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Stock market symbol
TSX: MKP

MCAN MORTGAGE CORPORATION REPORTS STRONG SECOND QUARTER EARNINGS

Toronto, Ontario – August 11, 2016. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported earnings today for the second quarter of 2016. Net income of $13.6 million increased by 14% from Q2 2015 and earnings per share of $0.59 increased by 5% from Q2 2015.

Highlights

Net Income

Q2 2016

- Net income was $13.6 million in Q2 2016, an increase of $1.7 million from $11.9 million in Q2 2015 due to the recognition of $3.8 million of income upon the receipt of a distribution from our investment in Crown Realty II Limited Partnership and higher securitization income, offset by higher operating expenses.
- Earnings per share increased by $0.03 to $0.59 in Q2 2016 from $0.56 in Q2 2015.
- Return on average shareholders' equity of 20.10% in Q2 2016 compared to 20.16% in Q2 2015.
- Continued strong equity income from our investment in MCAP Commercial LP ("MCAP") of $4.5 million in Q2 2016 compared to $4.9 million in Q2 2015.

Year to Date 2016

- For the year to date in 2016, net income was $21.4 million, an increase of $5.2 million (32%) from $16.2 million in 2015 due to the Q2 items noted above and higher equity income from MCAP for the year to date.
- Earnings per share increased by $0.16 (21%) to $0.93 for the year to date in 2016 from $0.77 in 2015.
- Increase of 15% in return on average shareholders' equity to 16.02% for the year to date in 2016 from 13.92% in 2015.

Dividend

- Consistent with the prior quarter dividend, the Board of Directors declared a third quarter dividend of $0.29 per share to be paid September 30, 2016 to shareholders of record as of September 15, 2016.

Corporate Activity

Q2 2016

- Corporate assets totalled $1.26 billion at June 30, 2016, an increase of $27 million from March 31, 2016, which included increases of $21 million in mortgages and $7 million in marketable securities.
- The corporate mortgage portfolio increased by $21 million during Q2 2016 to $1.02 billion from $998 million, which included increases of $21 million in commercial, $14 million in construction, $4 million in completed inventory and $3 million in insured single family, offset by a decrease of $21 million in uninsured single family.
- During Q2 2016, we originated $36 million of single family mortgages through our Xceed origination platform, consisting of $30 million of insured single family and $6 million of uninsured single family.

Year to Date 2016

- Corporate assets have increased by $103 million for the year to date in 2016, including increases of $75 million in corporate mortgages, $15 million in marketable securities and $8 million in financial investments.
- The increase in the corporate mortgage portfolio for the year to date in 2016 includes increases of $74 million in construction, $27 million in commercial and $26 million in insured single family, offset by decreases of $37 million in uninsured single family and $15 million in completed inventory loans.
- For the year to date in 2016, we have originated $65 million of single family mortgages through our Xceed origination platform, consisting of $53 million of insured single family and $12 million of uninsured single family.

Securitization Activity

- We recommenced our participation in the Canada Mortgage Bonds ("CMB") program in Q2 2016 by securitizing $28 million of insured single family mortgages and $37 million of multi family loans.
- We issued and sold $17 million of new mortgage backed securities ("MBS") to third parties through the market MBS program.

Credit Quality

- Impaired mortgages decreased to $3.9 million from $4.9 million during Q2 2016.
- The impaired total mortgage ratio decreased to 0.14% from 0.20% during Q2 2016.
- The impaired corporate mortgage ratio decreased to 0.29% from 0.41% during Q2 2016.
- Total mortgage arrears decreased to $39 million from $43 million during Q2 2016.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 21.65% at June 30, 2016 on the transitional basis and 21.27% on the "all-in" basis compared to 22.38% and 22.03%, respectively, at March 31, 2016.
- Our leverage ratio was 10.01% at June 30, 2016 compared to 10.00% at March 31, 2016.
- Income tax asset capacity was $90 million at June 30, 2016 compared to $135 million at March 31, 2016.

