Report to Shareholders

Period Ended March 31, 2025

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FIRST NATIONAL

FINANCIAL CORPORATION®

Fellow Shareholders:

First National converted a strong mortgage commitment pipeline and sizeable renewal opportunities into substantial volume growth in the first quarter of 2025. Including renewals, mortgage origination across our single-family and commercial mortgage portfolios increased $1.7 billion or 27% over last year, a reflection of customer activity in both markets and focused service efforts by our dedicated team.

While we will benefit from these volumes in future periods, first quarter earnings were lower due to lower mortgage servicing revenue, falling overnight interest rates, planned technology and infrastructure investments and growth in direct securitization that delayed the recognition of income. Key performance indicators for the three months ended March 31, 2025 are as follows:

- Mortgages Under Administration increased 7% year over year or $10.3 billion to $155.4 billion
- Revenue increased 2% to $528.9 million from $518.0 million a year ago
- Pre-FMV Income, a non-IFRS measure, decreased 16% to $52.6 million from $62.7 million
- Net income was $24.6 million ($0.39 cents per share) compared to $49.9 million ($0.82 cents per share) a year ago
- Common share dividends were $37.5 million, reflecting an increase in our monthly dividend to an annualized rate of $2.50 per common share from $2.45 per share effective in December 2024

Looking forward

The Company expects increased year-over-year single-family originations in the next two quarters as continued strength in new commitment activity has resulted in a larger pipeline compared to early 2024. This outlook, however, must be considered alongside the uncertain and potential negative impact of U.S. tariffs. Management believes these changes may have an unfavorable impact on the Canadian economy and the Company, particularly if employment is affected in future periods. Steady new origination volumes are anticipated in the commercial segment as government incentives support the creation of multi-unit housing and mortgage rates come down with expected Bank of Canada rate cuts. However, 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.

Going forward, First National will generate income and cash flow from its now $45 billion portfolio of mortgages pledged under securitization and $107 billion servicing portfolio while focusing on the value inherent in its significant single-family renewal book. For our full outlook, please see Management's Discussion and Analysis.

Yours sincerely,

Stephen Smith
Executive Chairman

Jason Ellis
President and Chief Executive Officer

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 April 29, 2025. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of First National Financial Corporation (the "Company" or "Corporation" or "First National") as at and for the quarter ended March 31, 2025. The unaudited interim condensed 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 $155 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.

First Quarter 2025 Results Summary

First National's origination volumes in the first quarter of 2025 met management's expectations. Including renewals, total mortgage originations were $8.3 billion, 27% above 2024 levels. Mortgages Under Administration (MUA) surpassed $155 billion, growing by 7% year over year. Core operating profitability, measured by Pre-FMV Income[1], decreased by 16% from 2024 reflecting several factors including the impact of lower originations in third party underwriting and fulfillment processing services which affected mortgage servicing revenue, falling overnight interest rates which negatively affected securitization and administration and higher operating expenses related to planned investments 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 the performance of the Company's significant metrics:

- MUA grew to $155.4 billion at March 31, 2025 from $145.1 billion at March 31, 2024, an increase of 7%; growth from December 31, 2024, when MUA was $153.7 billion, was 4% on an annualized basis.
- Total single-family mortgage origination, including renewals, was $4.7 billion in the first quarter of 2025 compared to $3.5 billion in the 2024 comparative quarter, a 34% increase. This reflects steady new origination from the strong commitment pipeline established in the last quarter of 2024 and an even stronger renewal experience as borrowers who had chosen shorter mortgage maturity terms renewed alongside the more typical 5-year term borrowers from 2020. Commercial segment origination, including renewals, of $3.6 billion was 18% higher than the $3.0 billion originated in the 2024 quarter primarily on strong insured multi-unit mortgage origination.
- Revenue for the first quarter of 2025 increased approximately 2% to $528.9 million from $518.0 million in the 2024 first quarter reflecting growth in the portfolio of securitized mortgages and related interest revenue partially offset by losses on account of financial instruments. Mortgages pledged under securitization currently deliver about 70% of the Company's revenue due to their significant size. These portfolios grew by 12% from 2024 to 2025. While interest rates decreased in 2025 compared to 2024, the weighted average mortgage rate in the securitization portfolios was higher to start 2025 than 2024.
- Income before income taxes was $33.0 million in the first quarter of 2025 compared to $67.9 million in first quarter 2024. The decrease included the effect of changing capital market conditions in both quarters. Excluding gains and losses related to financial instruments, earnings before income taxes and gains and losses on financial instruments ("Pre-FMV Income" [1]) for the first quarter of 2025 decreased by 16% to $52.6 million from $62.7 million in the 2024 first quarter. The change was attributable largely to lower third party underwriting income as volumes underwritten were lower; and narrower spreads on residential securitization which reduced net securitization income. Higher operating costs, particularly for technology, further reduced earnings by about $1.4 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.

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
2025					
First quarter	$528,857	$24,569	$52,629	$0.39	$52,174,011
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

Reconciliation of Quarterly Determination of Pre-FMV Income

($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]
2025				
First quarter	$33,019	$19,610	$—	$52,629
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

(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.

