MCAN Financial



MCAN FINANCIAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

December 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Annual

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

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

Table 2: Financial Statement Highlights - Quarterly

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

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

[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.

[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.

Annual Trends

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

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

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

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

Quarterly Trends

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

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

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

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

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

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

BUSINESS OVERVIEW AND OUTLOOK

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

Economic Outlook

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

Housing Market Outlook

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

Business Outlook

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

MCAN Capital Division

Our MCAN Capital division manages our construction and commercial lending business, as well as our investments in REITs and real estate-based development and loan funds. Over the next year, we will continue to deploy our capital within our

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

MCAN Home Division

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

MCAN Wealth Division

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

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

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

HIGHLIGHTS

Q4 2022

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

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

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

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

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

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

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

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

Year to Date 2022

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

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

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

- Net corporate mortgage spread income[1] increased by $16.7 million from 2021. The net corporate mortgage spread income increased mainly due to a higher average corporate mortgage portfolio balance from continued net mortgage

originations. The spread of corporate mortgages over term deposit interest and expenses for the year was only marginally higher in 2022 compared to 2021.

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

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

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

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

Business Activity and Balance Sheet

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

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

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

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

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

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

context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

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

Dividend

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

Credit Quality

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

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

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

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

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

Capital

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

Table 3: Net Income

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

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

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

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

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

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

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

Table 6: Mortgage Originations

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

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

Overview

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

Residential Mortgage Lending

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

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

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

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

We have an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. In Q4 2022, we increased the amount of commitment sales into

this program, given the extremely tight and even negative spreads from the securitization market. We originated and sold $44 million in commitments in Q4 2022 (Q3 2022 - $87 million; Q4 2021 - $11 million) and $228 million year to date 2022 (year to date 2021 - $76 million) under this agreement.

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

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

Construction and Commercial

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

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

Mortgage Renewal Rights

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

Equity Income from MCAP

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

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

Non-Marketable Securities

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

compared to 11.84% in Q4 2021. Year to date 2022, the distribution yield[1] on this investment was 12.70% compared to 11.33% during year to date 2021.

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

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

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

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

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

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

Marketable Securities

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

Fees

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

Net Gain (Loss) on Securities

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

Gain on Dilution of Investment in MCAP

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

Term Deposit Interest and Expenses

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

Net Investment Income - Securitization Assets

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

residential mortgage commitments, another funding source for our insured residential mortgage business, given much tighter securitization spreads.

