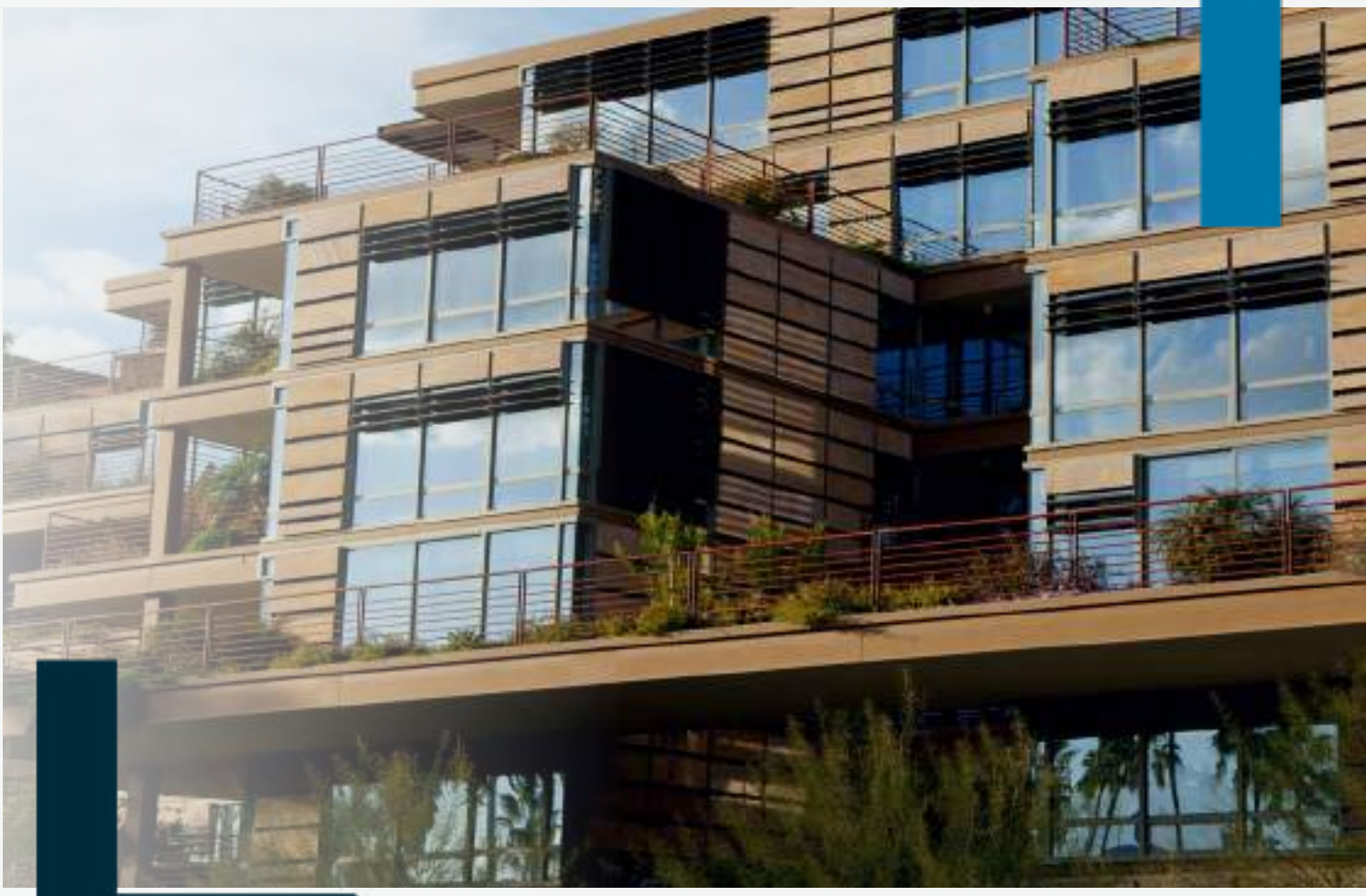
MCAN Financial



MCAN Financial Group

BASEL III PILLAR 3 DISCLOSURES

September 30, 2022

1. Scope of Application

This document represents the Basel III Pillar 3 disclosures for MCAN Mortgage Corporation d/b/a MCAN Financial Group (the "Company", "MCAN" or "we") at September 30, 2022. 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"). 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.

