2023

Annual Report

FIRST NATIONAL
FINANCIAL CORPORATION®

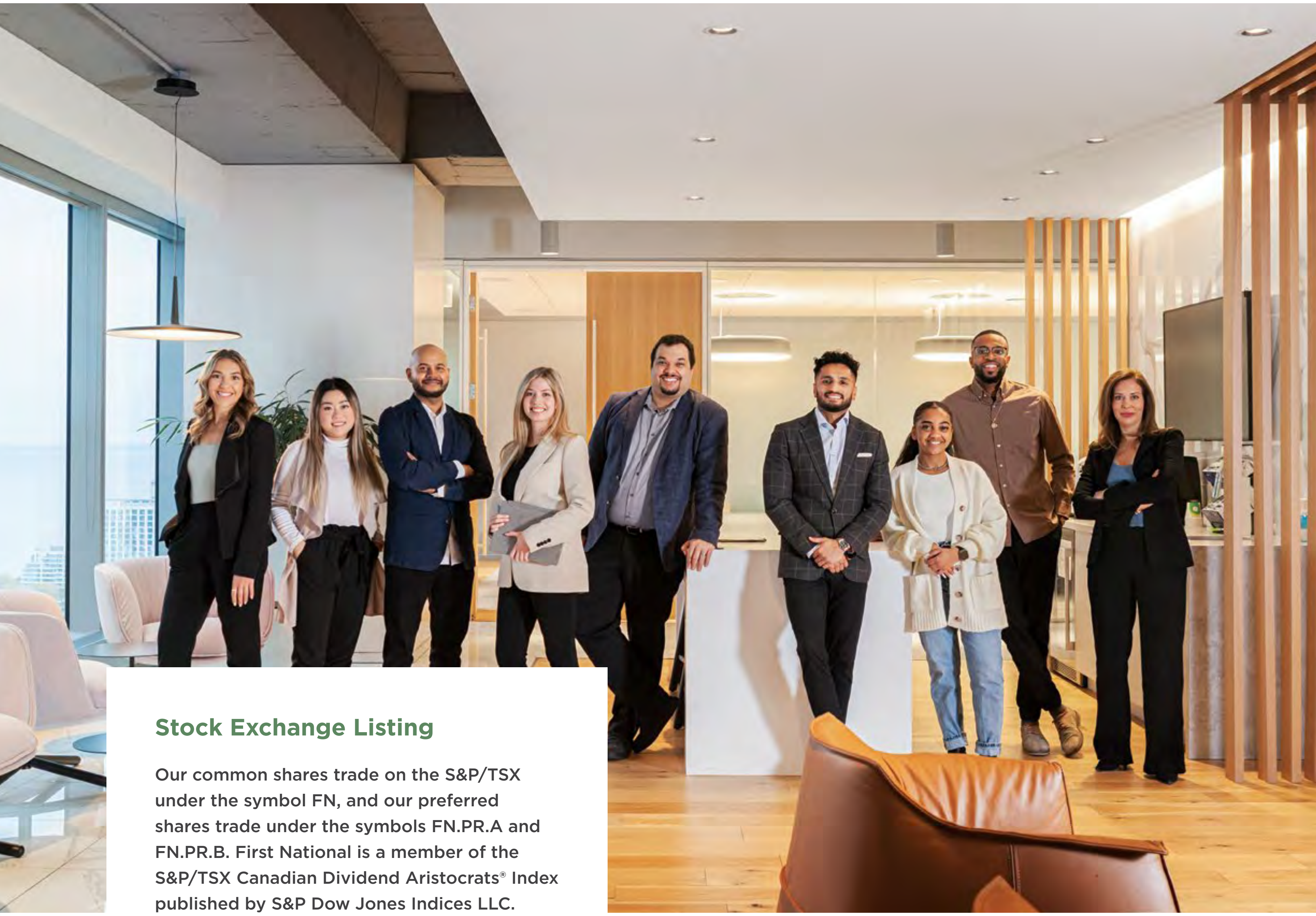
Corporate Profile

First National is a leading mortgage finance company that provides loan solutions – both insured and conventional – to owners of single-family, multi-unit and commercial properties across Canada.

Founded in 1988, we are one of Canada's largest non-bank originators and underwriters of mortgages.

Our business advantages include our service-driven culture, long-standing market share leadership position in the mortgage broker channel, innovative use of securitization and private placements to fund mortgages, purpose-built technology, and expertise in mortgage origination, underwriting and loan administration.

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



Stock Exchange Listing

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

2023 by the Numbers

318,000

Single family residential customers served.

$24.4B

New and renewed mortgage loans made to multi-unit residential and single-family residential mortgages.

$143.5B

Mortgages Under Administration (MUA) – the source of most of our earnings – reached this milestone, a 10% increase from 2022.

$2B

Revenue increased 29% over 2022.

$252.8M

Net income reached a new record ($4.15 per share).

$2.1B

The total value of dividends and distributions paid to First National shareholders between our IPO in 2006 and 2023 (or $34.83 per share).

1,518%

Total Shareholder Return from our IPO in 2006 to December 31, 2023.

38%

After-tax Pre-Fair Market Value[1] return on shareholders' equity demonstrates the efficiency of our business model and ability to adapt and thrive in a rapidly changing world.

1,624

Members of our empowered workforce expertly serve all of Canada's major real estate markets.

7

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

35

Years of service as a non-bank lender.

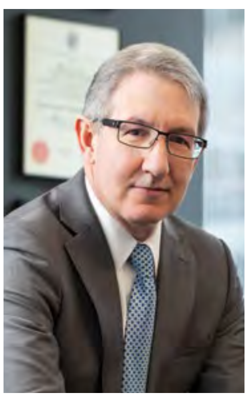
(1) Non-IFRS measure. See MD&A for more details.

Our Leadership Team

Stephen Smith
Co-founder,
Executive
Chairman
of the Board

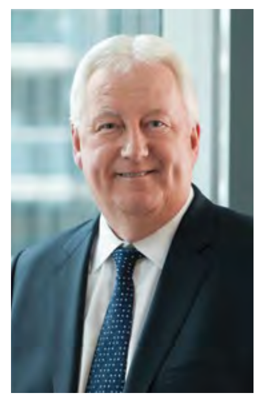
Moray Tawse
Co-founder and
Senior Executive
Vice President

Jason Ellis
President and
Chief Executive
Officer



Robert Inglis
Chief Financial
Officer

Hilda Wong
Executive Vice
President and
General Counsel



Scott McKenzie
Executive Vice
President,
Residential
Mortgages

Jeremy Wedgbury
Executive Vice
President,
Commercial
Mortgages

Thomas Kim
Executive Vice
President and
Managing
Director, Capital
Markets

Message to Fellow Shareholders

First National adapted well to volatile market conditions in 2023. While rising interest rates resulted in a reset for Canada's housing markets, the stabilizing effects of our business model and hard work by our team in responding to the needs of customers allowed our company to thrive.

Mortgages Under Administration (MUA), an important driver of corporate earnings, increased to a record $143.5 billion, 10% above 2022. A combination of MUA growth and wider net interest margins resulted in a 54% increase in Pre-FMV Income, our operating profitability metric. Net income, which unlike Pre-FMV Income includes the impact of gains and losses on financial instruments, grew 28% to $252.8 million ($4.15 per common share).

For the 16th time since our initial public offering in 2006, solid profitability enabled our Board to increase the common share dividend, which now sits at an annualized rate of $2.45 per share. By generating excess capital beyond what we need to fund near-term growth, our Board also authorized the payment of a special dividend of $0.75 per common share in December.

Our MD&A provides a detailed explanation of these results and the contributing factors, which include diversified mortgage lending, servicing and securitization activities. In the context of market volatility, this performance is satisfying but not surprising.

Adaptation is the lifeblood of our company

Since First National was founded in 1988, we have experienced many dramatic changes in our market environment. Throughout, our company has shown a remarkable propensity to adapt without altering our business model as a non-bank lender.

We believe adaptability is a core strength and it was on display and exemplified in many parts of our organization.

For our residential team, the market changed course twice during the year. In the first quarter, mortgage fundings decreased 25% as housing market activity levels moderated after the Bank of Canada policy interest rate increased to 4.5% in January. In the spring, borrowing activity reignited on speculation that the Bank would hold the line on rates, which it did between January and May. The increased activity led to a 26% increase in our fundings in the third quarter. In the fourth quarter, fundings reversed course again, falling 21% from the prior year in reaction to policy interest rate increases in June and July that pushed the Bank's policy rate to 5.0%. Our team adapted well to these realities, maintaining First National's position as a market share leader in the mortgage broker channel throughout the year, and helping thousands of customers renew their First National mortgages. As a result of this performance, single-family MUA reached $94.5 billion, 7% above 2022.

As further indicators of the team's ability to adapt for the benefit of partners and customers, First National was chosen Lender of the Year (Mortgage Finance category) in the 2023 Mortgage Awards of Excellence, an industry-wide competition judged by independent experts, and took home gold medals in the CMP Broker on Lenders Survey in the key categories of top turnaround time and satisfaction with credit policy and interest rates.

“The position First National occupies in the marketplace as an independent, customer-focused financial services provider sets us apart and makes us an ideal partner for mortgage brokers and other financial institutions.”

For our commercial mortgage team, April 2023 brought news that CMHC was increasing mortgage loan insurance premium rates for all multi-unit property types, effective June 19. That decision prompted a sudden flurry of activity as clients asked First National to expedite our lending process and submit applications to CMHC in advance of the premium rate change. Without deviating from our standard-setting underwriting rigour, the team worked diligently to successfully meet the challenge and submit to CMHC before the deadline. As a result, First National's commercial originations – which are predominantly for multi-unit properties – increased 11% year over year, bringing commercial MUA to $49.0 billion, 16% above 2022.

The collaboration between our borrowers, CMHC and First National means many more rental units will be built and preserved in the coming years, a great outcome for a country in urgent need of housing and a sign that all players in our market are working to adapt and thrive in a challenging economic environment.

One of the most impressive examples of our adaptability is the transition our workforce made from remote work at the outset of the pandemic to a high-performance hybrid approach where teams are now, again, spending time together in the office. Both ends of this transition required adjustments by every member of our team. Now that we have a solid hybrid model in place, we look forward to recouping the benefits of in-person knowledge transfer and what that means for the preservation of our culture.

I spoke at some length in my message last year about First National's cultural beliefs: striving for better, earning trust, encouraging autonomy and emphasizing accountability. Our ability to adapt and thrive owes much to these core principles and all were on display throughout our organization in 2023.

A great place to work

First National's ability to adapt and thrive is directly related to the character of the people who work here. They are talented, engaged, and motivated to serve. As an employer, we strive to create and sustain an environment that encourages teamwork, learning and advancement. We also regularly validate our approach by seeking feedback from our team, both informally through townhall meetings across the country, and formally through extensive workforce surveys.

Our 2023 engagement survey, conducted independently by Talent Map, provided us with a wealth of information and insightful feedback across 17 categories that we are using to enhance our employer value proposition. Despite workflow disruptions associated with Covid, the results showed that our team continues to be engaged and motivated. I was particularly pleased to see 90% of respondents agreeing with statements such as "people on my team take ownership of problems or issues until resolved." This is a great result and consistent with what I see daily.

I am also pleased to note that in 2023, and for the 7th straight year, First National was named a Great Place to Work® in Canada. This designation is based on an independent survey of our workforce with the results benchmarked by the Great Place to Work Institute against other companies our size. Camaraderie got particularly high marks in the 2023 survey as did inclusion and our support of employee mental health.

We use these survey results in a culturally appropriate manner: to look for ways we can strive to be better as an employer.