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 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 a 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-year 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%. 2025 began with growth in originations in a resilient housing market. With rapidly changing interest rates in the quarter alongside the announcement of US based tariffs, both securitization NIM and administration revenue were lower. This impacted earnings such that Pre-FMV Income(1) for the first quarter of 2025 was lower by 16%.

Outstanding Securities of the Corporation

At March 31, 2025 and April 29, 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 share amounts)

	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): unrealized 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

Note:

(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 March 31, 2025, MUA totalled $155.4 billion, up from $145.1 billion at March 31, 2024, an increase of 7%. The growth of MUA in the first quarter of 2025 was 4% 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 the first quarter of 2025, the Company's single-family origination increased by 34% compared to 2024. The commercial segment continued to perform well despite changing market conditions. Total commercial volumes were $3.6 billion in 2025 compared to $3.0 billion in the first quarter of 2024, an increase of 18%. On a combined basis, overall origination in the first quarter of 2025 was up by 27% from the comparative 2024 quarter.

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, and 2020's issuance of 200,000 2.961% Series 3 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.

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
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%
Q1 2025	1.38%

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 the first quarter of 2025, the Company originated and renewed approximately $3.2 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 was increased 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[(1)] is a useful measure that provides investors with an indication of income normalized for capital-market fluctuations. Pre-FMV Income[(1)] 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[(1)] may not be comparable to measures used by other issuers.

	Quarter ended	
	March 31, 2025	**March 31, 2024**
For the Period	**($000s)**	
Revenue	528,857	518,045
Income before income taxes	33,019	67,892
Pre-FMV Income [(1)]	52,629	62,745
At Period End		
Total assets	52,174,011	45,765,958
Mortgages Under Administration	155,404,088	145,095,772

(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).

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)].

Determination of Common Share Dividend Payout Ratio

	Quarter Ended March 31, 2025	Quarter Ended March 31, 2024
For the Period	**($000s)**	
Net income attributable to common shareholders	23,682	48,903
Total dividends paid or declared on common shares	37,480	36,730
Total common share dividend payout ratio	158%	75%
After-tax Pre-FMV dividend payout ratio (1)	98%	81%

Note:

(1) 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.

For the quarter ended March 31, 2025, the total common share payout ratio was 158% compared to 75% for the quarter ended March 31, 2024. In both quarters, 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 quarters are excluded from the above calculations, the dividend payout ratio for the first quarter of 2025 would have been 98% compared to 81% in 2024.

The Company also paid $0.9 million of dividends on its preferred shares in the first quarter of 2025 compared to $1.0 million in the 2024 quarter.

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 quarter ended March 31, 2025, origination volume was $8.3 billion compared to $6.6 billion in the 2024 quarter.

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 $8.3 billion of originations in the first quarter of 2025, $3.2 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 $8.3 billion of originations in the first quarter of 2025, $6.6 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:

	Quarter Ended March 31, 2025	March 31, 2024
	($ millions)	
Mortgage Originations by Segment		
Single-family residential	4,705	3,505
Multi-unit and commercial	3,594	3,045
Total origination and renewals	8,299	6,550
Mortgage Originations by Funding Source		
Institutional investors	4,936	4,055
NHA-MBS/CMB/ABCP securitization	3,214	2,367
Internal Company resources	149	128
Total	8,299	6,550
Mortgages Under Administration		
Single-family residential	95,698	94,435
Multi-unit residential and commercial	59,706	50,661
Total	155,404	145,096

Total mortgage origination volume was higher in the first quarter of 2025 compared to 2024. This reflected a 34% increase in single-family volumes and an 18% increase in commercial segment volumes year over year. Management believes the increase in the single-family segment was a follow on of the growth of single-family mortgage commitments in the fourth quarter of 2024. 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, 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 $3.2 billion of volume in the first quarter of 2025.

Net Interest – Securitized Mortgages

Comparing the quarter ended March 31, 2025, to the quarter ended March 31, 2024, "net interest – securitized mortgages" ("NII") decreased by 2% to $53.1 million from $54.1 million. The portfolio of mortgages pledged under securitization grew 12% from $40.8 billion at March 31, 2024 to $45.5 billion at March 31, 2025. This reflected growth of 17% in the multi-unit residential program portfolio and 9% growth in single-family programs. Commercial segment earnings were up by $2.5 million, growing 13% in line with the larger portfolio. Residential segment NII was lower by $3.4 million year over year reflecting the changing interest rate environment. Similar to 2024, first quarter 2025 results were affected by 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 hedge gains, 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 quarter by about $3 million. The lower rate environment also meant that on fixed rate mortgage prepayments, there will be more indemnities to pay to MBS bondholders. In the 2024 quarter bond yields were higher so there were lower indemnities to pay. This had an unfavorable impact of $1.6 million comparing the two first quarters. There was also temporary compression of spreads in the Company's ABCP conduits. In general, when overnight rates move lower, the cost of the commercial paper passed through to the Company takes longer to reset to the lower rates as bank conduits sell longer dated paper. The Company estimates the unfavorable effect of this to be about $0.3 million in the first quarter 2025.

