FIRST NATIONAL

FINANCIAL CORPORATION®

2024 Annual Report

Corporate Profile

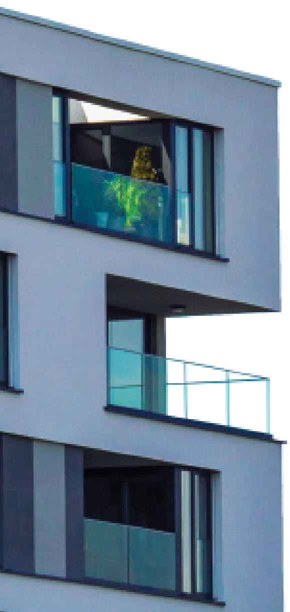
First National is a leading Canadian mortgage finance company and one of the country's largest non-bank originators and underwriters.

Founded in 1988, we provide insured and conventional mortgages to owners of single-family, multi-unit and commercial properties across Canada.

Our service-driven culture, innovative use of securitization and private placements to fund mortgages, purpose-built technology, and expertise in mortgage origination, underwriting and loan administration differentiate us as a lender.

You can learn more in this report and in our Sustainability Report at www.firstnational.ca.

Stock Exchange Listing Our common shares trade on the S&P/TSX under the symbol FN, and our preferred shares trade under the symbols FN.PR.A and FN.PR.B. First National is a member of the S&P/TSX Canadian Dividend Aristocrats® Index published by S&P Dow Jones Indices LLC.



2024 in facts and figures

325,000

Single family, multi-unit residential and commercial mortgage customers of First National.

1,771

Our workforce serves First National's customers, partners and investors from offices across Canada.

$95.8B

The value of our single-family residential Mortgages Under Administration at year end, a new record.

$57.9B

The value of our commercial Mortgages Under Administration at year end, a new record, driven by growth in demand for insured multi-unit residential properties.

$37.5B

The value of new and renewed mortgage loans made to customers across Canada in 2024.

$2.3B

The total amount paid in dividends and distributions to First National shareholders between our initial public offering in 2006 and 2024 (or $37.79 per share).

33%

After-tax Pre-Fair Market Value[1] return on shareholders' equity in 2024.

1,732%

Total Shareholder Return from our IPO in 2006 to December 31, 2024.

8

Consecutive years First National has earned a Great Place to Work® in Canada designation based on an independent survey of our workforce.

4

We aim for better, we earn trust, we encourage autonomy and we emphasize accountability are the four principles that guide us.

3

Canadian banks that leverage First National's underwriting and fulfillment processing services.

(1) Non-IFRS Measure. See MD&A for more details.

Our Leadership Team

Stephen Smith
Co-founder, Executive Chairman of the Board

Moray Tawse
Co-founder & Senior Executive Vice President

Jason Ellis
President & Chief Executive Officer

Robert Inglis
Chief Financial Officer

Hilda Wong
Executive Vice President & General Counsel

Scott McKenzie
Executive Vice President, Residential Mortgages

Jeremy Wedgbury
Executive Vice President, Commercial Mortgages

Thomas Kim
Executive Vice President & Managing Director, Capital Markets

Message to Fellow Shareholders

In 2024, First National earned $290.3 million on an operating (or Pre-FMV[1]) basis with after-tax Pre-Fair Market Value return on shareholders' equity of 33%. These results supported the 18th increase in our common share dividend since our IPO 18 years ago and the payment of a $0.50 per share special dividend.

In the context of the year's challenges and opportunities, this performance demonstrated the resiliency and effectiveness of the First National business model and the collective efforts of our teams across Canada to serve the mortgage financing needs of our customers.

Challenges included lower single-family residential mortgage origination levels through the first three quarters on a year-over-year basis. Opportunity presented itself in the fourth quarter as monetary policy easing encouraged additional home-buying activity. As a result, First National's fourth quarter single-family originations including renewals increased 44% from the prior year, supporting a cautiously optimistic outlook for 2025.

In the final analysis, Mortgages Under Administration increased 7% in 2024 to surpass $150 billion and this amount included more than $50 billion in our commercial book, both new records. Growth in MUA is evidence of long-term corporate progress and the Company's ability to compete as a non-bank lender in ways that appeal to borrowers and their mortgage broker advisors.

Our MD&A starting on page 12 has complete details.

(1) Non-IFRS Measure.

Focus on our fundamentals

In last year's annual report, I spoke of First National's ability to adapt to changing market and economic circumstances. This core strength was on display in 2024 and no doubt it will be called upon once again in 2025 as we encounter competition for new and renewing mortgages and adjust to mortgage insurance rule changes that took effect late in 2024 as well as other external factors including Bank of Canada interest rate decisions, immigration levels and the impact of tariffs on the jobs market.

The ability to change without losing our focus has and will continue to require us to pay strict attention to First National's business fundamentals. These are the basics that enable everyday progress for our shareholders.

Respond quickly and professionally to the opportunities our partners bring to us.

First National does not operate branches or employ a consumer sales force. Instead, our Residential single-family business is built on partnerships with independent mortgage broker professionals who shop the market for the best products and services for their clients. Since we compete for brokered business, in some cases against lenders far larger, our success in the single-family residential mortgage market rests on our ability to differentiate on speed and accuracy of service for brokers, enabled by technology and underwriting knowledge.

We nurture these business basics, and it showed in 2024 as First National retained its top three market share position as a lender in the broker channel and was chosen, by independent mortgage and finance industry leaders, Mortgage Finance Company of the Year (Mortgage Awards of Excellence competition).

Our Residential team's rallying cry for 2025 is Together We Succeed. It reflects the special care we will take and investments we will continue to make to sustain mutually beneficial business relationships with brokers across our Prime and Excalibur Alt-A product franchises.

Add value beyond financing when working with large commercial client borrowers.

Our Commercial team serves large private and institutional borrowers who require more than just basic service from their lenders.

First National decided to meet this expectation more than a decade ago by developing advisory skills based on our intimate knowledge of CMHC programs, broad exposure to commercial real estate markets across the country and the insights that come from working on hundreds of transactions every year. These skills have now become a fundamental part of our value proposition.

Today, our originators and analysts often engage with clients months ahead of each financing, particularly when arranging CMHC-insured mortgages for multi-unit residential projects. These mortgages account for the majority of our Commercial origination and Commercial MUA.

Using our status and knowledge as a CMHC-Approved Lender, we pair borrowers with the appropriate insured program and prepare well-researched, market-informed underwriting submissions to CMHC.

> “To grow over time, First National needs to add new mortgages and renew (or refinance) those mortgages in future years. Origination and retention require different skills and strategies but with a similar aim: to satisfy our customers.

By creating these capabilities at a time of significant demand for multi-unit housing construction and preservation, First National has captured a meaningful share of the market with annual Commercial MUA growth of almost 12% over the 10-year period to December 31, 2024.

Continuing to build on what our Commercial team brands as its Better Lending approach will keep us positioned as the preferred lender for insured construction and term loans, as well as conventional financing in the apartment sector.

Serve all clients well at all points of their mortgage lifecycles.

To grow over time, First National needs to add new mortgages and renew (or refinance) those mortgages in future years. Origination and retention require different skills and strategies but with a similar aim: to satisfy our customers.

We have resources dedicated to both activities across our Residential and Commercial businesses, including a specialized asset management department. That department has grown in size and sophistication over many years in recognition of its importance in the lifecycle of customer and partner relations.

Sustaining our connection to borrowers after they take a mortgage ensures we are well positioned to give all clients the best possible opportunities to renew on the most advantageous terms in future years. As the large cohort of five-year mortgages taken at the outset of the pandemic reaches maturity, performing well in end-to-end servicing will make a difference.

On the topic of renewals and risk management, it is worth noting that while mortgage rates are higher than they were five years ago, personal/family incomes are also generally higher as are house prices – up 36% for the five years ended in December 2024 according to the Teranet/National Bank House Price Index.

Single-family residential borrowers five years ago were also required to pass the government-mandated mortgage stress test that used a minimum qualifying interest rate that was much higher than the mortgage rate available at that time. For First National, the utility of that ongoing stress-test policy has revealed itself in a residential mortgage arrears rate in 2024 that was the same as it was prior to the pandemic. When renewing into a higher interest rate environment, we take comfort as do our customers knowing that their debt servicing ability was previously tested and verified.

Any additional Bank of Canada action to cut its policy interest rate in 2025 beyond the 25-basis point reduction made in January will further reduce stress on borrowers. Based on these factors, we certainly believe concerns about a so-called “renewal cliff” have been overstated in the popular press.

Leverage our competencies and capabilities to grow with our third-party customers.

Ten years ago, we launched an underwriting and fulfillment processing business to serve a Schedule I bank operating in the mortgage broker channel. This ongoing and valued relationship was won based on First National's ability to leverage both our proven process for adjudicating brokered mortgages in accordance with that Bank's underwriting guidelines, and to customize Merlin – our proprietary underwriting software.

Since then, we have added other leading lenders on the same basis including the initial ramp up of service for our newest bank client in 2024.

Delivering First National-level service within the broker channel relies on well-resourced and technology-equipped third-party teams dedicated to each lender. These teams are fundamental to the success of this business endeavour and supporting them is an ongoing focus for us. From a shareholder perspective, our third-party business adds diversification beyond the value we can create through our own origination platforms.

Take special care of our team and award-winning culture.

To deliver effective service, drive innovation and manage risk and compliance, we employ great people who possess a special combination of skills, temperament and judgement. But we also need to nurture a culture that brings out the best in everyone, makes First National an attractive long-term career destination, and for new recruits, helps them develop expertise as well as appreciation for, and alignment to, our entrepreneurial vision.

I discussed our cultural beliefs in my letter two years ago, but they bear repeating as they represent our most basic of business fundamentals: **we aim for better, we earn trust, we encourage autonomy** and **we emphasize accountability.** Living up to these ideals on a sustained basis takes commitment up and down the line but is well worth the effort.

To keep all First National business leaders grounded in what's important to our team, we listen attentively to our employees during regular townhall meetings and in formal engagement surveys conducted by a third party every other year.

Collecting our 8th straight Great Place to Work® designation as we did in 2024 is a fitting tribute to the First National culture, which I would describe as deeply caring and welcoming. We believe that a great culture leads to great results for external stakeholders, a truly virtuous cycle.

Looking ahead

We do not provide guidance – which in today's volatile economic environment would be difficult in any event. However, as part of managing the basics, we do set internal objectives based on what we feel are reasonable assumptions, develop and implement plans to achieve our goals and are held accountable for performance by our Board of Directors.

For those looking for more insight, I will say that our agenda for 2025 is focused on taking care of the fundamentals described in this letter. Doing so will keep us on the right path for long-term value creation.

Credit where it's due

This past year was challenging for borrowers because of Bank of Canada monetary policy and challenging for lenders pursuing growth. That First National found success in this environment is in no small part due to the dedicated efforts of our team of almost 1,800 people. I thank every member of the team for their hard work.

Credit also goes to our experienced business leaders, those who serve in management and those who contribute as Directors. We are fortunate that our Board includes First National's co-founders, Stephen Smith and Moray Tawse. They remain our largest shareholders, serve as strategic advisors and work in the best interests of the Company.

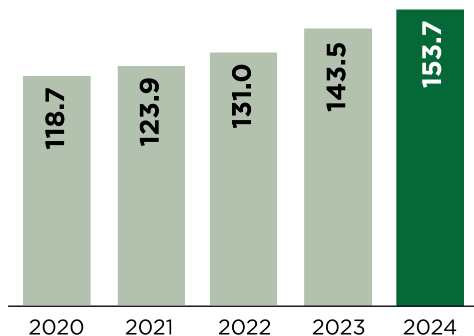
On behalf of all of us, I offer my utmost thanks to our customers, business partners and shareholders for your support.

Yours sincerely,

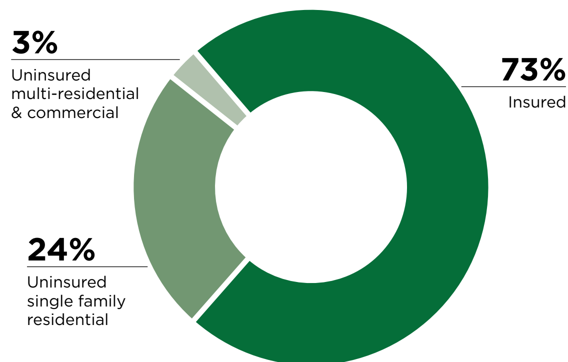
Jason Ellis
President and Chief Executive Officer

March 4, 2025

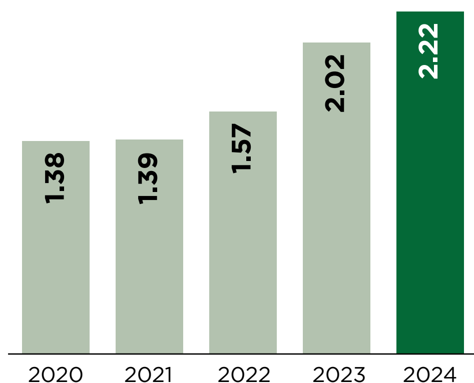
Mortgages Under Administration ($ Billions)



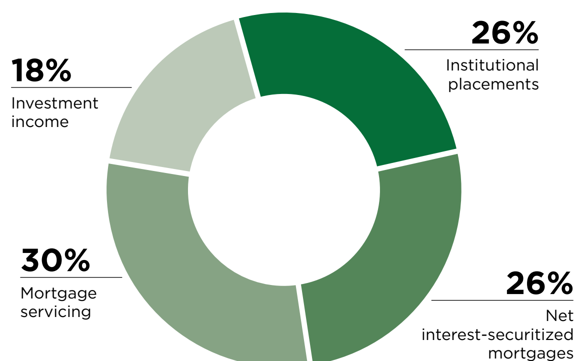
2024 MUA by Asset Type



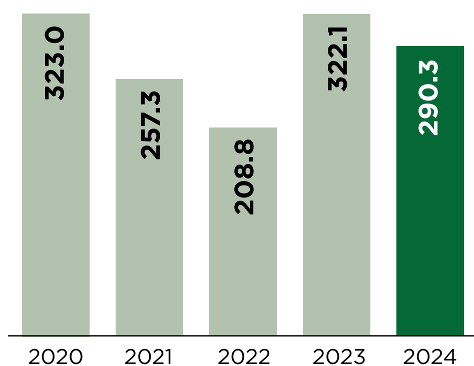
Revenue ($ Billions)



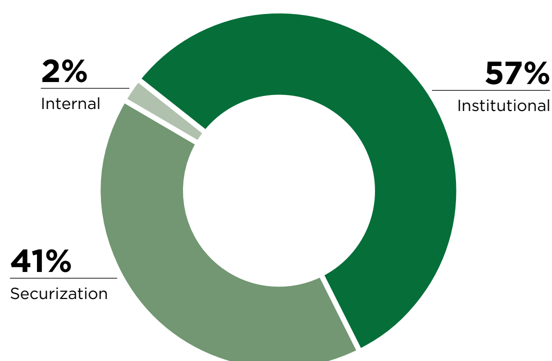
2024 Revenue Sources
(Prior to Fair Value Gains/Losses)



Pre-Fair Market Value Income[1] ($ Millions)



2024 Funding Sources



(1) Non-IFRS measure. See MD&A for more details.

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") of financial condition and results of operations is prepared as of March 4, 2025. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of First National Financial Corporation (the "Company" or "Corporation" or "First National") as at and for the year ended December 31, 2024. The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. The selected financial information and discussion below also refer to certain measures to assist in assessing financial performance. These other measures, such as "Pre-FMV Income" and "After-tax Pre-FMV Dividend Payout Ratio", should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with IFRS as an indicator of performance or as a measure of liquidity and cash flow. These measures do not have standard meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Unless otherwise noted, tabular amounts are in thousands of Canadian dollars.

Additional information relating to the Company is available in First National Financial Corporation's profile on the System for Electronic Data Analysis and Retrieval ("SEDAR") website at www.sedar.com.

General Description of the Company

First National Financial Corporation is the parent company of First National Financial LP ("FNFLP"), a Canadian-based originator, underwriter and servicer of predominantly prime residential (single-family and multi-unit) and commercial mortgages. With more than $153 billion in mortgages under administration ("MUA"), First National is one of Canada's largest non-bank originators and underwriters of mortgages and is among the top three lenders in market share in the mortgage broker distribution channel.

2024 Results Summary

First National's performance in 2024 met management's expectations. Mortgages Under Administration (MUA) surpassed $153 billion, growing by 7% year over year. Total mortgage originations, including renewals, were $37.5 billion, slightly above 2023 levels as strong fourth quarter growth fully offset weaker volumes in the prior three quarters and demonstrated the Company's resilience. Core operating profitability, measured by Pre-FMV Income[1], decreased by 10% from 2023 reflecting several factors including the impact of lower single-family origination on placement fees; lower originations in third

party underwriting and fulfillment processing services which affected mortgage servicing revenue, and higher other operating expenses related to investment in IT platforms and infrastructure. Earnings were also affected by increased direct securitization which delays the recognition of income to future periods.

The following summarizes performance of the Company's significant metrics:

- MUA grew to $153.7 billion at December 31, 2024 from $143.5 billion at December 31, 2023, an increase of 7%; growth from September 30, 2024, when MUA was $150.6 billion, was 8% on an annualized basis.
- Total single-family mortgage origination, including renewals, was $22.6 billion in 2024 compared to $24.4 billion in 2023, a 7% decrease, characterized by lower year over year origination in each of the first three quarters and a large year over year increase in the fourth. Commercial segment origination, including renewals, of $14.9 billion was 14% higher than the $13.0 billion originated in 2023 primarily on strong insured multi-unit mortgage origination despite lower conventional mortgage activity.
- Revenue for 2024 increased approximately 10% to $2.2 billion from $2.0 billion in 2023 reflecting growth in the portfolio of securitized mortgages and related interest revenue. Mortgages pledged under securitization currently deliver about 70% of the Company's revenue due to their significant size. These portfolios grew by 12% from 2023 to 2024. While interest rates decreased in 2024 compared to 2023, the weighted average mortgage rate in the securitization portfolios was higher in 2024 than 2023.
- Income before income taxes was $276.6 million in 2024 compared to $343.9 million in 2023. The decrease included the effect of changing capital market conditions in both years. Excluding gains and losses related to financial instruments, earnings before income taxes and gains and losses on financial instruments ("Pre-FMV Income" [(1)]) for 2024 decreased by 10% to $290.3 million from $322.2 million in 2023. The change was partially attributable to the Company's decision to invest more heavily in its direct securitization programs which delayed the recognition of revenue to future periods in contrast to 2023. Higher operating costs, particularly for technology, further reduced earnings by about $13.5 million.

(1) This non-IFRS measure adjusts income before income taxes by eliminating the impact of changes in fair value by adding back losses on the valuation of financial instruments (except those on mortgage investments) and deducting gains on the valuation of financial instruments (except those on mortgage investments). See Key Performance Indicators section in this MD&A

In the fourth quarter of 2024, the Company's Board of Directors announced an increase in First National's regular monthly common share dividend to an annualized rate of $2.50 per share from $2.45 per share effective with the dividend payable on December 13, 2024, and a special common share dividend in the amount of $0.50 per share, payable on December 13, 2024, to shareholders of record on November 29, 2024. This special payment reflected the Board's determination that the Company had generated excess capital in the past year and that the capital needed for near-term growth can be generated from current operations.

