

# FIRST NATIONAL

FINANCIAL INCOME FUND



**For Immediate Release**

**NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR FOR DISSEMINATION IN THE U.S.**

## **FIRST NATIONAL REPORTS RECORD FOURTH QUARTER AND YEAR-END 2009 RESULTS**

*Sustained growth in mortgages under administration, revenue, net income and EBITDA*

**Toronto, Ontario, March 9, 2010** – First National Financial Income Fund (TSX: FN.UN) (the “Fund”) today announced its audited financial results for the fourth quarter and year ended December 31, 2009. The Fund derives all of its earnings from its 21% investment in First National Financial LP (“FNFLP”) or (“First National”), which reports record profitability with continued growth in mortgages under administration, revenue, net income and earnings before income taxes, depreciation and amortization (“EBITDA”).

### **First National Financial LP’s 2009 Summary:**

- Annual distribution rate increased by 11% from \$1.35 per unit to \$1.50 per unit
- Mortgages under administration up 18% year-over-year to \$47.8 billion
- Mortgage originations declined by only 1% from 2008 to \$11.8 billion
- Revenue was \$341.7 million, up 16% year-over-year
- Net income up 51% year-over-year to \$163.5 million
- EBITDA\* up 51% year-over-year to \$165.2 million
- Distributions declared to unitholders totalled \$86.9 million

“First National achieved record profitability in 2009, optimizing the use of its diverse funding sources to drive sustained growth in mortgages under administration, revenue and net income,” said Stephen Smith, Chairman and President. “During the year, demand for prime insured mortgages was strong and wide spreads persisted, allowing the Fund to earn higher profits on its

most creditworthy products. These higher margins combined with stable operating costs to produce record results in 2009.”

“In a period of economic weakness, First National was able to increase profitability and returns to unitholders, demonstrating the sustainability of our business model and distribution policy,” said Moray Tawse, Vice President, Mortgage Investments. “Although we expect tighter mortgage spreads in both our prime single-family and multi-unit residential business segments in 2010 as a result of excess liquidity in capital markets, the Fund will profit from higher income and cash flow derived from our growing portfolio of mortgages under administration.”

### **Selected Financial Highlights for First National Financial LP**

	Three months ended		Year ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	(\$ 000's)			
<b>For the Period</b>				
Revenue	88,280	59,488	341,716	293,959
Net income	44,768	17,743	163,483	108,021
EBITDA <sup>(1)</sup>	45,247	18,201	165,232	109,675
<b>At Period end</b>				
Total assets	1,067,690	460,336	1,067,232	737,065
Mortgages under administration	47,793,045	40,596,013	47,793,045	40,596,013

Note:

(1) This non-GAAP measure adjusts income before income taxes by adding back expenses for amortization of capital assets.

### **2009 Annual and Fourth Quarter Results**

First National’s mortgages under administration were \$47.8 billion at December 31, 2009, up 18% from \$40.6 billion at December 31, 2008, and up 17%, on an annualized basis, from \$45.9 billion at September 30, 2009. The growth was driven primarily by mortgage originations, which declined by only 1% to \$11.8 billion from \$11.9 billion at year-end 2008.

Total revenue for the year ended December 31, 2009 increased 16% to \$341.7 million from \$294.0 million at year-end 2008. The increase was primarily due to higher amounts of mortgages originated for the Company’s securitization programs, which generated higher revenue on wider margins.

Net income for the year was \$163.5 million, an increase of 51% from \$108.0 million in 2008. EBITDA for the year was \$165.2 million, an increase of 51% from \$109.7 million in 2008. The increases were due to the combination of the higher margins associated with mortgage placement and securitization, coupled with stable operating costs. In particular, profitability was increased through higher margins on multi-unit residential mortgage origination and single-family floating rate mortgages as demand for these high credit quality assets increased in 2009 with an uncertain credit environment.

Mortgage originations for the year declined by only 1% from \$11.9 billion in 2008 to \$11.8 billion for 2009. Excluding \$225 million of Alt-A mortgage originations in 2008, mortgage origination increased by 1% from 2008 to 2009. The decrease reflects a 3% decline in single-family origination figures between the periods and a 6% increase in the multi-unit residential and commercial segment. Although single-family volumes are lower than the levels experienced in 2008, these volumes are above those expected by management going into the year.

For the fourth quarter, revenue was \$88.3 million, up from \$59.5 million in the same quarter last year. Net income increased significantly in the quarter to \$44.8 million, up from \$17.7 million in the fourth quarter of 2008. The increase in net income was primarily the result of First National's ability to earn higher margins on both single-family and multi-unit residential origination due to the stabilization of capital markets. EBITDA also saw substantial growth during the quarter, increasing to \$45.2 million from \$18.2 million in the same period of 2008.