Placement Fees

Placement fee revenue increased by 2% to $45.9 million from $45.2 million in the 2024 quarter. This reflected a 22% increase in placement activity offset by a shift in the mix of mortgages that makes up placement volume. In the first quarter of 2025, the amount of renewal revenue increased by about 41% over the amount in the 2024 comparative quarter. New residential origination sold to institutions increased by about 2%. Generally, per-unit fees for renewed mortgages are markedly lower than those on new residential origination. With the shift in the composition of placement fees, the overall increase was limited to 2%.

Gains on Deferred Placement Fees

Gains on deferred placement fees decreased 70% to $1.6 million from $5.4 million. These gains related primarily to multi-unit residential mortgages originated and sold to institutional investors where volumes decreased by 6% from the 2024 quarter. Margins in this business were much tighter in 2025 than in 2024.

Mortgage Servicing Income

Mortgage servicing income decreased 3% to $55.2 million from $56.6 million. This decrease reflected lower revenues related to the Company's third-party underwriting business which were down 6% on lower volumes. In general, the elements of mortgage servicing income that relate to the Company's MUA were 1% lower year over year. While servicing and administrative revenues were higher, a lower comparable interest rate environment meant lower interest revenues earned on escrow funds held.

Mortgage Investment Income

Mortgage investment income increased 15% to $36.0 million from $31.3 million. The increase was due primarily to the Company carrying a larger balance of mortgages accumulated for securitization during the 2025 quarter 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	**Quarter Ended March 31, 2025**	**Quarter Ended March 31, 2024**
	($000s)	
Gains (losses) on short bonds used for the economic hedging program	(20,191)	6,888
Gains (losses) on mortgages held at fair value	—	—
Gains (losses) on interest rate swaps	581	(1,741)
Net gains (losses) on financial instruments	(19,610)	5,147

2025 began with a more uncertain environment in which bond yields fell. The lower yields meant the Company recorded losses on the short bonds it used to economically hedge single-family mortgage commitments. In the first quarter of 2024, yields rose, and the Company recorded gains on its short bond position.

Brokerage Fees Expense

Brokerage fees expense decreased 12% to $17.0 million in the 2025 first quarter from $19.4 million in the 2024 quarter. This reflected a 2% year-over-year increase in origination volumes of single-family mortgages for institutional investors partially offset by a 9% decrease in overall per-unit broker fees.

Salaries and Benefits Expense

Salaries and benefits expense increased 7% to $61.5 million from $57.6 million primarily as a result of growth in headcount between the two quarters. Headcount growth was 7% (1,773 employees at March 31, 2025, compared to 1,659 at March 31, 2024). Some of this 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 20% to $39.1 million from $32.6 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 2024 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 7% to $21.6 million from $20.2 million primarily due to higher information technology costs as the Company pursued various upgrades to its systems including a migration to the "cloud" from onsite servers.

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

Income before income taxes decreased 51% to $33.0 million from $67.9 million in the 2024 quarter, 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 $19.6 million of losses on financial instruments (excluding gains related to mortgage investments) in the 2025 first quarter. Comparatively, in 2024, the Company recorded $5.1 million of gains on financial instruments (excluding losses related to mortgage investments). The change in these values accounted for a $24.7 million decrease in comparative income before income taxes. Pre-FMV Income[(1)], which excludes these changes, decreased by 16% to $52.6 million from $62.7 million. The change was attributable largely to lower third party underwriting income as volumes underwritten were lower; and narrower spreads on residential securitization which reduced net securitization income. Higher operating costs, particularly for technology, further reduced earnings by about $1.4 million.

Income Tax Expense

The provision for taxes decreased by 53% to $8.5 million from $18.0 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 $17.3 million of pre-tax net losses on such hedges in OCI in the first quarter of 2025. In the quarter, the Company amortized a portion of the gains and losses in accumulated OCI into regular earnings in the amount of $5.8 million. The remaining OCI amount will be amortized into net income in future periods.

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			
	Residential		Commercial	
	($000s except percent amounts)			
For the Quarter Ended	**March 31, 2025**	**March 31, 2024**	**March 31, 2025**	**March 31, 2024**
Originations and renewals	4,705,032	3,504,574	3,594,304	3,045,221
Percentage change	*34%*		*18%*	
Revenue	351,436	359,568	177,421	158,477
Percentage change	*(2%)*		*12%*	
Income before income taxes	2,727	37,900	30,292	29,992
Percentage change	*(93%)*		*1%*	
As at	**March 31, 2025**	**December 31, 2024**	**March 31, 2025**	**December 31, 2024**
Identifiable assets	33,501,985	33,218,858	18,642,250	17,908,507
Mortgages under administration	95,697,892	95,796,912	59,706,196	57,900,097

Residential Segment

Residential origination volumes including renewals increased by 34% between the first quarters of 2024 and 2025 while residential revenues decreased by 2%. Excluding the impact of gains and losses on financial instruments, revenues increased by 5%. 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 $22.3 million in the 2025 quarter from $32.8 million in the 2024 quarter, or 32%. 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 and lower net securitization income the result of narrower spreads and the negative repercussions of rapidly falling interest rates. Income was also negatively affected by higher operating costs primarily due to IT expenditures. Identifiable assets increased from December 31, 2024, as mortgages pledged under securitization grew by about $1.2 billion, hedging assets increased by $0.2 billion and mortgages accumulated for securitization decreased by $1.1 billion.