Selected Quarterly Information

Quarterly Results of First National Financial Corporation

($000s, except per share amounts)	REVENUE	NET INCOME FOR THE PERIOD	PRE-FMV INCOME FOR THE PERIOD[1]	EARNINGS PER COMMON SHARE	TOTAL ASSETS
2024					
Fourth quarter	**$600,096**	**$63,019**	**$74,819**	**$1.04**	**$51,157,141**
Third quarter	**$560,386**	**$36,409**	**$75,254**	**$0.59**	**$50,460,286**
Second quarter	**$538,450**	**$54,070**	**$77,498**	**$0.88**	**$50,093,796**
First quarter	**$518,045**	**$49,892**	**$62,745**	**$0.82**	**$45,765,958**
2023					
Fourth quarter	$503,441	$44,245	$77,125	$0.72	$45,957,399
Third quarter	$562,861	$83,630	$95,456	$1.38	$45,176,543
Second quarter	$525,897	$89,194	$89,854	$1.47	$46,417,841
First quarter	$432,086	$35,738	$59,748	$0.58	$44,268,705

Reconciliation of Quarterly Determination of Pre-FMV Income[1]

($000s, except per share amounts)	INCOME BEFORE INCOME TAX FOR THE PERIOD	ADD/DEDUCT REALIZED AND UNREALIZED LOSSES (GAINS)	DEDUCT (LOSSES), ADD GAINS RELATED TO MORTGAGE INVESTMENTS	PRE-FMV INCOME FOR THE PERIOD[1]
2024				
Fourth quarter	**$85,579**	**($10,760)**	**$—**	**$74,819**
Third quarter	**$49,689**	**$25,565**	**$—**	**$75,254**
Second quarter	**$73,490**	**$4,008**	**$—**	**$77,498**
First quarter	**$67,892**	**($5,147)**	**$—**	**$62,745**
2023				
Fourth quarter	$59,895	$16,894	$336	$77,125
Third quarter	$113,830	($18,435)	$61	$95,456
Second quarter	$121,544	($31,690)	$—	$89,854
First quarter	$48,638	$11,110	$—	$59,748

With First National's large portfolio of mortgages under administration, quarterly revenue is driven primarily by servicing income and gross interest earned on mortgages pledged under securitization. The gross interest on the mortgage portfolio is dependent both on the size of the portfolio of mortgages pledged under securitization, as well as mortgage rates. Recently MUA increased, and revenue followed. Net income is partially dependent on conditions in bond markets, which affect the value of gains and losses on financial instruments arising from the Company's interest rate hedging program. Accordingly, the movement of this measurement between quarters is related to factors external to the Company's core business. By removing this volatility and analyzing Pre-FMV Income[(1)], management believes a more appropriate measurement of the Company's performance can be assessed.

In the past eight quarters, the Company experienced a changing market in the residential mortgage broker channel. The first three quarters of 2023 were characterized by the relative absence of the traditionally largest lender in the channel. The Company was able to capture higher than usual market share during these quarters. The fourth quarter of 2023 was marked by the aggressive return to market of the previously absent lender and a relative decrease in the Company's share of funded mortgages to more typical level. The resulting operational efficiency from solid origination levels in the first three quarters and record MUA, translated to higher Pre-FMV Income[(1)] in 2023. In contrast, 2024 began with challenging year over comparisons to the strong first three quarters of 2023. Despite the return to traditional market dynamics, the Company remained focused and with a combination of higher housing activity, fourth quarter single family origination, surpassed 2023 levels by 44%. These origination volumes supported quarterly financial results but with an increase of more than $3.3 billion of mortgages originated allocated for its own securitization programs, income was effectively deferred to future periods. This impacted earnings such that Pre-FMV Income[(1)] for the year was lower by 10%.

(1) This non-IFRS measure adjusts income before income taxes by eliminating the impact of changes in fair value by adding back losses on the valuation of financial instruments (except those on mortgage investments) and deducting gains on the valuation of financial instruments (except those on mortgage investments). See Key Performance Indicators section in this MD&A.

Outstanding Securities of the Corporation

At December 31, 2024 and March 4, 2025, the Corporation had outstanding: 59,967,429 common shares; 2,984,835 Class A preference shares, Series 1; 1,015,165 Class A preference shares, Series 2; 200,000 November 2025 senior unsecured notes; 200,000 September 2026 unsecured notes; and 200,000 November 2027 senior unsecured notes.

Selected Annual Financial Information and Reconciliation to Pre-FMV Income[1]

($000s, except per unit amount)	**2024**	2023	2022
For the Year Ended December 31, Income Statement Highlights			
Revenue	**2,216,977**	2,024,285	1,574,293
Interest expense – securitized mortgages	**(1,372,182)**	(1,119,475)	(739,295)
Brokerage fees	**(95,508)**	(139,199)	(173,290)
Salaries, interest and other operating expenses	**(472,637)**	(421,704)	(392,626)
Add (deduct): realized and unrealized losses (gains) on financial instruments	**13,666**	(22,121)	(59,610)
Add (deduct): unrealizved gains (losses) regarding mortgage investments	—	397	(710)
Pre-FMV Income[1]	**290,316**	322,183	208,762
Add (deduct): realized and unrealized gains (losses) on financial instruments excluding those on mortgage investments	**(13,666)**	21,785	60,320
Provision for income taxes	**(73,260)**	(91,100)	(71,350)
Net income	**203,390**	252,807	197,732
Common share dividends declared	**177,404**	189,397	141,423
Per Share Highlights			
Net income per common share	**3.33**	4.15	3.25
Dividends per common share	**2.96**	3.16	2.36
At Year End Balance Sheet Highlights			
Total assets	**51,161,425**	45,957,399	43,763,672
Total long-term financial liabilities	**598,630**	598,745	399,222

(1) Pre-FMV Income is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Pre-FMV Income may not be comparable to similar measures presented by other issuers. Investors are cautioned that Pre-FMV Income should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

Vision and Strategy

The Company provides mortgage financing solutions to residential and commercial mortgage markets in Canada. By offering a full range of mortgage products, with a focus on customer service and superior technology, the Company believes that it is a leading non-bank mortgage lender. The Company intends to continue leveraging these strengths to lead the non-bank mortgage lending industry in Canada, while appropriately managing risk. The Company's strategy is built on four cornerstones: providing a full range of mortgage solutions for Canadian single-family and commercial customers; growing mortgages under administration; employing technology to enhance business processes and service to mortgage brokers and borrowers; and maintaining a conservative risk profile. An important element of the Company's strategy is its direct relationship with mortgage borrowers. The Company is considered by most of its borrowers as the mortgage lender. This is a critical distinction. It allows First National to communicate with each borrower directly throughout the term of the related mortgage. Through this relationship, the Company can negotiate new transactions and pursue marketing initiatives. Management believes this strategy will provide long-term profitability and sustainable brand recognition for the Company.

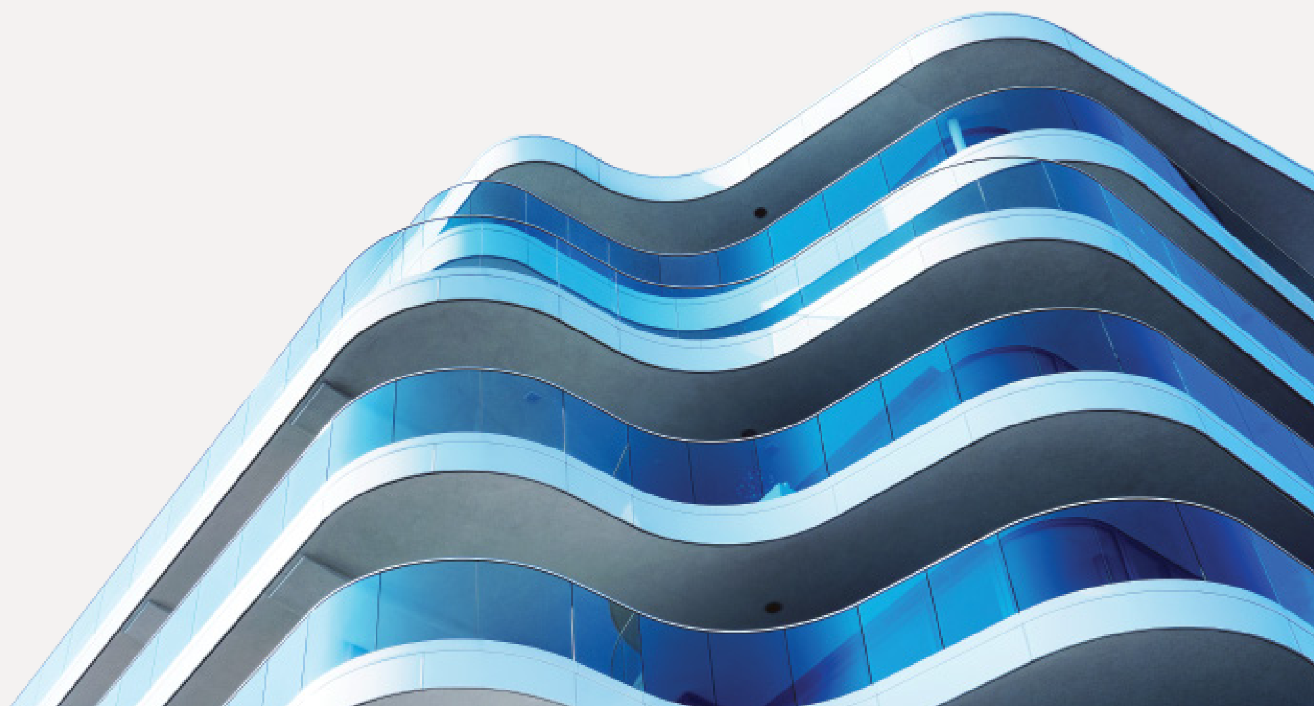
Key Performance Drivers

The Company's success is driven by the following factors:

- Growth in the portfolio of mortgages under administration;
- Growth in the origination of mortgages;
- Raising capital for operations; and
- Employing innovative securitization transactions to minimize funding costs.

Growth in Portfolio of Mortgages under Administration

Management considers growth in MUA to be a key element of the Company's performance. The portfolio grows in two ways: through mortgages originated by the Company and through third-party mortgage servicing contracts. Mortgage originations not only drive revenues from placement and interest from securitized mortgages, but perhaps more importantly, create longer-term value from servicing rights, renewals and growth in the customer base for marketing initiatives. As at December 31, 2024, MUA totalled $153.7 billion, up from $143.5 billion at December 31, 2023, an increase of 7%. The growth of MUA in the fourth quarter of 2024 was 8% on an annualized basis.



Growth in Origination of Mortgages

Direct Origination by the Company

The origination of mortgages not only drives the growth of MUA as described above, but it also leverages the Company's origination platform, which has a large fixed-cost component. As more mortgages are originated, the marginal costs of underwriting decrease. Increased origination satisfies demand from institutional customers and produces volume for the Company's own securitization programs. In 2024, the Company's single-family origination decreased by 7% compared to 2023. The commercial segment continued to perform well despite changing market conditions. Total commercial volumes were $14.9 billion in 2024 compared to $13.0 billion in 2023, an increase of 14%. On a combined basis, overall origination in 2024 was materially unchanged from 2023.

Third-Party Mortgage Underwriting and Fulfilment Processing Services

In 2015, the Company launched its third-party underwriting and fulfilment processing services business with a large Canadian Schedule I bank ("Bank"). This business is designed to adjudicate mortgages originated by the Bank through the single-family residential mortgage broker channel. 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. Management considers the agreement a way to leverage the capabilities and strengths of First National in the mortgage broker channel and add some diversity to the Company's service offerings. In late 2019 and 2023, the Company entered into similar agreements with two other Canadian banks.

Excalibur Mortgage Products

The Company originates alternative single-family ("Excalibur") mortgage products. Alternative lending describes single-family residential mortgages that are originated using broader underwriting criteria than those applied in originating prime mortgages. These mortgages generally have higher interest rates than prime mortgages. First National's relationships with mortgage brokers and its underwriting systems allow for cost effective origination of significant volumes. The product is originated primarily for placement with institutional investors, but beginning in April 2019, the Company finalized an agreement with a bank-sponsored securitization conduit to fund a portion of Excalibur origination. In early 2020, an agreement was reached with another bank-sponsored conduit to provide additional funding for this product. Excalibur was rolled out gradually, beginning in Ontario. Currently the program originates the majority of its mortgages in Ontario with a growing presence in Western Canada.

Raising Capital for Operations

Bank Credit Facility

The Company's $1.5 billion revolving line of credit with a syndicate of banks enables it to fund the large amounts of mortgages accumulated for securitization. In the second quarter of 2024, the Company extended the term of the facility by another year to mature in March 2029. The facility bears interest at floating rates. The Company has elected to undertake this debt for a number of reasons: (1) the facility provides the amount of debt required to fund mortgages originated for securitization purposes; (2) the debt is revolving and can be used and repaid as the Company requires, providing more flexibility than senior unsecured notes, which are fully drawn during their term; (3) the remainder of the five-year term gives the Company a committed facility for the medium term; and (4) the cost of borrowing reflects the Company's BBB issuer rating.

Note Issuance

On April 1, 2024, 200,000 new Series 5 notes were issued at a coupon of 6.261% for a three-year, 7-month term maturing November 1, 2027. These notes added to the Company's 2023 issuance of 200,000 7.293% Series 4 senior unsecured notes, 2020's issuance of 200,000 2.961% Series 3 senior unsecured notes and 2019's issuance of 200,000 3.582% Series 2 senior unsecured notes. The net proceeds of these issuances, after broker commissions, were invested in FNFLP. On settlement, the proceeds were used to pay down a portion of the indebtedness under the bank credit facility. The Company's medium-term debt capital now stands at approximately $600 million. The notes issued in April 2024 provided the Company with liquidity to fund the maturity of the 2019 issued notes which matured on November 25, 2024.

Preferred Share Issuance

Effective April 1, 2021, pursuant to the original prospectus, the Company reset the annual dividend rate on its outstanding Class A Series 1 preference shares to 2.895% for a five-year term to March 31, 2026. After the exercise of shareholder conversion rights in March 2021, there were 2,984,835 Class A Series 1 shares outstanding and 1,015,165 Class A Series 2 outstanding. The Series 2 shares bear a floating rate dividend calculated quarterly based on the 90-day T-Bill rate. Both the Series 1 and Series 2 shares pay quarterly dividends, subject to Board of Directors' approval, and are redeemable at the discretion of the Company such that after each five-year term ending on March 31, the Company can choose to extend the shares for another five-year term at a fixed spread (2.07%) over the relevant index (five-year Government of Canada bond yield for any Series 1 shares or the 90-day T-Bill rate for any Series 2 shares). While investors in these shares have an option on each five-year anniversary to convert their Series 1 preference shares into Series 2 preference shares (and vice versa), there is no provision of redemption rights to these shareholders. As such, the Company considers these shares to represent a permanent source of capital.

Employing Securitization Transactions to Minimize Funding Costs

Approval as Both an Issuer of NHA-MBS and Seller to the Canada Mortgage Bonds Program

In December 2007, the Company was approved by Canada Mortgage and Housing Corporation ("CMHC") as an issuer of NHA-MBS and as a seller into the Canada Mortgage Bonds ("CMB") program. Issuer status provides the Company with direct and independent access to reliable and low-cost funding. Insured mortgage spreads can be illustrated by comparing insured posted five-year fixed single-family mortgage rates to a similar term five-year Government of Canada bond as listed in the table below.

PERIOD		PERIOD END FIVE-YEAR INSURED MORTGAGE SPREAD BY QUARTER
Q4	2022	1.48%
Q1	2023	1.62%
Q2	2023	1.65%
Q3	2023	1.59%
Q4	2023	2.07%
Q1	2024	1.46%
Q2	2024	1.38%
Q3	2024	1.65%
Q4	2024	1.57%

Generally, when this spread is wider, the Company can earn higher returns from its securitization activities, although credit spreads and program fees observed in mortgage securitization markets also affect profitability. In 2024, the Company originated and renewed approximately $15.2 billion of single-family and multi-unit residential mortgages for securitization purposes.

The Company is subject to various CMHC regulations. These rules include the amount of CMHC guarantees issued which are required to issue a pool. Currently there is a tiered NHA-MBS guarantee fee pricing structure, such that any guarantees issued to one issuer over $9.0 billion of issuance have a higher price. The tiered limit of $9.0 billion remained unchanged in 2024. In July 2022, CMHC issued new rules related to the allocation of NHA-MBS guarantee fees between "lenders" and "aggregators". These rules commenced in the latter part of 2023 through a transition period. CMHC indicated in 2023 that these rules may be subject to further clarification. While these rules have not yet impacted the Company's ability to place mortgages with its existing institutional customers, the rules will have an ongoing impact on the amount of NHA MBS that issuers can create.

Canada Mortgage Bonds Program

The CMB program is an initiative where Canada Housing Trust ("CHT") issues securities to investors in the form of semi-annual interest-yielding 5 and 10-year bonds. As a seller into the CMB, the Company makes direct sales of NHA MBS into the program. The ability to sell into the CMB has given the Company access to lower costs of funds on both single-family and multi-family mortgage securitizations. Because of the effectiveness of the CMB, many institutions have indicated their desire to participate. As a result, CHT has created guidelines through CMHC that limit the amount that can be sold by each seller into the CMB each quarter. The Company is subject to these limitations. CMHC has indicated there may be modifications which may reduce the amounts which the Company can sell into 10-year CMB. After the federal government reviewed the CMB program in 2023, it announced in September 2023 that the annual limit for Canada Mortgage Bonds would increase to $60 billion from $40 billion. The $20 billion increase is dedicated to multi-unit residential pools. At the same time, CMHC increased available NHA MBS guarantees from $150 billion to $170 billion for 2024 to mirror the additional CMB capacity.

Key Performance Indicators

The principal indicators used to measure the Company's performance are:

- Earnings before income taxes and losses and gains on financial instruments, with the exception of any losses or gains related to mortgage investments ("Pre-FMV Income"[1]); and
- Dividend payout ratio.

Beginning in 2020, the Company presented Pre-FMV Income[1] as a key performance indicator. This non-IFRS measure adjusts the Company's earnings by excluding gains and losses related to the fair value of financial instruments. Pre-FMV Income is not recognized under IFRS. However, management believes that Pre-FMV Income is a useful measure that provides investors with an indication of income normalized for capital-market fluctuations. Pre-FMV Income should not be construed as an alternative to net income determined in accordance with IFRS or to cash flows from operating, investing and financing activities. The Company's method of calculating Pre-FMV Income may differ from other issuers and, accordingly, Pre-FMV Income may not be comparable to measures used by other issuers.

($000s)	Quarter Ended		Year Ended	
	DECEMBER 31, 2024	DECEMBER 31, 2023	**DECEMBER 31, 2024**	DECEMBER 31, 2023
For the Period				
Revenue	**600,096**	503,441	**2,216,977**	2,024,285
Income before income taxes	**85,579**	59,895	**276,650**	343,907
Pre-FMV Income[1]	**74,819**	77,125	**290,316**	322,183
At Period End				
Total assets	**51,157,141**	45,957,399	**51,157,141**	45,957,399
Mortgages under administration	**153,697,009**	143,546,966	**153,697,009**	143,546,966

Since going public in 2006, First National has been considered a high-yielding, dividend-paying company. With a large MUA that generates continuing income and cash flow and a business model that is designed to make efficient use of capital, the Company has been able to pay distributions to its shareholders that represent a relatively large ratio of its earnings. The Company calculates the dividend payout ratio as dividends declared on common shares over net income attributable to common shareholders. This measure is useful to shareholders as it indicates the percentage of earnings paid as dividends. Similar to the performance measurement for earnings, the Company also calculates the dividend payout ratio on a basis using after-tax Pre-FMV Income[1].

(1) This non-IFRS measure adjusts income before income taxes by eliminating the impact of changes in fair value by adding back losses on the valuation of financial instruments (except those on mortgage investments) and deducting gains on the valuation of financial instruments (except those on mortgage investments).

