MCAN MORTGAGE CORPORATION

BASEL III PILLAR 3 DISCLOSURES

JUNE 30, 2019

1. Scope of Application

This document represents the Basel III Pillar 3 disclosures for MCAN Mortgage Corporation (the "Company" or "MCAN") as at June 30, 2019. These disclosures are made pursuant to the Pillar 3 Disclosure Requirements of the Office of the Superintendent of Financial Institutions ("OSFI").

The amounts disclosed in the tables below represent the carrying amounts included in the Company's consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards and use the accounting policies described therein. This document is unaudited and is reported in thousands of Canadian dollars, unless otherwise noted.

The Basel III capital adequacy framework is applied to the consolidated operations of the Company, which include the Company's wholly-owned subsidiary XMC Mortgage Corporation ("XMC").

MCAN is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"). As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by OSFI. MCAN is incorporated in Canada with its head office located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

XMC is an originator of single family residential mortgage products across Canada.

The Company generates a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments. The Company employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance and are sourced through a network of independent financial agents. Leverage can be up to a maximum of five times capital (on a non-consolidated tax basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC. The Company also participates in the National Housing Act ("NHA") mortgage-backed securities ("MBS") program.

2. Capital Structure and Capital Adequacy

The Company's Common Equity Tier 1 ("CET 1") capital consists of share capital, contributed surplus, and retained earnings. The Company does not hold any additional Tier 1 or Tier 2 capital instruments, therefore its CET 1 capital is equal to its Tier 1 and Total capital. The Company's authorized share capital consists of an unlimited number of common shares with no par value. As at June 30, 2019, the Company had 24,129,298 common shares outstanding.

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. OSFI requires all federally regulated 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 and a minimum leverage ratio which is calculated on a different basis from the MIC leverage ratio. The risk-weighting of all on-balance sheet assets and all off-balance sheet assets is based on a prescribed percentage of the underlying asset position, in addition to adjustments for other items such as impaired mortgages. Risk-weighted assets also include an operational risk charge, which is based on certain components of the Company's net investment income over the past 12 quarters. The Company uses the standardized approach for credit risk and the basic indicator approach for operational risk. The Company's internal target minimum CET 1, Tier 1 and Total capital ratios are 20%.

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

(in thousands except %)

As at June 30, 2019	OSFI Row #		
On-Balance sheet items	1	$	2,134,885
Deductions from Tier 1 Capital	4		(33,931)
Total On-Balance Sheet Exposures	5		2,100,954
Mortgage and investment funding commitments	17		458,795
Less: conversion to credit equivalent amount (50%)	18		(229,398)
Letters of credit	17		34,259
Less: conversion to credit equivalent amount (50%)	18		(17,130)
Off-Balance Sheet Items	19		246,526
Tier 1 Capital	20		285,411
Total Exposures	21	$	2,347,480
Leverage ratio	22		12.16%

The Company's regulatory capital information as at June 30, 2019 is presented in the table below. OSFI's Basel III guidance for non-Domestic Systemically Important Banks (non-DSIBs) prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

(in thousands except %)

As at June 30, 2019	OSFI Row #		
Share capital and contributed surplus	1	$	227,178
Retained earnings	2		92,164
Common Equity Tier 1 capital before regulatory adjustments	6		319,342
Total regulatory adjustments to Common Equity Tier 1 capital	28		(33,931)
Common Equity Tier 1 capital (CET1)	29		285,411
Tier 1 capital	45		285,411
Tier 2 capital	58		-
Total capital	59	$	285,411
Total risk-weighted assets	60	$	1,273,898
Capital ratios (as a percentage of risk-weighted assets)			
Common Equity Tier 1 capital	61		22.40%
Tier 1 capital	62		22.40%
Total capital	63		22.40%

The Company's assets, analyzed on a risk-weighted basis, are as outlined in the table below.

(in thousands)		
As at June 30, 2019		
On-Balance Sheet Assets		
Cash and cash equivalents	$	11,390
Cash held in trust		9,266
Marketable securities		58,109
Mortgages - corporate		661,127
Mortgages - securitized		28,190
Non-marketable securities		150,693
Equity investment in MCAP Commercial LP		31,934
Deferred tax asset		125
Other assets		17,572
		968,406
Off-Balance Sheet Assets		
Letters of credit		17,130
Commitments		182,262
		199,392
Charge for operational risk		106,100
Total Risk-Weighted Assets	**$**	**1,273,898**

3. 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 its mortgage 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 management

Credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of the Company's investments. Credit policies include credit risk limits in alignment with the Risk Appetite Framework. 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.

