



## MCAN MORTGAGE CORPORATION ANNOUNCES STRONG Q3 2020 RESULTS AND DECLARES Q4 2020 DIVIDEND

**Toronto, Ontario - November 9, 2020.** MCAN Mortgage Corporation ("MCAN", the "Company" or "we") (TSX: "MKP") reported higher net income for the third quarter ended September 30, 2020 of \$22.7 million (\$0.92 earnings per share) compared to \$14.6 million (\$0.60 earnings per share) for the same period in the prior year. For the nine months ended September 30, 2020, MCAN reported net income of \$20.8 million (\$0.85 earnings per share), compared to net income of \$37.7 million (\$1.57 earnings per share) in the prior year.

The Board of Directors (the "Board") declared a fourth quarter dividend of \$0.34 per share to be paid January 4, 2021 to shareholders of record as of December 15, 2020.

### CEO Commentary

"MCAN's business performed very well as we continued to grow our mortgage portfolio in response to the housing and mortgage market dynamics which were fueled by reduced interest rates and the COVID-19 impact.", said Karen Weaver, President and Chief Executive Officer. "The entire team at MCAN worked diligently to execute our day-to-day business, serve our customers and achieve our growth. We expect to continue our profitable growth in our mortgage assets and in our marketable and non-marketable securities and remain focused on guiding the company through the impacts of COVID-19 while executing our strategy."

### Highlights

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

- Corporate assets totalled \$1.57 billion at September 30, 2020, an increase of \$169 million (12%) from June 30, 2020 and an increase of \$211 million (16%) from December 31, 2019.
- Corporate mortgage portfolio totalled \$1.3 billion at September 30, 2020, an increase of \$190 million (17%) from June 30, 2020 and an increase of \$220 million (20%) from December 31, 2019.
- Uninsured single family portfolio totalled \$436 million at September 30, 2020, an increase of \$26 million (6%) from June 30, 2020 and an increase of \$54 million (14%) from December 31, 2019.
- Uninsured single family originations were \$66 million in Q3 2020, an increase of \$15 million (30%) from Q2 2020 and an increase of \$20 million (44%) from Q3 2019.
- Insured single family originations were \$196 million in Q3 2020, an increase of \$94 million (92%) from Q2 2020 and an increase of \$119 million (155%) from Q3 2019.
- Securitization volumes were \$218 million in Q3 2020, an increase of \$43 million (25%) from Q2 2020 and an increase of \$103 million (90%) from Q3 2019. Securitization volumes in Q3 2020 consisted of \$218 million insured single family mortgages (Q2 2020 - \$154 million; Q3 2019 - \$101 million) and \$nil of insured multi family mortgages (Q2 2020 - \$20 million; Q3 2019 - \$14 million).
- Construction and commercial portfolios totalled \$635 million at September 30, 2020, an increase of \$117 million (23%) from June 30, 2020 and an increase of \$84 million (15%) from December 31, 2019.
- Net corporate mortgage spread income<sup>1</sup> increased by \$1.6 million for Q3 2020 from Q3 2019 and \$2.8 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>. For Q3 2020, there was an increase in the spread of corporate mortgages over term deposit interest<sup>1</sup> due to a reduction in term deposit rates partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition, and the yield on our primarily floating-rate construction loan portfolio decreasing. For year to date 2020, there was a small decrease in the spread of corporate mortgages over term deposit interest<sup>1</sup> due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition and the yield on our primarily floating-rate construction loan portfolio decreasing. Term deposit rates didn't go down by as much as rates in our mortgage portfolio due to increased competition for term deposit funding, particularly in the first half of Q2 2020 when term deposit rates remained high and even temporarily increased notwithstanding substantial decreases in the Bank of Canada overnight rate.
- Net securitized mortgage spread income<sup>1</sup> increased by \$0.5 million for Q3 2020 from Q3 2019 and decreased \$0.4 million for year to date 2020 from 2019. For Q3 2020, the net securitized mortgage spread income<sup>1</sup> increased due to a higher average securitized mortgage portfolio balance<sup>1</sup> and an increase in the spread of securitized mortgages over liabilities<sup>1</sup>. For year to date 2020, 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> due to higher indemnity expense on early repaid mortgages that was higher than penalty income occurring mainly in the second quarter of the year.

