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Stock market symbol
TSX: MKP

MCAN MORTGAGE CORPORATION ANNOUNCES FOURTH QUARTER AND FISCAL 2018 RESULTS

Toronto, Ontario – February 22, 2019. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") announced net income of $3.5 million ($0.15 per share) for the fourth quarter ended December 31, 2018, down 67% from $10.8 million ($0.47 per share) in the fourth quarter of 2017. Net income for the fourth quarter of 2018 included a $4.2 million unrealized loss on marketable securities, which negatively impacted earnings per share by $0.17. Net income for fiscal 2018 was $36.3 million ($1.54 per share), a decrease of $3.6 million (9%) from $39.9 million ($1.72 per share) in 2017.

Highlights

Financial Performance

Q4 2018

- The aforementioned unrealized loss of $4.2 million consisted entirely of a reduction in the fair value of the real estate investment trust ("REIT") component of our marketable securities portfolio. Subsequent to year end, the value of the marketable securities portfolio recovered, consistent with the broader market. In Q4 2017, we recorded an unrealized gain on marketable securities of $2.3 million through accumulated other comprehensive income in accordance with IAS 39.
- Equity income from MCAP Commercial LP ("MCAP") decreased by $2.2 million (40%) from Q4 2017 due to a reduced ownership interest and compressed spreads, which were consistent with the broader market.
- Return on average shareholders' equity was 4.66% in Q4 2018 compared to 14.63% in Q4 2017.

Fiscal 2018

- Income from non-marketable securities decreased by $3.5 million (39%) from 2017 as a result of lower distribution income from our investment in Crown Realty II Limited Partnership ("Crown LP") as it sold the last remaining property in its opportunity fund.
- Equity income from MCAP decreased by $1.2 million (9%) from 2017 due to a reduction in our ownership interest from 14.41% in 2017 to 13.71% at December 31, 2018 and compressed spreads.
- Unrealized net loss on securities of $3.5 million relating to our marketable securities REIT portfolio, partially offset by $2.6 million and $0.4 million of realized and unrealized net gains on our investments in Crown LP and the KingSett High Yield Fund ("KSHYF").
- Return on average shareholders' equity was 11.90% in 2018 compared to 13.75% in 2017.
- Net corporate mortgage spread income increased by $0.9 million (3%) from 2017 due to the average corporate mortgage portfolio balance increasing by 2%. The spread of corporate mortgages over term deposits remained unchanged at 3.07% from 2017.

Corporate Activity

Q4 2018

- Corporate assets of $1.22 billion at December 31, 2018 decreased by $15 million (1%) from September 30, 2018.
- Corporate mortgage portfolio decreased by $43 million (4%) in Q4 2018, consisting of $20 million of net portfolio growth and the transfer of $63 million of insured single family to the securitized portfolio.
- Uninsured single family portfolio increased by $34 million (16%) during Q4 2018 due to a 53% increase in originations from Q3 2018.
- Insured single family portfolio increased by $35 million during Q4 2018 (excluding the impact of the transfer to the securitized portfolio noted above). New originations of $28 million decreased by $7 million from Q3 2018 but remained consistent with our growth strategy.
- Construction and commercial portfolios decreased by $53 million (9%) during Q4 2018, consistent with the moderation of our corporate portfolio in this product type.
- Corporate mortgage originations decreased to $86 million (8%) in Q4 2018 compared to $93 million in Q4 2017, including increases of $29 million and $12 million in uninsured and insured single family, offset by decreases in commercial originations of $33 million and construction originations of $20 million.

Fiscal 2018

- Corporate assets increased by $42 million (4%) from December 31, 2017, reflecting an increase of $59 million (7%) in the corporate mortgage portfolio.
- Corporate mortgage portfolio activity included increases of $57 million in uninsured single family, $42 million in construction and $31 million in insured single family, partially offset by decreases of $43 million in uninsured completed inventory and $28 million in commercial.
- Corporate mortgage originations increased by 32% to $391 million in 2018 from $295 million in 2017, including increases of $76 million and $55 million in uninsured and insured single family, respectively.

CEO Commentary

"Our corporate mortgage portfolio and net corporate mortgage spread income increased 7% and 3% respectively during 2018, despite market conditions," said Karen Weaver, Chief Executive Officer, Interim. "We continue to be focused on building our business and delivering a sustainable dividend to shareholders. As Interim CEO, it is a pleasure to lead a committed and talented executive team in achieving our objectives".

Dividend

- The Board of Directors (the "Board") declared a first quarter dividend of $0.32 per share on February 22, 2019 to be paid March 29, 2019 to shareholders of record as of March 15, 2019.

Credit Quality

- The impaired total mortgage ratio increased to 0.12% at December 31, 2018 from 0.03% at September 30, 2018 and 0.09% at December 31, 2017.
- The impaired corporate mortgage ratio increased to 0.23% at December 31, 2018 from 0.06% at September 30, 2018 and 0.20% at December 31, 2017.
- Total mortgage arrears were $16 million at December 31, 2018, down from $17 million at September 30, 2018 and $18 million at December 31, 2017.
- Net write-offs were nil basis points of the average corporate portfolio in Q4 2018 compared to 1.5 basis points in Q4 2017; annual ratios were 2.8 basis points of the average corporate portfolio in 2018 compared to 5.7 basis points in 2017.
- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 58.2% at December 31, 2018 compared to 57.1% at September 30, 2018 and 52.6% at December 31, 2017.