Determination of Common Share Dividend Payout Ratio

($000s)	Quarter Ended		Year Ended	
	DECEMBER 31, 2024	DECEMBER 31, 2023	**DECEMBER 31, 2024**	DECEMBER 31, 2023
For the Period				
Net income attributable to common shareholders	**62,079**	43,242	**199,493**	248,952
Total dividends paid or declared on common shares	**67,214**	81,456	**177,404**	189,397
Total dividends paid or declared on common shares, excluding special dividends	**37,930**	36,480	**148,420**	144,421
Total common share dividend payout ratio	**108%**	188%	**89%**	76%
Regular common share dividend payout ratio[1]	**61%**	84%	**74%**	58%
After-tax Pre-FMV dividend payout ratio[2]	**70%**	64%	**71%**	62%

For the year ended December 31, 2024, the total common share payout ratio excluding special dividends was 89% compared to 76% for the year ended December 31, 2023. In both years, the Company recorded gains and losses on changes in fair value of financial instruments. Gains and losses are recorded in the period in which the prices on Government of Canada bonds change; however, the offsetting economic impact is generally reflected in narrower or wider spreads in the future once the mortgages have been pledged for securitization. Accordingly, management does not consider such gains and losses to affect its dividend payment policy in the short term. If the gains and losses on financial instruments in the two years are excluded from the above calculations, the regular dividend payout ratio for 2024 (which excludes the payment of the special dividend) would have been 71% compared to 62% in 2023.

The Company also paid $3.9 million of dividends on its preferred shares in both 2024 and 2023.

(1) This ratio is calculated by excluding the payment of the special dividends declared at the end of the periods presented.
(2) This non-IFRS measure adjusts the net income used in the calculation of the "Regular common share dividend payout ratio" to after tax Pre-FMV income so as to eliminate the impact of changes in fair value by adding back losses on the valuation of financial instruments (except those on mortgage investments) and deducting gains on the valuation of financial instruments (except those on mortgage investments). The Company uses its aggregate effective tax rate to tax affect the impact of the valuation of financial instruments on this ratio.

Revenues and Funding Sources

Mortgage Origination

The Company derives a significant amount of its revenue from mortgage origination activities. Most mortgages originated are funded either by placement with institutional investors or through securitization conduits, in each case with retained servicing. In general, originations are allocated from one funding source to another depending on different criteria, including type of mortgage and securitization limits, with an overall consideration related to maintaining diversified funding sources. The Company retains servicing rights on virtually all the mortgages it originates. This provides First National with servicing fees to complement revenue earned through originations. For the year ended December 31, 2024, and 2023 origination volume was $37.5 billion.

Securitization

The Company securitizes a portion of its origination through various vehicles, including NHA-MBS, CMB and asset-backed commercial paper ("ABCP"). Although these transactions legally represent sales of mortgages, for accounting purposes they do not meet the requirements for sale recognition and instead are accounted for as secured financings. These mortgages remain as mortgage assets of the Company for the full term and are funded with securitization-related debt. Of the Company's $37.5 billion of originations in 2024, $15.2 billion was originated for its own securitization programs.

Placement Fees and Gain on Deferred Placement Fees

The Company recognizes revenue at the time that a mortgage is placed with an institutional investor. Cash amounts received in excess of the mortgage principal at the time of placement are recognized in revenue as “placement fees”. The present value of additional amounts expected to be received over the remaining life of the mortgage sold (excluding normal market-based servicing fees) is recorded as a “deferred placement fee”. A deferred placement fee arises when mortgages with spreads in excess of a base spread are placed. Normally First National would earn an upfront cash placement fee, but investors prefer paying the Company over time, as they earn net interest margin on such transactions. Upon the recognition of a deferred placement fee, the Company establishes a “deferred placement fee receivable” that is amortized as the fees are received by the Company. Of the Company’s $37.5 billion of originations in 2024, $21.4 billion was placed with institutional investors.

For all institutional placements, the Company earns placement fees. Revenues based on these originations are equal to either (1) the present value of the excess spread, or (2) an origination fee based on the outstanding principal amount of the mortgage. This revenue is received in cash at the time of placement. In addition, under certain circumstances, additional revenue from institutional placements may be recognized as “gain on deferred placement fees” as described above.

Mortgage Servicing and Administration

The Company services virtually all mortgages generated through its mortgage origination activities on behalf of a wide range of institutional investors. Mortgage servicing and administration is a key component of the Company’s overall business strategy and a significant source of continuing income and cash flow. In addition to pure servicing revenues, fees related to mortgage administration are earned by the Company throughout the mortgage term. Another aspect of servicing is the administration of funds held in trust, including borrowers’ property tax escrows, reserve escrows and mortgage payments. As acknowledged in the Company’s agreements, any interest earned on these funds accrues to the Company as partial compensation for administration services provided. The Company has negotiated favourable interest rates on these funds with the chartered banks that maintain the deposit accounts, which has resulted in significant additional servicing revenue.

In addition to the interest income earned on securitized mortgages and deferred placement fees receivable, the Company also earns interest income on mortgage-related assets, including mortgages accumulated for sale or securitization, mortgage and loan investments and purchased mortgage servicing rights.

The Company provides underwriting and fulfilment processing services to three mortgage originators using the mortgage broker distribution channel. The Company earns a fee based on the dollar value of funded mortgages. These fees are recognized at the time a mortgage funds and are included in “Mortgage servicing income” in the consolidated statement of income.

Results of Operations

The following table shows the volume of mortgages originated by First National and Mortgages Under Administration for the periods indicated:

($ millions)	Quarter Ended		Year Ended	
	DECEMBER 31, 2024	DECEMBER 31, 2023	**DECEMBER 31, 2024**	DECEMBER 31, 2023
Mortgage Originations by Segment				
Single-family residential	**6,276**	4,360	**22,590**	24,408
Multi-unit and commercial	**4,099**	3,840	**14,909**	13,042
Total origination and renewals	**10,375**	8,200	**37,499**	37,450
Mortgage Originations by Funding Source				
Institutional investors	**6,177**	5,667	**21,411**	24,616
NHA-MBS/CMB/ABCP securitization	**3,953**	2,259	**15,192**	11,830
Internal Company resources	**245**	274	**896**	1,004
Total	**10,375**	8,200	**37,499**	37,450
Mortgages Under Administration				
Single-family residential	**95,797**	94,546	**97,797**	94,546
Multi-unit residential and commercial	**57,900**	49,001	**57,900**	49,001
Total	**153,697**	143,547	**153,697**	143,547

Total mortgage origination volume was slightly higher in 2024 compared to 2023. This reflected a 7% decrease in single-family volumes offset by a 14% increase in commercial segment volumes year over year. Management believes the decrease in the single-family segment was primarily due to competition in the mortgage broker distribution channel that led to discounted rates and larger broker incentives, rather than market conditions. The housing market across Canada performed well, although activity was somewhat muted compared to the 10-year trend. The Company's MERLIN technology continued to support its mortgage origination platform allowing First National to underwrite efficiently across the country. In the commercial segment, where the Company's expertise in underwriting insured multi-unit mortgages is a fundamental competency, 2024 volumes reflected continuing demand. This success was partially offset by lower conventional mortgage activity. Origination for direct securitization into NHA-MBS, CMB and ABCP programs remained a large part of the Company's strategy, with about $15.2 billion of volume in 2024.

Net Interest – Securitized Mortgages

Comparing the year ended December 31, 2024, to the year ended December 31, 2023, "net interest – securitized mortgages" ("NII") increased by 5% to $226.4 million from $216.6 million. The portfolio of mortgages pledged under securitization grew 12% from $39.4 billion at December 31, 2023 to $44.0 billion at

December 31, 2024. This reflected growth of 19% in the multi-unit residential program portfolio and 8% growth in single-family programs. Commercial segment earnings were up by $11 million and grew with the larger portfolio and an increase in margin largely related to the success of the Company's insured construction mortgage program. Residential segment NII was lower by $2 million year over year reflecting tighter spreads. This was partially due to the competitive environment, but also the result of the accounting related to the Company's interest rate management program for single-family mortgage commitments. The Company records gains and losses on such hedges in its current earnings while earning wider or narrower securitization margins over the term of the related mortgages. Generally speaking, when the Company records gains on the hedges, there are narrower securitization margins on the related mortgages. The reverse is true when there are losses. In each of the past three years, the Company recorded gains on these hedging instruments such that the mortgages securitized had comparatively narrower securitization spreads. Effectively, some of the spread otherwise earned on such transactions was recorded as an upfront gain on financial instruments as opposed to securitization NII over the mortgage term. While difficult to calculate precisely, management believes this phenomenon reduced comparative NII in the current year by about $8 million. The residential segment was favourably affected by the Excalibur securitization program as it continued to perform with almost no realized loan-loss experience.

Placement Fees

Placement fee revenue decreased by 16% to $209.3 million from $248.3 million in 2023. This reflected a 13% decrease in placement activity and a shift in the mix of mortgages that make up placement volume. In 2024, new residential origination decreased and was replaced with an increase in renewed residential mortgages. Generally, per-unit fees for renewed mortgages are markedly lower than those on new residential origination. Altogether, including prime mortgages, Excalibur and mortgage renewals, residential per-unit fees were lower by about 4% year over year.

Gains on Deferred Placement Fees

Gains on deferred placement fees decreased 41% to $15.0 million from $25.3 million. These gains related primarily to multi-unit residential mortgages originated and sold to institutional investors where volumes decreased by 12% from 2023. Margins in this business were tighter in 2024 than in 2023.

Mortgage Servicing Income

Mortgage servicing income increased 2% to $258.1 million from $252.6 million. This increase reflected higher revenues related to MUA including administrative fees, partially offset by lower revenues earned in the Company's third-party underwriting business. In general, the elements of mortgage servicing income that relate to the Company's MUA were 8% higher year over year.

Mortgage Investment Income

Mortgage investment income increased 7% to $149.7 million from $139.9 million. The increase was due primarily to the Company carrying a larger balance of mortgages accumulated for securitization during 2024 as it increased its securitization activity. Although mortgage rates were lower year over year commensurate with the overall interest rate environment, mortgage balances in the warehouse grew by a larger amount. This increase was offset somewhat as the Company reduced commercial bridge lending by placing more of this product with its institutional customers. This decision reduced the mortgage loan and investment portfolio by about $50 million and reduced the amount of interest revenue generated by these mortgages.

Realized and Unrealized Gains (Losses) on Financial Instruments

This financial statement line item consists of three primary components: (1) gains and losses related to the Company's economic hedging of single-family commitments, (2) gains and losses related to holding a portfolio of mortgage and loan investments at fair value, and (3) gains and losses on interest rate swaps used to mitigate interest rate risk on its CMB activity. The Company has elected to document hedging relationships for virtually all of the multi-residential commitments and mortgages it originates for its own securitization programs. It has also done the same for funded single-family mortgages and the swaps used in its ABCP programs. This has reduced the volatility of gains and losses on financial instruments otherwise recorded in the Company's regular earnings, as gains and losses on hedged items are generally deferred and amortized into income over the term of the related mortgages. The Company does not document a hedging relationship for accounting purposes related to its interest mitigation program on its single-family mortgage commitments. The Company believes, given the optional nature of these commitments, it is difficult to establish a valid hedging relationship. For financial reporting purposes, this means that there will still be gains and losses on financial instruments, but these should be limited to those on the bonds sold short used to mitigate such risk. The following table summarizes these gains and losses by category in the periods indicated:

Summary of Realized and Unrealized Gains (Losses) on Financial Instruments

($000s)	Quarter Ended		Year Ended	
	DECEMBER 31, 2024	DECEMBER 31, 2023	**DECEMBER 31, 2024**	DECEMBER 31, 2023
Gains (losses) on short bonds used for the economic hedging program	**11,000**	(20,881)	**(13,666)**	23,620
Gains (losses) on mortgages held at fair value	**—**	336	**—**	397
Gains (losses) on interest rate swaps	**(240)**	3,651	**—**	(1,896)
Net gains (losses) on financial instruments	**10,760**	(16,849)	**(13,666)**	22,121

2023 began with an environment in which bond yields fell as economic sentiment turned softer; however, by midyear the BoC once again increased its overnight rates to counter a stubborn inflationary economy. This resulted in increases in both short and long-term interest rates. Accordingly, the Company recorded gains on its short bonds used to economically hedge single-family mortgage commitments. 2024 began with a more uncertain environment in which bond yields first fell but then rose as inflation indicators remained elevated and the central bank delayed possible overnight rate cuts. In early June 2024, the BoC began cutting rates again and the bond market followed with decreasing yields. The lower yields meant the Company recorded losses on the short bonds it used to economically hedge single-family mortgage commitments. In the fourth quarter of 2024, yields rose, and the Company recorded gains on its short bond position.

Brokerage Fees Expense

Brokerage fees expense decreased 31% to $95.5 million in 2024 from $139.2 million in 2023. This reflected a 34% year-over-year decrease in origination volumes of single-family mortgages for institutional investors partially offset by a 5% increase in per-unit broker fees.

Salaries and Benefits Expense

Salaries and benefits expense increased 15% to $229.6 million from $200.5 million. The primary increase in these expenses related to incentive-driven commercial underwriting compensation which was higher year over year by $13.7 million on higher production. Without

these expenses, salaries and benefits increased by 10% year over year. This reflected standard annual merit increase as well as headcount growth of 9% (1,771 employees at December 31, 2024, compared to 1,624 at December 31, 2023). Some of the headcount growth pertains to staffing for the Company's new third-party underwriting customer. Management salaries were paid to the two senior executives (co-founders) who together control about 71% of the Company's common shares. The current period expense is a result of the compensation arrangement executed on the closing of the initial public offering ("IPO") in 2006.

Interest Expense

Interest expense increased 5% to $161.7 million from $153.4 million. As discussed in the "Liquidity and Capital Resources" section of this analysis, the Company warehouses a portion of the mortgages it originates prior to settlement with the investor or funding with a securitization vehicle. The Company used its $1.5 billion syndicated bank line together with repurchase agreements to fund mortgages during this period. The overall interest expense increased from 2023 because of higher usage of repurchase agreements to fund the larger balances of mortgages accumulated for securitization. Interest expense also includes the cost of carry related to the Company's economic hedging program.

Other Operating Expenses

Other operating expenses increased by 20% to $81.3 million from $67.8 million primarily due to higher information technology costs including higher depreciation related to investments in computer hardware and software. The Company also incurred higher insurance costs and credit bureau expenses relative to 2023.

Income before Income Taxes and Pre-FMV Income[1]

Income before income taxes decreased 20% to $276.6 million from $343.9 million in 2023, due partially to changing capital markets. The Company's results include gains and losses on financial instruments used to economically hedge residential mortgage commitments. As described previously in this MD&A, the Company recorded $13.7 million of losses on financial instruments (excluding gains related to mortgage investments) in 2024 quarter. Comparatively, in 2023, the Company recorded $21.7 million of gains on financial instruments (excluding losses related to mortgage investments). The change in these values accounted for a $35.4 million decrease in comparative income before income taxes. Pre-FMV Income[1], which excludes these changes, decreased by 10% to $290.3 million from $322.2 million. This change was the result of several factors including lower origination in the third-party underwriting business. Lower volumes reduced the Company's operating leverage as revenues were lower while expenses were higher as headcount was added to support the new third-party underwriting customer and salaries rose with annual merit increases. The Company also choose to securitize more of its origination through direct securitization programs which delayed the recognition of revenue to future periods in contrast to how mortgages were funded in the comparative year. Higher operating costs particularly related to technology further reduced earnings by $13.5 million.

Income Tax Expense

The provision for taxes decreased by 20% to $73.3 million from $91.1 million. The provision decreased proportionately with net income before income taxes.

Other Comprehensive Income

For the commercial segment, the Company hedges the interest rate risk associated with insured multi-residential mortgages. This hedging begins on commitment and ends when the Company either securitizes the mortgage or places the mortgage with an institutional investor. As the Company determined that these cash flow hedges were effective, it recorded $28.9 million of pre-tax net losses on such hedges in OCI in 2024. In the year, the Company amortized a portion of the gains and losses in accumulated OCI into regular earnings in the amount of $0.5 million. The remaining OCI amount will be amortized into net income in future periods.

(1) Pre-FMV Income is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Pre-FMV Income may not be comparable to similar measures presented by other issuers. Investors are cautioned that Pre-FMV Income should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

Operating Segment Review

The Company aggregates its business from two segments for financial reporting purposes: (i) Residential (which includes single-family residential mortgages), and (ii) Commercial (which includes multi-unit residential and commercial mortgages), as summarized below:

Operating Business Segments

($000s, except percent amounts)	Residential		Commercial	
FOR THE YEAR ENDED	**DECEMBER 31, 2024**	DECEMBER 31, 2023	**DECEMBER 31, 2024**	DECEMBER 31, 2023
Originations and renewals	**22,589,614**	24,416,844	**14,909,306**	13,042,685
Percentage change	**(7%)**		**14%**	
Revenue	**1,547,538**	1,454,434	**669,439**	569,851
Percentage change	**6%**		**17%**	
Income before income taxes	**155,808**	207,192	**120,842**	136,715
Percentage change	**(25%)**		**(12%)**	
As at	DECEMBER 31, 2023	DECEMBER 31, 2022	DECEMBER 31, 2023	DECEMBER 31, 2022
Identifiable assets	**33,218,858**	30,362,969	**17,908,507**	15,564,654
Mortgages Under Administration	**95,796,912**	94,545,641	**57,900,097**	49,001,325

Residential Segment

Residential origination volumes including renewals decreased by 7% between 2023 and 2024 while residential revenues increased by 6%. Excluding the impact of gains and losses on financial instruments, revenues increased by 9%. This performance largely reflected higher interest revenue on the Company's larger securitized portfolio on higher weighted average mortgage rates secured over the past two years. Net income before tax was also affected by fair value-related revenues. Without the impact of these revenues, net income before tax decreased to $169.5 million in 2024 from $185.5 million in 2023, or 9%. This change was largely the result of lower single-family origination for the Company's third-party underwriting customers which negatively affected mortgage servicing revenue. Expenses for this business grew, particularly to support the Company's newest customer as it commenced operations. Income was also negatively affected by higher operating costs primarily due to IT expenditures. Identifiable assets increased from December 31, 2023, as mortgages pledged under securitization grew by about $2.0 billion, hedging assets increased by $0.3 billion and mortgages accumulated for securitization increased by $0.7 billion.

Commercial Segment

2024 commercial revenues were higher compared to those in 2023 by 14% while segment income before income taxes decreased by 12% year over year. Revenue increased on growth in the Company's securitized mortgage portfolio. The decrease in income reflected higher direct securitization. By securitizing directly, the company does not earn significant revenue in the period of origination but incurs the cost of origination through higher incentive-based compensation to the employees involved in commercial origination. Identifiable assets increased from December 31, 2023, as the Company grew its portfolio of securitized mortgages by about $2.6 billion and decreased its commercial hedging assets by $0.2 billion.

Liquidity and Capital Resources

The Company's fundamental liquidity strategy has been to originate and invest in prime Canadian mortgages. Management's belief has always been that these mortgages are attractive to investors and should always be well bid and highly liquid. This strategy proved effective during the global financial crisis in 2007 through 2009, and once again at the onset of the Covid-19 pandemic, when capital markets were disrupted and the demand for high-quality assets increased. As the Company's results in those years demonstrated, First National was able to attract investors to purchase its mortgage origination at profitable margins. Originating prime mortgages also allows the Company to securitize in the capital markets; however, this activity requires significant cash resources to purchase and hold mortgages prior to arranging for term debt through securitization markets. For this purpose, the Company uses the combination of unsecured notes and the Company's revolving bank credit facility. This aggregate indebtedness is typically used to fund: (1) mortgages accumulated for sale or securitization (2) the origination costs associated with securitization and, (3) mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions for total credit of $1.5 billion. This facility was extended for a year in April 2024 and now matures in March 2029.