- Our Q3 2020 and year to date 2020 provision for credit losses on our corporate mortgage portfolio increased by \$0.3 million and \$2.6 million, respectively, compared to the related periods in the prior year. The increase mainly relates to the potential economic impacts from COVID-19 and growth in the portfolio.
- Equity income from MCAP Commercial LP (“MCAP”) totalled \$18.0 million in Q3 2020, an increase of \$13.6 million (306%) from \$4.4 million in Q3 2019, and totalled \$24.5 million for year to date 2020, an increase of \$12.8 million (109%) from \$11.7 million year to date 2019. For Q3 2020, this was mainly due to higher financial instrument gains and mortgage origination fee income from higher whole loan sales at wider spreads. MCAP also recorded higher fees from non-recurring new contracts. For 2020 year to date, MCAP had higher mortgage origination income from higher whole loan sales at wider spreads as well as income from non-recurring new contracts. This was partly offset by higher hedge losses as a result of the large decline in bond yields in late Q1 and early Q2 2020. 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. It is expected that MCAP will have strong earnings in Q4 2020, however, normal market and business dynamics will drive MCAP's net income in 2021.
- In Q3 2020, we recorded a \$0.5 million net loss on securities compared to a \$5.0 million net gain on securities in Q3 2019. Year to date net loss on securities was \$14.8 million for 2020 compared to a year to date net gain on securities of \$11.9 million for 2019. In 2020, market prices for REITs have been severely impacted by COVID-19 and we continue to see higher market volatility.
- Return on average shareholders' equity<sup>1</sup> was 28.04% in Q3 2020, an increase of 9.99% from 18.05% in Q3 2019. Return on average shareholders' equity<sup>1</sup> was 8.61% for 2020 year to date, which compares to 15.90% in 2019.

#### Credit Quality

- The impaired corporate mortgage ratio<sup>1</sup> was 0.27% at September 30, 2020 compared to 1.26% at June 30, 2020 and 0.32% at December 31, 2019. The improvement in the third quarter was due to one construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal. The impairment of this construction mortgage was not related to COVID-19.
- The impaired total mortgage ratio<sup>1</sup> was 0.17% at September 30, 2020 compared to 0.77% at June 30, 2020 and 0.23% at December 31, 2019. The decrease from Q2 2020 is discussed above.
- Total mortgage arrears<sup>1</sup> were \$14 million at September 30, 2020 compared to \$40 million at June 30, 2020 and \$16 million at December 31, 2019.
- Total mortgages in our payment deferral program represent less than 1% of our single family and securitized portfolio on a dollar basis at September 30, 2020 compared to 4% at June 30, 2020 and 10% 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 61.5% at September 30, 2020 compared to 61.2% at June 30, 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.
- The income tax assets to capital ratio<sup>1</sup> was 5.44 at September 30, 2020 compared to 4.95 at June 30, 2020 and 4.93 at December 31, 2019.
- Common Equity Tier 1 (“CET 1”) and Tier 1 Capital to risk-weighted assets ratios<sup>1,2</sup> were 20.45% at September 30, 2020 compared to 23.01% at June 30, 2020 and 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio<sup>1,2</sup> was 20.80% at September 30, 2020 compared to 23.40% at June 30, 2020 and 22.52% at December 31, 2019.
- The leverage ratio<sup>1</sup> was 10.26% at September 30, 2020 compared to 11.46% at June 30, 2020 and 12.58% at December 31, 2019.
- We issued 106,248 new common shares through the Dividend Reinvestment Plan (“DRIP”) in Q3 2020 compared to 86,085 in Q3 2019. The DRIP participation rate was 17% for the 2020 third quarter dividend (2019 third quarter dividend - 17%).

