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 October 28, 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 September 30, 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 $165 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.

On October 22, 2025, First National Financial Corporation (the "Company" or "First National") (TSX:FN.PR.A, TSX:FN.PR.B) was purchased pursuant to a definitive arrangement agreement (the "Arrangement Agreement") with Regal Bidco Inc. (the "Purchaser"), a newly-formed acquisition vehicle controlled by private equity funds managed by Birch Hill Equity Partners Management Inc. ("Birch Hill") and private equity funds managed by Brookfield Asset Management ("Brookfield"), whereby the Purchaser acquired all of the outstanding common shares (the "Shares") of the Company, other than the Rollover Shares (as defined below) (the "Transaction"), for $48.00 per Share in cash (the "Purchase Price"). As part of the Transaction, the Company's founders, Stephen Smith and Moray Tawse (together with their associates and affiliates, the "Rolling Shareholders"), who currently hold approximately 37.4% and 34.0%, respectively, of the outstanding Shares, sold approximately two-thirds of their shareholdings in the Company for the same cash consideration per Share as other shareholders, and exchanged their remaining Shares (the "Rollover Shares") for ownership interests in the Purchaser. Subsequent to the purchase date, the Company was amalgamated with Regal Bidco Inc. and continued as First National Financial Corporation.

Third Quarter 2025 Results Summary

First National's origination volumes in the third quarter of 2025 met management's expectations. Including renewals, total mortgage originations were $13.1 billion, 39% above 2024 levels. Mortgages Under Administration (MUA) surpassed $165 billion, growing by 10% year over year. Core operating profitability, measured by Pre-FMV Income[(1)], increased by 11% from 2024 reflecting several factors but largely the impact of higher originations in the residential segment which increased placement revenues and higher income from commercial segment securitization.

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

- MUA grew to $165.3 billion at September 30, 2025 from $150.6 billion at September 30, 2024, an increase of 10%; growth from June 30, 2025, when MUA was $159.9 billion, was 13% on an annualized basis.
- Total single-family mortgage origination, including renewals, was $10.5 billion in the third quarter of 2025 compared to $6.7 billion in the 2024 comparative quarter, a 57% increase. This reflected steady new origination from the strong commitment pipeline established in the first and second quarters of 2025 and a strong renewal experience as borrowers who had chosen shorter mortgage maturity terms during the pandemic renewed alongside those with more typical 5-year terms taken in 2020. Commercial segment origination, including renewals, of $2.6 billion was 7% lower than the $2.7 billion originated in the 2024 quarter.
- Revenue for the third quarter of 2025 increased by approximately 15% to $647.0 million from $560.4 million a year ago reflecting growth in the portfolio of securitized mortgages which produced higher interest revenue. This increase was augmented by higher placement fees on greater volumes placed with institutional investors.
- Income before income taxes was $77.5 million in the third quarter of 2025 compared to $49.7 million in third quarter 2024. The increase 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 third quarter of 2025 increased by 11% to $83.9 million from $75.3 million in the 2024 third quarter. The change was attributable largely to higher net placement fees earned on residential origination volumes which grew by about 57% year over year. Net interest income from commercial securitization was also strong in the quarter as the securitized portfolio grew by about 15%.

(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					
Third quarter	$647,006	$56,989	$83,933	$0.94	$53,625,038
Second quarter	$621,336	$63,355	$77,911	$1.04	$54,397,933
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

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				
Third quarter	$77,509	$6,424	$—	$83,933
Second quarter	$86,195	($8,284)	$—	$77,911
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

(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 traditional 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 typical market dynamics, the Company remained focused and with a combination of higher housing activity, fourth quarter single family origination surpassed 2023 levels by 44%. The first six months of 2025 began with strong growth in originations in a resilient housing market. After a turbulent economic environment in the first quarter alongside the announcement of US-based tariffs and interest rate movements, the second and third quarters of 2025 provided a more stable environment such that securitization NIM and administration revenue increased year over year. Generally, earnings were steady and Pre-FMV Income(1) for the third quarter of 2025 grew by 12%.