Capital

- Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 21.66% at December 31, 2018 compared to 20.58% at September 30, 2018 and 21.26% at December 31, 2017.
- The leverage ratio was 11.79% at December 31, 2018 compared to 11.35% at September 30, 2018 and 11.31% at December 31, 2017.
- The income tax assets to capital ratio was 4.64 at December 31, 2018 compared to 4.90 at September 30, 2018 and 4.60 at December 31, 2017.
- 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").

Outlook

Real Estate Market Conditions

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to both regulatory changes and local economic conditions. We expect overall Canadian housing market conditions to experience downward pricing pressure and uncertainty throughout 2019 with sustained headwinds if interest rates continue to rise, challenging affordability.

We expect continued weakness in resale markets through 2019 given recent increases in unsold homes in certain markets. This has also led to a reduction in housing starts. In October 2018, the Bank of Canada announced a further increase to its benchmark interest rate to 1.75%. We expect interest rates to continue to increase throughout 2019, placing further pressures on consumer spending and housing/mortgage affordability.

Both the Greater Vancouver Area and the Greater Toronto Area markets experienced reduced sales during 2018 as a result of the new mortgage rules, other statutory changes designed to cool the housing markets and overall mortgage and housing market dynamics. The Prairie province economies are expected to continue to be challenged due to oil prices and the complexities in moving oil to markets.

Notwithstanding the above, we began to observe some small signs of recovery beginning in the second half of 2018 as buyers continued to adjust to the new mortgage rules and the increasing interest rate environment. We continue to closely monitor the markets where we lend to ensure that we can capitalize on opportunities for growth in our quality portfolio.

Regulatory Changes

Effective January 1, 2018, additional granularity was added to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20") by OSFI, including a stress test for uninsured mortgages. We believe that the uninsured stress test has reduced the volume of mortgages that we approve based on the borrower's ability to service the higher mortgage rates used in the stress test.

Impact on MCAN

MCAN has historically repositioned itself to adapt our portfolio to changing market dynamics. Consistent with our disclosures in the Second Quarter and Third Quarter outlooks, we continue to reposition our mortgage portfolio to focus more on single family mortgages and less on construction lending given the uncertainty in the housing market, the impact of increasing rates, the overall economy and related risk factors.

Our construction lending activity is considered to have a higher risk profile compared to our other lending activities. We believe that it is prudent to continue to closely manage lending activities in this business segment as we view that we are approaching the end of a real estate cycle. We believe that single family lending typically provides a more moderate risk profile. Accordingly, we will focus on leveraging the success that we had in this market during the last half of 2018 and continue to grow our single family origination volumes in 2019.

To assist with our single family growth plans, we launched programs to attract potential loans through the brokerage community and we increased our internal sales capabilities. In addition, through MCAP and other originators, we have increased our single family mortgage acquisitions. We expect to continue to use acquisitions to supplement our own underwriting activities to grow our balance sheet. These acquisition activities are subject to satisfactory loan quality and pricing. We also expect to continue to increase our securitization of insured single family mortgages. All of these single family activities provide the Company with the opportunity to realize a continuing income stream on mortgage renewal which improves long-term profitability notwithstanding the current mortgage spread environment.

We observed historically low spread levels on our single family mortgage originations in 2018 and foresee this continuing into 2019 as we compete with other lenders for originations. Notwithstanding these competitive market conditions, increased interest rates and the regulatory changes related to Guideline B-20, we are focused on growing our origination volumes. We also expect to continue to invest in sustainable internal operating platforms to ensure that there are efficient processes and systems in place to support profitable growth in our single family business that is in line with our risk management objectives.

As we look to maintain the level of our investment in construction and commercial loans during 2019, while at the same time growing the single family business, we do not expect significant growth in our net interest margins in the near term. Beyond 2019, we expect to return to our targeted long-term growth rate in corporate assets of 10% and to realize improved increases in net interest margin.

We are starting 2019 with a strong capital position and asset capacity that can be profitably deployed as opportunities arise. We have an eager and committed management team that we announced in the fourth quarter. Collectively, the team has deep industry and company experience and is focused on driving our business strategy forward. Overall, we believe that our strategy in the near term is prudent given our view of the current risks to the Canadian economy and housing markets. Over the long term we are focused on growing our balance sheet and providing growing returns and sustainable dividends to our shareholders.

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 9, 2018 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 MD&A: Return on Average Shareholders' Equity, Taxable Income, Taxable Income Per Share, Average Interest Rate, Average Balance, Net Interest Income, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1 and Total Capital Ratios, Total Exposures, Regulatory Assets, Leverage Ratio, Risk Weighted Asset 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 2018 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 ("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 Tax Act.

The Company's objective is to generate a reliable stream of income by investing its funds 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 eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We manage our capital and asset balances based on the regulations and limits of both the Tax Act and OSFI. 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 50% of capital gains dividends and 100% of non-capital gains dividends that are paid to shareholders. Such dividends are taxed in the hands of our shareholders as capital gains dividends and interest income, respectively, to the extent that they are held in a non-registered plan. Dividends paid to foreign investors may be subject to withholding taxes.

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

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

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

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

The material factors or assumptions that 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:

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

Reliance should not be placed on forward-looking 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 Canada Mortgage Bonds ("CMB") and mortgage-backed securities ("MBS") spreads and swap rates;
- MBS and mortgage prepayment rates;

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

Subject to applicable securities law requirements, we undertake no obligation to publicly update or revise any forward-looking information after the date of this press 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.