As at December 31, 2024, the Company had entered into repurchase transactions with financial institutions to borrow $2.4 billion related to $2.5 billion of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At December 31, 2024, outstanding bank indebtedness was $1,077.6 million (December 31, 2023 – $1,083.0 million). This debt was used to fund a portion of mortgages accumulated for sale or securitization totalling $985.9 million (December 31, 2023 – $1,026.9 million). At December 31, 2024, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $71.2 million (December 31, 2023 – $73.9 million) and (2) mortgage and loan investments of $139.9 million (December 31, 2023 – $270.9 million). The Company considers the portion of bank indebtedness and the senior unsecured notes that fund assets other than mortgages accumulated for sale or securitization a proxy for true leverage. This leverage increased between December 31, 2023, and December 31, 2024, to stand at $690.3 million (December 31, 2023 – $654.8 million). This represents a debt-to-equity ratio of approximately 0.94:1. This ratio increased from 0.89:1 as at December 31, 2023. In general, the increase in this ratio is a result of losses related to the Company's hedging activities which reduced its equity.

The Company funds a portion of its mortgage originations for institutional placement on the same day as the advance of the related mortgage. The remaining originations are funded by the Company on behalf of institutional investors or pending securitization by First National. On specified days, the Company aggregates all mortgages warehoused to date for an institutional investor and transacts a settlement with that investor. A similar process occurs prior to arranging for funding through securitization. The Company uses a portion of its committed credit facility with the banking syndicate to fund the mortgages during this warehouse period. The credit facility is designed to be able to fund the highest balance of warehoused mortgages in a month and is normally only partially drawn.

The Company also invests in short-term mortgages, usually for 6- to 18-month terms, to bridge existing borrowers in the interim period before traditional term financing can be provided. The banking syndicate has provided credit facilities to partially fund these investments. The Company's mortgage and loan investments also include a portfolio of single-family mortgages not eligible for securitization. These arise when minor imperfections are discovered on mortgages otherwise originated for securitization. The portfolio comprises largely prime insured mortgages. To the extent these mortgages are financed by bank borrowings, as they repay, the cash will be used to pay down this bank indebtedness. The syndicate has also provided credit to finance a portion of the Company's deferred placement fees receivable and the origination costs associated with securitization, as well as other longer-term assets.

A portion of the Company's capital has been employed to support its ABCP and NHA-MBS programs, primarily to provide credit enhancements as required by rating agencies. The most significant portion of cash collateral is the investment made on behalf of the Company's ABCP programs. As at December 31, 2024, the investment in cash collateral was $172.8 million (December 31, 2023 – $151.6 million).

The Company's Board of Directors has elected to pay dividends, when declared, on a monthly basis on the outstanding common shares and on a quarterly basis on the outstanding preference shares. For purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by the Company to Canadian residents on both common and preference shares after June 30, 2010, are designated as "eligible dividends". Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as "eligible dividends" for the purposes of such rules.

Financial Instruments and Risk Management

The Company records mortgages accumulated for sale and a portion of mortgage and loan investments as financial assets measured at "fair value through profit or loss" such that changes in market value are recorded in the consolidated statement of income. The mortgages accumulated for sale are held for very short periods, and any change in value due to changing interest rates is the obligation of the ultimate institutional investor. Accordingly, the Company believes there will be little, if any, effect on its income related to the change in fair value of these mortgages. The majority of mortgages in mortgage and loan investments are uninsured commercial segment bridge loans. These are primarily floating rate loans that have mortgage terms of 18 months or less. As the mortgages do not conform to conventional mortgage lending, there are few active quoted markets available to determine the fair value of these assets. The Company estimates fair value based upon: benchmark interest rates, credit spreads for similar products, creditworthiness and status of the borrower, valuation of the underlying real property, payment history, and other conditions specific to the rationale for the loan. Any favourable or unfavourable amounts will be recorded in the statement of income each quarter.

The Company believes its hedging policies are suitably designed such that the interest rate risk of holding mortgages prior to securitization is mitigated. The Company designates hedging relationships such that the results of any effective hedging does not affect the Company's statement of income. See previous discussion in this MD&A under "Realized and Unrealized Gains (Losses) on Financial Instruments". As at December 31, 2024, the Company had $1.4 billion of notional forward bond positions related to its single-family programs. For multi-unit residential and commercial mortgages, the Company assumes all mortgages committed will fund, and hedges each mortgage individually. This includes mortgages committed for the CMB program as well as mortgages to be sold to the Company's other securitization vehicles. As at December 31, 2024, the Company had $0.7 billion of notional value forward bond sales for this segment. The Company is also a party to two interest rate swaps that economically hedge the interest rate exposure related to certain CMB transactions in which the Company has replacement obligations. As at December 31, 2024, the aggregate value of these swaps which mature in September 2025 and September 2026, was a $3.3 million liability. During 2024, there were no significant gains or losses recorded related to these swaps.

As described above, the Company employs various strategies to reduce interest rate risk. In the normal course of business, the Company also takes on credit spread risk. This is the risk that the credit spread at which a mortgage is originated changes between the date of commitment of that mortgage and the ultimate date of placement or securitization. If credit spreads widen during this holding period, it is unfavourable for the Company. It means that the Company cannot fund the mortgages originated with a funding source as effectively as originally intended. Despite entering into effective interest rate hedges, the Company's exposure to credit spreads will remain. This risk is inherent in the Company's business model and the Company believes it cannot be economically hedged. As at December 31, 2024, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were approximately $3.4 billion of mortgages that were susceptible to some degree of changing credit spreads.

Capital Expenditures

A significant portion of First National's business model is the origination and placement or securitization of financial assets. Generally, placement activities do not require any capital investment. Securitization transactions may require the investment of significant amounts of the Company's own capital. This capital is provided in the form of cash collateral, credit enhancements, and the upfront funding of broker fees and other origination costs. These are described more fully in the "Liquidity and Capital Resources" section above. The business requires capital expenditures on technology (both software and hardware), leasehold improvements, and office furniture. During 2024, the Company purchased new computer equipment and software and made leasehold improvements. In the long term, the Company expects capital expenditures on fixed assets will be approximately $10 million annually.

Summary of Contractual Obligations

The Company's long-term obligations include leases of premises with terms up to 14 years for its offices across Canada, and its obligations for the ongoing servicing of mortgages sold to securitization conduits and mortgages related to purchased servicing rights. The Company sells its mortgages to securitization conduits on a fully serviced basis and is responsible for the collection of the principal and interest payments on behalf of the conduits, including the management and collection of mortgages in arrears.

	Payments Due By Period				
($000S)	TOTAL	0–1 YEARS	1–3 YEARS	4–5 YEARS	AFTER
Lease obligations	**109,057**	10,473	20,483	17,936	60,165

Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with IFRS, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions that it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis. The significant accounting policies of First National are described in Note 2 to the Company's annual consolidated financial statements as at December 31, 2024. The policies that First National believes are the most critical to aid in fully understanding and evaluating its reported financial results include the determination of the gains on deferred placement fees and the impact of fair value accounting on financial instruments.

The Company uses estimates in valuing its gain or loss on the sale of its mortgages placed with institutions earning a deferred placement fee. Under IFRS, valuing a gain on deferred placement fees requires the use of estimates to determine the fair value of the retained interest in the mortgages. These retained interests are reflected on the Company's balance sheet as deferred placement fees receivable. The key assumptions used in the valuation of gains on deferred placement fees are prepayment rates and the discount rate used to present value future expected cash flows. The annual rate of unscheduled principal payments is determined by reviewing portfolio prepayment experience on a monthly basis. The Company assumes there is virtually no prepayment on multi-unit residential fixed-rate mortgages as most prepayments earn the Company a prepayment fee which offsets any impairment to retained interests.

On a quarterly basis, the Company reviews the estimates used to ensure their appropriateness and monitors the performance statistics of the relevant mortgage portfolios to adjust and improve these estimates. The estimates used reflect the expected performance of the mortgage portfolio over the duration of the mortgages. The method of determining the assumptions underlying the estimates used for the year ended December 31, 2024, are consistent with those used for the year ended December 31, 2023, and the quarters ended March 31, 2024, June 30, 2024, and September 30, 2024.

The Company elects to treat certain of its financial assets and liabilities, including mortgages accumulated for sale, a portion of mortgage and loan investments and bonds sold short, at fair value through profit or loss. Essentially, this policy requires the Company to record changes in the fair value of these instruments in the current period's earnings. A portion of the bonds sold short are designated as an effective hedge, and accordingly, a portion of the change in the short bonds' fair value may be recorded in Other Comprehensive Income or deferred on the balance sheet with the related mortgage assets. This accounting has reduced volatility in earnings as changes in the value on short bonds have been matched to the recognition of the change in value of the hedged mortgages. The Company's assets and liabilities are such that the Company must use valuation techniques based on assumptions that are not fully supported by observable market prices or rates in most cases. Much like the valuation of deferred placement fees receivable described above, the Company's method of determining the fair value of the assets listed above is subject to Company estimates. The most significant would be implicit in the valuation of mortgage and loan investments that are recorded at Fair Value Through Profit or Loss ("FVTPL"). These are generally non-homogeneous mortgages where it is difficult to find independent valuation comparatives. The Company uses information in its underwriting files, regional real estate information and other internal measures to determine the fair value of these assets.

As a mortgage lender, the Company invests in uninsured mortgages. When it funds these mortgages through securitization debt, it continues to be liable for any credit losses. The key inputs in the measurement of any expected credit loss ("ECL") include probability of default, loss given default and forecast of future economic conditions, which involves significant judgment. Because of the high proportion of government-insured mortgages in its securitized portfolio and the low historical loss rates on the uninsured mortgages on which the Company lends, credit losses are typically low compared to its securitization portfolio. In 2024, the Company recorded a provision for credit loss of $1.0 million.

Disclosure Controls and Internal Control over Financial Reporting

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified under those laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2024, management evaluated, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, management concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2024.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with reporting standards; however, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Management evaluated, under the supervision of and with the participation by the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on that evaluation, concluded that the Company's internal control over financial reporting was effective as of December 31, 2024, and that no material weaknesses have been identified in the Company's internal control over financial reporting as of December 31, 2024. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ESG

The Company issued its initial Public Accountability Statement in the fall of 2021. In November 2024, it issued an updated report which 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. The Sustainability Report complements the Management Information Circular, Annual Information Form, Management Discussion and Analysis and Annual Report, all of which offer information about the financial position, priorities, responsibilities and commitments of the consolidated operations of First National.

Risks and Uncertainties Affecting the Business

The business, financial condition and results of operations of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company. In addition to the risks addressed elsewhere in this discussion and the financial statements, these risks include: ability to sustain performance and growth, reliance on sources of funding, concentration of institutional investors including third-party servicing customers, reliance on independent mortgage brokers, changes in interest rates, repurchase obligations and breach of representations and warranties on mortgage sales, risk of servicer termination including the impact of trigger events on cash collateral and retained interests, reliance on multi-unit residential and commercial mortgages, general economic conditions, legislation and government regulation (including regulations imposed by the Department of Finance and CMHC and the policies set by and for mortgage default insurance companies), potential for losses on uninsured mortgages, competition, reliance on mortgage insurers, reliance on key personnel and the ability to attract and retain employees and executives, conduct and compensation of independent mortgage brokers, failure or unavailability of computer and data processing systems and software, insufficient insurance coverage, change in or loss of ratings, impact of natural disasters and other events, unfavourable litigation, and environmental liability. In addition, there

are risks associated with the structure of the Company, including: those related to the dependence on FNFLP, leverage and restrictive covenants, dividends that are not guaranteed and could fluctuate with the Company's performance, restrictions on potential growth, the market price of the Company's shares, statutory remedies, control of the Company, and contractual restrictions. The Company 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 are detrimental to the Company or that Canadian tax authorities interpret tax legislation differently than the Company's filing positions. Risk and risk exposure are managed through a combination of insurance, a system of internal controls and sound operating practices. The Company's key business model is to originate primarily prime mortgages and find funding through various channels to earn ongoing servicing or spread income. For the single-family residential segment, the Company relies on independent mortgage brokers for origination and several large institutional investors for sources of funding. These relationships are critical to the Company's success. The total of one investor's activities with the Company accounted for approximately 5.7% of the Company's total revenues in 2024. On February 1, 2025, U.S. President Donald Trump signed three executive orders implementing a new tariff policy, imposing a 25% duty on merchandise imports from Mexico and Canada — impacting nearly US$900 billion in trade. The U.S. administration commenced such tariffs on March 4, 2025, but it remains uncertain on the extent of the impact to the economy, employment, and the housing market in Canada. At this time, there is still some uncertainty on the impact of these announced tariffs and the potential reaction by the Canadian government. Management believes these changes may affect Canada negatively and could have an unfavorable impact to the Company, particularly if employment is affected in future periods. Losses related to these risks described above could be material. For a more complete discussion of the risks affecting the Company, reference should be made to the Company's Annual Information Form.

Forward-Looking Information

Forward-looking information is included in this MD&A. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", '"should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, product development activities, projected costs and capital expenditures, financial results, risk management strategies, hedging activities, geographic expansion, licensing plans, taxes and other plans and objectives of or involving the Company. Particularly, information regarding growth objectives, any increase in Mortgages Under Administration, future use of securitization vehicles, industry trends and future revenues is forward-looking information. Forward-looking information is based on certain factors and assumptions regarding, among other things, interest rate changes and responses to such changes, the demand for institutionally placed and securitized mortgages, the status of the applicable regulatory regime, and the use of mortgage brokers for single-family residential mortgages. This forward-looking information should not be read as providing guarantees of future performance or results and will not necessarily be an accurate indication of whether or not, or the times by which, those results will be achieved. While management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include reliance on sources of funding, concentration of institutional investors, reliance on independent mortgage brokers, and changes in interest rates as outlined in the "Risk and Uncertainties Affecting the Business" section. In evaluating this information, the reader should specifically consider various factors, including the risks outlined in the "Risk and Uncertainties Affecting the Business" section, that may cause actual events or results to differ materially from

any forward-looking information. The forward-looking information contained in this discussion represents management's expectations as of March 4, 2025, and is subject to change after such date. However, management and the Company disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

Outlook

2024 unfolded much as the Company expected, except for the growth of single-family origination in the fourth quarter which increased by about 50% from the comparative quarter of 2023. As described in the third quarter results, commitment activity grew by about 50% over the same period in 2023. That commitment activity, translated to funded mortgages and the Company closed about 50% more new single family origination volume in the fourth quarter of 2024. In its commercial segment, First National recorded a quarterly record for new origination in the second quarter of 2024 and an annual record for origination including renewals of almost $15 billion. In 2024, the Company continued to build its MUA and its portfolio of mortgages pledged under securitization. It will benefit from both MUA and the securitized portfolio in the future: earning income from mortgage administration, net securitization margin and improving its position to capture increased renewal opportunities.

In the short term, the Company expects increased year-over-year single-family origination in the next two quarters as commitment levels were higher than those in late 2023. With the Bank of Canada expected to continue cutting overnight rates over the next six months, mortgage rates are expected to move lower which may increase home buying activity. Management believes this backdrop may provide confidence to borrowers who have remained on the sidelines. This outlook, however, must be considered alongside the potential negative impact of U.S. tariffs. On February 1, 2025, U.S. President Donald Trump signed three executive orders implementing a new tariff policy, imposing a 25% duty on merchandise imports from Mexico and Canada — impacting nearly US$900 billion in trade. The U.S. administration commenced such tariffs on March 4, 2025, but it remains uncertain on the extent of the impact to the economy, employment, and the housing market in Canada. At this time, there is still some uncertainty on the impact of these announced tariffs and the potential reaction by the Canadian government. Management believes these changes may affect Canada negatively and could have an unfavorable impact to the Company, particularly if employment is affected in future periods.

The Company continued to see year over year growth of single-family mortgage commitments in the fourth quarter of 2024. Although this growth rate moderated toward year end, management expects first quarter origination volumes to exceed those from the same quarter last year. For its commercial segment, the Company anticipates steady new origination volumes as government incentives support the creation of multi-unit housing and mortgage rates come down with expected BoC rate cuts. These initiatives, including the increase of the Canada Mortgage Bonds program from $40 to $60 billion, not only enhanced the level of financing available for multi-unit mortgages, but also removed uncertainties about such programs in the future. These developments have created a reliable and stable source of funds for the Company to originate CMHC insured multi-unit mortgages. However, with the increased certainty of these programs, other lenders have entered this market, and this competition has moved spreads tighter from the levels available in the first half of 2024. In both business segments, management is confident that First National will remain a competitive lender in the marketplace.

First National is well prepared to execute its business plan and is confident that the strong relationships it has with mortgage brokers and diverse funding sources are enduring competitive advantages. In 2025, the Company expects to continue to enjoy the value of its goodwill with broker partners earned over the last 35+ years. With diverse institutional investors relationships and solid securitization markets, the Company also has access to consistent and reliable sources of funding.

Going forward, the Company will generate income and cash flow from its now $44 billion portfolio of mortgages pledged under securitization and $106 billion servicing portfolio while focusing on the value inherent in its significant single-family renewal book.

Management's Responsibility for Financial Reporting

The management of First National Financial Corporation (the "Company") is responsible for the integrity, consistency and reliability of the consolidated financial statements and Management's Discussion and Analysis ("MD&A"). The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the financial statements and information contained in the MD&A, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report. Based on our knowledge, the financial statements together with MD&A and other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the Company. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. We evaluated, or caused to be evaluated under our supervision, the effectiveness of the Company's internal control over financial reporting at the financial year end and the Company has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year-end based on that evaluation. We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors oversees that management fulfils its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. Ernst & Young LLP, the independent auditors appointed by the shareholders, has performed an independent audit of the Company's consolidated financial statements and provide their report which follows. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audit and related matters.

Jason Ellis
President and Chief Executive Officer

Robert Inglis
Chief Financial Officer

March 5, 2025

Independent Auditor's Report

To the Shareholders of First National Financial Corporation

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **First National Financial Corporation** and its subsidiaries [collectively, the "Company"], which comprise the consolidated statements of financial position as at December 31, 2024 and December 31, 2023, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2024 and December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Measurement of estimated credit losses

As more fully described in Note 2 and Note 3 to the financial statements, the Company is exposed to credit risk on its mortgage assets. In 2024 the Company has recorded an allowance for credit losses of $6,793 thousand. The Company manages credit risk by employing underwriting policies and procedures designed to minimize exposure to credit losses, and by acquiring insurance against borrower default on substantially all its mortgages. The Company's expected credit loss ("ECL") impairment analysis considers a range of possible outcomes supported by past loss events, current conditions and an expectation of future possible outcomes.

The allowance for credit losses was identified as a key audit matter due to the number of key data inputs and criteria being assessed as part of the underwriting process. The availability and observability of data inputs and judgmental assumptions are key factors in the susceptibility of the allowance for credit losses being exposed to variances in the probability of default and loss given default. Management judgment was involved in selecting appropriate values for key assumptions, which in the event of a credit loss includes estimates of the amounts recoverable from underlying collateral. In forming their judgement, management had to both assess the effectiveness of their credit management strategies in minimizing future credit losses as well as make a forecast of possible future economic conditions and consider the impact of each on their critical assumptions. Variations in the key assumptions and key data inputs described can have a material effect on the measurement of ECL for each loan underwritten by the Company.

We obtained an understanding of management's controls over exposure to credit risk, including mortgage underwriting policies and processes used to assess borrower capacity, income verification, creditworthiness and collateral. We tested the operating effectiveness of these controls by assessing for a sample of mortgages originated and funded. We tested compliance with management's underwriting policy and processes and eligibility, when arranged, for insurance against borrower default based on criteria of the mortgage default insurer.