Better lending for a better future

First National entered 2024 in a position of strength. As noted, MUA is at record levels for both our residential and commercial businesses, our mortgage renewal opportunities are sizable, and in January we started delivering on an additional third-party underwriting and fulfillment mandate with a major Canadian bank. We created this line of business in 2015 by adapting our capabilities to serve Canadian financial institutions who choose to be active in the mortgage broker channel. Since then, it has helped our customers and the broker channel thrive while diversifying First National's sources of revenue.

As far as the housing market outlook is concerned, the jury is still out. Future sentiment depends on interest rate decisions to come this year from the Bank of Canada, which will hinge on gauges of inflation. At the time of writing, the impact of interest rate increases continues to be felt in the housing market and across the broader economy.

Counterbalancing these challenges is population growth – which creates demand for all forms of housing – and various government incentives designed to stimulate housing creation. The recent announcement of a $20 billion increase in the Canada Mortgage Bond program to fund mortgage loans on multi-unit rental projects insured by CMHC is one of the federal government's key incentives. As a CMHC-approved issuer of NHA-MBS and seller into the CMB program for many years, First National intends to leverage this sizeable increase in 2024 in support of our customers.

We describe our short-term expectations in the outlook section of our MD&A. To these I would add a key observation: First National must be willing and able to continue to adapt to whatever comes our way. I believe we are.

As First National has proven for decades, a better lending approach is always possible if we set our minds to it. Our 2024 financial planning addresses this goal. It includes ongoing investments in automation, our products and our people. This agenda is entirely consistent with our long-time strategies: providing a full range of mortgage solutions for Canadian single-family and commercial customers; growing assets under administration; employing technology to enhance business processes and service to mortgage brokers and borrowers; and maintaining a conservative risk profile.

Ultimately, better lending comes from a desire to be better and that is a cultural mainstay of our organization.

Looking back with thanks

2023 marked the 35th anniversary of First National's founding by Stephen Smith and Moray Tawse who remain actively involved as Directors, owners, advisors and inspiring leaders within our business. Their ongoing contributions are much appreciated, as are those of our independent Board members whose expertise and perspectives are relevant and valued.

Our institutional ability to adapt quickly is supported by a responsive and experienced group of senior leaders. They deserve and receive my thanks as do all 1,600+ members of the First National team for their dedication and commitment to better lending.

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

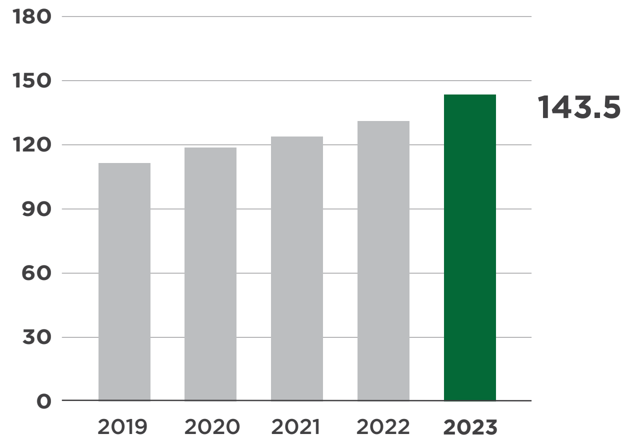
Yours sincerely,

Jason Ellis
President and Chief Executive Officer

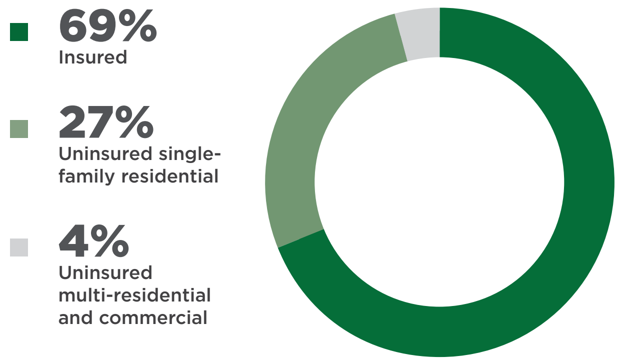
March 5, 2024

Mortgages Under Administration

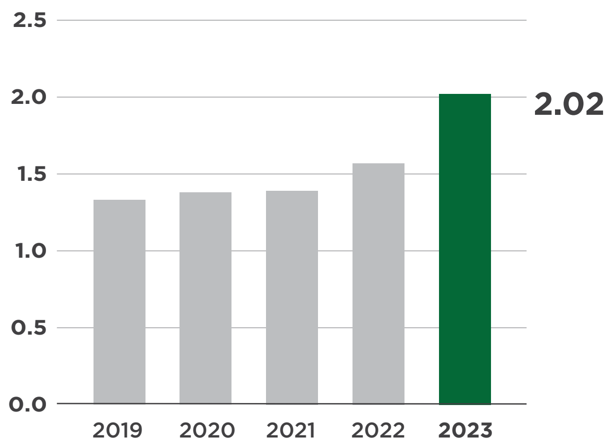
($ Billions)



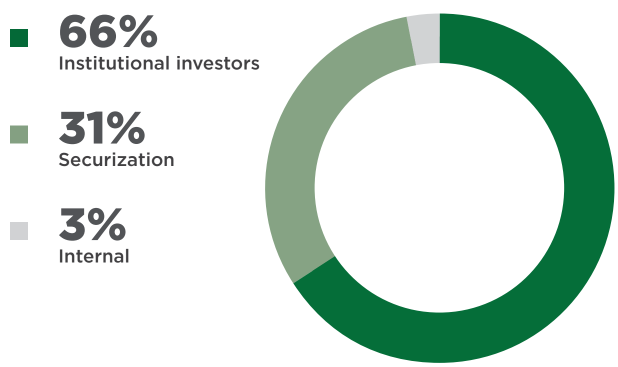
2023 MUA by Asset Type



Revenue ($ Billions)

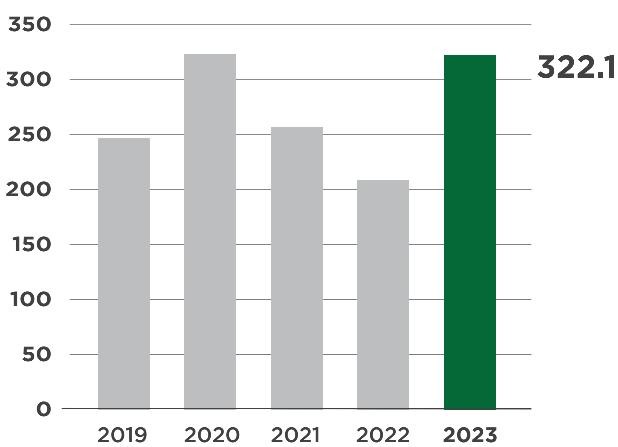


2023 Funding Sources

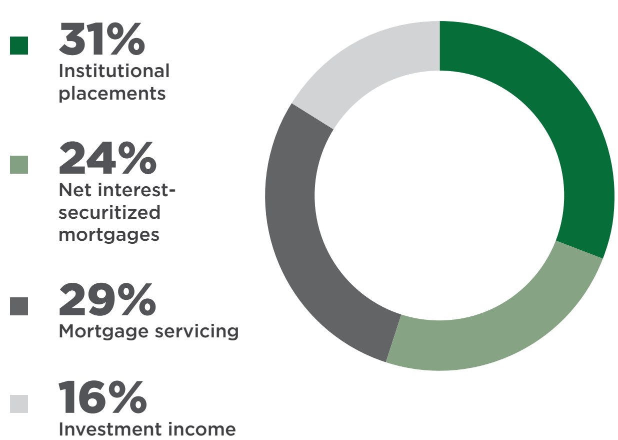


Pre-Fair Market Value Income[1]

($ Millions)



2023 Revenue Sources Prior to Fair Value Gains/Losses



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

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") of financial condition and results of operations is prepared as of March 5, 2024. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of First National Financial Corporation (the "Company" or "Corporation" or "First National") as at and for the year ended December 31, 2023. The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

General Description of the Company

First National Financial Corporation is the parent company of First National Financial LP ("FNFLP"), a Canadian-based originator, underwriter and servicer of predominantly prime residential (single-family and multi-unit) and commercial mortgages. With more than $143 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.

2023 Results Summary

First National's performance in 2023 exceeded management's expectations. Despite housing market headwinds caused by the cumulative effect of higher interest rates, mortgage originations, inclusive of renewals, were just 2% lower than the prior year. Core operating profitability, measured by Pre-FMV Income[(1)], increased to a near record $322.2 million as the Company's long term securitization strategy provided financial results that augmented current year placement activity. Solid growth in Mortgages Under Administration (MUA) in the year together with strong relationships with institutional investors will continue to benefit First National.

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

- MUA grew to $143.5 billion at December 31, 2023 from $131.0 billion at December 31, 2022, an increase of 10%; the growth from September 30, 2023, when MUA was $141.9 billion, was 5% on an annualized basis.

- Total single-family mortgage origination, including renewals, was $24.4 billion in 2023 compared to $26.3 billion in 2022, a decrease of 7%. The Company attributes this to slower home buying activity throughout the year partially offset by a surge in activity during the second quarter. Generally home affordability decreased as 2023 featured higher mortgage rates reflecting Bank of Canada interest rate hikes. Commercial segment origination, including renewals, of $13.0 billion was 11% higher than the $11.8 billion originated in 2022. Growth in commercial mortgage origination continued to be fueled by demand for high-quality insured multi-family mortgage products. Total consolidated origination decreased by 2% in 2023 compared to 2022.
- Revenue for 2023 increased by 29% to $2.0 billion from $1.6 billion in 2022. This change was largely the result of higher interest rates. In the past 12 months, mortgage rates increased in tandem with the interest rate environment as monetary policy tightened to counteract inflation risks. These changes led to comparatively higher interest revenue earned on securitized mortgages, higher interest revenue earned on mortgages accumulated for securitization and higher interest earned on mortgage investments.
- Income before income taxes was $343.9 million in 2023 compared to $269.1 million in 2022. The increase included the effect of changing capital market conditions in both years. Excluding gains and losses related to financial instruments, earnings before income taxes and gains and losses on financial instruments ("Pre-FMV Income"[1]) for 2023 increased by 54% to $322.2 million from $208.8 million in 2022. This change was largely the result of the Company's success in growing MUA over the past several years. Higher MUA creates higher servicing revenues, and the larger portfolio of securitized mortgages provides five- and ten-year streams of income which are reflected in higher net interest income. The commercial segment also benefited from increased deferred placement fees.

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

In the fourth quarter of 2023, the Company's Board of Directors announced an increase to First National's regular monthly common share dividend to an annualized rate of $2.45 per share from $2.40 per share effective with the dividend paid on December 15, 2023. The Board also declared a special common share dividend in the amount of $0.75 per share which was paid on December 15, 2023. This special payment reflected the Board's determination that the excess capital generated in the past year was not needed to support near-term growth.

