

FIRST NATIONAL

FINANCIAL CORPORATION



For Immediate Release

FIRST NATIONAL FINANCIAL CORPORATION COMMENTS ON NEW MORTGAGE RULES

Toronto, Ontario, October 11, 2016 – First National Financial Corporation (TSX: FN, TSX: FN.PR.A, TSX: FN.PR.B) (the “Company” or “FNFC”) today commented on the Department of Finance’s recently announced new mortgage rules.

These rules include most significantly, an increase in the qualifying rate on fixed rate mortgages with terms of five years or greater and changes in the eligibility rules for newly issued low-ratio mortgages for portfolio insurance. While all mortgage lenders, including First National, will see a decrease in single family market activity levels as a result of these changes and their impact on borrowers, the Company’s business model will mitigate much of the impact.

Following an initial review of the policy changes and their expected influence on Canada’s single family housing market, the Company stated the following:

- Due to the economics of new single family originations, they provide little if any earnings in the year they are underwritten. Profits are delivered to shareholders as the Company receives servicing income and the net interest margin from securitized mortgages. As a result, we believe that any reduction in origination as a result of these rules will have little to no impact on our 2016 or 2017 earnings.
- First National originates approximately \$22 billion of mortgages annually consisting of \$13 billion of new single family residential, \$5 billion of single family renewals and \$4 billion of commercial mortgages. Of the new single family originations, approximately 41% or \$5.3 billion are insured mortgages subject to the new qualifying rate. We anticipate a decline in these originations of approximately 8-10%, or approximately 2-3% of overall originations. We do not anticipate any material impact on our other originations and renewals as a result of the new rules.
- First National earns most of its profit from its large \$70 billion servicing portfolio and its \$25 billion portfolio of securitized mortgages. These portfolios will continue to provide earnings to the Company over the life of the mortgages.
- First National has diversified funding sources. While some conventional mortgages originated in the past would not now be eligible for NHA MBS

securitization, the Company has institutional investors and asset-backed commercial paper conduits that can purchase such mortgages without portfolio insurance.

“First National’s business model and diversified mortgage lending activities and sources of funding provide all the strength and flexibility we need to respond effectively in the coming months to the Federal Government’s new policy directions,” said Stephen Smith, Chairman and Chief Executive Officer. “First National will assimilate these changes and continue to provide the same highly competitive, service-first value proposition that has made us Canada’s largest non-bank mortgage lender. Our very clear message to our partners in the mortgage broker channel is that we are open for business and are looking forward to another year of good performance.”

First National has positioned itself as the leading non-bank lender in Canada originating the highest quality of mortgages. This positioning and the Company’s business model will not change. Certain product offerings will be revised to conform with the new rules and funding sources and we are, broadly speaking, taking a business as usual position.

The Company will discuss its views in more detail on October 25th, 2016 when it reports its third quarter results.

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.

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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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