The Capital Commitments Committee ("CCC"), 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 is closely monitored by the first and second line of defence. The Risk and Compliance Committee, which is comprised of management, monitors and challenges credit risk exposures and performance against credit risk limits on a monthly basis, and the Enterprise Risk Management and Compliance Committee ("ERM&CC") reviews all material risks affecting the Company on a quarterly basis, which includes the identification, assessment, and monitoring of material credit risks.

The Company identifies potential risks in its 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 the Company's 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 provides adequate monitoring of and control over the exposure to credit risk. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained on individual mortgages.

June 30, 2019 (Unaudited - Dollar amounts in thousands)

The Company assigns 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 adverse change such as a default or impairment.

As part of the Company's credit risk management process, the Company monitors its loan portfolio for early indicators of potential concerns. 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 risks have increased. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at June 30, 2019 the Company has not observed anything specific across the portfolio that it believes would cause a 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.

Corporate mortgages by exposure type

	Gross	Allowance				Net
As at June 30, 2019	**Principal**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Principal**
Corporate portfolio:						
Single family mortgages						
- Insured	$ 121,085	$ 1	$ -	$ -	$ 1	$ 121,084
- Uninsured	345,362	316	220	205	741	344,621
- Uninsured - completed inventory	11,987	108	-	-	108	11,879
Construction loans						
- Residential	428,724	2,561	763	-	3,324	425,400
- Non-residential	4,526	15	-	-	15	4,511
Commercial loans						
- Multi family residential	43,526	161	33	-	194	43,332
- Other commercial	50,669	159	-	-	159	50,510
	$ 1,005,879	**$ 3,321**	**$ 1,016**	**$ 205**	**$ 4,542**	**$ 1,001,337**

Corporate mortgages by geography

As at June 30, 2019	**Single Family**	**Construction**	**Commercial**	**Total**	
Ontario	$ 324,663	$ 166,476	$ 47,567	$ 538,706	53.8%
British Columbia	65,702	217,923	44,777	328,402	32.8%
Alberta	57,388	29,035	1,498	87,921	8.8%
Quebec	9,059	16,477	-	25,536	2.5%
Atlantic Provinces	12,550	-	-	12,550	1.3%
Other	8,222	-	-	8,222	0.8%
	$ 477,584	**$ 429,911**	**$ 93,842**	**$ 1,001,337**	**100.0%**

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, the Company 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 the Company ultimately collects, including the quality of its 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 the allowance for credit losses.

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

June 30, 2019 (Unaudited - Dollar amounts in thousands)

The Company's expected credit loss ("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 the probability of default, exposure at default, and loss given default; and
- Forward-looking information used as economic inputs.

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates.

Corporate mortgage allowance continuity

For the Quarter Ended June 30, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance, April 1, 2019	$ 3,565	$ 1,095	$ 187	$ 4,847
Provisions for (recovery of) losses	(226)	(79)	18	(287)
Write-offs, net	(18)	-	-	(18)
Balance, June 30, 2019	**$ 3,321**	**$ 1,016**	**$ 205**	**$ 4,542**

Impaired and past due mortgages

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

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the assessment of whether the significant increase in credit risk will reverse. The Company has also set probation periods for an asset to return to Stage 1.

Corporate mortgages past due but not impaired

As at June 30, 2019	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**Total**
Corporate portfolio:				
Single family - insured	$ 2,096	$ 427	$ -	$ 2,523
Single family - uninsured	4,806	1,322	-	6,128
	$ 6,902	**$ 1,749**	**$ -**	**$ 8,651**

The provincial breakdown of mortgages past due but not impaired is as follows: Ontario - $2,390; Alberta - $2,815; British Columbia - $2,514; New Brunswick - $394; Manitoba - $363; and Nova Scotia - $175.