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]	Net Income per Common Share	Total Assets
2023					
Fourth quarter	**$503,441**	**$44,245**	**$77,125**	**$0.72**	**$45,957,399**
Third quarter	**$562,861**	**$83,630**	**$95,456**	**$1.38**	**$45,176,543**
Second quarter	**$525,897**	**$89,194**	**$89,854**	**$1.47**	**$46,417,841**
First quarter	**$432,086**	**$35,738**	**$59,748**	**$0.58**	**$44,268,705**
2022					
Fourth quarter	$414,785	$42,669	$59,492	$0.70	$43,763,672
Third quarter	$392,413	$40,145	$48,219	$0.66	$42,392,225
Second quarter	$416,774	$61,281	$55,864	$1.01	$42,927,449
First quarter	$350,321	$53,637	$45,187	$0.88	$42,386,708

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

($000s, except per share amounts)

	Income before income tax for the Period	Add/deduct Realized and unrealized losses (gains)	Deduct (losses), add gains related to mortgage investments	Pre-FMV Income for the Period[1]
2023				
Fourth quarter	**$59,895**	**$16,894**	**$336**	**$77,125**
Third quarter	**$113,830**	**($18,435)**	**$61**	**$95,456**
Second quarter	**$121,544**	**($31,690)**	**$—**	**$89,854**
First quarter	**$48,638**	**$11,110**	**$—**	**$59,748**
2022				
Fourth quarter	$58,269	$1,353	($130)	$59,492
Third quarter	$54,645	($5,846)	($580)	$48,219
Second quarter	$83,081	($27,217)	$—	$55,864
First quarter	$73,087	($27,900)	$—	$45,187

[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 the 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 has 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 relatively volatile economic environment. 2022 began with a positive economic outlook: there was a surplus of liquidity for investment in financial assets and origination volumes remained strong. However, late in the 2022 first quarter, risks associated with inflation became evident as wages and prices increased and companies competed for employees. The Bank of Canada moved quickly and continuously beginning on March 2, 2022, in an attempt to stem inflation. Short-term interest rates rose by 425 basis points between March 2022 and January 2023 to their highest level since 2011. While spreads on new mortgage originations widened somewhat, the Company faced the headwinds of a slowing housing market, and strong competition for customers such that it earned comparatively lower Pre-FMV Income[1]. 2023 featured a return to a more stable housing environment: mortgage rates stabilized, and consumer confidence returned. In general, despite two more increases from the Bank of Canada, there was a sequential improvement in mortgage origination volumes between the first and third quarters of 2023. The fourth quarter was softer as economic indicators turned more negative. Throughout 2023 lower prepayment rates also added to performance. The resulting operational efficiency from solid origination levels and the increased amounts of record MUA and the portfolio of mortgages pledged under securitization, translated to higher Pre-FMV Income[1] than recorded in the same periods in 2022.

Outstanding Securities of the Corporation

At December 31, 2023, and March 5, 2024, 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 2024 senior unsecured notes; 200,000 November 2025 senior unsecured notes; and 200,000 September 2026 unsecured notes.

Selected Annual Financial Information and Reconciliation to Pre-FMV Income(1)

($000s, except per share amounts)

	2023	2022	2021
For the Year Ended December 31, Income Statement Highlights			
Revenue	**2,024,285**	1,574,293	1,394,606
Interest expense – securitized mortgages	**(1,119,475)**	(739,295)	(630,279)
Brokerage fees	**(139,199)**	(173,290)	(201,786)
Salaries, interest and other operating expenses	**(421,704)**	(392,626)	(298,720)
Add (deduct): realized and unrealized losses (gains) on financial instruments	**(22,121)**	(59,610)	(5,815)
Add (deduct): unrealized gains (losses) regarding mortgage investments	**397**	(710)	(730)
Pre-FMV Income(1)	**322,183**	208,762	257,276
Add (deduct): realized and unrealized gains (losses) on financial instruments excluding those on mortgage investments	**21,785**	60,320	6,545
Provision for income taxes	**(91,100)**	(71,350)	(69,260)
Net income	**252,807**	197,732	194,561
Common share dividends declared	**189,397**	141,423	210,885
Per Share Highlights			
Net income per common share	**4.15**	3.25	3.20
Dividends per common share	**3.16**	2.36	3.52
At Year End Balance Sheet Highlights			
Total assets	**45,957,399**	43,763,672	42,274,158
Total long-term financial liabilities	**598,745**	399,222	398,888

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 the 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 assets 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 the Company 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 the growth in MUA to be a key element of the Company's performance. The portfolio grows in two ways: through mortgages originated by the Company and through third-party mortgage servicing contracts. Mortgage originations not only drive revenues from placement and interest from securitized mortgages, but perhaps more importantly, create longer-term value from servicing rights, renewals and growth in the customer base for marketing initiatives. As at December 31, 2023, MUA totalled $143.5 billion, up from $131.0 billion at December 31, 2022, an increase of almost 10%. The growth of MUA in the fourth quarter of 2023 was 5% 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 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 2023, the Company's single-family origination decreased by 7% compared to 2022. The Company believes this is the result of a relatively uncertain interest rate environment in the year which curtailed housing purchases. Comparatively, higher housing prices, resulting from the low mortgage rates during the pandemic, also had an impact as buyers and sellers struggled to determine the fair values for properties. The commercial segment continued to perform well despite changing market conditions. Total commercial volumes were $13.0 billion in the year compared to $11.8 billion in 2022, an increase of 11%. On a combined basis, overall origination in 2023 decreased 2% year over year.

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 growing volumes in Western Canada.

Raising Capital for Operations

Bank Credit Facility

The Company has a $1.5 billion revolving line of credit with a syndicate of banks. This facility enables the Company to fund the large amounts of mortgages accumulated for securitization. In the second quarter of 2023, the Company extended the term of the facility by another year to March 2028. 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 five-year remaining 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

In September 2023, the Company issued 200,000 7.293% Series 4 notes for a three-year term pursuant to a private placement under an offering memorandum. These notes add to the Company's 2020 issuance of 200,000 2.961% Series 3 senior unsecured notes and 2019's issuance of 200,000 3.582% Series 2 senior unsecured notes. The net proceeds of these issuances, after broker commissions, were invested in FNFLP. On settlement, the proceeds were used to pay down a portion of the indebtedness under the bank credit facility. The Company's medium-term debt capital now stands at approximately $600 million.

Preferred Share Issuance

Effective April 1, 2021, pursuant to the original prospectus, the Company reset the annual dividend rate on the 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 2022	1.38%
Q2 2022	1.98%
Q3 2022	1.51%
Q4 2022	1.48%
Q1 2023	1.62%
Q2 2023	1.65%
Q3 2023	1.59%
Q4 2023	2.07%

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 early 2020, fears of a global pandemic led to a dramatic and sudden decrease in bond yields as central banks cut overnight rates significantly. Credit spreads, including those on mortgages, widened. Later in 2020, as financial systems began to normalize, mortgage coupons remained elevated as other credit spreads, including those on NHA-MBS, narrowed. The resulting spreads had positive impacts on 2020 results and increased the profitability inherent in the Company's ongoing securitization portfolio. In 2021, mortgage spreads narrowed, to levels not seen since before the 2008 financial crisis as competition increased. In 2022 and through 2023, spreads widened in response to the Bank of Canada's interest rate policy announcements and an increase in general economic uncertainty. In 2023, the Company originated and renewed approximately $11.8 billion of single-family and multi-unit residential mortgages for securitization purposes.

The Company is subject to various regulations put in place by CMHC. 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 remains unchanged for 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 has indicated recently 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 is able to make 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 as early as 2024 which may reduce the amounts which the Company's can sell into 10-year CMB. The 2023 federal budget suggested that there could be changes to this program. Subsequently, the government consulted with industry participants including First National. At the end of September 2023, the federal government through the Ministry of Finance, announced that the annual limit for Canada Mortgage Bonds was increased to $60 billion from $40 billion. The additional CMB capacity will be allocated exclusively for the funding of CMHC insured Multi-Family NHA MBS. In October 2023, CMHC announced that in support of the additional CMB funding capacity, up to $5 billion of additional NHA MBS guarantees would be made available in the fourth quarter of the year to support the higher CMB amounts. At the same time, CMHC increased available NHA MBS guarantee from $150 billion to $170 billion for 2024 such that the $20 billion increase is dedicated to multi-family pools.

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[1] 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[1] may differ from other issuers and, accordingly, Pre-FMV Income[1] may not be comparable to measures used by other issuers.

	Quarter Ended		Year Ended	
($000s)	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
For the Period				
Revenue	**503,441**	414,785	**2,024,285**	1,574,293
Income before income taxes	**59,895**	58,269	**343,907**	269,082
Pre-FMV Income[1]	**77,125**	59,492	**322,183**	208,762
At Period End				
Total assets	**45,957,399**	43,763,672	**45,957,399**	43,763,672
Mortgages under administration	**143,546,966**	131,000,635	**143,546,966**	131,000,635

[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 out 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

($000s)	Quarter Ended **December 31, 2023**	Quarter Ended December 31, 2022	Year Ended **December 31, 2023**	Year Ended December 31, 2022
For the Period				
Net income attributable to common shareholders	**43,242**	41,785	**248,952**	194,693
Total dividends paid or declared on common shares	**81,456**	35,730	**189,397**	141,423
Dividends paid or declared on common shares, excluding special dividends	**36,480**	35,730	**144,421**	141,423
Total common share dividend payout ratio	**188%**	86%	**76%**	73%
Regular common share dividend payout ratio[1]	**84%**	86%	**58%**	73%
After-tax Pre-FMV dividend payout ratio[2]	**64%**	84%	**62%**	94%

Note:

[1] This ratio is calculated by excluding the payment of the special dividends declared at the end of the periods presented.

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

For the year ended December 31, 2023, the total common share payout ratio excluding special dividends was 76% compared to 73% for the year ended December 31, 2022. However, in both years, the Company recorded gains and losses on changes in fair value of financial instruments. Gains and losses are recorded in the period in which the prices on Government of Canada bonds change; however, the offsetting economic impact is generally reflected in narrower or wider spreads in the future once the mortgages have been pledged for securitization. Accordingly, management does not consider such gains and losses to affect its dividend payment policy in the short term. If the gains and losses on financial instruments in the two years are excluded from the above calculations, the regular dividend payout ratio for 2023 (which excludes the payment of the special dividend) would have been 62% compared to 94% in 2022.

The Company also paid $3.9 million of dividends on its preferred shares in 2023 compared to $3.0 million in 2022.

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 the Company with servicing fees to complement revenue earned through originations. For the year ended December 31, 2023, origination volume decreased to $37.4 billion from $38.1 billion, or about 2% compared to 2022.

