MCAN MORTGAGE CORPORATION ANNOUNCES FOURTH QUARTER AND 2019 RESULTS AND INCREASE TO QUARTERLY DIVIDEND

Toronto, Ontario - February 26, 2020. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") (TSX: "MKP") reported net income of $10.6 million ($0.44 per share) for the fourth quarter ended December 31, 2019, an increase of 197% from $3.5 million ($0.15 per share) in the fourth quarter of 2018. In the fourth quarter of 2019, we recorded a $2.1 million net gain on securities compared to a $4.2 million net loss on securities in the fourth quarter of 2018. Year to date, we reported net income of $48.3 million ($2.01 per share), an increase of 33% from $36.3 million ($1.54 per share) for the same period in 2018. The Board of Directors (the "Board") declared an increase to the quarterly dividend from $0.32 per share to $0.34 per share on February 26, 2020 to be paid March 30, 2020 to shareholders of record as of March 13, 2020.

Highlights

Financial Performance

Q4 2019

- Return on average shareholders' equity[1] of 12.84% in Q4 2019, an increase of 8.18% from 4.66% in Q4 2018.
- Net corporate mortgage spread income[1] decreased by $0.1 million from Q4 2018. The net corporate mortgage spread income[1] decreased due to a reduction in the spread of corporate mortgages over term deposit interest[1] to 2.63% in Q4 2019 from 2.93% in Q4 2018. This decrease in the spread of corporate mortgages over term deposit interest[1] was partially offset by a higher average corporate mortgage portfolio balance[1] of $1,094 million in Q4 2019 compared to $968 million in Q4 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 term deposit funding and related costs.
- Equity income from MCAP Commercial LP ("MCAP") totalled $4.0 million in Q4 2019, an increase of $0.7 million (22%) from $3.3 million in Q4 2018, which was due to higher net interest income on securitized mortgages, net investment revenue and mortgage origination fees, partially offset by higher financial instrument losses in MCAP.
- The Q4 2019 net gain on securities and the Q4 2018 net loss on securities included fair value changes related to our real estate investment trust ("REIT") portfolio and our investment in Crown Realty II Limited Partnership ("Crown LP"). The net gain in Q4 2019 positively impacted earnings per share by $0.09, while the net loss in Q4 2018 negatively impacted earnings per share by $0.17.

2019

- Return on average shareholders' equity[1] of 15.11% for 2019 year to date, an increase of 3.21% from 11.90% in 2018.
- Net corporate mortgage spread income[1] decreased by $0.7 million from 2018. The net corporate mortgage spread income[1] decreased due a reduction in the spread of corporate mortgages over term deposit interest[1] to 2.62% in 2019 from 3.07% in 2018. This decrease in the spread of corporate mortgages over term deposit interest[1] was partially offset by a higher average corporate mortgage portfolio balance[1] of $1,041 million in 2019 compared to $918 million 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 term deposit funding and related costs.
- Equity income from MCAP totalled $15.8 million for 2019, an increase of $2.6 million (19%) from $13.2 million in 2018. For 2019, MCAP has earned higher net interest income on securitized mortgages, net investment revenue and mortgage origination fees, partially offset by higher financial instrument losses. During 2019, we did not sell any partnership units in MCAP. In 2018, we sold 200,000 partnership units in MCAP, recognizing a gain on sale of $1.7 million.
- In 2019, we recorded a $14.0 million net gain on securities compared to a net loss on securities of $0.5 million in 2018, which was driven by net gains of $10.8 million (2018 - $3.5 million net loss) on our REIT portfolio and $3.2 million (2018 - $2.6 million) on our investment in Crown LP. In 2019, proceeds from dispositions in our REIT portfolio totalled $17.9 million (2018 - $7.5 million), resulting in $6.3 million of realized gains (2018 - $1.9 million). The 2019 net gain positively impacted earnings per share by $0.58 while the net loss in 2018 negatively impacted earnings per share by $0.02.

Business Activity

- Corporate assets totalled $1.36 billion at December 31, 2019, a decrease of $9 million (1%) from September 30, 2019 and an increase of $137 million (11%) from December 31, 2018.
- Corporate mortgage portfolio totalled $1.1 billion at December 31, 2019, a decrease of $7 million (1%) from September 30, 2019 and an increase of $167 million (18%) from December 31, 2018.

