MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations is prepared as of March 4, 2025. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of First National Financial Corporation (the "Company" or "Corporation" or "First National") as at and for the year ended December 31, 2024. The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. The selected financial information and discussion below also refer to certain measures to assist in assessing financial performance. These other 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 IFRS as an indicator of performance or as a measure of liquidity and cash flow. These measures do not have standard meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Unless otherwise noted, tabular amounts are in thousands of Canadian dollars.

Additional information relating to the Company is available in First National Financial Corporation's profile on the System for Electronic Data Analysis and Retrieval ("SEDAR") website at www.sedar.com.

General Description of the Company

First National Financial Corporation is the parent company of First National Financial LP ("FNFLP"), a Canadian-based originator, underwriter and servicer of predominantly prime residential (single-family and multi-unit) and commercial mortgages. With more than $153 billion in mortgages under administration ("MUA"), First National is one of Canada's largest non-bank originators and underwriters of mortgages and is among the top three lenders in market share in the mortgage broker distribution channel.

2024 Results Summary

First National's performance in 2024 met management's expectations. Mortgages Under Administration (MUA) surpassed $153 billion, growing by 7% year over year. Total mortgage originations, including renewals, were $37.5 billion, slightly above 2023 levels as strong fourth quarter growth fully offset weaker volumes in the prior three quarters and demonstrated the Company's resilience. Core operating profitability, measured by Pre-FMV Income(1), decreased by 10% from 2023 reflecting several factors including the impact of lower single-family origination on placement fees; lower originations in third party underwriting and fulfillment processing services which affected mortgage servicing revenue, and higher other operating expenses related to investment in IT platforms and infrastructure. Earnings were also affected by increased direct securitization which delays the recognition of income to future periods.

The following summarizes performance of the Company's significant metrics:

- MUA grew to $153.7 billion at December 31, 2024 from $143.5 billion at December 31, 2023, an increase of 7%; growth from September 30, 2024, when MUA was $150.6 billion, was 8% on an annualized basis.
- Total single-family mortgage origination, including renewals, was $22.6 billion in 2024 compared to $24.4 billion in 2023, a 7% decrease, characterized by lower year over year origination in each of the first three quarters and a large year over year increase in the fourth. Commercial segment origination, including renewals, of $14.9 billion was 14% higher than the $13.0 billion originated in 2023 primarily on strong insured multi-unit mortgage origination despite lower conventional mortgage activity.
- Revenue for 2024 increased approximately 10% to $2.2 billion from $2.0 billion in 2023 reflecting growth in the portfolio of securitized mortgages and related interest revenue. Mortgages pledged under securitization currently deliver about 70% of the Company's revenue due to their significant size. These portfolios grew by 12% from 2023 to 2024. While interest rates decreased in 2024 compared to 2023, the weighted average mortgage rate in the securitization portfolios was higher in 2024 than 2023.
- Income before income taxes was $276.6 million in 2024 compared to $343.9 million in 2023. The decrease included the effect of changing capital market conditions in both years. Excluding gains and losses related to financial instruments, earnings before income taxes and gains and losses on financial instruments ("Pre-FMV Income" (1)) for 2024 decreased by 10% to $290.3 million from $322.2 million in 2023. The change was partially attributable to the Company's decision to invest more heavily in its direct securitization programs which delayed the recognition of revenue to future periods in contrast to 2023. Higher operating costs, particularly for technology, further reduced earnings by about $13.5 million.

In the fourth quarter of 2024, the Company's Board of Directors announced an increase in First National's regular monthly common share dividend to an annualized rate of $2.50 per share from $2.45 per share effective with the dividend payable on December 13, 2024, and a special common share dividend in the amount of $0.50 per share, payable on December 13, 2024, to shareholders of record on November 29, 2024. This special payment reflected the Board's determination that the Company had generated excess capital in the past year and that the capital needed for near-term growth can be generated from current operations.

(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). See Key Performance Indicators section in this MD&A.

Selected Quarterly Information

Quarterly Results of First National Financial Corporation

($000s, except per share amounts)

	Revenue	Net Income for the Period	Pre-FMV Income for the Period (1)	Earnings per Common Share	Total Assets
2024					
Fourth quarter	$600,096	$63,019	$74,819	$1.04	$51,157,141
Third quarter	$560,386	$36,409	$75,254	$0.59	$50,460,286
Second quarter	$538,450	$54,070	$77,498	$0.88	$50,093,796
First quarter	$518,045	$49,892	$62,745	$0.82	$45,765,958
2023					
Fourth quarter	$503,441	$44,245	$77,125	$0.72	$45,957,399
Third quarter	$562,861	$83,630	$95,456	$1.38	$45,176,543
Second quarter	$525,897	$89,194	$89,854	$1.47	$46,417,841
First quarter	$432,086	$35,738	$59,748	$0.58	$44,268,705

Reconciliation of Quarterly Determination of Pre-FMV Income

($000s, except per share amounts)

	Income before income tax for the Period	Add/ deduct Realized and unrealized losses (gains)	Deduct (losses), add gains related to mortgage investments	Pre-FMV Income for the Period (1)
2024				
Fourth quarter	$85,579	($10,760)	$—	$74,819
Third quarter	$49,689	$25,565	$—	$75,254
Second quarter	$73,490	$4,008	$—	$77,498
First quarter	$67,892	($5,147)	$—	$62,745
2023				
Fourth quarter	$59,895	$16,894	$336	$77,125
Third quarter	$113,830	($18,435)	$61	$95,456
Second quarter	$121,544	($31,690)	$—	$89,854
First quarter	$48,638	$11,110	$—	$59,748

(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). See Key Performance Indicators section in this MD&A.