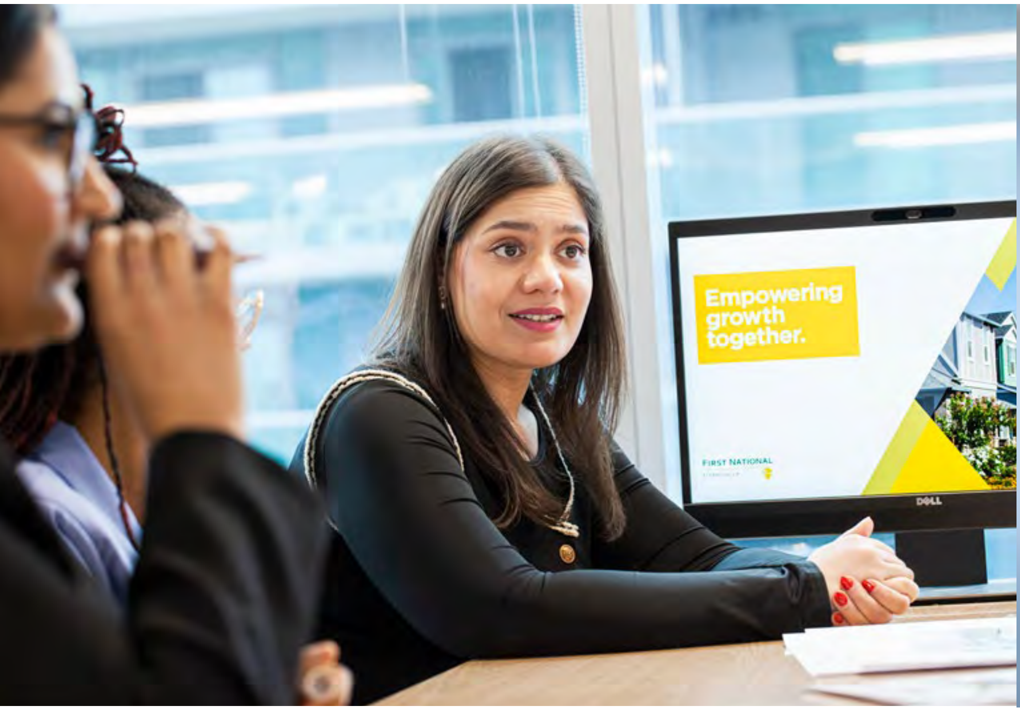
Securitization

The Company securitizes a portion of its origination through various vehicles, including NHA-MBS, CMB and asset-backed commercial paper ("ABCP"). Although legally these transactions represent sales of mortgages, for accounting purposes they do not meet the requirements for sale recognition and instead are accounted for as secured financings. These mortgages remain as mortgage assets of the Company for the full term and are funded with securitization-related debt. Of the Company's $37.4 billion of originations in 2023, $11.8 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 the Company would earn an upfront cash placement fee, but investors prefer paying the Company over time, as they earn net interest margin on such transactions. Upon the recognition of a deferred placement fee, the Company establishes a "deferred placement fee receivable" that is amortized as the fees are received by the Company. Of the Company's $37.4 billion of originations in 2023, $24.6 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 two 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		Year Ended	
($ millions)	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
Mortgage Originations by Segment				
Single-family residential	**4,360**	5,502	**24,408**	26,319
Multi-unit and commercial	**3,840**	2,966	**13,042**	11,797
Total origination and renewals	**8,200**	8,468	**37,450**	38,116
Mortgage Originations by Funding Source				
Institutional investors	**5,667**	5,028	**24,616**	24,343
NHA-MBS/CMB/ABCP securitization	**2,259**	3,231	**11,830**	12,570
Internal Company resources	**274**	209	**1,004**	1,203
Total	**8,200**	8,468	**37,450**	38,116
Mortgages Under Administration				
Single-family residential	**94,546**	88,590	**94,546**	88,590
Multi-unit residential and commercial	**49,001**	42,411	**49,001**	42,411
Total	**143,547**	131,001	**143,547**	131,001

Total mortgage origination volumes decreased in 2023 compared to the 2022 by 2%. This reflected a 7% decrease in single-family volumes, partly offset by an 11% increase in commercial segment volumes year over year. Management believes the decrease in the single-family segment was due to rapidly changing mortgage rates which reflected the Bank of Canada's ("BoC) interest rate policies. To begin 2023, mortgage interest rates rose as the BoC had increased its overnight rates by 400 basis points between March and December 2022. Accordingly, single-family origination was slow to start the year. As 2023 moved forward, the fear of rising interest rates diminished, and origination volumes increased throughout the next two quarters but slowed again in the fourth quarter. The Company believes this reflected a slower housing market across most of the country as the economic indicators were unfavorable as a consequence of the BoC's rate hiking policies. 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 multi-unit mortgages is a fundamental competency, 2023 volumes reflected continuing demand for insured mortgages. This was partially offset by significantly lower conventional mortgage activity as higher interest rates affected real estate valuations. Origination for direct securitization into NHA-MBS, CMB and ABCP programs remained a large part of the Company's strategy, with more than $11.8 billion of volume 2023.

Net Interest – Securitized Mortgages

Comparing the year ended December 31, 2023, to the year ended December 31, 2022, "net interest – securitized mortgages" ("NIM") increased by about 28% to $216.6 million from $169.3 million. The portfolio of mortgages pledged under securitization grew 6% from about $37.2 billion at December 31, 2022 to $39.4 billion at December 31, 2023. This reflected growth in the multi-residential program portfolio of 9% and 4% in single-family programs. Commercial segment earnings were up by $9.8 million and grew with the larger portfolio and an increase in margin largely related to the success of the Company's insured construction mortgage program. Residential segment NIM was higher by $37.5 million year over year. The significant factors which contributed to this increase other than the growth in the portfolio were: (1) slower rates of prepayment; (2) the success of the Company's Excalibur securitization program; and (3) the reduced impact of short-term interest rate volatility on the Company's floating rate securitization programs. Slower prepayment speeds had a favorable influence on several aspects of NIM. To start 2022, prepayment speeds were higher than expected as borrowers took advantage of historically low mortgage rates to refinance mid term. While this diminished as mortgage rates increased later in 2022, with comparatively higher mortgage interest rates throughout 2023, prepayment speeds slowed to rates lower than even traditional levels. This change had several favorable outcomes for the Company: higher MUA balances in the portfolios; lower amortization expenses for capitalized origination and other issuance costs; and the preservation of lower funding costs. The residential segment was also favorably affected by the Excalibur securitization program as MUA grew by about 14% in securitized assets over the past 12 months. Excalibur also continued to perform with almost no loan-loss experience. The comparative year was negatively affected by the rapid rise of short-term interest rates. As rates rise, there is a temporary compression between the Company's prime lending rate, which affects its floating rate mortgages, and its short-term CDOR-based funding costs. This was lower in 2023 as there were just two rate hikes by the BoC in the year such that comparative NIM was higher by approximately $4.7 million in 2023.

Placement Fees

Placement fee revenue decreased by 8% to $248.3 million from $268.6 million in the comparative year. The decrease was mainly the result of a shift in placement activity between segments. Although overall volumes for institutional customers increased by 1% from 2022, placement volume for the residential segment decreased by 10% and volume for commercial segment mortgages increased by 27%. Generally, per-unit fees for commercial placement are much lower than those on residential products. Placement fees for renewed residential mortgages were lower by about $3.7 million. This is the result of the Company electing to securitize renewed mortgages as opposed to placement with institutional customers. It is also the consequence of borrowers taking shorter renewal terms as they determine how to react to higher interest rates on maturity. For new residential volume, per-unit pricing was lower by 1% than in the prior year as more borrowers chose shorter terms, particularly 3-year terms. Shorter terms are placed at lower per-unit fees than longer term placements.

Gains on Deferred Placement Fees

Gains on deferred placement fees revenue increased 69% to $25.3 million from $15.0 million. These gains related primarily to the growth of multi-unit residential mortgages originated and sold to institutional investors where volumes increased by 70% from those in 2022.

Mortgage Servicing Income

Mortgage servicing income increased 17% to $252.6 million from $216.8 million. This increase in revenue was attributable to three factors: growing MUA, higher interest earned on escrow deposits and higher revenues on the Company's third-party underwriting business. The largest contributor was the interest component. With overnight interest rates increasing by more than 300 basis points from mid-year 2022 to mid-year 2023, the Company earned a significantly higher return on these balances. Second, the Company's customers in its third-party underwriting business generated higher year-over-year origination volumes which increased fees earned by the Company.

Mortgage Investment Income

Mortgage investment income increased 32% to $139.9 million from $105.7 million. The increase was due primarily to the interest rate environment. Interest rates rose steadily through 2022 as the market reacted to a cycle of rate hikes by the Bank of Canada to address inflation risks. The impact was such that 5-year bond yields increased by about 250 basis points between December 31, 2022, and the high point in 2023. This directly affected mortgage rates offered by the Company such that it earned comparatively more interest income on its mortgage and loan investment portfolio and mortgages accumulated for securitization.

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. With the adoption of IFRS 9, a significant portion of the Company's interest rate management program qualifies as "hedging" for accounting purposes. 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 decision 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 has not documented a hedging relationship for accounting purposes related to its interest mitigation program for 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		Year Ended	
($000s)	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
Gains (losses) on short bonds used for the economic hedging program	**(20,881)**	(844)	**23,620**	74,442
Gains (losses) on mortgages held at fair value	**336**	(130)	**397**	(710)
Gains (losses) on interest rate swaps	**3,651**	(379)	**(1,896)**	(14,122)
Net gains (losses) on financial instruments	**(16,894)**	(1,353)	**22,121**	59,610

2022 featured an inflationary environment in which bond yields rose significantly as central banks tightened monetary policies. This resulted in increases in both short and long-term interest rates. Accordingly, the Company recorded large gains on its short bonds used to economically hedge single-family mortgage commitments. Although interest rates were more volatile in 2023, overall, bond yields rose and created significant gains on the short bonds used for the Company's hedging program. In the fourth quarter of 2023 this trend reversed as bond yields decreased with softer economic indicators.

Brokerage Fees Expense

Brokerage fees expense decreased 20% to $139.2 million from $173.3 million. This reflected a 16% year-over-year decrease in origination volumes of single-family mortgages for institutional investors and lower per-unit broker fees. 2022 was a very competitive period for broker product and per unit broker fees were historically high. In 2023, per-unit fees returned to more traditional levels and accounted for a 6% decrease in fees overall.

Salaries and Benefits Expense

Salaries and benefits expense increased 4% to $200.5 million from $193.0 million. Average salaries were higher, reflecting standard annual merit increases and in addition, incentive-driven commercial underwriting compensation was higher year over year by $3.1 million. Overall headcount decreased 4% (1,624 employees at December 31, 2023, compared to 1,686 at December 31, 2022). 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 13% to $153.4 million from $136.0 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 2022 because of higher prevailing interest rates on the Company's floating rate debt. 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 $67.8 million from $63.6 million, primarily due to higher information technology costs and expenses related to the growing securitization business.

Income before Income Taxes and Pre-FMV Income

Income before income taxes increased 28% to $343.9 million from $269.1 million in 2022. This increase was partially the result of 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 $21.7 million of gains on financial instruments (excluding gains related to mortgage investments) in 2023. Comparatively, in 2022, the Company recorded $60.3 million of gains on financial instruments (excluding losses related to mortgage investments). The change in these values accounted for a $38.6 million increase in comparative income before income taxes. Pre-FMV Income, which excludes these changes, increased by 54% to $322.2 million from $208.8 million. This change was largely the result of the Company's success in growing MUA over the past several years. Higher MUA for institutional customers creates higher mortgage administration revenues, including interest on escrow deposits, and the larger portfolio of securitized mortgages provides 5 and 10 year streams of income which are reflected in higher securitization income. The commercial segment benefited from higher deferred placement fees.

Income Tax Expense

The provision for taxes increased by 28% to $91.1 million from $71.4 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, the Company recorded $6.5 million of pre-tax net losses on such hedges in OCI in 2023. In the year, the Company amortized a portion of the gains and losses in accumulated OCI into regular earnings in the amount of $21.7 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

For The Year Ended	Residential		Commercial	
($000s, except percent amounts)	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
Originations and renewals	**24,416,844**	26,319,422	**13,042,685**	11,796,939
Percentage change	***(7%)***		***11%***	
Revenue	**1,454,434**	1,115,222	**569,851**	459,071
Percentage change	***30%***		***24%***	
Income before income taxes	**207,192**	172,541	**136,715**	96,541
Percentage change	***20%***		***42%***	
As at	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
Identifiable assets	**30,362,969**	28,923,269	**15,564,654**	14,810,627
Mortgages Under Administration	**94,545,641**	88,589,805	**49,001,325**	42,410,830

Residential Segment

Overall residential origination volumes including renewals decreased by 7% between 2022 and 2023 while residential revenues increased by 30%. Revenue was higher partly due to the impact of gains on financial instruments. Excluding the impact of these revenues, adjusted revenue increased by 36%. Revenue growth is largely the result of higher interest revenue on its securitized portfolio which resulted from the higher interest rate environment 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 increased to $185.5 million in 2023 from $112.2 million in 2022, or by 65%. This is partially the outcome of higher net interest on securitized mortgages which increased $37.2 million year over year as a result of lower prepayment and wider securitization spreads. Income was also favourably affected by higher mortgage servicing income and lower costs of carrying hedges against the Company's single family commitment obligations. Identifiable assets increased from December 31, 2022 as the Company's mortgages pledged under securitization increased by about $1.0 billion, mortgages accumulated for securitization increased by $0.3 billion and hedging assets increased by $0.2 billion.