Commercial Segment

2024 commercial revenues were higher compared to those in the 2024 first quarter by 12% while segment income before income taxes increased by 1% year over year. Revenue increased on growth in the Company's securitized mortgage portfolio. Income increased despite the impact of lower income earned on a smaller commercial bridge loan portfolio ($175 million at the start of 2024 down to $50 million in 2025.) Together with lower interest rates as prime rates decreased by about 2% in the past 12-month period, this income was lower by $2.2 million. Identifiable assets increased from December 31, 2024, as the Company grew its portfolio of securitized mortgages by about $0.3 billion and increased its commercial hedging assets by $0.4 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 March 31, 2025, the Company had entered into repurchase transactions with financial institutions to borrow $1.3 billion related to $1.4 billion of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At March 31, 2025, outstanding bank indebtedness was $1,142.9 million (December 31, 2024 – $1,077.6 million). This debt was used to fund a portion of mortgages accumulated for sale or securitization totalling $991.7 million (December 31, 2024 – $985.9 million). At March 31, 2025, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $68.5 million (December 31, 2024 – $71.2 million) and (2) mortgage and loan investments of $123.3 million (December 31, 2024 – $139.9 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, 2024, and March 31, 2025, to stand at $750.0 million (December 31, 2024 – $690.3 million). This represents a debt-to-equity ratio of approximately 1.05:1. This ratio increased from 0.89:1 as at December 31, 2024. In general, the increase in this ratio is a result of the Company investing about $72 million in its securitization programs and funding hedge losses of about $31 million. These activities require an increase in the use of equity within the business.

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 March 31, 2025, the investment in cash collateral was $193.9 million (December 31, 2024 – $172.8 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 March 31, 2025, the Company had $0.7 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 March 31, 2025, the Company had $1.5 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 March 31, 2025, the aggregate value of these swaps which mature in September 2025 and September 2026, was a $2.1 million liability. During the first quarter of 2025, $0.6 million of gains were 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 March 31, 2025, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were approximately $2.3 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 remaining terms up to 12 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.

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 quarter ended March 31, 2025, are consistent with those used for the year ended December 31, 2024 and the quarter ended March 31, 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 the first quarter of 2025, the Company recorded a provision for credit loss of $1.2 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.

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.

No changes were made in the Company's internal controls over financial reporting during the quarter ended March 31, 2025, 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. At this time, there is still uncertainty about the impact of these announced tariffs on the Canadian economy, employment and the housing market 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 April 29, 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

2025 started with strong origination compared to the 2024 fiscal year with growth in total origination of 27%. As described in the Company's fourth quarter results, single family commitment activity grew over the same period in the prior year, and this translated into funded mortgages in the first quarter of 2025. In its commercial segment, origination grew by 18% as the Company continued to lead the industry in the insured mortgage market. To begin the year, the Company continued to build its MUA and its portfolio of mortgages pledged under securitization. It will benefit from both MUA and its 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 originations in the next two quarters as continued strength in new commitment activity has resulted in a larger pipeline compared to early 2024. With 5-year fixed mortgage rates already 0.85-1.00% lower than a year ago and the Bank of Canada expected to resume cutting overnight rates over the next six months, housing activity may prove resilient. This outlook, however, must be considered alongside the uncertain and potential negative impact of U.S. tariffs. Management believes the imposition of U.S. tariffs may have an unfavorable impact to the Canadian economy and, in particular, employment. The impact may also increase the risk of recession in the country.

As indicated above, the Company continued to see year-over-year growth of single-family mortgage commitments in the first quarter of 2025 and, accordingly, management expects second 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 in 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 $45 billion portfolio of mortgages pledged under securitization and $107 billion servicing portfolio while focusing on the value inherent in its significant single-family renewal book.

First National Financial Corporation

Interim condensed consolidated financial statements
[Unaudited]
First quarter 2025

First National Financial Corporation

Interim condensed consolidated statements of financial position

[Unaudited – in thousands of Canadian dollars]

