

FIRST NATIONAL

FINANCIAL CORPORATION



For Immediate Release

FIRST NATIONAL FINANCIAL CORPORATION REPORTS SECOND QUARTER 2015 RESULTS

Toronto, Ontario, July 27, 2015 – First National Financial Corporation (TSX: FN, TSX: FN.PR.A) (the “Company” or “FNFC”) today announced its financial results for the three and six months ended June 30, 2015. The Company derives virtually all of its earnings from its wholly-owned subsidiary, First National Financial LP (“FNFLP” or “First National”).

Second Quarter Summary

- Mortgages under administration (“MUA”) up 13% to a record \$90.1 billion from \$79.9 billion at June 30, 2014
- Mortgage originations ahead 9% to \$5.1 billion from \$4.7 billion in the 2014 second quarter
- Revenue up 25% to \$251.2 million from \$201.6 million in the 2014 second quarter
- Net income up 51% to \$42.5 million (\$0.68 per common share) compared to \$28.2 million (\$0.44 per common share) in the 2014 second quarter
- Income before income taxes up 51% to \$57.5 million compared to \$38.2 million in the 2014 second quarter
- Pre-FMV EBITDA⁽¹⁾ up 7% to \$52.0 million compared to \$48.4 million in the 2014 second quarter

“By taking a disciplined approach to origination and renewals, and remaining focused on responsive customer service, First National delivered excellent results for shareholders in the second quarter from the top to the bottom lines,” said Stephen Smith, Chairman and CEO. “Strong core performance allowed First National to build its portfolio of mortgages pledged under securitization to a record \$24 billion and its servicing portfolio to a record \$66 billion. This has positive implications for future cash flows. Although not significant from a long-term economic perspective, a positive mark-to-market adjustment on the Company’s economic hedging program was also welcome after the large fair value losses incurred in the first quarter of this year.”

“As expected, originations were strong in the second quarter reflecting typical seasonality in the Canadian housing market,” said Moray Tawse, Executive Vice President. “Single family mortgage originations increased 5% to almost \$4 billion and would have been higher except for market conditions in Alberta and Saskatchewan. Originations out of our Calgary operations were 12% lower than at this time last year. On the commercial side, originations in the quarter reached \$1.1 billion, a 26% increase over last year: a very positive performance and one that illustrates the value of First National’s position in this dynamic market.”

	Quarter ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
For the Period				
			(\$ 000’s)	
Revenue	251,206	201,596	418,666	374,301
Income before income taxes	57,538	38,217	52,639	69,478
Pre-FMV EBITDA ⁽¹⁾	52,012	48,392	90,451	89,780
At Period end				
Total assets	27,585,945	23,902,513	27,585,945	23,902,513
Mortgages under administration	90,111,441	79,914,694	90,111,441	79,914,694

⁽¹⁾ This non-IFRS measure adjusts income before income taxes by adding back expenses for amortization of intangible and capital assets (generally described as EBITDA) but it also eliminates the impact of changes in fair value by adding back losses on the valuation of financial instruments and deducting gains on the valuation of financial instruments. See also the section “Non-GAAP Measures” in this news release for additional detail.

Q2 2015 Summary

First National’s MUA increased 13% to a record \$90.1 billion at June 30, 2015 from \$79.9 billion at June 30, 2014. Between March 31, 2015 and June 30, 2015, MUA grew at an annualized rate of 14%.

Single-family mortgage originations increased 5% to \$4.0 billion from \$3.8 billion in the second quarter of 2014 even as the Company experienced a 12% decline in volumes from its Calgary operations on account of the economic impact of lower oil prices on Alberta and Saskatchewan’s housing markets. Single family mortgage renewals amounted to \$1.2 billion up from \$1.0 billion a year ago on more renewal opportunities. Commercial segment originations increased 26% to \$1.1 billion from \$878 million in the same period of 2014, while commercial mortgage renewals amounted to \$164 million compared to \$378 million. The Company originated and renewed for securitization purposes \$2.7 billion of mortgages in the second quarter in order to take advantage of profitable funding spreads.

Revenue increased 25% to \$251.2 million from \$201.6 million in the second quarter of 2014 due primarily to higher revenues from the Company’s growing portfolio of securitized mortgages as well as a gain on financial instruments which increased revenue by \$15.9 million over last year. Placement fee revenue and mortgage servicing revenue

were also higher as the Company increased mortgage volumes placed with institutions and grew its new underwriting and fulfillment processing services business. Securitized mortgages amounted to \$23.9 billion at June 30, 2015, up 18% from \$20.2 billion a year ago.

