



MCAN MORTGAGE CORPORATION

BASEL III PILLAR 3 DISCLOSURES

September 30, 2021

1. Scope of Application

This document represents the Basel III Pillar 3 disclosures for MCAN Mortgage Corporation (the "Company", "MCAN" or "we") at September 30, 2021. 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 at and for the quarter ended September 30, 2021, 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, including our investment in MCAP Commercial LP. 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 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, 2021, the Company had 27,646,210 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 sufficient capital 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 performs stress testing on its internal forecasts 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, 2021		OSFI ROW #	
On-balance sheet items		1	\$ 3,609,230
Deductions from Tier 1 capital		4	(55,284)
Total On-Balance Sheet Exposures		5	<u>3,553,946</u>
Mortgage and investment funding commitments (50%)		17	522,268
Less: conversion to credit equivalent amount (50%)		18	(261,134)
Letters of credit (50%)		17	45,384
Less: conversion to credit equivalent amount (50%)		18	(22,692)
Total Off-Balance Sheet Items		19	<u>283,826</u>
Common Equity Tier 1 and Tier 1 Capital		20	339,891
Common Equity Tier 1 and Tier 1 Capital - Transitional Expected Credit Losses Arrangements not Applied¹		20a	338,950
Total Exposure/Regulatory Assets		21	<u>\$ 3,837,772</u>
Leverage Ratio		22	8.86 %
Leverage Ratio - Transitional Expected Credit Losses Arrangements not Applied¹		22a	8.83 %

The Company's regulatory capital information at September 30, 2021 is outlined 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, 2021		OSFI ROW #	
Share capital and contributed surplus		1	\$ 282,906
Retained earnings		2	111,413
Common Equity Tier 1 capital before regulatory adjustments		6	394,319
Total regulatory adjustments to Common Equity Tier 1 capital		28	(54,428)
Common Equity Tier 1 capital (CET 1)		29	339,891
Common Equity Tier 1 capital (CET 1) - transitional arrangements not applied¹		29a	338,950
Tier 1 capital		45	339,891
Tier 1 capital - transitional arrangements not applied¹		45a	338,950
Tier 2 capital		58	4,978
Total capital		59	\$ 344,869
Total capital - transitional arrangements not applied¹		59a	\$ 344,784
Total risk-weighted assets		60	\$ 1,747,960
Regulatory Capital Ratios			
CET 1 capital to risk-weighted assets ratio		61	19.45 %
CET 1 capital to risk-weighted assets ratio - transitional arrangements not applied ¹		61a	19.39 %
Tier 1 capital to risk-weighted assets ratio		62	19.45 %
Tier 1 capital to risk-weighted assets ratio - transitional arrangements not applied ¹		62a	19.39 %
Total capital to risk-weighted assets ratio		63	19.73 %
Total capital to risk-weighted assets ratio - transitional arrangements not applied ¹		63a	19.72 %

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

(in thousands)	
At September 30, 2021	
On-Balance Sheet Assets	
Cash and cash equivalents	\$ 25,638
Cash held in trust	9,137
Marketable securities	70,938
Mortgages - corporate	1,031,988
Mortgages - securitized	86,336
Non-marketable securities	107,384
Equity investment in MCAP Commercial LP	39,518
Deferred tax asset	1,061
Other assets	20,619
	1,392,619
Off-Balance Sheet Items	
Letters of credit	22,692
Commitments	203,336
	226,028
Charge for operational risk ²	129,313
	129,313
Risk-Weighted Assets	\$ 1,747,960

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 set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

²We 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.

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, 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, 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.

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.

As a response to COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears 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 participated in mortgage deferral programs in 2020 for borrowers and implemented appropriate measures to support these borrowers when their payment deferral periods ended, which included increased amortizations and other payment arrangements. The Company enhanced the oversight of this particular portfolio of borrowers with more frequent monitoring and management activities to proactively identify and address risks. The Company is not seeing significant credit deterioration or prolonged financial distress among these borrowers. The Company continues to be prudent in our approach to income confirmation and assessing creditworthiness over the long term.

Corporate mortgages by exposure type

At September 30, 2021	Gross		Allowance			Total	Net Principal
	Principal		Stage 1	Stage 2	Stage 3		
Corporate Portfolio:							
Single family mortgages							
Insured	\$ 170,959	\$ —	\$ —	\$ —	\$ —	\$ —	170,959
Uninsured	715,497	1,634	302	48	1,984	713,513	713,513
Uninsured - completed inventory	32,786	311	—	—	311	32,475	32,475
Construction loans	647,723	3,130	74	—	3,204	644,519	644,519
Commercial loans							
Multi family residential	65,864	153	130	—	283	65,581	65,581
Other commercial	30,217	30	66	—	96	30,121	30,121
	\$ 1,663,046	\$ 5,258	\$ 572	\$ 48	\$ 5,878	\$ 1,657,168	

