



## MCAN MORTGAGE CORPORATION ANNOUNCES Q2 2020 RESULTS AND DECLARES Q3 2020 DIVIDEND

**Toronto, Ontario - August 12, 2020.** MCAN Mortgage Corporation ("MCAN", the "Company" or "we") (TSX: "MKP") reported solid net income of \$7.8 million (\$0.32 earnings per share) for the second quarter ended June 30, 2020. For the same period in the prior year, net income was \$8.9 million (\$0.37 earnings per share). For the six months ended June 30, 2020, MCAN reported a net loss of \$1.9 million (\$0.08 loss per share), compared to net income of \$23.2 million (\$0.97 earnings per share) in the prior year. In 2020, we recorded a \$14.3 million net loss on securities as a result of general market declines related to the pandemic.

The Board of Directors (the "Board") declared a third quarter dividend of \$0.34 per share on August 12, 2020 to be paid September 30, 2020 to shareholders of record as of September 15, 2020.

### CEO Commentary

"MCAN's business performed well in the second quarter as all team members adjusted to remote work and continued our normal business activities in line with our long term strategy", said Karen Weaver, President and Chief Executive Officer. "I want to thank the entire MCAN team for their contributions to our business and I appreciate all of their day to day efforts. We continue to adapt to market conditions as we look to grow our assets and invest in marketable and non-marketable securities. We will remain focused on guiding the company through the impacts of COVID-19 and look to the long term to execute our strategy."

### Highlights

#### **Business and Financial Update**

- Corporate assets totalled \$1.40 billion at June 30, 2020, a decrease of \$21 million (1%) from March 31, 2020 and an increase of \$42 million (3%) from December 31, 2019.
- Corporate mortgage portfolio totalled \$1.1 billion at June 30, 2020, a decrease of \$69 million (6%) from March 31, 2020 and an increase of \$30 million (3%) from December 31, 2019.
- Uninsured single family portfolio totalled \$410 million at June 30, 2020, an increase of \$14 million (4%) from March 31, 2020 and an increase of \$27 million (7%) from December 31, 2019.
- Uninsured single family originations were \$51 million in Q2 2020, a decrease of \$1 million (2%) from Q1 2020 and a decrease of \$4 million (8%) from Q2 2019.
- Insured single family originations were \$102 million in Q2 2020, an increase of \$3 million (3%) from Q1 2020 and an increase of \$45 million (79%) from Q2 2019.
- Securitization volumes were \$174 million in Q2 2020, an increase of \$80 million (84%) from Q1 2020 and an increase of \$100 million (133%) from Q2 2019. Securitization volumes in Q2 2020 consisted of \$154 million insured single family mortgages (Q1 2020 - \$80 million; Q2 2019 - \$75 million) and \$20 million of insured multi family mortgages (Q1 2020 - \$15 million; Q2 2019 - \$nil).
- Construction and commercial portfolios totalled \$518 million at June 30, 2020, a decrease of \$72 million (12%) from March 31, 2020 and a decrease of \$33 million (6%) from December 31, 2019.
- Net corporate mortgage spread income<sup>1</sup> increased by \$0.4 million for Q2 2020 from Q2 2019 and \$1.2 million for year to date 2020 from 2019. The net corporate mortgage spread income<sup>1</sup> increased due to a higher average corporate mortgage portfolio balance<sup>1</sup> partly offset by a decrease in the spread of corporate mortgages over term deposit interest<sup>1</sup>. The decrease in the spread of corporate mortgages over term deposit interest<sup>1</sup> is partly due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, the yield on our primarily floating-rate construction loan portfolio decreasing, and increased competition for term deposit funding, particularly in the first half of Q2 2020 when term deposit rates remained high and even increased notwithstanding substantial decreases in the Bank of Canada overnight rates.
- Net securitized mortgage spread income<sup>1</sup> decreased by \$0.6 million for Q2 2020 from Q2 2019 and \$1.0 million for year to date 2020 from 2019. The net securitized mortgage spread income<sup>1</sup> decreased due to a lower average securitized mortgage portfolio balance<sup>1</sup> and a reduction in the spread of securitized mortgages over liabilities<sup>1</sup>. The decrease in the spread of securitized mortgages over liabilities<sup>1</sup> is mainly due to higher indemnity expense on early repaid mortgages that was higher than penalty income.
- Our Q2 2020 and year to date 2020 provision for credit losses on our corporate mortgage portfolio increased by \$0.5 million and \$2.3 million, respectively, compared to the related periods in the prior year. The increase mainly relates to the economic impacts from COVID-19.