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	51,157,141	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 September 30, 2025, MUA totalled \$165.3 billion, up from \$150.6 billion at September 30, 2024, an increase of 10%. The growth of MUA within the third quarter of 2025 was 13% 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 third quarter of 2025, the Company's single-family origination increased by 57% compared to 2024. The commercial segment slowed down with originations of \$2.5 billion compared to \$2.7 billion in the third quarter of 2024, a decrease of 7%. On a combined basis, overall origination in the third quarter of 2025 was up by 39% 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 stood at approximately $600 million as at September 30, 2025. On October 22, 2025, pursuant to the change in control affected by Arrangement Agreement, the Company redeemed all the outstanding notes at premiums specified in the indentures. On October 14, 2025, the Company issued three new tranches of notes: 250,000 of Series 2025-1 notes were issued at a coupon of 4.288% for a three-year term maturing on October 23, 2028; 300,000 of Series 2025-2 notes were issued at a coupon of 4.891% for a five-year term maturing on October 23, 2030; and 250,000 of Series 2025-3 notes were issued at a coupon of 5.443% for a seven-year term maturing on October 25, 2032. These new tranches settled on October 23, 2025.

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. Generally, when spreads are 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 third quarter of 2025, the Company originated and renewed approximately $3.6 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 2025. 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. These rules have not yet impacted the Company's ability to place mortgages with its existing institutional customers. In July 2025, CMHC announced higher premiums related to insurance of multi-unit mortgages. In general, the new rates apply to mortgages with higher loan to value ratios. These changes may have an impact on the amount of CMHC insured mortgages that the Company can originate. In September 2025, CMHC announced changes to the securitization rules related to incentives of Affordability-Linked Pools. These are NHA-MBS pools that meet certain requirements regarding the inclusion of housing loans with an affordability component (insured under CMHC's MLI Select product). These rules commencing in April 2026, take away some of the pooling benefits previously granted on such pools. These changes may reduce the Issuer's ability to place mortgages with some institutions.

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		Nine months ended	
	September 30, 2025	**September 30, 2024**	**September 30, 2025**	**September 30, 2024**
For the Period		($000s)		
Revenue	647,006	560,386	1,797,199	1,616,881
Income before income taxes	77,509	49,689	196,723	191,071
Pre-FMV Income [(1)]	83,933	75,254	214,473	215,497
At Period End				
Total assets	53,625,038	50,460,286	53,625,038	50,460,286
Mortgages Under Administration	165,266,872	150,568,194	165,266,872	150,568,194

(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		Nine months Ended	
	September 30, 2025	September 30, 2024	September 30, 2025	September 30, 2024
For the Period		($000s)		
Net income attributable to common shareholders	56,147	35,426	142,333	137,414
Total dividends paid or declared on common shares	37,479	36,730	112,439	110,190
Total common share dividend payout ratio	67%	104%	79%	80%
After-tax Pre-FMV dividend payout ratio (1)	61%	68%	72%	71%

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 September 30, 2025, the total common share payout ratio was 67% compared to 104% for the quarter ended September 30, 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 third quarter of 2025 would have been 61% compared to 68% in 2024.

The Company also paid $0.8 million of dividends on its preferred shares in the third 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 September 30, 2025, origination volume was $13.1 billion compared to $9.4 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 $13.1 billion of originations in the third quarter of 2025, $3.6 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 $13.1 billion of originations in the third quarter of 2025, $9.1 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		Nine months Ended	
	September 30, 2025	September 30, 2024	September 30, 2025	September 30, 2024
	($ millions)			
Mortgage Originations by Segment				
Single-family residential	10,520	6,685	23,895	16,314
Multi-unit and commercial	2,555	2,743	11,273	10,810
Total origination and renewals	13,075	9,428	35,168	27,124
Mortgage Originations by Funding Source				
Institutional investors	9,076	5,397	22,801	15,234
NHA-MBS/CMB/ABCP securitization	3,643	3,763	11,643	11,239
Internal Company resources	356	268	724	651
Total	13,075	9,428	35,168	27,124
Mortgages Under Administration				
Single-family residential	101,131	95,373	101,131	95,373
Multi-unit residential and commercial	64,136	55,195	64,136	55,195
Total	165,267	150,568	165,267	150,568

Total mortgage origination volume was higher in the third quarter of 2025 compared to 2024. This reflected a 57% increase in single-family volumes and a 7% decrease 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 second and first quarters of 2025. The housing market across Canada performed well and the Company believes it has increased its market share in the broker channel. 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 $3.6 billion of volume in the third quarter of 2025.

