

# FIRST NATIONAL

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FINANCIAL CORPORATION



ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2022

MARCH 27, 2023

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## FORWARD LOOKING INFORMATION

Included in this Annual Information Form, and the information incorporated by reference herein, is certain forward-looking information, as such term is defined under securities laws. This information relates to future events or future performance and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Corporation (defined herein) and First National (defined herein). Such forward-looking information reflects management's current beliefs and is based on information currently available to management of the Corporation and a number of assumptions that management believed were reasonable on the day such forward-looking information was presented. Refer, in particular, to the sections of the Corporation's 2022 management's discussion and analysis (the "2022 MD&A") entitled "*Vision and Strategy*", "*Forward-Looking Information*" and "*Outlook*", for a discussion of certain assumptions management has made in presenting forward-looking information, which sections are incorporated by reference herein. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, information regarding the Corporation's or First National's future operating results and economic performance is forward-looking information. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information.

In evaluating this forward-looking information, investors should specifically consider various factors, including the risks outlined under "*Risk Factors*" of this Annual Information Form and under the section entitled "*Risks and Uncertainties Affecting the Business*" in the 2022 MD&A, which may cause actual events or results to differ materially from any forward-looking information. These and other risk factors that could cause actual results to differ materially from our expectations expressed in or implied by such forward-looking information are discussed throughout this Annual Information Form and in the 2022 MD&A, including in the section entitled "*Risks and Uncertainties Affecting the Business*", which section is incorporated by reference herein.

Although the forward-looking information contained in this Annual Information Form, and the information incorporated by reference herein, is based on what management of the Corporation considers reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect.

Except as may be required by Canadian securities law, the Corporation disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. Unless otherwise stated in this Annual Information Form, the information contained herein is as at December 31, 2022, and all currency references are in Canadian dollars.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

First National Financial Corporation (the "**Corporation**") is the successor to First National Financial Income Fund (the "**Fund**"), following completion of the conversion of the Fund from an income trust to a corporate structure by way of a court-approved plan of arrangement under the *Business Corporations Act* (Ontario) (the "**OBCA**") on January 1, 2011 (the "**Arrangement**"). Immediately subsequent to the completion of the Arrangement, the resulting corporation amalgamated to form the Corporation. The Corporation's head and registered office is located at Suite 1900, 16 York Street, Toronto, Ontario, M5J 0E6.

On January 1, 2011, the effective date of the Arrangement, the Corporation became a reporting issuer in all of the provinces and territories of Canada and became subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement.

### **Inter-Corporate Relationships**

The Corporation holds a 99.99% voting interest in First National Financial LP (the “**Limited Partner**”) and a 100% voting interest in First National Financial GP Corporation (the “**General Partner**”), the general partner of the Limited Partner. The Corporation also holds a 100% interest in First National Mortgage Corporation. References in this Annual Information Form to “**First National**” are to the Limited Partner (together, as applicable, with the General Partner).

The Limited Partner is a limited partnership established under the laws of the Province of Ontario pursuant to a limited partnership agreement dated as of April 19, 2006, as amended and restated on June 15, 2006, and further amended and restated on January 1, 2011.

The General Partner is a corporation incorporated under the laws of the Province of Ontario. The General Partner holds a 0.01% voting interest in the Limited Partner. The General Partner also holds a 100% voting interest in First National Asset Management Inc.

Both First National Asset Management Inc. and First National Mortgage Corporation are corporations incorporated under the laws of the Province of Ontario.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three-Year History**

First National is a Canadian-based originator, underwriter and servicer of predominantly prime single-family residential, multi-unit residential and commercial mortgages. First National sources its single-family residential mortgages almost exclusively through independent mortgage brokers and its existing customer base and sources its multi-unit residential and commercial mortgages largely through its experienced in-house mortgage underwriters, who are employees of First National. First National funds the mortgages it originates primarily through institutional placements and a diversified range of securitization alternatives. Over the past ten years, First National has experienced stable and consistent growth in revenue and earnings supportive of a growing dividend rate on its common shares. An important source of First National’s stable and growing revenue and performance is its mortgage servicing business. First National services virtually all mortgages generated through its mortgage origination activities and management believes that First National is the largest third-party servicer of multi-unit residential and commercial mortgages in Canada.

The value of First National’s mortgages under administration has grown from approximately \$835 million as at March 31, 1997 to \$131.0 billion at December 31, 2022. This is an annualized increase of almost 6% from September 30, 2022, when the value was \$129.3 billion, and an increase of 5% from December 31, 2021, when the value of mortgages under administration was \$123.9 billion. Revenue for the year ended December 31, 2022, increased by 13% over the comparative year, and income before income taxes increased by 2% for the year ended December 31, 2022, in comparison to the prior year. First National’s 13% increase in revenue for the year ended December 31, 2022, was driven primarily by the result of higher interest rates. 2022 featured a rapidly rising interest rate environment with bond yields and mortgage rates increasing as monetary policy tightened to counteract inflation risks. These changes led to higher interest revenue earned on securitized mortgages, higher interest revenue earned on mortgages accumulated for securitization and higher interest earned on mortgage investments. In 2021 revenue was higher because of gains on financial

instruments, which increased revenue by \$5.8 million. In 2022 the Corporation recorded gains of \$59.6 million which increased revenue. The Corporation continued to securitize a portion of its mortgage origination such that as at December 31, 2022, the Corporation had over \$37.1 billion of securitized mortgage assets in its portfolio. This growth has helped to fuel increases in net interest – securitized mortgages. First National’s servicing business grew while the third-party underwriting and fulfillment services business slowed down as housing activity across the country declined.

For more than 10 years, the Corporation has arranged credit facilities with syndicates of financial institutions which it has used primarily to fund mortgages accumulated for sale and securitization. First National entered into a revolving credit facility with a syndicate of lenders on January 27, 2014. The facility has been amended from time to time to increase the aggregate commitment to \$1.5 billion and to extend the maturity date to 2027 (the “**Credit Facility**”). The additional commitment was arranged to fund growing amounts of mortgages accumulated for sale and securitization and for general corporate purposes.

In November 2019, the Corporation issued 200,000 3.582% Series 2 Senior Unsecured Notes (the “**Series 2 Notes**”) due November 25, 2024 for gross proceeds of \$200,000,000. In November, 2020, the Corporation issued 200,000 2.961% Series 3 Senior Unsecured Notes (the “**Series 3 Notes**”) due November 17, 2025 for gross proceeds of \$200,000,000. The net proceeds of the Series 2 Notes and Series 3 Notes were used to repay bank indebtedness under the Credit Facility. The Corporation repaid all amounts outstanding under the Corporation’s 4.01% Series 1 Senior Unsecured Notes (the “**Series 1 Notes**”), issued in April, 2015, on the maturity date of April 9, 2020.

In 2020 and 2021, the Corporation was significantly affected by the COVID-19 pandemic. In the first quarter of 2020, financial markets experienced significant volatility and the Corporation incurred large losses on account of the fair value of financial instruments. These losses offset operational results which were relatively favorable. In March 2020 First National executed its business continuity plan in response to the disruption caused by the COVID-19 pandemic. The plan implemented a “work from home” contingency strategy. Shortly thereafter, approximately 95% of First National’s staff across the country transitioned to working from home. The plan’s successful implementation allowed First National to remain operationally effective and productive during the pandemic period which has continued through the end of 2021. The Corporation believes that the value of First National’s business model was demonstrated over the final three quarters of 2020. By designing systems that do not rely on face-to-face interactions, First National’s business practices resonated with mortgage brokers and borrowers alike during the pandemic period. Both the residential and commercial segments benefited from reduced competition and First National increased its market share while earning wider spreads. These trends continued into the first two quarters of 2021. Accordingly, both segments recorded strong origination volumes and higher profitability. In mid 2021, competition for mortgage assets returned and mortgage spreads narrowed abruptly. Accordingly while origination continued to be strong in the final two quarters of 2021, profitability was lower than in the comparative period in 2020. Generally at this point, the COVID-19 pandemic ceased to have a significant impact on the Corporation.

To start 2022, mortgage rates remained historically low and housing activity continued at levels evidenced during the pandemic. However wages and prices began to grow at rates nearing 10% and the risks of inflation were addressed by the Bank of Canada’s (“**BoC**”). Beginning on March 2, the BoC commenced a period of policy decisions to increase its overnight lending rate so as to reduce inflation. These increases led to increased mortgage rates. Between March 2, 2022 and January 25, 2023, the overnight rate was increased eight times from 0.25% at the beginning of March to 4.50% at the end of January 2023. Throughout most of these increases, the BoC’s statements indicated the likelihood of more interest rate hikes to follow. The Corporation believes these increases contributed to significantly higher mortgage rates and reduced the affordability of housing across the country. The Corporation believes this significantly affected its origination volumes in 2022 as well as the volumes that its third-party underwriting customers referred to the Corporation. Despite this uncertain business environment, the Corporation successfully grew MUA and continued to build its portfolio of mortgages pledged under securitization.

## DESCRIPTION OF THE BUSINESS

### Overview

The value of First National's mortgages under administration has grown from approximately \$835 million as at March 31, 1997 to \$131.0 billion as at December 31, 2022. The value of First National's mortgages under administration has increased every year from 1990 through 2022. For the year ended December 31, 2022, mortgages under administration grew to \$131.0 billion from \$123.9 billion as at December 31, 2021, a rate of increase of 6%. During the fourth quarter of 2022, mortgages under administration grew to \$131.0 billion from \$129.3 billion at the end of September 30, 2022, an annualized increase of 5%. This growth is primarily organic, created from new originations of \$29.1 billion generated in the year ended December 31, 2022. This represents a 12% decrease from the year ended December 31, 2021 when originations totalled \$33.2 billion and reflects still solid commercial segment origination offset by lower origination volumes in the single-family market, including First National's alternative single-family mortgage product.. For the year ended December 31, 2022, new non-originated servicing business amounted to \$2,083.3 million of new mortgages. As at December 31, 2022, approximately 68% of First National's total mortgages under administration (by \$ mortgage amount) were single-family residential mortgages and 32% were multi-unit residential or commercial mortgages.

First National's revenues and earnings are driven by the value of its mortgage origination, the number of mortgages pledged under securitization, and its mortgages under administration. During the fiscal year ended December 31, 2022, First National generated revenues of approximately \$1,574.3 million and net income of approximately \$197.7 million.

First National's origination activities are funded through a variety of sources, providing First National with the opportunity to earn stable and recurring income from servicing mortgages it originates on behalf of institutional investors and others.

First National also focuses on the capital markets to meet its funding requirements. This focus has provided First National with the flexibility to finance mortgages in a cost-effective and efficient manner. First National has developed access to, and utilizes, institutional placements and several securitization programs, including asset backed commercial paper ("ABCP"), National Housing Act – Mortgage Backed Securities ("NHA-MBS"), the Canada Mortgage Bonds Program (the "CMB") and commercial mortgage backed securities ("CMBS"), as funding sources. First National's ABCP, NHA-MBS, and CMBS conduits, together with the CMB, have permitted First National to expand the scope of funding sources available to it for further mortgage origination and to continue to grow the value of its mortgages under administration. Since late 2007, First National has been an approved issuer of NHA-MBS and a seller into the CMB, which gives First National access to these capital markets as a funding source. Since 2012, First National has established several arrangements with bank-sponsored ABCP conduits, providing First National with an additional source of funding. Historically, First National used the CMBS market to directly fund commercial mortgages. However, following economic turmoil in 2008, First National changed its strategy such that it only continued to originate mortgages on an agency basis for one large CMBS issuer. In 2017 First National Asset Management Inc. became an approved issuer of NHA-MBS and a seller into the CMB. This development allowed First National to securitize mortgages purchased from other lenders and leverage its expertise in NHA MBS securitization..

First National services virtually all mortgages generated through its mortgage origination activities. Mortgage servicing is a key component of First National's overall business strategy, and revenues in this line of business are driven directly by the value of First National's mortgages under administration. Mortgage servicing is a significant source of stable and recurring income as First National benefits from servicing the original loan as well as having the opportunity to renew the mortgage after the initial term. Substantial value accrues to First

National upon the renewal of a mortgage relative to a new origination as generally no fees are payable to mortgage brokers on the renewal of an existing mortgage.

First National offers a wide range of products in the single-family residential, multi-unit residential and commercial mortgage markets. This range of products offered by First National enables it to take advantage of the cross-referral opportunities between the various markets (including enhanced broker convenience and increased product exposure) and to leverage operational synergies such as shared management, risk analysis, information technology, accounting and finance, capital markets and servicing and administration, which support First National's range of products.

In 2014, First National entered into a strategic agreement with a large Canadian schedule I bank (the "Bank") to provide underwriting and fulfillment processing services for mortgages originated by the Bank through the single-family residential mortgage broker channel. Under the strategic agreement, First National employs a customized software solution based on its industry leading MERLIN™ technology to accept mortgage applications from the Bank in the mortgage broker channel and underwrite these mortgages in accordance with the Bank's underwriting guidelines. The Bank funds all the mortgages underwritten under the agreement and retains full responsibility for mortgage servicing and the client relationship. First National considers the agreement a way to leverage its capabilities and strengths in the mortgage broker channel and add diversity to First National's service offerings. In each year of this mandate the amount of volume underwritten has increased. The agreement was renewed by the parties in the first quarter of 2021.

First National has always used technology to ensure the efficiency and effectiveness of its operations, both during the origination process and then subsequently in the servicing and administration phase. This is particularly true for its MERLIN™ underwriting system, Canada's first web-based real-time broker information system. By creating a paperless, 24/7 commitment management platform for mortgage brokers, First National is now ranked among the top three lenders by market share in the broker channel. This has translated into increased single-family origination volumes and higher closing ratios (the percentage of mortgage commitments First National issues that become closed mortgages). The investment in business processes and technology has resulted in lower costs of origination, servicing and administration, and provides First National with an operational cost advantage. Management expects continued productivity improvements and lower per unit costs as First National's mortgage origination volume and mortgages under administration continue to grow.

First National employs various techniques to manage risk and is committed to the origination of high quality, low risk mortgages and the minimization of credit and interest rate risk to First National. Approximately 96% of First National's mortgages under administration are funded through sources that result in no residual credit risk to First National. First National also engages in an extensive interest rate management program with respect to all mortgages originated by First National with the objective of eliminating the economic impact of any changes in interest rates to which First National may be exposed.

### **Lines of Business**

First National's two primary lines of business are the origination and underwriting of predominantly prime single-family residential, multi-unit residential and commercial mortgages and the servicing of mortgages under administration.

## Originating and Underwriting Single-Family Residential Mortgages

First National originates and underwrites predominantly prime single-family residential mortgages through its residential underwriting branches in Toronto, Calgary, Vancouver and Montreal. Single-family residential mortgages are sourced almost exclusively from an extensive network of third-party residential mortgage brokers. First National's principal markets are the large urban areas of Ontario, Alberta, British Columbia and Quebec.

