MCAN Financial



MCAN FINANCIAL GROUP

BASEL III PILLAR 3 DISCLOSURES

MARCH 31, 2023

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 March 31, 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"). 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 March 31, 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 March 31, 2023, the Company had 34,788,442 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 #	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Available capital (amounts)						
CET 1	1	$ 448,818	$ 432,466	$ 384,436	$ 385,397	$ 389,154
CET 1 capital with transitional arrangements for ECL provisioning not applied[1]	1a	$ 448,833	$ 432,249	$ 383,731	$ 384,936	$ 388,811
Tier 1	2	$ 448,818	$ 432,466	$ 384,436	$ 385,397	$ 389,154
Tier 1 capital with transitional arrangements for ECL provisioning not applied[1]	2a	$ 448,833	$ 432,249	$ 383,731	$ 384,936	$ 388,811
Total capital	3	$ 453,945	$ 437,658	$ 390,480	$ 390,776	$ 394,209
Total capital with transitional arrangements for ECL provisioning not applied[1]	3a	$ 453,960	$ 437,798	$ 390,416	$ 390,734	$ 394,177
RWA (amounts)						
Total RWA	4	$2,291,149	$2,206,580	$2,095,038	$2,047,279	$2,013,867
Risk-based capital ratios as a percentage of RWA						
CET 1 ratio	5	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %
CET 1 ratio with transitional arrangements for ECL provisioning not applied[1]	5a	19.59 %	19.59 %	18.32 %	18.80 %	19.31 %
Tier 1 ratio	6	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %
Tier 1 ratio with transitional arrangements for ECL provisioning not applied[1]	6a	19.59 %	19.59 %	18.32 %	18.80 %	19.31 %
Total capital ratio	7	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %
Total capital ratio with transitional arrangements for ECL provisioning not applied[1]	7a	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %
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	15.09 %	13.85 %	14.32 %	14.82 %	15.76 %
Basel III leverage ratio						
Total Basel III leverage ratio exposure measure	13	$4,515,607	$4,400,532	$4,328,362	$4,371,685	$4,341,027
Basel III leverage ratio (row 2 / row 13)	14	9.94 %	9.83 %	8.88 %	8.82 %	8.96 %
Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied[1]	14a	9.94 %	9.82 %	8.87 %	8.81 %	8.96 %

[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 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.

Table 2: Leverage ratio common disclosure

(in thousands except %) **At March 31, 2023**	**OSFI ROW #**		
On-balance sheet items	1	$	4,156,805
Asset amounts deducted in determining Tier 1 capital	4		(58,441)
Total on-balance sheet exposures	5		4,098,364
Mortgages and non-marketable securities funding commitments	17		789,757
Less: adjustments for conversion to credit equivalent amount (50%)	18		(394,879)
Letters of credit	17		44,731
Less: adjustments for conversion to credit equivalent amount (50%)	18		(22,366)
Off-balance sheet items (sum of rows 17 and 18)	19		417,243
Tier 1 capital	20		448,818
Total Exposures (sum of rows 5 and 19)	21	$	4,515,607
Basel III Leverage Ratio	22		9.94 %

The Company's regulatory capital information at March 31, 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 March 31, 2023**	**OSFI ROW #**		
Share capital and contributed surplus	1	$	397,441
Retained earnings	2		109,833
Accumulated other comprehensive income	3		(15)
CET 1 capital before regulatory adjustments	6		507,259
Total regulatory adjustments to CET 1 capital	28		(58,441)
CET 1 capital	29		448,818
Tier 1 capital	45		448,818
Collective allowances	50		5,127
Tier 2 capital	58		5,127
Total capital	59	$	453,945
Total risk-weighted assets	60	$	2,291,149
Regulatory Capital Ratios			
CET 1 capital to risk-weighted assets ratio	61		19.59 %
Tier 1 capital to risk-weighted assets ratio	62		19.59 %
Total capital to risk-weighted assets ratio	63		19.81 %
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 March 31, 2023**		
On-Balance Sheet Assets		
Cash and cash equivalents	$	14,298
Cash held in trust		6,596
Marketable securities		54,741
Mortgages - corporate		1,326,883
Mortgages - securitized		94,315
Non-marketable securities		174,561
Equity investment in MCAP		50,726
Deferred tax asset		912
Derivative Financial Instruments		—
Other assets		24,483
		1,747,515
Off-Balance Sheet Items		
Letters of credit		22,366
Derivative Financial Instruments		322
Commitments		351,383
		374,071
Charge for operational risk[1]		169,563
Risk-Weighted Assets	**$**	**2,291,149**

[1] *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 March 31, 2023, 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

At March 31, 2023	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Residential mortgages						
Insured	$ 187,218	$ —	$ —	$ —	**$ —**	**$ 187,218**
Uninsured	849,474	441	631	60	**1,132**	**848,342**
Uninsured - completed inventory	38,202	142	—	—	**142**	**38,060**
Construction loans	859,670	3,391	114	—	**3,505**	**856,165**
Commercial loans						
Multi family residential	102,515	303	98	—	**401**	**102,114**
Other commercial	6,450	7	—	1,598	**1,605**	**4,845**
	$ 2,043,529	**$ 4,284**	**$ 843**	**$ 1,658**	**$ 6,785**	**$ 2,036,744**