Income before income taxes increased 51% to \$57.7 million in the second quarter of 2015 from \$38.2 million in the second quarter of 2014. About \$15.9 million of the \$19.5 million year-over-year change was due to changes in the value of financial instruments primarily the result of the Company's hedging practices.

Without the impact of the gains and losses on financial instruments, the Company's Pre-FMV EBITDA increased 7% to \$52.0 million in the second quarter of 2015, compared to \$48.4 million in the second quarter of 2014. The increase was due to higher net interest on securitized mortgages together with sustained growth in the Company's placement business particularly with respect to deferred placement and mortgage renewal income.

Dividends

The Board declared common share dividends in the second quarter of 2015 based on the current annual rate of \$1.50 per share. On an after-tax Pre-FMV basis, the dividend payout ratio was 62% in the second quarter of 2015 compared to 67% in the second quarter of 2014.

The Board also declared regular quarterly dividends on the 4.65% Class A Preference Shares for the period March 31, 2015 to June 30, 2015. The dividend of \$0.290625 per share was paid on July 15, 2015 to holders of record at the close of business on June 30, 2015.

Outlook

Looking forward, the Company expects the low interest rate environment, which was reinforced with January and July 2015 Bank of Canada rate cuts, to continue for the remainder of 2015. Low rates will continue to keep mortgage affordability at favourable levels and allay refinancing risk.

The Company also expects to earn greater net interest from its portfolio of securitized mortgages. The mortgages accumulated for securitization at the end of March 2015 had higher coupons relative to the current mortgage market and the Company was able to securitize these mortgages in the second quarter at wider spreads than the weighted average spread on the current securitized portfolio.

By realizing the significant renewal opportunities this fiscal year and managing its partnerships with institutional customers, the Company will continue to focus on sustainable profitability.

Management expects the Company to continue to generate cash flow from its \$24 billion portfolio of mortgages pledged under securitization and \$66 billion servicing portfolio that will maximize financial performance. First National also expects its new underwriting

and fulfillment processing services business to begin to transition to profitability in the third quarter as Quebec and western Canada operations reach a steady state and the Ontario branch responds to seasonally strong summer real estate market demand.

Conference Call and Webcast

July 28, 2015 10 am ET	Participant Numbers 416-204-9269 800-499-4035
------------------------	---

The audio of the conference call will be webcast live and archived on First National's website at www.firstnational.ca. A question and answer session for analysts and institutional investors will be held following management's presentation.

A taped rebroadcast of the conference call will be available to listeners until 1 pm on August 3, 2015. To access the rebroadcast, please dial 647-436-0148 or 888-203-1112 and enter passcode 9521536 followed by the number sign. The webcast is also archived at www.firstnational.ca for three months.

Complete consolidated financial statements for the Company as well as management's discussion and analysis are available at www.sedar.com and at www.firstnational.ca.

About First National Financial Corporation

First National Financial Corporation (*TSX: FN, TSX: FN.PR.A*) is the parent company of First National Financial LP, a Canadian-based originator, underwriter and servicer of predominantly prime residential (single-family and multi-unit) and commercial mortgages. With more than \$90 billion in mortgages under administration, First National is Canada's largest non-bank originator and underwriter of mortgages and is among the top three in market share in the mortgage broker distribution channel. For more information, please visit www.firstnational.ca.

¹ Non-GAAP Measures

The Company uses IFRS as its accounting framework. IFRS are generally accepted accounting principles (GAAP) for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "Pre-FMV EBITDA", "Adjusted Cash Flow," and "Adjusted Cash Flow per Share" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed

by GAAP and therefore may not be comparable to similar measures presented by other issuers.

Forward-Looking Information

Certain information included in this news release may constitute forward-looking information within the meaning of securities laws. 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 future 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, they may prove to be incorrect. Forward looking-information is subject to certain factors, including risks and uncertainties listed under "Risk and Uncertainties Affecting the Business" in the MD&A, that 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 relationships with independent mortgage brokers and changes in the interest rate environment. This forward-looking information is as of the date of this release, and is subject to change after such date. However, management and First National 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.

- 30 -

For further information:

Robert Inglis
Chief Financial Officer
First National Financial Corporation
Tel: 416-593-1100
Email: rob.inglis@firstnational.ca

Ernie Stapleton
President
Fundamental
Tel: 905-648-9354
Email: ernie@fundamental.ca