For the purpose of auditing the allowance for credit losses, among other procedures,

- We tested management's data and model by obtaining contrary data from independent sources, to develop a range for the estimated ECL on the uninsured portfolio of mortgages held at amortized cost.
- We compared our range to management's estimate of allowance for credit losses.
- With the assistance of our credit risk specialists, we also evaluated management's methodology and governance over the application of expert credit judgment by evaluating that the amounts recorded were reflective of underlying credit quality and macroeconomic trends
- We also assessed the adequacy of the Company's disclosures on the management of credit risk.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Tedesco.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2025

Consolidated statements on financial position

[in thousands of Canadian dollars]
As at December 31

	NOTES	2024 $	2023 $
Assets			
Restricted cash	3	**855,809**	550,842
Cash held as collateral for securitization	3	**172,795**	151,557
Accounts receivable and sundry		**166,856**	133,264
Mortgages accumulated for sale or securitization	5	**3,441,028**	2,583,634
Mortgages pledged under securitization	3	**43,976,776**	39,427,192
Deferred placement fees receivable	4	**71,176**	73,904
Mortgage and loan investments	6	**139,907**	270,921
Securities purchased under resale agreements	14	**2,230,658**	2,653,376
Other assets	7	**102,136**	112,709
Total assets		**51,157,141**	45,957,399
Liabilities and equity			
Liabilities			
Bank indebtedness	9	**1,077,629**	1,083,000
Obligations related to securities and mortgages sold under repurchase agreements	15	**2,375,117**	1,524,192
Accounts payable and accrued liabilities	16	**284,432**	285,344
Securities sold short	14	**2,233,288**	2,649,249
Debt related to securitized mortgages	10	**43,677,981**	38,880,798
Senior unsecured notes	12	**598,630**	598,745
Income taxes payable	18	**353**	47,408
Deferred income tax liabilities	18	**171,500**	150,900
Total liabilities		**50,418,930**	45,219,636
Common shares	17	**122,671**	122,671
Preferred shares	17	**97,394**	97,394
Retained earnings		**499,888**	477,799
Accumulated other comprehensive income (loss)		**18,258**	39,899
Total equity		**738,211**	737,763
Total liabilities and equity		**51,157,141**	45,957,399

See accompanying notes

On behalf of the Board:

Robert Mitchell
Director

Robert Pearce
Director

Consolidated statements of income

[in thousands of Canadian dollars, except earnings per share]
Years ended December 31

	NOTES	**2024** **$**	2023 $
Revenue			
Interest revenue – securitized mortgages		**1,598,544**	1,336,063
Interest expense – securitized mortgages		**(1,372,182)**	(1,119,475)
Net interest – securitized mortgages	3	**226,362**	216,588
Placement fees		**209,344**	248,313
Gains on deferred placement fees	4	**14,972**	25,307
Mortgage investment income	6	**149,663**	139,929
Mortgage servicing income		**258,120**	252,552
Realized and unrealized gains (losses) on financial instruments	19	**(13,666)**	22,121
		844,795	904,810
Expenses			
Brokerage fees		**95,508**	139,199
Salaries and benefits		**229,646**	200,489
Interest		**161,681**	153,407
Other operating		**81,310**	67,808
		568,145	560,903
Income before income taxes		**276,650**	343,907
Income tax expense	18	**73,260**	91,100
Net income for the year		**203,390**	252,807
Earnings per share			
Basic	17	**3.33**	4.15

See accompanying notes

Consolidated statements of comprehensive income

[in thousands of Canadian dollars]
Years ended December 31

	NOTES	2024 $	2023 $
Net income for the year		**203,390**	252,807
Other comprehensive income items that may be subsequently reclassified to income			
Net losses from change in fair value of cash flow hedges		**(28,906)**	(6,548)
Reclassification of net gains to income		**(535)**	(21,724)
		(29,441)	(28,272)
Income tax recovery	18	**7,800**	7,500
Total other comprehensive losses		**(21,641)**	(20,772)
Total comprehensive income		**181,749**	232,035

See accompanying notes

Consolidated statements of changes in equity

[in thousands of Canadian dollars]
Years ended December 31

	COMMON SHARES $	PREFERRED SHARES $	RETAINED EARNINGS $	ACCUMULATED OTHER COMPREHENSIVE INCOME $	TOTAL EQUITY $
Balance as at January 1, 2024	**122,671**	**97,394**	**477,799**	**39,899**	**737,763**
Net income for the year	**—**	**—**	**203,390**	**—**	**203,390**
Other comprehensive income	**—**	**—**	**—**	**(21,641)**	**(21,641)**
Dividends paid or declared	**—**	**—**	**(181,301)**	**—**	**(181,301)**
Balance as at December 31, 2024	**122,671**	**97,394**	**499,888**	**18,258**	**738,211**

	COMMON SHARES $	PREFERRED SHARES $	RETAINED EARNINGS $	ACCUMULATED OTHER COMPREHENSIVE INCOME $	TOTAL EQUITY $
Balance as at January 1, 2023	122,671	97,394	418,244	60,671	698,980
Net income for the year	—	—	252,807	—	252,807
Other comprehensive income	—	—	—	(20,772)	(20,772)
Dividends paid or declared	—	—	(193,252)	—	(193,252)
Balance as at December 31, 2023	122,671	97,394	477,799	39,899	737,763

See accompanying notes

Consolidated statements of cash flows

[in thousands of Canadian dollars]
Years ended December 31

	2024 $	2023 $
Operating activities		
Net income for the year	**203,390**	252,807
Add (deduct) items		
Provision for deferred income taxes	**28,400**	9,000
Non-cash portion of gains on deferred placement fees	**(14,105)**	(24,551)
Decrease (increase) in restricted cash	**(304,967)**	54,866
Net investment in mortgages pledged under securitization	**(4,475,185)**	(2,067,552)
Net increase in debt related to securitized mortgages	**4,722,784**	1,918,585
Securities purchased under resale agreements, net	**422,718**	299,812
Securities sold short, net	**(402,163)**	(409,690)
Amortization of deferred placement fees receivable	**16,833**	15,295
Amortization of property, plant and equipment	**14,953**	14,160
Unrealized losses (gains) on financial instruments	**(47,570)**	70,078
	165,088	132,810
Net change in non-cash working capital balances related to operations	**(928,806)**	(236,316)
Cash used in operating activities	**(763,718)**	(103,506)
Investing activities		
Additions to property, plant and equipment	**(4,380)**	(6,200)
Repayment (investment) in cash held as collateral for securitization	**(21,238)**	9,155
Investment in mortgage and loan investments	**(724,386)**	(929,146)
Repayment of mortgage and loan investments	**855,400**	848,744
Cash used in investing activities	**105,396**	(77,447)
Financing activities		
Dividends paid	**(181,117)**	(192,884)
Obligations related to securities and mortgages sold under repurchase agreements	**850,925**	163,245
Repayment of lease liabilities	**(5,587)**	(5,628)
Issuance of senior unsecured notes	**199,472**	199,088
Repayment of senior unsecured notes	**(200,000)**	—
Cash provided by financing activities	**663,693**	163,821
Net decrease (increase) in bank indebtedness during the year	**5,371**	(17,132)
Bank indebtedness, beginning of year	**(1,083,000)**	(1,065,868)
Bank indebtedness, end of year	**(1,077,629)**	(1,083,000)
Supplemental cash flow information		
Interest received	**1,812,819**	1,526,201
Interest paid	**1,391,327**	1,139,276
Income taxes paid	**91,916**	16,230

See accompanying notes

Notes to Consolidated Financial Statements

[in thousands of Canadian dollars, unless otherwise indicated]
December 31, 2024

1. General organization and business of First National Financial Corporation

First National Financial Corporation [the "Corporation" or "Company"] is the parent company of First National Financial LP ["FNFLP"], a Canadian-based originator, underwriter and servicer of predominantly prime residential [single family and multi unit] and commercial mortgages. With over $153 billion in mortgages under administration as at December 31, 2024, FNFLP is a significant participant in the mortgage broker distribution channel.

The Corporation is incorporated under the laws of the Province of Ontario, Canada and has its registered office and principal place of business located at 16 York Street, Toronto, Ontario. The Corporation's common and preferred shares are listed on the Toronto Stock Exchange under the symbols FN, FN.PR.A and FN.PR.B, respectively.

2. Material accounting policy information

[a] Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"]. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain financial assets and financial liabilities that are recorded at fair value through profit or loss ["FVTPL"] and measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges, and that would otherwise be carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being mitigated in effective hedge relationships. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2025.

[b] Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, including FNFLP, First National Financial GP Corporation ["GP", the general partner of FNFLP], FNFC Trust, a special purpose entity ["SPE"], which is used to manage undivided co ownership interests in mortgage assets funded with Asset-Backed Commercial Paper ["ABCP"], First National Asset Management Inc. ["FNAM"], and First National Mortgage Corporation.

FNAM is a wholly owned subsidiary of the GP, and an indirect subsidiary of the Company. FNAM is a National Housing Act ["NHA"] approved lender and NHA-MBS issuer in the capacity of an "aggregator". Its business model is to purchase mortgages from mortgage originators in order to create NHA-MBS pools, and subsequently sell these into the Canada Mortgage Bonds programs ["CMB"].

The Company earns interest income from the retained interest related to mortgages transferred to four SPEs, which the Company does not control. The SPEs are sponsored by third-party financial institutions, which acquire assets from various sellers including mortgages from the Company. As at December 31, 2024, the Company recorded, on its consolidated statements of financial position, its portion of the assets of the SPEs amounting to $3,775 million [2023 – $3,438 million]. The Company also recorded, in its consolidated statements of income, interest revenue – securitized mortgages of $205,003 [2023 – $163,477] and interest expense – securitized mortgages of $164,484 [2023 – $128,836] related to its interest in the SPEs.

The consolidated financial statements have been prepared using consistent accounting policies for like transactions and other events in similar circumstances. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between these companies are eliminated in full on consolidation.

[c] Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including contingencies, at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Major areas requiring use of estimates by management are those that require reporting of financial assets and financial liabilities at fair value.

[d] Material accounting policy information

Financial instruments

The Company accounts for its financial assets and liabilities in accordance with IFRS 9, *Financial Instruments* ["IFRS 9"].

Classification and measurement of financial assets

The Company classifies its financial assets as either amortized cost or at FVTPL as summarized below:

Securities purchased under resale agreements	Amortized cost
Mortgages accumulated for securitization	Amortized cost
Mortgages accumulated for sale	FVTPL
Mortgages pledged under securitization	Amortized cost
Mortgage and loan investments – commercial segment	FVTPL
Mortgage and loan investments — residential segment other than one specific portfolio of residential mortgages	Amortized cost
A portfolio of residential mortgages in Mortgage and loan investments	FVTPL
Deferred placement fees receivable	Amortized cost

Classification and measurement of financial liabilities

The Company classifies its financial liabilities as either amortized cost or at FVTPL as summarized below:

Obligations related to securities and mortgages sold under repurchase agreements	Amortized cost
Securities sold short	FVTPL
Debt related to securitized mortgages	Amortized cost
Servicing liabilities	Amortized cost
Senior unsecured notes	Amortized cost

Impairment

The expected credit loss ["ECL"] impairment model applies to all financial assets classified as amortized cost or fair value through other comprehensive income ["FVOCI"], as well as certain off-balance sheet loan commitments. The IFRS 9 ECL approach has three stages: Stage 1 – the credit risk has not increased significantly since initial recognition such that an allowance for credit loss is recognized and maintained equal to 12 months of expected credit loss; Stage 2 – the credit risk has increased significantly since initial recognition, and the allowance for credit loss is increased to cover full lifetime expected credit loss; and Stage 3 – a financial asset is considered credit impaired and the allowance for credit loss continues to be the full lifetime expected credit loss, with interest revenue calculated on the carrying amount [net of the allowance for credit loss], rather than the gross carrying value of the financial assets.

The Company assesses the credit risk of the mortgages based on the expected repayments of principal and interest. All mortgages with arrears that are less than 31 days past due are included in Stage 1 whereas mortgages with principal in arrears between 31 to 90 days are included in Stage 2. While mortgages in these two stages are not considered to be impaired, the Company recognizes a 12-month ECL for Stage 1 mortgages and a lifetime ECL for Stage 2 mortgages. When a mortgage is in arrears for over 90 days or the Company has issued a legal demand for repayment, there is a specific expectation of a detrimental impact on the estimated cash flows and, therefore, the Company considers the mortgages as impaired and includes them in Stage 3. The key inputs in the measurement of ECL include probability of default, loss given default and forecast of future economic conditions, which involve significant judgement.

Hedge accounting

The Company applies IFRS 9 hedge accounting for certain mortgage commitments and funded mortgages. The Company uses a combination of short Government of Canada bonds and bond repo arrangements to manage exposure to interest rate risk associated with mortgage commitments and funded mortgages held prior to securitization. In addition, the Company uses interest rate swaps to manage exposure to interest rate risk for mortgages in SPEs. The Company documents a hedging relationship between the hedging instrument and the hedged item at inception when the relationship is established. The Company also assesses the effectiveness of the hedges at both the hedge inception and on an ongoing basis. Any ineffectiveness of any hedging relationship is recognized immediately in the consolidated statements of income.

Cash flow hedges

The Company applies cash flow hedge accounting for the anticipated funding of its multi-unit residential commercial segment mortgages. At the time of mortgage commitment, the Company shorts Government of Canada bonds as the hedging instrument to hedge the cash flows on the anticipated future debt to be arranged through securitization of these mortgages obtained through CMB, disclosed as debt related to securitized mortgages. The Company also uses the same hedging strategy when placing mortgages with institutional investors who plan to use CMB funding. The effective portion of the change in the fair value of the designated hedging instrument qualifying as a cash flow hedge is recognized in other comprehensive income ["OCI"] in the consolidated statements of comprehensive income. When the hedge relationship is terminated, the cumulative amounts recognized in OCI are amortized into interest expense – securitized mortgages over the term of the securitized debt, or amortized against placement fees from institutional investors. Any change in fair value of the hedge determined as ineffective is recognized immediately in the consolidated statements of income.

Fair value hedges

The Company enters into interest rate swaps to protect against changes in the fair value of fixed rate mortgages funded by ABCP debt. The Company also shorts Government of Canada bonds to manage

interest rate exposure for a portion of single-family mortgage commitments and funded residential mortgages accumulated for securitization. The Company applies hedge accounting for the swaps. For the short bond hedges, the Company documents a hedging relationship during the period when the mortgages are funded until the date they are securitized or placed with an arm's length investor. The Company does not apply hedge accounting to the short bonds used to mitigate interest rate risk on single-family mortgage commitments. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

In the case of the swaps and short bonds used to hedge funded mortgages, changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging instrument, both of which are recognized in the consolidated statements of income. At hedge unwind, the realized change in the value of the hedged risk is adjusted to the carrying value of the hedged mortgages and amortized into interest revenue over the term of the hedged mortgages. Any changes in the fair value of an ineffective hedge are immediately recorded in the consolidated statements of income.

Revenue recognition

The Company earns revenue from placement, securitization and servicing activities related to its mortgage business. The majority of originated mortgages are sold to institutional investors through the placement of mortgages or funded through securitization conduits. The Company retains servicing rights on substantially all of the mortgages it originates, providing the Company with servicing fees.

Interest revenue and expense from mortgages pledged under securitization

The Company enters into securitization transactions to fund a portion of the mortgages it has originated. Upon transfer of these mortgages to securitization vehicles, the Company receives cash proceeds from the transaction. These proceeds are accounted for as debt related to securitized mortgages and the Company continues to hold the mortgages on its consolidated statements of financial position, unless:

[i] substantially all of the risks and rewards associated with the financial instruments have been transferred, in which case the assets are derecognized in full; or

[ii] a significant portion, but not all, of the risks and rewards have been transferred. The asset is derecognized entirely if the transferee has the ability to sell the financial asset; otherwise the asset continues to be recognized to the extent of the Company's continuing involvement.

Where [i] or [ii] above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the mortgage.

For securitized mortgages that do not meet the criteria for derecognition, no gain or loss is recognized at the time of the transaction. Instead, net interest income is recognized over the term of the mortgages. Interest revenue – securitized mortgages represents the interest portion of mortgage payments received and accrued by borrowers and is net of the amortization of capitalized origination costs. Interest expense – securitized mortgages represents the costs to finance these mortgages, net of the amortization of debt discounts and premiums.

Capitalized origination fees and debt discounts or premiums are amortized on an effective yield basis over the term of the related mortgages or debt.

Derecognition

A financial asset is derecognized when:

- The right to receive cash flows from the asset has expired; or
- The Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the cash flows, received in full without material delay to a third party under a "pass-through" arrangement; and either [a] the Company

has transferred substantially all the risks and rewards of the asset; or [b] the Company has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

Placement fees and deferred placement fees receivable

The Company enters into placement agreements with institutional investors to purchase the mortgages it originates. When mortgages are placed with institutional investors, the Company transfers the contractual right to receive mortgage cash flows to the investors. Because it has transferred substantially all the risks and rewards of these mortgages, it derecognizes these assets. The Company retains a residual interest representing the rights and obligations associated with servicing the mortgages. Placement fees are earned by the Company for its origination and underwriting activities on a completed transaction basis when the mortgage is funded. Amounts immediately collected or collectible in excess of the mortgage principal are recognized as placement fees. When placement fees and associated servicing fees are earned over the term of the related mortgages, the Company determines the present value of the future stream of placement fees and records a gain on deferred placement fees and deferred placement fees receivable. Since quoted prices are generally not available for retained interests, the Company estimates values based on the net present value of future expected cash flows, calculated using management's best estimates of key assumptions related to expected prepayment rates and discount rates commensurate with the risks involved.

Mortgage servicing income

The Company services substantially all of the mortgages that it originates whether the mortgage is placed with an institutional investor or transferred to a securitization vehicle. In addition, mortgages are serviced on behalf of third-party institutional investors and securitization structures. For all mortgages administered for investors or third parties, the Company recognizes servicing income when services are rendered. For mortgages placed under deferred placement arrangements, the Company retains the rights and obligations to service the mortgages. The deferred placement fees receivable is the present value of the excess retained cash flows over market servicing fee rates and is reported as deferred placement revenue at the time of placement. Servicing income related to mortgages placed with institutional investors is recognized in income over the life of the servicing obligation as payments are received from mortgagors. Interest income earned by the Company from holding cash in trust related to servicing activities is classified as mortgage servicing income. The amortization of any servicing liabilities is also recorded as mortgage servicing income.

The Company provides underwriting and fulfillment processing services for mortgages originated by three large Canadian banks through the mortgage broker distribution channel. The Company recognizes servicing income when the services are rendered and the underwritten mortgages have been funded.

Mortgage investment income

The Company earns interest income from its interest-bearing assets including deferred placement fees receivable, mortgage and loan investments and mortgages accumulated for sale or securitization. Mortgage investment income is recognized on an accrual basis.

Brokerage fees

Brokerage fees are primarily fees paid to external mortgage brokers. Brokerage fees relating to mortgages placed with institutional investors are expensed as incurred, and those relating to mortgages recorded at amortized cost are capitalized to the carrying cost of the related mortgages and amortized over the term of the mortgages.

Mortgages pledged under securitization

Mortgages pledged under securitization are mortgages that the Company has originated and funded with debt raised through the securitization markets and have been classified at amortized cost. The Company has a continuous involvement in these mortgages, including the right to receive future cash flows arising from these mortgages. Origination costs, such as brokerage

fees and bulk insurance premiums that are directly attributable to the acquisition of such assets, are deferred and amortized over the term of the mortgages on an effective yield basis.

