PRESS RELEASE
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Stock market symbol
TSX: MKP

MCAN MORTGAGE CORPORATION ANNOUNCES FOURTH QUARTER EARNINGS AND RECORD ANNUAL NET INCOME

Toronto, Ontario – February 24, 2017. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") announced Q4 2016 net income of $9.0 million ($0.39 per share) compared to $9.5 million ($0.42 per share) in Q4 2015. We also announced record net income for the second consecutive year of $40.2 million in fiscal 2016, up 22% from $32.9 million in 2015.

Highlights

Net Income

Q4 2016

- Net income totalled $9.0 million in Q4 2016 compared to $9.5 million in Q4 2015. Corporate mortgage interest and income from financial investments and other loans were higher in Q4 2015, while equity income from MCAP Commercial LP ("MCAP") and recoveries of credit losses were higher in Q4 2016.
- Earnings per share totalled $0.39 in Q4 2016 compared to $0.42 in Q4 2015.
- Return on average shareholders' equity of 12.94% in Q4 2016 compares to 14.66% in Q4 2015.
- Continued strong equity income from our investment in MCAP of $3.2 million in Q4 2016, an increase of 55% from $2.1 million in Q4 2015.

Fiscal 2016

- For fiscal 2016, net income totalled $40.2 million, an increase of $7.3 million (22%) from $32.9 million in 2015. The increase was primarily due to higher equity income from MCAP, income from financial investments and other loans and securitization income. We also incurred a $2.9 million hedge loss in 2015 that did not recur in 2016. These items were offset by higher operating expenses in 2016.
- Earnings per share increased by $0.24 (16%) to $1.75 in 2016 from $1.51 in 2015.
- Return on average shareholders' equity of 14.74% in 2016 increased from 13.45% in 2015.
- Increase of 29% in securitization income from our continued participation in the market mortgage-backed securities ("MBS") program and re-entry into the Canada Mortgage Bonds ("CMB") program.

Dividend

- Consistent with the prior quarter dividend increase, the Board of Directors (the "Board") declared a first quarter dividend of $0.30 per share to be paid March 30, 2017 to shareholders of record as of March 15, 2017.

Corporate Activity

Q4 2016

- Corporate assets totalled $1.19 billion at December 31, 2016, a net decrease of $21 million from September 30, 2016, comprised of a decrease of $61 million in mortgages and increases of $32 million in cash and cash equivalents and $8 million in financial investments.
- The corporate mortgage portfolio decreased during Q4 2016 to $904 million from $965 million, comprised of decreases of $35 million in uninsured single family, $11 million in construction, $8 million in commercial and $8 million in insured single family.

- Accumulated other comprehensive income increased by $3.8 million during Q4 2016 as a result of increases in the fair value of our marketable securities portfolio and our investment in Crown Realty II Limited Partnership.

Fiscal 2016

- Corporate assets increased by $33 million (3%) in fiscal 2016, including increases of $35 million in cash and cash equivalents, $15 million in financial investments, $14 million in marketable securities, $7 million in our equity investment in MCAP and a decrease of $40 million in corporate mortgages.
- The decrease in the corporate portfolio is comprised of increases of $32 million in construction, $28 million in commercial and $25 million in insured single family, and decreases of $111 million in uninsured single family and $13 million in completed inventory loans.

Securitization Activity

- We re-commenced our participation in the CMB program in 2016 by securitizing $100 million of insured single family mortgages and $86 million of multi family loans. We recognized upfront gains of $0.4 million in the securitization of the multi family loans, while the single family mortgages remained on our balance sheet after securitization.
- We securitized $42 million of new MBS to third parties through the market MBS program.

Credit Quality

Q4 2016

- Impaired mortgages improved to $4.5 million from $5.0 million during Q4 2016.
- The impaired total mortgage ratio improved to 0.14% from 0.15% during Q4 2016.
- The impaired corporate mortgage ratio improved to 0.31% from 0.32% during Q4 2016.
- Total mortgage arrears improved to $27 million from $40 million during Q4 2016.