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

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

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

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

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

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

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

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

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

Derivatives and Hedging

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

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

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

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

Provision for (Recovery of) Credit Losses

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

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

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

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

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

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

Operating Expenses

Table 10: Operating Expenses

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

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

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

Taxable Income

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

Table 11: Taxable Income Reconciliation

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

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

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

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

FINANCIAL POSITION

Assets

Table 12: Assets

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

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

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

Securitized Mortgages

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

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

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

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

Table 13: Mortgage Summary

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

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

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

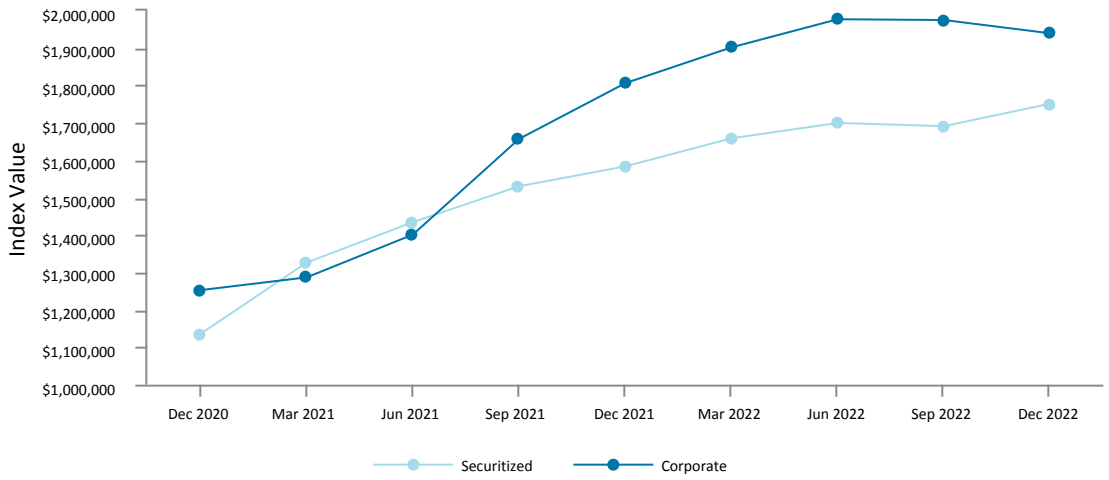
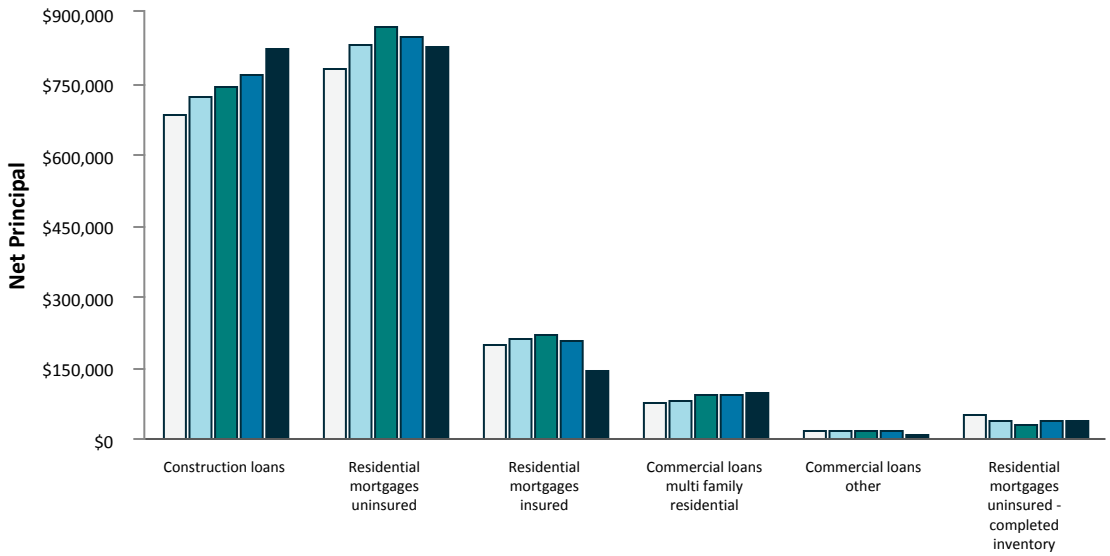


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



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

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

Table 14: Mortgage Portfolio Geographic Distribution

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

Credit Quality

Table 15: Arrears and Impaired Mortgages

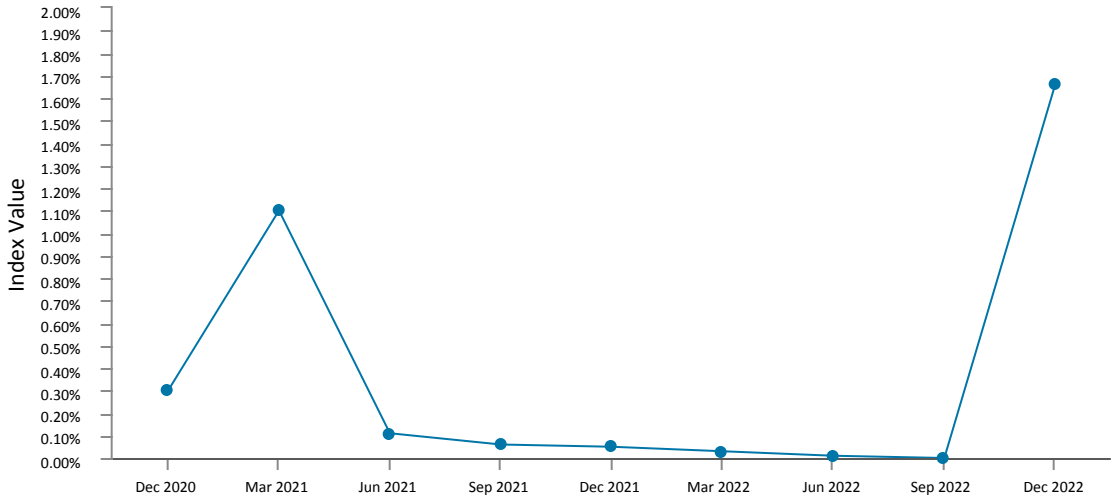
(in thousands except %)	December 31 2022	September 30 2022	Change (%)	December 31 2021	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ —	$ —	n/a	$ 790	(100%)
Residential mortgages - uninsured	186	57	226%	163	14%
Construction loans	32,085	—	n/a	—	n/a
	32,271	57	56,516%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