Outlook

Canadian real estate markets continue to experience mixed conditions, as some regional economies adjust to the negative impact of weak oil prices on employment while other regional economies benefit from the lower Canadian dollar and employment strength in the manufacturing sector. The Canadian dollar has continued to weaken after oil futures decreased with the prospect of further drilling in the United States.

We expect financial markets to remain volatile for the second half of 2016, with fluctuations in stock markets as slowing global growth and volatility in international currencies impact corporate earnings and valuations. In Canada, the impact of a weak oil sector and soft commodity prices continues to impact a significant portion of the market. The manufacturing sector has been weak as sales declined 1.0% in May, which was the third decrease in five months. Manufacturing shipment volumes were down 2.1%, highlighting a lower level of activity during the month. Concerns over low or negative economic growth and increases in unemployment rates are expected to have a spillover effect on consumer confidence. The Canadian government's Child Benefit program will see spending growth in families eligible for payments.

Home sales remain strong in Toronto and Vancouver, where volumes continue to grow, prices are increasing and housing inventory levels remain low. Meanwhile, housing markets in the Prairie Provinces continue to experience declines in home sale volumes and weak prices as markets adjust to reduced demand caused by lower oil prices. The Fort McMurray fires have lengthened the duration of the forecasted negative economic outlook and have led to increased unemployment. Nearly one third of the recent rise in the Alberta unemployment rate occurred in the regional municipality of Wood Buffalo, which includes Fort McMurray. On a year-over-year basis, the overall number of employment insurance beneficiaries in Alberta has increased by 59%.

The Bank of Canada's forecasted GDP growth rates for Canada have been reduced to 1.7% for 2016 with expected moderation in the second half of the year. With relatively low levels of economic growth, the probability of increased interest and mortgage rates is low. We expect housing markets to continue to benefit from low mortgage rates and relatively stable employment in most of the country, with the exception of the Prairie Provinces. We expect housing sales, both new and resale, to decline moderately in the Prairie Provinces in 2016 due to weakness in demand and slow job growth.

We expect construction activity to moderate nationally, although British Columbia and Ontario are expected to benefit from strong net job growth caused by a weaker Canadian dollar and increased exports. Vancouver has become one of the most attractive places to invest in real estate globally, which helped to increase prices by 30% (approximately $200,000 per home) in just one year. The newly legislated 15% tax on non-resident real estate purchases is intended to help restore housing affordability for residents in the Metro Vancouver Area by raising non-residents' cost of purchasing and, on the margin, discouraging foreign speculation. The government intends to use some of these new tax revenues to help boost housing supply.

The key risks to the housing market are the prolonged slow, and possibly negative, economic growth and increases in regional unemployment rates. Global economic problems have proved to have a significant impact on Canada given its exposure to commodities. These factors could have a direct impact on the stability of the regional housing markets, particularly in Alberta and Saskatchewan. The impact of oversupply in local housing markets could lead to significant price volatility. We will continue to be diligent in monitoring the local housing markets in which we lend and will closely monitor our mortgage portfolio for early indicators of potential performance concerns.

We will continue to diversify and re-balance our portfolio to optimize return and lower our risk profile. For the year to date, our corporate asset portfolio has grown by 9% compared to our target growth rate of 10% per annum. We expect the moderation in our single family origination volumes to continue into the second half of 2016, as we tighten our underwriting criteria to address concerns of high levels of price inflation in Vancouver and Toronto.

Dividend Reinvestment Plan

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

Non-IFRS Measures

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

Further Information

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

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

The Company's primary objective is to generate a reliable stream of income by investing its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated tax basis in the MIC entity) as permitted by the Tax Act. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 100% of dividends, except for capital gains dividends, which are deducted at 50%. Such dividends are received by the shareholders as interest income and capital gains dividends, respectively.

MCAN's wholly-owned subsidiary, Xceed, focuses on the origination and sale to third party mortgage aggregators of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers.

MCAN is also an NHA MBS issuer.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

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

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