



MCAN FINANCIAL GROUP

BASEL III PILLAR 3 DISCLOSURES

SEPTEMBER 30, 2023

1. Scope of Application

This document represents the Basel III Pillar 3 Disclosures Report for MCAN Mortgage Corporation d/b/a MCAN Financial Group (the "Company", "MCAN" or "we") at September 30, 2023. These disclosures are made pursuant to the Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions ("SMSBs") Capital and Liquidity Requirements of the Office of the Superintendent of Financial Institutions ("OSFI") as MCAN is a Category II SMSB. Additional information can be found on OSFI's Financial Data for Loan Companies website: <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/FINDAT-lc.aspx>. For further qualitative disclosure, refer to our 2022 Annual Basel III Pillar 3 Disclosures Report, as well as our 2023 Third Quarter Report, on the Company's website at www.mcanfinancial.com.

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, 2023, 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, MCAN Home Mortgage Corporation.

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.

MCAN Home Mortgage Corporation is an originator of residential mortgage products across Canada.

The Company generates a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including 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 ("MCAP"). 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. 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, 2023, the Company had 35,431,938 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 ("RWA") 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 key metrics are outlined in the table below. OSFI's Pillar 3 Disclosure Guideline for SMSBs Capital and Liquidity Requirements prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

September 30, 2023 (Unaudited - Dollar amounts in thousands)

Table 1: Key metrics

| (in thousands except %) | | | | | | |
|---|------------|-------------|-------------|-------------|-------------|-------------|
| At | OSFI ROW # | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 |
| Available capital (amounts) | | | | | | |
| CET 1 | 1 | \$ 470,235 | \$ 458,495 | \$ 448,818 | \$ 432,466 | \$ 384,436 |
| CET 1 capital with transitional arrangements for ECL provisioning not applied ¹ | 1a | \$ 470,235 | \$ 458,495 | \$ 448,818 | \$ 432,249 | \$ 383,731 |
| Tier 1 | 2 | \$ 470,235 | \$ 458,495 | \$ 448,818 | \$ 432,466 | \$ 384,436 |
| Tier 1 capital with transitional arrangements for ECL provisioning not applied ¹ | 2a | \$ 470,235 | \$ 458,495 | \$ 448,818 | \$ 432,249 | \$ 383,731 |
| Total capital | 3 | \$ 476,987 | \$ 464,776 | \$ 453,945 | \$ 437,658 | \$ 390,480 |
| Total capital with transitional arrangements for ECL provisioning not applied ¹ | 3a | \$ 476,987 | \$ 464,776 | \$ 453,945 | \$ 437,798 | \$ 390,416 |
| RWA (amounts) | | | | | | |
| Total RWA | 4 | \$2,653,164 | \$2,561,986 | \$2,291,149 | \$2,206,580 | \$2,095,038 |
| Risk-based capital ratios as a percentage of RWA | | | | | | |
| CET 1 ratio | 5 | 17.72 % | 17.90 % | 19.59 % | 19.60 % | 18.35 % |
| CET 1 ratio with transitional arrangements for ECL provisioning not applied ¹ | 5a | 17.72 % | 17.90 % | 19.59 % | 19.59 % | 18.32 % |
| Tier 1 ratio | 6 | 17.72 % | 17.90 % | 19.59 % | 19.60 % | 18.35 % |
| Tier 1 ratio with transitional arrangements for ECL provisioning not applied ¹ | 6a | 17.72 % | 17.90 % | 19.59 % | 19.59 % | 18.32 % |
| Total capital ratio | 7 | 17.98 % | 18.14 % | 19.81 % | 19.83 % | 18.64 % |
| Total capital ratio with transitional arrangements for ECL provisioning not applied ¹ | 7a | 17.98 % | 18.14 % | 19.81 % | 19.83 % | 18.64 % |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | | |
| Capital conservation buffer requirement | 8 | 2.50 % | 2.50 % | 2.50 % | 2.50 % | 2.50 % |
| Total CET1 specific buffer requirements | 11 | 2.50 % | 2.50 % | 2.50 % | 2.50 % | 2.50 % |
| CET1 available after meeting the minimum capital requirements | 12 | 10.72 % | 10.90 % | 12.59 % | 12.60 % | 11.35 % |
| Basel III leverage ratio | | | | | | |
| Total Basel III leverage ratio exposure measure | 13 | \$4,816,699 | \$4,720,824 | \$4,515,607 | \$4,400,532 | \$4,328,362 |
| Basel III leverage ratio (row 2 / row 13) | 14 | 9.76 % | 9.71 % | 9.94 % | 9.83 % | 8.88 % |
| Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied ¹ | 14a | 9.76 % | 9.71 % | 9.94 % | 9.82 % | 8.87 % |

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 was measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.

The Company's total balance sheet exposures, regulatory capital and leverage ratio are outlined in the table below. OSFI's Pillar 3 Disclosure Guideline for SMSBs Capital and Liquidity Requirements prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

September 30, 2023 (Unaudited - Dollar amounts in thousands)

Table 2: Leverage ratio common disclosure

| (in thousands except %) | | | |
|--|------------|----|------------------|
| At September 30, 2023 | OSFI ROW # | | |
| On-balance sheet items | 1 | \$ | 4,543,109 |
| Asset amounts deducted in determining Tier 1 capital | 4 | | (57,453) |
| Total on-balance sheet exposures | 5 | | <u>4,485,656</u> |
| Mortgages and non-marketable securities funding commitments | 17 | | 768,910 |
| Less: adjustments for conversion to credit equivalent amount | 18 | | (461,346) |
| Letters of credit | 17 | | 46,959 |
| Less: adjustments for conversion to credit equivalent amount | 18 | | (23,480) |
| Off-balance sheet items (sum of rows 17 and 18) | 19 | | <u>331,043</u> |
| Tier 1 capital | 20 | | 470,235 |
| Total Exposures (sum of rows 5 and 19) | 21 | \$ | <u>4,816,699</u> |
| Basel III Leverage Ratio | 22 | | 9.76 % |

The Company's regulatory capital information at September 30, 2023 is outlined in the table below. OSFI's Pillar 3 Disclosure Guideline for SMSBs Capital and Liquidity Requirements prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

Table 3: Composition of capital

| (in thousands except %) | | | |
|--|------------|----|----------------|
| At September 30, 2023 | OSFI ROW # | | |
| Share capital and contributed surplus | 1 | \$ | 407,091 |
| Retained earnings | 2 | | 118,315 |
| Accumulated other comprehensive income | 3 | | 2,282 |
| CET 1 capital before regulatory adjustments | 6 | | <u>527,688</u> |
| Total regulatory adjustments to CET 1 capital | 28 | | (57,453) |
| CET 1 capital | 29 | | <u>470,235</u> |
| Tier 1 capital | 45 | | <u>470,235</u> |
| Collective allowances | 50 | | 6,752 |
| Tier 2 capital | 58 | | <u>6,752</u> |
| Total capital | 59 | \$ | <u>476,987</u> |
| Total risk-weighted assets | 60 | \$ | 2,653,164 |
| Regulatory Capital Ratios | | | |
| CET 1 capital to risk-weighted assets ratio | 61 | | 17.72 % |
| Tier 1 capital to risk-weighted assets ratio | 62 | | 17.72 % |
| Total capital to risk-weighted assets ratio | 63 | | 17.98 % |
| OSFI Target | | | |
| CET 1 target ratio | 69 | | 7.00 % |
| Tier 1 capital target ratio | 70 | | 8.50 % |
| Total capital ratio | 71 | | 10.50 % |