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

Arrears and Impaired Mortgage Summary

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

Figure 3: Impaired Corporate Mortgage Ratio[1]



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 20: Average LTV Ratio for Uninsured Residential Mortgage Originations

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

Table 21: Average Mortgage LTV Ratios at Origination

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

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

Other Corporate Assets

Cash and Cash Equivalents

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

Marketable Securities

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

Non-Marketable Securities

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

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

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

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

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

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

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

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

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

TAS Impact Development LP 4 (“TAS 4”): During Q3 2022, the Company invested in TAS 4 representing a 17.6% partnership interest. At December 31, 2022, the carrying value of our investment was $2 million (September 30, 2022 - $4 million) with an additional $18 million remaining commitment. During Q4 2022, we received a return of capital distribution. TAS 4 acquires

urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive ESG impacts.

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

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

Equity Investment in MCAP

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

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

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 22: Liabilities and Shareholders' Equity

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

Term Deposits

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

Loans Payable

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

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

Other loan payable to MSLP

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

Financial Liabilities from Securitization

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

Share Capital

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

Retained Earnings

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

Cash Flow Hedge Reserve

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

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 23: Income Tax Capital

(in thousands except ratios)

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

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

Regulatory Capital

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

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

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

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

Table 24: Regulatory Capital [3]

(in thousands except %)

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

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

Table 25: Regulatory Risk-Weighted Assets [1]