Net Interest – Securitized Mortgages

Comparing the quarter ended September 30, 2025, to the quarter ended September 30, 2024, "net interest – securitized mortgages" ("NII") increased by 3% to $62.2 million from $60.2 million. The portfolio of mortgages pledged under securitization grew 9% from $44.4 billion at September 30, 2024 to $48.4 billion at September 30, 2025. This reflected growth of 15% in the multi-unit residential program portfolio and 6% growth in single-family programs. Commercial segment earnings here were up by $2.4 million, growing 12% with the larger portfolio and the acceleration of value with fees associated with prepayments. Residential segment NII was lower by $0.4 million year over year reflecting the changing interest rate environment. Similar to 2024, third quarter 2025 results were affected by 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. Favorably, the cost of funds related to the Company's ABCP conduits improved in the quarter. In general, longer dated ABCP notes, which were advanced when short-term interest rates were higher, matured and were replaced with new notes at rates reflecting the current environment.

Placement Fees

Placement fee revenue increased by 75% to $99.9 million from $57.1 million in the 2024 quarter. This reflected a 68% increase in placement activity augmented by a shift in the mix of mortgages that makes up placement volume. In the third quarter of 2025, volumes of new mortgages placed more than doubled while renewed volume placed with investors increased by about 21%. 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 in placement fees was higher than the increase in total institutional placement volume.

Gains on Deferred Placement Fees

Gains on deferred placement fees increased 38% to $4.0 million from $2.9 million. These gains related primarily to multi-unit residential mortgages originated and sold to institutional investors where volumes increased by 8% from the 2024 quarter. Margins in this business were wider in the 2025 quarter the comparative quarter in 2024.

Mortgage Servicing Income

Mortgage servicing income increased 6% to $70.2 million from $66.1 million reflecting higher MUA offset by lower interest revenues earned on escrow funds held. This revenue was about $3.0 million lower in the current quarter. Without this decrease, revenues related to the Company's third-party underwriting business and administration departments grew by about $1.2 million or about 4%.

Mortgage Investment Income

Mortgage investment income decreased 17% to $33.9 million from $40.9 million. The decrease was due to several factors including: differing balances of mortgage accumulated for securitization, lower balances of mortgage and loan investments and mortgage rates which were generally lower year over year commensurate with the overall interest rate environment.

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 September 30, 2025	Quarter Ended September 30, 2024	Nine months Ended September 30, 2025	Nine months Ended September 30, 2024
	($000s)			
Gains (losses) on short bonds used for the economic hedging program	(6,506)	(27,598)	(18,077)	(24,666)
Gains (losses) on interest rate swaps	82	2,033	327	240
Net gains (losses) on financial instruments	(6,424)	(25,565)	(17,750)	(24,426)

The 2025 third quarter was a period where economic sentiment turned negative and bond yields fell. Lower yields meant the Company recorded losses on the short bonds it used to economically hedge single-family mortgage commitments. In the third quarter of 2024, yields fell to greater extent, so the Company recorded comparatively larger losses on its short bond position.

Brokerage Fees Expense

Brokerage fees expense increased 120% to $65.9 million in the 2025 third quarter from $29.9 million in the 2024 quarter. This reflected a 148% year-over-year increase in origination volumes of new single-family mortgages for institutional investors. Per unit broker fees were 12% lower in the 2024 quarter.