With First National's large portfolio of mortgages under administration, quarterly revenue is driven primarily by servicing income and gross interest earned on mortgages pledged under securitization. The gross interest on the mortgage portfolio is dependent both on the size of the portfolio of mortgages pledged under securitization, as well as mortgage rates. Recently MUA increased, and revenue followed. Net income is partially dependent on conditions in bond markets, which affect the value of gains and losses on financial instruments arising from the Company's interest rate hedging program. Accordingly, the movement of this measurement between quarters is related to factors external to the Company's core business. By removing this volatility and analyzing Pre-FMV Income(1), management believes a more appropriate measurement of the Company's performance can be assessed.

In the past eight quarters, the Company experienced a changing market in the residential mortgage broker channel. The first three quarters of 2023 were characterized by the relative absence of the traditionally largest lender in the channel. The Company was able to capture higher than usual market share during these quarters.. The fourth quarter of 2023 was marked by the aggressive return to market of the previously absent lender and a relative decrease in the Company's share of funded mortgages to more typical level. The resulting operational efficiency from solid origination levels in the first three quarters and record MUA, translated to higher Pre-FMV Income(1) in 2023. In contrast, 2024 began with challenging year over comparisons to the strong first three quarters of 2023. Despite the return to traditional market dynamics, the Company remained focused and with a combination of higher housing activity, fourth quarter single family origination, surpassed 2023 levels by 44%. These origination volumes supported quarterly financial results but with an increase of more than $3.3 billion of mortgages originated allocated for its own securitization programs, income was effectively deferred to future periods. This impacted earnings such that Pre-FMV Income(1) for the year was lower by 10%.

Outstanding Securities of the Corporation

At December 31, 2024 and March 4, 2025, the Corporation had outstanding: 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 2025 senior unsecured notes; 200,000 September 2026 unsecured notes; and 200,000 November 2027 senior unsecured notes.

Selected Annual Financial Information and Reconciliation to Pre-FMV Income[1]

($000s, except per share amounts)

	2024	2023	2022
For the Year Ended December 31, Income Statement Highlights			
Revenue	2,216,977	2,024,285	1,574,293
Interest expense – securitized mortgages	(1,372,182)	(1,119,475)	(739,295)
Brokerage fees	(95,508)	(139,199)	(173,290)
Salaries, interest and other operating expenses	(472,637)	(421,704)	(392,626)
Add (deduct): realized and unrealized losses (gains) on financial instruments	13,666	(22,121)	(59,610)
Add (deduct): unrealized gains (losses) regarding mortgage investments	—	397	(710)
Pre-FMV Income[1]	290,316	322,183	208,762
Add (deduct): realized and unrealized gains (losses) on financial instruments excluding those on mortgage investments	(13,666)	21,785	60,320
Provision for income taxes	(73,260)	(91,100)	(71,350)
Net income	203,390	252,807	197,732
Common share dividends declared	177,404	189,397	141,423
Per Share Highlights			
Net income per common share	3.33	4.15	3.25
Dividends per common share	2.96	3.16	2.36
At Year End Balance Sheet Highlights Total assets	51,161,425	45,957,399	43,763,672
Total long-term financial liabilities	598,630	598,745	399,222

Note:

(1) Pre-FMV Income is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Pre-FMV Income may not be comparable to similar measures presented by other issuers. Investors are cautioned that Pre-FMV Income should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

Vision and Strategy

The Company provides mortgage financing solutions to residential and commercial mortgage markets in Canada. By offering a full range of mortgage products, with a focus on customer service and superior technology, the Company believes that it is a leading non-bank mortgage lender. The Company intends to continue leveraging these strengths to lead the non-bank mortgage lending industry in Canada, while appropriately managing risk. The Company's strategy is built on four cornerstones: providing a full range of mortgage solutions for Canadian single-family and commercial customers; growing mortgages under administration; employing technology to enhance business processes and service to mortgage brokers and borrowers; and maintaining a conservative risk profile. An important element of the Company's strategy is its direct relationship with mortgage borrowers. The Company is considered by most of its borrowers as the mortgage lender. This is a critical distinction. It allows First National to communicate with each borrower directly throughout the term of the related mortgage. Through this relationship, the Company can negotiate new transactions and pursue marketing initiatives. Management believes this strategy will provide long-term profitability and sustainable brand recognition for the Company.