- Equity income from MCAP Commercial LP (“MCAP”) totalled \$3.1 million in Q2 2020, a decrease of \$1.6 million (34%) from \$4.7 million in Q2 2019, and \$6.6 million for year to date 2020, a decrease of \$0.7 million (10%) from \$7.3 million year to date 2019, mainly due to higher financial instrument losses, primarily as a result of hedge losses, and lower net interest income on securitized mortgages related to lower prime-CDOR spreads. This was partially offset by increases in mortgage origination fee income, which is expected to continue in the next quarter, and decreases in origination and mortgage funding costs. With respect to MCAP’s hedging activities, hedge gains and losses on funded mortgages are designed to be roughly offset by corresponding losses and gains related to the fair value of the mortgages and the fair value of the mortgage commitments. The timing of the offsets will, however, lag based on the timing of the actual funding of the mortgages.
- In Q2 2020, we recorded a \$1.4 million net gain on securities which positively impacted Q2 2020 earnings per share by \$0.06 compared to a \$1.0 million net loss on securities in Q2 2019 which negatively impacted earnings per share by \$0.04. Year to date net loss on securities was \$14.3 million for 2020 which negatively impacted 2020 earnings per share by \$0.59 compared to a year to date net gain on securities of \$7.0 million for 2019 which positively impacted earnings per share by \$0.29. In 2020, market prices for REITs have been severely impacted by COVID-19.
- Return on average shareholders’ equity<sup>1</sup> was 9.96% in Q2 2020, a decrease of 1.31% from 11.27% in Q2 2019. Return on average shareholders’ equity<sup>1</sup> was (1.21)% for 2020 year to date, which compares to 14.79% in 2019.

### Credit Quality

- The impaired corporate mortgage ratio<sup>1</sup> was 1.26% at June 30, 2020 compared to 0.39% at March 31, 2020 and 0.32% at December 31, 2019. The increase in the second quarter is due to one construction mortgage where an asset recovery program was initiated. We anticipate full recovery of past due interest and principal. The impairment of this construction mortgage is not related to COVID-19.
- The impaired total mortgage ratio<sup>1</sup> was 0.77% at June 30, 2020 compared to 0.28% at March 31, 2020 and 0.23% at December 31, 2019. The increase in Q2 2020 is discussed above.
- Total mortgage arrears<sup>1</sup> were \$40 million at June 30, 2020 compared to \$36 million at March 31, 2020 and \$16 million at December 31, 2019. There were no write offs in the quarter.
- Total mortgages in our payment deferral program represent only 3.6% of our single family and securitized portfolio on a dollar basis at June 30, 2020 compared to 9.5% at March 31, 2020.
- Average loan to value ratio (“LTV”) of our uninsured single family portfolio based on an industry index of current real estate values was 61.2% at June 30, 2020 compared to 61.5% at March 31, 2020 and 64.0% at December 31, 2019.

### 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 OSFI.
- Common Equity Tier 1 (“CET 1”) and Tier 1 Capital to risk-weighted assets ratios<sup>1,2</sup> were 23.01% at June 30, 2020 compared to 21.80% at March 31, 2020 and 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio<sup>1,2</sup> was 23.40% at June 30, 2020 compared to 22.17% at March 31, 2020 and 22.52% at December 31, 2019.
- The leverage ratio<sup>1</sup> was 11.46% at June 30, 2020 compared to 11.70% at March 31, 2020 and 12.58% at December 31, 2019.
- The income tax assets to capital ratio<sup>1</sup> was 4.95 at June 30, 2020 compared to 5.03 at March 31, 2020 and 4.93 at December 31, 2019.
- We issued 106,242 new common shares through the Dividend Reinvestment Plan (“DRIP”) in Q2 2020 compared to 88,914 in Q2 2019. The DRIP participation rate was 16% for the 2020 second quarter dividend (2019 second quarter dividend - 18%).

