



MCAN MORTGAGE CORPORATION

BASEL III PILLAR 3 DISCLOSURES

September 30, 2020

1. Scope of Application

This document represents the Basel III Pillar 3 disclosures for MCAN Mortgage Corporation (the "Company", "MCAN" or "we") as at September 30, 2020. 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 interim consolidated financial statements as at and for the quarter ended September 30, 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS") 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 that are eligible for Canada Deposit Insurance Corporation 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 capital instruments; therefore, its CET 1 capital is equal to its Tier 1 capital. The Company's 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 new OSFI transitional arrangements issued March 27, 2020. Total Capital equals CET 1 or Tier 1 capital plus Tier 2 capital.

The Company's authorized share capital consists of an unlimited number of common shares with no par value. As at September 30, 2020, the Company had 24,727,145 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 maintains internal target minimum CET 1, Tier 1 and Total capital ratios.

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, regulatory compliance, strategic 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.

The Company’s total balance sheet exposures, regulatory capital and leverage ratio are outlined 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 %)			
At September 30, 2020		OSFI ROW #	
On-balance sheet items		1	\$ 2,568,058
Deductions from Tier 1 capital		4	(55,718)
Total On-Balance Sheet Exposures		5	<u>2,512,340</u>
Mortgage and investment funding commitments (50%)		17	362,582
Less: conversion to credit equivalent amount (50%)		18	(181,291)
Letters of credit (50%)		17	41,481
Less: conversion to credit equivalent amount (50%)		18	(20,741)
Total Off-Balance Sheet Items		19	<u>202,031</u>
Common Equity Tier 1 and Tier 1 Capital		20	278,478
Common Equity Tier 1 and Tier 1 Capital - Transitional Expected Credit Losses Arrangements not Applied¹		20a	276,978
Total Exposure/Regulatory Assets		21	<u>\$ 2,714,371</u>
Leverage Ratio		22	10.26 %
Leverage Ratio - Transitional Expected Credit Losses Arrangements not Applied¹		22a	10.20 %

The Company's regulatory capital information as at September 30, 2020 is presented in the table below. OSFI's Basel III guidance for non-DSIBs prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

(in thousands except %)			
At September 30, 2020		OSFI ROW #	
Share capital and contributed surplus		1	\$ 235,145
Retained earnings		2	97,688
Common Equity Tier 1 capital before regulatory adjustments		6	<u>332,833</u>
Total regulatory adjustments to Common Equity Tier 1 capital		28	<u>(54,355)</u>
Common Equity Tier 1 capital (CET 1)		29	<u>278,478</u>
Common Equity Tier 1 capital (CET 1) - transitional arrangements not applied¹		29a	<u>276,978</u>
Tier 1 capital		45	<u>278,478</u>
Tier 1 capital - transitional arrangements not applied¹		45a	<u>276,978</u>
Tier 2 capital		58	<u>4,707</u>
Total capital		59	<u>\$ 283,185</u>
Total capital - transitional arrangements not applied¹		59a	<u>\$ 283,048</u>
Total risk-weighted assets		60	\$ 1,361,461
Regulatory Capital Ratios			
CET 1 capital to risk-weighted assets ratio		61	20.45 %
CET 1 capital to risk-weighted assets ratio - transitional arrangements not applied ¹		61a	20.34 %
Tier 1 capital to risk-weighted assets ratio		62	20.45 %
Tier 1 capital to risk-weighted assets ratio - transitional arrangements not applied ¹		62a	20.34 %
Total capital to risk-weighted assets ratio		63	20.80 %
Total capital to risk-weighted assets ratio - transitional arrangements not applied ¹		63a	20.79 %

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

(in thousands)	
At September 30, 2020	
On-Balance Sheet Assets	
Cash and cash equivalents	\$ 14,668
Cash held in trust	5,250
Marketable securities	34,254
Mortgages - corporate	852,055
Mortgages - securitized	46,034
Non-marketable securities	95,875
Equity investment in MCAP Commercial LP	33,420
Deferred tax asset	368
Other assets	16,889
	1,098,813
Off-Balance Sheet Items	
Letters of credit	20,741
Commitments	126,232
	146,973
Charge for operational risk	115,675
	115,675
Risk-Weighted Assets	\$ 1,361,461

¹Effective 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 is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

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 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 Management

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.

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 are closely monitored by operational and oversight business units. 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, 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 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.

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 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 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 risks have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at September 30, 2020, 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.

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 investment in the KingSett High Yield Fund, where maximum credit exposure includes our total remaining commitment.

As a response to COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears and mortgage deferral reporting and pipeline monitoring. Employment levels have, and may continue to be, impacted due to the national response to the pandemic, which may adversely impact the ability of borrowers to make timely payments on mortgages.