Commercial Segment

2023 commercial revenues were higher compared to those in 2022 and segment income before income taxes increased by 42% year over year. The increase in revenue is largely attributable to higher securitization NIM from the growing portfolio of securitized mortgages, increased deferred placement fees and higher interest earned on escrow deposits. Together with stable spreads on originated mortgages, revenues flowed through to net income. Identifiable assets increased from those at December 31, 2022, as the Company increased its portfolio of securitized mortgages by about $1.2 billion and decreased its commercial hedging assets by $0.5 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 turmoil experienced 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 the 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 May 2023 and now matures in March 2028. As at December 31, 2023, the Company had entered into repurchase transactions with financial institutions to borrow $1.5 billion related to $1.6 billion of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At December 31, 2023, outstanding bank indebtedness was $1,083.0 million (December 31, 2022 – $1,065.9 million). This debt was used to fund $1,026.9 million (December 31, 2022 – $833.2 million) of mortgages accumulated for sale or securitization. At December 31, 2023, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $73.9 million (December 31, 2022 – $64.6 million) and (2) mortgage and loan investments of $270.9 million (December 31, 2022 – $190.1 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, 2022, and December 31, 2023, and now stands at $654.8 million (December 31, 2022 – $631.9 million). This represents a debt-to-equity ratio of approximately 0.89:1. This ratio decreased from the ratio of 0.90:1 as at December 31, 2022. In general, the Company has maintained a comparable ratio between the two years, increasing both retained earnings and debt in similar proportions. The Company believes the ratio is appropriate given the nature of the assets which the debt is funding.

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 the Company. On specified days, the Company aggregates all mortgages warehoused to date for an institutional investor and transacts a settlement with that institutional investor. A similar process occurs prior to arranging for funding through securitization. The Company uses a portion of the 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 includes a portfolio of single-family mortgages not eligible for securitization. These arise when minor imperfections are discovered on mortgages otherwise originated for securitization. The portfolio comprises largely prime insured mortgages. To the extent these mortgages are financed by bank borrowings, as they repay, the cash will be used to pay down this bank indebtedness. The syndicate has also provided credit to finance a portion of the Company's deferred placement fees receivable and the origination costs associated with securitization, as well as other longer-term assets.

A portion of the Company's capital has been employed to support its ABCP and NHA-MBS programs, primarily to provide credit enhancements as required by rating agencies. The most significant portion of cash collateral is the investment made on behalf of the Company's ABCP programs. As at December 31, 2023, the investment in cash collateral was $151.6 million (December 31, 2022 – $160.7 million).

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

Financial Instruments and Risk Management

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

The Company believes its hedging policies are suitably designed such that the interest rate risk of holding mortgages prior to securitization is mitigated. The Company designates hedging relationships such that the results of any effective hedging does not affect the Company's statement of income. See previous discussion in this MD&A under "Realized and Unrealized Gains (Losses) on Financial Instruments". As at December 31, 2023, the Company had $1.55 billion of notional forward bond positions related to its single-family programs. For multi-unit residential and commercial mortgages, the Company assumes all mortgages committed will fund, and hedges each mortgage individually. This includes mortgages committed for the CMB program as well as mortgages to be sold to the Company's other securitization vehicles. As at December 31, 2023, the Company had entered into $0.7 billion of notional value forward bond sales for this segment. The Company is also a party to two interest rate swaps that economically hedge the interest rate exposure related to certain CMB transactions in which the Company has replacement obligations. As at December 31, 2023, the aggregate value of these swaps which mature in September 2025 and September 2026, was a $7.6 million liability. During 2023, the fair value of these swaps decreased by $1.9 million.

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, this is unfavourable for the Company. It means that the Company cannot fund the mortgages originated with a funding source as effectively as originally intended. Despite entering into effective interest rate hedges, the Company's exposure to credit spreads will remain. This risk is inherent in the Company's business model and the Company believes it cannot be economically hedged. As at December 31, 2023, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were approximately $2.5 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 2023, the Company purchased new computer equipment and software and made leasehold improvements. In the long term, the Company expects capital expenditures on fixed assets will be approximately $10 million annually.

Summary of Contractual Obligations

The Company's long-term obligations include leases of premises with terms up to 15 years for its offices across Canada, and its obligations for the ongoing servicing of mortgages sold to securitization conduits and mortgages related to purchased servicing rights. The Company sells its mortgages to securitization conduits on a fully serviced basis and is responsible for the collection of the principal and interest payments on behalf of the conduits, including the management and collection of mortgages in arrears.

		Payments Due By Period			
($000s)	**Total**	0–1 years	1–3 years	4–5 years	After 5 years
Lease obligations	120,747	10,652	20,672	20,074	69,349

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, 2023. 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.

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 lives of the mortgages. The method of determining the assumptions underlying the estimates used for the year ended December 31, 2023, are consistent with those used for the year ended December 31, 2022, and the quarters ended March 31, June 30, and September 30, 2023.

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 against hedge assets. This accounting has reduced the 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 are subject to Company estimates. The most significant would be implicit in the valuation of mortgage and loan investments that are recorded at 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. Upon application of IFRS 9 with respect to impairment, there has been no impact on the Company's earnings. 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 2023, the Company recorded a provision for credit loss provision of $2.3 million.

Disclosure Controls and Internal Control over Financial Reporting

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

As of December 31, 2023, management evaluated, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, management concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2023.

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

Management evaluated, under the supervision of and with the participation by the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on that evaluation, concluded that the Company's internal control over financial reporting was effective as of December 31, 2023, and that no material weaknesses have been identified in the Company's internal control over financial reporting as of December 31, 2023. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2023, 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 2023, 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. It 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 account for approximately 8.5% of the Company’s total revenues. Rate hikes by the Bank of Canada in 2022 and 2023 have raised short-term interest rates by 475 basis points. In that same period mortgage rates for 5-year term mortgages have increased by approximately 300 basis points and bank prime lending rates have risen by 475 basis points with the latest change occurring in early July 2023. These were significant changes that have taken place over a short period of time. Higher borrowing rates will directly affect consumers across the country. Management believes these changes may impact the Company negatively in future periods. Losses related to these risks could be material. For a more complete discussion of the risks affecting the Company, reference should be made to the Company’s Annual Information Form.

Forward-Looking Information

Forward-looking information is included in this MD&A. In some cases, forward-looking information can be identified by the use of terms such as “may”, “will”, “‘should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management’s future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, product development activities, projected costs and capital expenditures, financial results, risk management strategies, hedging activities, geographic expansion, licensing plans, taxes and other plans and objectives of or involving the Company. Particularly, information regarding growth objectives, any increase in mortgages under administration, future use of securitization vehicles, industry trends and future revenues is forward-looking information. Forward-looking information is based on certain factors and assumptions regarding, among other things, interest rate changes and responses to such changes, the demand for institutionally placed and securitized mortgages, the status of the applicable regulatory regime, and the use of mortgage brokers for single-family residential mortgages. This forward-looking information should not be read as providing guarantees of future performance or results, and will not necessarily be an accurate indication of whether or not, or the times by which, those results will be achieved. While management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include reliance on sources of funding, concentration of institutional investors, reliance on independent mortgage brokers, and changes in interest rates as outlined in the “Risk and Uncertainties Affecting the Business” section. In evaluating this information, the reader should specifically consider various factors, including the risks outlined in the “Risk and Uncertainties Affecting the Business” section, that may cause actual events or results to differ materially from any forward-looking information. The forward-looking information contained in this discussion represents management’s expectations as of March 5, 2024, 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

2023 was a very successful year for the Company. Despite two midyear rate hikes by the Bank of Canada ("BoC") and some economic uncertainty, the Company almost equalled the origination volumes recorded in 2022 and grew MUA to over $143 billion, the highest value in First National's history. 2023 was a year defined by changing housing markets. The year began with a slow market, partially the consequence of the BoC's monetary policy decisions which raised overnight interest rates. Mortgage rates rose in tandem and negatively affected housing activity. Toward the second quarter of 2023, there was a pause in the BoC's interest rate hikes. At the same time, news of regional bank failures in the United States resulted in a significant, albeit temporary, decrease in benchmark interest rates. Against this backdrop, borrowers entered the market and the Company's mortgage commitments increased significantly. These commitments transformed into mortgage closings in the second and third quarter of 2023. However, at the end of the second quarter the BoC began increasing overnight lending rates again. In its June and July meetings, the BoC raised rates by another 50 basis points in aggregate and reiterated its commitment to lowering inflation. This led to increased mortgage rates and more uncertainly about future interest rates. The Company believes these increases contributed to a much slower housing market during the summer months and accordingly lower volumes were funded in the fourth quarter. While the fourth quarter of 2023 was a slower period for single-family segment origination, the commercial segment posted a record for quarterly originations. Throughout the year, the Company continued to build its portfolio of mortgages pledged under securitization. It will benefit from both MUA and the securitized portfolio in the future: earning income from mortgage administration, net securitization margin and improving its position to capture increased renewal opportunities.

In the short term, the Company expects significantly lower single-family origination to start 2024 than in the 2023 comparative quarters due to persistent housing affordability challenges and an increasingly competitive marketplace. Although economic indicators have shown decreasing rates of inflation, it is still above the BoC's target rate of 2% and accordingly, the BoC has yet to reverse any of its recent rate hikes. Prevailing market conditions have affected prospective buyers such that like the last quarter of 2023, the start of 2024 will show reduced activity. In the longer term, higher immigration levels are expected to support demand in the housing market. For its commercial segment, the Company anticipates a strong start for origination as recent government announcements have supported the creation of multi-unit housing. These initiatives, including the increase of the CMB program from $40 to $60 billion, provide a stable market for the Company's borrowers to use CMHC insured mortgages for funding. In both business segments, management is confident that First National will remain a competitive leader in the marketplace.

First National is well prepared to execute its business plan. The Company expects to enjoy the value of its continued goodwill with broker partners earned over the last 35+ years and reinforced during the pandemic. With diverse relationships over an array of institutional investors and solid securitization markets, the Company has access to consistent and reliable sources of funding.

The Company is confident that its strong relationships with mortgage brokers and diverse funding sources will continue to set First National apart from its competition. The Company will continue to generate income and cash flow from its $39 billion portfolio of mortgages pledged under securitization and $101 billion servicing portfolio and focus on the value inherent in its significant single-family renewal book.

Management's Responsibility for Financial Reporting

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

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

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

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

Jason Ellis
President and Chief Executive Officer

Robert Inglis
Chief Financial Officer

March 5, 2024

Independent auditor's report

To the Shareholders of First National Financial Corporation

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of First National Financial Corporation and its subsidiaries [collectively, the "Company"], which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

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

Key audit matters

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

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

Measurement of estimated credit losses

As more fully described in note 2 and note 3 to the financial statements, the Company is exposed to credit risk on its mortgage assets. In 2023 the Company has recorded an allowance for credit losses of $5,808 thousand. The Company manages credit risk by employing underwriting policies and procedures designed to minimize exposure to credit losses, and by acquiring insurance against borrower default on substantially all its mortgages. The Company's expected credit loss ["ECL"] impairment analysis considers a range of possible outcomes supported by past loss events, current conditions and an expectation of future possible outcomes.