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, 2022, 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, which has legally changed its name effective April 1, 2022, to 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. 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, 2022, the Company had 31,855,297 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.

Table 1: Key metrics

(in thousands except %) **At**	**OSFI ROW #**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**	**Q3 2021**
Available capital (amounts)						
CET 1	1	$ 384,436	$ 385,397	$ 389,154	$ 381,782	$ 339,891
CET 1 capital with transitional arrangements for ECL provisioning not applied[1]	1a	$ 383,731	$ 384,936	$ 388,811	$ 380,398	$ 338,950
Tier 1	2	$ 384,436	$ 385,397	$ 389,154	$ 381,782	$ 339,891
Tier 1 capital with transitional arrangements for ECL provisioning not applied[1]	2a	$ 383,731	$ 384,936	$ 388,811	$ 380,398	$ 338,950
Total capital	3	$ 390,480	$ 390,776	$ 394,209	$ 387,163	$ 344,869
Total capital with transitional arrangements for ECL provisioning not applied[1]	3a	$ 390,416	$ 390,734	$ 394,177	$ 387,037	$ 344,784
RWA (amounts)						
Total RWA	4	$2,095,038	$2,047,279	$2,013,867	$1,884,523	$1,747,960
Risk-based capital ratios as a percentage of RWA						
CET 1 ratio	5	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %
CET 1 ratio with transitional arrangements for ECL provisioning not applied[1]	5a	18.32 %	18.80 %	19.31 %	20.19 %	19.39 %
Tier 1 ratio	6	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %
Tier 1 ratio with transitional arrangements for ECL provisioning not applied[1]	6a	18.32 %	18.80 %	19.31 %	20.19 %	19.39 %
Total capital ratio	7	18.64 %	19.09 %	19.57 %	20.54 %	19.73 %
Total capital ratio with transitional arrangements for ECL provisioning not applied[1]	7a	18.64 %	19.09 %	19.57 %	20.54 %	19.72 %
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	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %
Basel III leverage ratio						
Total Basel III leverage ratio exposure measure	13	$4,328,362	$4,371,685	$4,341,027	$4,059,133	$3,837,772
Basel III leverage ratio (row 2 / row 13)	14	8.88 %	8.82 %	8.96 %	9.41 %	8.86 %
Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied[1]	14a	8.87 %	8.81 %	8.96 %	9.37 %	8.83 %

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.

Table 2: Leverage ratio common disclosure

(in thousands except %) **At September 30, 2022**	**OSFI ROW #**		
On-balance sheet items	1	$	4,014,475
Asset amounts deducted in determining Tier 1 capital	4		(58,956)
Total on-balance sheet exposures	5		3,955,519
Mortgages and non-marketable securities funding commitments	17		700,974
Less: adjustments for conversion to credit equivalent amount (50%)	18		(350,487)
Letters of credit	17		44,713
Less: adjustments for conversion to credit equivalent amount (50%)	18		(22,357)
Off-balance sheet items (sum of rows 17 and 18)	19		372,843
Tier 1 capital	20		384,436
Tier 1 capital with transitional arrangements for ECL provisioning not applied[1]	20a		383,731
Total Exposures (sum of rows 5 and 19)	21	$	4,328,362
Basel III Leverage Ratio	22		8.88 %
Basel III Leverage Ratio with transitional arrangements for ECL provisioning not applied[1]	22a		8.87 %

The Company's regulatory capital information at September 30, 2022 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, 2022**	**OSFI ROW #**		
Share capital and contributed surplus	1	$	356,384
Retained earnings	2		86,367
CET 1 capital before regulatory adjustments	6		442,751
Total regulatory adjustments to CET 1 capital	28		(58,315)
CET 1 capital	29		384,436
CET 1 capital with transitional arrangements for ECL provisioning not applied[1]	29a		383,731
Tier 1 capital	45		384,436
Tier 1 capital with transitional arrangements for ECL provisioning not applied[1]	45a		383,731
Collective allowances	50		6,044
Tier 2 capital	58		6,044
Total capital	59	$	390,480
Total capital with transitional arrangements for ECL provisioning not applied[1]	59a	$	390,416
Total risk-weighted assets	60	$	2,095,038
Regulatory Capital Ratios			
CET 1 capital to risk-weighted assets ratio	61		18.35 %
CET 1 capital to risk-weighted assets ratio with transitional arrangements for ECL provisioning not applied[1]	61a		18.32 %
Tier 1 capital to risk-weighted assets ratio	62		18.35 %
Tier 1 capital to risk-weighted assets ratio with transitional arrangements for ECL provisioning not applied[1]	62a		18.32 %
Total capital to risk-weighted assets ratio	63		18.64 %
Total capital to risk-weighted assets ratio with transitional arrangements for ECL provisioning not applied[1]	63a		18.64 %
OSFI Target			
CET 1 target ratio	69		7.00 %
Tier 1 capital target ratio	70		8.50 %
Total capital ratio	71		10.50 %