Key Performance Drivers

The Company's success is driven by the following factors:

- Growth in the portfolio of mortgages under administration;
- Growth in the origination of mortgages;
- Raising capital for operations; and
- Employing innovative securitization transactions to minimize funding costs.

Growth in Portfolio of Mortgages under Administration

Management considers growth in MUA to be a key element of the Company's performance. The portfolio grows in two ways: through mortgages originated by the Company and through third-party mortgage servicing contracts. Mortgage originations not only drive revenues from placement and interest from securitized mortgages, but perhaps more importantly, create longer-term value from servicing rights, renewals and growth in the customer base for marketing initiatives. As at December 31, 2024, MUA totalled $153.7 billion, up from $143.5 billion at December 31, 2023, an increase of 7%. The growth of MUA in the fourth quarter of 2024 was 8% on an annualized basis.

Growth in Origination of Mortgages

Direct Origination by the Company

The origination of mortgages not only drives the growth of MUA as described above, but it also leverages the Company's origination platform, which has a large fixed-cost component. As more mortgages are originated, the marginal costs of underwriting decrease. Increased origination satisfies demand from institutional customers and produces volume for the Company's own securitization programs. In 2024, the Company's single-family origination decreased by 7% compared to 2023. The commercial segment continued to perform well despite changing market conditions. Total commercial volumes were $14.9 billion in 2024 compared to $13.0 billion in 2023, an increase of 14%. On a combined basis, overall origination in 2024 was materially unchanged from 2023.

Third-Party Mortgage Underwriting and Fulfilment Processing Services

In 2015, the Company launched its third-party underwriting and fulfilment processing services business with a large Canadian Schedule I bank ("Bank"). This business is designed to adjudicate mortgages originated by the Bank through the single-family residential mortgage broker channel. First National employs a customized software solution based on its industry-leading MERLIN technology to accept mortgage applications from the Bank in the mortgage broker channel and underwrite these mortgages in accordance with the Bank's underwriting guidelines. The Bank funds all the mortgages underwritten under the agreement and retains full responsibility for mortgage servicing and the client relationship. Management considers the agreement a way to leverage the capabilities and strengths of First National in the mortgage broker channel and add some diversity to the Company's service offerings. In late 2019 and 2023, the Company entered into similar agreements with two other Canadian banks.

Excalibur Mortgage Products

The Company originates alternative single-family ("Excalibur") mortgage products. Alternative lending describes single-family residential mortgages that are originated using broader underwriting criteria than those applied in originating prime mortgages. These mortgages generally have higher interest rates than prime mortgages. First National's relationships with mortgage brokers and its underwriting systems allow for cost effective origination of significant volumes. The product is originated primarily for placement with institutional investors, but beginning in April 2019, the Company finalized an agreement with a bank-sponsored securitization conduit to fund a portion of Excalibur origination. In early 2020, an agreement was reached with another bank-sponsored conduit to provide additional funding for this product. Excalibur was rolled out gradually, beginning in Ontario. Currently the program originates the majority of its mortgages in Ontario with a growing presence in Western Canada.

Raising Capital for Operations

Bank Credit Facility

The Company's $1.5 billion revolving line of credit with a syndicate of banks enables it to fund the large amounts of mortgages accumulated for securitization. In the second quarter of 2024, the Company extended the term of the facility by another year to mature in March 2029. The facility bears interest at floating rates. The Company has elected to undertake this debt for a number of reasons: (1) the facility provides the amount of debt required to fund mortgages originated for securitization purposes; (2) the debt is revolving and can be used and repaid as the Company requires, providing more flexibility than senior unsecured notes, which are fully drawn during their term; (3) the remainder of the five-year term gives the Company a committed facility for the medium term; and (4) the cost of borrowing reflects the Company's BBB issuer rating.

Note Issuance

On April 1, 2024, 200,000 new Series 5 notes were issued at a coupon of 6.261% for a three-year, 7-month term maturing November 1, 2027. These notes added to the Company's 2023 issuance of 200,000 7.293% Series 4 senior unsecured notes, 2020's issuance of 200,000 2.961% Series 3 senior unsecured notes and 2019's issuance of 200,000 3.582% Series 2 senior unsecured notes. The net proceeds of these issuances, after broker commissions, were invested in FNFLP. On settlement, the proceeds were used to pay down a portion of the indebtedness under the bank credit facility. The Company's medium-term debt capital now stands at approximately $600 million. The notes issued in April 2024 provided the Company with liquidity to fund the maturity of the 2019 issued notes which matured on November 25, 2024.

