



## MCAN FINANCIAL GROUP ANNOUNCES Q2 2023 RESULTS AND INCREASES ITS REGULAR CASH DIVIDEND NEARLY 6%

**Toronto, Ontario - August 8, 2023.** MCAN Mortgage Corporation d/b/a MCAN Financial Group ("MCAN", the "Company" or "we") (TSX: "MKP") reported net income of \$15.9 million (\$0.46 earnings per share) for the second quarter of 2023, an increase from net income of \$4.1 million (\$0.13 earnings per share) in the second quarter of 2022. Second quarter 2023 return on average shareholders' equity<sup>1</sup> was 12.47% compared to 3.75% for the same period in the prior year. Year to date 2023, we reported net income of \$39.2 million (\$1.13 earnings per share), an increase from net income of \$19.6 million (\$0.64 earnings per share) for the same period in the prior year. Year to date 2023 return on average shareholders' equity<sup>1</sup> was 15.51% compared to 8.94% for the same period in the prior year. We reported higher total net income mainly as a result of higher net corporate mortgage spread income. Our net corporate mortgage spread income<sup>1</sup> increased by \$8.0 million for the current quarter and \$17.1 million for the current year to date compared to the same periods in the prior year. While the economy continues to change and provide uncertainty, we are committed to a strategy of managing controllable factors to protect our bottom line and taking advantage of opportunities that arise.

The Board of Directors declared a third quarter regular cash dividend of \$0.38 per share (an increase of nearly 6% from our second quarter 2023 dividend). The dividend will be paid on September 29, 2023 to shareholders of record as of September 15, 2023. As a mortgage investment corporation, we pay out all of our taxable income to shareholders through dividends. At this time, we expect to have taxable income per share greater than our regular cash dividends per share for 2023 due to our strong year to date results and, therefore, we anticipate distributing a special dividend in the first quarter of 2024.

"Our 2023 results so far are very strong driven by our core lending business. We have built a strong portfolio and I am proud to say that this was accomplished all while closely navigating and monitoring market conditions, credit quality and other economic factors that could impact our business. We provide our shareholders with a unique opportunity to invest in various channels of the Canadian real estate landscape and our assets are resilient through various economic cycles and, therefore, our financial performance over the long term as well," said Derek Sutherland, Interim Chief Executive Officer. "The culture we have nurtured at MCAN is foundational to our exceptional performance and inspires the transformative creativity that drives opportunity and continued growth. We look to continue to improve our market position as we continue to invest in communities and homes for Canadians."

### Highlights

- Corporate assets totalled \$2.62 billion at June 30, 2023, a net increase of \$336 million (15%) from December 31, 2022:
- Construction and commercial mortgages totalled \$1.06 billion at June 30, 2023, a net increase of \$134 million (14%) from December 31, 2022. Year to date 2023, the positive movement in the construction and commercial portfolios is attributed to originations of \$276 million in new construction and commercial mortgages, partially offset by maturities and repayments.
- Uninsured residential mortgages totalled \$906 million at June 30, 2023, a net increase of \$78 million (9%) from December 31, 2022. Uninsured residential mortgage originations totalled \$177 million year to date 2023, a decrease of \$71 million (29%) from the same period in 2022. We actively manage origination volumes in order to protect our net interest margins and our bottom line. Volumes were also slower in the first part of 2023 as a result of general market conditions, with many Canadians electing not to participate in the housing market given higher rates and inflation, and uncertainty on further Bank of Canada rate hikes. However, we have seen an increase in our uninsured residential mortgage renewals with \$258 million year to date 2023 compared to \$200 million year to date 2022 as borrowers find it more convenient to stay with their current lender in the current market environment.
- Non-marketable securities totalled \$107 million at June 30, 2023, an increase of \$10 million (10%) from December 31, 2022 with \$80 million of remaining capital advances expected to fund over the next five years.
- Marketable securities totalled \$50 million at June 30, 2023, a net decrease of \$4 million (7%) from December 31, 2022 due to net unrealized fair value losses. In 2023, we saw a decline in REIT stocks from the uncertain interest rate and macroeconomic environment.
- Securitized mortgages totalled \$1.75 billion at June 30, 2023, a net increase of \$4 million (0.2%) from December 31, 2022. Insured residential mortgages totalled \$245 million at June 30, 2023, a net increase of \$100 million (69%) from December 31, 2022.
  - Overall, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages. Insured residential mortgage originations totalled \$211 million year to date 2023, a decrease of \$162 million (43%) from the same period in 2022. This includes \$22 million of insured residential mortgage commitments originated and sold compared to \$97 million in 2022. Insured residential mortgage securitizations totalled \$87 million year to date 2023, a decrease of \$171 million (66%) from the same period in 2022. We use various channels in funding the insured residential mortgage portfolio, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