Salaries and Benefits Expense

Salaries and benefits expense increased 8% to $57.6 million from $53.2 million primarily as a result of growth in headcount between the two quarters. Headcount growth was 4% (1,808 employees at September 30, 2025, compared to 1,745 at September 30, 2024). Some of this growth pertains to staffing for the Company's new third-party underwriting customer. Together with a 3% merit increase for 2025, salaries increased by about 8%. 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 decreased 15% to $40.2 million from $47.5 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. Overall interest expense decreased from 2024 for several reasons: changing balances of mortgage accumulated for securitization and higher interest rate costs with the replacement of the November 2024 5-year term note which matured last year, partially offset by lower short term borrowing costs due to Bank of Canada rate cuts. Interest expense also included the cost of carry related to the Company's economic hedging program which increases in 2025 with a steeper yield curve.

Other Operating Expenses

Other operating expenses increased by 5% to $22.5 million from $21.4 million primarily due to higher information technology costs as the Company continues to upgrade its systems including a migration to the "cloud" from onsite servers. Mortgage servicing costs also increased in the quarter related to higher origination volumes.

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

Income before income taxes increased 56% to $77.5 million from $49.7 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 $6.4 million of losses on financial instruments (excluding gains related to mortgage investments) in the 2025 third quarter. Comparatively, in 2024, the Company recorded $25.6 million of losses on financial instruments (excluding losses related to mortgage investments). The change in these values accounted for a $19.2 million increase in comparative income before income taxes. Pre-FMV Income[(1)], which excludes these changes, increased by 11% to $83.9 million from $75.3 million. The change was largely attributable to higher net placement fees earned on residential origination volumes which grew by about 57% year over year. Net interest income from commercial securitization was also strong in the quarter as the securitized portfolio grew by about 15%.

Income Tax Expense

The provision for taxes increased by 54% to $20.5 million from $13.3 million. The provision increased 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 $9.3 million of pre-tax net losses on such hedges in OCI in the third 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 $0.2 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	**September 30, 2025**	**September 30, 2024**	**September 30, 2025**	**September 30, 2024**
Originations and renewals	10,521,526	6,686,336	2,554,761	2,743,309
Percentage change	*57%*		*(7%)*	
Revenue	461,913	394,173	185,093	166,213
Percentage change	*17%*		*11%*	
Income before income taxes	47,375	21,044	30,134	28,645
Percentage change	*125%*		*5%*	
As at	**September 30, 2025**	**December 31, 2024**	**September 30, 2025**	**December 31, 2024**
Identifiable assets	34,414,318	33,218,858	19,180,944	17,908,507
Mortgages under administration	101,130,427	95,796,912	64,136,445	57,900,097

Residential Segment

Residential origination volumes including renewals increased by 57% between the third quarters of 2024 and 2025 while residential revenues increased by 17%. Excluding the impact of gains and losses on financial instruments, revenues increased by 12%. Growth in revenue relies largely on the growth of the Company's securitized portfolio and the weighted average mortgage rates therein. This portfolio grew by about 6% year over year. This increase has been augmented by higher placement fee revenue related to increased origination volume. Net income before tax was also affected by fair value-related revenues. Without the impact of these revenues, net income before tax increased to $53.8 million in the 2025 quarter from $46.6 million in the 2024 quarter, or 15%. This change was the result of several factors, but largely higher net placement fees on higher origination volumes which increased operating leverage. Identifiable assets increased from December 31, 2024, as mortgages pledged under securitization grew by about $2.8 billion. This growth was offset by a decrease in mortgages accumulated for securitization of $1.3 billion and fewer hedging assets which decreased by $0.3 billion.

Commercial Segment

2025 commercial revenues were higher compared to those in the 2024 third quarter by 11% while segment income before income taxes increased by 5% year over year. Revenue increased on 15% growth in the Company's securitized mortgage portfolio. Identifiable assets increased from December 31, 2024, as the Company grew its portfolio of securitized mortgages by about $1.7 billion. This growth was offset by a decrease in mortgages accumulated for securitization of $0.3 billion and fewer hedging assets which decreased assets by $0.2 billion.

