MCAN MORTGAGE CORPORATION

BASEL III PILLAR 3 DISCLOSURES

DECEMBER 31, 2017

1. Scope of Application

This document represents the Basel III Pillar 3 disclosures for MCAN Mortgage Corporation (the "Company" or "MCAN") as at December 31, 2017. These disclosures are made pursuant to the Pillar 3 Disclosure Requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI").

The amounts disclosed in the tables below represent the carrying amounts included in the Company's consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS") and use the accounting policies described therein. This document is unaudited and is reported in thousands of Canadian dollars, unless otherwise noted.

The Basel III capital adequacy framework is applied to the consolidated operations of the Company, which include the Company's wholly-owned subsidiary XMC Mortgage Corporation ("XMC") (formerly Xceed 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.

The Company invests its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments, while employing leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance 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. XMC focuses on the origination and sale of residential first-charge mortgage products across Canada.

2. Capital Structure and Capital Adequacy

The Company's Common Equity Tier 1 ("CET 1") capital consists of share capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company does not hold any additional Tier 1 or Tier 2 capital instruments, therefore its CET 1 capital is equal to its Tier 1 and Total capital. The Company's authorized share capital is unlimited common shares with no par value. As at December 31, 2017, the Company had 23,377,785 common shares outstanding.

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. OSFI expects all federally regulated institutions to attain capital-to-regulatory (or risk-weighted) assets ratios of 7% CET 1, 8.5% Tier 1 and 10.5% Total (determined on an all-in basis) and a minimum leverage ratio which is calculated on a different basis from the aforementioned 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. As at December 31, 2017, the Company's internal target minimum CET 1, Tier 1 and Total Capital ratios were 20%. As of January 1, 2018, we revised these targets to 18% to reflect our ongoing assessment of our risk appetite and risk profile.

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 the capital adequacy 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 credit, liquidity, interest rate, market, geographic concentration and reputational risks. The Company's business plan is also stress tested under various adverse scenarios in order 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.

(in thousands except %)

As at December 31, 2017	OSFI Row #	Basel III (All-in)
On-Balance sheet items	1	$ 2,190,199
Total on-Balance Sheet Exposures	3	2,190,199
Mortgage and investment funding commitments	17	317,687
Less: conversion to credit equivalent amount (50%)	18	(158,844)
Letters of credit	17	32,164
Less: conversion to credit equivalent amount (50%)	18	(16,082)
Off-Balance Sheet Items	19	174,925
Tier 1 Capital	20	267,486
Total Exposures	21	$ 2,365,124
Leverage ratio	22	11.31%

The Company's regulatory capital information as at December 31, 2017 is presented in the table below. OSFI's Basel III guidance[1] for non-Domestic Systemically Important Banks (non-DSIBs) prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

(in thousands except %)

As at December 31, 2017	OSFI Row #	Basel III (All in)	Basel III (Transitional)
Share capital and contributed surplus	1	$ 215,174	$ 215,174
Retained earnings	2	65,365	65,365
Accumulated other comprehensive income	3	16,438	16,438
Common Equity Tier 1 capital before regulatory adjustments	6	296,977	296,977
Total regulatory adjustments to Common Equity Tier 1 capital	28	(29,491)	(23,593)
Common Equity Tier 1 capital (CET1)	29	267,486	273,384
Tier 1 capital	45	267,486	273,384
Tier 2 capital	58	-	-
Total capital	59	$ 267,486	$ 273,384
Total risk-weighted assets	60	$ 1,258,171	$ 1,269,967
Capital ratios (as a percentage of risk-weighted assets)			
Common Equity Tier 1 capital	61	21.26%	21.53%
Tier 1 capital	62	21.26%	21.53%
Total capital	63	21.26%	21.53%

[1] Public Capital Disclosure Requirements related to Basel III Pillar 3 effective July, 2003

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

(in thousands except %) **As at December 31, 2017**	**Basel III (All-in)**	**Basel III (Transitional)**
On-Balance Sheet Assets		
Cash and cash equivalents	$ 24,097	$ 24,097
Cash held in trust	2,688	2,688
Marketable securities	62,518	62,518
Mortgages - corporate	656,384	656,384
Mortgages - securitized	32,182	32,182
Financial investments	170,922	170,922
Other loans	2,612	2,612
Equity investment in MCAP Commercial LP	29,697	41,493
Foreclosed real estate	435	435
Deferred tax asset	2,672	2,672
Other assets	10,039	10,039
	994,246	1,006,042
Off-Balance Sheet Assets		
Letters of credit	16,082	16,082
Commitments	142,043	142,043
	158,125	158,125
Charge for operational risk	105,800	105,800
Total Risk-Weighted Assets	**$ 1,258,171**	**$ 1,269,967**

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 mortgage 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. Fluctuations in the fair market value of other financial assets may also increase the risk of credit loss to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

Credit risk management

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving the Asset and Liability Committee ("ALCO"), which is comprised of management and a formal quarterly review involving the Investment Committee of the Board ("ICB"). A Chief Risk Officer ("CRO") Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the Enterprise Risk Management and Compliance Committee ("ERMCC") on a quarterly basis. Monitoring also takes place through our Capital Commitments Committee and Executive Committee, which are both comprised of certain members of management.