Preferred Share Issuance

Effective April 1, 2021, pursuant to the original prospectus, the Company reset the annual dividend rate on its outstanding Class A Series 1 preference shares to 2.895% for a five-year term to March 31, 2026. After the exercise of shareholder conversion rights in March 2021, there were 2,984,835 Class A Series 1 shares outstanding and 1,015,165 Class A Series 2 outstanding. The Series 2 shares bear a floating rate dividend calculated quarterly based on the 90-day T-Bill rate. Both the Series 1 and Series 2 shares pay quarterly dividends, subject to Board of Directors' approval, and are redeemable at the discretion of the Company such that after each five-year term ending on March 31, the Company can choose to extend the shares for another five-year term at a fixed spread (2.07%) over the relevant index (five-year Government of Canada bond yield for any Series 1 shares or the 90-day T-Bill rate for any Series 2 shares). While investors in these shares have an option on each five-year anniversary to convert their Series 1 preference shares into Series 2 preference shares (and vice versa), there is no provision of redemption rights to these shareholders. As such, the Company considers these shares to represent a permanent source of capital.

Employing Securitization Transactions to Minimize Funding Costs

Approval as Both an Issuer of NHA-MBS and Seller to the Canada Mortgage Bonds Program

In December 2007, the Company was approved by Canada Mortgage and Housing Corporation ("CMHC") as an issuer of NHA-MBS and as a seller into the Canada Mortgage Bonds ("CMB") program. Issuer status provides the Company with direct and independent access to reliable and low-cost funding. Insured mortgage spreads can be illustrated by comparing insured posted five-year fixed single-family mortgage rates to a similar term five-year Government of Canada bond as listed in the table below.

Period	Period end Five-Year Insured Mortgage Spread by Quarter
Q4 2022	1.48%
Q1 2023	1.62%
Q2 2023	1.65%
Q3 2023	1.59%
Q4 2023	2.07%
Q1 2024	1.46%
Q2 2024	1.38%
Q3 2024	1.65%
Q4 2024	1.57%

Generally, when this spread is wider, the Company can earn higher returns from its securitization activities, although credit spreads and program fees observed in mortgage securitization markets also affect profitability.. In 2024, the Company originated and renewed approximately $15.2 billion of single-family and multi-unit residential mortgages for securitization purposes.

The Company is subject to various CMHC regulations. These rules include the amount of CMHC guarantees issued which are required to issue a pool. Currently there is a tiered NHA-MBS guarantee fee pricing structure, such that any guarantees issued to one issuer over $9.0 billion of issuance have a higher price. The tiered limit of $9.0 billion remained unchanged in 2024. In July 2022, CMHC issued new rules related to the allocation of NHA-MBS guarantee fees between "lenders" and "aggregators". These rules commenced in the latter part of 2023 through a transition period. CMHC indicated in 2023 that these rules may be subject to further clarification. While these rules have not yet impacted the Company's ability to place mortgages with its existing institutional customers, the rules will have an ongoing impact on the amount of NHA MBS that issuers can create.

Canada Mortgage Bonds Program

The CMB program is an initiative where Canada Housing Trust ("CHT") issues securities to investors in the form of semi-annual interest-yielding 5 and 10-year bonds. As a seller into the CMB, the Company makes direct sales of NHA MBS into the program. The ability to sell into the CMB has given the Company access to lower costs of funds on both single-family and multi-family mortgage securitizations. Because of the effectiveness of the CMB, many institutions have indicated their desire to participate. As a result, CHT has created guidelines through CMHC that limit the amount that can be sold by each seller into the CMB each quarter. The Company is subject to these limitations. CMHC has indicated there may be modifications which may reduce the amounts which the Company can sell into 10-year CMB. After the federal government reviewed the CMB program in 2023, it announced in September 2023 that the annual limit for Canada Mortgage Bonds would increase to $60 billion from $40 billion. The $20 billion increase is dedicated to multi-unit residential pools. At the same time, CMHC increased available NHA MBS guarantees from $150 billion to $170 billion for 2024 to mirror the additional CMB capacity.

Key Performance Indicators

The principal indicators used to measure the Company's performance are:

- Earnings before income taxes and losses and gains on financial instruments, with the exception of any losses or gains related to mortgage investments ("Pre-FMV Income"[(1)]); and

- Dividend payout ratio.

Beginning in 2020, the Company presented Pre-FMV Income[(1)] as a key performance indicator. This non-IFRS measure adjusts the Company's earnings by excluding gains and losses related to the fair value of financial instruments. Pre-FMV Income is not recognized under IFRS. However, management believes that Pre-FMV Income is a useful measure that provides investors with an indication of income normalized for capital-market fluctuations. Pre-FMV Income should not be construed as an alternative to net income determined in accordance with IFRS or to cash flows from operating, investing and financing activities. The Company's method of calculating Pre-FMV Income may differ from other issuers and, accordingly, Pre-FMV Income may not be comparable to measures used by other issuers.

	Quarter ended		**Year ended**	
	December 31, 2024	**December 31, 2023**	**December 31, 2024**	**December 31, 2023**
For the Period		**($000s)**		
Revenue	600,096	503,441	2,216,977	2,024,285
Income before income taxes	85,579	59,895	276,650	343,907
Pre-FMV Income [(1)]	74,819	77,125	290,316	322,183
At Period End				
Total assets	51,157,141	45,957,399	51,157,141	45,957,399
Mortgages Under Administration	153,697,009	143,546,966	153,697,009	143,546,966

(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).

