

FIRST NATIONAL

FINANCIAL CORPORATION



For Immediate Release

FIRST NATIONAL FINANCIAL REPORTS THIRD QUARTER 2015 RESULTS, INCREASES COMMON SHARE DIVIDEND

Toronto, Ontario, October 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 nine months ended September 30, 2015. The Company derives virtually all of its earnings from First National Financial LP (“FNFLP” or “First National”), its wholly owned subsidiary.

Third Quarter Summary

- Mortgages under administration (“MUA”) up 11% to a record \$92.6 billion from \$83.2 billion at September 30, 2014
- Mortgage originations up 7% to \$5.4 billion from \$5.0 billion in the third quarter a year ago
- Revenue up 7% to \$246.6 million from \$230.6 million in the 2014 third quarter
- Net income 18% lower at \$28.9 million (\$0.46 per common share) compared to \$35.3 million (\$0.56 per common share) in the 2014 third quarter due to volatility in the bond market that negatively affected the Company’s economic hedging program
- Income before income taxes 17% lower at \$39.7 million compared to \$47.6 million in the 2014 third quarter for the same reason noted above
- Pre-FMV EBITDA⁽¹⁾ up 22% to \$61.0 million compared to \$50.1 million a year ago

Common Share Dividend Increase

The Company’s Board of Directors approved an increase in the common share dividend, effective with the monthly payment on December 15, 2015. The new rate will be \$1.55 per share per annum, an increase of 3.3%.

The Board declared common share dividends in the third quarter of 2015 based on the current annual rate of \$1.50 per share. On an after-tax Pre-FMV⁽¹⁾ basis, the dividend payout ratio was 52% in the third quarter of 2015 compared to 64% in the third quarter of 2014.

Regular quarterly dividends of \$0.290625 per share were paid on the Company's 4.65% Class A Preference Shares on October 15, 2015 to holders of record at the close of business on September 30, 2015.

"First National continues to experience significant growth in key metrics that drive shareholder value creation, including mortgages pledged under securitization and the servicing portfolio which both reached record levels to end the quarter," said Stephen Smith, Chairman and CEO. "The combination of growth in total Mortgages Under Administration, positive long-term trends in Pre-FMV EBITDA⁽¹⁾ and the successful transition of the Company's third-party underwriting and fulfillment processing services business to profitability provide good support for the Board's decision to once again increase dividends for holders of our common shares. We're pleased to note that this represents the 8th such increase since First National's initial public offering in 2006."

"Single family mortgage originations of \$4.05 billion came within 1% of the record set in last year's third quarter and surpassed volumes set in the second quarter of this year," said Moray Tawse, Executive Vice President. "We consider this performance to be strong in light of the downturn in the oil sector – which manifested itself in a 17% reduction in single family origination volumes out of our Calgary office compared to last year. In contrast, commercial originations grew 45% year over year to \$1.3 billion, an excellent outcome for this business segment. In both markets, First National continues to benefit from its unwavering commitment to customer service aided by proprietary technology."

As expected, the Company's third-party underwriting and fulfillment processing services business, launched in early 2015, also contributed to earnings for the first time as it surpassed breakeven volumes in the third quarter.

	Quarter ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
For the Period				
			(\$ 000's)	
Revenue	246,641	230,552	665,307	604,853
Income before income taxes	39,653	47,621	92,292	117,099
Pre-FMV EBITDA ⁽¹⁾	60,955	50,121	151,406	139,901
At Period end				
Total assets	27,624,359	25,077,361	27,624,359	25,077,361
Mortgages under administration	92,630,375	83,190,530	92,630,375	83,190,530

⁽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.

Q3 2015 Summary

First National's MUA increased 11% to a record \$92.6 billion at September 30, 2015 from \$83.2 billion at September 30, 2014. Between June 30, 2015 and September 30, 2015, MUA also grew at an annualized rate of 11%.

Single-family mortgage originations were \$4.05 billion, 1% lower than \$4.08 billion in the third quarter of 2014 as the Company experienced a 17% decline in volumes from its Calgary operations due to an oil-driven economic downturn in Alberta and Saskatchewan. Single family mortgage renewals were stable at \$1.15 billion compared to \$1.10 billion a year ago. Commercial segment originations increased 45% to \$1.3 billion from \$911 million in the same period of 2014, while commercial mortgage renewals amounted to \$192 million compared to \$326 million. The Company originated and renewed for securitization purposes \$1.6 billion of mortgages in the third quarter in order to take advantage of profitable funding spreads.

Revenue increased 7% to \$246.6 million from \$230.6 million in the third quarter of 2014 despite a loss on financial instruments which reduced revenue by \$18.5 million over last year. Growth in the third quarter was due to revenue generated from First National's new mortgage underwriting and fulfillment processing services business and growth in placement fee revenue and interest revenue – securitized mortgages. The portfolio of mortgages funded through securitization increased 15% to \$24.3 billion at September 30, 2015 from \$21.1 billion at September 30, 2014.

Income before income taxes of \$39.7 million in the third quarter of 2015 was 17% lower than \$47.6 million in the third quarter of 2014 due to volatility in the capital markets, which negatively affected the Company's interest rate hedges and carrying values of certain mortgage assets. Losses on financial instruments of \$19.1 million were recorded in the third quarter of 2015 compared to a loss of just \$0.5 million on financial instruments in the third quarter a year ago. The net change in losses on financial instruments between the 2015 and 2014 quarters decreased income before income taxes between the quarters by \$18.5 million.

Without the impact of the gains and losses on financial instruments, the Company's Pre-FMV EBITDA⁽¹⁾ increased 22% to \$61.0 million in the third quarter of 2015, compared to \$50.1 million in the third quarter of 2014. The increase was due to higher earnings from institutional placement and the transition to profitability of the Company's new underwriting and fulfillment processing services business.

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 keep mortgage affordability at favourable levels and allay refinancing risk.

The Company will focus on the significant value of renewal opportunities and its partnerships with institutional customers in order to maximize profitability. Management expects the Company to continue to generate cash flow from its \$24 billion portfolio of mortgages pledged under securitization and \$68 billion servicing portfolio that will maximize financial performance. First National also expects the underwriting and fulfillment processing services business to continue to add to earnings as mortgages processed increase in response to the Company's superior service levels to the mortgage broker distribution channel.

Conference Call and Webcast

October 28, 2015 11 am ET	Participant Numbers 416-204-9269 800-499-4035
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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 November 3, 2015. To access the rebroadcast, please dial 647-436-0148 or 888-203-1112 and enter passcode 4148278 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 \$92 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.

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