As at

	March 31 2025 $	December 31, 2024 $
Assets		
Restricted cash *[note 3]*	**776,680**	855,809
Cash held as collateral for securitization *[note 3]*	**193,880**	172,795
Accounts receivable and sundry	**163,191**	166,856
Mortgages accumulated for sale or securitization *[note 5]*	**2,371,162**	3,441,028
Mortgages pledged under securitization *[note 3]*	**45,534,787**	43,976,776
Deferred placement fees receivable *[note 4]*	**68,499**	71,176
Mortgage and loan investments *[note 6]*	**123,295**	139,907
Securities purchased under resale agreements	**2,842,448**	2,230,658
Other assets *[note 7]*	**99,827**	102,136
Income tax recoverable	**242**	—
Total assets	**52,174,011**	51,157,141
Liabilities and equity		
Liabilities		
Bank indebtedness *[note 9]*	**1,142,858**	1,077,629
Obligations related to securities and mortgages sold under repurchase agreements	**1,323,593**	2,375,117
Accounts payable and accrued liabilities	**272,439**	284,432
Securities sold short	**2,846,601**	2,233,288
Debt related to securitized mortgages *[note 10]*	**45,108,951**	43,677,981
Senior unsecured notes	**598,808**	598,630
Income taxes payable	**—**	353
Deferred income tax liabilities	**164,900**	171,500
Total liabilities	**51,458,150**	50,418,930
Equity attributable to shareholders		
Common shares *[note 11]*	**122,671**	122,671
Preferred shares *[note 11]*	**97,394**	97,394
Retained earnings	**486,090**	499,888
Accumulated other comprehensive income	**9,706**	18,258
Total equity	**715,861**	738,211
Total liabilities and equity	**52,174,011**	51,157,141

See accompanying notes

On behalf of the Board:

Robert Mitchell

Robert Pearce

First National Financial Corporation

Interim condensed consolidated statements of income

[Unaudited – in thousands of Canadian dollars]

	Three months ended	
	March 31, 2025	**March 31, 2024**
	$	$
Revenue		
Interest revenue – securitized mortgages	**409,704**	374,481
Interest expense – securitized mortgages	**(356,603)**	(320,367)
Net interest – securitized mortgages	**53,101**	54,114
Placement fees	**45,891**	45,194
Gains on deferred placement fees *[note 4]*	**1,617**	5,355
Mortgage investment income	**36,013**	31,281
Mortgage servicing income	**55,242**	56,587
Realized and unrealized gains (losses) on financial instruments *[note 12]*	**(19,610)**	5,147
	172,254	197,678
Expenses		
Brokerage fees	**17,007**	19,394
Salaries and benefits	**61,529**	57,615
Interest	**39,131**	32,593
Other operating	**21,568**	20,184
	139,235	129,786
Income before income taxes	**33,019**	67,892
Income tax expense	**8,450**	18,000
Net income for the period	**24,569**	49,892
Earnings per share		
Basic *[note 11]*	**0.39**	0.82

See accompanying notes

First National Financial Corporation

Interim condensed consolidated statements of comprehensive income

[Unaudited – in thousands of Canadian dollars]

	Three months ended	
	March 31, 2025	**March 31, 2024**
	$	$
Net income for the period	**24,569**	49,892
Other comprehensive income (loss)		
items that may be subsequently may be		
subsequently reclassified to income		
Net gains (losses) from change in fair value		
of cash flow hedges	**(17,308)**	26,063
Reclassification of net gains to income	**5,756**	(2,427)
	(11,552)	23,636
Income tax recovery (expense)	**3,000**	(6,300)
Total other comprehensive income (loss)	**(8,552)**	17,336
Total comprehensive income for the period	**16,017**	67,228

See accompanying notes

First National Financial Corporation

Interim condensed consolidated statements of changes in equity

[Unaudited – in thousands of Canadian dollars]

	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total equity
	$	$	$	$	$
Balance as at January 1, 2025	**122,671**	**97,394**	**499,888**	**18,258**	**738,211**
Net income	**—**	**—**	**24,569**	**—**	**24,569**
Other comprehensive loss	**—**	**—**	**—**	**(8,552)**	**(8,552)**
Dividends paid or declared	**—**	**—**	**(38,367)**	**—**	**(38,367)**
Balance as at March 31, 2025	**122,671**	**97,394**	**486,090**	**9,706**	**715,861**

	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	—	—	49,892	—	49,892
Other comprehensive income	—	—	—	17,336	17,336
Dividends paid or declared	—	—	(37,719)	—	(37,719)
Balance as at March 31, 2024	122,671	97,394	489,972	57,235	767,272

See accompanying notes

First National Financial Corporation

Interim condensed consolidated statements of cash flows

[Unaudited – in thousands of Canadian dollars]