Single-family residential mortgage originators provide mortgage financing to purchasers and owners of single-family dwellings. For mortgage classification purposes, single-family dwellings consist of residential properties containing up to four dwelling units. Single-family residential mortgages are generally categorized by the underwriting criteria applied by the originator. "Prime" or "A" describes single-family residential mortgages originated under lending criteria traditionally applied by Canadian chartered banks, and generally includes mortgages that secure principal amounts that do not exceed 80% of the value of the related mortgaged properties (or 95% in cases where the mortgages are insured by qualified mortgage insurers such as Canada Mortgage and Housing Corporation ("**CMHC**"), Sagen MI Canada Inc. (formerly Genworth Financial Mortgage Insurance Company Canada) ("**Sagen**") or Canada Guaranty Mortgage Insurance Company ("**Canada Guaranty**"). "Alt-A" describes single-family residential mortgages that are originated using broader underwriting criteria than those applied in originating prime mortgages. Alt-A borrowers are generally considered "A" quality borrowers in terms of their credit histories (e.g., no prior bankruptcies or other significant credit issues), but do not qualify for a prime mortgage because of non-conformities, such as the types of property being financed (e.g., vacation homes) and the degree of income disclosure and verification required (e.g., where the borrower is self-employed or receives commission-based income). Finally, "sub-prime" describes single-family residential mortgages that are provided to credit impaired borrowers who do not meet the standard underwriting criteria for prime quality borrowers. Management believes that prime single-family residential mortgages currently account for the largest part of the single-family residential mortgage market, with Alt-A mortgages and sub-prime mortgages accounting for the balance.

In 2018, new mortgage qualification rules under the Office of the Superintendent of Financial Institution's ("**OSFI**") B-20 guidelines (the "**B-20 Guidelines**") affected First National's single-family origination business. The B-20 Guidelines introduced stricter regulatory requirements for OSFI regulated mortgage lenders in the underwriting of uninsured single-family mortgages. In particular, the B-20 Guidelines require that prospective borrowers have enough income to qualify for a mortgage using an interest rate that is the greater of the actual interest rate on the mortgage plus 2% and the 5-year benchmark rate published by the Bank of Canada. While compliance with the B-20 Guidelines is not required of First National, First National adopted the B-20 Guidelines to ensure that mortgages originated by it are considered "B-20 compliant". Generally, B-20 Guidelines reduce housing affordability as borrowers require more income to support a comparable sized mortgage arranged under the previous rules. Given its customer base of regulated financial institutions, First National will be effectively subject to the B-20 Guidelines so long as they are in effect.

In June 2021, the Minister of Finance of the Government of Canada announced changes to the mortgage qualification rules under the B-20 Guidelines. The change was largely made to change the second benchmark for the qualifying rate from the 5-year benchmark rate published by the Bank of Canada to a set rate of 5.25%. This rate was confirmed by the Minister of Finance in December 2021 as part of its annual review.

The year ended December 31, 2022 showed single-family origination volumes of \$19.5 billion, which compares to \$23.4 billion for the year ended December 31, 2021. Approximately 40% of the prime single-family mortgages originated during the fiscal period ended December 31, 2022, were insured through CMHC, Sagen or Canada Guaranty including mortgages insured using portfolio insurance. The percentage of insured mortgages in First National's overall single-family residential mortgage portfolio is approximately 60%.

First National focuses its mortgage origination activity on predominantly prime residential mortgages due in part to the inherent quality of this type of portfolio and its expertise in servicing this type of portfolio, resulting in a relatively low arrears rate. Management believes that the high percentage of CMHC, Sagen and Canada Guaranty insured mortgages, together with the relatively low arrears rate of its prime single-family residential mortgages under administration, is indicative of the high quality of the residential mortgages originated by First National.

### Excalibur Mortgage Product

In 2018, First National relaunched its alternative single-family mortgage products (“**Excalibur**”). Alternative lending describes single-family residential mortgages that are originated using broader underwriting criteria than the underwriting criteria applied in originating prime mortgages. Alternative borrowers are generally considered “A” quality borrowers in terms of their credit histories but do not qualify for a prime mortgage because of non-conformities, such as the degree of income disclosure and verification required. The Excalibur program also includes a product for borrowers with recently remediated credit. These mortgages generally have higher interest rates than prime mortgages. When it was first launched in 2018, the product was originated solely for placement with institutional investors and First National earned a one-time placement fee and servicing income over the term of the mortgages.

In 2021, First National entered into an agreement with a Schedule I bank for the launch of a co-branded secured credit card product. Under this arrangement, First National will provide underwriting and fulfillment services to the bank. The bank will issue the secured credit cards, fund all cash advances and will be fully responsible for servicing the secured credit cards. This arrangement leverages First National’s distribution in the mortgage brokerage channel and will expand the product options under the Excalibur program. This program was launched in the first quarter of 2021.

Management believes that one of the principal reasons mortgage brokers continue to refer business to First National is because of First National’s superior service level and its proprietary technology systems. First National has always used technology to ensure the efficiency and effectiveness of its operations, both during the origination process and then subsequently in the servicing and administration phase. In the fourth quarter of 2017, First National launched its Merlin by First National application for use with Apple and Android devices. The application provides mortgage brokers with real time information on all current mortgage applications submitted to First National including status of applications, outstanding closing conditions and messaging options.

First National’s single-family residential mortgage origination activities provide a number of substantial benefits to First National, which include:

- generating a significant, continuing and regular source of revenue through placement, securitization and servicing activities;
- increasing First National’s portfolio of mortgages under administration, thereby allowing First National to lower its per unit origination and servicing costs and increase its servicing revenue; and
- in the case of certain securitization programs, accrual of substantial residual value to First National upon the maturity of the mortgages.

In the prime segment of the residential mortgage market, First National’s principal competitors are the federally regulated banks and other entities originating mortgages from mortgage brokers.

## **Originating and Underwriting of Multi-Unit Residential and Commercial Mortgages**

Management believes First National is one of the largest multi-unit residential and commercial mortgage originators in Canada. First National originates and underwrites two categories of multi-unit residential and commercial mortgages: (i) conventional multi-unit residential and commercial mortgages, and (ii) CMHC-insured multi-unit residential mortgages.

First National's multi-unit residential and commercial origination activities provide a number of substantial benefits to First National, which include:

- generating a significant, continuing and regular source of revenue through placement, securitization and servicing activities;
- increasing First National's portfolio of mortgages under administration, thereby allowing First National to lower its per unit origination and servicing costs and increase its servicing revenue; and
- generating business relationships with borrowers across Canada for renewal and refinance opportunities.

During the fiscal period ending December 31, 2022, First National originated \$9.6 billion of multi-unit residential and commercial mortgages, of which 77% were CMHC-insured. As at December 31, 2022, First National had \$42.4 billion of multi-unit residential and commercial mortgages under administration of which 85% were CMHC-insured. Management believes that the percentage of CMHC-insured multi-unit residential and commercial mortgages, together with the low arrears rate of its multi-unit residential and commercial mortgages under administration, is indicative of the high quality of the multi-unit residential and commercial mortgages originated by First National.

### Conventional Multi-Unit Residential and Commercial Mortgages

First National originates a range of conventional first mortgages, which management characterizes as multi-unit residential mortgages and commercial mortgages, including industrial, retail, office and other commercial properties, with a full range of loan amounts. First National relies on its experienced in-house commercial mortgage underwriters, who are employees of First National, to source and underwrite these mortgages. Many borrowers seeking small multi-unit residential and commercial mortgages approach single-family residential brokers. As such, First National's network of mortgage broker relationships is also an important origination source for smaller sized multi-unit residential and commercial mortgage products.

During the year ended December 31, 2022, First National originated approximately \$2.4 billion of conventional multi-unit residential and commercial mortgages and as at December 31, 2022, had approximately \$6.3 billion of conventional multi-unit residential and commercial mortgages under administration. In the last three years these mortgages have largely been placed with institutional investors. In virtually all cases, mortgage servicing is retained by First National. The majority of conventional commercial mortgages are originated for institutional investors and First National earns a placement fee upon placement. First National did not participate in any CMBS transactions in 2022.

For conventional commercial mortgages, First National's principal competitors tend to be the major life insurance companies and the federally regulated banks.

### CMHC-Insured Multi-Unit Residential Mortgages

As an approved lender under the National Housing Act, First National originates CMHC-insured multi-unit residential mortgages on apartment buildings, and also on long-term residential care facilities. First National relies on its experienced in-house commercial mortgage underwriters, who are employees of First National, to source and underwrite these mortgages. Management believes that First National is the largest originator of CMHC-insured multi-unit residential mortgages in Canada.

During the year ended December 31, 2022, First National originated approximately \$7.4 billion of CMHC-insured multi-unit residential mortgages and as at December 31, 2022, had approximately \$36.1 billion of CMHC-insured multi-unit residential mortgages under administration. These mortgages are either: (i) securitized directly through the CMB; (ii) securitized directly through the NHA-MBS market; (iii) placed with institutions; or (iv) securitized through First National's ABCP program. In virtually all cases, the mortgage servicing is retained by First National. When mortgages are securitized directly, either through the CMB, the NHA-MBS market or an ABCP Conduit, First National effectively secures long-term matched funding for the related mortgages and earns an ongoing net interest margin over the term. This margin is based on the spread between the interest rate on the mortgage and the net yield to the investors in the security. In the case of placement with institutional investors, First National earns a one-time placement fee upon placement with the institution. In addition, First National may at times recognize a deferred placement fee on that portion of the spread between the interest rate on the mortgage and the net yield to the institution.

First National's principal competition in this sector are the federally regulated banks, life insurance companies and other non-bank originators involved in origination for CMB funding. For CMHC-insured multi-unit residential mortgages, First National competes primarily on price combined with a high standard of service and expertise. Management believes that First National's established relationship with CMHC and knowledge of CMHC's underwriting policies and procedures, particularly in the long-term residential care facility area, as well as its ability to make commitment decisions quickly, are important competitive advantages in this segment.

### **Other Mortgage Origination Activities**

Over the past several years, First National has developed a program for providing short-term secured bridge facilities in support of its multi-unit residential and commercial mortgage origination activities. By providing a bridge facility, First National is often able to secure the origination for the subsequent long-term mortgage financing. First National competes with the federally regulated banks in this area. This program evolved as existing borrowers of First National required short-term mortgages to fund acquisitions and renovations in advance of securing long term mortgage financing. All transactions are approved by First National's Commercial Credit Committee or the Executive Vice President, the most senior lending authority in First National. Almost all transactions are with existing borrowers of First National and have terms of less than 18 months.

First National generally provides bridge loans where long term replacement funding has been identified. Accordingly, these mortgages are neither placed with institutions nor securitized and, as such, are financed with First National's internal resources. First National generally earns a fee for providing the bridge financing and generally places the long-term mortgage financing with one of First National's institutional investors or securitization conduits.

During the fiscal period ended December 31, 2022, First National originated approximately \$419.9 million in short term bridge facilities. In comparison, during the fiscal period ended December 31, 2021, First National originated approximately \$557.5 million in short term bridge facilities.

## Servicing of Mortgages

First National services substantially all of the single-family residential and multi-unit residential and commercial mortgages that it originates whether the mortgage is placed with an institutional investor or through one of First National's securitization vehicles. In addition, First National services mortgages, which have not been originated by First National, on behalf of third-party institutional investors and securitization structures. Many institutions and securitization structures do not have in-house mortgage servicing capabilities and require external providers for this function. Mortgage servicing provides First National with a stable and consistent source of revenue. First National earns a monthly servicing fee based on the value of its mortgages under administration. This fee is earned each month during the term of the mortgage. The amount of the fee is dependent on the type of the mortgage (single-family residential, multi-unit residential or commercial), the size of the mortgage and the obligations under the servicing contract. The average term of the mortgages in First National's portfolio of mortgages under administration is 43 months.

The principal functions of mortgage servicing are: (i) the collection of mortgage payments from the borrower and the remittance of these payments to the investor; (ii) accounting of the amounts due under the mortgage; (iii) verifying that the borrower fulfills its obligations (such as maintaining property insurance and paying realty taxes) under the mortgage; (iv) enforcing the mortgage security in the event of a borrower default; and (v) otherwise administering the mortgage on behalf of the investor in accordance with the mortgage servicing agreement.

First National's mortgage servicing activities provide a number of substantial benefits to First National, which include:

- a stable and consistent source of revenue which grows over time as the value of serviced mortgages under administration increases;
- economies of scale result in increasing profit margins as the value of serviced mortgages under administration increases;
- ongoing contact with the borrower enhancing the opportunities for further mortgage originations;
- generally, upon the maturity of the mortgage, the opportunity for First National to again place or securitize the renewed mortgage, thereby earning renewal origination income and ensuring the continuation of servicing income; and
- the ability to earn interest income on funds held in trust.

Management views First National's major competition in the servicing sector as being MCAP Service Corporation in the case of single-family residential mortgages and U.S. based third party servicers such as Midland Loan Services, Inc. in the case of multi-unit residential and commercial mortgages.

In addition to First National's own and third-party securitization vehicles, First National's portfolio of servicing clients includes a broad range of Canadian institutional investors. In total, First National services mortgages for approximately 113 different institutional investors, including federally regulated banks, life insurance companies, trust companies, pension funds and securitization vehicles.

The mortgage servicing related to CMBS is more complex than traditional mortgage servicing. Instead of a single entity performing the mortgage servicing function there is a "*Master Servicer*", a "*Primary Servicer*" and a "*Special Servicer*". The Master Servicer enters into an agreement with the trustee of the CMBS pool to service

and administer the mortgages in the pool for the benefit of the investors in the various classes of the CMBS. The Master Servicer is responsible for: (i) the collection of the mortgage payments from the borrower and the remittance of these payments to the trustee; (ii) an accounting of the amounts due under the mortgage; (iii) verifying that the borrower fulfills its obligations (such as maintaining property insurance and paying realty taxes) under the mortgage; and (iv) making certain decisions with respect to the mortgages in the pool on behalf of the CMBS investors.

A Primary Servicer performs a subset of the Master Servicer's obligations. The Primary Servicer is the principal point of contact with the borrower and often is a mortgage originator who wishes to maintain contact with the borrower for relationship reasons. The Master Servicer and Primary Servicer are the same entity for the majority of CMBS pools where there is a single originator. The Special Servicer is responsible for enforcing the mortgage security in the event of borrower default. The Master Servicer and Special Servicer are often different entities.

First National has been rated and/or approved as a Master, Primary and Special Servicer for CMBS by Standard & Poor's ("**S&P**") and Fitch Ratings, Ltd. ("**Fitch**"). In addition to recognizing high standards of commercial mortgage servicing, these ratings are a pre-requisite for servicers wishing to service mortgages on behalf of vehicles issuing investment and non-investment grade debt rated by these agencies. First National is also rated by S&P as "ABOVE AVERAGE", which is S&P's second highest of five possible ratings, for residential and commercial mortgage servicing. First National has paid customary rating fees to S&P and Fitch in connection with some or all of the above-mentioned ratings. In addition, the Corporation has made customary payments in respect of certain services provided to First National by each of S&P and Fitch.

