PRESS RELEASE
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Stock market symbol
TSX: MKP

MCAN MORTGAGE CORPORATION ANNOUNCES SECOND QUARTER RESULTS AND 24% INCREASE IN NET INCOME

Toronto, Ontario – August 9, 2018. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") announced net income of $11.1 million ($0.47 per share) for the second quarter ended June 30, 2018, up 24% from $8.9 million ($0.39 per share) in the second quarter of 2017.

Highlights

Financial Performance

Q2 2018

- Return on average shareholders' equity was 14.54% in Q2 2018 compared to 12.37% in Q2 2017.
- Recognized a $3.3 million unrealized gain on financial instruments (consisting of marketable securities and financial investments) in Q2 2018. IFRS 9, *Financial Instruments*, which was adopted effective January 1, 2018, requires unrealized gains and losses on equities to be recorded through net income. Prior period financial information was governed by IAS 39, *Financial Instruments: Recognition and Measurement*, which required unrealized gains and losses on equities to be recorded through other comprehensive income. Prior period financial information was not restated on adoption of IFRS 9.

Year to Date 2018

- For 2018 year to date, we earned net income of $21.7 million, up $2.5 million (13%) from $19.2 million in 2017.
- Earnings per share were $0.92 for 2018 year to date, up $0.09 (11%) from $0.83 in 2017.
- Return on average shareholders' equity was 14.32% for 2018 year to date compared to 13.37% in 2017.

Dividend

- The Board of Directors (the "Board") declared a third quarter dividend of $0.37 per share to be paid on September 28, 2018 to shareholders of record as of September 14, 2018.

Corporate Activity

- Corporate assets, which totalled $1.21 billion at June 30, 2018, increased by $90 million (8%) from March 31, 2018.
- Corporate mortgage portfolio increased by $60 million (7%) during Q2 2018 to $919 million from $859 million, which included increases of $50 million in insured single family, $25 million in construction loans and $7 million in uninsured single family, partially offset by a decrease of $24 million in commercial loans.
- Corporate mortgage originations increased to $112 million in Q2 2018 from $94 million in Q2 2017, including increases of $20 million in insured single family and $19 million in uninsured single family.

Credit Quality

- Impaired total mortgage ratio decreased significantly to 0.02% at June 30, 2018 from 0.10% at March 31, 2018.
- Impaired corporate mortgage ratio decreased to 0.03% at June 30, 2018 from 0.22% at March 31, 2018.

- Total mortgage arrears were $21 million at June 30, 2018, compared to $19 million at March 31, 2018. The June 30, 2018 balance consists entirely of single family mortgages, $3.8 million of which were uninsured.
- Net write-offs were 10.6 basis points of the average corporate portfolio in Q2 2018 compared to 4.7 basis points in Q2 2017.
- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 56.9% at June 30, 2018 compared to 53.1% at March 31, 2018.

Capital

- Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 21.47% at June 30, 2018 compared to 21.29% at March 31, 2018.
- Leverage ratio was 11.55% at June 30, 2018 compared to 11.74% at March 31, 2018.
- Income tax asset capacity was $293 million at June 30, 2018 compared to $356 million at March 31, 2018. This balance represents the additional amount of corporate assets in which we could invest within the rules of the *Income Tax Act (Canada)* (the "Tax Act") that govern leverage for mortgage investment corporations.

Outlook

Regulatory Changes

Effective January 1, 2018, significant changes were implemented to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* by OSFI. While creating uncertainty in terms of the number of borrowers that qualify for new mortgages, these new stress tests provide for an improvement in the quality of newly originated mortgages. We estimate that the uninsured stress test has impacted approximately 10-15% of mortgages that we underwrite based on the borrower's ability to service the higher mortgage rates used in the stress test, and will continue to have some impact on the proportion of mortgages that we approve.

Real Estate 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 Canadian housing market conditions to experience volatility and uncertainty in 2018 and continue to face headwinds as consumers face a rising interest rate environment, making mortgages less affordable.

We expect home sale levels to partially recover in Ontario in the second half of the year as buyers adjust to the multiple rule changes. We have seen significant increases in the number of days that resale home listings are on the market and notable decreases in sales volumes. We expect to see some level of weakness in resale markets as markets adjust to fewer buyers. Similar to the Greater Vancouver Area ("GVA") market in 2017, the Greater Toronto Area ("GTA") market has experienced lower sales in the first half of 2018 as a result of the announced mortgage rule changes, and we expect to see some level of recovery in the second half of 2018.

We expect the GVA to experience reduced sales activity in the second half of 2018 as buyers become less active in the market, allowing the supply of homes for sale to accumulate to levels higher than the last few years. Notwithstanding the above, there continues to be a lack of inventory in this market, which has and which we believe will continue to push prices upward.

The Prairie Provinces are expected to continue to demonstrate stabilization following the strengthening of oil prices. We expect to see more lending opportunities in this market as conditions continue to improve.

Given the recent increase in unsold homes in the resale market that we have seen, we expect to observe some weakness in construction markets in the near future.

Impact on MCAN

MCAN has historically repositioned itself during times of uncertainty to adapt its portfolio to changing market dynamics. At this time, we have decided to reposition our mortgage portfolio to focus more on single family mortgages and less on construction lending over future periods, given the uncertainty in the housing market, the economy and related risk factors.

Our construction lending activity is considered a higher risk lending activity, and we believe that it is prudent to moderate lending activities in this business segment as we are currently seeing sales levels and property values weaken in the construction housing market. Comparatively, we believe that the single family business provides a more moderate risk profile as we enter into more uncertain times with respect to the housing market and the economy as a whole. Accordingly, we will focus on further growth in uninsured single family origination volumes in comparison to the volumes from the past two years.

To assist with our single family growth plans, we have been reviewing the launch of new single family products through XMC Mortgage Corporation ("XMC") and we have recommenced our program of acquiring uninsured single family mortgages from third parties. Through MCAP and other originators, we have accelerated discussions to acquire additional single family mortgages.

Given the competitive market conditions for single family lending market and the recent regulatory changes related to OSFI Guideline B-20, we believe that there will be some challenge in originating adequate volumes to grow the single family portfolio. Additionally, we expect to experience competitive mortgage rate pressures in our single family lending business as we compete with other lenders for market share. As a result of this rebalancing, we expect to observe a reduction in historical spread levels and economics in our mortgage portfolio. We expect to add additional resources and invest in new systems to ensure that there are sufficient processes and monitoring in place to support this growth and rebalancing. Collectively, we believe that this strategy may impact our net interest margins, while at the same time we believe that it will increase the strength of our balance sheet and improve our internal operating capabilities.

Our corporate assets have increased by 3% year to date, compared to our stated annual growth target of 10%. After experiencing a 5% decrease in the first quarter of the year, our corporate balance sheet achieved growth of 8% during the second quarter. We maintain our stated annual growth target for corporate assets of 10% per annum, as we believe that this target provides our shareholders with a measure of the long term expected pace of annual growth for the Company. As market conditions change, we may choose to deviate from this target to exercise prudent risk management, or should an appropriate opportunity arise, we may choose to exceed it. We currently have $293 million of available income tax asset capacity to take advantage of market opportunities.

As uncertainty in the current market evolves, we believe that our strong capital position and asset capacity can be deployed if and when opportunities arise. Overall, we believe that our strategy in the near term is prudent given the current state of the economy and housing markets.

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/investor-relations/investor-materials.

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 2018 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, XMC, is an originator of residential first-charge mortgage products across Canada. As such, XMC 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 CMB and MBS spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- availability of CMB and 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.