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

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 5, 2024

Consolidated statements of financial position

As at December 31

(in thousands of Canadian dollars)	Notes	2023	2022
Assets			
Restricted cash	3	**550,842**	605,708
Cash held as collateral for securitization	3	**151,557**	160,712
Accounts receivable and sundry		**133,264**	114,675
Mortgages accumulated for sale or securitization	5	**2,583,634**	2,251,194
Mortgages pledged under securitization	3	**39,427,192**	37,285,822
Deferred placement fees receivable	4	**73,904**	64,648
Mortgage and loan investments	6	**270,921**	190,122
Income taxes recoverable	18	**—**	18,460
Securities purchased under resale agreements	15	**2,653,376**	2,953,188
Other assets	7	**112,709**	119,143
Total assets		**45,957,399**	43,763,672
Liabilities and equity			
Liabilities			
Bank indebtedness	9	**1,083,000**	1,065,868
Obligations related to securities and mortgages sold under repurchase agreements	15	**1,524,192**	1,360,947
Accounts payable and accrued liabilities	16	**285,344**	246,486
Securities sold short	14	**2,649,249**	2,954,374
Debt related to securitized mortgages	10	**38,880,798**	36,888,395
Senior unsecured notes	12	**598,745**	399,222
Income taxes payable	18	**47,408**	—
Deferred income tax liabilities	18	**150,900**	149,400
Total liabilities		**45,219,636**	43,064,692
Common shares	17	**122,671**	122,671
Preferred shares	17	**97,394**	97,394
Retained earnings		**477,799**	418,244
Accumulated other comprehensive income (loss)		**39,899**	60,671
Total equity		**737,763**	698,980
Total liabilities and equity		**45,957,399**	43,763,672

See accompanying notes

On behalf of the Board:

Robert Mitchell
Director

Robert Pearce
Director

Consolidated statements of income

Years ended December 31

(in thousands of Canadian dollars, except earnings per share)	Notes	2023	2022
Revenue			
Interest revenue – securitized mortgages		**1,336,063**	908,569
Interest expense – securitized mortgages		**(1,119,475)**	(739,295)
Net interest – securitized mortgages	3	**216,588**	169,274
Placement fees		**248,313**	268,640
Gains on deferred placement fees	4	**25,307**	15,043
Mortgage investment income	6	**139,929**	105,655
Mortgage servicing income		**252,552**	216,776
Realized and unrealized gains on financial instruments	19	**22,121**	59,610
		904,810	834,998
Expenses			
Brokerage fees		**139,199**	173,290
Salaries and benefits		**200,489**	192,989
Interest		**153,407**	136,009
Other operating		**67,808**	63,628
		560,903	565,916
Income before income taxes		**343,907**	269,082
Income tax expense	18	**91,100**	71,350
Net income for the year		**252,807**	197,732
Earnings per share			
Basic	17	**4.15**	3.25

See accompanying notes

Consolidated statements of comprehensive income

Years ended December 31

(in thousands of Canadian dollars)	Notes	2023	2022
Net income for the year		**252,807**	197,732
Other comprehensive income items that may be subsequently reclassified to income			
Net gains (losses) from change in fair value of cash flow hedges		**(6,548)**	123,327
Reclassification of net losses (gains) to income		**(21,724)**	(30,477)
		(28,272)	92,850
Income tax recovery (expense)	18	**7,500**	(24,550)
Total other comprehensive income (losses)		**(20,772)**	68,300
Total comprehensive income		**232,035**	266,032

See accompanying notes

Consolidated statements of changes in equity

Years ended December 31

(in thousands of Canadian dollars)	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at January 1, 2023	**122,671**	**97,394**	**418,244**	**60,671**	**698,980**
Net income for the year	**—**	**—**	**252,807**	**—**	**252,807**
Other comprehensive income	**—**	**—**	**—**	**(20,772)**	**(20,772)**
Dividends paid or declared	**—**	**—**	**(193,252)**	**—**	**(193,252)**
Balance as at December 31, 2023	**122,671**	**97,394**	**477,799**	**39,899**	**737,763**

	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at January 1, 2022	122,671	97,394	364,974	(7,629)	577,410
Net income for the year	—	—	197,732	—	197,732
Other comprehensive income	—	—	—	68,300	68,300
Dividends paid or declared	—	—	(144,462)	—	(144,462)
Balance as at December 31, 2022	122,671	97,394	418,244	60,671	698,980

See accompanying notes

Consolidated statements of cash flows

Years ended December 31

(in thousands of Canadian dollars)	**2023**	2022
Operating activities		
Net income for the year	**252,807**	197,732
Add (deduct) items		
Provision for deferred income taxes	**9,000**	36,850
Non-cash portion of gains on deferred placement fees	**(24,551)**	(14,490)
Decrease in restricted cash	**54,866**	210,099
Net investment in mortgages pledged under securitization	**(2,067,552)**	(1,953,607)
Net increase in debt related to securitized mortgages	**1,918,585**	1,415,282
Securities purchased under resale agreements, net	**299,812**	(275,216)
Securities sold short, net	**(409,690)**	420,370
Amortization of deferred placement fees receivable	**15,295**	14,212
Amortization of property, plant and equipment	**14,160**	13,622
Unrealized losses (gains) on financial instruments	**70,078**	(49,607)
	132,810	15,247
Net change in non-cash working capital balances related to operations	**(236,316)**	493,910
Cash provided by (used in) operating activities	**(103,506)**	509,157
Investing activities		
Additions to property, plant and equipment	**(6,200)**	(12,380)
Repayment (investment) in cash held as collateral for securitization	**9,155**	(55,604)
Investment in mortgage and loan investments	**(929,146)**	(1,306,771)
Repayment of mortgage and loan investments	**848,744**	1,321,883
Cash used in investing activities	**(77,447)**	(52,872)
Financing activities		
Dividends paid	**(192,884)**	(144,012)
Obligations related to securities and mortgages sold under repurchase agreements	**163,245**	(407,082)
Repayment of lease liabilities	**(5,628)**	(5,639)
Issuance of senior unsecured notes	**199,088**	—
Cash provided by (used in) financing activities	**163,821**	(556,733)
Net increase in bank indebtedness during the year	**(17,132)**	(100,448)
Bank indebtedness, beginning of year	**(1,065,868)**	(965,420)
Bank indebtedness, end of year	**(1,083,000)**	(1,065,868)
Supplemental cash flow information		
Interest received	**1,526,201**	1,073,914
Interest paid	**1,139,276**	773,905
Income taxes paid	**16,230**	44,225

See accompanying notes

Notes to Consolidated Financial Statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2023

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 $143 billion in mortgages under administration as at December 31, 2023, FNFLP is a significant participant in the mortgage broker distribution channel.

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

2. Material accounting policy information

[a] Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"]. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain financial assets and financial liabilities that are recorded at fair value through profit or loss ["FVTPL"] and measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges, and that would otherwise be carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being mitigated in effective hedge relationships. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2024.

[b] Basis of consolidation

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

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

The Company earns interest income from the retained interest related to mortgages transferred to four special purpose entities which the Company does not control. The SPEs are sponsored by third-party financial institutions which acquire assets from various sellers including mortgages from the Company. As at December 31, 2023, the Company recorded, on its consolidated statements of financial position, its portion of the assets of the SPEs amounting to $3,438 million [2022 – $3,119 million]. The Company also recorded, in its consolidated statements of income, interest revenue – securitized mortgages of $163,477 [2022 – $87,258] and interest expense – securitized mortgages of $128,836 [2022 – $62,816] related to its interest in the SPEs.

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

[c] Use of estimates

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

[d] Material accounting policy information

Financial instruments

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

Classification and measurement of financial assets

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

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

Classification and measurement of financial liabilities

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

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

Impairment

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

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

Hedge accounting

The Company applies IFRS 9 hedge accounting for certain mortgage commitments and funded mortgages.

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

Cash flow hedges

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

Fair value hedges

The Company enters into interest rate swaps to protect against changes in the fair value of fixed rate mortgages funded by ABCP debt. The Company also shorts Government of Canada bonds to manage interest rate exposure for a portion of single-family mortgage commitments and funded residential mortgages accumulated for securitization. The Company applies hedge accounting for the swaps. For the short bond hedges, the Company documents a hedging relationship during the period when the mortgages are funded until the date they are securitized or placed with an arm’s length investor. The Company does not apply hedge accounting to the short bonds used to mitigate interest risk on single-family mortgage commitments. The Company’s policy is not to utilize derivative financial instruments for trading or speculative purposes.

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


Revenue recognition

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

Interest revenue and expense from mortgages pledged under securitization

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

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

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

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

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

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

Derecognition

A financial asset is derecognized when:

- The right to receive cash flows from the asset has expired; or
- The Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the cash flows, received in full without material delay to a third party under a "pass-through" arrangement; and either [a] the Company has transferred substantially all the risks and rewards of the asset; or [b] the Company has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

Placement fees and deferred placement fees receivable

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

Mortgage servicing income

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

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

Mortgage investment income

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

Brokerage fees

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

Mortgages pledged under securitization

Mortgages pledged under securitization are mortgages that the Company has originated and funded with debt raised through the securitization markets and have been classified at amortized cost. The Company has a continuous involvement in these mortgages, including the right to receive future cash flows arising from these mortgages. Origination costs, such as brokerage fees and bulk insurance premiums that are directly attributable to the acquisition of such assets, are deferred and amortized over the term of the mortgages on an effective yield basis.

Debt related to securitized mortgages

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

Mortgages accumulated for sale or securitization

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

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

Securities sold short and securities purchased under resale agreements

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

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

Mortgage and loan investments

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

Leases

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

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

Property, plant and equipment

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

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

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

Goodwill

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

Restricted cash

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

Bank indebtedness

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

Cash held as collateral for securitization

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

Servicing liability

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

Income taxes

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

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

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

Earnings per common share

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

3. Mortgages pledged under securitization

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

As part of the ABCP transactions, the Company provides cash collateral for credit enhancement purposes as required by the rating agencies. Credit exposure to securitized mortgages is generally limited to this cash collateral. The principal and interest payments on the securitized mortgages are paid by the Company to the structured entities monthly over the term of the mortgages. The full amount of 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 December 31, 2023, the cash held as collateral for securitization was $151,557 [2022 – $160,712].

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

2023

	Carrying amount of securitized mortgages ($)	Carrying amount of associated liabilities ($)
Securitized mortgages	**39,264,199**	**(39,300,233)**
Capitalized amounts related to hedge accounting	**(41,212)**	**(19,103)**
Capitalized origination costs	**204,205**	**—**
Debt discounts	**—**	**438,538**
	39,427,192	**(38,880,798)**
Add		
Principal portion of payments recorded in restricted cash	**473,080**	**—**
	39,900,272	**(38,880,798)**

2022

	Carrying amount of securitized mortgages ($)	Carrying amount of associated liabilities ($)
Securitized mortgages	37,127,747	(37,281,919)
Capitalized amounts related to hedge accounting	(46,173)	—
Capitalized origination costs	204,248	—
Debt discounts	—	393,524
	37,285,822	(36,888,395)
Add		
Principal portion of payments recorded in restricted cash	541,618	—
	37,827,440	(36,888,395)

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

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

	2023 ($)	2022 ($)
Opening balance, January 1	**204,248**	198,358
Add new origination costs capitalized in the year	**91,120**	101,302
Less amortization in the year	**(91,163)**	(95,412)
Ending balance, December 31	**204,205**	204,248

During the year ended December 31, 2023, the Company invested in mortgages that were transferred into the securitization vehicles with principal balances as at December 31, 2023 of $9,321,681 [2022 – $8,628,395].

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

	($)
2024	6,021,009
2025	6,688,736
2026	7,982,548
2027	6,329,548
2028 and thereafter	12,242,358
	39,264,199

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

	2023 ($)	2022 ($)
Arrears days		
31 to 60	**4,683**	4,712
61 to 90	**3,692**	3,343
Greater than 90	**9,868**	905
	18,243	8,960

All the mortgages listed above are insured, except for 29 mortgages which are uninsured and have a principal balance of $16,985 as at December 31, 2023 [2022 – 14 mortgages, $7,555]. The Company's exposure to credit loss is limited to uninsured mortgages with principal balances totaling $4,851,746 [2022 – $4,433,482], before consideration of the value of underlying collateral. Approximately one half of the uninsured mortgages are conventional prime single-family mortgages, with loan to value ratios of 80% or less. The Company has provided an allowance for expected credit losses of $5,808 as of December 31, 2023 [2022 – $3,485] related to mortgages pledged under securitization.