Since 2002, First National has been appointed the Master Servicer or Primary Servicer for approximately \$6 billion of multi-unit residential and commercial mortgages in CMBS pools. From time to time, First National is presented with opportunities to acquire the mortgage servicing businesses of third parties in respect of defined portfolios. First National intends to opportunistically pursue portfolio acquisitions that have long-term benefits to it.

First National has also expanded its servicing business to include the provision of mortgage administration services to other mortgage originators. In 2009, First National expanded into this sector, and entered into arrangements with another mortgage originator to provide mortgage administration services to a substantial portion of that originator's ongoing mortgage portfolio. In 2022, First National entered into agreements with several mortgage lenders to provide mortgage administration services.

### **Third Party Underwriting Services**

In 2014, First National expanded its lines of business to include third party underwriting and processing services for third parties. Since then, this line of business has grown to include mandates from a number of other Canadian charter banks for similar services.

First National may further expand this line of business as additional opportunities arise.

### **Sources of Funding**

First National utilizes the capital markets to meet a large component of its funding requirements. First National is not an OSFI-regulated, deposit-taking institution and, as such, does not finance its originations through CDIC-insured deposits. First National has diverse sources of funding for the mortgages it originates, including institutional placements and securitizations including NHA-MBS, CMB and ABCP.

### Institutional Placements

During the fiscal period ended December 31, 2022, including renewed mortgages, First National placed \$16.9 billion of single-family residential mortgages and \$7.4 billion of multi-unit residential and commercial mortgages with institutional investors. Upon the placement of a mortgage with an institutional investor, First National receives cash proceeds equal to the principal amount of the mortgage plus a placement fee that is based on that principal amount. In addition, during the term of the mortgage, First National earns a servicing fee for administering the mortgage. Upon the placement of a mortgage with an institutional investor, the institutional investor takes on all credit risk. In addition, First National may recognize a gain on sale from the portion of the spread between the interest rate on the mortgage and the net yield to the institution which is earned as a deferred placement fee and received over the term of the mortgage.

Mortgage placements with institutional investors provide a number of substantial benefits to First National, including:

- institutional investors acquire the obligations and entitlements of mortgages at the time of commitment and assume any interest rate risk associated with the commitment period (being the exposure to changes in interest rates between the commitment date and funding date on fixed rate mortgages);
- all of the income earned from institutional placements, other than future servicing fees, is received in cash at the time of placement;
- placement fees received tend to be consistent over a range of capital markets conditions; and
- institutional investors generally have substantial ongoing demand for residential mortgages.

First National has strategically cultivated mutually beneficial relationships with a select number of institutional investors for the placement of its mortgages. While management believes there is extensive demand from other potential institutional investors in the market for First National's mortgages at competitive pricing, First National has chosen to enter into relationships with institutional investors who have the ability to enter into relatively larger scale transactions. Benefits to this approach include: large and consistent demand, ease of processing, minimization of relationship management needs, alignment of credit criteria and system integration.

During the commitment period prior to closing a mortgage, borrowers typically have the option of accepting a lower mortgage interest rate should interest rates decline during this period. First National manages this "pipeline" risk through hedging activity.

### Securitization by First National

Securitization involves selling mortgages to special purpose entities (including trusts) referred to as securitization vehicles, which buy the mortgages and then issue interest bearing mortgage-backed notes or ownership certificates. Currently, First National participates in four securitization programs: NHA-MBS, CMB, ABCP and CMBS.

## NHA-MBS Program

First National has been involved in the issuance of NHA-MBS since 1995. In December 2007, First National was approved by CMHC as an issuer of NHA-MBS and as a seller into the CMB program, one of the first non-OSFI regulated companies in Canada to be so approved. Issuer status provides First National with another funding source that it is able to access independently.

In November 2017, First National Asset Management Inc. was approved by CMHC as an issuer of NHA-MBS and as a seller into the CMB, further expanding First National's funding options. As First National and First National Asset Management Inc. are related, more allocation into the CMB is not obtained through such approval. Instead, by purchasing mortgages from arms' length lenders First National Asset Management Inc. will gain access to the CMB using the CMB allocations of the originating lenders. It is hoped that by buying mortgages from such arms length's lenders, First National Asset Management Inc. can participate in the CMB utilizing First National's expertise.

The direct securitization of NHA-MBS provides a number of benefits to First National:

- First National retains the entirety of the mortgage spread on each transaction;
- First National has less reliance on another company in executing its business strategy; and
- the market can more easily assess the strength of First National as NHA-MBS issuance is recorded publicly.

Perhaps the only significant disadvantage is that direct securitization by First National requires an investment of First National's capital.

CMHC, as the administrator of the NHA-MBS program, allocates the amount of guarantees it issues for market NHA-MBS thereby limiting the amount of market pools an issuer can issue. Generally, First National has been allocated sufficient guarantees such that its plans related to issuance were not affected significantly. First National is subject to future allocation decisions by CMHC and there can be no assurance that it will be allocated sufficient guarantees such that its plans related to future issuances will not be affected.

Since 2014, CMHC has announced from time to time increases to the price of guarantee fees charged to issuers of NHA-MBS, including volume-related increases. Such price increases may affect the profitability of NHA-MBS securitization, unless spreads on insured mortgages increase to offset these fees. In 2022, CMHC released Advice 18 to NHA-MBS issuers that changed the definition of aggregators. The new Advice provides that, under certain conditions, CMHC may deem an issuer to be acting as an "aggregator".

Currently there is a tiered NHA-MBS guarantee fee pricing structure such that guarantees issued to one issuer over \$9 billion of issuance have a higher price.

## *CMB*

The CMB program is a CMHC initiative whereby the Canada Housing Trust ("**CHT**") issues securities to investors in the form of semi-annual interest-yielding five (5) and ten (10) year bonds. The proceeds of these bonds are used to buy NHA-MBS. As an approved CMB seller, First National can make direct sales into the program. Because of the similarities to a traditional Government of Canada bond (both have fixed period unamortizing terms with a government guarantee), the CMB trades in the capital markets at a modest premium to the yields on Government of Canada bonds. First National's ability to sell into the CMB has given First National access to lower cost of funds on both single-family and multi-family mortgage

securitizations. Because these funding structures do not amortize, First National can fund future mortgages through this channel as the original mortgages amortize or pay out. First National also enjoys some demand for mortgages from investment dealers who sell directly into the CMB. Because of the effectiveness of the CMB, there have been requests from approved CMB sellers for larger issuances. CHT has indicated that it will not unduly increase the size of its issuances and has created guidelines through CMHC that limit the amount that can be sold by each seller into the CMB each quarter. First National is subject to these limitations.

For 2023, the Minister of Finance of the Government of Canada has authorized CMHC to provide up to \$150 billion of new guarantees to market NHA-MBS and up to \$40 billion of new guarantees for CMB.

### *ABCP Programs*

First National currently sponsors one special purpose vehicle, FNFC Trust, which finances a portion of its originated mortgages through the issuance of ABCP. FNFC Trust does not issue ABCP directly. Instead, it receives loans against its mortgage collateral from direct ABCP issuers, which currently include several ABCP issuing special purpose entities sponsored by several banks. First National also sells its originated mortgages directly to several bank-sponsored special purpose vehicles which issue ABCP. These lenders to FNFC Trust and the other bank-sponsored conduits (collectively, “**ABCP Conduits**”) issue securities to investors.

First National has entered into a series of purchase and sale agreements with the ABCP Conduits with respect to First National’s prime residential and CMHC-insured multi-unit residential origination business. Pursuant to the purchase and sale agreements, First National sells an undivided interest in an underlying mortgage pool to the ABCP Conduits. The ABCP Conduits, in turn, have arrangements with vehicles sponsored by Canadian investment dealers. These arrangements enable the ABCP Conduits to issue ABCP to fund the purchase of mortgages from First National. The cash received from the sale of ABCP flows directly back to First National. Upon the sale of a mortgage to an ABCP Conduit, First National receives cash proceeds against the principal amount of the mortgages and is entitled to receive the difference between the yield on the mortgages and the cost of funds over the remaining life of the mortgages. This stream of income is known as an “*Interest Only strip*” or “*I/O strip*” and is retained by First National. First National records net interest margin as the interest strip is received each month. First National is required to post cash collateral and finance over-collateralization or short-term notes (referred to as “*credit enhancements*”), based on the principal amount of the mortgages within the ABCP Conduits. Except for these credit enhancements and First National’s retained co-ownership interest in the applicable ABCP mortgage pool, the ABCP investors and FNFC Trust have no recourse to First National in the event of a default of the mortgages. The cash collateral is shown as an asset on the balance sheet and is generally returned to First National upon the repayment of the mortgage.

When fixed rate mortgages are sold into FNFC Trust or the bank-sponsored special purpose entities an interest rate swap is entered into, effectively converting the floating rate funding into fixed rate term funding. This strategy protects First National from changes in interest rates and is designed to lock in First National’s spread over the full term of the mortgages.

Securitizations through the ABCP program provide a number of substantial benefits to First National, including:

- the economic value of such a securitization can be higher than the placement fees otherwise earned from institutional placements; and
- the securitizations are transacted through the broader capital markets rather than with private institutions, providing a diverse and independent source of funding.

Beginning in 2019, First National used bank-sponsored securitization programs to fund a portion of its Excalibur originations. These programs increase First National's opportunities for potential returns associated with such mortgages but also increase its exposure to the risks associated with such mortgages.

### *CMBS Conduits*

First National became a participant in the CMBS industry in Canada in 2002 when it entered into a non-exclusive arrangement with a Canadian federally regulated bank. Under the terms of that arrangement, First National and the federally regulated bank originated multi-unit residential and commercial mortgages for inclusion in CMBS pools issued by Schooner Trust, a special purpose trust created and sponsored by the federally regulated bank for the purpose of issuing CMBS. Under this arrangement, First National participated in the profits of the issuance based on the mortgages it contributed to the issue. During the intervening period, First National originated various amounts of mortgages for CMBS transactions sponsored by various Canadian Banks.

Upon the securitization of mortgages into a CMBS pool, various classes (AAA, AA etc.) of bonds secured by, or certificates representing co-ownership interests in, mortgages in the pool are issued. A final class of bonds, known as "*Interest Only strips*" or "*I/O strips*", representing the cash flows from the difference between the interest rate on the mortgages in the CMBS pool and coupon rates on the bonds or certificates, is sold at the time of issue. First National's share of the proceeds from the sale of all these classes less the face value of the mortgages, any costs of origination and the costs of issuance is recognized as a placement fee. During the term of the mortgages in the CMBS pool, First National earns a servicing fee for acting as the Primary Servicer and frequently administration fees for acting as the Master Servicer. As of December 31, 2022, First National was either Primary or Master Servicer for approximately \$1.2 billion of multi-unit residential and commercial mortgages in CMBS pools.

Generally, First National is positioned to originate mortgages for CMBS pools and may participate as a Seller, Primary Servicer, or Master Servicer based on market conditions.

## **Environmental, Social and Governance**

First National issued its initial Public Accountability Statement in the fall of 2021. This report explores First National's approach to sustainability and provides environmental, social and governance disclosure that has been reviewed and approved by the Board of Directors of the Corporation (the "**Board**").

## **Intangible Property**

First National is the owner of a number of trademarks including the First National Financial Corporation design, First National Financial LP and Acorn design, MERLIN®, MERLIN design, EXCALIBUR®, and EXCALIBUR design.

First National regards all of its trademarks as having substantial value and as being an important factor in the marketing of its products. First National's policy is to pursue registration of its trademarks whenever appropriate and to vigorously oppose any infringement of its trademark rights.

## **Employees**

As of December 31, 2022, First National had approximately 1,686 active employees in offices located in Toronto, Montreal, Halifax, Calgary and Vancouver.

## Risk Factors

An investment in the Corporation's securities involves a number of risks. In addition to the other information contained in this Annual Information Form and the Corporation's other publicly filed disclosure documents, prospective purchasers should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Any of the matters highlighted in these risk factors could have a material adverse effect on the Corporation's business, financial condition or results of operations, or on the amount of cash available for dividends to the Corporation's shareholders (the "**Shareholders**"). Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers immaterial, may also have a material adverse effect on the Corporation's business, financial condition, or results of operations or on the amount of cash available for dividends to Shareholders.

### Risks Related to the Business

#### *Continuing Impact of the COVID-19 Pandemic*

The COVID-19 pandemic has disrupted the economy and put unprecedented strains on governments, health care systems, businesses and individuals around the world. The impact and duration of the COVID-19 pandemic are difficult to assess or predict. It is even more difficult to predict the impact on the global economic market, which will depend upon the actions taken by governments, businesses and other enterprises in response to the pandemic. The COVID-19 pandemic has already caused, and may result in further, significant disruption of global financial markets and economic uncertainty. The COVID-19 pandemic has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders, and business limitations and shutdowns. Such measures have contributed to unemployment and negatively affected consumer and business spending. The extent to which the COVID-19 pandemic affects our financial results will depend on future developments, which are still somewhat uncertain and cannot be predicted. This includes new information that may emerge concerning the severity of COVID-19 variants and the actions taken by governments to curtail or treat its impact, including shelter-in-place directives, business limitations and shutdowns, travel bans and restrictions, loan payment deferrals (whether government-mandated or voluntary), moratoriums on debt collection activities and other actions, which, if imposed or extended, may impact the economies in which the Corporation now, or may in the future, operate. Adverse market conditions resulting from the spread of COVID-19 could materially adversely affect our business results of operations and financial condition.

An increase in delinquent payments by borrowers may negatively affect the Corporation's financial position. No assurance can be made regarding the policies that may be adopted by the Bank of Canada, Canadian federal, provincial or municipal governments, their agencies or any foreign government to address the effects of COVID-19 or market volatility. It is possible that the BoC may continue interest rate increases. Any such increases may occur at a faster rate than expected. To the extent that interest rates increase as a result of the BoC's actions or otherwise, the availability of refinancing alternatives for mortgages and other loans may be reduced. No assurance can be made regarding such matters or their effect on real estate markets generally and on the value and performance of mortgage loans. The Corporation actively monitors regulatory developments and will adjust to any regulatory changes that may arise as a result of the COVID-19 pandemic.

The COVID-19 pandemic has led to disruptions of the Corporation's business activity and a sustained outbreak may have a negative impact on the Corporation and its financial performance in the future. The Corporation has business continuity policies in place and is developing additional strategies to address potential disruptions in operations. However, no assurance can be made that such strategies will mitigate the adverse future impacts related to the COVID-19 pandemic. A prolonged COVID-19 pandemic could adversely impact the health of the Corporation's employees, customers and other stakeholders.