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

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

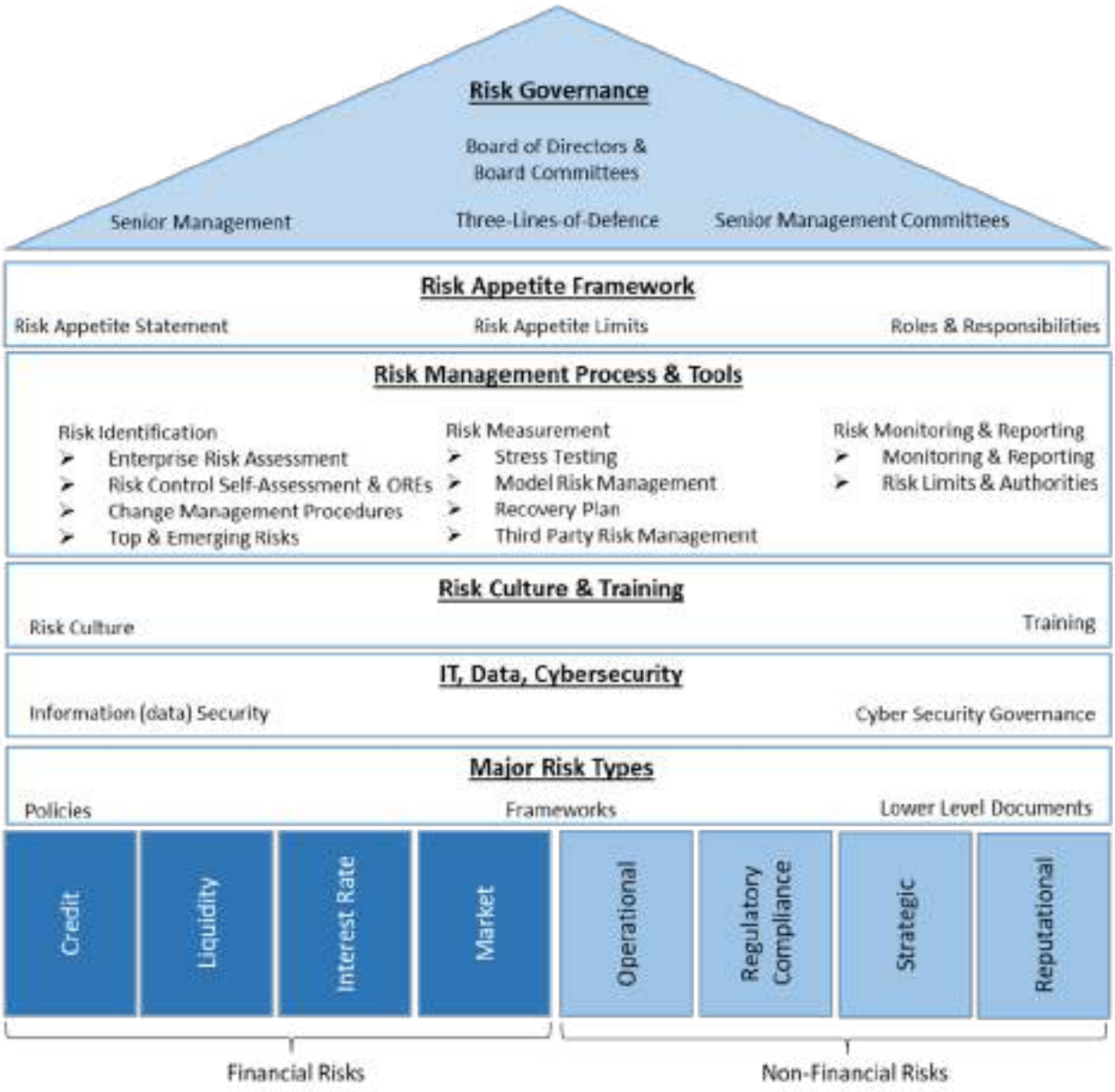
Other Capital Management Activity

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

RISK MANAGEMENT

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

Figure 4: Roles and Accountabilities

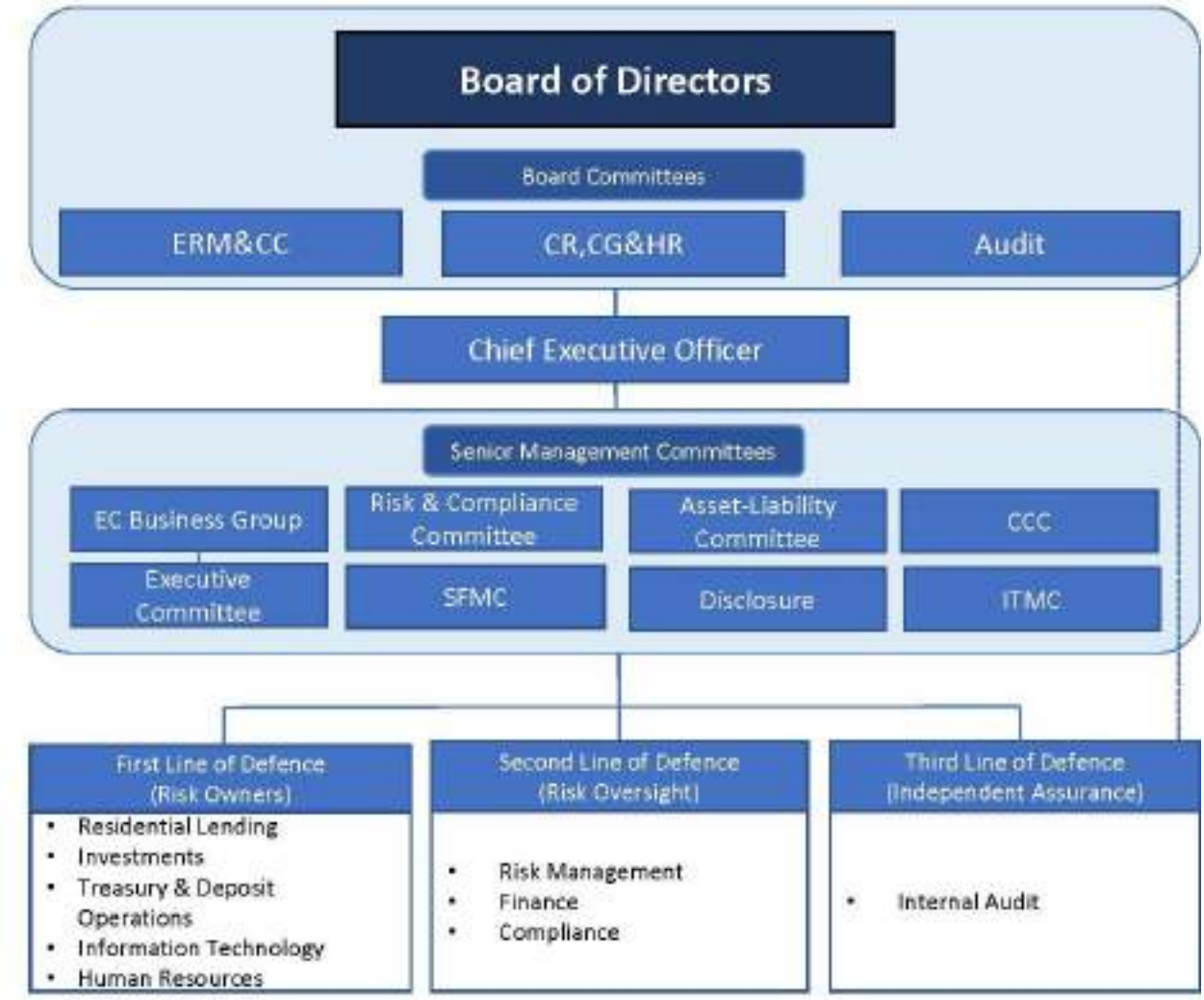


Risk Governance

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

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

Figure 5: Risk Governance Structure



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

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

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

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

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

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

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

Three-Lines-of-Defence

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

First Line (Business Units):

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

Second Line (Oversight Functions):

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

  These activities are overseen by:

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

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

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

Third Line (Internal Audit):

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

Risk Appetite

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

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

MCAN's overarching risk appetite statement is as follows:

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

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

Risk Culture

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

Stress Testing

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

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

Monitoring and Reporting

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

Major Risk Types

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

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

Liquidity and Funding Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 26: Liquidity Analysis

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

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at December 31, 2022 and 2021

there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the consolidated financial statements.

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

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

Credit Risk - Impairment Assessment Under IFRS 9

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

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

Probability of default

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

Loss given default

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

Exposure at default

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

Grouping financial assets measured on a collective basis

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

Analysis of inputs into the ECL model under multiple economic scenarios

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

Interest Rate Risk

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

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

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

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

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

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

Table 27: Interest Rate Sensitivity at December 31, 2022

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

Table 28: Interest Rate Sensitivity at December 31, 2021

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

Market Risk

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

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

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

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

Operational Risk

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

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

Third Party Risk

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

The Company's Outsourcing Policy incorporates the relevant requirements of OSFI Guideline B-10, Outsourcing of Business Activities, Functions and Processes. We regularly review our outsourced contracts to determine if an arrangement is material

and to assess the overall risk inherent in that contract. All outsourced contracts are subject to a risk management program, which includes detailed monitoring activities. If an outsourced contract is material, it is subjected to an enhanced risk management program.

Technology and Cybersecurity Risk

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

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

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

Borrower Fraud Risk

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

