

FIRST NATIONAL

FINANCIAL CORPORATION



For Immediate Release

FIRST NATIONAL FINANCIAL CORPORATION REPORTS SECOND QUARTER 2016 RESULTS

Toronto, Ontario, July 26, 2016 – First National Financial Corporation (TSX: FN, TSX: FN.PR.A, TSX: FN.PR.B) (the “Company” or “FNFC”) today announced its financial results for the three and six months ended June 30, 2016. 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 year over year by 7% to a record \$96.6 billion from \$90.1 billion at June 30, 2015
- Mortgage originations ahead 8% to \$5.5 billion from \$5.1 billion in the 2015 second quarter
- Revenue up 1% to \$253.9 million from \$251.2 million in the 2015 second quarter
- Net income \$41.2 million (\$0.67 per common share) compared to net income of \$42.5 million (\$0.68 per common share) in the 2015 second quarter
- Pre-FMV EBITDA⁽¹⁾ up 31% to \$68.2 million compared to \$52.0 million in the 2015 second quarter

Management Commentary

“First National’s second quarter performance attests to the strength of demand in residential and commercial mortgage markets and the Company’s ability to effectively serve that demand with products and services that appeal to borrowers and their mortgage broker advisors,” said Stephen Smith, Chairman and Chief Executive Officer. “Once again, growth was profitable and reflected the benefit of increases in interest revenue on securitized mortgages, placement fees and mortgage servicing, partially offset by losses on short bonds used for our economic hedging. These losses will result in wider gross spreads on the related portfolio of securitized mortgages in future periods. Overall, we are pleased with the Company’s performance in a very active period for Canadian real estate.”

“Total second quarter production showed that First National continued to advance its position as Canada’s non-bank leader in mortgage lending,” said Moray Tawse, Executive Vice President. “Including both new originations and renewals, we funded \$7.1 billion

mortgages in the quarter, 11% higher than a year ago. On the new business side, single family originations increased by \$161 million or 4% year over year, while commercial originations climbed 22% or \$248 million. This performance was achieved in spite of a 10% decline in activity levels for our Calgary office which serves Alberta and Saskatchewan communities affected by the oil industry's downturn. In addition, First National was successful in converting renewal opportunities into ongoing business, with residential renewals up 8% to \$1.3 billion and commercial renewals higher by 80% to \$296 million. With higher originations and renewals, the Company was able to increase the volume it retained for securitization while maintaining volume originated for our institutional customers – a positive outcome.”

	Quarter ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
For the Period	(\$000's)			
Revenue	253,915	251,206	485,310	418,666
Income before income taxes	55,901	57,538	106,592	52,639
Pre-FMV EBITDA ⁽¹⁾	68,187	52,012	125,006	90,451
At Period end				
Total assets	31,011,683	27,585,945	31,011,683	27,585,945
Mortgages under administration	96,591,558	90,111,441	96,591,558	90,111,441

⁽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 2016 Summary

First National's MUA increased 7% to \$96.6 billion at June 30, 2016 from \$90.1 billion at June 30, 2015. Between March 31, 2016 and June 30, 2016, MUA grew at an annualized rate of 10%, primarily reflecting housing market seasonality.

Single-family mortgage originations increased 4% to \$4.1 billion from \$4.0 billion in the second quarter of 2015, despite 10% lower originations from the Company's Calgary office reflecting the ongoing downturn in Alberta and Saskatchewan's housing markets as a result of the oil industry's slowdown. Single family mortgage renewals amounted to \$1.3 billion in the second quarter of 2016, compared to \$1.2 billion a year ago on more renewal opportunities. Commercial segment originations increased 22% to \$1.4 billion from \$1.1 billion in the same period of 2015, while commercial mortgage renewals amounted to \$296 million compared to \$164 million a year ago as First National grew its presence within the commercial market across Canada. The Company originated and renewed for securitization purposes \$2.8 billion of mortgages in the second quarter in order to take advantage of profitable funding spreads, compared to \$2.7 billion a year ago.

Revenue increased 1% to \$253.9 million from \$251.2 million in the second quarter of 2015 despite losses on financial instruments which reduced revenue year over year by \$17.6 million. Excluding these losses on financial instruments, revenue increased 8% year over year in the second quarter primarily as a result of growth in interest revenue – securitized mortgages (up 15% year over year to \$36.3 million), placement fees (up 20% to \$53.0 million) and mortgage servicing income (up 23% to \$33.6 million). These revenue categories were positively impacted by higher origination and MUA. Securitized mortgages amounted to \$24.9 billion at June 30, 2016, up 4% from \$23.9 billion a year ago.

Income before income taxes was \$55.9 million compared to \$57.5 million in the second quarter of 2015. The year-over-year reduction primarily reflected a \$9.9 million loss on financial instruments in 2016 compared to a gain on financial instruments of \$7.7 million in the second quarter a year ago. The net change in gains and losses between 2016 and 2015 decreased income before income taxes by \$17.6 million.

Pre-FMV EBITDA⁽¹⁾, which excludes the impact of gain and losses on financial instruments in both periods, increased 31% to \$68.2 million from \$52.0 million a year ago. The change reflected increased earnings from the Company's securitization program and higher net placement fees on residential origination.

Dividends

The Board declared common share dividends in the second quarter of 2016 of \$24.7 million. On an after-tax Pre-FMV⁽¹⁾ basis, the dividend payout ratio was 52% compared to 64% in the second quarter of 2015. As previously announced, the Company increased the common share dividend to the annualized equivalent of \$1.70 per share, effective with the payment made on June 15, 2016, from the previous annualized rate of \$1.55 per common share.

The Board also paid \$0.68 million of dividends on its preferred shares in the second quarter of 2016 compared to \$1.16 million in the same period a year ago. The decrease reflected the April 1, 2016 rate reset of its Class A Series 1 preference shares (fixed rate of 2.79%) and the creation of floating rate Class A Series 2 preference shares which paid 2.532% for the three months ended June 30, 2016.

At June 30, 2016 and July 26, 2016, the Corporation had: 59,967,429 common shares, 2,887,147 Class A preference shares, Series 1; 1,112,853 Class A preference shares, Series 2; and, 175,000 April 2020 notes outstanding.

Outlook

Looking forward, the Company expects the low interest rate environment to continue in 2016. Low rates will keep mortgage affordability at favourable levels and mitigate refinancing risk for borrowers. 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 \$25 billion portfolio of mortgages pledged under securitization and \$71

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

July 27, 2016 10 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 ET on August 3, 2016. To access the rebroadcast, please dial 647-436-0148 or 888-203-1112 and enter passcode 7414466 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, TSX:FN.PR.B*) 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 \$96 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" 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 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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