Debt related to securitized mortgages

Debt related to securitized mortgages represents obligations related to the financing of mortgages pledged under securitization. This debt is measured at its amortized cost using the effective yield method. Any discount/premium and issuance costs on raising these debts that are directly attributable to obtaining such liabilities are deferred and amortized over the term of the debt obligations.

Mortgages accumulated for sale or securitization

Mortgages accumulated for sale are mortgages funded pending subsequent settlement with institutional investors and are classified as FVTPL and recorded at fair value. These mortgages are held for terms usually not exceeding 90 days.

Mortgages accumulated for securitization are mortgages funded pending the arrangement of term debt through the Company's various securitization programs and are measured at amortized cost.

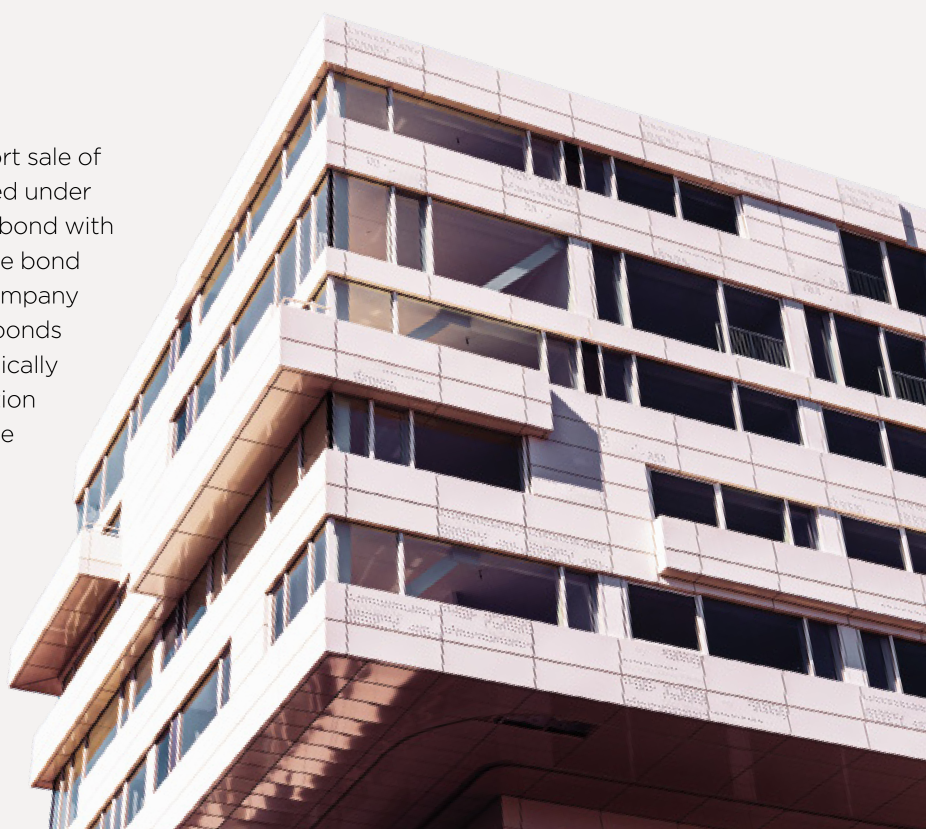
Securities sold short and securities purchased under resale agreements

Securities sold short consist typically of the short sale of Government of Canada bonds. Bonds purchased under resale agreements consist of the purchase of a bond with the commitment from the Company to resell the bond to the original seller at a specified price. The Company uses the combination of bonds sold short and bonds purchased under resale agreements to economically hedge its mortgage commitments and the portion of funded mortgages that it intends to securitize in subsequent periods.

Bonds sold short are classified as FVTPL and are recorded at fair value. The effective yield payable on bonds sold short is recorded as hedge expense in other operating expenses. Bonds purchased under resale agreements are carried at cost plus accrued interest, which approximates their market value. The difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded over the term of the hedged mortgages as an offset to hedge expense. Transactions are recorded on a settlement date basis.

Mortgage and loan investments

Mortgage and loan investments consists of two portfolios: a portfolio of commercial segment bridge and mezzanine loans and a portfolio of residential segment mortgages. Both commercial segment and residential segment mortgages are non-derivative financial assets with fixed or determinable payments. The Company classifies the mortgages as FVTPL or at amortized cost depending on the Company's intention. The mortgages held at fair value are measured using management's best estimate of the fair value. Changes in fair value are recognized immediately in the consolidated statements of income. Generally, commercial investments are measured at FVTPL, and residential segment investments are measured at amortized cost.



Leases

The Company measures right-of-use assets at cost. The right-of-use assets are subsequently amortized using the straight-line method. The right-of-use assets are also subject to impairment. Lease liabilities are calculated using the present value of future lease payments, discounted at the Company's incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The Company's major leases are for premises at its Toronto head office and four regional offices. The Company has elected not to recognize right -of-use assets and a lease liability for its various office equipment leases, which are insignificant for application of the standard.

Property, plant and equipment

Property, plant and equipment is recorded at cost and depreciated over the estimated useful life of the assets on a straight-line basis.

Computer equipment	3 years
Office equipment	5 years
Leasehold improvements	1 – 10 years
Computer software	5 – 10 years

Property, plant and equipment are subject to an impairment review if there are events or changes in circumstances that indicate the carrying amount may not be recoverable.

Goodwill

Goodwill represents the price paid for the Company's business in excess of the fair value of the net tangible assets and identifiable intangible assets acquired in connection with the IPO. Goodwill is reviewed annually for impairment or more frequently when an event or change in circumstances indicates that the asset might be impaired.

Restricted cash

Restricted cash represents principal and interest collected on mortgages pledged under securitization that is held in trust until the repayment of debt related to these mortgages is made in a subsequent period.

Bank indebtedness

Bank indebtedness consists of bank loans net of cash balances or deposit with banks.

Cash held as collateral for securitization

Cash held as collateral for securitization represents cash-based credit enhancements held by various securitization vehicles, including FNFC Trust and a Canadian Trust Company acting as the title custodian for the Company's NHA MBS program.

Servicing liability

The Company places mortgages with third-party institutional clients and retains the rights and obligations to service these mortgages. When the service-related fees are paid upfront by a third party, the Company records a servicing liability. The liability represents the portion of the upfront fee required to earn a market rate of servicing over the related mortgage term. This is similar to the method which the Company uses to calculate deferred placement fees. Since quoted prices are generally not available for retained interests, the Company estimates its value based on the net present value of future expected cash flows, calculated using management's best estimates of key assumptions related to expected prepayment rates and discount rates commensurate with the risks involved. The Company earns the related servicing fees over the term of the mortgages on an effective yield basis.

Income taxes

The Company accounts for income taxes in accordance with the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates substantively enacted as at the dates of the consolidated statements of financial position. The income tax provision consists of current income taxes and deferred income taxes. Current and deferred taxes relating to items in the Company's equity are recorded directly against equity.

Current income taxes are amounts expected to be payable or recoverable as the result of operations in the current year and any adjustment to tax payable or tax recoverable amounts recorded in previous years.

Deferred income taxes arise on temporary differences between the carrying amounts of assets and liabilities on the consolidated statements of financial position and their tax bases. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that future realization of the tax benefit is probable. Deferred taxes are calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Earnings per common share

The Company presents earnings per share ["EPS"] amounts for its common shares. EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

3. Mortgages pledged under securitization

The Company securitizes residential and commercial mortgages in order to raise debt to fund these mortgages. Most of these securitizations consist of the transfer of fixed and floating rate mortgages into securitization programs, such as ABCP, NHA MBS and CMB. In these securitizations, the Company transfers the assets to structured entities for cash, and incurs interest-bearing obligations typically matched to the term of the mortgages. These securitizations do not qualify for derecognition, although the structured entities and other securitization vehicles have no recourse to the Company's other assets for failure of the mortgages to make payments when due.

As part of the ABCP transactions, the Company provides cash collateral for credit enhancement purposes as required by the rating agencies. Credit exposure to securitized mortgages is generally limited to this cash collateral. The principal and interest

payments on the securitized mortgages are paid by the Company to the structured entities monthly over the term of the mortgages. The full amount of cash collateral is recorded as an asset and the Company anticipates full recovery of these amounts. NHA MBS securitizations may also require cash collateral in some circumstances. As at December 31, 2024, the cash held as collateral for securitization was $172,795 [2023 – $151,557].

The following table compares the carrying amount of mortgages pledged for securitization and the associated debt:

2024	CARRYING AMOUNT OF SECURITIZED MORTGAGES	CARRYING AMOUNT OF ASSOCIATED LIABILITIES
Securitized mortgages	**43,630,368**	**(43,963,542)**
Capitalized amounts related to hedge accounting	**101,572**	**(93,502)**
Capitalized origination costs	**244,836**	—
Debt discounts	**—**	**379,063**
Add	**43,976,776**	**(43,677,981)**
Principal portion of payments recorded in restricted cash	**761,937**	**—**
	44,738,713	**(43,677,981)**

2023	CARRYING AMOUNT OF SECURITIZED MORTGAGES	CARRYING AMOUNT OF ASSOCIATED LIABILITIES
Securitized mortgages	39,264,199	(39,300,233)
Capitalized amounts related to hedge accounting	(41,212)	(19,103)
Capitalized origination costs	204,205	—
Debt discounts	—	438,538
Add	39,427,192	(38,880,798)
Principal portion of payments recorded in restricted cash	473,080	—
	39,900,272	(38,880,798)

The principal portion of payments held in restricted cash represents payments on account of mortgages pledged under securitization, which have been received prior to year-end but have not yet been applied to reduce the associated debt. The cash is applied to pay down the debt in the month subsequent to collection. In order to compare the components of mortgages pledged under securitization to securitization debt, this amount is added to the carrying value of mortgages pledged under securitization in the above table.

Mortgages pledged under securitization have been classified as amortized cost and are carried at par plus adjustment for unamortized origination costs and amounts related to hedge accounting.

The changes in capitalized origination costs for the years ended December 31 are summarized as follows:

	2024 $	2023 $
Opening balance, January 1	**204,205**	204,248
Add new origination costs capitalized in the year	**141,405**	91,120
Less amortization in the year	**(100,774)**	(91,163)
Ending balance, December 31	244,836	204,205

During the year ended December 31, 2024, the Company invested in mortgages that were transferred into the securitization vehicles with principal balances as at December 31, 2024 of $12,384,765 [2023 – $9,321,681].

The contractual maturity profile of the mortgages pledged under securitization programs is summarized as follows:

The following table summarizes the mortgages pledged under securitization that are 31 days or more past due as at December 31:

	$
2025	7,497,331
2026	7,792,327
2027	6,325,625
2028	6,663,856
2029 and thereafter	15,351,229
	43,630,368

Of the mortgages in arrears summarized above, 63 mortgages are uninsured and have a principal balance of $28,476 as at December 31, 2024 [2023 – 29 mortgages, $16,985], while the remaining loans are insured. The Company's exposure to credit loss is limited to uninsured mortgages with principal balances totaling $5,698,928 [2023 – $4,851,746], before consideration of the value of underlying collateral. All the above uninsured are single-family mortgages, with loan to value ratios of 80% or less.

The Company has provided an allowance for expected credit losses of $6,793 as of December 31, 2024 [2023 – $5,808] related to mortgages pledged under securitization.

	2024 $	2023 $
Arrears days		
31 to 60	**14,855**	4,683
61 to 90	**2,021**	3,692
Greater than 90	**11,943**	9,868
	28,819	18,243

4. Deferred placement fees receivable

The Company enters into transactions with institutional investors to sell primarily fixed-rate mortgages in which placement fees are received over time as well as at the time of the mortgage placement. These mortgages are derecognized when substantially all of the risks and rewards of ownership are transferred and the Company has minimal exposure to the variability of future cash flows from these mortgages. The investors have no recourse to the Company's other assets for failure of mortgagors to make payments when due.

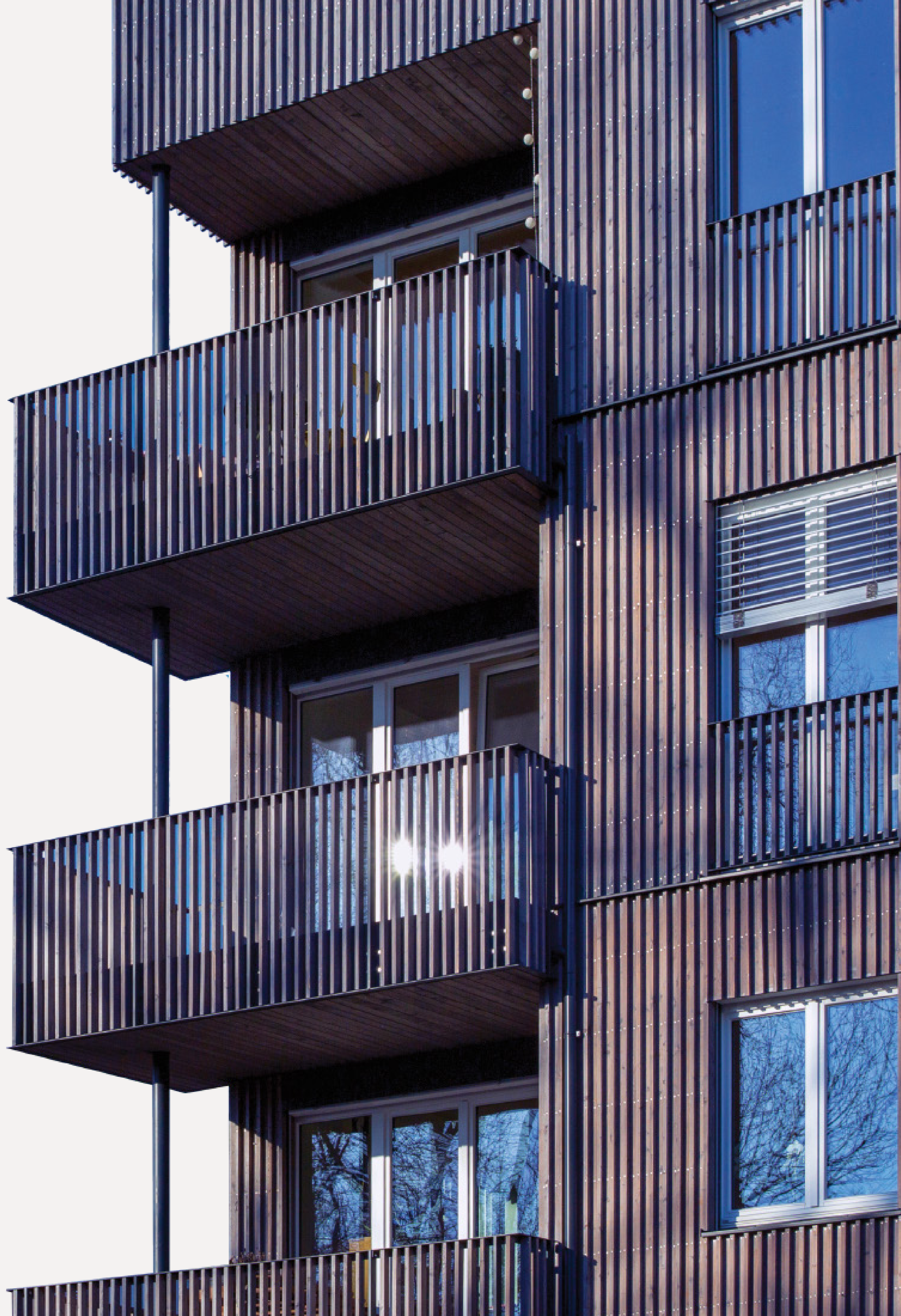
Deferred placement fees receivable are classified as amortized cost and are initially determined based on the present value of the anticipated future stream of cash flows. This determination assumes there will be no credit losses, commensurate with the credit quality of the investors. It is also assumed that there will be no prepayment for the commercial segment as borrowers cannot refinance for financial advantage without paying the Company a fee commensurate with the value of its investment in the mortgage. The effect of variations, if any, between actual experience and assumptions will be recorded in future consolidated statements of income but is expected to be minimal.

2024	RESIDENTIAL $	COMMERCIAL $	TOTAL $
Mortgages placed with institutional investors	**—**	**4,794,786**	**4,794,786**
Gains on deferred placement fees created	**—**	**14,972**	**14,972**
Cash receipts on deferred placement fees received	**303**	**20,431**	**20,734**

2023	RESIDENTIAL $	COMMERCIAL $	TOTAL $
Mortgages placed with institutional investors	—	5,460,050	5,460,050
Gains on deferred placement fees created	—	25,307	25,307
Cash receipts on deferred placement fees received	346	18,246	18,592

The Company estimates that the expected undiscounted cash flows to be received on the deferred placement fees receivable will be as follows:

	RESIDENTIAL $	COMMERCIAL $	TOTAL $
2025	276	**19,470**	**19,746**
2026	**134**	**16,167**	**16,301**
2027	**—**	**13,852**	**13,852**
2028	**—**	**10,508**	**10,508**
2029 and thereafter	**—**	**22,818**	**22,818**
	410	**82,815**	**83,225**



5. Mortgages accumulated for sale or securitization

Mortgages accumulated for sale or securitization consist of mortgages the Company has originated for its own securitization programs, together with mortgages funded in advance of settlement with institutional investors.

Mortgages originated for the Company's own securitization programs are classified as amortized cost and are recorded at par plus adjustment for unamortized origination costs. Mortgages funded for placement with institutional investors are designated as FVTPL and are recorded at fair value. The fair values of mortgages classified as FVTPL approximate their carrying values as the time period between origination and sale is short. The following table summarizes the components of mortgages according to their classification:

	2024 $	2023 $
Mortgages accumulated for securitization	**3,386,959**	2,556,521
Mortgages accumulated for sale	**54,069**	27,113
	3,441,028	2,583,634

The Company's exposure to credit loss is limited to $809,976 [2023 – $396,402] of principal balances of uninsured mortgages within mortgages accumulated for securitization, before consideration of the value of underlying collateral. As at December 31, 2024, 14 of these mortgages are in arrears past 31 days, with a total principal balance of $9,349 [2023 – 14 mortgages with a balance of $6,524]. All the above uninsured are single-family mortgages, with loan to value ratios of 80% or less, similar to the mortgages described in note 3. Accordingly, the expected credit loss related to these mortgages is insignificant.

6. Mortgage and loan investments

Mortgage and loan investments consist of two portfolios: commercial first and second mortgages held for various terms, the majority of which mature within one year; and residential first mortgages which are held to maturity.

Except for a portion of the residential loan portfolio that is classified as amortized cost, mortgages and loans are measured at FVTPL with any change in fair value being immediately recognized in income. The portion of the residential loan portfolio that is classified at amortized cost has a total balance of $40,497 as at December 31, 2024 [2023 - $45,327], which is subject to expected credit loss. The Company recorded nil [2023 – $397] fair value gains related to the commercial segment investments for the year ended December 31, 2024.

The following table discloses the composition of the Company's portfolio of mortgage and loan investments by geographic region as at December 31, 2024:

PROVINCE/TERRITORY	PORTFOLIO BALANCE $	PERCENTAGE OF PORTFOLIO $
Alberta	**19,543**	**14.0**
British Columbia	**22,264**	**15.9**
Manitoba	**364**	**0.3**
New Brunswick	**107**	**0.1**
Newfoundland and Labrador	**384**	**0.3**
Nova Scotia	**4,867**	**3.5**
Ontario	**81,055**	**57.9**
Prince Edward Island	**136**	**0.1**
Quebec	**10,925**	**7.8**
Saskatchewan	**216**	**0.1**
Yukon	**46**	**0.0**
	139,907	**100.0**

The following table discloses the mortgages that are past due as at December 31:

	2024 $	2023 $
Arrears days		
to 60	**1,411**	1,822
61 to 90	**427**	456
Greater than 90	**110**	161
	1,948	2,439

The portfolio contains $11,926 [2023 – $21,837] of insured mortgages and $127,981 [2023 – $249,084] of uninsured mortgage and loan investments as at December 31, 2024. Of the uninsured mortgages, approximately $1,071 [2023 – $2,439] have principal balances in arrears of more than 30 days.

