

FIRST NATIONAL

FINANCIAL CORPORATION



FIRST NATIONAL FINANCIAL CORPORATION REPORTS 2021 THIRD QUARTER RESULTS, DECLARES SPECIAL COMMON SHARE DIVIDEND

Toronto, Ontario, October 26, 2021 – 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 nine months ended September 30, 2021 and declared a special common share dividend. The Company derives virtually all of its earnings from its wholly owned subsidiary, First National Financial LP (“FNFLP” or “First National”).

Q3 Summary

- Mortgages under administration (“MUA”) increased 4% to a record \$122.3 billion compared to \$117.1 billion at September 30, 2020
- Revenue decreased 5% to \$353.7 million from \$373.8 million in Q3 2020 largely due to mortgage spread compression year over year
- Pre-FMV Income⁽¹⁾ was \$64.9 million compared to \$99.6 million in Q3 2020 due to the mortgage spread environment, a shift in commercial product mix and funding strategy
- Net income was \$47.6 million (\$0.78 per common share) compared to \$72.5 million (\$1.20 per common share) in Q3 2020

Special Dividend Declaration

A special common share dividend in the amount of \$1.25 per share will be paid on December 15, 2021 to First National shareholders of record on November 30, 2021. This distribution reflects the Board of Directors’ determination that over the past year, First National has generated excess capital and can efficiently fund near-term growth from operations.

Management Commentary

“First National’s performance in the third quarter was in line with, and in some cases, ahead of our expectations,” said Stephen Smith, Chairman and Chief Executive Officer. “MUA, the source of most of our earnings, benefitted from a healthy 10% increase in new originations. Originally, we had expected Q3 originations to be flat to last year. Profitability measures were also solid but as expected came in below 2020. By comparison, the third quarter of 2020 was exceptional as higher levels of home purchases and abnormally wide mortgage spreads created an ideal environment for the Company. A year later, spreads are as narrow as they were before the 2008 financial crisis. On a year-to-date basis, strong growth in both revenue and earnings has allowed the Company to generate capital beyond what we need. Accordingly, to remain capital efficient for our shareholders, I’m pleased to say our Board has authorized a \$1.25 per share special dividend – the 5th First National has declared in the past five years.”

In the third quarter of 2021, new mortgage originations increased 10% to \$8.4 billion from \$7.6 billion a year ago, while total mortgage renewals were \$2.3 billion, the same as last year.

“First National continues to enjoy the benefits of a robust real estate market, a strong share of the mortgage broker channel, and most of all our productive, service-oriented culture supported by MERLIN technology,” said Moray Tawse, Executive Vice President. “As a result, our single-family team delivered origination growth of 4% year over year, a strong showing especially in a market where activity is slower compared to the frenetic pace earlier this year. After a slow start to 2021, our commercial team drove a 33% year-over-year increase in new originations with conventional mortgage growth augmenting insured mortgage volumes. Renewal rates were positive for both segments on available opportunities although we believe the 48% increase in commercial renewals reflects First National’s ability to find solutions for our real estate borrowers and maintain long-term relationships with them. Overall, we are very pleased with these results and look to finish 2021 in a positive fashion.”

	Quarter ended		Nine months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
For the Period			(\$000s)	
Revenue	353,704	373,760	1,055,313	992,991
Income before income taxes	65,134	98,767	206,710	164,456
Pre-FMV Income ⁽¹⁾	64,867	99,644	200,231	228,071
At Period End				
Total assets	40,763,169	38,314,904	40,763,169	38,314,904
Mortgages under administration	122,311,392	117,116,971	122,311,392	117,116,971

Note:

- (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)

Third Quarter Review

Third quarter single-family mortgage originations of \$6.1 billion were 4% or \$212 million higher than a year ago. Single family mortgage renewals of \$1.7 billion were \$217 million lower than a year ago, reflecting available renewal opportunities. Third quarter commercial segment originations of \$2.3 billion were 33% or \$567 million higher than a year ago as demand for conventional lending picked up to augment insured mortgage volumes. Commercial segment mortgage renewals of \$604 million were 48% or \$198 million higher than a year ago.

In the third quarter, the Company originated and renewed for securitization purposes approximately \$1.8 billion of single-family mortgages and \$0.8 billion of multi-unit residential mortgages.

Total third quarter revenue decreased 5% to \$353.7 million from \$373.8 million in the third quarter of 2020. This reflected the factors noted below:

- **Q3 2021 placement fees** decreased 14% to \$85.0 million from \$98.4 million a year ago despite a 12% increase in origination volumes sold to institutional investors as mortgage spreads compressed and volumes sold on a funded basis attracted lower per-unit placement fees. In the commercial segment, spreads were between 15% and 50% lower than the abnormally high levels a year ago. The impact was most pronounced in the commercial segment of the business where borrower-driven shifts in origination mix (from insured to uninsured and from 10-year to five-year terms) added to the challenge

presented by tighter spreads. Placement fees are directly linked to the term of mortgages such that 5-year terms provide approximately 50% lower revenue on a per-unit basis. In addition, the Company elected to securitize a larger percentage of its 10-year term insured commercial mortgage origination resulting in less product to place with institutional investors.