## Financial Update

- Net corporate mortgage spread income<sup>1</sup> increased by \$8.0 million for Q2 2023 from Q2 2022 and increased \$17.1 million for year to date 2023 from year to date 2022 mainly due to a higher average corporate mortgage portfolio balance from continued net mortgage originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses mainly from our floating rate residential construction mortgages. That said, we have also successfully focused on and achieved increasing our net spread from our uninsured residential mortgage originations. On the term deposit side, we have had a greater focus on raising shorter duration deposits, therefore resulting in a smaller increase in our average term deposit rates. Compared to Q1 2023, we saw average term deposit rates generally exceeding the pace of increase in our mortgage portfolio due to new term deposit originations at higher current rates and the maturity of lower-rate term deposits.
- Net securitized mortgage spread income<sup>1</sup> decreased by \$0.1 million for Q2 2023 from Q2 2022 and decreased \$0.6 million for year to date 2023 from year to date 2022 mainly due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. Since 2022, we have seen the spread of securitized mortgages over liabilities decline on securitizations mainly as a result of higher securitization liability interest expense from higher Government of Canada bond yields in a rising interest rate environment; however, we are beginning to see wider spreads due to a decrease in Government of Canada bond yields.
- For Q2 2023, we had a provision for credit losses on our corporate mortgage portfolio of \$0.8 million compared to a provision for credit losses of \$0.4 million in Q2 2022. For year to date 2023, we had a provision for credit losses on our corporate mortgage portfolio of \$2.0 million compared to a recovery of credit losses of \$0.8 million for year to date 2022. For year to date 2023, the provision was due to (i) one commercial loan where an asset recovery program has been initiated and we expect to recover all past due principal and interest; (ii) model enhancements; (iii) growth in our portfolio; and (iv) uncertainty regarding the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. These were partially offset by more favourable underlying economic forecasts, particularly around expected housing price index growth.
- Equity income from MCAP Commercial LP totalled \$5.3 million in Q2 2023, a decrease of \$1.0 million (16%) from \$6.3 million in Q2 2022, and totalled \$13.3 million for year to date 2023, an increase of \$1.8 million (15%) from \$11.5 million year to date 2022. For year to date 2023, the increase was due to (i) higher securitized mortgage interest income from higher securitization volumes; (ii) higher servicing and administration income from higher assets under management; and (iii) higher investment revenue from higher average mortgage rates. These were partially offset by (i) lower mortgage origination fees from lower whole loan sale volumes; (ii) lower financial instrument gains due to the interest rate environment; (iii) higher interest expense on warehousing and repurchase facilities; (iv) higher securitization expense from higher securitization volumes; and (v) higher operating costs from higher headcount and project expenses.
- In Q2 2023, we recorded a \$5.0 million net unrealized loss on securities compared to a \$9.9 million net unrealized loss on securities in Q2 2022. Year to date net unrealized loss on securities was \$4.0 million for 2023 compared to a year to date net realized and unrealized loss on securities of \$8.7 million for 2022. In 2023, we saw a decline in REIT stocks from the uncertain interest rate and macroeconomic environment. Year to date, we received distributions of \$2.1 million (distribution yield<sup>1</sup> of 6.62%) from our REITs compared to \$1.8 million (distribution yield<sup>1</sup> of 5.77%) in 2022.