The maturity profile of the principal amount of the loans in the table below is based on the earlier of contractual renewal or maturity dates:

						2024	2023
	2025 $	2026 $	2027 $	2028 $	2029 AND THEREAFTER $	TOTAL $	TOTAL $
Residential	**27,252**	**5**	**6,725**	**3,298**	**46,582**	**83,862**	96,097
Commercial	**30,063**	**23,911**	**2,025**	**—**	**46**	**56,045**	174,824
	57,315	**23,916**	**8,750**	**3,298**	**46,628**	**139,907**	270,921

7. Other assets

The components of other assets are as follows as at December 31:

	2024 $	2023 $
Property, plant and equipment, net	**29,997**	36,285
Right-of-use assets	**42,363**	46,648
Goodwill	**29,776**	29,776
	102,136	112,709

The right-of-use assets pertain to five premises leases for the Company's office space. The leases have remaining terms of one to 12 years. The related lease liability of $46,675 as at December 31, 2024 [2023 – $49,686] is grouped with accounts payable and accrued liabilities on the consolidated statements of financial position.

The recoverable amount of the Company's goodwill is calculated by reference to the Company's market capitalization, mortgages under administration, origination volume and profitability. These factors indicate that the Company's recoverable amount exceeds the carrying value of its net assets and, accordingly, goodwill is not impaired.

8. Mortgages under administration

As at December 31, 2024, the Company managed mortgages under administration of $153,697,009 [2023 – $143,546,966], including mortgages held on the Company's consolidated statements of financial position. Mortgages under administration are serviced for financial institutions such as banks, insurance companies, pension funds, mutual funds, trust companies, credit unions and securitization vehicles. As at December 31, 2024, the Company administered 330,389 mortgages [2023 – 333,488] for 77 institutional investors [2023 – 83] with an average remaining term to maturity of 41 months [2023 – 40 months].

Mortgages under administration are serviced as follows:

	2024 $	2023 $
Institutional investors	**105,679,528**	100,340,846
Mortgages accumulated for sale or securitization and mortgage and loan investments	**3,577,424**	2,819,648
Mortgages pledged under securitization	**43,630,368**	39,264,199
CMBS conduits	**809,689**	1,122,273
	153,697,009	143,546,966

The Company's exposure to credit loss is limited to mortgage and loan investments as described in note 6, securitized mortgages as described in note 3 and uninsured mortgages held in mortgages accumulated for securitization as described in note 5.

The Company maintains trust accounts on behalf of the investors it represents. The Company also holds municipal tax funds in escrow for mortgagors. Since the Company does not hold a beneficial interest in these funds, they are not presented on the consolidated statements of financial position. The aggregate of these accounts as at December 31, 2024 was $895,326 [2023 – $742,373].

9. Bank indebtedness

Bank indebtedness includes a revolving credit facility of $1,500,000 [2023 – $1,500,000] maturing in March 2029. At December 31, 2024, $1,077,629 [2023 – $1,083,000] was drawn, of which the following have been pledged as collateral:

[a] a general security agreement over all assets, other than real property, of the Company; and

[b] a general assignment of all mortgages owned by the Company.

The credit facility bears a variable rate of interest based on prime and bankers' acceptance rates.

10. Debt related to securitized mortgages

Debt related to securitized mortgages represents the funding for mortgages pledged under the NHA-MBS, CMB and ABCP programs. As at December 31, 2024, debt related to securitized mortgages was $43,677,981 [2023 – $38,880,798], net of unamortized discounts of $379,063 [2023 – $438,538]. A comparison of the carrying amounts of the pledged mortgages and the related debt is summarized in note 3.

Debt related to securitized mortgages is reduced on a monthly basis when the principal payments received from the mortgages are applied. Debt discounts and premiums are amortized over the term of each debt on an effective yield basis. Debt related to securitization mortgages had a similar contractual maturity profile as the associated mortgages in mortgages pledged under securitization.

11. Swap contracts

Swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed-upon rates to a notional amount. The Company uses interest rate swaps to manage interest rate exposure relating to variability of interest earned on mortgages pledged under securitization. The swap agreements that the Company enters into are interest rate swaps where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency.

The following tables present, by remaining term to maturity, the notional amounts and fair values of the swap contracts outstanding as at December 31, 2024 and 2023:

2024	LESS THAN 3 YEARS $	3 TO 5 YEARS $	6 TO 10 YEAR $	TOTAL NOTIONAL AMOUNT $	FAIR VALUE $
Interest rate swap contracts	**1,379,896**	**2,277,160**	**—**	**3,657,056**	**(33,096)**

2023	LESS THAN 3 YEARS $	3 TO 5 YEARS $	6 TO 10 YEARS $	TOTAL NOTIONAL AMOUNT $	FAIR VALUE $
Interest rate swap contracts	3,622,867	707,363	—	4,330,230	36,971

Favourable fair values of the interest rate swap contracts are included in accounts receivable and sundry or mortgages pledged under securitization, and unfavourable fair values are included in accounts payable and accrued liabilities or debt related to securitized mortgages on the consolidated statements of financial position.

12. Senior unsecured notes

The Company has three unsecured notes outstanding. $200 million of five-year Series 3 senior unsecured notes bearing interest at 2.961% payable in equal semi-annual payments maturing in November 2025; $200 million of three-year term Series 4 senior unsecured notes bearing interest at 7.293% payable in equal semi-annual payments maturing in September 2026, and $200 million of 3.6-year term Series 5 senior unsecured notes maturing in November 2027. The 3.6-year note was issued on April 1, 2024. The notes bear interest at 6.261% payable in equal semi-annual payments, except the first payment which represented seven months of interest from April 1 to November 1, 2024. On settlement, the net proceeds of the offering [$199.1 million, net of financing fees], were loaned to FNFLP.

In November 2024, the Company repaid $200 million of matured five-year term Series 2 senior unsecured notes.

13. Commitments, guarantees and contingencies

As at December 31, 2024, the Company has the following operating lease commitments for its office premises:

	$
2025	10,473
2026	10,019
2027	10,464
2028 and thereafter	78,101
	109,057

The Company's commitments for premises listed above have remaining terms of one to 12 years, and have been accounted in right-of-use assets and recorded as other assets on the consolidated statements of financial position.

Outstanding commitments for future advances on mortgages with terms of one to 10 years amounted to $2,518,243 as at December 31, 2024 [2023 – $1,920,620]. The commitments generally remain open for a period of up to 90 days. These commitments have credit and interest rate risk profiles similar to those mortgages that are currently under administration. Certain of these commitments have been sold to institutional investors while others will expire before being drawn down. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

In the normal course of business, the Company enters into a variety of guarantees. Guarantees include contracts where the Company may be required to make payments to a third party, based on changes in the value of an asset or liability that the third party holds. In addition, contracts under which the Company may be required to make payments if a third party fails to perform under the terms of the contract [such as mortgage servicing contracts] are considered guarantees. The Company has determined that the estimated potential loss from these guarantees is insignificant.

14. Securities transactions under repurchase and resale agreements

The Company's outstanding securities purchased under resale agreements and securities sold under repurchase agreements have a remaining term to maturity of less than three months.

15. Obligations related to securities and mortgages sold under repurchase agreements

The Company uses repurchase agreements to fund specific mortgages included in mortgages accumulated for sale or securitization. The current contracts are with financial institutions, based on daily Canadian Overnight Repo Rate Average ["CORRA"] rates and mature on or before January 31, 2025.

16. Accounts payable and accrued liabilities

The major components of accounts payable and accrued liabilities are as follows as at December 31:

	2024 **$**	2023 $
Accrued liabilities	**90,548**	96,948
Accrued dividends payable	**13,435**	13,246
Accrued interest on securitization debt	**101,398**	87,114
Servicing liability	**32,376**	38,350
Lease liability	**46,675**	49,686
	284,432	285,344

17. Shareholders' equity

[a] Authorized

Unlimited number of common shares

Unlimited number of cumulative five-year rate reset preferred shares, Class A Series 1

Unlimited number of cumulative five-year rate reset preferred shares, Class A Series 2

[b] Capital stock

Balance, December 31, 2024 and 2023

	#	$
Common shares	59,967,429	122,671
Preferred shares	4,000,000	97,394

[c] Preferred shares

On January 25, 2011, the Company issued 4 million Class A Series 1 Preferred Shares at a price of $25.00 per share for gross proceeds of $100,000 before issue expenses.

Holders of Class A Series 1 Preferred Shares have the right, at their option, every five years on March 31 to convert their shares into cumulative, floating rate Class A Preferred Shares, Series 2 ["Series 2 Preferred Shares"], subject to certain conditions. As at December 31, 2024, there were 2,984,835 Series 1 Preferred Shares and 1,015,165 Series 2 Preferred Shares outstanding with an aggregate carrying value of $97,394.

Holders of the Class A Series 1 Preferred Shares receive a cumulative quarterly fixed dividend at a rate equal to the five year Government of Canada yield plus 2.07%. The dividend rate may be reset every five years, as and when approved by the Board of Directors. The current dividend rate on the Class A Series 1 Preferred Shares is 2.895% annually for a five-year term ending March 31, 2026. Holders of the Class A Series 2 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three month Government of Canada Treasury bill yield plus 2.07%, as and when declared by the Board of Directors.

Both classes of preferred shares do not have voting rights, are redeemable only at the option of the Company, and are therefore classified as equity. The par value per preferred share is $25.

[d] Earnings per share

	2024 $	2023 $
Net income attributable to shareholders	**203,390**	252,807
Less: dividends declared on preferred shares	**(3,897)**	(3,855)
Net income attributable to common shareholders	**199,493**	248,952
Number of common shares outstanding	**59,967,429**	59,967,429
Basic earnings per common share	**3.33**	4.15

18. Income taxes

The major components of deferred provision for (recovery of) income taxes for the years ended December 31 consist of the following:

	2024 $	2023 $
Related to origination and reversal of temporary differences	**28,400**	9,000

The major components of the current income tax expense for the years ended December 31 consists of the following:

	2024 $	2023 $
Income taxes relating to the current year	**44,860**	82,100

The effective income tax rate reported in the consolidated statements of income varies from the Canadian tax rate of 26.38% for the year ended December 31, 2024 [2023 – 26.42%] for the following reasons:

	2024 $	2023 $
Company's statutory tax rate	**26.38%**	26.42%
Income before income taxes	**276,650**	343,907
Income tax at statutory tax rate	**72,980**	90,860
Increase (decrease) resulting from		
Permanent differences	**352**	325
Over accrual from previous tax years	**(59)**	(150)
Other	**(13)**	65
Income tax expense	**73,260**	91,100

The movement in significant components of the Company's deferred income tax liabilities and assets for the years ended December 31, 2024 and 2023 are as follows:

	AS AT JANUARY 1, 2024 $	RECOGNIZED IN INCOME AND OCI $	AS AT DECEMBER 31, 2024 $
Deferred income tax			
Deferred placement fees receivable	**19,525**	**(749)**	**18,776**
Deferred costs – securitization	**167,739**	**(4,541)**	**163,198**
Other	**6,096**	**(55)**	**6,041**
Right-of-use asset	**12,324**	**(1,149)**	**11,175**
Lease liability	**(13,127)**	**814**	**(12,313)**
Unrealized gains on interest rate swaps	**(27,051)**	**24,777**	**(2,274)**
Cumulative eligible capital property	**(2,940)**	**210**	**(2,730)**
Servicing liability	**(10,132)**	**1,591**	**(8,541)**
Fair value adjustments not deducted for tax purposes	**(1,534)**	**(298)**	**(1,832)**
Total	**150,900**	**20,600**	**171,500**

	AS AT JANUARY 1, 2023 $	RECOGNIZED IN INCOME AND OCI $	AS AT DECEMBER 31, 2023 $
Deferred income tax			
Deferred placement fees receivable	17,087	2,438	19,525
Deferred costs – securitization	155,437	12,302	167,739
Other	5,251	845	6,096
Right-of-use asset	13,050	(726)	12,324
Lease liability	(13,523)	396	(13,127)
Unrealized gains on interest rate swaps	(13,121)	(13,930)	(27,051)
Cumulative eligible capital property	(3,163)	223	(2,940)
Servicing liability	(10,496)	364	(10,132)
Fair value adjustments not deducted for tax purposes	(1,122)	(412)	(1,534)
Total	149,400	1,500	150,900

The amount of deferred tax expense recorded in income and OCI consists of an expense of $28,400 [2023 –$9,000] recorded in net income and a recovery of $7,800 [2023 – $7,500] recorded in OCI related to unrealized losses on cash flow hedges.

The calculation of taxable income of the Company is based on estimates and the interpretation of tax legislation. In the event that the tax authorities take a different view from management, the Company may be required to change its provision for income taxes or deferred income tax balances and the change could be significant.

19. Financial instruments and risk management

Risk management

The various risks to which the Company is exposed and the Company's policies and processes to measure and manage them individually are set out below:

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's mortgages accumulated for securitization.

The Company uses various strategies to reduce interest rate risk. The Company's risk management objective is to maintain interest rate spreads from the point that a mortgage commitment is issued to the transfer of the mortgage to the related securitization vehicle or sale to an institutional investor. Primary among these strategies is the Company's decision to sell mortgages at the time of commitment, passing on interest rate risk that exists prior to funding to institutional investors. The Company uses synthetic bond forwards consisting of bonds sold short and bonds purchased under resale agreements to manage interest rate exposure between the time a mortgage rate is committed to the borrower and the time the mortgage is sold to a securitization vehicle and the underlying cost of funding is set. As interest rates change, the values of these interest rate-dependent financial instruments vary inversely with the values of the mortgage contracts. As interest rates increase, a gain will be recorded on the economic hedge which will be offset by the reduced future spread on mortgages pledged under securitization as the mortgage rate committed to the borrower is fixed at the point of commitment.

For single-family mortgages, only a portion of the commitments issued by the Company eventually fund. The Company must assign a probability of funding to each mortgage in the pipeline and estimate how that probability changes as mortgages move through the various stages of the pipeline. The amount that is actually economically hedged is the expected value of the mortgages funding within the future commitment period.

The table below provides the financial impact that an immediate and sustained 100 basis point and 200 basis point increase and decrease in short-term interest rates would have had on the net income of the Company in 2024 and 2023.

	Decrease in interest rate		Increase in interest rate	
	2024 $	2023 $	**2024 $**	2023 $
100 basis point shift				
Impact on net income	**12,452**	12,287	**(12,452)**	(12,287)
200 basis point shift				
Impact on net income	**24,905**	24,575	**(24,905)**	(24,575)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Company's credit risk is mainly lending related in the form of mortgage default. The Company uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Company's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management. As at December 31, 2024, 87% [2023 – 88%] of the pledged mortgages were insured mortgages. See details in note 3. The Company's exposure is further mitigated by the relatively short period over which a mortgage is held by the Company prior to securitization.

The maximum credit exposures of the financial assets are their carrying values as reflected on the consolidated statements of financial position. The Company does not have significant concentration of credit risk within any particular geographic region or group of customers.

The Company is at risk that the underlying mortgages default and the servicing cash flows cease. The large portfolio of individual mortgages that underlies these assets is diverse in terms of geographical location, borrower exposure and the underlying type of real estate. This diversity and the priority ranking of the Company's rights mitigate the potential size of any single credit loss.

Securities purchased under resale agreements are transacted with large regulated Canadian institutions such that the risk of credit loss is very remote. Securities transacted are all Government of Canada bonds and, as such, have virtually no risk of credit loss.

Liquidity risk and capital resources

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due.

The Company's liquidity strategy has been to use bank credit to fund working capital requirements and to use cash flow from operations to fund longer-term assets. The Company's credit facilities are typically

drawn to fund: [i] mortgages accumulated for sale or securitization, [ii] origination costs associated with mortgages pledged under securitization, [iii] cash held as collateral for securitization, [iv] costs associated with deferred placement fees receivable, [v] accounts receivable and sundry, and [vi] mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions, which provides for a total of $1,500,000 in financing.

The Company finances the majority of its mortgages with debt derived from the securitization markets, primarily NHA MBS, ABCP and CMB. Debt related to NHA-MBS and ABCP securitizations reset monthly such that the receipts of principal on the mortgages are used to pay down the related debt within a 30 day period. Accordingly, these sources of financing amortize at the same rate as the mortgages pledged thereunder, providing an almost perfectly matched asset and liability relationship.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and credit spreads. The level of market risk to which the Company is exposed varies depending on market conditions, expectations of future interest rates and credit spreads.

Customer concentration risk

Placement fees and mortgage servicing income from one Canadian financial institution represent approximately 5.7% [2023 – 8.5%] of the Company's total revenue.

Fair value measurement

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value in the consolidated statements of financial position:

Level 1 – quoted market price observed in active markets for identical instruments;

Level 2 – quoted market price observed in active markets for similar instruments or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3 – valuation techniques in which one or more significant inputs are unobservable.

Valuation methods and assumptions

The Company uses valuation techniques to estimate fair values, including reference to third party valuation service providers using proprietary pricing models and internal valuation models such as discounted cash flow analysis. The valuation methods and key assumptions used in determining fair values for the financial assets and financial liabilities are as follows:

[a] Mortgages and loan investments

Commercial segment mortgages and loan investments are measured at FVTPL. The fair value of these mortgages is based on non-observable inputs and is measured at management's best estimate of the fair value.

[b] Deferred placement fees receivable

The fair value of deferred placement fees receivable at inception is determined by internal valuation models using market data inputs, where possible. The value is determined by discounting the expected future cash flows related to the placed mortgages at market interest rates. The expected future cash flows are estimated based on certain assumptions which are not supported by observable market data.

[c] Securities owned and sold short

The fair values of securities owned and sold short used by the Company to hedge its interest rate exposure are determined by quoted prices on a secondary market.

[d] Servicing liability

The fair value of the servicing liability at inception is determined by internal valuation models using market data inputs, where possible. The value is determined by discounting the expected future cost related to the servicing of explicit mortgages at market interest rates. The expected future cash flows are estimated based on certain assumptions which have one or more significant inputs that are unobservable.

[e] Other financial assets and financial liabilities

The fair value of mortgages accumulated for sale, cash held as collateral for securitization, restricted cash and bank indebtedness correspond to the respective outstanding amounts due to their short-term maturity profiles.

[f] Fair value of financial instruments not carried at fair value

The fair value of these financial instruments is determined by discounting projected cash flows using market industry pricing practices, including the rate of unscheduled prepayment. Discount rates used are determined by comparison to similar term loans made to borrowers with similar credit. This methodology will reflect changes in interest rates which have occurred since the mortgages were originated. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3] and are calculated for disclosure purposes only.

Carrying value and fair value of selected financial instruments

The fair value of the financial assets and financial liabilities of the Company approximates its carrying value, except for mortgages pledged under securitization, which has a carrying value of $43,976,776 [2023 – $39,427,192] and a fair value of $43,932,449 [2023 – $38,647,614]; debt related to securitized mortgages, which has a carrying value of $43,677,981 [2023 – $38,880,798] and a fair value of $42,716,317 [2023 – $37,270,328]; and senior unsecured notes, which have a carrying value of $598,630 [2023 – $598,745] and a fair value of $617,540 [2023 – $590,820]. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3].

