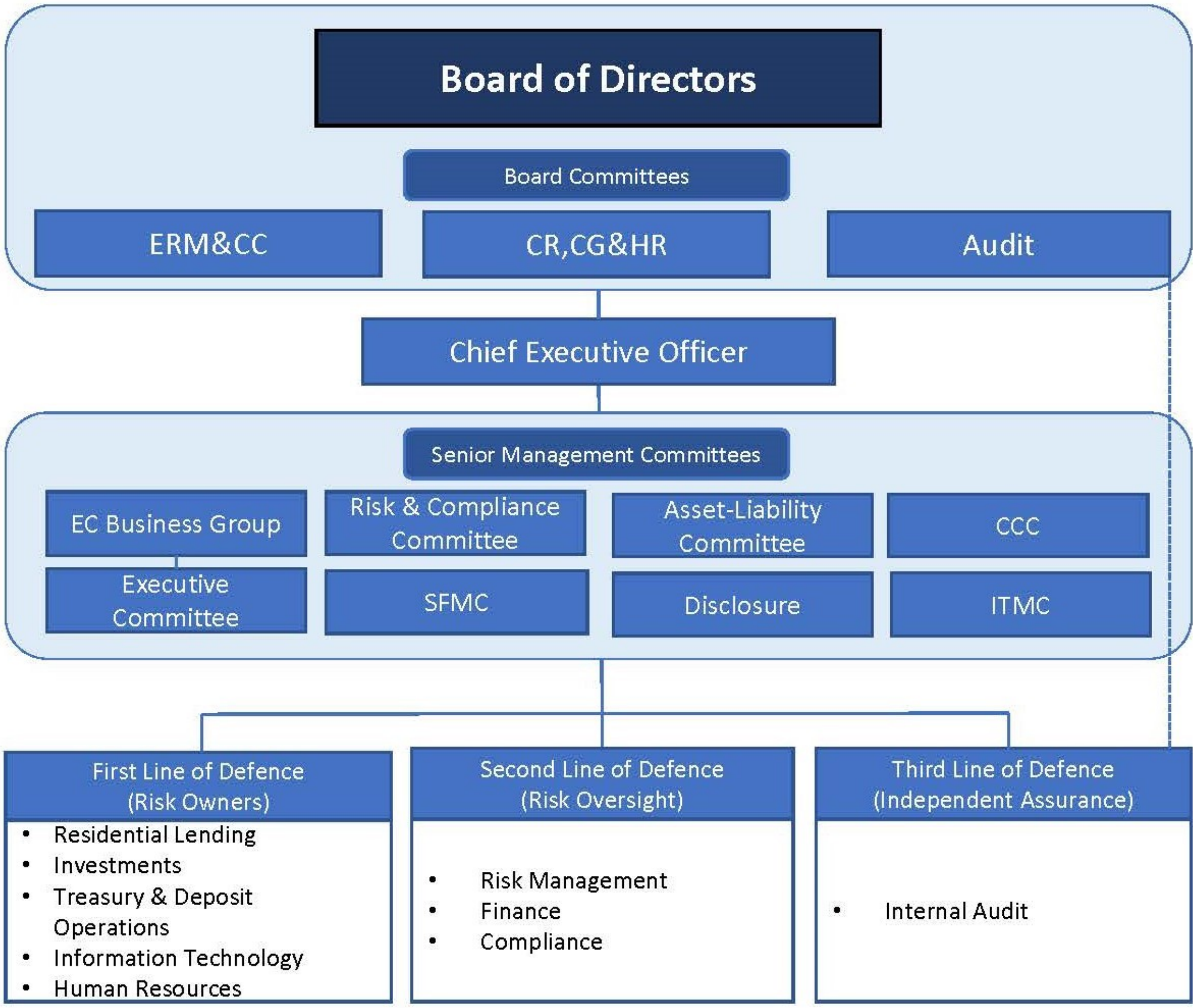


Risk Governance

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

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

Figure 5: Risk Governance Structure



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

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

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

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

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

The Board is supported by management level committees, including but not limited to:
- The Executive Committee: ensures the orderly flow of business, provides governance over business activities, and oversees strategic, emerging and reputational risk.
- Executive Committee Business Group: provides oversight of key strategic activities with the primary focus on the market, business development and alignment with the strategy and annual plan.
- Risk and Compliance Committee ("RCC"): provides a forum for enterprise-wide risk management and compliance oversight and facilitates objective and independent challenge over risk taking activities. The RCC provides oversight of the Company's risk profile, risk mitigation strategies, and reviews business activities in relation to the established risk appetite framework.
- Asset-Liability Committee ("ALCO"): provides a forum for oversight and management of assets and liabilities of the Company in the context of balance sheet structure and size. ALCO serves as an important component of liquidity and interest rate risk management by providing strategic direction of these risk types.
- Capital Commitments Committee ("CCC"): mandated to govern, evaluate and approve the construction & commercial lending activities and investments in marketable & non-marketable securities.