June 30, 2019 (Unaudited - Dollar amounts in thousands)

Impaired corporate mortgages

As at June 30, 2019	SF Insured	SF Uninsured	Total
Ontario	$ -	$ 277	$ 277
British Columbia	-	554	554
Alberta	190	726	916
Quebec	335	-	335
Other	111	490	601
	$ 636	**$ 2,047**	**$ 2,683**

Total corporate assets by maturity

As at June 30, 2019	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Cash and cash equivalents	$ 52,522	$ -	$ -	$ -	$ -	$ 52,522
Marketable securities	58,080	-	-	29	-	58,109
Mortgages - corporate	226,351	482,496	218,705	56,310	17,475	1,001,337
Non-marketable securities	-	-	-	-	72,171	72,171
Other loans	847	586	536	-	-	1,969

4. Securitizations

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. The Company issues MBS through its internal market MBS program and the Canada Housing Trust Canada Mortgage Bonds ("CMB") program.

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. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

Market MBS Program

During the second quarter of 2019, the Company securitized $35,139 of MBS through the market MBS program and sold the MBS to a third party. When the MBS is sold to third parties and the interest-only strip is retained by MCAN, the securitized mortgages remain on MCAN's consolidated balance sheet while a corresponding financial liability from securitization is incurred, due to the fact that the Company retains significant continuing involvement with the assets.

CMB Program

During the second quarter of 2019, the Company securitized $39,802 of insured single family mortgages through the CMB program.

Securitized mortgages exposure by type

As at June 30, 2019, the Company had $816,431 of securitized mortgages which consisted of single family insured mortgages securitized through the market MBS program and CMB program.

Securitized mortgages past due not impaired

As at June 30, 2019	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family - Market MBS program	$ 1,961	$ 291	$ 700	$ 2,952
Single family - CMB program	360	-	-	360
	$ 2,321	**$ 291**	**$ 700**	**$ 3,312**

June 30, 2019 (Unaudited - Dollar amounts in thousands)

As at June 30, 2019, there were a total of $810 of impaired securitized mortgages (Alberta - $377; British Columbia - $208; Quebec - $182; and other provinces - $43).

5. Operational Risk

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

Operational risk management

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 and report on known and emerging operational risks. Management and the Board review operational risk assessments on a quarterly basis.

6. Marketable Securities

Marketable securities are designated as fair value through profit and loss. Fair values are based on bid prices quoted in active markets, and changes in fair value are recognized in the consolidated statements of income. Marketable securities provide MCAN with additional liquidity at yields in excess of cash and cash equivalents.

As at June 30, 2019		
Real estate investment trusts	$	58,080
Corporate bonds		29
	$	**58,109**

7. Interest Rate Risk

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

Interest rate risk management

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

The Company evaluates its exposure to a variety of changes in interest rates across the term spectrum of its 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, the Company seeks to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, the Company also manages cash flow mismatches. The Asset and Liability Committee ("ALCO") reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

The Company is exposed to interest rate risk on insured single family mortgages between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded, or in the case of mortgages securitized through the market MBS or CMB programs, the time that the mortgage is securitized. To manage this risk, the Company may enter into bond forwards or may fund its mortgages with matched-term fixed-rate term deposits.

Interest rate risk – quantitative impact

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments as at June 30, 2019 would have an estimated positive effect of $4,374 to net income over the following twelve month period.

An immediate and sustained parallel 1% decrease to market interest rates at June 30, 2019 would have an estimated adverse effect of $3,575 to net income over the following twelve month period. We estimate that this sensitivity would be moderated by the inclusion of other financial instruments such as marketable securities and non-marketable securities.

8. Liquidity and Funding Risk

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

Liquidity Risk Management

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

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

ALCO, which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, ALCO reviews the Company’s liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. As at June 30, 2019, we are in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN’s stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. As at June 30, 2019, we held sufficient liquidity and maintained the ability to fund obligations over the forecasted period under the stress test scenarios.

The Company has access to liquidity through its ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide the Company with the ability to fund asset growth as needed.

The Company maintains an overdraft facility to meet its short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility has been temporarily increased from $75 million to $125 million until September 30, 2019.

The Company also has 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 executes these repurchase agreements to provide alternative sources of liquidity when it is efficient and effective to do so.

9. Remuneration

For information regarding the remuneration of executives of the Company, refer to the “Statement of Executive Compensation” section of the 2019 Management Information Circular.