## Credit Quality

- Impaired corporate mortgage ratio<sup>1</sup> was 1.70% at June 30, 2023 compared to 1.92% at March 31, 2023 and 1.66% at December 31, 2022. At June 30, 2023, we have two impaired construction mortgages and one commercial loan where asset recovery programs have been initiated and we expect to recover all past due interest and principal.
- Impaired total mortgage ratio<sup>1</sup> was 0.96% at June 30, 2023 compared to 1.05% at March 31, 2023 and 0.89% at December 31, 2022.
- Arrears total mortgage ratio<sup>1</sup> was 1.73% at June 30, 2023 compared to 1.57% at March 31, 2023 and 1.57% at December 31, 2022. The increase in the arrears total mortgage ratio is primarily due to 1-30 day arrears of uninsured residential mortgages where the bulk of these arrears are resolved and do not migrate to arrears categories over 30 days. We closely monitor and actively manage these arrears.
- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 67.4% at June 30, 2023 compared to 64.7% at March 31, 2023 and 62.1% at December 31, 2022.

## Capital

- We have a Prospectus Supplement to our Base Shelf prospectus establishing an at-the-market equity program ("ATM Program") to issue up to \$30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. This Prospectus Supplement expires in October 2023. We intend to renew the Prospectus Supplement. The volume and timing of distributions under the ATM Program will be determined at our sole discretion. During Q2 2023, we sold 45,100 common shares at a weighted average price of \$15.96 for gross proceeds of \$720 thousand and net proceeds of \$688 thousand including \$14 thousand of agent commission paid and \$16 thousand of other share issuance costs under the ATM Program. Year to date 2023, we sold 53,400 common shares at a weighted average price of \$15.82 for gross proceeds of \$845 thousand and net proceeds of \$771 thousand including \$17 thousand of agent commission paid and \$56 thousand of other share issuance costs under the ATM Program.

- We issued \$3.6 million in new common shares in Q2 2023 (Q2 2022 - \$2.0 million) and \$10.5 million year to date 2023 (year to date 2022 - \$5.4 million) through the Dividend Reinvestment Plan (“DRIP”). The DRIP participation rate for the 2023 second quarter dividend was 29% (2023 first quarter - 29%; 2022 second quarter - 17%). 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.
- Income tax assets to capital ratio<sup>3</sup> was 5.22 at June 30, 2023 compared to 5.02 at March 31, 2023 and 4.93 at December 31, 2022.
- Common Equity Tier 1 (“CET 1”) and Tier 1 Capital to risk-weighted assets ratios<sup>2</sup> were 17.90% at June 30, 2023 compared to 19.59% at March 31, 2023 and 19.60% at December 31, 2022. Total Capital to risk-weighted assets ratio<sup>2</sup> was 18.14% at June 30, 2023 compared to 19.81% at March 31, 2023 and 19.83% at December 31, 2022. Leverage ratio<sup>2</sup> was 9.71% at June 30, 2023 compared to 9.94% at March 31, 2023 and 9.83% at December 31, 2022. At June 30, 2023, our total capital and leverage ratios decreased due to Office of the Superintendent of Financial Institutions Canada’s revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

<sup>1</sup> Considered to be a non-GAAP and other financial measure. For further details, refer to the “Non-GAAP and Other Financial Measures” section of this new release. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

<sup>2</sup> These measures have been calculated in accordance with OSFI’s Leverage Requirements and Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.

<sup>3</sup> Tax balances are calculated in accordance with the Tax Act.

## **Further Information**

Complete copies of the Company’s 2023 Second Quarter Report will be filed on the System for Electronic Document Analysis and Retrieval (“SEDAR+”) at [www.sedarplus.ca](http://www.sedarplus.ca) and on the Company’s website at [www.mcanfinancial.com](http://www.mcanfinancial.com).

For our Outlook, refer to the “Outlook” section of the 2023 Second Quarter Report.