The Company's exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of its investments and sufficiency and quality of collateral. Credit limits, based on the Company's risk appetite, which is approved by the Board at least annually, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

The Company identifies potential risks in its mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the ICB. The Company also undertakes site visits of active mortgage properties as part of its construction lending. Existing risks in the mortgage portfolio are identified by

arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over the Company's exposure to credit risk.

The Company assigns a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Risk ratings are reviewed annually for large exposures, and whenever there is an amendment or a material adverse change such as a default or impairment.

The Company's maximum credit exposure on its individual financial assets is equal to the carrying value of the respective assets, except for the corporate mortgage portfolio and financial investments, where maximum credit exposures also include outstanding commitments for future fundings.

Corporate mortgages by exposure type

	Gross	Allowance			Net
As at December 31, 2017	**Principal**	**Collective**	**Individual**	**Total**	**Principal**
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 199,264	$ 848	$ 62	$ 910	$ 198,354
- Insured	80,377	-	-	-	80,377
- Uninsured - completed inventory	51,410	220	-	220	51,190
Construction loans					
- Residential	389,098	2,536	-	2,536	386,562
- Non-residential	4,872	32	-	32	4,840
Commercial loans					
- Multi family residential	65,078	423	-	423	64,655
- Other commercial	78,095	689	-	689	77,406
	$ 868,194	**$ 4,748**	**$ 62**	**$ 4,810**	**$ 863,384**

Corporate mortgages by geography

As at December 31, 2017	**Single Family**	**Construction**	**Commercial**	**Total**	
Ontario	$ 207,293	$ 179,088	$ 91,323	$ 477,704	55.3%
Alberta	62,376	34,736	13,905	111,017	12.9%
British Columbia	28,202	177,578	36,833	242,613	28.1%
Quebec	9,357	-	-	9,357	1.1%
Atlantic Provinces	13,681	-	-	13,681	1.6%
Other	9,012	-	-	9,012	1.0%
	$ 329,921	**$ 391,402**	**$ 142,061**	**$ 863,384**	**100.0%**

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgages by an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, the Company must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that the Company ultimately collects, including the quality of the underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the mortgages and the overall economic environment. Individual allowances represent an aggregation of the provisions for losses on specifically identified mortgages required to reduce those mortgages to their estimated realizable value. The collective allowance represents losses that the Company believes have been incurred but not yet specifically identified, and is calculated at each balance sheet date. Collective allowance rates depend on asset class, as different classes have varying underlying risks.

The Company has established a methodology for determining the adequacy of its collective allowances. The adequacy of collective allowances is assessed periodically, taking into consideration economic factors such as Gross Domestic Product, employment, housing market conditions as well as the current position in the economic cycle. An individual allowance is recorded to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage.

Corporate mortgage allowance continuity

For the Quarter Ended December 31, 2017	Collective	Individual	Total
Balance, beginning of quarter	$ 4,744	$ 52	$ 4,796
Provisions	4	54	58
Recoveries	-	(11)	(11)
Write-offs, net	-	(33)	(33)
Balance, end of quarter	**$ 4,748**	**$ 62**	**$ 4,810**

Impaired and past due mortgages

Impaired mortgages include uninsured mortgages (including residential and commercial) that are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured mortgage is considered to be impaired when the mortgage is 365 days past due, whether or not collection is in doubt. A mortgage is considered to be past due once a payment has been missed.

Corporate mortgages past due but not impaired

As at December 31, 2017	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	$ 3,303	$ 225	$ 688	$ -	$ 4,216
Single family - insured	1,296	157	-	569	2,022
	$ 4,599	**$ 382**	**$ 688**	**$ 569**	**$ 6,238**

The provincial breakdown of mortgages past due but not impaired is as follows: Alberta ($967); Ontario ($3,079); New Brunswick ($233); Newfoundland and Labrador ($53) British Columbia ($973); Quebec ($297); Saskatchewan ($264), Nova Scotia ($259) and Manitoba ($113).

Impaired corporate mortgages

As at December 31, 2017	Single family insured	Single family uninsured	Total
Ontario	$ -	$ 86	$ 86
Alberta	32	1,546	1,578
Quebec	526	-	526
Atlantic Provinces	-	64	64
Other	274	-	274
	$ 832	**$ 1,696**	**$ 2,528**

Total corporate assets by maturity

As at December 31, 2017	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Cash and cash equivalents	$ 117,571	$ -	$ -	$ -	$ -	$ 117,571
Marketable securities	61,986	504	-	-	28	62,518
Mortgages - corporate	135,612	430,017	266,674	25,689	5,392	863,384
Financial investments	-	-	36,153	-	32,037	68,190
Other loans	1,141	-	1,471	-	-	2,612

4. Securitizations

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. The Company issues MBS through its internal market MBS program and the Canada Housing Trust (“CHT”) Canada Mortgage Bonds (“CMB”) program. In instances where the Company has sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. In all instances, the mortgage servicing has been outsourced to MCAP.