The following tables represent the Company's financial instruments measured at fair value on a recurring basis as at December 31:

2024	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Financial assets				
Mortgages accumulated for sale	—	54,069	—	54,069
Mortgage and loan investments	—	—	67,379	67,379
Total financial assets	—	54,069	67,379	121,448
Financial liabilities				
Securities sold short	—	2,233,288	—	2,233,288
Interest rate swaps	—	33,096	—	33,096
Total financial liabilities	—	2,266,384	—	2,266,384

2023	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Financial assets				
Mortgages accumulated for sale	—	27,113	—	27,113
Mortgage and loan investments	—	—	189,523	189,523
Interest rate swaps	—	36,971	—	36,971
Total financial assets	—	64,084	189,523	253,607
Financial liabilities				
Securities sold short	—	2,649,249	—	2,649,249
Total financial liabilities	—	2,649,249	—	2,649,249

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used, including those that have one or more significant inputs which are unobservable [Level 3]. For the year ended December 31, 2024, there were no amounts related to the change in fair value included in the Company's net income that were estimated using a valuation technique based on assumptions that are not fully supported by observable market prices or rates [2023 – gain of $397]. Although the Company's management believes that the estimated fair values are appropriate as at the date of the consolidated statements of financial position, those fair values may differ if other reasonably possible alternative assumptions are used.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the period in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During 2024, the Company did not have any transfers between levels.

The following table presents changes in the fair values, including realized losses of $123,328 [2023 – gains of $67,865], of the Company's financial assets and financial liabilities for the year ended December 31, 2024 and 2023, all of which have been classified as FVTPL:

	2024 $	2023 $
FVTPL mortgages	**—**	397
Securities sold short	**(16,797)**	19,119
Interest rate swaps	**3,131**	2,605
	(13,666)	22,121

The Company does not have any assets or liabilities that are measured at fair value on a non recurring basis.

Movement in Level 3 financial instruments measured at fair value

The following tables show the movement in Level 3 financial instruments in the fair value hierarchy for the years ended December 31, 2024 and 2023. The Company classifies financial instruments to Level 3 when there is reliance on at least one significant unobservable input in the valuation models.

	FAIR VALUE AS AT JANUARY 1, 2024 $	INVESTMENTS $	GAINS RECORDED IN INCOME $	PAYMENT AND AMORTIZATION $	FAIR VALUE AS AT DECEMBER 31, 2024 $
Financial assets					
Mortgage and loan investments	**189,523**	**724,386**	**—**	**(846,530)**	**67,379**

	FAIR VALUE AS AT JANUARY 1, 2023 $	INVESTMENTS $	GAINS RECORDED IN INCOME $	PAYMENT AND AMORTIZATION $	FAIR VALUE AS AT DECEMBER 31, 2023 $
Financial assets					
Mortgage and loan investments	164,919	929,146	397	(904,939)	189,523

20. Capital management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. Management defines capital as the Company's common share capital and retained earnings. FNFLP has a minimum capital requirement as stipulated by its bank credit facility. The agreement limits the debt under bank indebtedness together with the unsecured notes to four times FNFLP's equity. As at December 31, 2024, the ratio was 1.92:1 [2023 – 1.89:1]. The Company was in compliance with the bank covenant throughout the year.

21. Earnings by business segment

The Company operates principally in two business segments, Residential and Commercial. These segments are organized by mortgage type and contain revenue and expenses related to origination, underwriting, securitization and servicing activities. Identifiable assets are those used in the operations of the segments.

2024	RESIDENTIAL $	COMMERCIAL $	TOTAL $
Revenue			
Interest revenue – securitized mortgages	1,110,920	487,624	1,598,544
Interest expense – securitized mortgages	(962,466)	(409,716)	(1,372,182)
Net interest – securitized mortgages	148,454	77,908	226,362
Placement and servicing	347,061	135,375	482,436
Mortgage investment income (note 6)	103,223	46,440	149,663
Realized and unrealized losses on financial instruments	(13,666)	—	(13,666)
	585,072	259,723	844,795
Expenses			
Amortization	12,726	2,227	14,953
Interest	117,233	44,448	161,681
Other operating	299,305	92,206	391,511
	429,264	138,881	568,145
Income before income taxes	155,808	120,842	276,650
Identifiable assets	33,218,858	17,908,507	51,127,365
Goodwill	—	—	29,776
Total assets	33,218,858	17,908,507	51,157,141

2023	RESIDENTIAL $	COMMERCIAL $	TOTAL $
Revenue			
Interest revenue – securitized mortgages	937,470	398,593	1,336,063
Interest expense – securitized mortgages	(787,375)	(332,100)	(1,119,475)
Net interest – securitized mortgages	150,095	66,493	216,588
Placement and servicing	385,274	140,898	526,172
Mortgage investment income (note 6)	109,978	29,951	139,929
Realized and unrealized gains on financial instruments	21,712	409	22,121
	667,059	237,751	904,810
Expenses			
Amortization	12,171	1,989	14,160
Interest	127,320	26,087	153,407
Other operating	320,376	72,960	393,336
	459,867	101,036	560,903
Income before income taxes	207,192	136,715	343,907
Identifiable assets	30,362,969	15,564,654	45,927,623
Goodwill	—	—	29,776
Total assets	30,362,969	15,564,654	45,957,399

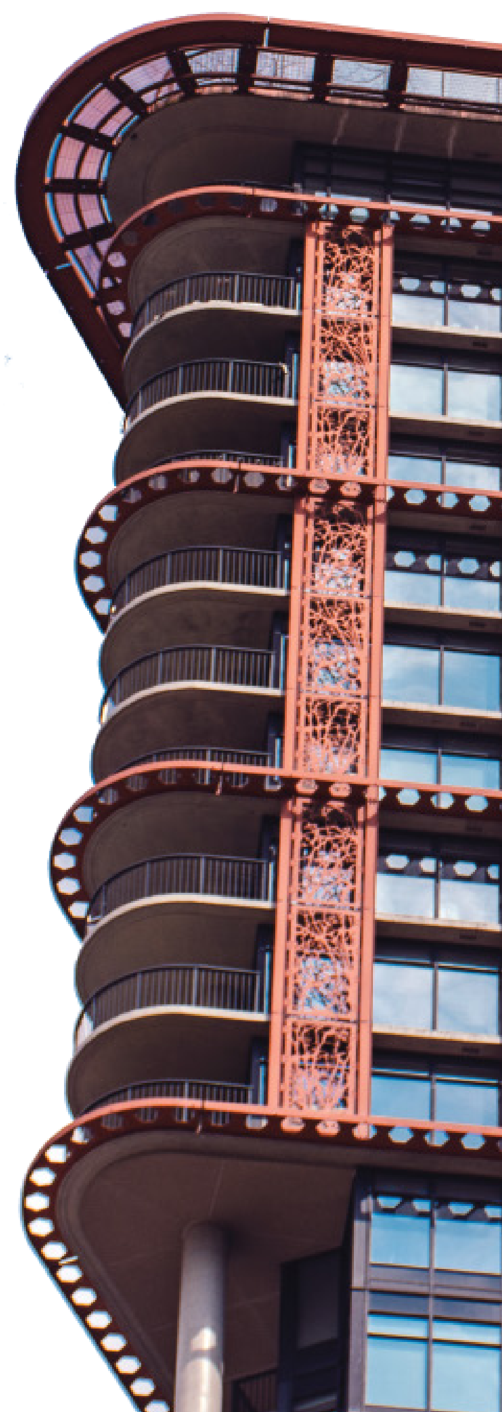
22. Related party and other transactions

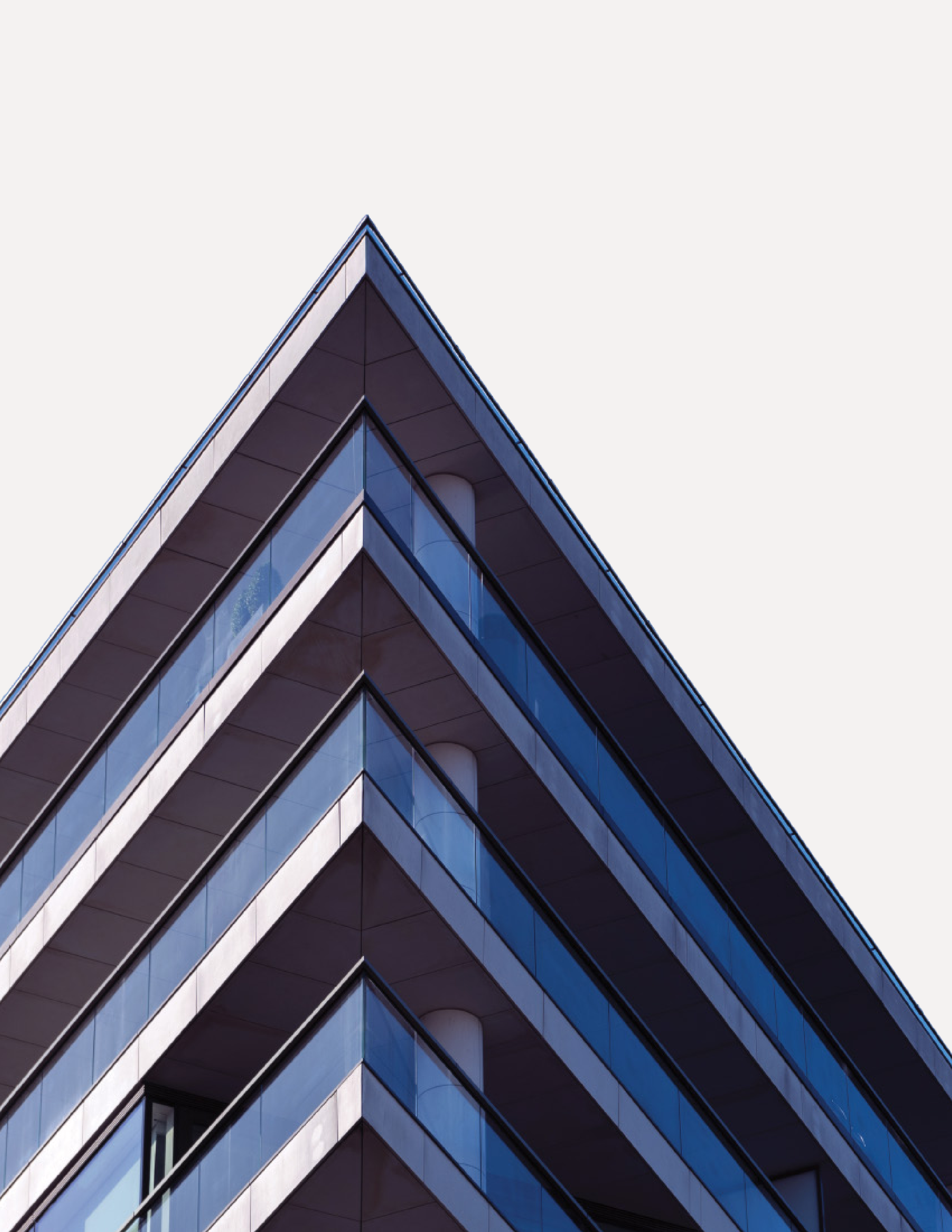
The Company has servicing contracts in connection with commercial bridge and mezzanine mortgages originated by the Company and subsequently sold to various entities controlled by a senior executive and shareholder of the Company. The Company services these mortgages during their terms at market commercial servicing rates. During the year, the Company originated $133,582 of new mortgages for the related parties. The related parties also funded several progress draws totalling $3,572 on existing mortgages originated by the Company. All such mortgages, which are administered by the Company, have a balance of $199,326 as at December 31, 2024 [2023 – $204,011].

A senior executive and shareholder of the Company has a significant investment in a mortgage default insurance company. In the ordinary course of business, the insurance company provides insurance policies to the Company's borrowers at market rates. In addition, the insurance company has also provided the Company with portfolio insurance at market premiums. The total bulk insurance premium paid by the Company in 2024 was $6,444 [2023 – $3,514], net of third-party investor reimbursement.

A senior executive and shareholder of the Company has a significant investment in a Canadian bank. The Company has an agreement to originate and adjudicate applications for secured credit cards for the bank. These applications are originated through the Company's mortgage broker relationships. The Company receives a market fee for successfully adjudicating such applications.

A senior executive and shareholder of the Company has a significant investment in a Canadian financial institution. The Company has existing agreements to originate and service mortgages with the financial institution. Mortgages are generally originated through the relationships the Company has directly with mortgage borrowers and are transacted at market rates with the financial institution. In 2024, the Company closed $69,044 of mortgages which were placed with the financial institution. As at December 31, 2024, the Company administered a $4,574,671 [2023 – $5,132,839] mortgage portfolio for the financial institution at market servicing rates.





Corporate Governance

First National's Board of Directors and management team fully acknowledge the importance of their duty to serve the long-term interests of shareholders. Sound corporate governance is fundamental to maintaining the confidence of investors and increasing shareholder value. As such, First National is committed to the highest standards of integrity, transparency, compliance and discipline. These standards define the relationships among all of our stakeholders – Board, management and shareholders – and are the basis for building these values and nurturing a culture of accountability and responsibility across the organization.

Board of Directors

Stephen Smith is the Chairman and CEO of Smith Financial Corporation (SFC). Throughout his career, he has been an innovator in the development and utilization of various securitization techniques to finance mortgage assets and a leader in the development and application of information technology in the financial services industry. Through SFC, he has significant equity investments in a range of financial entities including First National, Canada Guaranty Mortgage Insurance, Fairstone Bank of Canada and Peloton Capital Management.

Mr. Smith co-founded First National Financial Corporation in 1988, serving as CEO until 2022 at which time he was appointed Executive Chairman. He served as Chair of Canada Guaranty Mortgage Insurance Company from 2010-2023. He is the Chairman of Peloton Capital Management, a mid-market North American private equity firm, Glass, Lewis & Co., a leading global proxy advisory firm and Fairstone Bank of Canada, a 240 branch bank focused on consumer lending.

Mr. Smith is Chair of Historica Canada, the 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 then 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. In 2023, Mr. Smith pledged $100-million to the Queen's faculty of engineering, now named Smith Engineering, the largest gift ever made to an engineering faculty in Canada.Mr. Smith holds a B.Sc. (Hons.) in Electrical Engineering from Queen's University and an M.Sc. in Economics from the London School of Economics. In 2017, Queen's University awarded him an honourary LL.D.

Moray Tawse is Senior Executive Vice President and Secretary, as well as Co-founder of First National. Mr. Tawse directs the operations of all of the Corporation's commercial mortgage origination activities. With over 40 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.

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.

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. Mr. Jackman graduated from McGill University in Montreal.

Robert Mitchell is a director (and was formerly Executive Chair and Chair of the Investment Committee) of Dixon Mitchell Investment Counsel Inc., a Vancouver-based investment management company. From 2000 to 2020, he was President of Dixon Mitchell Investment Counsel Inc. and although he retired from Dixon Mitchell in June, 2023, he still serves as a member of the board. Prior to that, he was Vice President, Investments at Seaboard Life Insurance Company and is a former board member of Equestrian Canada. Mr. Mitchell is also a member of the investment committee for the First Nations Child and Family Compensation Trust and holds an MBA from the University of Western Ontario and a Bachelor of Commerce (Finance) from the University of Calgary; he is also a CFA charterholder.

Barbara Palk retired as President of TD Asset Management Inc. in 2010, following a 30-year career in institutional investment and investment management. Her experience on boards of directors includes Crombie Real Estate Investment Trust where she chaired the Governance and Nominating Committee and the Human Resources Committee; 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 is a director of Canada Guaranty Mortgage Insurance Company 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 is a director of 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 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. 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 and GCB.D certification.

Martine Irman is a director of the TMX Group of Companies, Ontario Teachers' Pension Plan and Plan International Canada. She also sits on the board of St. Michael's Hospital Foundation 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.

Policies

The Board supervises and evaluates the management of the Company, oversees matters related to our strategic direction and assesses results relative to our goals and objectives. The Board has adopted several policies that reflect recommended practices in governance and disclosure. These include a Disclosure Policy, a Code of Business Ethics and Conduct Policy, a Whistleblower Policy and an Insider Trading Policy. These policies follow the corporate governance guidelines of the Canadian Securities Administrators. As a public company, First National's Board continues to update, develop and implement appropriate governance policies and practices as it sees fit.

Committees

The Board of Directors has established an Audit Committee, Compensation Committee and a Governance Committee to assist in the efficient functioning of the Company's corporate governance strategy.

Audit Committee

The Audit Committee's responsibilities include:

- Management of the relationship with the external auditor, including the oversight and supervision of the audit of the Company's financial statements;
- Oversight and supervision of the quality and integrity of the Company's financial statements, and
- Oversight and supervision of the adequacy of the Company's internal accounting controls and procedures, as well as its financial reporting practices.

The Audit Committee consists of three independent directors, all of whom are considered financially literate for the purposes of the Canadian Securities Administrators' Multilateral Instrument 52-110 – Audit Committees.

Committee Members

Robert Mitchell (Chair), Robert Pearce and Diane Sinhuber

Compensation Committee

The Compensation Committee's responsibilities include:

- Reviewing and approving executive compensation for the President and Chief Executive Officer;
- Reviewing and approving compensation for the named executive officers; and
- Reviewing the Company's executive compensation strategies.

The Compensation Committee consists of three directors, all of whom are independent for the purposes of National Instrument 58-101 – Disclosure of Corporate Governance Practices.

Committee Members

Robert Pearce (Chair), Barbara Palk and Martine Irman

Governance Committee

The Governance Committee's responsibilities include:

- Periodically assessing and making recommendations on the Company's approach to governance issues;
- Assisting in the development of governance policies, practices and procedures for approval by the Board of Directors;
- Reviewing conflicts of interest and transactions involving related parties of the Company; and
- Periodically reviewing the composition and effectiveness of the Board of Directors.

The Governance Committee consists of four directors, all of whom are independent for the purposes of National Instrument 58-101 – Disclosure of Corporate Governance Practices.

Committee Members

Barbara Palk (Chair), Duncan Jackman, Robert Pearce and Martine Irman

Board of Directors

Stephen Smith, Moray Tawse, Jason Ellis,
Duncan Jackman, Robert Mitchell, Barbara Palk,
Robert Pearce, Diane Sinhuber, Martin Irman

Stakeholder information

Corporate Address

First National Financial Corporation
16 York Street, Suite 1900
Toronto, Ontario M5J 0E6
Phone: 416 593 1100
Fax: 416 593 1900

Investor Relations Website

www.firstnational.ca

Annual Meeting of Shareholders

May 13, 2025, 10:00 a.m. EDT
Visit firstnational.ca/investor-relations for details.

Registrar and Transfer Agent

Computershare Investor Services Inc.
Toronto, Ontario
1 800 564 6253

Exchange Listing and Symbols

Common shares: (TSX) FN
Class A Series 1 Preference Shares: (TSX) FN.PR.A
Class A Series 2 Preference Shares: (TSX) FN.PR.B

Investor Relations Contacts

Robert Inglis
Chief Financial Officer
rob.inglis@firstnational.ca

Ernie Stapleton
President, Fundamental Creative Inc.
ernie@fundamental.ca

Auditors

Ernst & Young LLP, Toronto, Ontario

Legal Counsel

Torys LLP, Toronto, Ontario

Senior Executives of First National Financial Corporation

Stephen Smith
Executive Chairman and Co-founder

Moray Tawse
Senior Executive Vice President,
Secretary and Co-founder

Jason Ellis
President and Chief Executive Officer

Robert Inglis
Chief Financial Officer

Thomas Kim
Executive Vice President and
Managing Director, Capital Markets

Scott McKenzie
Executive Vice President, Residential Mortgages

Jeremy Wedgbury
Executive Vice President, Commercial Mortgages

Hilda Wong
Executive Vice President and General Counsel

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