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

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

Regulatory Compliance Risk

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

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

Regulatory Change

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

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

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

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

Strategic Risk

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

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

Business and Economic Environment

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

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

Inflationary Pressures & Debt Serviceability

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

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

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

Capital Adequacy Risk

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

Competition Risk

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

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

Qualification as a Mortgage Investment Corporation

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

Reputational Risk

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

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

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

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

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

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

ESG Risks

ESG risks are environmental, social and governance variables that affect a company's financial position or operating performance. Notably, environmental variables associated with climate change impacts MCAN both through physical risks (e.g. weather events, longer term climate shifts, etc.) associated with our new originations and underlying portfolio, and through

transition risks associated with evolving consumer, legislative, or regulatory sentiment as the market transitions to a low greenhouse gas emissions economy.

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

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

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

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

General Litigation

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

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

DESCRIPTION OF CAPITAL STRUCTURE

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

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

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

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Commitments

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

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

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

DIVIDEND POLICY AND RECORD

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

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

Table 30: Dividends Per Share

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

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

TRANSACTIONS WITH RELATED PARTIES

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

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

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

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

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

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

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

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

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

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

Internal Controls over Financial Reporting ("ICFR")

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

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

Changes in ICFR

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

Inherent Limitations of Controls and Procedures

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

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

Table 31: Net Corporate Mortgage Spread Income

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

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

Table 32: Net Securitized Mortgage Spread Income

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

Supplementary Financial Measures

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

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

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

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

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

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

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

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

GLOSSARY

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

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

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