Table 6: Corporate mortgages by geography

At March 31, 2023	Residential Mortgages	Construction Loans	Commercial Loans	Total	% of Total
Ontario	$ 897,772	$ 176,904	$ 94,250	$ 1,168,926	57.3 %
Alberta	62,070	135,606	3,621	201,297	9.9 %
British Columbia	81,516	543,655	—	625,171	30.7 %
Quebec	18,177	—	4,105	22,282	1.1 %
Atlantic Provinces	7,237	—	—	7,237	0.4 %
Other	6,848	—	4,983	11,831	0.6 %
	$ 1,073,620	**$ 856,165**	**$ 106,959**	**$ 2,036,744**	**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, January 1, 2023	$ 4,573	$ 976	$ 49	**$ 5,598**
Provision (recovery) of credit losses	(289)	(133)	1,609	**1,187**
Balance, March 31, 2023	**$ 4,284**	**$ 843**	**$ 1,658**	**$ 6,785**

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 March 31, 2023	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages				
Insured	$ 353	$ 44	$ —	**$ 397**
Uninsured	10,570	3,310	1,477	**15,357**
	$ 10,923	**$ 3,354**	**$ 1,477**	**$ 15,754**

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

At March 31, 2023	Total
Ontario	$ 12,591
Alberta	485
British Columbia	1,647
Nova Scotia	96
New Brunswick	44
Newfoundland	159
Saskatchewan	732
	$ 15,754

Table 10: Impaired corporate mortgages

	Residential Mortgages					
At March 31, 2023	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Ontario	$ —	$ 161	$ —	$ —	**$ —**	**$ 161**
Alberta	234	338	2,577	—	3,482	**$ 6,631**
British Columbia	—	—	—	32,088	—	**32,088**
Atlantic Provinces	239	—	—	—	—	**239**
	$ 473	**$ 499**	**$ 2,577**	**$ 32,088**	**$ 3,482**	**$ 39,119**

At March 31, 2023, the total appraised value of the collateral related to the impaired uninsured - completed inventory, commercial and construction loans was $63,282.

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 Q1 2023, the Company securitized $10,968 of MBS through the market MBS program and CMB program.

Securitized mortgages exposure by type

At March 31, 2023, the Company had $1,724,278 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 March 31, 2023	$ 3,239	$ 536	$ 126	**$ 3,901**

As at March 31, 2023, there were impaired securitized mortgages of $195 in Ontario.

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.

Third Party Risk

Within operational risk, third party risk is the risk of third parties failing to provide goods and services or otherwise carrying out activities in accordance with the arrangements. This risk also considers similar risks as it relates to fourth and fifth parties. The Company outsources the majority of our construction and commercial mortgage origination, mortgage servicing and collections to MCAP and other third parties. There is a risk that the services provided by third parties will fail to adequately meet our standards.

The Company's Outsourcing Policy incorporates the relevant requirements of OSFI Guideline B-10, Outsourcing of Business Activities, Functions and Processes. MCAN regularly reviews its outsourced arrangements to determine if an arrangement is material and to assess the overall risk inherent in that arrangement. All outsourced arrangements are subject to a risk management program, which includes detailed monitoring activities. If an outsourced arrangement is material, it is subjected to an enhanced risk management program.

Technology and Cybersecurity Risk

Technology and cybersecurity risk encompasses the risk of IT systems, tools, and practices being unable to support business and user needs, and the risk of loss of confidentiality, integrity, or availability of information, data, or information (or control) systems as a result of actions taken by internal or external malicious actors. In particular, the cybersecurity threat landscape remains elevated globally, where threat actors are increasingly utilizing sophisticated tools and technologies to disrupt business operations. Any such system failure or material data loss, either accidental through misconfiguration or purposeful through threat actors, could generate disruption to business practices, create financial loss, and damage MCAN's reputational risk profile.

The IT Management Committee, which is comprised of executive management, is accountable for overseeing technology and cybersecurity risk management activities and reports cybersecurity, system performance, and technology change management risks. Likewise, both the VP, Information Technology and Information Security Officer report on the technology

and cyber risk profile to the Audit Committee of the Board on a quarterly basis. The Company also leverages third parties to provide cybersecurity insurance, incremental technical expertise, infrastructure and security monitoring support, and periodic cybersecurity assessment assistance, such as vulnerability/penetration testing and broader risk assessments. These activities are complemented by crisis management plans, including a Cybersecurity Incident Response Plan, Disaster Recovery Plan, and process-level Business Continuity Plans, all of which are supported by an executive Crisis Management Team.

Strategically, MCAN continues to invest in its technology and data infrastructure to enhance operational processes, resiliency, cyber security, analytical capabilities, and digital-first customer offerings.