Since going public in 2006, First National has been considered a high-yielding, dividend-paying company. With a large MUA that generates continuing income and cash flow and a business model that is designed to make efficient use of capital, the Company has been able to pay distributions to its shareholders that represent a relatively large ratio of its earnings. The Company calculates the dividend payout ratio as dividends declared on common shares over net income attributable to common shareholders. This measure is useful to shareholders as it indicates the percentage of earnings paid as dividends. Similar to the performance measurement for earnings, the Company also calculates the dividend payout ratio on a basis using after-tax Pre-FMV Income[(1)].

Determination of Common Share Dividend Payout Ratio

	Quarter Ended		Year Ended	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
For the Period		($000s)		
Net income attributable to common shareholders	62,079	43,242	199,493	248,952
Total dividends paid or declared on common shares	67,214	81,456	177,404	189,397
Total dividends paid or declared on common shares, excluding special dividends	37,930	36,480	148,420	144,421
Total common share dividend payout ratio	108%	188%	89%	76%
Regular common share dividend payout ratio[1]	61%	84%	74%	58%
After-tax Pre-FMV dividend payout ratio [2]	70%	64%	71%	62%

Note:

(1) This ratio is calculated by excluding the payment of the special dividends declared at the end of the periods presented

(2) This non-IFRS measure adjusts the net income used in the calculation of the "Regular common share dividend payout ratio" to after tax Pre-FMV income so as to eliminate 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). The Company uses its aggregate effective tax rate to tax affect the impact of the valuation of financial instruments on this ratio.

For the year ended December 31, 2024, the total common share payout ratio excluding special dividends was 89% compared to 76% for the year ended December 31, 2023. In both years, the Company recorded gains and losses on changes in fair value of financial instruments. Gains and losses are recorded in the period in which the prices on Government of Canada bonds change; however, the offsetting economic impact is generally reflected in narrower or wider spreads in the future once the mortgages have been pledged for securitization. Accordingly, management does not consider such gains and losses to affect its dividend payment policy in the short term. If the gains and losses on financial instruments in the two years are excluded from the above calculations, the regular dividend payout ratio for 2024 (which excludes the payment of the special dividend) would have been 71% compared to 62% in 2023.

The Company also paid $3.9 million of dividends on its preferred shares in both 2024 and 2023.

Revenues and Funding Sources

Mortgage Origination

The Company derives a significant amount of its revenue from mortgage origination activities. Most mortgages originated are funded either by placement with institutional investors or through securitization conduits, in each case with retained servicing. In general, originations are allocated from one funding source to another depending on different criteria, including type of mortgage and securitization limits, with an overall consideration related to maintaining diversified funding sources. The Company retains servicing rights on virtually all the mortgages it originates. This provides First National with servicing fees to complement revenue earned through originations. For the year ended December 31, 2024, and 2023 origination volume was $37.5 billion.

Securitization

The Company securitizes a portion of its origination through various vehicles, including NHA-MBS, CMB and asset-backed commercial paper ("ABCP"). Although these transactions legally represent sales of mortgages, for accounting purposes they do not meet the requirements for sale recognition and instead are accounted for as secured financings. These mortgages remain as mortgage assets of the Company for the full term and are funded with securitization-related debt. Of the Company's $37.5 billion of originations in 2024, $15.2 billion was originated for its own securitization programs.

Placement Fees and Gain on Deferred Placement Fees

The Company recognizes revenue at the time that a mortgage is placed with an institutional investor. Cash amounts received in excess of the mortgage principal at the time of placement are recognized in revenue as "placement fees". The present value of additional amounts expected to be received over the remaining life of the mortgage sold (excluding normal market-based servicing fees) is recorded as a "deferred placement fee". A deferred placement fee arises when mortgages with spreads in excess of a base spread are placed. Normally First National would earn an upfront cash placement fee, but investors prefer paying the Company over time, as they earn net interest margin on such transactions. Upon the recognition of a deferred placement fee, the Company establishes a "deferred placement fee receivable" that is amortized as the fees are received by the Company. Of the Company's $37.5 billion of originations in 2024, $21.4 billion was placed with institutional investors.

For all institutional placements, the Company earns placement fees. Revenues based on these originations are equal to either (1) the present value of the excess spread, or (2) an origination fee based on the outstanding principal amount of the mortgage. This revenue is received in cash at the time of placement. In addition, under certain circumstances, additional revenue from institutional placements may be recognized as "gain on deferred placement fees" as described above.

Mortgage Servicing and Administration

The Company services virtually all mortgages generated through its mortgage origination activities on behalf of a wide range of institutional investors. Mortgage servicing and administration is a key component of the Company's overall business strategy and a significant source of continuing income and cash flow. In addition to pure servicing revenues, fees related to mortgage administration are earned by the Company throughout the mortgage term. Another aspect of servicing is the administration of funds held in trust, including borrowers' property tax escrows, reserve escrows and mortgage payments. As acknowledged in the Company's agreements, any interest earned on these funds accrues to the Company as partial compensation for administration services provided. The Company has negotiated favourable interest rates on these funds with the chartered banks that maintain the deposit accounts, which has resulted in significant additional servicing revenue.