Liquidity and Capital Resources

The Company's fundamental liquidity strategy has been to originate and invest in prime Canadian mortgages. Management's belief has always been that these mortgages are attractive to investors and should always be well bid and highly liquid. This strategy proved effective during the global financial crisis in 2007 through 2009, and once again at the onset of the Covid-19 pandemic, when capital markets were disrupted and the demand for high-quality assets increased. As the Company's results in those years demonstrated, First National was able to attract investors to purchase its mortgage origination at profitable margins. Originating prime mortgages also allows the Company to securitize in the capital markets; however, this activity requires significant cash resources to purchase and hold mortgages prior to arranging for term debt through securitization markets. For this purpose, the Company uses the combination of unsecured notes and the Company's revolving bank credit facility. This aggregate indebtedness is typically used to fund: (1) mortgages accumulated for sale or securitization (2) the origination costs associated with securitization and, (3) mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions for total credit of $1.5 billion. This facility matures in March 2029. As at September 30, 2025, the Company had entered into repurchase transactions with financial institutions to borrow $0.9 billion related to $0.9 billion of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At September 30, 2025, outstanding bank indebtedness was $1,070.3 million (December 31, 2024 – $1,077.6 million). This debt was used to fund a portion of mortgages accumulated for sale or securitization totalling $912.2 million (December 31, 2024 – $985.9 million). At September 30, 2025, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $66.7 million (December 31, 2024 – $71.2 million) and (2) mortgage and loan investments of $193.4 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 September 30, 2025, to stand at $757.2 million (December 31, 2024 – $690.3 million). This represents a debt-to-equity ratio of approximately 1:1. 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 $54 million in its securitization programs and $53 million in mortgage and loan investments. 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 September 30, 2025, the investment in cash collateral was $191.2 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 September 30, 2025, the Company had $1.1 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 September 30, 2025, the Company had $0.3 billion of notional value forward bond sales for this segment. The Company is also a party to an interest rate swap that economically hedges the interest rate exposure related to certain CMB transactions in which the Company has replacement obligations. As at September 30, 2025, the aggregate value of this swap, which matures in September 2026, was a $1.4 million liability. During the third quarter of 2025, $0.1 million of gains were recorded related to such 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 September 30, 2025, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were approximately $1.8 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 the quarter, 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 11 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 September 30, 2025, are consistent with those used for the year ended December 31, 2024, and the quarters ended March 31, 2025, June 30, 2025, and September 30, 2024.

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

As a mortgage lender, the Company invests in uninsured mortgages. When it funds these mortgages through securitization debt, it continues to be liable for any credit losses. The key inputs in the measurement of any expected credit loss ("ECL") include probability of default, loss given default and forecast of future economic conditions, which involves significant judgment. Because of the high proportion of government-insured mortgages in its securitized portfolio and the low historical loss rates on the uninsured mortgages on which the Company lends, credit losses are typically low compared to its securitization portfolio. In the third quarter of 2025, the Company recorded a recovery of credit losses of $1.9 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 September 30, 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. In June 2025, the U.S. announced further tariffs to be imposed starting August 1, 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 October 28, 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

Origination volumes in the first three quarters of 2025 were strong compared to the 2024 fiscal year with growth in total origination of 30%. This growth was the result of higher commitment activity in the residential segment which began in late 2024. Residential origination volumes including renewals grew by 46% for the nine-month period. In its commercial segment, origination for the first three quarters grew by 4% as the Company continued to lead the industry in the insured mortgage market. At the end of September 2025, 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 lower year-over-year single-family originations in the next two quarters as new commitment activity slowed. For its commercial segment, the Company anticipates steady new origination volumes but perhaps lower than in the same period in 2024 based on the pipeline of commitments. The CMB program and its dedicated allocations to apartment financing has 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. In general, 5-year spreads are wider than the levels available in 2024 as lower yields have spurred demand. With relatively higher all-in mortgage rates, ten-year business is lower and spreads similar to those in 2024. In both business segments, management is confident that First National will remain a competitive lender in the marketplace. 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.

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 $48 billion portfolio of mortgages pledged under securitization and $115 billion servicing portfolio while focusing on the value inherent in its significant single-family renewal book.