	Three months ended	
	March 31, 2025	**March 31, 2024**
	$	$
Operating activities		
Net income for the period	**24,569**	49,892
Add (deduct) items		
Provision for (recovery of) deferred income taxes	**(3,600)**	11,200
Non-cash portion of gains on deferred placement fees	**(1,454)**	(5,153)
Decrease in restricted cash	**79,129**	5,053
Net investment in mortgages pledged under securitization	**(1,517,525)**	(1,390,930)
Net increase in debt related to securitized mortgages	**1,390,484**	1,328,435
Securities purchased under resale agreements, net	**(611,790)**	482,064
Securities sold short, net	**592,744**	(392,855)
Amortization of deferred placement fees receivable	**4,131**	4,045
Amortization of property, plant and equipment	**2,832**	4,222
Unrealized losses (gains) on financial instruments	**7,826**	(63,565)
	(32,654)	32,408
Net change in non-cash working capital balances related to operations	**1,063,779**	988,364
Cash provided by operating activities	**1,031,125**	1,020,772
Investing activities		
Additions to property, plant and equipment	**(523)**	(1,492)
Investment in cash held as collateral for securitization	**(21,085)**	(2,523)
Investment in mortgage and loan investments	**(109,905)**	(84,624)
Repayment of mortgage and loan investments	**126,517**	141,374
Cash provided by (used in) investing activities	**(4,996)**	52,735
Financing activities		
Dividends paid	**(38,421)**	(37,732)
Obligations related to securities and mortgages sold under repurchase agreements	**(1,051,524)**	(1,109,042)
Repayment of lease liabilities	**(1,413)**	(1,397)
Cash used in financing activities	**(1,091,358)**	(1,148,171)
Net increase in bank indebtedness, during the period	**(65,229)**	(74,664)
Bank indebtedness, beginning of period	**(1,077,629)**	(1,083,000)
Bank indebtedness, end of period	**(1,142,858)**	(1,157,664)
Supplemental cash flow information		
Interest received	**471,457**	422,155
Interest paid	**368,816**	320,306
Income taxes paid	**12,645**	68,516

See accompanying notes

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

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 $155 billion in mortgages under administration as at March 31, 2025, 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

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* under International Financial Reporting Standards [“IFRS”], as issued by the International Accounting Standards Board. The interim condensed consolidated financial statements have been prepared using the same accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2024.

These interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and are presented in Canadian dollars with all values rounded to the nearest thousand, except when otherwise indicated. The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2025.

Estimates and use of judgement

Management has exercised judgement in the process of applying the Company’s accounting policies. Some of the Company’s accounting policies require subjective, complex judgements and estimates relating to matters that are inherently uncertain. The preparation of these interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the interim condensed consolidated statements of financial position dates and the reported amounts of revenue and expenses during the reporting periods.

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.

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

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 to the Company by the structured entities monthly over the term of the mortgages. The full amount of the 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 March 31, 2025, the cash held as collateral for securitization was $193,880 [December 31, 2024 – $172,795].

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

	March 31, 2025		**December 31, 2024**	
	Carrying amount of securitized mortgages $	**Carrying amount of associated liabilities** $	**Carrying amount of securitized mortgages** $	**Carrying amount of associated liabilities** $
Securitized mortgages	**45,138,675**	**(45,328,170)**	43,630,368	(43,963,542)
Capitalized amounts related to hedge accounting	**143,249**	**(133,989)**	101,572	(93,502)
Capitalized origination costs	**252,863**	**—**	244,836	—
Debt discounts	**—**	**353,208**	—	379,063
	45,534,787	**(45,108,951)**	43,976,776	(43,677,981)
Add				
Principal portion of payments held in restricted cash	**684,099**	**—**	761,937	—
	46,218,886	**(45,108,951)**	44,738,713	(43,677,981)

The principal portion of payments held in restricted cash represents payments on account of mortgages pledged under securitization which have been received at period end but have not been applied to reduce the associated debt. This 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 are classified as amortized cost and are carried at par plus adjustment for unamortized origination costs and amounts related to hedge accounting.

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

The changes in capitalized origination costs for the three months ended March 31, 2025 are as follows:

	2025	**2024**
	$	$
Opening balance, January 1	**244,836**	204,205
Add new origination costs capitalized in the period	**35,470**	27,859
Less amortization in the period	**(27,443)**	(22,662)
Ending balance, March 31	**252,863**	209,402

The following table summarizes the mortgages pledged under securitization that are past due:

	March 31, 2025	**December 31, 2024**
	$	$
Arrears days		
31 to 60	**10,490**	14,855
61 to 90	**4,450**	2,021
Greater than 90	**10,440**	11,943
	25,380	28,819

Of the mortgages in arrears summarized above, 54 are uninsured and have a principal balance of $24,849 as at March 31, 2025 [December 31, 2024 – 63 mortgages, $ 28,476], while the remaining loans are insured. The Company's exposure to credit loss is limited to uninsured mortgages with principal balances totaling $6,418,400 [December 31, 2024 – $ 5,698,928], before consideration of the value of underlying collateral. All of the uninsured mortgages pledge under securitization are single-family mortgages with loan to value ratios of 80% or less.

The Company has provided an allowance for expected credit losses of $7,750 as of March 31, 2025 [December 31, 2024 – $6,793] related to mortgages pledged under securitization.

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

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 is classified as amortized cost and has been calculated initially 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.