### **Distributable Cash**

The Fund's distributable cash\* for the year was \$16.3 million or \$1.28 per unit and distributions declared totalled \$18.4 million or \$1.45 per unit. The Fund also declared a year-end special distribution of \$0.05 per unit. The payout ratio of 113% was up from 99% at year-end 2008. Despite strong earnings, distributable cash was adversely affected as more working capital was needed to support the Company's Alt-A program. In the fourth quarter of 2009, the payout ratio was 84%. The ratio of distributions to net income, which the Company believes is as important as the payout ratio, was 53% for the year.

## Statement of Distributable Cash

(in \$000s, except where noted)

	For the quarter ended		For the year ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<b>First National Financial LP</b>				
Distributable Cash of First National Financial LP (1)	30,252	18,795	76,907	81,818
<b>First National Financial Income Fund</b>				
Weighted Average Share of Distributable Cash from First National Financial LP (1)	6,339	3,975	16,266	16,991
Distributable Cash per Unit (\$/Unit) (1)	0.50	0.31	1.28	1.37
Distributions Declared	5,390	5,168	18,388	16,844
Distributions Declared per Unit (\$/Unit)	0.42	0.41	1.45	1.36
Payout Ratio	84%	132%	113%	99%

(1) Distributable cash and distributable cash per unit are non-GAAP measures generally used by Canadian open-ended trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distributions to unit holders. For FNFLP this measure adjusts cash provided by (used in) operating activities by accounting for changes between periods of mortgages accumulated for sale and deducting capital expenditures.

## Conference Call and Webcast

Conference Call and Webcast	March 10, 2010, 10 a.m. ET
Participant Numbers	416-644-3414 or 1-800-814-4859

The audio of the conference call will be webcast live and archived on First National's website at [www.firstnational.ca](http://www.firstnational.ca). Following management's presentation, there will be a question and answer session for analysts and institutional investors.

A taped rebroadcast will be available to listeners following the call until 12 a.m. (ET) on March 17, 2010. To access the rebroadcast, please dial 416-640-1917 or 1-877-289-8525 and input passcode 4216115#.

Complete consolidated financial statements for the Fund and FNFLP as well as management's discussion and analysis are available at [www.sedar.com](http://www.sedar.com) and at [www.firstnational.ca](http://www.firstnational.ca)

## **About First National Financial Income Fund**

First National Financial Income Fund (TSX: FN.UN) owns a 21% interest in First National Financial LP, a Canadian-based originator, underwriter and servicer of predominantly prime residential (single family and multi-unit) and commercial mortgages. With nearly \$48 billion in mortgages under administration, First National is Canada's largest non-bank originator and underwriter of mortgages and is among the top three in market share in the growing mortgage broker distribution channel. For more information, please visit [www.firstnational.ca](http://www.firstnational.ca).

## **\*Non-GAAP Measures**

The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "EBITDA", "Distributable Cash", and "Distributable Cash per Unit" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

## **Forward-Looking Information**

Certain information included in this news release may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, product development activities, projected costs and capital expenditures, financial results, risk management strategies, hedging activities, geographic expansion, licensing plans, taxes and other plans and objectives of or involving the Company. Particularly, information regarding growth objectives, any future increase in mortgages under administration, future use of securitization vehicles, industry trends and future revenues is forward-looking information. Forward-looking information is based on certain factors and assumptions regarding, among other things, interest rate changes and responses to such changes, the demand for institutionally placed and securitized mortgages, the status of the applicable regulatory regime and the use of mortgage brokers for

single family residential mortgages. This forward-looking information should not be read as providing guarantees of future performance or results, and will not necessarily be an accurate indication of whether or not, or the times by which, those results will be achieved. While management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect. Forward looking-information is subject to certain factors, including risks and uncertainties listed under “Risk and Uncertainties Affecting the Business” in the MD&A, that could cause actual results to differ materially from what management currently expects. These factors include reliance on sources of funding, concentration of institutional investors, reliance on relationships with independent mortgage brokers and changes in interest. This forward-looking information is as of the date of this release, and is subject to change after such date. However, management and the Fund disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

- 30 -

**For further information:**

Rob Inglis  
Chief Financial Officer  
First National Financial LP  
Tel: 416-593-1100  
Email: [rob.inglis@firstnational.ca](mailto:rob.inglis@firstnational.ca)

Steve Wallace  
Vice President  
BarnesMcInerney Inc.  
Tel: 416-367-5000  
Email: [swallace@barnesmcinerney.com](mailto:swallace@barnesmcinerney.com)