<sup>1</sup> Considered to be a “Non-IFRS Measure”. For further details, refer to the “Non-IFRS Measures” section of this news release.

<sup>2</sup> Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company’s mortgage portfolio in Tier 2 capital. In accordance with OSFI’s transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in Stage 1 and Stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

## **Outlook**

### **Market Outlook**

The COVID-19 pandemic continued to have significant effects on the Canadian and global economies in the second quarter. In Canada, widespread shutdowns of non-essential businesses and services and international borders continued through June. In many markets, phased reopenings of the economy have only just begun, and so it is still too early to determine the impacts in terms of speed of recovery, potential further waves of infections and if so, whether there will need to be further shutdowns of the economy. Prior to the pandemic, the Canadian markets where we do business were strong, with an affordable housing shortage, strong employment and were experiencing a positive impact from growing immigration.

As a result of COVID-19, Canadian governments at all levels, as well as the Bank of Canada, have taken extraordinary measures by injecting a significant amount of fiscal stimulus into the economy through various support measures. These measures have been both direct to individuals and businesses affected through various benefits, subsidies and credit support, as well as indirect through various methods to improve liquidity conditions and ensure that the economy is functioning properly. Many of these measures have been extended. By the end of March, the Bank of Canada had decreased its overnight rate by 150 basis points to 0.25% - where it stands currently. While all these measures have helped support Canadians and the Canadian economy, Canada's future remains very unclear - especially once support measures end. Most economists are predicting a long and fairly deep recession. How we live and work have fundamentally changed in the interim, and whether that becomes permanent or even semi-permanent, could have a significant impact on the economy. Deglobalization and the temporary loss of immigration will also be factors.

### **Business Outlook**

We conduct our business activities in the context of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. Since mid-March, the Company has been focused on managing all of its business activities in the context of the COVID-19 pandemic and the new economic, business and daily living environment in Canada. We efficiently mobilized to remote operations within one week in early March and have since then been executing our business effectively.

The timing and speed of the recovery of the Canadian economy is uncertain and the Bank of Canada has indicated that interest rates will remain low for an extended period. We had initially seen a decline in housing starts after the pandemic. More recently that trend has reversed, and while housing starts have gained momentum, there is uncertainty as to whether this trend will continue once the government support measures disappear. While we have experienced changes in the makeup of some of our origination volumes, we believe that our strategy will continue to serve us well in the crisis. We are a prudent and disciplined lender and investor and have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see deal flow in all our product lines, as well as loan repayments from completed construction projects. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty.

#### *Single Family*

The Canadian housing markets, particularly in Vancouver, Toronto and Ottawa, were very active prior to the implementation of emergency government containment measures across Canada in mid-March. While social distancing protocols changed and slowed the real estate sale process immediately, these activities did not stop. Certainly, many buyers and sellers were sidelined due to employment and other uncertainties, but for many, these activities continued. In fact, we saw an increase in new insured mortgage volumes relating to purchases across our target markets. We attribute this increase to the low interest rate environment as well as the Canada Mortgage and Housing Corporation ("CMHC") rules change that was announced earlier in June that would make it harder for aspiring home buyers to qualify for a mortgage in Canada. Borrowers waiting for the right time to buy may have taken this opportunity to do so prior to the change taking effect. The low interest rate environment continues to create high origination volumes year to date and in our current insured pipeline. The environment also creates an increase in early repaid mortgages in our existing securitized pools resulting in higher indemnity expense. New mortgage volumes relating to uninsured purchases have declined across our target markets since the onset of COVID-19; however, given that the duration of uninsured single family mortgages is short, activity relating to refinances and renewals has increased and will become the key driver of business activity in that space. We have seen a much more competitive environment in both the insured and uninsured mortgage market since the pandemic-led interest rate decreases. We expect this to continue for the balance of the year.