### *Geopolitical Events*

Events such as war and occupation, terrorism and related geopolitical risks may lead to increased market volatility and may have adverse short-term and long-term effects on world economies and markets generally, including Canadian, U.S., European and other economies and securities markets. For example, in response to the current conflict between Russia and Ukraine, Canada has implemented economic sanctions against Russia and/or certain Russian individuals or organizations and may impose further sanctions or other restrictive actions against governmental or other individuals or organizations in Russia or elsewhere. The effects of disruptive events could affect the economies and securities markets of countries in ways that cannot necessarily be foreseen at the present time. These events could also exacerbate other pre-existing political, social and economic risks. Such events could also cause substantial market volatility, exchange trading suspensions and closures and affect the Corporation's performance, the price of its securities and its ability to successfully raise capital at reasonable rates.

### *Reliance on Sources of Funding and Credit Market Disruption*

First National uses primarily institutional placements and securitization vehicles and, to a lesser extent, its own equity and available secured and unsecured debt as sources of capital for financing mortgages. First National's securitization programs access the capital markets for the issuance of NHA-MBS, CMB, ABCP and CMBS. First National's ability to continue to fund and securitize mortgages, to honour its mortgage commitments to borrowers and to ultimately collect on its retained interests is dependent upon the performance of existing securitization structures, on market conditions for these types of instruments and on commitments of institutional investors. Changes in market conditions, rating agency ratings or requirements, accounting standards, the commitments of institutional investors, the performance of the mortgage portfolio or regulatory requirements could result in an increase in the costs within the securitization structures, temporary periods in which the structures or institutional placements are not available or permanent unavailability of the structures or institutional placements. First National's retained interest in securitization structures may be adversely affected by these changes or the underlying performance of the assets in the structure. Any such adverse changes may require First National to recognize a write down of the retained interest in future periods due to First National's gain on sale accounting.

If the mortgages First National has placed or securitized in the past perform poorly, such mortgages may adversely affect the perceived value of any future mortgages First National attempts to place or securitize. First National's access to the mortgage placement and securitization markets depends upon a number of factors, including general economic conditions, spreads on mortgages relative to other investments, conditions in the securities markets generally and conditions in the asset-backed securities market specifically. Accordingly, a decline in the securitization or placement markets or a change in either market's demand for First National's mortgages could adversely affect First National's ability to place or securitize its mortgages, which could negatively impact First National's financial condition and results of operations and decrease the amount of cash available for distribution. In addition, in order to permit growth in First National's value of mortgage originations, First National will need access to higher levels of funding from institutional placements and securitizations.

First National cannot predict the duration of its funding sources, nor can it predict the extent to which a future credit market disruption could affect First National's ability to raise capital for financing mortgages. Since First National is unable to predict if the capital markets (including ABCP) will continue to function at levels experienced in the previous year, it is also unable to predict whether funding spreads and liquidity will continue to provide First National with cost efficient funding for its mortgages.

The Credit Facility is used primarily to fund mortgages accumulated for sale and securitization and for general corporate purposes. The lenders under the Credit Facility have a charge over First National's and the Corporation's assets, including its mortgage assets, and the Credit Facility requires that First National and the

Corporation adhere to certain financial covenants. Failure to adhere to these financial covenants could result in the cancellation and requirement to repay the debt facilities. If the lenders under the Credit Facility terminate or do not renew the facilities, or First National cannot replace the maturing facilities on favourable terms, First National may not be able to continue to fund mortgage originations and securitization receivables, which could have a material adverse effect on First National's business, financial condition and results of operations, and on the amount of cash available for dividends to Shareholders.

The Corporation may need to increase the borrowing capacity available under its credit facilities in order to increase mortgage originations and grow the business of First National. If the Corporation is unable to increase its borrowing capacity, its ability to grow First National's business may be impaired.

#### *Customer Concentration Risk*

In 2022, First National placed 24% of all new mortgages it originated with one institutional investor that is a Canadian financial institution. Placement fees and mortgage servicing income from this institutional investor represent approximately 12.7% of First National's total revenue, a decrease from 19.6% in 2021. If this institutional investor was to terminate its relationship with First National or reduce its acquisitions of mortgages from First National and First National was unable to replace such institutional investor with another institutional investor or obtain alternative securitization sales at similar pricing for mortgages purchased, this could have a material adverse effect on First National's business, financial condition and results of operations, and on the amount of cash available for dividends to Shareholders. First National also has the risk that one or more institutional investors do not honour the mortgage purchase commitments made to First National. Due to the large size of such commitments, any termination or failure to honour such commitments could result in a significant adverse financial impact on the Corporation.

#### *Reliance on Independent Mortgage Brokers*

First National's mortgage operations are dependent on a network of mortgage brokers. The mortgage brokers with whom First National does business are not contractually obligated to do business with First National. Further, First National's competitors also have relationships with the same brokers and actively compete with First National in its efforts to expand its broker network and originate mortgage loans. First National may find it difficult to attract new mortgage business from this network of brokers, or sustain current levels, to meet its needs. The failure by First National to sustain or increase its current level of mortgage origination from these sources could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Changes in Interest Rates and Hedging Activity*

Rising interest rates generally reduce the demand for credit, including mortgages, increase the cost of borrowing and may discourage potential borrowers from purchasing new properties, refinancing their existing mortgages or obtaining cash to retire other debt. Consequently, First National may originate fewer mortgages, or a lower dollar amount of mortgages, in a period of rising interest rates. Increases in interest rates may also cause a lack of liquidity among First National's institutional investors, potentially reducing the number of mortgages such purchasers would otherwise buy. Increases in interest rates could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

In order to reduce the risk of interest rate fluctuations, First National engages in hedging activity in the capital markets during the period between the time a residential or commercial mortgage is committed to the borrower and the time the mortgage is funded and placed with an institutional investor or sold to a securitization vehicle. First National's hedging strategies generally involve large notional values of Government of Canada or Canada Housing Trust issued bonds. Accordingly, this activity has certain risks, as

the reliance on an unsuccessful hedging strategy, or the use of ineffective hedges may result in or magnify losses and could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders. These risks include but are not limited to bond market liquidity and the Corporation's ability to transact at market rates.

First National attempts to always match floating rate yields on mortgage assets with floating interest rate funding. While the funding interest rates offered by the ABCP market are considered to be floating rate, and the yields offered on mortgage assets may also be floating rates (or swapped into floating rates), the actual benchmarks used to set these rates are not the same and the differences between the benchmarks fluctuate from time to time. Single-family residential mortgages are typically priced with reference to a prime rate. Fixed rate single-family residential mortgages are typically swapped to a banker's acceptance-linked rate. Multi-unit residential and commercial mortgages are typically priced with reference to the previous month's actual cost of funds provided by the bank sponsored ABCP conduits. The mortgage assets generate yields tied to different market reference rates while the cost of funds is based on actual ABCP rates set in the market based on supply and demand. The difference between these market reference rates and actual ABCP rates paid will vary. This variability is called "*basis risk*". While this variability is often minimal, it is difficult to economically hedge or entirely eliminate such variability and First National does incur this basis risk as part of its normal course operations.

In periods of declining interest rates, prepayments on mortgages tend to increase as a result of borrowers taking advantage of lower interest rates to refinance higher interest rate mortgages, or as a result of borrowers purchasing new properties and prepaying their existing mortgages. A reduction in the number of mortgages under First National's administration could result in a decrease in the amount of funds received from servicing these mortgages. This could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders. Significant declines in bond yields also result in losses on account of the change in value of financial instruments employed for First National's hedging activities. First National's hedging program is designed to mitigate the interest rate risk of holding mortgages from commitment date to the date of securitization. However, the offsetting gain on the hedged mortgages will be realized over the 5 and 10-year terms of the mortgages as interest rate spread is earned. The mismatch between the payment of cash on the close out of hedge positions and longer payback period realized on the mortgages impacts First National's liquidity. First National is also exposed to widening credit spreads between the date of hedging and the ultimate securitization of the related mortgage.

#### *Reliance on Financial Models*

First National uses internal financial models that utilize, wherever possible, market data to value certain of First National's assets and liabilities, including a portion of mortgages pledged under securitization, mortgage and loan investments, deferred placement fees receivable and swap derivatives. These models are complex and use asset-specific data and market inputs for interest and discount rates. If the estimates or assumptions used in these models prove to be incorrect, First National may be required to record impairment charges. Even if the general accuracy of First National's value models is validated, valuations are highly dependent upon the reasonableness of First National's assumptions and the predictability of the relationships that drive the results of the models. In preparing these models, First National makes certain assumptions, many of which are beyond its control, including, among other things:

- the rates of prepayment and repayment for mortgage loans;
- projected rates of delinquencies, defaults and liquidations;
- future interest rates;
- future credit spreads; and
- discount rates.

If these assumptions or relationships prove to be inaccurate, market conditions change or if errors are found in First National's models, the value of certain of First National's assets may decrease. First National may be required to record impairment charges, which could impact First National's ability to satisfy minimum net worth covenants and borrowing conditions in debt agreements and may adversely affect First National's business, financial condition or results of operations.

#### *Repurchase Obligations and Breach of Representations and Warranties on Mortgage Placements*

First National places the mortgages it originates as soon as is practicable after committing to the mortgages. Mortgage placements are made under agreements with institutional investors and securitization conduits which are, in many respects, favourable to the mortgage purchaser. When placing mortgages, First National makes a variety of customary representations and warranties regarding itself, its mortgage origination activities and the mortgages that are placed. These representations and warranties survive for the life of the mortgages and relate to, among other things, compliance with laws, mortgage underwriting and origination practices and standards, the accuracy and completeness of information in the mortgage documents and mortgage files, and the characteristics and enforceability of the mortgages. In many cases, these provisions do not have any cure periods and are not subject to any materiality threshold.

Through its mortgage origination and underwriting processes, First National attempts to verify that its mortgages are originated and underwritten in accordance with the applicable requirements and comply with representations and warranties made by First National. There can be no assurance, however, that First National will not make mistakes or that certain employees or brokers will not deliberately violate First National's underwriting or other policies, and breaches of representations and warranties may occur from time to time. First National's mortgage sale agreements generally require it to repurchase or substitute mortgages in the event it has breached a representation or warranty made to the mortgage purchaser, and/or to indemnify the mortgage purchaser against any loss or damage it may suffer. Any requirement for First National to repurchase or substitute a significant number of mortgages that it has placed or to indemnify mortgage purchasers could have a negative impact on First National's financial condition and results of operations and could decrease the amount of cash available for distribution. Significant breaches of mortgage sale agreements may also discourage mortgage purchasers from doing business with First National, which could have a negative impact on First National's ability to sell mortgages and could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

When First National funds mortgages, it relies heavily upon information supplied by third parties including the information contained in the mortgage application, property appraisal, title information and employment and income documentation. If any of this information is misrepresented and the misrepresentation is not detected before mortgage funding, the value of the mortgage may be significantly lower than expected. Whether the mortgage applicant, the mortgage broker, another third party or one of First National's employees makes a misrepresentation, First National generally bears the risk of loss associated with the misrepresentation. A mortgage subject to a misrepresentation may be unsaleable in the ordinary course of business or may be subject to repurchase or substitution if it is sold before detection of the misrepresentation or may require First National to indemnify the mortgage purchaser. The persons and entities that made a misrepresentation are often difficult to locate and it may be difficult to collect from them any monetary losses

First National may have suffered. While First National has controls and processes designed to help it identify misrepresented information in its mortgage origination operations, there can be no assurance these controls and processes have detected or will detect all misrepresented information.

#### *Servicing Advances*

During any period in which a borrower does not make contractual payments, First National may be required under certain servicing agreements to advance its own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums, legal expenses and other protective amounts. First National may also advance funds to maintain, repair and market real estate properties on behalf of investors and insurance companies. As home values change, First National may have to reconsider certain of the assumptions underlying its decisions to make advances, and in certain situations contractual obligations may require First National to make certain advances for which it may not be reimbursed. In addition, in the event a mortgage loan serviced by First National defaults or becomes delinquent, the repayment to First National of any advance may be delayed until the mortgage loan is repaid or refinanced or liquidated. A delay in First National's ability to collect advances may adversely affect First National's liquidity. To the extent First National is not reimbursed for advances, First National's business, financial condition and results of operations could be adversely affected.

#### *Risk of Servicer Termination Events and Trigger Events*

Under First National's servicing arrangements, there are circumstances that may result in a "servicer termination event" which can provide the investor or securitization conduit with the option to replace First National as its servicer. Further, such servicing arrangements may include provisions that permit the investor or securitization conduit to terminate First National on convenience and without cause. Such an event could result in a reduction of First National's total mortgages under administration and loss of future servicing revenue and customer relationships leading to a loss of potential mortgage renewals. Examples of servicer termination events include failures by the servicer to make payments or deposits within the time required, and servicer representations or warranties which prove to be false or incorrect in any material respect, and remain unremedied for a stipulated period after notice to the servicer. Servicer termination events could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

A servicer termination event could also lead to a "trigger event." In certain circumstances, the occurrence of a trigger event can result in an accelerated repayment of an ABCP loan made to FNFC Trust or the other ABCP conduits with which First National has agreements, causing an early termination of the securitization program. Upon the occurrence of a trigger event, no amounts in respect of First National's retained co-ownership interest and interest spread in the applicable mortgage pool would be paid to First National until the relevant ABCP loan has been repaid. Instead, such amount would be used to repay the affected ABCP loan. Upon the occurrence of a trigger event, First National could be required, at its own expense, to execute and deliver registrable transfers for the mortgages and related security to the ABCP conduit, and would not be able to carry out any further sales under the affected program unless and until the trigger event is cured. Such trigger events could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Cash Collateral and Retained Interest*

Securitization of mortgages may involve First National entering into a series of purchase and sale agreements with special purpose vehicles created or used by First National to finance its originated mortgages through the issuance of ABCP. As part of the transactions, First National is required to post cash collateral and the "credit enhancements" which are based on the principal amount of the mortgages. Upon the default of a mortgage, the ABCP investors and the special purpose vehicles have recourse to this cash collateral. A rise in the level of

mortgage defaults leading to the loss of cash collateral amounts would result in a decrease in First National's funds, and could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders. First National's retained interest in securitization structures may be adversely affected by changes in market conditions, rating agency ratings or requirements, accounting standards, the performance of the mortgage portfolio or regulatory requirements.