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the NHA MBS Timely Payment Guarantee. Prepayment risk includes the acceleration of the amortization of mortgage premiums as a result of early payouts.

Market MBS Program

During the fourth quarter of 2017, the Company issued and sold $6,740 of MBS to third parties. When the MBS is sold to third parties and the interest-only strip is retained by MCAN, the securitized mortgages remain on MCAN’s consolidated balance sheet while a corresponding financial liability from securitization is incurred, due to the fact that the Company retains significant continuing involvement with the assets.

CMB Program

During the fourth quarter of 2017, the Company securitized $21,026 of insured single family mortgages through the CMB program. Similar to the market MBS program, the Company does not achieve derecognition as it retains significant continuing involvement with the assets such that the associated mortgages remain on the balance sheet while a corresponding liability is incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages is recognized on the accrual basis over the term of the mortgages.

Securitized mortgages exposure by type

As at December 31, 2017, the company had $1,016,724 of securitized mortgages which consisted of single family insured mortgages securitized through the market MBS program and CMB program.

Securitized mortgages past due not impaired

As at December 31, 2017	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS program	$ 5,207	$ 1,941	$ 263	$ 1,112	$ 8,523
Single family - CMB program	280	-	-	-	280
	$ 5,487	**$ 1,941**	**$ 263**	**$ 1,112**	**$ 8,803**

There were no impaired securitized mortgages as at December 31, 2017 and no losses recognized during the quarter.

5. Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events. The risk of loss from people includes internal or external fraud, non-adherence to internal procedures/values/objectives or unethical behaviour. The largest component of this risk has been separately identified as outsourcing risk. The remaining risks arise from the small size and entrepreneurial nature of MCAN, and the legacy systems used within it. The exposure to financial misreporting, inaccurate financial models, fraud, breaches in privacy, information security, attraction and retention of employees, and business continuity and recovery are included within operational risk.

Operational risk management

The Company manages operational risk through various committees and processes. The management team reviews operational measures on a recurring basis as part of the Operating Committee, Compliance Audit and Enterprise Risk Management Committee, and ALCO. Monthly updates are provided to the Board to provide an update on operations and other key factors and issues that arise.

The Company maintains appropriate insurance coverage through a financial institution bond policy, which is reviewed at least annually by the Board for changes to coverage and the Company's operations.

The Company uses the basic indicator approach in the calculation of operational risk, which is based on a specified percentage of average revenues over the past 12 quarters.

6. Marketable Securities

Marketable securities are designated as available for sale. Fair values are based on bid prices quoted in active markets, and changes in fair value are recognized in the consolidated statements of comprehensive income. Marketable securities provide MCAN with additional liquidity at yields in excess of cash and cash equivalents. As at December 31, 2017, the marketable securities portfolio had an unrealized gain of $3,313.

As at December 31, 2017	
Real estate investment trusts	$ 61,973
Corporate bonds	545
	$ 62,518

7. Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on the Company's 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. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on the Company's financial condition and results of operations.

Interest rate risk management

The Company evaluates its exposure to a variety of changes in interest rates across the term spectrum of its assets and liabilities, including both parallel and non-parallel changes in interest rates. By strategically managing and matching the

terms of corporate assets and term deposits so that they offset each other, the Company seeks to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, the Company also manages cash flow mismatches. ALCO reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the ICB each quarter.

Interest rate risk – quantitative impact

An immediate and sustained parallel 1% increase to market interest rates at December 31, 2017 would have a positive effect of $4,253 to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at December 31, 2017 would have an adverse effect of $2,061 to net income over the following twelve month period. An immediate and sustained parallel 1% increase (decrease) to market interest rates at December 31, 2017 would have an adverse (positive) effect to accumulated other comprehensive income of $2.

8. Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Company may eventually collect the amounts outstanding, and may result in a loss of earnings or capital, or have an otherwise adverse effect on its financial condition and results of operations.

Liquidity Risk Management

The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. ALCO is responsible for liquidity management. The Company has an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities, MCAN-issued market MBS retained on the balance sheet, 75% of CMHC-insured single family mortgages, 50% of CMHC-insured single family second mortgages and 50% of privately insured mortgages) of at least 100% of term deposits maturing within 100 days. In addition, all insured single family mortgages are readily marketable within a time frame of one to three months, providing the Company with added flexibility to meet unexpected liquidity needs.

The Company has access to capital through its ability to issue term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. These term deposits also provide the Company with the ability to fund asset growth as needed.

The Company maintains an overdraft facility to fund asset growth or meet its short-term obligations as required. The overdraft facility is a component of a $75,000 credit facility that also has a component which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. Both components have individual sub-limits of $50,000.

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.

9. Remuneration

For information regarding the remuneration of executives of the Company, refer to the "Statement of Executive Compensation" section of the 2017 Management Information Circular.