In these unprecedented times, we have been committed to working with our borrowers on a case-by-case basis to provide effective alternatives that help them manage the challenges they are facing due to COVID-19. This support includes payment deferrals of up to six months on existing mortgages for those who are eligible. Active deferrals have decreased and by the end of June only make up approximately 3.6% of our single family and securitized portfolios on a dollar basis. We are evaluating appropriate measures to support borrowers impacted by COVID-19 after the payment deferral period ends, which may include increased amortizations and other payment arrangements, among others. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term. We are focused on keeping abreast of all changes in the market that could negatively impact our business or that could create opportunities in line with our risk appetite.

## *Construction and Commercial Business*

While there have been some construction site delays and a slowdown in sales activity, our construction project finance loans are progressing forward without major delays or credit issues in the markets where we do business. We have seen some slowdowns in interior unit finishing due to social distancing protocols and workplace safety rules. Furthermore, certain municipal staff inspections have been delayed. These delays have, and may continue to, impact the timing of repayments; however, they have not changed the overall expected outcome of project successes or loan performances.

We entered this pandemic with strong underlying demand for new residential units in Toronto and Vancouver. Initially after the pandemic, there were changes in demand and sales slowed; however, recent market data from Vancouver and Toronto for our target market and products indicates stronger home sales in June with modest price growth on a year-over-year basis. Going forward, it is not clear whether this stronger activity will continue once government stimulus measures end. We will of course continue to monitor these measures. Despite the uncertainty, we continue to selectively grow our pipeline in our core markets. We also anticipate increasing our insured multi family securitizations in the remainder of the year. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite with a focus on well-located and affordable residential product with experienced borrowers where we have existing relationships. We have approached our underwriting with an even more conservative lens in light of COVID-19 and will continue to do so as we move forward.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on the scope and duration of the crisis and the overall effectiveness of actions that have been taken by various governmental agencies. We support the actions taken by the government and regulators as we believe that to date, they are positive for the economy, consumers and our business. While certain parts of our business have experienced significant declines due to COVID-19 related factors, such as the large decline in the market value of our marketable securities recorded in Q1 2020, we are encouraged by the strength of other segments of our business such as our insured single family business and our other investments, such as our investment in MCAP. We expect that MCAP will record enhanced earnings from new business contracts, high mortgage spreads and increased commitment levels, the combination of which will have a positive impact on MCAN's results. MCAN's management and Board continue to be committed to proactively and effectively managing and reviewing the Company's strategy, business activities and team through the pandemic into the future. We remain optimistic and our team remains focused.

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

### **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 13, 2020 or visit our website at [www.mcanmortgage.com/investors/regulatory-filings/](http://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 2020 second 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, Net Securitized Mortgage Spread Income, Average Securitized Mortgage Portfolio Balance, Spread of Securitized Mortgages Over Liabilities, Impaired Corporate Mortgage Ratio, Impaired Total Mortgage Ratio, Total Mortgage Arrears, Common Equity Tier 1 ("CET 1") and Tier 1 Capital to Risk-Weighted Assets Ratios, Total Capital to Risk-Weighted Assets Ratio, Leverage Ratio and Income Tax Assets to Capital Ratio.

### **Further Information**

Complete copies of the Company's Q2 2020 Quarterly Report will be filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.mcanmortgage.com](http://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](http://www.mcanmortgage.com)

e-mail: [mcanexecutive@mcanmortgage.com](mailto:mcanexecutive@mcanmortgage.com)

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

## 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;
- the impact of global health pandemics on the Canadian economy and globally, including the global outbreak of COVID-19;
- 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;
- government regulation of our business and the cost to us of such regulation, including the anticipated impact of government actions related to COVID-19;
- the economic and social impact, and management and duration, of COVID-19;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- 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.

The COVID-19 pandemic has cast additional uncertainty on the Company’s internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. Given the rapid pace of change with respect to the impact of the COVID-19 pandemic, it is premature to make further assumptions about these matters. The duration, extent and severity of the impact the COVID-19 pandemic, including measures to prevent its spread, will have on our business is highly uncertain and difficult to predict at this time.

The Company expects, however, that the disruption in financial markets due to COVID-19 will continue to impact its business. The extent and adversity of such an impact will depend on the duration of the conditions related to the COVID-19 pandemic and related government actions adopted in response, including restrictions imposed to limit the spread of COVID-19 and policies adopted to mitigate the economic impact of COVID-19.

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, the risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2019, 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 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.