#### *Reliance on Multi-Unit Residential and Commercial Mortgages*

The number of multi-unit residential and commercial properties developed or resold each year tends to be cyclical, and depends on a number of factors, including overall economic growth, interest rates and business and population growth. For the last several years, First National has benefited from low interest rates, and a lack of competition. There is no guarantee that these trends will continue or that First National will be able to originate the same volume of multi-unit residential and commercial mortgages it has in the past. Although the number of multi-unit residential and commercial mortgages administered by First National is a fraction of the number of single-family residential mortgages First National administers, as of December 31, 2022, approximately 32% of the dollar value of First National's total mortgages under administration was represented by multi-unit residential or commercial mortgages. Any reduction in the levels of multi-unit residential or commercial mortgages administered by First National could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *General Economic Conditions*

In the pandemic period from 2020 through part of 2022, the mortgage financing industry in Canada benefited from historically low interest rates and generally housing activity increased significantly. In early 2022, the BoC began what became a series of decisions to increase its overnight target interest rate, which, in turn, led to increased mortgage rates. Between March 2, 2022 and January 25, 2023, the overnight rate increased eight times from 0.25% at the beginning of March to 4.50% by the end of January 2023. Throughout most of these increases (except the most recent), the BoC's statements indicated the likelihood of more interest rate hikes to follow. The Corporation believes these increases contributed to significantly higher mortgage rates and reduced the affordability of housing across the country. There is a risk that such increases in interest rates could slow the pace of property sales and adversely affect growth in the mortgage market, which could adversely affect First National's operations and stated growth initiatives. In addition, risks associated with high Canadian household indebtedness remain elevated. A decline in general economic conditions could also cause default rates to increase as creditworthiness decreases for borrowers. This could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

In addition, a significant decline in real estate values could negatively affect First National's operating results and growth prospects as this would result in a decrease in the value of mortgage transactions. As property values decline, security on mortgages could also be adversely affected, thereby reducing the ability to liquidate properties held by defaulting borrowers at favourable prices. While this may not have a significant immediate effect on First National's operating results, given the nature of First National's business and the relatively low proportion of mortgages First National finances with its internal resources (either through bridge lending or a retained interest on securitized mortgage pools), First National's servicing performance could be adversely affected, as would its ability to sell mortgages in the future, either through institutional placements or securitization vehicles, thereby adversely affecting First National's profitability and distributable cash.

The profits earned on mortgage sales depend, in part, on the spread between mortgage rates and capital market funding rates and any fee income derived therefrom. First National's mortgage portfolios include assets whose value can fluctuate because of changing interest rates and economic and market conditions. In addition, some

of these assets could be difficult to sell at any given time. Changes in interest rates and other market factors such as stock market prices and demographics could affect the preferences of its customers for different types of products and adversely impact First National's profitability. A reduction in positive spreads between mortgage rates and capital market funding rates could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

In addition, there are economic trends and factors that are beyond First National's control and which may affect its operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for First National's products and services (including oil-dependent provincial economies), the conditions in the broader market for residential and commercial mortgages and the conditions in the domestic or global economy generally. Although First National's performance is affected by the general condition of the economy, not all of its service areas are affected equally. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on performance. There is no guarantee that the revenue, asset and profit growth that First National has historically generated will continue or that any of First National's targets for distributable cash or other performance expectations will be achieved.

#### *Government Regulation*

First National is currently regulated under mortgage broker, lending and other legislation in all of the jurisdictions in which it conducts business and is licensed or registered in those jurisdictions where licensing or registration is required by law. Changes in regulatory legislation or the interpretation thereof, or the introduction of any new regulatory requirements could have a negative effect on First National and its operating results. There are different regulatory and registration requirements in each of the jurisdictions in Canada. First National takes the position that it is appropriately registered in the jurisdictions in which it conducts business, however, it may voluntarily seek additional registration in respect of its activities or from time to time regulators may adopt a different view that may require First National to seek additional registration. Failure to be appropriately registered could result in enforcement action and potential interruption of certain of First National's servicing or other activities and may result in a default under servicing agreements. This could have a material adverse effect on First National's business, financial condition and results of operations.

In addition, as an approved lender under the National Housing Act, First National can originate CMHC, Sagen and Canada Guaranty insured mortgages. Any change in First National's status as an approved lender under the National Housing Act could have a material adverse effect on First National's business, financial condition and results of operations.

Finally, as an approved NHA-MBS issuer and CMB seller, First National, together with an agreement with an investment grade swap counter party, is able to access these markets. Any change in First National's status as an approved issuer or seller, or inability to engage a swap counter party, or any occurrence which would result in the limitation of First National's access to the CMB, could have a material adverse effect on First National's business, financial condition and results of operations. As an approved NHA-MBS Issuer and CMB Seller, First National Asset Management Inc. will share similar risks in respect of its NHA-MBS and CMB programs once operations commence.

Future changes to the NHA-MBS and CMB programs by CMHC may limit the extent to which First National and First National Asset Management Inc. participate in and receive financial benefits of such programs or may increase First National's or First National Asset Management Inc.'s operating costs and the expense of participation in such programs. Such modifications could have a material adverse effect on First National's and First National Asset Management Inc.'s business, financial condition and results of operations and in the case of First National, the amount of cash available for dividends to Shareholders.

### *Competition*

First National's products compete with those offered by banks, insurance companies, trust companies and other financial services companies. Some of these competitors are better capitalized, hold a larger percentage of the Canadian mortgage market, have greater financial, technical and marketing resources than First National and have greater name recognition than First National. First National experiences competition in all aspects of its business, including price competition. If price competition increases, First National may not be able to raise the interest rates it charges in response to a rising cost of funds or may be forced to lower the interest rates that it is able to charge borrowers, which has the potential to reduce the value of the mortgages First National places with institutional mortgage purchasers or securitization vehicles. Price-cutting or discounting may reduce profits. This could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

### *Reliance on Mortgage Insurers*

First National relies to a great extent on mortgage insurance provided by CMHC, Sagen and Canada Guaranty to carry on its business. Should such insurance not be available in the future including as a result of the loss of First National's "approved lender" status or should the current credit ratings for CMHC, Sagen or Canada Guaranty decline or should CMHC, Sagen or Canada Guaranty be unable to fulfill their insurance payment obligations, such event would have an adverse effect on First National's ability to place and syndicate or sell mortgages originated by it. This could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

### *Reliance on Key Personnel*

First National's operations are dependent on the abilities, experience and efforts of its management and other key employees including Stephen Smith, the Executive Chairman, Jason Ellis, President and Chief Executive Officer, Moray Tawse, Executive Vice-President and the senior management team. Should any of these persons be unable or unwilling to continue in their employment, this could have a material adverse effect on First National's business, financial condition and results of operations.

### *Conduct and Compensation of Independent Mortgage Brokers*

The mortgage brokers through whom First National originates residential mortgages have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold mortgage lenders, such as First National, responsible for the non-compliance of mortgage brokers, there is a risk that liability could be imposed onto the mortgage lender. First National exercises little or no control over the activities of the independent mortgage brokers through whom it originates its residential mortgages. Nevertheless, First National may be subject to claims for fines or other penalties or liabilities based upon the conduct of independent mortgage brokers which may have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

### *Failure or Unavailability of Computer and Data Processing Systems and Software*

First National is dependent upon the successful and uninterrupted functioning of its computer and data processing systems and software including MERLIN™ as well as the customized software developed by First National as part of its third-party underwriting services. The failure or unavailability of these systems could interrupt operations or materially impact First National's ability to originate, monitor or service customer accounts or comply with contractual obligations to third parties. If sustained or repeated, a system

failure or loss of data could negatively affect the operating results of First National. In addition, First National depends on automated software to match the terms of its liabilities and asset maturities. If such software fails or is unavailable on a prolonged basis, First National could be required to manually complete such activities, which could have a material adverse effect on First National's business, financial condition and results of operations.

#### *Cyber Risk*

By the nature of its business, First National maintains confidential and personal information regarding customers in its computer systems and with third party service providers. A security breach, computer virus, programming error, attack by outside parties or similar disruptive problems may have a material adverse effect on First National's business, financial condition and operations or result in a breach of personal information of First National's customers which may damage First National's reputation or result in liability to customers and third parties. Security breaches experienced by third party service providers or inadequate levels of security by such parties pose a risk for all companies including First National. First National has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that it will not incur such losses in the future. First National's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As these crimes increase in scope and complexity, First National must advance and strengthen its cyber defense program and review the cyber security programs of its service providers to assess their ability to respond to existing and emerging threats.

#### *Insufficient Insurance Coverage*

First National maintains property, general liability, mortgage impairment, forced placed property, errors and omissions, business interruption, cyber and directors and officers' liability insurance on such terms as it deems appropriate. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of First National's lost investment. This insurance may not remain available to it at commercially reasonable rates. Future increases in insurance costs, coupled with the increase in deductibles, will result in higher operating costs and increased risk. Not all risks faced by First National are insured.

#### *Change in or Loss of Ratings*

First National is rated and/or approved as a Master, Primary and Special Servicer for CMBS by S&P and Fitch rating agencies. These ratings are a pre-requisite for servicers wishing to service mortgages on behalf of vehicles issuing investment and non-investment grade debt rated by these agencies. First National is also rated by DBRS as an issuer of public securities. This rating is required by the Corporation to issue share or debt capital. Counterparties also rely on this rating as part of their credit assessment of the Corporation and First National. An adverse change in or loss of First National's ratings by these agencies would constitute a default under First National's servicing agreements and may result in a "servicer termination event" or "trigger event" thereunder. In addition, First National's future servicing revenue would decline and customer relationships would deteriorate, resulting in a loss of investor renewals, which may have a material adverse affect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Impact of Natural Disasters and Other Events*

Various events, including natural disasters, extreme weather conditions, climate change, global health crises, war and terrorism may cause a significant decline in the value of the properties underlying First National's mortgages under administration and/or adversely affect the capacity of borrowers to repay mortgages, capital resources of borrowers that can be used to cover any shortfalls, collateral in support of mortgages and

conditions of mortgages. Deterioration in these factors could lead to difficulties in repayment of mortgages or a decline in the performance of mortgage portfolios or of assets in securitization structures, possibly resulting in higher loan losses and a decline in the return of First National's securitization vehicles, thereby having a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Environmental Liability*

If First National exercises its remedies as a mortgagee on properties securing mortgage loans that are in default, there is a risk that hazardous or toxic waste could be found on those properties, and First National could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and cleanup costs incurred in connection with the contamination. As the owner or lender, or former owner or lender of a contaminated site, First National could be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If First National were to become subject to significant environmental liabilities, it could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Legal and Regulatory Risk*

First National may, from time to time, become party to legal actions or regulatory proceedings in the course of ordinary business including disputes regarding its products, licensing, disclosures, regulatory compliance and business practices; disputes with third parties, vendors, subcontractors, employees, agents or brokers over contractual terms, termination of contract, compensation and related claims or disputes with taxing authorities regarding its taxing liabilities and tax assets. The existence of such claims against First National or its affiliates, directors or officers, enforcement action by a regulator or a significant monetary judgement against First National in a legal action could have an adverse effect on First National's business, financial condition and results of operations and the amount of cash available to shareholders.

#### *Ability to Sustain Performance and Growth*

First National's revenue and EBITDA have grown significantly over the past decade. First National's future operating results will depend on a number of factors, including its ability to maintain its level of performance and successfully execute First National's growth strategies. First National's past results and growth may not be indicative of its prospects and there can be no assurance that First National will sustain its level of performance or grow profitably in future periods. In addition, continued growth by First National may result in additional operating expenses and capital expenditures. There can be no assurance that First National will be able to effectively manage growth, and any failure to do so could have a material adverse effect on First National's business, financial condition and results of operations and on the amount of cash available for dividends to Shareholders.

#### *Third Party Administration Services*

One of First National's lines of business is the provision of mortgage administration services to third party originators. The servicing fees charged under these administration arrangements, while typically lower than the standard servicing fees charged by First National when servicing First National originated mortgages, are nevertheless significant. Such arrangements are subject to various termination rights. Although management has been successful in the operation of this line of business there can be no assurance that any third-party administration contract will continue or be renewed. In October 2019, the sale transaction involving an institution for which First National administers a large portfolio of third party originated mortgages, was completed. The new owners of the institution may decide not to renew the existing contract with

First National or to exercise termination clauses within the agreement. If this contract is terminated or not renewed, it could have an adverse effect on First National's results of operations.

#### *Third Party Underwriting Services*

Since the launch in 2014 of First National's third-party underwriting services division, First National has agreed to provide underwriting and fulfillment services to third parties on terms and conditions set out in the contracts between First National and such parties. There can be no assurance, however, that First National will not make underwriting errors or that certain employees will not deliberately violate the underwriting policies or other requirements of the third parties and breaches of representations and warranties may occur from time to time. Any requirement for First National to indemnify such third parties for breaches in any significant amount may have a material adverse effect on First National's business, financial condition and results of operations and the amount of cash available for dividends to Shareholders.

Although management has been successful in operating its third-party underwriting department, First National may be required to implement changes in certain aspects of its business, improve and expand its management information systems and develop, manage and train management level and other employees to comply with the contracts requirements. Failure to take such actions, or delay in the implementation thereof, could have a material adverse effect on First National's business, financial condition and results of operations.

### **Risks Related to the Structure of the Corporation**

#### *Dependence on First National Financial LP*

The Corporation is entirely dependent on the operations and assets of First National, and the dividends to Shareholders are not guaranteed, and will be dependent on the ability of First National to pay distributions to the Corporation. The ability of First National to pay distributions or make other payments or advances to the Corporation will be subject, among other things, to applicable laws and contractual restrictions contained in the instruments governing any indebtedness (including the Credit Facility).

#### *Taxation Risks*

The Corporation is subject to Canadian federal and provincial income and commodity tax laws and pays such taxes as it determines are compliant with such legislation. Among the risks of all potential tax matters, there is a risk that tax legislation changes to the detriment of the Corporation or that Canadian tax authorities interpret legislation differently than the Corporation's filing positions.

#### *Leverage and Restrictive Covenants*

The Credit Facility matures in March 2027. The degree to which First National is leveraged could have important consequences to Shareholders, including the following: (i) the ability of First National to obtain additional financing for mortgage originations by First National, working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of First National's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) the borrowings under the Credit Facility are at variable rates of interest, which exposes First National to the risk of increased interest rates; and (iv) First National may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. First National's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its' future operating performance and cash flows, which are subject

to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The ability of First National to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of First National or the Corporation, where First National is a borrower or covenantor (including the agreements governing the Credit Facility, Series 2 Notes and Series 3 Notes). The Credit Facility contains restrictive covenants customary for credit facilities of this nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Corporation and First National to incur additional indebtedness, to pay distributions or make certain other payments and to sell or otherwise dispose of material assets. In addition, the Credit Facility contains a number of financial covenants that require First National to meet certain financial ratios and financial tests. Failure to comply with the obligations in the Credit Facility could result in an event of default that, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the assets of First National would be sufficient to repay in full that indebtedness.

The trust indenture governing the Series 2 Notes and Series 3 Notes contains restrictive covenants that limit the discretion of management of the Corporation with respect to certain business matters including a restriction on the ability of the Corporation and First National to incur additional indebtedness. The trust indenture also requires that the Corporation adhere to certain financial covenants. Failure to comply with the obligations or covenants in the trust indenture could result in an event of default that, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the trust indenture were to be accelerated, there can be no assurance that the assets of the Corporation, or its subsidiaries, as guarantor, would be sufficient to repay in full that indebtedness.

#### *Cash Dividends Are Not Guaranteed and Will Fluctuate with First National's Performance*

Although the Corporation intends to distribute a large portion of its after-tax earnings through monthly dividends, there can be no assurance regarding the amounts of income to be generated by First National and paid to the Corporation. Future dividend payments and the level thereof will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures, the satisfaction of solvency tests imposed by the OBCA for the declaration of dividends, overall liquidity and other conditions existing at such future time. The market value of the common shares of the Corporation (the "**Common Shares**") may deteriorate if the Corporation is unable to meet market expectations for dividends in the future and that deterioration may be material.