The Company is participating in mortgage deferral programs to borrowers. On August 31, 2020, OSFI issued revisions to the treatment of mortgage deferrals. If the mortgage deferral was granted before August 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to six calendar months from the effective date of the deferral. For deferrals granted from August 30, 2020 to September 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to three calendar months from the effective date of the deferral.

Corporate mortgages by exposure type

At September 30, 2020	Gross		Allowance			Total	Net Principal
	Principal		Stage 1	Stage 2	Stage 3		
Corporate Portfolio:							
Single family mortgages							
Insured	\$ 183,559	\$ 3	\$ —	\$ —	\$ 3	\$ 183,556	
Uninsured	438,009	967	465	160	1,592	436,417	
Uninsured - completed inventory	55,337	702	28	—	730	54,607	
Construction loans	596,390	3,336	276	—	3,612	592,778	
Commercial loans							
Multi family residential	10,072	41	—	—	41	10,031	
Other commercial	32,451	36	199	—	235	32,216	
	\$ 1,315,818	\$ 5,085	\$ 968	\$ 160	\$ 6,213	\$ 1,309,605	

Corporate mortgages by geography

At September 30, 2020	Single Family	Construction	Commercial	Total	% of Total
Ontario	\$ 511,201	\$ 223,603	\$ 42,247	\$ 777,051	59.3 %
Alberta	71,322	36,964	—	108,286	8.3 %
British Columbia	67,038	318,129	—	385,167	29.4 %
Quebec	8,075	14,082	—	22,157	1.7 %
Atlantic Provinces	10,535	—	—	10,535	0.8 %
Other	6,409	—	—	6,409	0.5 %
	\$ 674,580	\$ 592,778	\$ 42,247	\$ 1,309,605	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 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 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 ("SICR") which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on probability of default, exposure at default and loss given default; and
- Forward-looking information used as economic inputs.

Refinements to the model for the determination of LGDs relating to the construction and commercial portfolio were undertaken beginning Q2 2020 to use internal information rather than external loss data.

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates. Key judgments include the speed and shape of economic recovery and the impact of government stimulus. These judgments have been made with reference to the facts, projections and other circumstances at September 30, 2020. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since September 30, 2020, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to September 30, 2020, 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.

Consistent with a government-sponsored initiative and with industry practice, the Company offered up to a six-month payment deferral program for borrowers as a result of COVID-19. On August 31, 2020, OSFI issued revisions to the treatment of mortgage deferrals. If the mortgage deferral was granted before August 30, 2020, non-payment of these mortgages under the deferral program will not affect the performing status of mortgage payments up to six calendar months from the effective date of the deferral. For deferrals granted from August 30, 2020 to September 30, 2020, non-payment of these mortgages

under the deferral program will not affect the performing status of mortgage payments up to three calendar months from the effective date of the deferral. As such, these mortgages are not considered past due and do not migrate stages within the ECL methodology due to this deferral, nor are they considered modifications. Additionally, mortgages included in the payment deferral program do not automatically trigger a SICR, all things being equal. Once the deferral period expires, mortgage payments are to resume as per the agreed terms of the contract. At renewal, the mortgage will be re-amortized and payments will be based on the outstanding balance at that time.

Corporate mortgage allowance continuity

	Stage 1	Stage 2	Stage 3	Total
Balance, July 1, 2020	\$ 5,018	\$ 1,079	\$ 199	\$ 6,296
Provisions for (recovery of) losses	67	(111)	44	—
Write-offs, net	—	—	(83)	(83)
Balance, September 30, 2020	\$ 5,085	\$ 968	\$ 160	\$ 6,213

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 unlikelihood 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 1 or stage 2 once cured depends on the current assessment of SICR.

Corporate mortgages past due but not impaired

At September 30, 2020	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family - insured	\$ 1,218	\$ —	\$ —	1,218
Single family - uninsured	4,701	684	74	5,459
	\$ 5,919	\$ 684	\$ 74	\$ 6,677

The provincial breakdown of mortgages past due but not impaired is as follows:

As at September 30, 2020	Total
Ontario	\$ 5,071
Alberta	176
British Columbia	1,167
Nova Scotia	106
New Brunswick	157
	\$ 6,677

At September 30, 2020, corporate mortgages past due but not impaired do not include any of the mortgages in the payment deferral program as described above.

Impaired corporate mortgages

At September 30, 2020	SF Insured	SF Uninsured	Total
Ontario	\$ —	\$ 743	743
Alberta	867	362	1,229
British Columbia	—	958	958
Quebec	45	—	45
Atlantic Provinces	175	253	428
Other	—	149	149
	\$ 1,087	\$ 2,465	\$ 3,552

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. 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. When the Company has transferred substantially all the risks and rewards of ownership of the MBS or when the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the MBS but has transferred control of the financial asset, the securitized mortgages are derecognized from MCAN's consolidated balance sheet.

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 Q3 2020, the Company securitized \$120,267 of MBS through the market MBS program.