<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 third quarter marked the sixth month of COVID-19 impact in Canada. Although many non-essential businesses and services were reopened in Canada early in the quarter and schools reopened in September with appropriate safety measures, COVID-19 continues to have significant effects on the Canadian and global economies. We now find ourselves in the second wave of infections with further specific localized shutdowns being reinstated across the country. International borders continue to either be closed or have restrictions. It is still too early to determine the impacts of the second wave or even the full impacts of the first wave of COVID-19 on the Canadian economy. Prior to the pandemic, we were expecting an interest rate increase and 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.

Since March and continuing into the third quarter, 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 continues to stand currently and is expected to remain in the near to mid-term. All these measures have helped support Canadians and the Canadian economy thus far. Canada's Q3 GDP is set to make up approximately three quarters of the decline experienced in the first half of the year. Employment numbers also took a positive direction in Q3. Job gains from May to August brought employment to within 1.1 million jobs of its pre-COVID level. Within that narrative, economic impacts have been uneven. Many economists are talking about a k-shaped recovery, with some industries recovering quickly from the pandemic, and others with a very slow and long recovery that have been very hard hit. It is still unclear however, what Canada's economic and employment future will be - particularly when key support measures end.

### **Business Outlook**

We conduct our business based on our expectations 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 and risks 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 since then continue to execute our business effectively.

The timing and speed of the recovery of the Canadian economy is uncertain as previously mentioned, and the Bank of Canada has indicated that interest rates will remain low for the foreseeable future. We had initially seen a decline in housing starts after the pandemic. Starting in the latter part of Q2 that trend reversed. Housing continues to be a hot spot for the Canadian economy despite the pandemic. In fact, housing starts hit a 13-year high in Q3 according to a major Canadian bank. On the resale side of the housing business, Q3 showed strong increases in sales, particularly in major markets, with home prices also increasing. We believe that our strategy will continue to serve us well during the pandemic and beyond. We believe that we are a prudent and disciplined lender and investor and that we have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see strong deal flow in all our product lines, as well as loan repayments from completed construction projects and maturing residential mortgages. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty in the economy and outlook.

### *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 sales process immediately, these activities did not stop. In fact, as previously mentioned, the Q3 housing market remained extremely strong and extremely active. In our portfolios, we continued to see an increase in new insured and uninsured mortgage volumes relating to home purchases and uninsured mortgage refinances across our target markets. We attribute this increase largely to the low interest rate environment. We have had some of the highest origination volumes in our history and our pipeline continues to be full subsequent to quarter end. Year to date, the low interest rate environment also created an increase in early repaid mortgages in our existing securitized pools resulting in higher indemnity expense. This activity within our securitized pools subsided in Q3, however. New mortgage volumes relating to uninsured home purchases have also increased in Q3 across our target markets. Throughout the year, we have seen a much more competitive environment in both the insured and uninsured mortgage market. We expect this to continue for the balance of the year and into 2021.

In these unprecedented times our risk management, credit monitoring and assessment activities have increased. We have worked with some of our borrowers on a case-by-case basis to provide effective alternatives that have allowed them to manage the challenges they are facing due to COVID-19. This support has included payment deferrals of up to six months on existing mortgages. Active deferrals have decreased and by the end of September only make up less than 1% of our single family and securitized portfolios on a dollar basis. We have also implemented appropriate measures to support these borrowers after their payment deferral periods end, 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 and in our portfolios 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 initially after the pandemic began, 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 in particular, due to social distancing protocols and workplace safety rules, as well as supply chain challenges for key components such as plumbing fixtures, lighting fixtures, and mechanical units. 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 as previously indicated, the housing market has been strong since then. We have increased the amount of construction loans on our books, particularly in Q3 and our pipeline remains strong. Going forward, it is not clear whether this stronger activity will continue once government stimulus measures end. We will of course continue to monitor this. 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 continue to depend on the scope and duration of this crisis, the second wave of COVID-19 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 have been 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, we are encouraged by the strength of other segments of our business such as our insured single family business, our construction and commercial business and our other investments, including our investment in MCAP. MCAP has recorded, and is expected to continue to record for the balance of the year, enhanced earnings from non-recurring new business contracts, high mortgage spreads and increased commitment levels. 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.

### **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 third 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 Q3 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 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.