Fiscal 2016

- Net write-offs were 2.4 basis points of the average corporate portfolio in 2016, improved from 4.2 basis points in 2015.
- The average loan to value ratio ("LTV") of our uninsured single family portfolio was 56.5% at December 31, 2016, improved from 63.4% at December 31, 2015.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 22.89% at December 31, 2016 on the transitional basis and 22.55% on the "all-in" basis compared to 22.22% and 21.81%, respectively, at September 30, 2016.
- Our leverage ratio was 10.46% at December 31, 2016 compared to 10.24% at September 30, 2016.
- Income tax asset capacity was $209 million at December 31, 2016 compared to $175 million at September 30, 2016.

Outlook

Market conditions

The Bank of Canada has forecasted 2017 Canadian GDP growth of 2.1%, a slight increase over the 1.9% rate for Q4 2016. With the relatively low levels of expected economic growth, the probability of increased interest rates is again low for 2017. However, one of the effects of the recent U.S. election has been an increase in U.S. bond yields, which has also impacted the interest rate market in Canada. We expect housing markets to continue to benefit from historically low interest rates, but we also expect a slowdown in housing as a result of the impact of regulatory changes announced last quarter to mortgage underwriting and insurance.

Canadian residential real estate markets continue to have mixed performances as regional economies adjust with local economic conditions. Western Canada continues to experience the negative impact of weak oil prices on employment, while other regional economies benefit from the lower Canadian dollar and employment strength in the manufacturing sector. The Canadian dollar has strengthened marginally since the U.S. election, but has continued to trade at a discount to the U.S. dollar due to weak world-wide commodity prices, a stronger U.S. economy, higher U.S. interest rates and the potential for further U.S. rate increases.

We expect financial markets to experience increased volatility following the U.S. election result, with increased uncertainty around U.S. policy, particularly trade. Fluctuations in stock markets upon reaction to announced changes will impact expectations for global growth and volatility in international currencies as they impact corporate earnings and valuations. In Canada, the impact of a weak oil sector and soft commodity prices continues to affect a significant portion of the stock market. Concerns over low or regionally negative economic growth and increases in unemployment rates are expected to have a spillover effect on consumer confidence.

Ontario and British Columbia have continued to exhibit strong fundamentals and growth, with GDP growth driven by exports and immigration. In Alberta, housing markets have continued to slow as a result of lower oil prices and weakening employment. We continue to focus our origination in Ontario and British Columbia and monitor our exposure to Alberta. We are selective in our origination of new residential construction projects.

Real estate conditions

Canadian housing market conditions continue to be mixed. The Toronto housing market continues to experience significant price inflation with forecasts for continued strength in 2017. Price inflation in Toronto continues to be well in excess of levels supported by employment and income growth.

Vancouver has recently experienced a slowing of sales and price inflation. This has arisen after recent changes in mortgage underwriting rules and the 15% tax on non-resident real estate purchases enacted in mid-2016. This tax was intended to help restore housing affordability for residents in the Metro Vancouver Area by raising non-residents' cost of purchasing and, on the margin, discouraging foreign speculation. The greatest impact of this foreign buyer tax has been on homes selling above $5 million.

While some of the price inflation in both Toronto and Vancouver is driven by low mortgage rates and lot supply shortages, we believe that price inflation at these high levels increases the risk of a price correction. We are operating with tightened underwriting policies for uninsured mortgages, specifically for self-employed applicants.

In late 2016, the Department of Finance announced new mortgage regulations. The most significant regulations expected to impact the market are as follows:

- Expanding the stress tests to all insured mortgages, to be qualified using the Bank of Canada's posted rate (currently at 4.64%).
- All portfolio-insured mortgages will be required to conform to the same lending guidelines as insured mortgages.
- Principal residence capital gains will be limited to Canadian residents.

We expect the impact of these new regulations to be as follows:

- No change to overall market CMB issuance levels.
- Expected decrease to MBS issuance levels and tighter MBS spreads in the market as less mortgages are eligible for portfolio insurance.
- Redirection of uninsurable mortgages to balance sheet investors such as MCAN, chartered bank covered bonds, asset-backed commercial paper and potentially the private residential mortgage-backed securities (“RMBS”) market.
- Higher market uninsured mortgage rates as lenders price in higher capital requirements and increased funding costs.
- Stable short-term market insured mortgage rates due to increased competition amongst lenders.