In addition to the interest income earned on securitized mortgages and deferred placement fees receivable, the Company also earns interest income on mortgage-related assets, including mortgages accumulated for sale or securitization, mortgage and loan investments and purchased mortgage servicing rights.

The Company provides underwriting and fulfilment processing services to three mortgage originators using the mortgage broker distribution channel. The Company earns a fee based on the dollar value of funded mortgages. These fees are recognized at the time a mortgage funds and are included in "Mortgage servicing income" in the consolidated statement of income.

Results of Operations

The following table shows the volume of mortgages originated by First National and Mortgages Under Administration for the periods indicated:

	Quarter Ended		Year Ended	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
	($ millions)			
Mortgage Originations by Segment				
Single-family residential	6,276	4,360	22,590	24,408
Multi-unit and commercial	4,099	3,840	14,909	13,042
Total origination and renewals	10,375	8,200	37,499	37,450
Mortgage Originations by Funding Source				
Institutional investors	6,177	5,667	21,411	24,616
NHA-MBS/CMB/ABCP securitization	3,953	2,259	15,192	11,830
Internal Company resources	245	274	896	1,004
Total	10,375	8,200	37,499	37,450
Mortgages Under Administration				
Single-family residential	95,797	94,546	97,797	94,546
Multi-unit residential and commercial	57,900	49,001	57,900	49,001
Total	153,697	143,547	153,697	143,547

Total mortgage origination volume was slightly higher in 2024 compared to 2023. This reflected a 7% decrease in single-family volumes offset by a 14% increase in commercial segment volumes year over year. Management believes the decrease in the single-family segment was primarily due to competition in the mortgage broker distribution channel that led to discounted rates and larger broker incentives, rather than market conditions. The housing market across Canada performed well, although activity was somewhat muted compared to the 10-year trend. The Company's MERLIN technology continued to support its mortgage origination platform allowing First National to underwrite efficiently across the country. In the commercial segment, where the Company's expertise in underwriting insured multi-unit mortgages is a fundamental competency, 2024 volumes reflected continuing demand. This success was partially offset by lower conventional mortgage activity. Origination for direct securitization into NHA-MBS, CMB and ABCP programs remained a large part of the Company's strategy, with about $15.2 billion of volume in 2024.

Net Interest – Securitized Mortgages

Comparing the year ended December 31, 2024, to the year ended December 31, 2023, "net interest – securitized mortgages" ("NII") increased by 5% to $226.4 million from $216.6 million. The portfolio of mortgages pledged under securitization grew 12% from $39.4 billion at December 31, 2023 to $44.0 billion at December 31, 2024. This reflected growth of 19% in the multi-unit residential program portfolio and 8% growth in single-family programs. Commercial segment earnings were up by $11 million and grew with the larger portfolio and an increase in margin largely related to the success of the Company's insured construction mortgage program. Residential segment NII was lower by $2 million year over year reflecting tighter spreads. This was partially due to the competitive environment, but also the result of the accounting related to the Company's interest rate management program for single-family mortgage commitments. The Company records gains and losses on such hedges in its current earnings while earning wider or narrower securitization margins over the term of the related mortgages. Generally speaking, when the Company records gains on the hedges, there are narrower securitization margins on the related mortgages. The reverse is true when there are losses. In each of the past three years, the Company recorded gains on these hedging instruments such that the mortgages securitized had comparatively narrower securitization spreads. Effectively, some of the spread otherwise earned on such transactions was recorded as an upfront gain on financial instruments as opposed to securitization NII over the mortgage term. While difficult to calculate precisely, management believes this phenomenon reduced comparative NII in the current year by about $8 million. The residential segment was favorably affected by the Excalibur securitization program as it continued to perform with almost no realized loan-loss experience.

Placement Fees

Placement fee revenue decreased by 16% to $209.3 million from $248.3 million in 2023. This reflected a 13% decrease in placement activity and a shift in the mix of mortgages that make up placement volume. In 2024, new residential origination decreased and was replaced with an increase in renewed residential mortgages. Generally, per-unit fees for renewed mortgages are markedly lower than those on new residential origination. Altogether, including prime mortgages, Excalibur and mortgage renewals, residential per-unit fees were lower by about 4% year over year.

Gains on Deferred Placement Fees

Gains on deferred placement fees decreased 41% to $15.0 million from $25.3 million. These gains related primarily to multi-unit residential mortgages originated and sold to institutional investors where volumes decreased by 12% from 2023. Margins in this business were tighter in 2024 than in 2023.

Mortgage Servicing Income

Mortgage servicing income increased 2% to $258.1 million from $252.6 million. This increase reflected higher revenues related to MUA including administrative fees, partially offset by lower revenues earned in the Company’s third-party underwriting business. In general, the elements of mortgage servicing income that relate to the Company’s MUA were 8% higher year over year.