*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 residential mortgages, 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. MCAN is **Investing in Communities and Homes for Canadians**.*

*For how to enroll in the DRIP, please refer to the Management Information Circular dated March 13, 2023 or visit our website at [www.mcanfinancial.com/investors/regulatory\\_filings/dividends-historical](http://www.mcanfinancial.com/investors/regulatory_filings/dividends-historical). 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, please contact:

### **MCAN Financial Group**

Website: [www.mcanfinancial.com](http://www.mcanfinancial.com)

e-mail: [mcanexecutive@mcanfinancial.com](mailto:mcanexecutive@mcanfinancial.com)

Derek Sutherland  
Interim Chief Executive Officer  
(416) 203-5931

Floriana Cipollone  
Senior Vice President and Chief Financial Officer  
(416) 591-5204

## Non-GAAP and Other Financial Measures

This news release references a number of non-GAAP and other financial measures and ratios to assess our performance such as return on average shareholders' equity, net corporate mortgage spread income, net securitized mortgage spread income, impaired corporate mortgage ratio, impaired total mortgage ratio, and arrears total mortgage ratio. These measures are not calculated in accordance with International Financial Reporting Standards ("IFRS"), are not defined by IFRS and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. These metrics are considered to be non-GAAP and other financial measures and are incorporated by reference and defined in the "Non-GAAP and Other Financial Measures" section of our 2023 Second Quarter Management's Discussion and Analysis of Operations ("MD&A") available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). Below are reconciliations for our non-GAAP financial measures included in this news release using the most directly comparable IFRS financial measures.

### *Net Corporate Mortgage Spread Income*

Non-GAAP financial measure that is an indicator of net interest profitability of income-earning assets less cost of funding for our corporate mortgage portfolio. It is calculated as the difference between corporate mortgage interest and term deposit interest and expenses.

(in thousands)	Q2	Q2	Change	YTD	YTD	Change
For the Periods Ended June 30	2023	2022	(\$)	2023	2022	(\$)
Mortgage interest - corporate assets	\$ 38,691	\$ 22,815		\$ 74,447	\$ 43,323	
Term deposit interest and expenses	18,034	10,185		32,775	18,703	
<b>Net Corporate Mortgage Spread Income</b>	<b>\$ 20,657</b>	<b>\$ 12,630</b>	<b>\$ 8,027</b>	<b>\$ 41,672</b>	<b>\$ 24,620</b>	<b>\$ 17,052</b>

### *Net Securitized Mortgage Spread Income*

Non-GAAP financial measure that is an indicator of net interest profitability of income-earning securitization assets less cost of securitization liabilities for our securitized mortgage portfolio. It is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization.

(in thousands)	Q2	Q2	Change	YTD	YTD	Change
For the Periods Ended June 30	2023	2022	(\$)	2023	2022	(\$)
Mortgage interest - securitized assets	\$ 9,342	\$ 7,598		\$ 18,410	\$ 14,855	
Interest on financial liabilities from securitization	7,524	5,633		15,025	10,882	
<b>Net Securitized Mortgage Spread Income</b>	<b>\$ 1,818</b>	<b>\$ 1,965</b>	<b>\$ (147)</b>	<b>\$ 3,385</b>	<b>\$ 3,973</b>	<b>\$ (588)</b>

## 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, economic environment and outlook;
- the impact of global health pandemics on the Canadian economy and globally;
- 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;
- the performance of our investments;
- factors affecting our competitive position within the housing lending market;
- international trade, international economic uncertainties, failures of international financial institutions and geopolitical uncertainties and their impact on the Canadian economy;
- sufficiency of our access to liquidity and capital resources;
- the timing and 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;
- factors and assumptions regarding interest rates, including the effect of Bank of Canada actions already taken;
- the effect of supply chain issues;
- the effect of inflation;
- housing sales and residential mortgage borrowing activities;
- the effect of household debt service levels;
- the effect of competition;
- systems failure or cyber and security breaches;
- the availability of funding and capital to meet our requirements;
- investor appetite for securitization products;
- 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, and market conditions relating to, our equity and other investments.

External conflicts such as the Russia/Ukraine conflict, failures of international financial institutions, and post-pandemic government and Bank of Canada actions taken, have resulted in uncertainty relating to the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, supply chain issues, inflation, levels of housing activity and household debt service levels. There can be no assurance that such expectations, estimates, projections, assumptions and beliefs will continue to be valid. The impact any further pandemics, variants or outbreaks, including measures to prevent their spread and related government actions adopted in response thereto, will have on our business is uncertain and difficult to predict.

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 risk that any of the above opinions, estimates or assumptions are inaccurate and the other risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2022, our 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.