MCAN MORTGAGE CORPORATION ANNOUNCES THIRD QUARTER RESULTS FOR 2019

Toronto, Ontario - November 8, 2019. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") (TSX: "MKP") reported net income of $14.6 million ($0.60 per share) for the third quarter ended September 30, 2019, an increase of 32% from $11.0 million ($0.47 per share) in the third quarter of 2018. In the third quarter of 2019, we recorded a $5.0 million net gain on securities compared to a $0.4 million net gain in the third quarter of 2018. Year to date, we reported net income of $37.7 million ($1.57 per share), an increase of 15% from $32.7 million ($1.39 per share) for the same period in 2018.

Highlights

Financial Performance

Q3 2019

- Return on average shareholders' equity[1] of 18.05% in Q3 2019, an increase of 3.76% from 14.29% in Q3 2018.
- Net corporate mortgage spread income[1] was consistent with Q3 2018. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,094 million in Q3 2019 from $942 million in Q3 2018. This was offset by a decrease in the spread of corporate mortgages over term deposit interest[1] to 2.48% in Q3 2019 from 2.92% in Q3 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to expenses and the Bank of Canada overnight rate in 2018 offset by the yield on our primarily floating-rate construction loan portfolio.
- Equity income from MCAP Commercial LP ("MCAP") totalled $4.4 million in Q3 2019, an increase of $1.1 million (36%) from $3.3 million in Q3 2018, driven by higher net investment revenue and whole loan sale income net of hedge losses.
- The Q3 2019 net gain on securities related primarily to our real estate investment trust ("REIT") portfolio, whereas the Q3 2018 net gain included fair value changes related to our REIT portfolio and our investment in Crown Realty II Limited Partnership ("Crown LP"). The net gain in Q3 2019 positively impacted earnings per share by $0.21, while the net gain in Q3 2018 positively impacted earnings per share by $0.02.

Year to Date 2019

- Return on average shareholders' equity[1] of 15.90% for 2019 year to date, an increase of 1.59% from 14.31% in 2018.
- Net corporate mortgage spread income[1] decreased by $0.7 million from 2018. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,023 million in 2019 from $902 million in 2018. This was offset by a decrease in the spread of corporate mortgages over term deposit interest[1] to 2.62% in 2019 from 3.14% in 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to expenses and the Bank of Canada overnight rate in 2018 offset by the yield on our primarily floating-rate construction loan portfolio.
- Equity income from MCAP totalled $11.7 million for 2019 year to date, an increase of $1.8 million (19%) from $9.9 million in 2018. For 2019 year to date, MCAP has earned higher net investment revenue, mortgage origination fees and whole loan sale income net of hedge losses. During 2019, we recognized $nil gain on sale of our partnership units in MCAP (2018 - $1.7 million).
- Year to date net gain on securities of $11.9 million for 2019 was primarily driven by our REIT portfolio compared to a year to date net gain on securities of $3.6 million for 2018, which was driven by our REIT portfolio and our investment in Crown LP. In 2019, proceeds from sales in our REIT portfolio have totalled $2.2 million, resulting in $0.3 million in realized gains. The 2019 year to date net gain positively impacted earnings per share by $0.50 while the net gain in 2018 positively impacted earnings per share by $0.15.
- Operating expenses totalled $15.9 million for 2019 year to date, an increase of $2.5 million (18%) from $13.4 million in 2018 primarily due to an increased staff complement focused on sales and marketing, internal infrastructure and systems initiatives and related expenses.

Business Activity

- Corporate assets totalled $1.37 billion at September 30, 2019, an increase of $106 million (8%) from June 30, 2019 and $146 million (12%) from December 31, 2018.
- Corporate mortgage portfolio totalled $1.1 billion at September 30, 2019, an increase of $95 million (10%) from June 30, 2019 and $174 million (19%) from December 31, 2018.