Mortgage Investment Income

Mortgage investment income increased 7% to $149.7 million from $139.9 million. The increase was due primarily to the Company carrying a larger balance of mortgages accumulated for securitization during 2024 as it increased its securitization activity. Although mortgage rates were lower year over year commensurate with the overall interest rate environment, mortgage balances in the warehouse grew by a larger amount. This increase was offset somewhat as the Company reduced commercial bridge lending by placing more of this product with its institutional customers. This decision reduced the mortgage loan and investment portfolio by about $50 million and reduced the amount of interest revenue generated by these mortgages.

Realized and Unrealized Gains (Losses) on Financial Instruments

This financial statement line item consists of three primary components: (1) gains and losses related to the Company's economic hedging of single-family commitments, (2) gains and losses related to holding a portfolio of mortgage and loan investments at fair value, and (3) gains and losses on interest rate swaps used to mitigate interest rate risk on its CMB activity. The Company has elected to document hedging relationships for virtually all of the multi-residential commitments and mortgages it originates for its own securitization programs. It has also done the same for funded single-family mortgages and the swaps used in its ABCP programs. This has reduced the volatility of gains and losses on financial instruments otherwise recorded in the Company's regular earnings, as gains and losses on hedged items are generally deferred and amortized into income over the term of the related mortgages. The Company does not document a hedging relationship for accounting purposes related to its interest mitigation program on its single-family mortgage commitments. The Company believes, given the optional nature of these commitments, it is difficult to establish a valid hedging relationship. For financial reporting purposes, this means that there will still be gains and losses on financial instruments, but these should be limited to those on the bonds sold short used to mitigate such risk. The following table summarizes these gains and losses by category in the periods indicated:

	Quarter Ended		Year Ended	
Summary of Realized and Unrealized Gains (Losses) on Financial Instruments	**December 31, 2024**	**December 31, 2023**	**December 31, 2024**	**December 31, 2023**
	($000s)			
Gains (losses) on short bonds used for the economic hedging program	11,000	(20,881)	(13,666)	23,620
Gains (losses) on mortgages held at fair value	—	336	—	397
Gains (losses) on interest rate swaps	(240)	3,651	—	(1,896)
Net gains (losses) on financial instruments	10,760	(16,894)	(13,666)	22,121

2023 began with an environment in which bond yields fell as economic sentiment turned softer; however, by midyear the BoC once again increased its overnight rates to counter a stubborn inflationary economy. This resulted in increases in both short and long-term interest rates. Accordingly, the Company recorded gains on its short bonds used to economically hedge single-family mortgage commitments. 2024 began with a more uncertain environment in which bond yields first fell but then rose as inflation indicators remained elevated and the central bank delayed possible overnight rate cuts. In early June 2024, the BoC began cutting rates again and the bond market followed with decreasing yields. The lower yields meant the Company recorded losses on the short bonds it used to economically hedge single-family mortgage commitments. In the fourth quarter of 2024, yields rose, and the Company recorded gains on its short bond position.

Brokerage Fees Expense

Brokerage fees expense decreased 31% to $95.5 million in 2024 from $139.2 million in 2023. This reflected a 34% year-over-year decrease in origination volumes of single-family mortgages for institutional investors partially offset by a 5% increase in per-unit broker fees.

Salaries and Benefits Expense

Salaries and benefits expense increased 15% to $229.6 million from $200.5 million. The primary increase in these expenses related to incentive-driven commercial underwriting compensation which was higher year over year by $13.7 million on higher production. Without these expenses, salaries and benefits increased by 10% year over year. This reflected standard annual merit increase as well as headcount growth of 9% (1,771 employees at December 31, 2024, compared to 1,624 at December 31, 2023). Some of the headcount growth pertains to staffing for the Company's new third-party underwriting customer.. Management salaries were paid to the two senior executives (co-founders) who together control about 71% of the Company's common shares. The current period expense is a result of the compensation arrangement executed on the closing of the initial public offering ("IPO") in 2006.

Interest Expense

Interest expense increased 5% to $161.7 million from $153.4 million. As discussed in the "Liquidity and Capital Resources" section of this analysis, the Company warehouses a portion of the mortgages it originates prior to settlement with the investor or funding with a securitization vehicle. The Company used its $1.5 billion syndicated bank line together with repurchase agreements to fund mortgages during this period. The overall interest expense increased from 2023 because of higher usage of repurchase agreements to fund the larger balances of mortgages accumulated for securitization. Interest expense also includes the cost of carry related to the Company's economic hedging program.

Other Operating Expenses

Other operating expenses increased by 20% to $81.3 million from $67.8 million primarily due to higher information technology costs including higher depreciation related to investments in computer hardware and software. The Company also incurred higher insurance costs and credit bureau expenses relative to 2023.