Three-Lines-of-Defence

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

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

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

  These activities are overseen by:

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

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

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

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

Risk Appetite

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

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

MCAN's overarching risk appetite statement is as follows:

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

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

Risk Culture

Risk culture is the system of values and behaviors present in an organization that shapes risk decisions of management and team members. Within MCAN's Three-Lines-of-Defence risk governance structure, all team members at all levels of the organization are responsible for managing the day-to-day risks that arise in the context of their role. Senior management plays a critical role in shaping risk culture by communicating the importance of risk management and ensuring that team members are aware of how their behaviors may impact the organization. MCAN's risk culture is further promoted through one of our core DRIVE values, "Risk managers are in all of us", which is embedded as a core element of team member performance and compensation.

Stress Testing

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

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

Monitoring and Reporting

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

Major Risk Types

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

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

Liquidity and Funding Risk

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

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

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

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

ALCO, which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. At December 31, 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 maintains a secured demand revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is $220 million.

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

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

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

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

OSFI's Liquidity Adequacy Requirements guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics. At December 31, 2023, we were in compliance with the LCR and NCCF metrics.

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

Table 28: Liquidity Analysis

At December 31, 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	$	60,345	$	—	$	—	$	—	$	—	$	60,345
Marketable securities		50,320		—		—		—		—		50,320
Mortgages - corporate		470,526		1,082,561		713,302		126,237		22,229		2,414,855
Non-marketable securities		—		—		—		—		109,943		109,943
Derivative Financial Instruments		—		32		166		—		—		198
Other loans		2,256		—		—		—		—		2,256
		583,447		1,082,593		713,468		126,237		132,172		2,637,917
Uses of liquidity												
Term deposits		282,818		803,926		790,132		323,226		—		2,200,102
Loans payable		64,683		—		—		—		—		64,683
Other liabilities		22,180		657		1,956		782		—		25,575
		369,681		804,583		792,088		324,008		—		2,290,360
Net liquidity surplus (deficit)	**$**	**213,766**	**$**	**278,010**	**$**	**(78,620)**	**$**	**(197,771)**	**$**	**132,172**	**$**	**347,557**

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

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

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

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

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

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

Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at December 31, 2023 and 2022 there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the consolidated financial statements.

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

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

Credit Risk - Impairment Assessment Under IFRS 9

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

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

Probability of default

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

Loss given default

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

Exposure at default

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

Grouping financial assets measured on a collective basis

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

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

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

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

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

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at December 31, 2023 would have an estimated positive effect of $5.0 million (September 30, 2023 - positive effect of $7.7 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 December 31, 2023 would have an estimated adverse effect of $3.8 million (September 30, 2023 - adverse effect of $7.4 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 December 31, 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 29: Interest Rate Sensitivity at December 31, 2023

At December 31, 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	$1,265,585	$162,442	$433,336	$504,327	$101,094	$ 8,614	$ 280,931	$ 2,756,329
Securitization	126,874	16,427	145,074	1,262,090	379,482	—	52,811	1,982,758
	1,392,459	178,869	578,410	1,766,417	480,576	8,614	333,742	4,739,087
Liabilities								
Corporate	64,682	282,827	803,952	790,157	323,237	—	25,505	2,290,360
Securitization	126,103	7,420	137,127	1,199,547	446,686	—	—	1,916,883
	190,785	290,247	941,079	1,989,704	769,923	—	25,505	4,207,243
Shareholders' Equity	—	—	—	—	—	—	531,844	531,844
GAP	**$1,201,674**	**$(111,378)**	**$(362,669)**	**$(223,287)**	**$(289,347)**	**$ 8,614**	**$ (223,607)**	**$ —**
YIELD SPREAD	**4.36 %**	**2.07 %**	**1.56 %**	**0.74 %**	**(0.03)%**	**5.39 %**		

Table 30: 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. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

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

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

In 2024, we expect continued market volatility across our marketable securities, reflective of the uncertain macroeconomic environment and corresponding investor sentiment. Despite this potential volatility, our investment strategy is to invest in high quality REITs over the long term.