The Department of Finance also launched a consultation in late 2016 on lender risk sharing for government backed insured mortgages. We expect the impact of potential risk sharing to be as follows:

- Increased lender costs; the Department of Finance expects an increase of 20-30 basis points in lender costs over a five-year period. To date, we have noted market increases in excess of this amount.
- Increased risk-weighting and capital requirements for these assets due to higher risk of loss, which may require increased collective and individual mortgage allowances.

We have observed the early impacts of the changes noted above on housing markets, specifically the slowing of first time buyers in the market. However, Q4 2016 market activity is not a good indicator of market momentum, given the relatively small portion of annual sales that it represents. We are continuing to evaluate the impact of these regulatory changes to the market and MCAN. We believe that the effect of these changes will likely require a minimum of 6-12 months to begin providing clarity on the direction of the mortgage market in Canada.

Effective January 1, 2017, the Office of the Superintendent of Financial Institutions Canada (“OSFI”) introduced new minimum capital adequacy requirements for mortgage insurers. These changes are expected to increase premiums on mortgage portfolio insurance paid by lenders which may impact rates charged to borrowers.

Impact on MCAN

We will continue to monitor housing market developments as they evolve and will continue to ensure that our mortgage portfolio remains well positioned. MCAN has a stated annual corporate asset growth target of 10%. In 2016, we experienced below-target growth of 3%. In 2017, we expect to continue to make adjustments to the composition of our balance sheet so as to evaluate the risks and rewards of each of our product lines.

We believe that MCAN is well positioned to adapt to changes in mortgage and housing markets given that we, as a regulated financial institution, have access to both the insured securitization market as well as the term deposit funding market.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan (“DRIP”) is a program that provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%. For further information on how to enrol in the DRIP, please refer to the Management Information Circular dated March 11, 2016 or visit our website at www.mcanmortgage.com/investor-relations/investor-materials.

Non-IFRS Measures

The following metrics are considered to be Non-IFRS measures and are defined in the "Non-IFRS Measures" section of the MD&A: Return on Average Shareholders' Equity, Taxable Income, Taxable Income Per Share, Average Interest Rate, Net Interest Income, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1 and Total Capital Ratios, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple; Risk Weighted Assets Ratios, Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios, Income Tax Assets, Income Tax Liabilities, Income Tax Capital, Income Tax Assets to Capital Ratio, Income Tax Asset Capacity, Market Capitalization, Book Value per Common Share and Limited Partner's At-Risk Amount.

Further Information

Complete copies of the Company's 2016 Annual Report will be filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Company's website at www.mcanmortgage.com.

MCAN is a public company listed on the Toronto Stock Exchange ("TSX") under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN also qualifies as a mortgage investment corporation ("MIC") under the Income Tax Act (Canada) (the "Tax Act").

The Company's primary objective is to generate a reliable stream of income by investing 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. MCAN employs 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 permitted by the Tax Act. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 100% of dividends, except for capital gains dividends, which are deducted at 50%. Such dividends are received by the shareholders as interest income and capital gains dividends, respectively.

MCAN's wholly-owned subsidiary, Xceed, is an originator of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers.

MCAN is also an NHA MBS issuer.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This press release contains “forward-looking statements” within the meaning of applicable Canadian securities laws. The words “may,” “believe,” “will,” “anticipate,” “expect,” “planned,” “estimate,” “project,” “future,” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management’s current beliefs and are based on information currently available to management. The forward-looking statements in this press release include, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

The material factors or assumptions that were identified and applied by us in drawing conclusions or making forecasts or projections set out in the forward-looking statements include, but are not limited to:

- the Company’s ability to successfully implement and realize on its business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of the Company’s business;
- computer failure or security breaches;
- future capital and funding requirements;
- the value of mortgage originations;
- the expected margin between interest earned on mortgage portfolios and interest paid on deposits;
- the relative continued health of real estate markets;
- acceptance of the Company’s products in the marketplace;
- availability of key personnel;
- the Company’s operating cost structure; and
- the current tax regime.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in CMB and MBS spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;

- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers and other employees;
- litigation risk;
- relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this press release and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.