#### *Restrictions on Potential Growth*

The payout by First National of a large portion of its after-tax earnings will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of First National and the related cash flow to the Corporation.

#### *Market Price of Shares*

Publicly traded corporations, such as the Corporation do not necessarily trade at prices determined solely by reference to the underlying value of their investments. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of the Common Shares in the public trading markets. Increases in market rates of interest may lead purchasers to demand a higher yield on the Common Shares, which may adversely affect their price. In addition, the market price for securities and other factors are beyond the Corporation's control.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares. The market value of the Common Shares may deteriorate if the Corporation is unable to meet its dividend targets in the future, and that deterioration may be material.

#### *High Concentration of Ownership in Common Shares*

Collectively, Stephen Smith (“**Smith**”), the Executive Chairman of the Board, and Moray Tawse (“**Tawse**”), the Executive Vice President of the Corporation, indirectly own Common Shares of the Corporation representing approximately 71.4% of the Corporation’s outstanding Common Shares as of March 27, 2023. As a result, Smith and Tawse collectively own Common Shares sufficient for the majority vote over all matters requiring a Shareholder vote, including: the election of directors; mergers, consolidations and acquisitions; the sale of all or substantially all of the Corporation’s assets and other decisions affecting the Corporation’s capital structure; the amendment of the Corporation’s articles of incorporation and bylaws; and the Corporation’s wind up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favoured by other Shareholders. The collective interests of Smith and Tawse may not always coincide with the interests of other Shareholders. Also, Smith and Tawse may collectively seek to cause the Corporation to take courses of action that, in their judgment, could enhance their investment in the Corporation, but which might involve risks to other Shareholders or adversely affect the Corporation or other Shareholders. As a result, the market price of the Corporation’s Common Shares could decline or Shareholders might not receive a premium over the then-current market price of the Corporation’s Common Shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of the Corporation’s Common Shares because investors may perceive disadvantages in owning shares in a company with such a concentration of Shareholders.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Description of Capital Structure**

The authorized capital of the Corporation consists of: unlimited Common Shares; unlimited Class A Preference Shares (the “**Preferred Shares**”, each a “**Preferred Share**”), issuable in series.

As at March 27, 2023, the Corporation had issued and outstanding 59,967,429 Common Shares, 2,984,835 Class A Preference Shares, Series 1 (the “**Series 1 Preference Shares**”) and 1,015,165 Class A Preference Shares Series 2 (the “**Series 2 Preference Shares**”). The summary below of the rights, privileges, restrictions and conditions attaching to the Common Shares and to the Preferred Shares, respectively, is subject to, and qualified in its entirety by reference to, the Corporation’s articles and by-laws which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Common Shares

Each Common Share entitles the holder thereof to one (1) vote at all meetings of Shareholders, except where holders of another class are entitled to vote separately as a class as provided by law or the rules of any applicable stock exchange. Subject to the rights of the holders of the Preferred Shares and of any other class of shares ranking senior to the Common Shares, the holders of Common Shares are entitled to such dividends as the Directors may declare from time to time, which dividends are payable in money or property or by issuing fully paid shares of the Corporation.

Subject to the prior rights of the holders of the Preferred Shares and of any other class of shares ranking senior to the Common Shares, in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the

purpose of winding-up its affairs, the holders of Common Shares are entitled to receive the remaining property and assets of the Corporation.

#### Class A Preference Shares, Series 1

On January 25, 2011, the Corporation completed an offering of 4,000,000 Series 1 Preference Shares for gross proceeds of \$100,000,000.

The 4,000,000 Series 1 Preference Shares are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of March, June, September and December, at an annual rate of \$1.1625 per share for each year up to and including March 31, 2016.

For each five-year period after March 31, 2016, the holders of Series 1 Preference Shares are entitled to receive reset fixed cumulative preferential cash dividends as and when declared by the Board, payable quarterly on the last day of March, June, September and December. The reset annual dividends per share will be determined by multiplying \$25.00 per share by the annual fixed dividend rate, which is the sum of the five-year Government of Canada Bond Yield on the applicable reset date plus 2.07%.

On each Series 1 Conversion Date, being March 31, 2016, and March 31 every five years thereafter, the Corporation has the option to redeem for cash all or any part of the outstanding Series 1 Preference Shares, at a price of \$25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On each Series 1 Conversion Date, the holders of Series 1 Preference Shares, have the option to convert any or all of their Series 1 Preference Shares into an equal number of cumulative redeemable floating rate Series 2 Preference Shares.

#### Class A Preference Shares, Series 2

The holders of Series 2 Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board, payable quarterly, in the amount per share determined by multiplying the applicable floating quarterly dividend rate by \$25.00. The floating quarterly dividend rate will be equal to the sum of the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills plus 2.07%.

Holders of Series 1 Preference Shares will not be entitled to convert their Series 1 Preference Shares into Series 2 Preference Shares if the Corporation determines that there would remain outstanding on a Series 1 Conversion Date less than 1,000,000 Series 2 Preference Shares, after having taken into account all Series 1 Preference Shares tendered for conversion into Series 2 Preference Shares and all Series 2 Preference Shares tendered for conversion into Series 1 Preference Shares.

On each Series 2 Conversion Date, being March 31, 2021, and March 31 every five years thereafter, the Corporation has the option to redeem for cash all or any part of the outstanding Series 2 Preference Shares at a price of \$25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after March 31, 2016, that is not a Series 2 Conversion Date, the Corporation has the option to redeem for cash all or any part of the outstanding Series 2 Preference Shares at a price of \$25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On each Series 2 Conversion Date, the holders of Series 2 Preference Shares, have the option to convert any or all of their Series 2 Preference Shares into an equal number of Series 1 Preference Shares.

Holders of Series 2 Preference Shares will not be entitled to convert their shares into Series 1 Preference Shares if the Corporation determines that there would remain outstanding on a Series 2 Conversion Date less than

1,000,000 Series 1 Preference Shares, after having taken into account all Series 2 Preference Shares tendered for conversion into Series 1 Preference Shares and all Series 1 Preference Shares tendered for conversion into Series 2 Preference Shares.

On February 24, 2016, the Corporation announced that it would not exercise its right to redeem the currently outstanding 4,000,000 cumulative 5-year Series 1 Preference Shares. On March 2, 2016, the Corporation announced that the applicable dividend rates for its cumulative Series 1 Preference Shares for the five-year period commencing on April 1, 2016, and ending March 31, 2021 would be 2.79%, being equal to the 5-Year Government of Canada bond yield determined as at March 1, 2016 plus 2.07%, as determined in accordance with the terms of the Series 1 Preference Shares. Any holders of Series 1 Preference Shares that remain outstanding after March 31, 2016, commencing as of such date, will be entitled to receive cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board.

On March 23, 2016, the Corporation announced that 1,112,853 of its 4,000,000 issued and outstanding Series 1 Preference Shares were tendered for conversion, on a one-to-one basis, into Series 2 Preference Shares. Accordingly, effective April 1, 2016, the Corporation had 2,887,147 Series 1 Preference Shares and 1,112,853 Series 2 Preference Shares issued and outstanding.

On February 22, 2021, the Corporation announced that it would not be exercising its right to redeem the 2,887,147 issued and outstanding Series 1 Preference Shares or the 1,112,853 issued and outstanding Series 2 Preference Shares. On March 2, 2021, the Corporation announced that the applicable dividend rates for its cumulative Series 1 Preference Shares for the five-year period commencing on April 1, 2021, and ending March 31, 2026 would be 2.895%, being equal to the 5-Year Government of Canada bond yield determined as at March 2, 2021 plus 2.07%, as determined in accordance with the terms of the Series 1 Preference Shares. Any holders of Series 1 Preference Shares that remain outstanding on March 31, 2021, commencing as of such date, will be entitled to receive cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board. The Corporation also announced that the applicable dividend rates for its cumulative Series 2 Preference Shares for the five-year period commencing on April 1, 2021, and ending March 31, 2026 would be 2.192%, being equal to the 90-day Canadian Treasury Bill plus 2.07% on an actual/365 day count basis, as determined in accordance with the terms of the Series 2 Preference Shares. Any holders of Series 2 Preference Shares that remaining outstanding on March 31, 2021 will be entitled to receive floating rate cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board.

On March 19, 2021, the Corporation announced that 399,700 of the issued and outstanding Series 1 Preference Shares were tendered for conversion, on a one-to-one basis, into Series 2 Preference Shares. The Corporation also announced that 497,388 of the issued and outstanding Series 2 Preference Shares were tendered for conversion, on a one-to-one basis, into Series 1 Preference Shares. Accordingly, effective April 1, 2021, the Corporation had 2,984,835 Series 1 Preference Shares and 1,015,165 Series 2 Preference Shares issued and outstanding.

#### 2.96% Series 3 Senior Unsecured Notes

In November 2020, the Corporation issued 200,000 2.96% Series 3 Notes due November 17, 2025. The Series 3 Notes are rated “BBB (low) with a Stable trend” by DBRS. The net proceeds of the Series 3 Notes were used to repay bank indebtedness under the Credit Facility.

#### 3.582% Series 2 Senior Unsecured Notes

In November 2019, the Corporation issued 200,000 3.582% Series 2 Notes due November 25, 2024. The Series 2 Notes are rated “BBB (low) with a Stable trend” by DBRS. The net proceeds of the Series 2 Notes were used to repay bank indebtedness under the Credit Facility. The Corporation drew on its revolving credit

facility to repay all amounts outstanding under the 4.01% Series 1 Senior Unsecured Notes which matured on April 9, 2020.

### Ratings

The Series 1 Preference Shares are rated “Pfd-3 (Stable)” by DBRS. DBRS has six categories of preferred shares for which it will assign a rating. The “Pfd-3” rating is the third highest category available from DBRS for preferred shares and is considered to be of adequate credit quality. According to DBRS, preferred shares rated “Pfd-3” are of adequate credit quality and while protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. A rating trend that is “Stable” acts as a signal indicating that the rating is secure and that the trend is stable according to active surveillance and performance updates.

The Series 2 Notes are rated “BBB (low) with a Stable trend” by DBRS. DBRS has eight categories of long-term debt obligations for which it will assign a rating. The “BBB (low)” rating is the fourth highest category available from DBRS for long-term debt and is considered to be of adequate credit quality. According to DBRS, protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions or there may be other adverse conditions present which reduce the strength of the entity and its rated securities. A rating trend that is “Stable” acts as a signal indicating that the rating is secure and that the trend is stable according to active surveillance and performance updates.

The Series 1 Notes are rated “BBB (low) with a Stable trend” by DBRS. DBRS has eight categories of long-term debt obligations for which it will assign a rating. The “BBB (low)” rating is the fourth highest category available from DBRS for long-term debt and is considered to be of adequate credit quality. According to DBRS, protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions or there may be other adverse conditions present which reduce the strength of the entity and its rated securities. A rating trend that is “Stable” acts as a signal indicating that the rating is secure and that the trend is stable according to active surveillance and performance updates.

Credit ratings are intended to provide purchasers with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular purchaser. The DBRS rating represents an evaluation that is based solely on credit related factors and not market risk factors. The credit ratings may not reflect the potential impact of all risks on the value of the rated securities and such ratings are not a recommendation to buy, sell or hold the rated securities. Credit ratings may be subject to revision or withdrawal at any time. Prospective purchasers should consult the relevant rating organization with respect to the interpretation and implications of the rating.

## **DIVIDENDS**

### **Dividends**

#### The Corporation and Future Dividend Payments

The Corporation’s current policy is to declare monthly cash dividends to Shareholders of record on the last business day of each month, and the dividends will be paid on or about the 15<sup>th</sup> day following each month end. The declaration of dividends is subject to the discretion of the Board and may vary depending on, among other things, First National’s earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the OBCA for the declaration of dividends and other conditions existing at such time.

Shareholders who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Corporation, whether such distributions are in the form of cash or

additional Common Shares. The Corporation will withhold from monthly dividends all amounts required to be withheld by law. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Common Shares.

In 2022, the Corporation declared monthly dividends of \$0.19583 per share for the first 10 months and then \$0.20 per share for the last 2 months. These dividends represented an average annualized dividend rate of \$2.3583 per share. In 2022, the Corporation did not declare a special dividend.

In 2022, for the Series 1 Preference Shares, the quarterly dividend rate was declared at \$0.180938 per share. For the Series 2 Preference Shares, the dividend per share rates were \$0.135555 for the first quarter, \$0.167353 for the second quarter, \$0.223509 for the third quarter and \$0.339518 for the fourth quarter.

*First National Financial LP*

First National has adopted a policy of making monthly cash distributions or advances to the Corporation to fund the Corporation dividends, unsecured note interest and tax payment obligations among other items. First National's distributable cash represents, in general, all of First National's cash, after: (i) satisfaction of its debt service obligations (principal and interest) under credit facilities or other agreements with third parties, including amounts payable under the Credit Facility; (ii) satisfaction of its other liabilities and expense obligations, including capital expenditures and expenses relating to incentive or compensation plans to management and other personnel; (iii) deduction of amounts that the General Partner may reasonably consider to be necessary to provide for the payment of any costs or expenses that have been or are reasonably expected to be incurred in the activities and operations of First National (to the extent that such costs or expenses have not otherwise been taken into account); and (iv) deduction of amounts that the General Partner may reasonably consider to be necessary to provide for reasonable reserves, including working capital reserves for contingencies, maintenance capital expenditure reserves, other capital expenditure reserves and other reserves, including reserves established by the General Partner for the purpose of stabilizing dividends to the Shareholders.

## MARKET FOR SECURITIES

### Trading Prices and Volume

The monthly trading price range and volume of the Common Shares for the period ended December 31, 2022, are set out in the table below.

Month	High	Low	Volume (Total)
January, 2022	44.85	41.44	1,084,361
February, 2022	45.89	42.24	1,055,687
March, 2022	44.85	35.65	2,663,432
April, 2022	41.14	36.23	1,228,582
May, 2022	37.15	33.19	1,026,402
June, 2022	37.41	32.12	694,964
July, 2022	38.11	33.13	729,130
August, 2022	39.07	36.50	661,166
September, 2022	38.95	35.62	473,201
October, 2022	37.79	32.72	642,872
November, 2022	37.48	33.07	746,847
December, 2022	36.44	35.02	380,529

The Series 1 Preference Shares trade on the S&P/TSX as FN.PR.A and the Series 2 Preference Shares trade as FN.PR.B.

The monthly S&P/TSX trading price range and volume of the Series 1 Preference Shares (FN.PR.A.) for the period ended December 31, 2022, are set out in the table below.