Corporate mortgages by geography

At September 30, 2021	Single Family Mortgages	Construction Loans	Commercial Loans	Total	% of Total
Ontario	\$ 765,794	\$ 173,601	\$ 91,522	\$ 1,030,917	62.1 %
Alberta	73,057	61,266	—	134,323	8.1 %
British Columbia	56,864	409,652	—	466,516	28.2 %
Quebec	6,652	—	4,180	10,832	0.7 %
Atlantic Provinces	8,066	—	—	8,066	0.5 %
Other	6,514	—	—	6,514	0.4 %
	\$ 916,947	\$ 644,519	\$ 95,702	\$ 1,657,168	100.0 %

Allowances for credit losses

The measurement of impairment losses under IFRS 9, *Financial Instruments* (“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 when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company groups its financial assets into stage 1, stage 2 and stage 3, depending on whether the assets are performing, in arrears or impaired. The Company’s allowance for 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 Probability of Default, Loss Given Default, and Exposure at 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 which have been heightened due to the COVID-19 environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government stimulus measures, will be heavily influenced by the extent and severity of the pandemic. These judgments and estimates have been made with reference to the facts, projections and other circumstances at the interim consolidated balance sheet dates. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Any new forward-looking information subsequent to the interim consolidated balance sheet dates are reflected in the measurement of provisions for credit losses in future periods, as appropriate.

Corporate mortgage allowance continuity

	Stage 1	Stage 2	Stage 3	Total
Balance, July 1, 2021	\$ 5,275	\$ 700	\$ 62	\$ 6,037
Recovery of credit losses	(17)	(128)	22	(123)
Write-offs, net	—	—	(36)	(36)
Balance, September 30, 2021	\$ 5,258	\$ 572	\$ 48	\$ 5,878

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

Corporate mortgages past due but not impaired

At September 30, 2021	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family - insured	\$ 89	\$ —	\$ —	89
Single family - uninsured	7,104	610	—	7,714
	\$ 7,193	\$ 610	\$ —	7,803

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

At September 30, 2021	Total
Ontario	\$ 5,764
Alberta	303
British Columbia	1,073
Nova Scotia	201
New Brunswick	59
Saskatchewan	373
Quebec	30
	\$ 7,803

Impaired corporate mortgages

At September 30, 2021	Single Family Mortgages		Total
	Insured	Uninsured	
Alberta	\$ 490	\$ 391	881
Atlantic Provinces	110	—	110
	\$ 600	\$ 391	991

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.

During Q3 2021, the Company securitized \$179,498 of MBS through the market MBS program and CMB program and \$nil of insured multi family mortgages through the CMB program.

Securitized mortgages exposure by type

At September 30, 2021, the Company had \$1,530,565 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

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At September 30, 2021	\$ 2,773	\$ 680	\$ —	3,453

As at September 30, 2021, there were \$365 of impaired securitized mortgages with \$262 in Alberta and \$103 in the Atlantic Provinces.

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 on a quarterly basis.

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, consisting of real estate investment trusts (“REIT”), are designated as fair value through profit or 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, 2021	Total
Marketable Securities - REIT	\$ 70,938

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices, including in the REIT sector. In 2021, there was a rebound in REIT prices amid optimism in economic forecasts, reopenings and vaccination rates.

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, 2021 would have an estimated positive effect of \$4,025 to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2021 would have an estimated adverse effect of \$886 to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

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 be partially mitigated by the effect of changes in interest rates on the value of other financial instruments, given the Company's balance sheet composition.

8. Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows including the ability to raise term 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.

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

At September 30, 2021	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Cash and cash equivalents	\$ 123,219	\$ —	\$ —	\$ —	\$ —	123,219
Marketable securities	70,938	—	—	—	—	70,938
Mortgages - corporate	226,999	817,668	468,534	113,231	30,736	1,657,168
Non-marketable securities	—	—	8,545	—	51,656	60,201
Other loans	3,795	—	—	—	—	3,795

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, 2021, 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, 2021, 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. The facility limit is \$120,000. At September 30, 2021, the outstanding facility balance was \$5,000. At September 30, 2021, there were letters of credit in the amount of \$45,384 issued and additional letters of credit in the amount of \$19,876 committed but not issued.

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a \$50,000 senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or BAs plus 1.05%. The facility is used to fund insured single family mortgages prior to securitization activities. At September 30, 2021, the outstanding facility balance was \$47,800.

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. At September 30, 2021, the outstanding facility balance was \$nil.

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.

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 factors generally arise from either choosing the wrong strategy, or poor execution of the right strategy. The inability to proactively develop business strategies, plans or clearly define objectives, or failure to develop internal capabilities can also result in strategic risk.

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.

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 2021 Management Information Circular.