CMB Program

During Q3 2020, the Company securitized \$97,599 of insured single family mortgages and \$0 of insured multi family mortgages through the CMB program.

Securitized mortgages exposure by type

As at September 30, 2020, the Company had \$960,874 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

At September 30, 2020	1 to 30 days	31 to 60 days	Total
Single family - Market MBS Program	\$ 934	\$ 685	1,619
Single family - CMB Program	1,493	—	1,493
	\$ 2,427	\$ 685	\$ 3,112

As at September 30, 2020, there were \$410 of impaired securitized mortgages, of which \$174 were located in Alberta and \$236 were located in Quebec.

The Company has offered up to a six-month payment deferral program for securitized mortgages. Securitized mortgages in the deferred payment program as a result of COVID-19 will be eligible for renewal with payments calculated based on the outstanding principal at maturity, which could include capitalized interest from the payment deferral period. These

mortgages remain eligible for future NHA MBS securitizations and issuers are required to remit scheduled mortgage principal and interest payments to Computershare, the designated Central Payor and Transfer Agent for the program, even if these mortgage payments have not been collected from mortgagors.

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

The COVID-19 outbreak could lead to disruptions of the Company’s business activity and a sustained outbreak may have a negative impact on the Company and its financial performance. As a response to COVID-19, the Company has taken proactive actions to protect the health and well-being of our employees by implementing a company-wide remote working policy. To ensure operational resiliency, the Company has enhanced and implemented its Business Continuity Plan, bolstered its employee communications, provided effective tools to work from home, and has increased training on cybersecurity risks and other areas where appropriate.

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.

At September 30, 2020

Real estate investment trusts	\$	34,228
Corporate bonds		26
	\$	34,254

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices. This is expected to create additional volatility in the market value of the Company’s marketable securities portfolio.

7. 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 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, which is reviewed and approved 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 an interest rate spread and gap analysis as well as an 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, and, 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 employ various hedging strategies.

Interest Rate Risk – Quantitative Impact

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at September 30, 2020 would have an estimated positive effect of \$5,485 to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2020 would have an estimated adverse effect of \$1,562 to net income over the following twelve month period. The Company has an integrated balance sheet approach to interest rate risk and the management of liquidity and funding risk. The Company expects that the impact of an immediate and sustained interest rate change would normally be substantially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given the Company's balance sheet composition. Under normal circumstances, an immediate and sustained parallel 1% increase to market interest rates would be expected to have a negative impact on the Company's marketable securities (which mostly consist of the REIT portfolio); however, given these unprecedented times as a result of COVID-19, an immediate and sustained parallel 1% increase to market interest rates could signal a stronger economy and lead to an increase in the value of the Company's marketable securities.

8. Liquidity and Funding Risk

Liquidity and funding risk is the risk that current liquid resources and expected cash inflows from operations and available funding and contingent lines will be insufficient to meet expected cash outflows (both on- and off-balance sheet) as they come due.

The following table summarizes the Company's corporate assets by maturity:

At September 30, 2020	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Cash and cash equivalents	\$ 71,257	\$ —	\$ —	\$ —	\$ —	71,257
Marketable securities	34,228	—	26	—	—	34,254
Mortgages - corporate	306,328	538,038	350,512	79,665	35,062	1,309,605
Non-marketable securities	—	—	13,647	—	43,693	57,340
Other loans	3,294	—	—	—	—	3,294

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 and other funding sources, 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, 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. As a result of COVID-19, the Company's Contingency Funding Plan was invoked.

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 liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the 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. At September 30, 2020, the Company was 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. At September 30, 2020, the Company held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

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

The Company maintains a demand loan 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. During Q3 2020, the facility limit was increased from \$120,000 to \$150,000 until October 30, 2020. Subsequent to September 30, 2020, the increased facility limit was further extended to December 31, 2020.

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 will execute these repurchase agreements to provide alternative sources of liquidity when it is efficient and effective to do so.

As a response to COVID-19, the Company has enhanced monitoring and reporting of its liquidity risk profile, its respective funding markets such as the term deposit and securitization market and its liquidity risk position. A prolonged duration of the pandemic may increase the risk of funding availability.

9. Strategic Risk

Strategic risk is the risk of loss due to fluctuations in the external business environment, and the failure of management to adjust its strategies, business model and business activities to adapt or respond appropriately.

Strategic Risk Management

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

As a result of this risk, there can be no assurance that the Company will generate any returns or be able to pay dividends to its shareholders in the future.

10. 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.

11. Reputational Risk

Reputational risk is a risk of loss or adverse impacts resulting from damages to MCAN's reputation, regardless of whether the facts that underlie the event are true or not.

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.

Reputational Risk Management

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.

12. Remuneration

For information regarding the remuneration of executives of the Company, refer to the "Compensation Discussion and Analysis" section of the 2020 Management Information Circular.