4. Deferred placement fees receivable

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

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

2023

	Residential ($)	Commercial ($)	Total ($)
Mortgages placed with institutional investors	**—**	**5,460,050**	**5,460,050**
Gains on deferred placement fees created	**—**	**25,307**	**25,307**
Cash receipts on deferred placement fees received	**346**	**18,246**	**18,592**

2022

	Residential ($)	Commercial ($)	Total ($)
Mortgages placed with institutional investors	—	3,218,988	3,218,988
Gains on deferred placement fees created	—	15,043	15,043
Cash receipts on deferred placement fees received	419	16,500	16,919

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

	Residential ($)	Commercial ($)	Total ($)
2024	**316**	**19,390**	**19,706**
2025	**266**	**16,968**	**17,234**
2026	**130**	**13,748**	**13,878**
2027	**--**	**11,523**	**11,523**
2028 and thereafter	**--**	**23,314**	**23,314**
	712	**84,943**	**85,655**

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:

	2023 ($)	2022 ($)
Mortgages accumulated for securitization	**2,556,521**	2,226,825
Mortgages accumulated for sale	**27,113**	24,369
	2,583,634	2,251,194

The Company's exposure to credit loss is limited to $396,402 [2022 – $491,786] of principal balances of uninsured mortgages within mortgages accumulated for securitization, before consideration of the value of underlying collateral. As at December 31, 2023, 14 of these mortgages are in arrears past 31 days, with a total principal balance of $6,524 [2022 – three mortgages with a balance of $1,330]. These are primarily conventional prime single-family mortgages similar to the mortgages described in note 3. Accordingly, the expected credit loss related to these mortgages is insignificant.

6. Mortgage and loan investments

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

Except for a portion of the residential loan portfolio that is classified as amortized cost, 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 $45,327 as at December 31, 2023 which is subject to expected credit loss. The Company recorded fair value gains related to the commercial segment investments of $397 [2022 – losses of $710] for the year ended December 31, 2023.

The following table discloses the composition of the Company's portfolio of mortgage and loan investments by geographic region as at December 31, 2023:

Province/Territory	Portfolio balance ($)	Percentage of portfolio (%)
Alberta	**54,228**	20.02
British Columbia	**41,562**	15.34
Manitoba	**469**	0.17
New Brunswick	**157**	0.06
Newfoundland and Labrador	**119**	0.04
Nova Scotia	**6,854**	2.53
Ontario	**148,986**	54.99
Quebec	**17,710**	6.54
Saskatchewan	**749**	0.28
Yukon	**87**	0.03
	270,921	100.00

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

	2023 ($)	2022 ($)
Arrears days		
31 to 60	**1,822**	54
61 to 90	**456**	—
Greater than 90	**161**	952
	2,439	1,006

The portfolio contains $21,837 [2022 — $11,577] of insured mortgages and $249,084 [2022 — $178,545] of uninsured mortgage and loan investments as at December 31, 2023. Of the uninsured mortgages, approximately $2,439 [2022 — $1,006] have principal balances in arrears of more than 30 days.

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

						2023	2022
	2024 ($)	2025 ($)	2026 ($)	2027 ($)	2028 and thereafter ($)	Total ($)	Total ($)
Residential	**37,808**	**10,146**	**15,890**	**23,313**	**8,940**	**96,097**	56,709
Commercial	**166,119**	**8,705**	**—**	**—**	**—**	**174,824**	134,068
	203,927	**18,851**	**15,890**	**23,313**	**8,940**	**270,921**	190,777

Interest income earned for the year was $15,645 [2022 – $17,311] and is included in mortgage investment income on the consolidated statements of income.

7. Other assets

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

	2023 ($)	2022 ($)
Property, plant and equipment, net	**36,285**	39,993
Right-of-use assets	**46,648**	49,374
Goodwill	**29,776**	29,776
	112,709	119,143

The right-of-use assets pertain to five premises leases for the Company's office space. The leases have remaining terms of one to fourteen years. The related lease liability of $49,686 as at December 31, 2023 [2022 – $51,171] is grouped with accounts payable and accrued liabilities on the consolidated statements of financial position.

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

8. Mortgages under administration

As at December 31, 2023, the Company managed mortgages under administration of $143,546,966 [2022 – $131,000,635], including mortgages held on the Company's consolidated statements of financial position. Mortgages under administration are serviced for financial institutions such as banks, insurance companies, pension funds, mutual funds, trust companies, credit unions and securitization vehicles. As at December 31, 2023, the Company administered 333,488 mortgages [2022 – 321,470] for 101 institutional investors [2022 – 113] with an average remaining term to maturity of 40 months [2022 – 43 months].

Mortgages under administration are serviced as follows:

	2023 ($)	2022 ($)
Institutional investors	**100,340,846**	90,249,205
Mortgages accumulated for sale or securitization and mortgage and loan investments	**2,819,648**	2,450,613
Mortgages pledged under securitization	**39,264,199**	37,127,747
CMBS conduits	**1,122,273**	1,173,070
	143,546,966	131,000,635

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

The Company maintains trust accounts on behalf of the investors it represents. The Company also holds municipal tax funds in escrow for mortgagors. Since the Company does not hold a beneficial interest in these funds they are not presented on the consolidated statements of financial position. The aggregate of these accounts as at December 31, 2023 was $742,373 [2022 – $759,676].

9. Bank indebtedness

Bank indebtedness includes a revolving credit facility of $1,500,000 [2022 – $1,500,000]. In May 2023, the term of the facility was extended for 12 months to a new maturity date in March 2028. At December 31, 2023, $1,083,000 [2022 – $1,065,868] was drawn, of which the following have been pledged as collateral:

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

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

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

10. Debt related to securitized mortgages

Debt related to securitized mortgages represents the funding for mortgages pledged under the NHA-MBS, CMB and ABCP programs. As at December 31, 2023, debt related to securitized mortgages was $38,880,798 [2022 – $36,888,395], net of unamortized discounts of $438,538 [2022 – $393,524]. A comparison of the carrying amounts of the pledged mortgages and the related debt is summarized in note 3.

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

11. Swap contracts

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

The following tables present, by remaining term to maturity, the notional amounts and fair values of the swap contracts outstanding as at December 31, 2023 and 2022:

2023

	Less than 3 years ($)	3 to 5 years ($)	6 to 10 years ($)	Total notional amount ($)	Fair value ($)
Interest rate swap contracts	**3,622,867**	**707,363**	**—**	**4,330,230**	**36,971**

2022

	Less than 3 years ($)	3 to 5 years ($)	6 to 10 years ($)	Total notional amount ($)	Fair value ($)
Interest rate swap contracts	3,135,786	801,573	—	3,937,360	106,563

Favourable fair values of the interest rate swap contracts are included in accounts receivable and sundry and unfavourable fair values are included in accounts payable and accrued liabilities on the consolidated statements of financial position.

12. Senior unsecured notes

The Company has three unsecured notes outstanding. $200 million of five-year term Series 2 senior unsecured notes bearing interest at 3.582% payable in equal semi-annual payments maturing in November 2024; $200 million of five-year Series 3 senior unsecured notes bearing interest at 2.961% payable in equal semi-annual payments maturing in November 2025; and $200 million of three-year term Series 4 senior unsecured notes bearing interest at 7.293% payable in equal semi-annual payments maturing in September 2026. The three-year note was issued in September 2023. The net proceeds of the offering [$199.1 million, net of financing fees], were used to repay indebtedness under the bank credit facility.

13. Commitments, guarantees and contingencies

As at December 31, 2023, the Company has the following operating lease commitments for its office premises:

	($)
2024	10,652
2025	10,559
2026	10,113
2027 and thereafter	89,423
	120,747

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

Outstanding commitments for future advances on mortgages with terms of one to 10 years amounted to $1,920,620 as at December 31, 2023 [2022 – $1,795,019]. The commitments generally remain open for a period of up to 90 days. These commitments have credit and interest rate risk profiles similar to those mortgages that are currently under administration. Certain of these commitments have been sold to institutional investors while others will expire before being drawn down. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

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

14. Securities transactions under repurchase and resale agreements

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

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

The Company uses repurchase agreements to fund specific mortgages included in mortgages accumulated for sale or securitization. The current contracts are with financial institutions, based on bankers' acceptance rates and mature on or before January 31, 2024.

16. Accounts payable and accrued liabilities

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

	2023 ($)	2022 ($)
Accrued liabilities	**96,948**	74,465
Accrued dividends payable	**13,246**	12,878
Accrued interest on securitization debt	**87,114**	68,258
Servicing liability	**38,350**	39,714
Lease liability	**49,686**	51,171
	285,344	246,486

17. 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

Balance, December 31, 2023 and 2022

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

[c] Preferred shares

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

Holders of Class A Series 1 Preferred Shares have the right, at their option, every five years on March 31, to convert their shares into cumulative, floating rate Class A Preferred Shares, Series 2 ["Series 2 Preferred Shares"], subject to certain conditions. As at December 31, 2023, there were 2,984,835 Series 1 Preferred Shares and 1,015,165 Series 2 Preferred Shares outstanding with an aggregate carrying value of $97,394.

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

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

[d] Earnings per Share

	2023 ($)	2022 ($)
Net income attributable to shareholders	**252,807**	197,732
Less: dividends declared on preferred shares	**(3,855)**	(3,039)
Net income attributable to common shareholders	**248,952**	194,693
Number of common shares outstanding	**59,967,429**	59,967,429
Basic earnings per common share	**4.15**	3.25

18. Income taxes

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

	2023 ($)	2022 ($)
Related to origination and reversal of temporary differences	**9,000**	36,850

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

	2023 ($)	2022 ($)
Income taxes relating to the current year	**82,100**	34,500

The effective income tax rate reported in the consolidated statements of income varies from the Canadian tax rate of 26.42% for the year ended December 31, 2023 [2022 – 26.43%] for the following reasons:

	2023 ($)	2022 ($)
Company's statutory tax rate	**26.42%**	26.43%
Income before income taxes	**343,907**	269,082
Income tax at statutory tax rate	**90,860**	71,118
Increase (decrease) resulting from		
Permanent differences	**325**	292
Prior year adjustment	**(150)**	(42)
Other	**65**	(18)
Income tax expense	**91,100**	71,350

The movement in significant components of the Company's deferred income tax liabilities and assets for the years ended December 31, 2023 and 2022 are as follows:

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

	As at January 1, 2022 ($)	Recognized in income and OCI ($)	As at December 31, 2022 ($)
Deferred income tax			
Deferred placement fees receivable	17,007	80	17,087
Deferred costs – securitization	84,886	70,551	155,437
Carrying values of mortgages pledged under securitization in excess of tax values	184	(184)	--
Other	3,522	1,729	5,251
Right-of-use asset	13,840	(790)	13,050
Lease liability	(13,968)	445	(13,523)
Unrealized gains on interest rate swaps	(1,882)	(11,239)	(13,121)
Cumulative eligible capital property	(3,399)	236	(3,163)
Servicing liability	(9,987)	(509)	(10,496)
Fair value adjustments not deducted for tax purposes	(2,203)	1,081	(1,122)
Total	**88,000**	**61,400**	**149,400**

The amount of deferred tax expense recorded in income and OCI consists of an expense of $9,000 [2022 –$36,850] recorded in net income and a recovery of $7,500 [2022 – expense of $24,550] recorded in OCI related to unrealized gains on cash flow hedges.

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

19. Financial instruments and risk management

Risk management

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

Interest rate risk

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

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

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

The table below provides the financial impact that an immediate and sustained 100 basis point and 200 basis point increase and decrease in short-term interest rates would have had on the net income of the Company in 2023 and 2022.

