MCAN Financial

MCAN FINANCIAL GROUP

BASEL III PILLAR 3 DISCLOSURES

Q1 2024 ENDING MARCH 31, 2024

MCANFINANCIAL.COM
TSX: MKP

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 March 31, 2024. 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 2023 Annual Basel III Pillar 3 Disclosures Report, as well as our 2024 First 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 March 31, 2024, 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. At March 31, 2024, the Company had 37,830,915 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 2024**	**Q4 2023**	**Q3 2023**	**Q2 2023**	**Q1 2023**
Available capital (amounts)						
CET 1	1	$ 518,870	$ 473,661	$ 470,235	$ 458,495	$ 448,818
Tier 1	2	$ 518,870	$ 473,661	$ 470,235	$ 458,495	$ 448,818
Total capital	3	$ 525,074	$ 481,614	$ 476,987	$ 464,776	$ 453,945
RWA (amounts)						
Total RWA	4	$2,730,634	$2,689,764	$2,653,164	$2,561,986	$2,291,149
Risk-based capital ratios as a percentage of RWA						
CET 1 ratio	5	19.00 %	17.61 %	17.72 %	17.90 %	19.59 %
Tier 1 ratio	6	19.00 %	17.61 %	17.72 %	17.90 %	19.59 %
Total capital ratio	7	19.23 %	17.91 %	17.98 %	18.14 %	19.81 %
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	12.00 %	10.61 %	10.72 %	10.90 %	12.59 %
Basel III leverage ratio						
Total Basel III leverage ratio exposure measure	13	$5,134,142	$4,993,777	$4,816,699	$4,720,824	$4,515,607
Basel III leverage ratio (row 2 / row 13)	14	10.11 %	9.49 %	9.76 %	9.71 %	9.94 %
Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied[1]	14a	10.11 %	9.49 %	9.76 %	9.71 %	9.94 %

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, 2024**	**OSFI ROW #**	
On-balance sheet items	1	$ 4,897,436
Asset amounts deducted in determining Tier 1 capital	4	(57,547)
Total on-balance sheet exposures	5	4,839,889
Mortgages and non-marketable securities funding commitments	17	676,385
Less: adjustments for conversion to credit equivalent amount	18	(405,831)
Letters of credit	17	47,398
Less: adjustments for conversion to credit equivalent amount	18	(23,699)
Off-balance sheet items (sum of rows 17 and 18)	19	294,253
Tier 1 capital	20	518,870
Total Exposures (sum of rows 5 and 19)	21	$ 5,134,142
Basel III Leverage Ratio	22	10.11 %

The Company's regulatory capital information at March 31, 2024 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, 2024**	**OSFI ROW #**		
Share capital and contributed surplus	1	$	442,350
Retained earnings	2		134,006
Accumulated other comprehensive income	3		61
CET 1 capital before regulatory adjustments	6		576,417
Total regulatory adjustments to CET 1 capital	28		(57,547)
CET 1 capital	29		518,870
Tier 1 capital	45		518,870
Collective allowances	50		6,204
Tier 2 capital	58		6,204
Total capital	59	$	525,074
Total risk-weighted assets	60	$	2,730,634
Regulatory Capital Ratios			
CET 1 capital to risk-weighted assets ratio	61		19.00 %
Tier 1 capital to risk-weighted assets ratio	62		19.00 %
Total capital to risk-weighted assets ratio	63		19.23 %
OSFI Target			
CET 1 target ratio	69		7.00 %
Tier 1 capital target ratio	70		8.50 %
Total capital ratio	71		10.50 %