- Uninsured single family portfolio totalled $383 million at December 31, 2019, an increase of $19 million (5%) from September 30, 2019 and an increase of $127 million (50%) from December 31, 2018.
- Uninsured single family originations totalled $222 million in 2019, an increase of $101 million (84%) from 2018. Uninsured single family originations were $57 million in Q4 2019, an increase of $6 million (13%) from Q4 2018.
- Insured single family originations totalled $232 million in 2019, an increase of $130 million (127%) from 2018. Insured single family originations were $60 million in Q4 2019, an increase of $32 million (116%) from Q4 2018.
- Securitization volumes totalled $322 million in 2019, an increase of $153 million (90%) from $169 million in 2018. Securitization volumes in 2019 consisted of $308 million of insured single family mortgages (2018 - $169 million) and $14 million of insured multi family mortgages (2018 - $nil). This increase in securitization volumes was offset by mortgage maturities and resulted in a decrease in our securitized portfolio of 11% from 2018.
- Construction and commercial portfolios totalled $551 million at December 31, 2019, a decrease of $4 million (1%) from September 30, 2019 and an increase of $3 million (1%) from December 31, 2018. Of this, our construction portfolio totalled $505 million at December 31, 2019, an increase of $4 million (1%) from September 30, 2019 and an increase of $71 million (16%) from December 31, 2018.

CEO Commentary

"In 2019, we successfully grew our corporate assets, rebalanced our risk profile and recycled investment capital," said Karen Weaver, President and Chief Executive Officer. "This year of transformation was driven by a talented and committed team focused on growth and building long-term shareholder value. It has been a pleasure working with the Board and executives on achieving the Company's objectives".

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.32% at December 31, 2019 compared to 0.27% at September 30, 2019 and 0.34% at December 31, 2018[2].
- The impaired total mortgage ratio[1] was 0.23% at December 31, 2019 compared to 0.18% at September 30, 2019 and 0.27% at December 31, 2018[2].
- Total mortgage arrears[1] were $16 million at December 31, 2019 compared to $16 million at September 30, 2019 and $16 million at December 31, 2018. All arrears relate to the single family mortgage portfolio at December 31, 2019.
- Net write-offs were $58,000 (2.1 basis points) of the average corporate portfolio in Q4 2019 compared to nil in Q4 2018; annual write-offs were $99,000 (1.0 basis point) in 2019 and $256,000 (2.8 basis points) in 2018. All write-offs relate to the uninsured single family mortgage portfolio.

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, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 22.52% at December 31, 2019 compared to 21.77% at September 30, 2019 and 21.66% at December 31, 2018.
- The leverage ratio[1] was 12.58% at December 31, 2019 compared to 12.28% at September 30, 2019 and 11.79% at December 31, 2018.
- The income tax assets to capital ratio[1] was 4.93 at December 31, 2019 compared to 5.13 at September 30, 2019 and 4.64 at December 31, 2018.
- We issued 416,919 new common shares through the Dividend Reinvestment Program ("DRIP") in 2019 compared to 367,942 in 2018. The DRIP participation rate was 17% for the 2019 fourth quarter dividend (2018 fourth quarter - 18%). The DRIP participation rate for 2019 dividends was 20% (2018 - 19%).

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this news 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

Canada's economy continued growing at a measured pace during the fourth quarter as trade conflicts, low oil and gas prices, geopolitical risk and their associated uncertainties continued. Canada's Gross Domestic Product ("GDP") outlook for 2020 is expected to be 1.6%. This may be negatively impacted, especially in the first half of 2020, by the potential impact on trade and GDP from the recent coronavirus outbreak and blockades of key transportation infrastructure. We believe that Canada has largely adjusted to the negative impact of lower oil prices and various other economic weaknesses and is positively supported by relatively low interest rates, increasing immigration and strong employment. The economy has been operating at nearly full potential since the beginning of 2019. Development of the Trans Mountain pipeline expansion project and the Coastal GasLink natural gas pipeline are expected to provide both price support for Canadian oil and gas over the long term and positive investment and employment during construction. Headwinds from decreased consumer confidence, weaker investment, other than oil and gas, and international uncertainties may have negative impacts in 2020 and influence the Bank of Canada overnight rate.