- Uninsured single family portfolio totalled $364 million at September 30, 2019, an increase of $19 million (6%) from June 30, 2019 and $108 million (42%) from December 31, 2018.
- Uninsured single family originations were $46 million in Q3 2019, a decrease of $9 million (17%) from Q2 2019 and an increase of $13 million (39%) from Q3 2018.
- Insured single family originations were $77 million in Q3 2019, an increase of $20 million (35%) from Q2 2019 and an increase of $42 million (119%) from Q3 2018.
- Securitization volumes were $115 million in Q3 2019, an increase of $40 million (53%) from Q2 2019 and an increase of $83 million (262%) from Q3 2018. Securitization volumes in Q3 2019 consisted of $101 million insured single family mortgages (Q2 2019 - $75 million; Q3 2018 - $32 million) and $14 million insured multi family mortgages (Q2 2019 - $nil; Q3 2018 - $nil).
- Construction and commercial portfolios totalled $555 million at September 30, 2019, an increase of $31 million (6%) from June 30, 2019 and $7 million (1%) from December 31, 2018.

CEO Commentary

"The third quarter was strong for growth in all our business activities, driven by increases in our construction portfolio and securitization volumes," said Karen Weaver, President and Chief Executive Officer. "This is largely a reflection of our continued focus on sales and marketing, internal infrastructure effectiveness and leveraging on our strategic partnerships".

Dividend

- The Board of Directors (the “Board”) declared a fourth quarter dividend of $0.32 per share on November 8, 2019 to be paid January 2, 2020 to shareholders of record as of December 13, 2019.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.27% at September 30, 2019 compared to 0.27% at June 30, 2019 and 0.34% at December 31, 2018[2].
- The impaired total mortgage ratio[1] was 0.18% at September 30, 2019 compared to 0.19% at June 30, 2019 and 0.27% at December 31, 2018[2].
- Total mortgage arrears[1] were $16 million at September 30, 2019 compared to $15 million at June 30, 2019 and $16 million at December 31, 2018.
- We did not incur any write-offs in Q3 2019 or Q3 2018.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the “Tax Act”) and the Office of the Superintendent of Financial Institutions (“OSFI”).
- Common Equity Tier 1 (“CET 1”), Tier 1 and Total Capital to risk-weighted assets ratios[1] were 21.77% at September 30, 2019 compared to 22.40% at June 30, 2019 and 21.66% at December 31, 2018.
- The leverage ratio[1] was 12.28% at September 30, 2019 compared to 12.16% at June 30, 2019 and 11.79% at December 31, 2018.
- The income tax assets to capital ratio[1] was 5.13 at September 30, 2019 compared to 4.71 at June 30, 2019 and 4.64 at December 31, 2018.
- We issued 86,085 new common shares through the Dividend Reinvestment Program (“DRIP”) in Q3 2019 compared to 93,913 in Q3 2018. The DRIP participation rate was 17% for the 2019 third quarter dividend (2018 third quarter - 19%).

[1] *Considered to be a “Non-IFRS Measure”. For further details, refer to the “Non-IFRS Measures” section of this press release.*
[2] *Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.*

Outlook

Market Outlook

While Canada’s economy gained some traction in mid-2019, trade conflicts and the associated uncertainty are expected to keep Gross Domestic Product growth close to 1.5% for the year due to Canada’s relatively large exposure to the involved economies. The outlook for 2020 and 2021 in terms of growth was revised downwards as a result of a weaker business investment profile offset by the expectation of lower mortgage rates and larger working age population. Growth in housing starts is expected to remain modest into 2020, supported by immigration household formation resulting in a balanced overall housing market. We expect to continue to see challenges in affordable housing in major urban markets in the near future driven by supply and demand fundamentals. The Canadian housing market has shown signs of stabilization in both housing starts and price in most provinces; however, market conditions continue to be mixed across regions. We expect these regional disparities to continue into 2020.

Canadian household indebtedness remains high. If an interruption is experienced in relation to current population growth trends, employment or actual economic conditions outside of current expectations, we would expect market conditions to deteriorate.

Business Outlook

We are a diversified lender primarily focused on residential Canadian real estate and believe that our systematic approach to lending, as defined by our risk appetite and expertise in balance sheet management, will allow us to effectively grow our business and optimize opportunities.