Month	High	Low	Volume (Total)
January, 2022	14.50	13.83	18,554
February, 2022	14.75	14.06	23,923
March, 2022	14.65	14.00	28,290
April, 2022	14.25	13.15	22,033
May, 2022	13.50	12.22	16,605
June, 2022	13.25	12.50	11,260
July, 2022	12.75	11.71	25,810
August, 2022	12.51	11.87	24,465
September, 2022	12.20	11.41	22,720
October, 2022	11.50	10.66	78,431
November, 2022	11.05	10.76	34,717
December, 2022	11.05	10.55	28,900

The monthly S&P/TSX trading price range and volume of the Series 2 Preference Shares (FN.PR.B.) for the period ended December 31, 2022, are set out in the table below.

Month	High	Low	Volume (Total)
January, 2022	14.51	14.24	9,619
February, 2022	14.50	14.10	4,370
March, 2022	14.95	14.45	14,580
April, 2022	15.00	14.40	17,733
May, 2022	15.25	14.50	3,100
June, 2022	15.24	14.50	13,482
July, 2022	14.50	14.10	6,204
August, 2022	14.50	14.10	4,185
September, 2022	14.91	14.01	13,650
October, 2022	14.29	13.99	5,294
November, 2022	14.24	13.00	13,753
December, 2022	14.95	13.45	14,300

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holding

The following sets out the names, municipalities of residence, positions with the Corporation and principal occupations of the directors. The directors of the Corporation are Stephen Smith, Moray Tawse, Jason Ellis, Duncan Jackman, Robert Mitchell, Barbara Palk, Robert Pearce, Diane Sinhuber and Martine Irman. The executive officers of the Corporation are Stephen Smith, Moray Tawse, Jason Ellis, Robert Inglis, Scott McKenzie, Jeremy Wedgbury, Hilda Wong and Thomas Kim.

The directors of the Corporation also serve as directors of the General Partner. The directors serve until the next annual meeting of shareholders or until such director's successor is duly elected or appointed. The senior officers and certain members of senior management of the General Partner are also set out below.

Name and Municipality of Residence	Present Office	Principal Occupation for five preceding years, if different from Office Held
STEPHEN SMITH Toronto, Ontario, Canada	Director (since April 19, 2006) and Executive Chairman (since January 12, 2022)	Chairman and CEO of First National
MORAY TAWSE Toronto, Ontario, Canada	Director (since April 19, 2006) and Executive Vice President and Secretary	Executive Vice President and Secretary of First National and Corporate Director

Name and Municipality of Residence	Present Office	Principal Occupation for five preceding years, if different from Office Held
DUNCAN JACKMAN <sup>(3)</sup> Toronto, Ontario, Canada	Director (since June 8, 2006)	Chairman, President and CEO of E-L Financial Corporation, Chairman, The Empire Life Insurance Company, Chairman, Algoma Central Corporation, Chairman and President of Economic Investment Trust Limited and United Corporations Limited
ROBERT MITCHELL <sup>(1)(2)(5)</sup> Vancouver, British Columbia, Canada	Director (since June 8, 2006)	Executive Chairman, Dixon Mitchell Investment Counsel Inc.
BARBARA PALK <sup>(4)</sup> Toronto, Ontario, Canada	Director (since March 26, 2013)	Corporate Director, Crombie Real Estate Investment Trust
ROBERT PEARCE <sup>(1)(3)</sup> Oakville, Ontario, Canada	Director (since July 6, 2017)	Corporate Director, Canada Guaranty Mortgage Insurance Company, CPI Card Group and Duo Bank of Canada
DIANE SINHUBER <sup>(1)(6)</sup> Mississauga, Ontario, Canada	Director (since October 6, 2022)	Corporate Director, Scarborough Health Network, Deputy Chief Auditor, TD Bank Group
MARTINE IRMAN <sup>(3)(6)</sup> Toronto, Ontario, Canada	Director (since October 6, 2022)	Corporate Director, TMX Group of Companies and Plan International Canada, St. Michael's Hospital Foundation, Vice Chair, TD Securities
JASON ELLIS Toronto, Ontario, Canada	Director and President and Chief Executive Officer (since January 12, 2022) of the Corporation	President and Chief Operating Officer of First National
ROBERT INGLIS Toronto, Ontario, Canada	Chief Financial Officer of the Corporation and of First National	Senior Vice President and Managing Director, Capital Markets of First National
SCOTT MCKENZIE Oakville, Ontario, Canada	Senior Vice President, Residential Mortgages of First National	

Name and Municipality of Residence	Present Office	Principal Occupation for five preceding years, if different from Office Held
JEREMY WEDGBURY Toronto, Ontario, Canada	Senior Vice President, Commercial Mortgages of First National	
HILDA WONG Toronto, Ontario, Canada	Senior Vice President and General Counsel of First National	
THOMAS KIM Toronto, Ontario, Canada	Senior Vice President and Managing Director, Capital Markets	Managing Director, Capital Markets of First National

Notes:

- (1) Member of the Audit Committee.
- (2) Chair of the Audit Committee.
- (3) Member of the Governance Committee of the General Partner.
- (4) Chair of the Governance Committee of the General Partner.
- (5) Lead independent director.
- (6) John Brough retired from the Board effective September 30, 2022. Ms. Sinhuber and Ms. Irman were appointed to the Board effective October 6, 2022.

**Profiles of Directors and Officers**

The following is a brief profile of the directors and executive officers of the Corporation and the directors, executive officers and certain senior management of the General Partner:

**Stephen Smith**, one of Canada’s leading financial services entrepreneurs, is the Chairman and CEO of Smith Financial Corporation. During his career, he has been an innovator in the development and utilization of various securitization techniques to finance mortgage assets as well as a leader in the development and application of information technology (MERLIN) in the mortgage industry.

Mr. Smith co-founded First National Financial Corporation in 1988, served as CEO until 2022, and remains the Executive Chairman. Mr. Smith is Chair of Canada Guaranty Mortgage Insurance Company, which he owns in partnership with Ontario Teachers’ Pension Plan. He is Chair and co-owner of Peloton Capital Management, a mid-market North American private equity firm. He is Chair and co-owner of Glass, Lewis & Co., a leading global proxy advisory firm. Also, he is Chair and co-owner of Fairstone Bank of Canada and the largest shareholder in EQB Inc.

He is Chair of Historica Canada, creator of the Heritage Minutes and publisher of The Canadian Encyclopedia. He is a member of the Boards of the Rideau Hall Foundation, Canada Infrastructure Bank and the C.D. Howe Institute and is an Honourary Governor of the Royal Ontario Museum.

In 2015, Queen’s University announced the naming of The Stephen J.R. Smith School of Business at Queen’s University in honour of Mr. Smith and his historic \$50-million donation to the school. In 2019, Mr. Smith was inducted into the Canadian Business Hall of Fame. In 2012, he was awarded the Queen’s Diamond Jubilee Medal.

Mr. Smith holds a B.Sc. (Hons.) in Electrical Engineering from Queen's University and a M.Sc. in Economics from the London School of Economics. In 2017, Queen's University awarded him an Honourary LL.D.

**Moray Tawse** is Executive Vice President and Secretary of First National and Executive Vice President and Co-founder of First National. Mr. Tawse directs the operations of all of the Corporation's commercial mortgage origination activities. With over 30 years of experience in the real estate finance industry, Mr. Tawse is one of Canada's leading experts on commercial real estate and is often called upon to deliver keynote addresses at national real estate symposiums.

**Duncan N. R. Jackman** has been Chairman, President and Chief Executive Officer of E-L Financial Corporation, an investment and insurance holding company, since 2003. In 2003, he was also elected Chairman of the board of directors of The Empire Life Insurance Company. Mr. Jackman is also Chairman of Algoma Central Corporation, the largest Great Lakes bulk shipper, as well as Chairman and President of Economic Investment Trust Limited and United Corporations Limited, two Canadian listed closed-end funds. He also serves as a member of the board of directors of several other public and private companies. Mr. Jackman is a member of the Business Council of Canada and formerly served on the Economic Advisory Council to the Minister of Finance, Government of Canada. He is also Chair of the Patron's Council for Community Living Toronto, which provides support to thousands of individuals with an intellectual disability. Mr. Jackman graduated from McGill University in Montreal.

**Robert Mitchell** was appointed Executive Chair and Chair of the Investment Committee of Dixon Mitchell Investment Counsel Inc., a Vancouver-based investment management company, on January 1, 2021. From 2000 to 2020, he was President of Dixon Mitchell Investment Counsel Inc. Prior to that, he was Vice President, Investments at Seaboard Life Insurance Company. Mr. Mitchell has an MBA from the University of Western Ontario and a Bachelor of Commerce (Finance) from the University of Calgary, and is a CFA charterholder. Mr. Mitchell sits on the board of Equestrian Canada.

**Barbara Palk** retired as President of TD Asset Management Inc. in 2010, following a 30-year career in institutional investment and investment management. She currently serves on the board of directors of Crombie Real Estate Investment Trust, where she chairs the Governance and Nominating Committee. Her experience on boards of directors include the Ontario Teachers' Pension Plan, where she chaired the Investment Committee; TD Asset Management USA Funds Inc.; Canadian Coalition for Good Governance, where she chaired the Governance Committee; Greenwood College School; the Investment Counselling Association of Canada; the Perimeter Institute; the Shaw Festival; UNICEF Canada; and Queen's University, where she was the Chair of the Board of Trustees. Ms. Palk is a member of the Institute of Corporate Directors, a Fellow of the Canadian Securities Institute and a CFA charterholder. She holds a Bachelor of Arts (Honours) in Economics from Queen's University, and has been named one of Canada's Top 100 Most Powerful Women (2004).

**Robert Pearce** serves on the board of directors of Canada Guaranty Mortgage Insurance Company, CPI Card Group and Fairstone Bank of Canada. Mr. Pearce spent 26 years with BMO Bank of Montreal from 1980 to 2006, most recently holding the position of President and Chief Executive Officer, Personal and Commercial Client Group. He also served on the board of directors of MasterCard International from 1998 to 2006 and as Chairman of the Canadian Bankers' Association from 2004 to 2006. Mr. Pearce holds a BA from the University of Victoria and an MBA from the University of British Columbia. Mr. Pearce brings over 40 years of operational and leadership experience in the financial services industry to the Board of Directors.

**Diane Sinhuber** serves on the board of directors of the Corporation and Scarborough Health Network and is an independent and objective financial expert, as well as a risk, governance and controls professional with over 35 years' experience providing accounting and auditing services, including reporting to and chairing Audit Committees. Ms. Sinhuber is knowledgeable in IFRS, Canadian accounting standards for private enterprises and not-for-profit organizations, US GAAP, and PCAOB requirements and has provided services to all types

of financial institutions and within a global bank. She is a retired Deputy Chief Auditor of TD Bank Group and held several positions with Ernst & Young LLP over a 29 year period, including as leader of EY Canada's Financial Services Organization for all service lines. She previously served on a number of Boards including as Chair of the YMCA of Greater Toronto and the Kidney Foundation of Canada in Toronto. Ms. Sinhuber has a Bachelor of Business Administration from Wilfred Laurier University, is a Fellow of Chartered Professional Accountants of Ontario (FCPA) and holds the ICD.D certification.

**Martine Irman** serves on the board of directors of the Corporation, the TMX Group of Companies and Plan International Canada. She also sits on the Board of St. Michael's Hospital Foundation and the Campaign Committee of MAP Centre For Urban Health Solutions, and is the Immediate Past Chair of the Board for Export Development Canada. Ms. Irman is a senior financial executive and brings over 30 years' experience in international banking, treasury, securities and trade and has spent 20 years sitting on both corporate and not-for-profit boards along with Executive Advisory Councils. She held several senior level positions over a 30 year period with TD including as Vice-Chair, TD Securities and Senior Vice President, TD Bank Group. She is also a Past Chair of the Board of the YMCA of Greater Toronto. Ms. Irman holds a Bachelor of Arts in Economics and Financial Studies and has completed The Wharton Business School Advanced Management Executive Program. She is a graduate of the Rotman School of Management Institute of Corporate Directors and holds the ICD.D certification and the Global Competent Board International ESG Désignation, GCB.D.

**Jason Ellis** is the President and Chief Executive Officer for First National and is responsible for the design and maintenance of strategy and operational excellence across the organization. Mr. Ellis joined First National in 2004 as Director, Capital Markets responsible for leading First National's capital markets' activities including interest rate risk management, funding, and securitization for all commercial and residential mortgage origination. Mr. Ellis was appointed Chief Operating Officer in 2018 and President in 2019. On January 12, 2022, Mr. Ellis was appointed Chief Executive Officer. Prior to joining First National in 2004, Mr. Ellis was with the Asset/Liability Management group at Manulife Financial and with RBC Dominion Securities in Toronto and New York where he traded fixed income and interest rate derivatives. Mr. Ellis holds a BA degree from the University of Western Ontario, an MBA degree from McMaster University and is a CFA charterholder.

**Robert Inglis** is the Chief Financial Officer of both the Corporation and of First National. Mr. Inglis is responsible for financial reporting and investor relations at First National. Mr. Inglis joined First National in 1997 from Price Waterhouse (now PricewaterhouseCoopers) and was the Director, Finance and Accounting for seven years prior to becoming Vice President, Finance in 2004. Mr. Inglis was appointed Chief Financial Officer of First National on December 12, 2008. Mr. Inglis obtained his Chartered Professional Accountant designation in 1991 and received a Bachelor of Commerce (Honours) from Queen's University in 1988.

**Scott McKenzie** has been a part of the First National team since 1989. Starting 11 months after First National's inception, he has grown the single-family underwriting department from a small team of three to over 750. In his role as Senior Vice President, Mr. McKenzie is responsible for the origination and sales of all residential mortgage business across Canada, including those from third-party initiatives. Mr. McKenzie has been committed to supporting the Canadian mortgage broker community for more than 40 years of his career. He feels privileged to have had the opportunity to witness this channel grow in market share and build their reputation as leading industry experts over the last four decades. Mr. McKenzie is passionate about delivering positive results, which is evident based on his contributions to First National's success. He recognizes that the secret to winning is to build a powerful team, so he puts great importance on empowering individuals to make confident decisions that will in turn help First National prosper.

**Jeremy Wedgbury** is the Senior Vice President, Commercial Mortgages and is responsible for the operation of the Commercial Mortgages department which consists of approximately 200 employees coast to coast. The team is tasked with the origination and credit underwriting of the broadest selection of commercial mortgage products in the Canadian marketplace which includes CMHC term and construction, conventional bridge, construction and term loans and second mortgages. With over 30 years in the commercial mortgage market including over 18 years with First National, Mr. Wedgbury also worked for other leading commercial lenders such as Manulife Financial and Merrill Lynch Financial. Mr. Wedgbury's educational background includes a Bachelor of Arts from Wilfrid Laurier University and the Urban Land Economics Diploma (Real Estate) from the University of British Columbia.