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

Table 4: Risk-weighted assets

(in thousands) **At September 30, 2022**		
On-Balance Sheet Assets		
Cash and cash equivalents	$	9,605
Cash held in trust		6,120
Marketable securities		52,008
Mortgages - corporate		1,225,162
Mortgages - securitized		94,501
Non-marketable securities		154,778
Equity investment in MCAP Commercial LP		44,339
Deferred tax asset		1,453
Other assets		19,625
		1,607,591
Off-Balance Sheet Items		
Letters of credit		22,357
Commitments		315,777
		338,134
Charge for operational risk[2]		149,313
Risk-Weighted Assets	**$**	**2,095,038**

[1]*Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022.*
[2] *We use the basic indicator approach for operational risk, which is equal to 15% of the previous three-year average of net investment income from corporate and securitized assets excluding provisions for credit losses multiplied by a factor of 12.5.*

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. 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, 2022, 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 economic uncertainty, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears reporting and pipeline monitoring. Real estate prices have, and may continue to be, impacted due to inflationary pressures on the economy and resulting actions by the Bank of Canada to tame inflation, which may adversely impact the ability of borrowers to make timely payments on mortgages.

Table 5: Corporate mortgages by exposure type

		Allowance				
At September 30, 2022	**Gross Principal**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Net Principal**
Corporate Portfolio:						
Residential mortgages						
Insured	$ 208,782	$ 1	$ —	$ —	**$ 1**	**$ 208,781**
Uninsured	849,338	554	612	8	**1,174**	**848,164**
Uninsured - completed inventory	39,221	251	—	—	**251**	**38,970**
Construction loans	773,524	4,046	807	—	**4,853**	**768,671**
Commercial loans						
Multi family residential	92,903	367	18	—	**385**	**92,518**
Other commercial	17,872	19	—	—	**19**	**17,853**
	$ 1,981,640	**$ 5,238**	**$ 1,437**	**$ 8**	**$ 6,683**	**$ 1,974,957**

Table 6: Corporate mortgages by geography

At September 30, 2022	Residential Mortgages	Construction Loans	Commercial Loans	Total	% of Total
Ontario	$ 896,127	$ 173,419	$ 101,275	$ 1,170,821	59.3 %
Alberta	87,320	109,339	—	196,659	10.0 %
British Columbia	77,850	485,913	—	563,763	28.5 %
Quebec	20,991	—	4,118	25,109	1.3 %
Atlantic Provinces	8,095	—	—	8,095	0.4 %
Other	5,532	—	4,978	10,510	0.5 %
	$ 1,095,915	**$ 768,671**	**$ 110,371**	**$ 1,974,957**	**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 current inflationary and rising interest rate environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government policy and stimulus measures, will be heavily influenced by the extent and severity of these events. 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.

Table 7: Corporate mortgage allowance continuity

	Stage 1	Stage 2	Stage 3	Total
Balance, July 1, 2022	$ 5,262	$ 529	$ —	**$ 5,791**
Provision (recovery) of credit losses	(24)	908	(7)	**877**
Write-offs, net	—	—	15	**15**
Balance, September 30, 2022	**$ 5,238**	**$ 1,437**	**$ 8**	**$ 6,683**

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.