Operational Risk

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

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

Third Party Risk

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

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

Technology and Cyber Security Risk

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

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

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

Borrower Fraud Risk

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

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

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

Reliance on Key Personnel

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

Regulatory Compliance Risk

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

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

Legislative and Regulatory Change

MCAN is impacted by federal, provincial and municipal decision-making bodies, each of which continue to evolve their expectations or legislation to address systemic risks, such as debt serviceability, housing supply, climate change, and key sub-categories of operational risk (e.g. technology and cyber risk, third party risk, resiliency, etc.). Legislative and regulatory changes have the potential to both positively and negatively impact operational capacity or financial performance.

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

Strategic Risk

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

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

Business and Economic Environment

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

Conversely, MCAN's business is supported by strong underlying fundamentals associated with immigration and lack of housing supply, forecasted stabilizing interest rates, and legislative changes favourable to housing development in major markets. These fundamentals support the longer-term resiliency of the Canadian housing market. Nonetheless, with a potential recessionary environment in 2024, Management continues to monitor the increased uncertainty related to the housing market and the broader economy.

Inflationary Pressures & Debt Serviceability

The inflationary environment continues to be undesirable, driven by factors such as consumer demand, resilient employment and wage growth, supply chain pressures, and geopolitical risks. With high interest rates, Canadian households may continue to be challenged through 2024, particularly those subject to renewals of their mortgage. Additionally, construction budgets or sales strategies for construction projects, which are subject to inflationary pressures from increased material costs and rising rates, may need to be amended.

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

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

Capital Adequacy Risk

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

Competition Risk

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

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

Qualification as a Mortgage Investment Corporation

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

Reputational Risk

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

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

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

ESG Risks

ESG risks are the environmental, social and governance factors that may affect a company's financial position or reputation. For MCAN, this includes (i) considering environmental stewardship in our decision-making; (ii) equity, diversity, and inclusion in our people; and (iii) behaviours aligned to our values that promote integrity in our workplace at all levels.

Environmentally, MCAN minimizes both its direct and indirect emissions as a hybrid organization with a minimal physical geographic footprint. We further mitigate these risks by complying with all applicable environmental laws.

We also consider in our decision-making, key social risk factors across demographic changes, housing affordability, and diversity, equity, and inclusion. MCAN is focused on lending on residential density developments in urban communities close to mass transit. Management also cultivates an inclusive and diverse team supported by a set of comprehensive policies and programs that promote ethical behaviours, team culture, career development, volunteerism, and community giving.

MCAN maintains strong governance practices across all risk types through management and Board committees, that have a strong and diverse mix of expertise across the Three-Lines-of-Defence. Additionally, MCAN is committed to accurate and transparent disclosures and meeting all applicable regulatory expectations as they evolve. These are further supported by a mix of policies and procedures to maintain integrity and ethical practices across the entire organization.

MCAN monitors broader ESG expectations across its stakeholder network and reviews its own ESG practices regularly. MCAN acknowledges that should ESG expectations evolve faster than MCAN's ability to adapt, negative sentiment could emerge and impact the willingness of investors, customers, or strategic partners to participate in our products, services, or common share ownership.

Other Risk Factors

Climate-related Risks

MCAN's climate-related risks are physical risks (e.g. weather events, longer term climate shifts, etc.) associated with our new originations and underlying portfolio, and transition risks associated with evolving consumer, legislative, or regulatory sentiment as the market transitions to a low greenhouse gas emissions economy.

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

MCAN's climate transition risk profile is subject to legislative or regulatory guidance, such as the recent OSFI Climate Risk Management expectations. Through 2024, MCAN will prioritize establishing its processes to support the disclosure of its direct emissions (scope 1 and 2) by the end of 2025, and indirect emissions (scope 3) by the end of 2026. Furthermore, as part of our existing business activities, we perform an environmental assessment during our construction underwriting and monitor approved projects to ensure they proceed as planned (e.g., site remediation, municipal environmental compliance, etc.).

General Litigation

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

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2023, there were 35,431,938 common shares outstanding (December 31, 2022 - 35,431,938; December 31, 2022 - 34,305,704). At February 26, 2024, there were 35,695,267 common shares outstanding.

We issued $14.5 million in 2023 (2022 - $7.4 million) in new common shares under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the 2023 fourth quarter dividend was 30% (2023 third quarter - 30%; 2022 fourth quarter - 28%).