**Hilda Wong** is the Senior Vice President and General Counsel for First National and oversees all aspects of First National's legal affairs including formation of legal policy and strategy, compliance and regulatory matters, board and governance matters, contract negotiation and documentation. She is also First National's Chief Privacy Officer and Chief Anti Money Laundering Officer. Prior to joining First National in 2007, Ms. Wong was a partner with the national law firm of Gowling Lafleur Henderson LLP and an associate with the law firms of Smith, Lyons LLP and Borden Ladner Gervais LLP. Ms. Wong holds a Bachelor of Laws from the University of Toronto and has been in practice since 1993. Ms. Wong serves as a director on the boards of The Barbara Schlifer Commemorative Clinic and the Women General Counsel Canada Network and is a co-founder and member of the Executive Steering Committee of the National GC Network. In 2019, Ms. Wong was named as one of Canadian Lawyer's Top 25 Most Influential in the In-House category. In 2021, Ms. Wong was the recipient of the General Counsel Chapter Award from the Women's Law Association of Ontario.

**Thomas Kim** is the Senior Vice President and Managing Director of Capital Markets. In this role, he is responsible for leading First National's activities related to mortgage funding and investor relationships including trading, securitization, and loan sales. Mr. Kim joined First National in 2012 from a similar role at a smaller mortgage lender. He was promoted to Vice President in 2018 and Senior Vice President in 2022. Mr. Kim is a graduate of the University of Toronto's Faculty of Applied Science and Engineering and holds the Chartered Financial Analyst designation.

The directors and executive officers of First National beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 42,891,783 Common Shares, representing approximately 71.5% of the outstanding Common Shares (on a fully diluted basis).

### **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

No director or executive officer of the Corporation is, as at the date of this Annual Information Form, or was within the 10 years prior to the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer (an "order" means: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days).

No director or executive officer of the Corporation, or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (a) is, as at the date of this Annual Information Form, or has been within the 10 years prior to the date of this Annual Information Form, a director or executive officer of any company that while that person was acting in that capacity, or within a

year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## **CONFLICTS OF INTEREST**

**THERE ARE NO EXISTING OR POTENTIAL MATERIAL CONFLICTS OF INTEREST BETWEEN THE CORPORATION AND ANY DIRECTOR OR OFFICER OF THE CORPORATION OR ITS SUBSIDIARIES.**

## **LEGAL PROCEEDINGS**

### **Legal Proceedings**

Management of the Corporation is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Corporation, the Limited Partner or the General Partner which would be material to the Corporation's financial condition or results of operations.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director or executive officer of the Corporation, or person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of any class or series of the Corporation's outstanding securities, or any associate or affiliate of the foregoing persons, had any material interest, direct or indirect, in any transaction within the three most recently completed fiscal years, or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation or its subsidiaries.

## **TRANSFER AGENT AND REGISTRAR**

### **Transfer Agent and Registrar**

The transfer agent and registrar for the Common Shares and the Preference Shares is Computershare Trust Company of Canada, at its principal offices located at 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1.

## **MATERIAL CONTRACTS**

### **Material Contracts**

The following are the only material contracts of the Corporation, First National and the General Partner, other than contracts entered into in the ordinary course of business:

- the Credit Facility; and
- the Second Amended and Restated Limited Partnership Agreement of First National Financial LP dated January 1, 2011.

## AUDITORS

### Names of Auditors

The current auditors of First National and the Corporation are Ernst & Young LLP, Ernst & Young Tower, located at 100 Adelaide Street West, P.O. Box 1, Toronto, ON, M5H 0B3. Ernst & Young has audited the 2022 comparative consolidated financial statements of the Corporation and has issued an auditor's report to the shareholders with respect to such financial statements.

The Corporation has been advised that Ernst & Young LLP is independent with respect to the Corporation in the context of the CPA Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

## ADDITIONAL INFORMATION

### Additional Information

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, and principal holders of the Corporation's securities is contained in the Corporation's information circular prepared in connection with the Corporation's Annual Meeting of Shareholders to be held on **May 16, 2023**.

Additional financial information is provided in the Corporation's financial statements and management's discussion & analysis for the financial period ended December 31, 2022.

**APPENDIX “A”**  
**AUDIT COMMITTEE INFORMATION**

**Audit Committee Charter**

See Appendix “B” of this Annual Information Form.

**Composition of the Audit Committee**

The Audit Committee of First National Financial Corporation is currently comprised of Robert Mitchell (Chair), Robert Pearce and Diane Sinhuber. Each member of the Audit Committee is financially literate and independent within the meaning of Multilateral Instrument 52-110 - Audit Committees.

**Relevant Education and Experience**

*Robert Mitchell* was appointed Executive Chair and Chair of the Investment Committee of Dixon Mitchell Investment Counsel Inc., a Vancouver-based investment management company, on January 1, 2021. From 2000 to 2020, he was President of Dixon Mitchell Investment Counsel Inc. Prior to that, he was Vice President, Investments at Seaboard Life Insurance Company. Mr. Mitchell has an MBA from the University of Western Ontario and a Bachelor of Commerce (Finance) from the University of Calgary, and is a CFA charterholder. Mr. Mitchell sits on the board of Equestrian Canada.

*Robert Pearce* serves on the board of directors of Canada Guaranty Mortgage Insurance Company, CPI Card Group and Fairstone Bank of Canada. Mr. Pearce spent 26 years with BMO Bank of Montreal from 1980 to 2006, most recently holding the position of President and Chief Executive Officer, Personal and Commercial Client Group. He also served on the board of directors of MasterCard International from 1998 to 2006 and as Chairman of the Canadian Bankers’ Association from 2004 to 2006. Mr. Pearce holds a BA from the University of Victoria and an MBA from the University of British Columbia. Mr. Pearce brings over 40 years of operational and leadership experience in the financial services industry to the Board of Directors.

*Diane Sinhuber* serves on the board of directors of First National Financial Corporation and Scarborough Health Network and is an independent and objective financial expert, as well as a risk, governance and controls professional with over 35 years’ experience providing accounting and auditing services, including reporting to and chairing Audit Committees. Ms. Sinhuber is knowledgeable in IFRS, Canadian accounting standards for private enterprises and not-for-profit organizations, US GAAP, and PCAOB requirements and has provided services to all types of financial institutions and within a global bank. She is a retired Deputy Chief Auditor of TD Bank Group and held several positions with Ernst & Young LLP over a 29 year period, including as leader of EY Canada’s Financial Services Organization for all service lines. She previously served on a number of Boards including as Chair of the YMCA of Greater Toronto and the Kidney Foundation of Canada in Toronto. Ms. Sinhuber has a Bachelor of Business Administration from Wilfred Laurier University, is a Fellow of Chartered Professional Accountants of Ontario (FCPA) and holds the ICD.D certification.

## External Auditor Service Fees

Fees incurred by the Corporation for work performed by Ernst & Young LLP, the Corporation's external auditors, during each of the last two fiscal years for audit and audit related services were as follows:

<b>External Auditor Service Fees</b> <i>(\$ thousands)</i>		
<b>Ernst &amp; Young LLP</b>	<b>2022</b>	<b>2021</b>
Audit Fees	887	792
Audit-Related Fees <sup>(1)</sup>	673	652
Tax Fees	—	—
<b>Total</b>	<b>1,560</b>	<b>1,444</b>

<sup>(1)</sup> These fees consist primarily of fees related to the audit of the report on the description of the system and on the suitability of the design and operating effectiveness of the controls for the mortgage servicing business, as well as specified procedures in connection with CMHC, regulatory and various third-party reporting.

The Corporation's external auditor did not provide professional services related to tax compliance, tax advice or tax planning.

## Non-Audit Fees

At this time, the Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services.

## APPENDIX “B”

### CHARTER OF THE AUDIT COMMITTEE OF THE DIRECTORS OF FIRST NATIONAL FINANCIAL CORPORATION

#### 1. PURPOSE

The Audit Committee (the “**Committee**”) is a committee of independent directors of First National Financial Corporation (the “**Directors**”). The Committee and the chair of the Committee (the “**Chair**”) are appointed by the Directors for the purpose of assisting the Directors in fulfilling their oversight responsibilities. The Committee will primarily fulfill this role by carrying out the activities enumerated in this Charter. The Committee is, however, independent of the Directors and the Corporation, and in carrying out its role of assisting the Directors in fulfilling their oversight responsibilities, the Committee shall have the ability to determine its own agenda and any additional activities that the Committee shall carry out.

#### 2. COMPOSITION

The Committee is comprised of not less than three directors of First National Financial Corporation, each of whom is and must at all times be independent and financially literate within the meaning of applicable Canadian securities laws. The members of the Committee, and its Chair, shall be appointed by the Directors on an annual basis or until their successors are duly appointed. A majority of the members of the Committee must be resident Canadians.

#### 3. LIMITATIONS ON COMMITTEE’S DUTIES

In contributing to the Committee's discharge of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the Directors are subject.

It is not the duty of the Committee to prepare financial statements or ensure their accuracy or absence of errors and omissions, to plan or conduct audits, to determine that the financial statements are complete and accurate and in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Corporation’s internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor.

Members of the Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor, (iv) financial statements of the Corporation represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

#### 4. MEETINGS

The Committee shall meet not less than four times annually. The Committee shall meet within 45 days following the end of the first three financial quarters of the Corporation and shall meet within 90 days following the end of the fiscal year of the Corporation. A quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall by resolution determine, provided that at least two-thirds of the members then present are resident Canadians and provided further that the Chair is present.

The Committee shall keep minutes of each meeting of the Committee. A copy of the minutes shall be provided to each member of the Committee and to each Director.

Meetings of the Committee shall be held from time to time and at such place within Canada as any member of the Committee shall determine upon 7 days prior notice to each of the other Committee members. The members of the Committee may waive the requirement for notice. In addition, each of the Chair, the President and the Chief Financial Officer of the Corporation, and the external auditor shall be entitled to request that the Chair call a meeting.

The Committee may ask members of the Corporation's management, employees or others (including the external auditor) to attend meetings and provide such information as the Committee requests. Members of the Committee shall have full access to all information of the Corporation (including, for greater certainty, its affiliates, subsidiaries and their respective operations) and shall be permitted to discuss such information and any other matters relating to the results of operations and financial position of the Corporation with management, employees, the external auditor and others as they consider appropriate.

The Committee or its Chair will meet at least once per year with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups desires to discuss privately. In addition, the Committee or its Chair will meet with the Corporation's management quarterly in connection with the Corporation's interim financial statements.

#### 5. COMMITTEE ACTIVITIES

As part of its function in assisting the Directors in fulfilling their oversight responsibilities (and without limiting the generality of the Committee's role), the Committee will:

##### A. Financial Disclosure

- (1) Review and recommend to the Directors for approval the Corporation's annual financial statements and interim financial reports, including any certification, report, opinion or review rendered by the external auditor and the related Management's Discussion & Analysis, as well as such other financial information, including press releases, of the Corporation provided to the public or any governmental body as the Committee or the Directors require.
- (2) Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and the related Management's Discussion & Analysis, and periodically assess the adequacy of those procedures.

B. Relationship with the External Auditor

- (1) Recommend to the Directors the selection of the external auditor and the fees and other compensation to be paid to the external auditor.
- (2) Have the authority to communicate directly with the external auditor.
- (3) Advise the external auditor that it is required to report to the Committee, and not to management of the Corporation.
- (4) Monitor the relationship between management and the external auditor, including reviewing any management letters or other reports of the external auditor, discussing any material differences of opinion between management and the external auditor and resolving disagreements between the external auditor and management.
- (5) Review and discuss on an annual basis with the external auditor all significant relationships they have with the Corporation, its management or employees that might interfere with the independence of the external auditor.
- (6) Pre-approve all audit, audit-related and non-audit services (or delegate such pre-approval, as the Committee may determine and as permitted by applicable Canadian securities laws) to be provided by the external auditor.
- (7) Annually review the performance of the external auditor in connection with an appointment recommendation to the Directors and periodically perform a comprehensive review of the external auditor when the Committee determines that circumstances warrant but at a minimum at least once every 5 years.
- (8) Periodically consult with the external auditor out of the presence of management about:
  - (a) any significant risks or exposures facing the Corporation;
  - (b) internal controls and other steps that management has taken to control such risks; and
  - (c) the fullness and accuracy of the financial statements of the Corporation, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper
- (9) Review and approve any proposed hiring of current or former partners or employees of the current (and any former) external auditor of the Corporation.

C. Audit Process

- (1) Review the scope, plan and results of the external auditor's audit and reviews, including the auditor's engagement letter, the post-audit management letter, if any, and the form of the audit report. The Committee may authorize the external auditor to perform supplemental reviews, audits or other work as deemed desirable.

- (2) Following completion of the annual audit and quarterly reviews if any, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.
- (3) Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
- (4) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.
- (5) Review with the external auditor and management significant findings and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented.
- (6) Review the system in place to seek to ensure that the financial statements, Management's Discussion & Analysis and other financial information disseminated to governmental organizations and the public satisfy applicable requirements.

D. Financial Reporting Processes

- (1) Review the integrity of the Corporation's financial reporting processes, both internal and external, in consultation with the external auditor.
- (2) Review all material financial statement issues, material contingent obligations and material related party transactions.
- (3) Review with management and the external auditor the Corporation's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto. Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financing reporting.

E. Internal Audit Function

- (1) Review the activities of the internal audit department through quarterly reporting by the Director, Audit Services.
- (2) Review annually the internal audit department's plan for the upcoming fiscal year.
- (3) Approve any reliance by the external auditors on the internal audit department.
- (4) Discuss any unresolved matters reported by the internal audit department with the Corporation's management.

- (5) Discuss the findings of the internal audit department out of the presence of management.

F. Risk Identification and Oversight

- (1) Review of the principal risks of the Corporation's business and operations, and any other circumstances and events that could have a significant impact on the Corporation's assets and stakeholders. Discussing with management potential risks to the Corporation's business and operations, their likelihood and magnitude and the interrelationships and potential compounding effects of such risks. Assessing the steps management has taken to manage such risks in the light of the Corporation's risk tolerance.
- (2) Assess the Corporation's risk tolerance, the overall process for identifying the Corporation's principal business and operational risks and the implementation of appropriate measures to manage and disclose such risks.
- (3) Review disclosure respecting the oversight of management of the Corporation's principal business and operational risks.

G. General

- (1) The Committee may at its discretion retain independent counsel, accountants and other professionals to assist it in the conduct of its activities and to set and pay (as an expense of the Corporation) the compensation for any such advisors.
- (2) Respond to requests by the Directors with respect to the functions and activities that the Directors may request the Committee to perform.
- (3) Periodically review this Charter and, if the Committee deems appropriate, recommend to the Directors changes to this Charter.
- (4) Review the public disclosure regarding the Committee required from time to time by applicable Canadian securities laws, including:
  - (ii) the Charter of the Committee;
  - (iii) the composition of the Committee;
  - (iv) the relevant education and experience of each member of the Committee;
  - (v) the external auditor services and fees; and
  - (vi) such other matters as the Corporation is required to disclose concerning the Committee.
- (5) Review in advance, and approve, the hiring and appointment of the Corporation's senior financial executives.

- (6) Review any complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and any submissions from employees regarding questionable accounting or auditing matters.
- (7) Perform any other activities as the Committee or the Directors deems necessary or appropriate.