	Three months ended March 31, 2025		
	Residential $	Commercial $	Total $
Mortgages placed with institutional investors	**—**	**898,095**	**898,095**
Gains on deferred placement fees	**—**	**1,617**	**1,617**
Cash receipts on deferred placement fees received	**69**	**5,014**	**5,083**

	Three months ended March 31, 2024		
	Residential $	Commercial $	Total $
Mortgages placed with institutional investors	—	958,744	958,744
Gains on deferred placement fees	—	5,355	5,355
Cash receipts on deferred placement fees received	75	4,921	4,996

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:

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

	March 31, 2025 $	December 31, 2024 $
Mortgages accumulated for securitization	**2,254,785**	3,386,959
Mortgages accumulated for sale	**116,377**	54,069
	2,371,162	3,441,028

The Company's exposure to credit loss is limited to $536,140 [December 31, 2024 – $809,976] of principal balances of uninsured mortgages within mortgages accumulated for securitization, before consideration of the value of underlying collateral. As at March 31, 2025, 18 of these mortgages are in arrears past 31 days, with a total principal balance of $10,187 [December 31, 2024 – 14 mortgages with a balance of $9,349]. All the uninsured mortgages within mortgages accumulated for securitization are single-family mortgages with loan to value ratios of 80% or less. Allowance for expected credit losses on such mortgages is incorporated in the allowance total of $7,750 described in note 3.

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, mortgage 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 $37,664 as at March 31, 2025 [December 31, 2024 – $40,497] which is subject to expected credit loss. The Company did not record any losses of fair value related to the commercial segment investments during the quarters ended March 31, 2025 and 2024.

As at March 31, 2025, the portfolio contains $9,973 [December 31, 2024 – $11,926] of insured mortgages and $113,322 [December 31, 2024 – $127,981] of uninsured mortgage and loan investments. Of the uninsured mortgages as at March 31, 2025, approximately $2,122 [December 31, 2024 – $1,071] have principal balance in arrears of more than 30 days.

7. Other assets

The components of other assets are as follows as at:

	March 31, 2025 $	December 31, 2024 $
Property, plant and equipment, net	**28,759**	29,997
Right-of-use assets	**41,292**	42,363
Goodwill	**29,776**	29,776
	99,827	102,136

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

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 $45,868 as at March 31, 2025 [December 31, 2024 – $46,675] is grouped with accounts payable and accrued liabilities on the interim condensed 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 Corporation's recoverable amount exceeds the carrying value of its net assets and accordingly, goodwill is not impaired.

8. Mortgages under administration

As at March 31, 2025, the Company managed mortgages under administration of $155,404,088 [December 31, 2024 – $153,697,009], including mortgages held on the Company's interim condensed 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 March 31, 2025, the Company administered 328,961 mortgages [December 31, 2024 – 330,389] for 78 institutions and securitization conduits [December 31, 2024 – 77] with an average remaining term to maturity of 40 months [December 31, 2024 – 41 months].

Mortgages under administration are serviced as follows:

	March 31, 2025 $	**December 31, 2024** $
Institutional investors	**107,035,088**	105,679,528
Mortgages accumulated for sale or securitization and mortgage and loan investments	**2,505,527**	3,577,424
Mortgages pledged under securitization	**45,138,675**	43,630,368
CMBS conduits	**724,799**	809,689
	155,404,088	153,697,009

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 interim condensed consolidated statements of financial position. The aggregate of these accounts as at March 31, 2025 was $842,132 [December 31, 2024 – $895,326].

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

9. Bank indebtedness

Bank indebtedness includes a revolving credit facility of $1,500,000 as at March 31, 2025 [December 31, 2024 – $1,500,000] maturing in March 2029. At March 31, 2025, $1,142,858 [December 31, 2024 – $1,077,629] 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 CORRA 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 March 31, 2025, debt related to securitized mortgages was $45,108,951 [December 31, 2024 – $43,677,981], net of unamortized discount of $353,208 [December 31, 2024 – $379,063]. 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.

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

11. Shareholders' equity

[a] Authorized

Unlimited number of common shares
Unlimited number of cumulative 5-year rate reset preferred shares, Class A Series 1
Unlimited number of cumulative 5-year rate reset preferred shares, Class A Series 2

[b] Capital stock activities

	Common shares		Preferred shares	
	#	$	#	$
Balance, March 31, 2025 and December 31, 2024	**59,967,429**	**122,671**	**4,000,000**	**97,394**

[c] Earnings per share

	Three months ended	
	March 31, 2025	**March 31, 2024**
	$	$
Net income attributable to shareholders	**24,569**	49,892
Less dividends declared on preferred shares	**(887)**	(989)
Net earnings attributable to common shareholders	**23,652**	48,903
Number of common shares outstanding	**59,967,429**	59,967,429
Basic earnings per common share	**0.39**	0.82

12. Financial instruments and risk management

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 interim condensed 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] Mortgage and loan investments

Commercial segment mortgages and certain residential loans 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 fair 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 fair 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 are not supported by observable market data.

[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.