Our portfolio composition continues to provide a balanced risk profile as we position ourselves for potential economic uncertainty. Increased competition from other lenders in the market is placing downward pressure on yields in our single family, construction and commercial portfolios. We continue to focus on our desired markets with our chosen borrowers and strategic partnerships as well as internal efficiencies to earn appropriate risk adjusted returns. Our targeted annual growth in corporate assets over the long term is 10%, within our risk appetite. We have had a strong third quarter in terms of corporate asset growth on an annualized basis of 16%, which is partially due to the seasonality of our construction and commercial portfolio. Our current 2019 outlook continues to be in the range of 5-8%.

This Outlook contains forward-looking statements. For further information, please refer to the "A Caution About Forward-Looking Information and Statements" section of this MD&A.

<u>Dividend Reinvestment Plan</u>

The Dividend Reinvestment Plan ("DRIP") is a program that has historically provided 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 five days preceding such issue less a discount of 2% until further notice from MCAN. For further information on how to enrol in the DRIP, please refer to the Management Information Circular dated March 15, 2019 or visit our website at www.mcanmortgage.com/investors/regulatory-filings/.

<u>Non-IFRS Measures</u>

The following metrics are considered to be Non-IFRS measures and are defined in the "Non-IFRS Measures" section of the 2019 third quarter MD&A: Return on Average Shareholders' Equity, Taxable Income, Taxable Income Per Share, Average Interest Rate, Net Corporate Mortgage Spread Income and Net Securitized Mortgage Spread Income, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1 and Total Capital Ratios, Total Exposures, Regulatory Assets, Leverage Ratio, Risk Weighted Assets Ratios, Income Tax Assets, Income Tax Liabilities, Income Tax Capital, Income Tax Assets to Capital Ratio, Income Tax Liabilities to Capital Ratio, Market Capitalization, Book Value per Common Share and Limited Partner's At-Risk Amount.

Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

<u>Further Information</u>

Complete copies of the Company's Q3 2019 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 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 Tax Act.

The Company's primary objective is to generate a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments. MCAN 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. We manage our capital and asset balances based on the regulations and limits of both the Income Tax Act (Canada) and the Office of the Superintendent of Financial Institutions.

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. Additionally, to continue to meet the MIC criteria, 67% of our non-consolidated assets measured on a tax basis are required to be held in cash or cash equivalents and residential mortgages.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation, is an originator of single family residential mortgage products across Canada.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This press release contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this press release, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this press release is qualified by this cautionary note. Often, but not always, forward-looking information can be identified by the use of words such as “may,” “believe,” “will,” “anticipate,” “expect,” “planned,” “estimate,” “project,” “future,” and variations of these or similar words or other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Forward-looking information in this press release includes, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of new regulations and changes to existing regulations;
- the stability of home prices;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- international trade uncertainties and the impact on the Canadian economy;
- 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.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information reflects management’s current beliefs and is based on information currently available to management. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable by us at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking information.

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

- our ability to successfully implement and realize on our business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of our business;
- computer failure or security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected spread between interest earned on mortgage portfolios and interest paid on deposits;
- the relative uncertainty and volatility of real estate markets;
- acceptance of our products in the marketplace;
- our ability to forecast future changes to borrower credit and credit scores, loan to value ratios and other forward-looking factors used in assessing expected credit losses;
- availability of key personnel;
- our operating cost structure; and
- the current tax regime.

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

- global market activity and trade policies;
- 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 Canada Mortgage Bonds (“CMB”) and mortgage-backed securities (“MBS”) spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;

- adverse legislation or regulation, including recent changes implemented by OSFI and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- our 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;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investment in MCAP, marketable securities and non-marketable securities;
- litigation risk;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update or revise any forward-looking information after the date of this MD&A whether as a result of new information, future events or otherwise or to explain any material difference between subsequent actual events and any forward-looking information. However, any further disclosures made on related subjects in subsequent reports should be consulted.