- **Q3 2021 mortgage servicing income** increased 12% to \$51.4 million from \$46.0 million a year ago as higher MUA generated growth in administration revenue and the company generated higher revenue from underwriting and fulfillment processing services.
- **Q3 2021 net interest revenue earned on securitized mortgages** increased 15% to \$40.1 million from \$34.9 million a year ago on 4% growth in the Company's portfolio pledged under securitization as well as: wider-spread prime mortgages securitized in the past 12 months; an increase in the Excalibur mortgage program which had lower credit loss ratios than originally anticipated; and a decrease in indemnity costs payable to MBS debtholders on single-family mortgage prepayments compared to a year ago.
- **Q3 2021 mortgage investment income** increased 5% to \$16.2 million from \$15.5 million a year ago as mortgage rates rose moderately in the quarter which resulted in higher amounts of interest earned while mortgages were accumulated for securitization on First National's balance sheet.
- **Q3 2021 gains on deferred placement fee revenue** decreased 73% to \$3.5 million from \$12.9 million a year ago as the volume of multi-unit residential mortgages originated and sold to institutional investors declined by 42% from the comparative 2020 quarter and spreads were narrower.

Pre-FMV Income⁽¹⁾ decreased 35% to \$64.9 million from \$99.6 million in 2020 largely due to a return to a pre-pandemic spread environment and the shift in the commercial segment's product mix and funding strategy to allocate more origination volume to securitization as opposed to institutional placement. Generally, the increase in commercial origination volume was in uninsured business which is less profitable than insured origination.

Outstanding Securities

At September 30, 2021, and October 26, 2021, the Corporation had 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; and 200,000 November 2025 senior unsecured notes outstanding.

Dividends

The Board declared common share dividends in the third quarter of 2021 of \$35.2 million (\$29.2 million in Q3 2020) reflecting an increase in the regular monthly dividend paid in December 2020 and another increase, effective with the payment on June 15, 2021, that brought the current annualized common share dividend rate to \$2.35 per share.

The third quarter common share payout ratio was 75% compared to 41% in the 2020 third quarter. Excluding gains and losses on financial instruments (which management does not consider appropriate as a determinant of its dividend policy), the after tax Pre-FMV Dividend Payout Ratio⁽¹⁾ was not materially different in the third quarter of 2021.

Outlook

With the results of the first three quarters of 2021, management remains positive about the remainder of 2021 and into 2022. In the short term, the expectation for the fourth quarter includes lower year over year new origination due to slowing markets set against the 2020 fourth quarter which was exceptional. Management estimates that residential origination may be as much as 25% lower than the almost \$6 billion recorded in the comparative 2020 quarter but still some 20% above the fourth quarter of 2019 before the pandemic led to unusual market activity. Management recognizes that home purchasing in the past 15 months accelerated and that a slowdown was inevitable. However, it is confident that First National will remain competitive and a leader in the marketplace. The commercial segment funded a record volume of \$2.6 billion of new mortgages in the fourth quarter of 2020 which included about \$1.4 billion in December 2020 alone as property owners sought to close transactions before year end. Management anticipates commercial origination to remain strong in the fourth quarter of 2021 based on the current pipeline.

During the pandemic, the value of First National's business model has been demonstrated. By designing systems that do not rely on face-to-face interactions, the Company's business practices have resonated with mortgage brokers and borrowers alike during this period. In 2021, the Company has adhered to this model and will continue to benefit from record MUA.

The economic effects of COVID-19 are expected to slowly diminish, although the duration and impact of the pandemic is unknown at this time, as is the long-term efficacy of the government and central bank interventions. It is still not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

Despite the length of this transition, First National is set up to execute its business plan. In 2021 and into 2022, the Company expects to enjoy the value of its goodwill with mortgage broker partners earned over the last 30+ years and reinforced during the pandemic. On the funding side, there continues to be strong demand for the Company's mortgages from institutional investors due to substantial liquidity in the financial system. Securitization markets are robust and continue to provide consistent and reliable funding for the Company.

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 \$33 billion portfolio of mortgages pledged under securitization and \$87 billion servicing portfolio and focus on the value inherent in its significant single-family renewal book.

Conference Call and Webcast

October 27, 2021 10:00 am ET	(416) 764-8609 or (888) 390-0605 www.firstnational.ca
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A taped rebroadcast of the conference call will be available until November 3, 2021 at midnight ET. To access the rebroadcast, please dial (416) 764-8677 or (888) 390-0541 and enter passcode 141337 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 over \$122 billion in mortgages under administration, First National is one of Canada's largest non-bank originators and underwriters 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 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 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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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