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

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

The fair values of these financial instruments are 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 as at March 31, 2025, except for mortgages pledged under securitization, which have a carrying value of $45,534,787 [December 31, 2024 – $43,976,776] and a fair value of $46,019,632 [December 31, 2024 – $43,932,449], debt related to securitized mortgages, which has a carrying value of $45,108,951 [December 31, 2024 – $43,677,981] and a fair value of $44,462,377 [December 31, 2024 – $42,716,317], and senior unsecured notes, which have a carrying value of $598,808 [December 31, 2024 – $598,630] and a fair value of $619,600 [December 31, 2024 – $617,540]. 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:

	March 31, 2025			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Financial assets				
Mortgages accumulated for sale	**—**	**116,377**	**—**	**116,377**
Mortgage and loan investments	**—**	**—**	**85,630**	**85,630**
Total financial assets	**—**	**116,377**	**85,630**	**202,007**
Financial liabilities				
Securities sold short	**—**	**2,846,601**	**—**	**2,846,601**
Interest rate swaps	**—**	**72,392**	**—**	**72,392**
Total financial liabilities	**—**	**2,918,993**	**—**	**2,918,993**

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

	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

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used including those that are not fully supported by observable market prices or rates [Level 3]. 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 for the three months ended March 31, 2025 and 2024. Although the Company's management believes that the estimated fair values are appropriate as at the date of the interim condensed 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 is made. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During the quarter, there were no transfers between levels.

The following table presents changes in the fair values including realized losses of $29,470 [2024 – $22,976] of the Company's financial assets and financial liabilities for the three months ended March 31, 2025 and 2024, all of which have been classified as FVTPL:

	Three months ended March 31	
	2025	**2024**
	$	$
Securities sold short	**(20,191)**	6,889
Interest rate swaps	**581**	(1,742)
	(19,610)	5,147

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

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 nine months ended March 31, 2025 and 2024. The Company classifies financial instruments as Level 3 when there is reliance on at least one significant unobservable input in the valuation models.

	Fair value as at January 1, 2025	**Investments**	**Unrealized gains recorded in income**	**Payment and amortization**	**Fair value as at March 31, 2025**
	$	$	$	$	$
Financial assets					
Mortgage and loan investments	**67,379**	**109,905**	**—**	**(91,654)**	**85,630**

	Fair value as at January 1, 2024	**Investments**	**Unrealized gains recorded in income**	**Payment and amortization**	**Fair value as at March 31, 2024**
	$	$	$	$	$
Financial assets					
Mortgage and loan investments	189,523	84,624	—	(144,376)	129,771

13. 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 March 31, 2025, the ratio was 2.05:1 [December 31, 2024 – 1.92:1]. The Company was in compliance with the bank covenant throughout the period.

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

14. 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.

	Three months ended March 31, 2025		
	Residential $	Commercial $	Total $
Revenue			
Interest revenue – securitized mortgages	**273,979**	**135,725**	**409,704**
Interest expense – securitized mortgages	**(241,984)**	**(114,619)**	**(356,603)**
Net interest – securitized mortgages	**31,229**	**21,872**	**53,101**
Placement and servicing	**70,526**	**32,224**	**102,750**
Mortgage investment income	**26,541**	**9,472**	**36,013**
Realized and unrealized losses on financial instruments	**(19,610)**	**—**	**(19,610)**
	108,686	**63,568**	**172,254**
Expenses			
Amortization	**2,495**	**337**	**2,832**
Interest	**30,396**	**8,735**	**39,131**
Other operating	**73,068**	**24,204**	**97,272**
	105,959	**33,276**	**139,235**
Income before income taxes	**2,727**	**30,292**	**33,019**
Identifiable assets	**33,501,985**	**18,642,250**	**52,144,235**
Goodwill	**—**	**—**	**29,776**
Total assets	**33,501,985**	**18,642,250**	**52,174,011**

Notes to interim condensed consolidated financial statements

[Unaudited – in thousands of Canadian dollars, except per share amounts or unless otherwise noted]

March 31, 2025

	Three months ended March 31, 2024		
	Residential	**Commercial**	**Total**
	$	$	$
Revenue			
Interest revenue – securitized mortgages	261,823	112,658	374,481
Interest expense – securitized mortgages	(226,474)	(93,893)	(320,367)
Net interest – securitized mortgages	35,349	18,765	54,114
Placement and servicing	72,556	34,580	107,136
Mortgage investment income	20,042	11,239	31,281
Realized and unrealized gains on financial instruments	5,147	—	5,147
	133,094	64,584	197,678
Expenses			
Amortization	3,597	626	4,223
Interest	20,694	11,899	32,593
Other operating	70,903	22,067	92,970
	95,194	34,592	129,786
Income before income taxes	37,900	29,992	67,892
Identifiable assets	29,855,627	15,880,555	45,736,182
Goodwill	—	—	29,776
Total assets	29,855,627	15,880,555	45,765,958

15. Related party and other transactions

The Company has servicing contracts in connection with commercial bridge and mezzanine mortgages originated by the Company and subsequently placed 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 quarter, the Company originated $12,080 of new mortgages for the related parties. The related parties also funded several progress draws totaling $39,768 on existing mortgages originated by the Company. All such mortgages, which are administered by the Company, have a balance of $217,710 as at March 31, 2025 [December 31, 2024 – $199,326].

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 during the three months ended March 31, 2025 was $850 [2024 – $625], 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 agreements to provide origination and administration services to the financial institution. Mortgages subject to these agreements are transacted at market rates with the financial institution. During the quarter, the Company provided origination services related to mortgages with a value of $78,870 to the financial institution. As at March 31, 2025, the Company administered a $4,422,878 [December 31, 2024 – $4,574,671] mortgage portfolio for the financial institution at market rates.

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