

**Stock market symbol
TSX: MKP**

MCAN MORTGAGE CORPORATION ANNOUNCES THIRD QUARTER EARNINGS

Toronto, Ontario – November 10, 2017. MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”) reported Q3 2017 net income of \$9.9 million, up from \$9.8 million in Q3 2016. Earnings per share decreased to \$0.42 in Q3 2017 from \$0.43 in Q3 2016.

Highlights

Net Income

Q3 2017

- Net income was \$9.9 million in Q3 2017, an increase of \$0.1 million (1%) from \$9.8 million in Q3 2016.
- Earnings per share decreased by \$0.01 (2%) to \$0.42 in Q3 2017 from \$0.43 in Q3 2016.
- Return on average shareholders’ equity was 13.63% in Q3 2017 compared to 14.08% in Q3 2016.

Year to Date 2017

- For 2017 year to date, we earned net income of \$29.1 million, a decrease of \$2.1 million (7%) from \$31.2 million in 2016.
- Earnings per share decreased by \$0.11 (8%) to \$1.25 per share for 2017 year to date from \$1.36 per share in 2016.
- Return on average shareholders’ equity was 13.45% for 2017 year to date compared to 15.36% in 2016.
- The decrease in net income for 2017 year to date was primarily due to lower corporate mortgage interest, equity income from MCAP Commercial LP (“MCAP”) and fees, partially offset by higher distribution income recognized from our investment in the Crown Realty II Limited Partnership (“Crown LP”).

Dividend

- On October 13, 2017, the Board of Directors (the “Board”) declared a 15.6% increase to the quarterly dividend from \$0.32 per share to \$0.37 per share effective with the 2017 fourth quarter dividend to be paid on January 2, 2018 to shareholders of record as of December 15, 2017.

Corporate Activity

- Corporate assets totalled \$1.15 billion at September 30, 2017, a net decrease of \$53 million from \$1.20 billion at June 30, 2017. Q3 2017 activity included decreases of \$45 million in mortgages and \$12 million in cash.
- The corporate mortgage portfolio decreased by \$45 million during Q3 2017 to \$867 million from \$912 million, which included decreases of \$19 million in construction loans, \$14 million in uninsured single family and \$8 million in commercial loans.
- For 2017 year to date, corporate assets have decreased by \$41 million (3%), consisting primarily of a decrease of \$37 million in corporate mortgages.

Credit Quality

- Impaired mortgages improved to \$3.5 million from \$4.4 million during Q3 2017.
- The impaired total mortgage ratio increased to 0.14% from 0.12% during Q3 2017.
- The impaired corporate mortgage ratio increased to 0.31% from 0.27% during Q3 2017.
- Total mortgage arrears improved to \$19 million from \$22 million during Q3 2017. The September 30, 2017 balance consists entirely of single family mortgages, \$7.4 million of which were uninsured.
- Net write-offs were 4.3 basis points of the average corporate portfolio in Q3 2017 compared to nil in Q3 2016. Year to date write-offs were 7.0 basis points in 2017 and 2.7 basis points in 2016.
- The average loan to value ratio (“LTV”) of our uninsured single family portfolio based on an industry index of current real estate values was 51.1% at September 30, 2017 compared to 53.7% at June 30, 2017.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 21.58% on the transitional basis and 21.34% on the “all-in” basis at September 30, 2017 compared to 21.69% and 21.47%, respectively, at June 30, 2017.
- Our leverage ratio was 11.31% as at September 30, 2017 compared to 10.82% at June 30, 2017.
- Income tax asset capacity was \$313 million at September 30, 2017 compared to \$243 million at June 30, 2017. 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

Market conditions

Housing markets continue to face headwinds as a result of recent regulations enacted by the federal and provincial governments to cool down real estate markets and mortgage lending in Canada. Consumers are also facing a rising interest rate environment. After two interest rate hikes in July and September, the Bank of Canada is expected to take a “wait and see” approach in considering future interest rate increases.

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to local economic conditions. The Prairie Provinces continue to demonstrate weakness as oil prices remain low, which is negatively impacting employment. Other regional economies previously benefited from the lower Canadian dollar, which helped to strengthen employment in the manufacturing sector. These regional economies now face a strengthening Canadian dollar while a strong Canadian GDP supports higher interest rates.

Ontario and British Columbia have continued to exhibit strong fundamentals, with GDP growth driven by exports and immigration. We continue to focus our origination in Ontario and British Columbia and selectively lend in Alberta.

Recently announced increases in immigration levels by the federal government are expected to positively impact housing markets, particularly those that are supply-constrained such as Toronto and Vancouver.