Borrower Fraud Risk

In the loan underwriting process, the Company relies on information provided by potential borrowers and other third parties, including mortgage brokers. The Company may also rely on the representations of potential borrowers and third parties as to the accuracy and completeness of that information. The Company's financial performance may be negatively impacted if this information is intentionally misleading or does not fairly represent the financial condition of the potential borrower and is not detected by our internal controls.

The Company frequently reviews and continuously enhances its underwriting procedures and control processes to strengthen our ability to detect such inaccurate and misleading information and to manage this risk. These enhancements include improvements to underwriting staff training, broker engagement, independent income verification procedures, and other quality control and quality assurance processes.

MCAN controls and monitors for borrower misrepresentation and maintains awareness of industry reported instances of mortgage fraud. To date, document falsification has not had a material impact on MCAN or its financial position or performance. Nonetheless, MCAN acknowledges that the likelihood of borrower misrepresentation may increase as mortgage qualification requirements tighten.

6. Marketable Securities

Marketable securities, consisting of REITs, 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 March 31, 2023		Total
Marketable Securities - REITs	**$**	**54,741**

In 2023, we expect continued market volatility across our marketable securities, reflective of the uncertain macroeconomic environment and corresponding investor sentiment. Despite this potential volatility, our investment strategy is to invest in high quality REITs over the long term.

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 (i) movements in interest rates between the time residential mortgages are committed to borrowers and the time that the mortgage is funded; (ii) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (iii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. To manage these risks, 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 March 31, 2023 would have an estimated positive effect of $7,321 to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at March 31, 2023 would have an estimated adverse effect of $7,147 to net income over the following twelve month period.

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 March 31, 2023	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	**Total**
Cash and cash equivalents	$ 66,621	$ —	$ —	$ —	$ —	**$ 66,621**
Marketable securities	54,741	—	—	—	—	**54,741**
Mortgages - corporate	345,071	1,038,456	521,653	120,129	11,435	**2,036,744**
Non-marketable securities	—	—	—	—	101,782	**101,782**
Derivative Financial Instruments	231	—	—	—	—	**231**
Other loans	2,406	—	—	—	—	**2,406**

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 March 31, 2023, 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 March 31, 2023, 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 March 31, 2023, the outstanding facility balance was $nil. At March 31, 2023, there were letters of credit in the amount of $44,731 issued and additional letters of credit in the amount of $26,627 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 March 31, 2023, the outstanding facility balance was $31,610.

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 March 31, 2023, the outstanding facility balance was $nil.

The Company has an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby the Company can sell to MSLP insured residential mortgage commitments. This agreement provides liquidity and the opportunity to fund other core business activities in line with the Company's strategy.

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, or failure to adjust strategies and business activities to adapt or respond appropriately. Strategic risk factors include the evolving business environment, an inability to proactively evolve business strategies or poor execution of strategic objectives.

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.

Business and Economic Environment

MCAN's business is both directly and indirectly impacted by macroeconomic forces such as commodity prices, consumer confidence, geopolitical conflicts, and interest rate changes (see "Inflationary Pressures & Debt Serviceability" sub-section for additional detail on borrower impacts). Increased interest rates have negatively impacted the Canadian housing market, including sales activity and housing prices, and may similarly impact new housing starts by builders.

Conversely, MCAN's business is supported by strong underlying fundamentals associated with immigration and lack of housing supply, forecasted stabilizing interest rates, and legislative changes favourable to housing development in major markets. These fundamentals support the longer-term resiliency of the Canadian housing market. Nonetheless, with a potential recessionary environment in 2023, Management continues to monitor the increased uncertainty related to the economy and the housing market.

Inflationary Pressures & Debt Serviceability

The inflationary environment continues to be elevated by drivers such as sustained consumer demand, low unemployment, supply chain pressures, and geopolitical risks. With the pace of Bank of Canada's interest rate increases in 2022, Canadian households may be challenged in 2023, particularly those with higher mortgage payments as a result of increased interest rates. Additionally, construction budgets or sales strategies for construction projects subject to inflationary pressures from increased material costs and rising rates, may need to be amended.

Management actively manages, monitors, and stress tests its portfolio on a regular basis, and follows established practices of working collaboratively with borrowers across all segments.

Capital Adequacy Risk

Capital adequacy risk is the risk that the Company does not hold sufficient capital to manage Company-wide risks and unexpected financial losses. The Company's capital adequacy risk is monitored and managed by the CFO and overseen by the Board.

Competition Risk

MCAN competes with other mortgage, construction, and commercial lenders. Reduced volumes in housing sales and new housing starts may create an environment of increased competition for available new originations. MCAN remains focused on maintaining competitive rates while driving retention of its existing borrowers.

Furthermore, MCAN's operations and income are a function of the interest rate environment, the availability and acceptance of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability and acceptance of mortgage products for the Company and the yields therein are dependent on market competition. If the Company is unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities at reasonable rates, there may be an adverse effect on our financial condition and market presence.

Qualification as a Mortgage Investment Corporation

If for any reason MCAN does not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes. MCAN's RAF notes the satisfaction of MIC requirements as one of its core risk appetite statements.

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.

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.

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 2023 Management Information Circular.