During the fourth quarter, the residential housing market strengthened in most major markets where we do business. Furthermore, there is a scarcity of affordable new housing supply in our major markets of Vancouver, Toronto and Ottawa. This supported increases in resales, particularly in the Vancouver and Toronto markets, in the fourth quarter of 2019. The demand for affordable housing supports continuing housing starts, which are expected to see an uptick into 2020.

The Canadian housing market has essentially rebounded while, at the same time, the policy and regulatory reforms over the past few years have served to strengthen lending standards governing regulated entities. While Canadian household indebtedness remains high, it has plateaued as consumers become more cautious. We expect some further stimulus in the housing market with the recent announcement from the Department of Finance and the Office of the Superintendent of Financial Institutions, regarding the change to the benchmark rate for the interest rate stress test for insured single family mortgages issued by regulated entities.

Business Outlook

Uncertainty around geopolitical event risk, trade, the impact of the coronavirus outbreak and their potential economic impact on the Canadian economy is expected to continue in 2020.

As a diversified lender primarily focused on affordable residential Canadian real estate, we believe that our systematic approach to lending, shaped by our risk appetite and expertise in balance sheet management, will allow us to effectively grow our business and optimize opportunities even with this ongoing uncertainty.

Strong demand, continued low interest rates and the quality and number of immigration household formations, is expected to support a balanced overall Canadian residential housing market. In some regions, however, low inventory supply may lead to a seller's market and increases in pricing. Over the mid to long term, we expect to continue to see challenges in the housing market in major urban centres driven by supply and demand fundamentals, which will provide support for new residential housing construction particularly at the affordable end of the market.

Increased competition from other lenders in the market is placing downward pressure on yields and spreads in our single family, construction and commercial portfolios. We believe that our portfolio composition continues to provide a balanced risk and return profile as we position ourselves in this competitive market. We continue to focus on our desired markets with our chosen borrowers and strategic partnerships, as well as internal efficiencies and customer service, to earn appropriate risk adjusted returns. We remain dedicated to our strategic partner strategy to support the growth and diversification of our business. In addition, we are focused on increasing investments in our non-marketable securities portfolio. We believe that diversified assets with differing risk and return profiles provide the Company with sustainable returns over the mid to long term. Our targeted annual growth in corporate assets over the long term is 10%. We believe we are well positioned in terms of capital and liquidity to support our targeted corporate asset growth within our risk appetite into 2020.

Dividend Reinvestment Plan

The 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 enroll 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/.

Non-IFRS Measures

The following metrics are considered to be Non-IFRS measures and are defined in the "Non-IFRS Measures" section of the 2019 fourth quarter MD&A: Return on Average Shareholders' Equity, Net Corporate Mortgage Spread Income, Spread of Corporate Mortgages over Term Deposit Interest, Average Corporate Mortgage Portfolio Balance, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1 and Total Capital Ratios, Leverage Ratio and Income Tax Assets to Capital Ratio.

Further Information

Complete copies of the Company's 2019 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 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 Tax Act and OSFI.

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are treated as interest income to shareholders for income tax purposes. We are also able to pay capital gains dividends, which would be treated as capital gains to shareholders for income tax purposes. Dividends paid to foreign investors may be subject to withholding taxes. 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.

For further information, please contact:

MCAN Mortgage Corporation

Website: www.mcanmortgage.com

e-mail: mcanexecutive@mcanmortgage.com

Karen Weaver
President and Chief Executive Officer
(416) 203-5931

Dipti Patel
Vice President and Chief Financial Officer
(416) 591-5204

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This news release contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this news release, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this news 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 news 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 and geopolitical uncertainties and their 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;
- the timing of the effect of interest rate changes on our cash flows; and
- the declaration and payment of dividends.

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 and the cost to us of such regulation;
- systems failure or cyber and 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;
- the stage of the real estate cycle and the maturity phase of the mortgage market;
- impact on housing demand from changing population demographics and immigration patterns;
- 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 and rates of default;
- availability of key personnel;
- our operating cost structure;
- the current tax regime; and
- operations within our equity investments.

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;
- levels of foreign investment in Canada and its real estate market;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in climate and environmental policies;

- 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;
- digital and technology evolution and disruptions;
- 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 investments in MCAP, marketable securities and non-marketable securities;
- our exposure to litigation;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with third-party mortgage originators and servicers;
- changes in operations within our equity investments; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this news 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 or revise any forward-looking information after the date of this news release 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.