Table 8: Corporate mortgages past due but not impaired

At September 30, 2022	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages - insured	$ 852	$ 261	$ —	**$ 1,113**
Residential mortgages - uninsured	9,513	1,944	—	**11,457**
Construction	—	25,165	—	**25,165**
	$ 10,365	**$ 27,370**	**$ —**	**$ 37,735**

Table 9: Corporate mortgages past due but not impaired by province

At September 30, 2022	Total
Ontario	$ 10,587
Alberta	6,440
British Columbia	20,574
New Brunswick	46
Saskatchewan	88
	$ 37,735

Table 10: Impaired corporate mortgages

	Residential Mortgages		
At September 30, 2022	Insured	Uninsured	Total
Atlantic Provinces	—	57	**57**
	$ —	**$ 57**	**$ 57**

4. Securitizations

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create and sell MBS through Canada Mortgage and Housing Corporation ("CMHC") market MBS and Canada Mortgage Bonds ("CMB") programs. Upon sale of an MBS to third parties, a corresponding financial liability from securitization is incurred while the securitized mortgages remain on MCAN's consolidated balance sheet due to the fact that the Company retains significant continuing involvement with the assets. In cases where 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. Liquidity risk includes the obligation to fund 100% of any cash shortfall related to the Issuer's Timely Payment obligation. Funding risk includes the nominal possibility that the programs become unavailable or that the Company may not be able to access the programs. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts. Prepayment risk is immaterial for the Market MBS program and is mitigated via counterparty swaps for the CMB program.

During Q3 2022, the Company securitized $56,151 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, 2022, the Company had $1,691,211 of securitized mortgages which consisted of insured residential mortgages securitized through the market MBS program and CMB program.

Table 11: Securitized mortgages past due not impaired

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At September 30, 2022	$ 1,866	$ 355	$ 447	**$ 2,668**

As at September 30, 2022, there were $174 of impaired securitized mortgages 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 the pandemic, 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.

Table 12: Marketable securities

At September 30, 2022	Total
Marketable Securities - REIT	**$ 52,008**

In 2022, we began to see volatility in REIT prices from current geopolitical conflicts, and the inflationary and rising interest rate environments.

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.

Interest Rate Risk Management

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

The Company uses an Asset Liability Management approach to managing its interest rate risk profile. This involves a range of financial disciplines to quantify and measure the risk of the balance sheet from a holistic and forward-looking perspective. This allows the Company to evaluate 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. This is interlinked with funding and liquidity management policies and procedures and allows management to strategically match or ladder the terms of corporate assets and term deposits, thereby reducing the risks associated with interest rate changes, especially in the current expected rising interest rate environment. The Asset and Liability Committee ("ALCO") reviews the Company's interest rate exposure on a monthly basis using a duration based framework to measure structural risk and sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

The Company is exposed to interest rate risk on insured residential 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, 2022 would have an estimated positive effect of $7,459 to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2022 would have an estimated adverse effect of $7,457 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 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 risk is the risk that cash and liquid assets are insufficient to honour all cash outflow commitments (both on- and off-balance sheet) as they come due. Funding risk is the risk that available sources of liquidity and long term funding are insufficient to sustain business growth or mitigate funding gaps.

Table 13: Corporate assets by maturity

At September 30, 2022	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	**Total**
Cash and cash equivalents	$ 37,942	$ —	$ —	$ —	$ —	**$ 37,942**
Marketable securities	52,008	—	—	—	—	**52,008**
Mortgages - corporate	419,975	901,703	474,459	178,358	462	**1,974,957**
Non-marketable securities	2,421	—	—	—	90,881	**93,302**
Other loans	2,617	—	—	—	—	**2,617**

Funding and Liquidity Risk Management

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

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

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At September 30, 2022, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

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

ALCO, which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. At September 30, 2022, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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 secured demand revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is $220,000. At September 30, 2022, the outstanding facility balance was $45,000. At September 30, 2022, there were letters of credit in the amount of $44,713 issued and additional letters of credit in the amount of $27,217 committed but not issued.

The Company has a credit agreement with a Canadian Schedule I Chartered bank for a $100,000 senior secured mortgage warehouse facility. The facility is used to fund insured residential mortgages prior to securitization activities. At September 30, 2022, the outstanding facility balance was $80,690.

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, 2022, the outstanding facility balance was $nil.

As a response to economic uncertainty, the Company continues to enhance monitoring of its liquidity risk profile, its funding markets such as the term deposit and securitization markets and its liquidity risk position.

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 regularly reviews results and needed changes as applicable against those strategies. Strategies are aligned to be consistent with the RAF, regulatory and other internal requirements.

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 2022 Management Information Circular.