Real estate conditions

Canadian housing market conditions are expected to be volatile through the remainder of the year. Markets are adjusting to an unprecedented level of regulatory and policy changes affecting mortgage insurance rules, foreign buyer taxes, underwriting requirements for regulated lenders and rising interest rates. It will take 6 to 12 months to see the full impact of these changes on housing sale volumes and prices. We expect home sale levels to slow as buyers react to the uncertainty caused by the multiple rule changes, the evidence of increases in listings and decreases in sales volumes. We expect to see some level of weakness in resale markets as markets adjust to fewer buyers and more available listings.

Actual sales activity was down 11% in September 2017 compared to the record month in September in 2016. Sales were down year over year in close to three quarters of all local markets, led by the Greater Toronto Area and nearby local markets. Despite this decline in sales activity, year over year price inflation rose by 10.7% in September 2017.

The Greater Toronto Area (“GTA”) saw existing home sales decrease by over 50% in the first half of the year following the Government of Ontario’s announced reforms to rental and housing markets (see below). We expect the negative impact of the announced changes to be short lived, similar to what occurred in the Greater Vancouver market. There was some evidence of sales level recovery in the GTA in September and October. The GTA still has near record lows in available new home lots and the lowest levels of available new homes in over 15 years.

Vancouver has recovered to more normal levels of home sales and is experiencing price inflation, although at levels below those experienced before the implementation of the 15% tax on non-resident real estate purchases enacted in mid-2016. While we expect to see lower levels of resale homes for the remainder of the year in both Toronto and Vancouver, we expect the impact on new home sales to be minimal due to lot supply shortages and relatively low mortgage rates.

We believe that there is an increased risk of a price correction in residential housing through the remainder of the year and into 2018 as prices adjust from historical highs in many geographic markets. We will continue to operate with more conservative underwriting and credit policies for uninsured mortgages through this market transition.

Regulatory Changes

In October 2017, the Office of the Superintendent of Financial Institutions Canada (“OSFI”) published in final form the revised Guideline B-20, Residential Mortgage Underwriting Practices and Procedures which comes into effect on January 1, 2018. We expect that our existing underwriting standards will align with the new B-20 guidelines. The new B-20 guidelines also require a 200 basis point stress test on the borrower qualifying rate, which will further enhance credit protection on newly originated mortgages. We expect this stress test to cause a small decrease in the proportion of mortgages that we approve. This increase in the qualifying rate on uninsured mortgages will have the largest impact on mortgage origination activity.

The prime insured mortgage market decreased this year, as reported by CMHC in Q2. This is a result of the cumulative effect of new mortgage insurance rules, the increased cost of portfolio insurance and the foreign buyers’ tax in Vancouver and the Greater Golden Horseshoe of Ontario. We have been affected by these rules, as insured mortgage rates have been stable due to increased competition amongst lenders despite the recent Bank of Canada interest rate hikes.

Impact on MCAN

We will continue to monitor housing markets and market developments as they evolve, and will continue to ensure that our mortgage portfolio remains well positioned. Our corporate assets have decreased by 3% year to date, compared to our stated annual growth target of 10%. As a result of the current uncertainty in mortgage markets, we believe that we will not achieve this target in 2017. However, we continue to maintain this as our ongoing target as a measure of our expected annualized growth objective into 2018 and beyond. We expect to continue to make adjustments to the composition of our balance sheet as we evaluate the risks and rewards of each of our product lines in the geographic markets we lend to. Given our available asset capacity, the market repositioning and changing rules, we feel that we are well positioned to capitalize on the single family uninsured asset class by way of internal originations or from mortgage acquisitions in the upcoming year. Considering the factors noted above, we currently believe that our financial position will continue to provide taxable income to support our dividend policy.

KingSett’s announcement during Q2 regarding its agreement to acquire \$1.2 billion in commercial mortgages from Home Capital has had and may continue to have a positive impact on future income from our investment in the KingSett High Yield Fund. During the quarter, we funded an additional \$5.1 million of our capital commitment relating to our investment in the High Yield Fund.

We continue to evaluate the impact of regulatory changes on the market and MCAN. We believe that it will require 6-12 months to see the impact of these changes on construction, home sales, and mortgage volumes. MCAN has made significant changes to its underwriting procedures over the past 18 months and we believe that we are well positioned against the regulatory changes outlined above, and do not expect a material impact to our financial results. We believe that MCAN is well positioned to adapt to changes in mortgage 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 10, 2017 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 2017 Third 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 Mortgage Corporation (“XMC”) (formerly Xceed Mortgage Corporation), 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. We renamed the subsidiary to XMC as of September 1, 2017.

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.