In 2023, 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 MCAN's sole discretion. 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 $0.1 million of commission paid to our agent and $0.3 million of other share issuance costs under the ATM Program.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 31: Contractual Commitments

At December 31, 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	$ 364,822	$ 204,905	$ 42,303	$ —	$ —	$ 612,030
Commitment - TAS Co	—	1,076	—	—	—	1,076
Commitment - TAS 4	—	8,800	4,400	4,400	—	17,600
Commitment - Harbour	—	3,500	2,500	1,000	—	7,000
Commitment - KSSMF	—	1,000	7,800	—	—	8,800
Commitment - Pearl	—	721	—	—	—	721
Commitment - Crown	771	5,013	4,380	—	—	10,164
Commitment - Fiera	1,103	3,116	1,899	1,335	1,500	8,953
Commitment - Broccolini	1,000	6,000	7,600	2,000	1,000	17,600
Commitment - KSHYF	—	2,000	1,850	—	28,844	32,694
	$ 367,696	**$ 236,131**	**$ 72,732**	**$ 8,735**	**$ 31,344**	**$ 716,638**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At December 31, 2023, these derecognized securitized insured multi family mortgages totalled $218 million. For further information on our securitization activities, refer to Note 11 to the consolidated financial statements.

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

DIVIDEND POLICY AND RECORD

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

Regular cash dividends and special stock dividends per share over the past three years are shown in the table below:

Table 32: Dividends Per Share

For the Years Ended December 31	2023	2022	2021
First quarter - regular cash	$ 0.36	$ 0.36	$ 0.34
Second quarter - regular cash	0.36	0.36	0.34
Third quarter - regular cash	0.38	0.36	0.34
Fourth quarter - regular cash	0.38	0.36	0.34
Total regular cash dividends	**1.48**	**1.44**	**1.36**
First quarter - special stock	—	**0.97**	**0.85**
Total regular cash and special stock dividends	**$ 1.48**	**$ 2.41**	**$ 2.21**

The Board declared a first quarter regular cash dividend of $0.39 per share (a 5.4% increase on an annualized basis from 2023) to be paid March 28, 2024 to shareholders of record on March 15, 2024. Largely as a result of tax timing differences on various investing strategies that we undertook in the second half of 2023, we will not need to distribute a special dividend in the first quarter of 2024.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2023 and December 31, 2022 and related party balances at December 31, 2023 and December 31, 2022 are discussed in Notes 9 and 23 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At December 31, 2023, we had 142 team members (September 30, 2023 - 136; December 31, 2022 - 128). Team members include full-time, part-time, contract and students, as applicable.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

For non-marketable securities, fair value is determined using a variety of approaches including independent appraisals, recent transactions and incremental investments in the funds. We consider various factors in the determination of fair value including, but not limited to, recent appraisals, the status of underlying construction project and recent capital calls. Judgment is applied in the determination of the appropriate valuation approach, depending on the nature of the investment. On a quarterly basis, we review the fair value of the investments in conjunction with reports produced by the fund administrators, recent development activity and any other market-driven triggers.

For all other financial instruments where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of appropriate valuation techniques that may include discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models. The inputs are derived from observable market data where possible, but where observable market data is not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Allowances for credit losses

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

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

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

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

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

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

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2023, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2023.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2023.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2023 and ending on December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our control framework.

On January 1, 2024, we implemented a new enterprise resource planning ("ERP") system. This ERP implementation did not result in any significant changes in internal controls. We had appropriate testing on the new ERP system to ensure a proper transition as well as appropriate procedures to ensure internal controls over financial reporting were in place during and after the implementation.

Inherent Limitations of Controls and Procedures

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

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

Table 35: Net Corporate Mortgage Spread Income

(in thousands) **At December 31**	**Q4 2023**	**Q4 2022**	**Change ($)**	**Annual 2023**	**Annual 2022**	**Change ($)**
Mortgage interest - corporate assets	$ 47,406	$ 30,747		$ 165,997	$ 101,286	
Term deposit interest and expenses	24,361	13,189		78,219	44,222	
Net Corporate Mortgage Spread Income	**$ 23,045**	**$ 17,558**	**$ 5,487**	**$ 87,778**	**$ 57,064**	**$ 30,714**

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

Table 36: Net Securitized Mortgage Spread Income

(in thousands) **At December 31**	**Q4 2023**	**Q4 2022**	**Change ($)**	**Annual 2023**	**Annual 2022**	**Change ($)**
Mortgage interest - securitized assets	$ 11,309	$ 8,607		$ 39,335	$ 31,411	
Interest on financial liabilities from securitization	9,597	7,005		32,769	24,101	
Net Securitized Mortgage Spread Income	**$ 1,712**	**$ 1,602**	**$ 110**	**$ 6,566**	**$ 7,310**	**$ (744)**

Supplementary Financial Measures

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

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

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

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

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

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

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

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

GLOSSARY

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

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

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