		Decrease in interest rate[1]		Increase in interest rate
	2023 ($)	2022 ($)	2021 ($)	2020 ($)
100 basis point shift				
Impact on net income	**12,287**	21,804	**(12,287)**	(21,804)
200 basis point shift				
Impact on net income	**24,575**	43,608	**(24,575)**	(43,608)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Company's credit risk is mainly lending related in the form of mortgage default. The Company uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Company's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management. As at December 31, 2023, 88% [2022 – 88%] of the pledged mortgages were insured mortgages. See details in note 3. The Company's exposure is further mitigated by the relatively short period over which a mortgage is held by the Company prior to securitization.

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

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

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

Liquidity risk and capital resources

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

The Company's liquidity strategy has been to use bank credit to fund working capital requirements and to use cash flow from operations to fund longer-term assets. The Company's credit facilities are typically drawn to fund: [i] mortgages accumulated for sale or securitization, [ii] origination costs associated with mortgages pledged under securitization, [iii] cash held as collateral for securitization, [iv] costs associated with deferred placement fees receivable, [v] accounts receivable and sundry, and [vi] mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions, which provides for a total of $1,500,000 in financing.

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

Market risk

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

Customer concentration risk

Placement fees and mortgage servicing income from one Canadian financial institution represent approximately 8.5% [2022 – 12.7%] of the Company's total revenue.

Fair value measurement

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

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

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

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

Valuation methods and assumptions

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

[a] Mortgages and loan investments

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

[b] Deferred placement fees receivable

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

[c] Securities owned and sold short

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

[d] Servicing liability

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

[e] Other financial assets and financial liabilities

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

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

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

Carrying value and fair value of selected financial instruments

The fair value of the financial assets and financial liabilities of the Company approximates its carrying value, except for mortgages pledged under securitization, which has a carrying value of $39,427,192 [2022 – $37,285,823] and a fair value of $38,647,614 [2022 – $35,990,243]; debt related to securitized mortgages, which has a carrying value of $38,880,798 [2022 – $36,888,395] and a fair value of $37,270,328 [2022 – $34,968,655]; and senior unsecured notes, which have a carrying value of $598,745 [2022 – $399,222] and a fair value of $590,820 [2022 – $374,120]. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3].

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

2023

	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Financial assets				
Mortgages accumulated for sale	**—**	**27,113**	**—**	**27,113**
Mortgage and loan investments	**—**	**—**	**189,523**	**189,523**
Total financial assets	**—**	**27,113**	**189,523**	**216,636**
Financial liabilities				
Securities sold short	**—**	**2,649,249**	**—**	**2,649,249**
Interest rate swaps	**—**	**7,616**	**—**	**7,616**
Total financial liabilities	**—**	**2,656,865**	**—**	**2,656,865**

2022

	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Financial assets				
Mortgages accumulated for sale	—	24,369	—	24,369
Mortgage and loan investments	—	—	164,919	164,919
Total financial assets	—	24,369	164,919	189,288
Financial liabilities				
Securities sold short	—	2,954,374	—	2,954,374
Interest rate swaps	—	13,434	—	13,434
Total financial liabilities	—	2,967,808	—	2,967,808

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used, including those that have one or more significant inputs which are unobservable [Level 3]. The amount of the change in fair value recognized by the Company in net income for the year ended December 31, 2023 that was estimated using a valuation technique based on assumptions that are not fully supported by observable market prices or rates was approximately a gain of $397 [2022 – losses of $710]. Although the Company's management believes that the estimated fair values are appropriate as at the date of the consolidated statements of financial position, those fair values may differ if other reasonably possible alternative assumptions are used.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the period in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During 2023, the Company did not have any transfers between levels.

The following table presents changes in the fair values, including realized gains of $67,865 [2022 – $192,983] of the Company's financial assets and financial liabilities for the year ended December 31, 2023 and 2022, all of which have been classified as FVTPL:

	2023 ($)	2022 ($)
FVTPL mortgages	**397**	(710)
Securities sold short	**19,119**	74,441
Interest rate swaps	**2,605**	(14,121)
	22,121	59,610

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

Movement in Level 3 financial instruments measured at fair value

The following tables show the movement in Level 3 financial instruments in the fair value hierarchy for the years ended December 31, 2023 and 2022. The Company classifies financial instruments to Level 3 when there is reliance on at least one significant unobservable input in the valuation models

	Fair value as at January 1, 2023 ($)	Investments ($)	Losses recorded in income ($)	Payment and amortization ($)	Fair value as at December 31, 2023 ($)
Financial assets					
Mortgage and loan investments	**164,919**	**929,146**	**397**	**(904,939)**	**189,523**

	Fair value as at January 1, 2022 ($)	Investments ($)	Losses recorded in income ($)	Payment and amortization ($)	Fair value as at December 31, 2022 ($)
Financial assets					
Mortgage and loan investments	192,340	400,483	(710)	(427,194)	164,919

On May 16, 2022, Refinitiv Benchmark Service (UK) Limited (RBSL), the administrator of CDOR, announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Canadian Alternative Reference Rate Working Group [“CARR”] was created to identify and seek to develop a new risk-free Canadian dollar interest rate benchmark. An enhanced Canadian Overnight Repo Rate Average [“CORRA”] has been designed to comply with recommendations of the Financial Stability Board as part of a global effort to reform benchmark interest rates. There is some uncertainty about how the Canadian dollar benchmark rates will evolve and the speed at which CORRA will become a dominant benchmark for Canadian dollar borrowings. Starting in 2022, CMHC has introduced floating rate NHA MBS pool type for which the coupon is referenced to CORRA. The Company has many swaps and other derivatives that are referenced to CDOR. All of these instruments are with large Canadian financial institutions and the Company will rely on those institutions to amend the agreements as required to incorporate the new reference rate. The Company believes this transition will have a minimal impact, if any, on the Company’s operations.

The following table discloses the Company’s exposure to significant interest rate benchmark subject to CDOR reform as of December 31:

	2023 ($)	2022 ($)
Non-derivative financial liabilities	**980,143**	946,792
Derivative notional amounts	**4,330,230**	3,937,360

20. Capital management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. Management defines capital as the Company's common share capital and retained earnings. FNFLP has a minimum capital requirement as stipulated by its bank credit facility. The agreement limits the debt under bank indebtedness together with the unsecured notes to four times FNFLP's equity. As at December 31, 2023, the ratio was 1.89:1 [2022 – 1.88:1]. The Company was in compliance with the bank covenant throughout the year.

21. Earnings by business segment

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

2023

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

2022

	Residential ($)	Commercial ($)	Total ($)
Revenue			
Interest revenue – securitized mortgages	595,573	312,996	908,569
Interest expense – securitized mortgages	(482,721)	(256,574)	(739,295)
Net interest – securitized mortgages	112,852	56,422	169,274
Placement and servicing	390,497	109,962	500,459
Mortgage investment income *[note 6]*	68,832	36,823	105,655
Realized and unrealized gains (losses) on financial instruments	60,320	(710)	59,610
	632,501	202,497	834,998
Expenses			
Amortization	11,822	1,800	13,622
Interest	100,029	35,980	136,009
Other operating	348,109	68,176	416,285
	459,960	105,956	565,916
Income before income taxes	172,541	96,541	269,082
Identifiable assets	28,923,269	14,810,627	43,733,896
Goodwill	—	—	29,776
Total assets	28,923,269	14,810,627	43,763,672

22. Related party and other transactions

The Company has servicing contracts in connection with commercial bridge and mezzanine mortgages originated by the Company and subsequently sold to various entities controlled by a senior executive and shareholder of the Company. The Company services these mortgages during their terms at market commercial servicing rates. During the year, the Company originated $103,808 of new mortgages for the related parties. The related parties also funded several progress draws totalling $27,184 on existing mortgages originated by the Company. All such mortgages, which are administered by the Company, have a balance of $204,011 as at December 31, 2023 [2022 – $259,673].

A senior executive and shareholder of the Company has a significant investment in a mortgage default insurance company. In the ordinary course of business, the insurance company provides insurance policies to the Company's borrowers at market rates. In addition, the insurance company has also provided the Company with portfolio insurance at market premiums. The total bulk insurance premium paid by the Company in 2023 was $3,514 [2022 – $1,899], 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.

In the third quarter of 2023, a senior executive and shareholder of the Company made a significant investment in a Canadian financial institution. The Company has existing agreements to originate and service mortgages with the financial institution. Mortgages are generally originated through the relationships the Company has directly with mortgage borrowers and are transacted at market rates with the financial institution. Subsequent to the purchase, the Company closed $151,865 of mortgages which commitments had been placed with the financial institution previous to the purchase. As at December 31, 2023, the Company administered a $5,132,839 mortgage portfolio for the financial institution at market servicing rates.

Corporate Governance

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

Policies

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

Committees

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

Audit Committee

The Audit Committee's responsibilities include:

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

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

Committee Members

Robert Mitchell (Chair), Robert Pearce and Diane Sinhuber

Governance Committee

The Governance Committee's responsibilities include:

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

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

Committee Members

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

Board of Directors

Stephen Smith

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

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

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

In 2015, Queen's University announced the naming of The Stephen J.R. Smith School of Business at Queen's University in honour of Mr. Smith and his then historic $50-million donation to the school. In 2019, Mr. Smith was inducted into the Canadian Business Hall of Fame. In 2012, he was awarded the Queen's Diamond Jubilee Medal. In 2023, Mr. Smith pledged $100-million to the Queen's faculty of engineering, now named Smith Engineering, the largest gift ever made to an engineering faculty in Canada. Mr. Smith holds a B.Sc. (Hons.) in Electrical Engineering from Queen's University and an M.Sc. in Economics from the London School of Economics. In 2017, Queen's University awarded him an honourary LL.D.

Moray Tawse

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

Jason Ellis

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

Duncan N. R. Jackman

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

Robert Mitchell

Robert Mitchell was appointed Executive Chair and Chair of the Investment Committee of Dixon Mitchell Investment Counsel Inc., a Vancouver-based investment management company, on January 1, 2021. From 2000 to 2020, he was President of Dixon Mitchell Investment Counsel Inc. and although he retired from Dixon Mitchell in June, 2023, he still serves as a member of the board. Prior to that, he was Vice President, Investments at Seaboard Life Insurance Company and is a former board member of Equestrian Canada. Mr. Mitchell is also a member of the investment committee for the First Nations Child and Family Compensation Trust and holds an MBA from the University of Western Ontario and a Bachelor of Commerce (Finance) from the University of Calgary; he is also a CFA charterholder.

Barbara Palk

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

Robert Pearce

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

Diane Sinhuber

Diane Sinhuber serves on the board of directors of First National and Scarborough Health Network and is an independent and objective financial expert, as well as a risk, governance and controls professional with over 35 years' experience providing accounting and auditing services, including reporting to and chairing Audit Committees. Ms. Sinhuber is a retired Deputy Chief Auditor of TD Bank Group and held several positions with Ernst & Young LLP over a 29 year period, including as leader of EY Canada's Financial Services Organization. She previously served on a number of Boards including as Chair of the YMCA of Greater Toronto and the Kidney Foundation of Canada in Toronto. Ms. Sinhuber has a Bachelor of Business Administration from Wilfred Laurier University, is a Fellow of Chartered Professional Accountants of Ontario (FCPA) and holds the ICD.D certification.

Martine Irman

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

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Annual Meeting of Shareholders

May 2, 2024, 10:00 a.m. EDT
TMX Market Centre
120 Adelaide St W
Toronto, ON

Registrar and Transfer Agent

Computershare Investor Services Inc.
Toronto, Ontario
1.800.564.6253

Exchange Listing and Symbols

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

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Co-founder and Executive Chairman

Moray Tawse
Co-founder and Senior Executive Vice President

Jason Ellis
President and Chief Executive Officer

Robert Inglis
Chief Financial Officer

Thomas Kim
Executive Vice President and Managing Director, Capital Markets

Scott McKenzie
Executive Vice President, Residential Mortgages

Jeremy Wedgbury
Executive Vice President, Commercial Mortgages

Hilda Wong
Executive Vice President and General Counsel

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