Income before Income Taxes and Pre-FMV Income[(1)]

Income before income taxes decreased 20% to $276.6 million from $343.9 million in 2023, due partially to changing capital markets. The Company's results include gains and losses on financial instruments used to economically hedge residential mortgage commitments. As described previously in this MD&A, the Company recorded $13.7 million of losses on financial instruments (excluding gains related to mortgage investments) in 2024 quarter. Comparatively, in 2023, the Company recorded $21.7 million of gains on financial instruments (excluding losses related to mortgage investments). The change in these values accounted for a $35.4 million decrease in comparative income before income taxes. Pre-FMV Income[(1)], which excludes these changes, decreased by 10% to $290.3 million from $322.2 million. This change was the result of several factors including lower origination in the third-party underwriting business. Lower volumes reduced the Company's operating leverage as revenues were lower while expenses were higher as headcount was added to support the new third-party underwriting customer and salaries rose with annual merit increases. The Company also choose to securitize more of its origination through direct securitization programs which delayed the recognition of revenue to future periods in contrast to how mortgages were funded in the comparative year. Higher operating costs particularly related to technology further reduced earnings by $13.5 million.

Income Tax Expense

The provision for taxes decreased by 20% to $73.3 million from $91.1 million. The provision decreased proportionately with net income before income taxes.

Other Comprehensive Income

For the commercial segment, the Company hedges the interest rate risk associated with insured multi-residential mortgages. This hedging begins on commitment and ends when the Company either securitizes the mortgage or places the mortgage with an institutional investor. As the Company determined that these cash flow hedges were effective, it recorded $28.9 million of pre-tax net losses on such hedges in OCI in 2024. In the year, the Company amortized a portion of the gains and losses in accumulated OCI into regular earnings in the amount of $0.5 million. The remaining OCI amount will be amortized into net income in future periods.

Operating Segment Review

The Company aggregates its business from two segments for financial reporting purposes: (i) Residential (which includes single-family residential mortgages), and (ii) Commercial (which includes multi-unit residential and commercial mortgages), as summarized below:

	Operating Business Segments			
	Residential		**Commercial**	
	($000s except percent amounts)			
For the Year Ended	**December 31, 2024**	**December 31, 2023**	**December 31, 2024**	**December 31, 2023**
Originations and renewals	22,589,614	24,416,844	14,909,306	13,042,685
Percentage change	*(7%)*		*14%*	
Revenue	1,547,538	1,454,434	669,439	569,851
Percentage change	*6%*		*17%*	
Income before income taxes	155,808	207,192	120,842	136,715
Percentage change	*(25%)*		*(12%)*	
As at	**December 31, 2024**	**December 31, 2023**	**December 31, 2024**	**December 31, 2023**
Identifiable assets	33,218,858	30,362,969	17,908,507	15,564,654
Mortgages under administration	95,796,912	94,545,641	57,900,097	49,001,325

Residential Segment

Residential origination volumes including renewals decreased by 7% between 2023 and 2024 while residential revenues increased by 6%. Excluding the impact of gains and losses on financial instruments, revenues increased by 9%. This performance largely reflected higher interest revenue on the Company's larger securitized portfolio on higher weighted average mortgage rates secured over the past two years. Net income before tax was also affected by fair value-related revenues. Without the impact of these revenues, net income before tax decreased to $169.5 million in 2024 from $185.5 million in 2023, or 9%. This change was largely the result of lower single-family origination for the Company's third-party underwriting customers which negatively affected mortgage servicing revenue. Expenses for this business grew, particularly to support the Company's newest customer as it commenced operations. Income was also negatively affected by higher operating costs primarily due to IT expenditures. Identifiable assets increased from December 31, 2023, as mortgages pledged under securitization grew by about $2.0 billion, hedging assets increased by $0.3 billion and mortgages accumulated for securitization increased by $0.7 billion.

Commercial Segment

2024 commercial revenues were higher compared to those in 2023 by 14% while segment income before income taxes decreased by 12% year over year. Revenue increased on growth in the Company's securitized mortgage portfolio. The decrease in income reflected higher direct securitization. By securitizing directly, the company does not earn significant revenue in the period of origination but incurs the cost of origination through higher incentive-based compensation to the employees involved in commercial origination. Identifiable assets increased from December 31, 2023, as the Company grew its portfolio of securitized mortgages by about $2.6 billion and decreased its commercial hedging assets by $0.2 billion.

Liquidity and Capital Resources

The Company's fundamental liquidity strategy has been to originate and invest in prime Canadian mortgages. Management's belief has always been that these mortgages are attractive to investors and should always be well bid and highly liquid. This strategy proved effective during the global financial crisis in 2007 through 2009, and once again at the onset of the Covid-19 pandemic, when capital markets were disrupted and the demand for high-quality assets increased. As the Company's results in those years demonstrated, First National was able to attract investors to purchase its mortgage origination at profitable margins. Originating prime mortgages also allows the Company to securitize in the capital markets; however, this activity requires significant cash resources to purchase and hold mortgages prior to arranging for term debt through securitization markets. For this purpose, the Company uses the combination of unsecured notes and the Company's revolving bank credit facility. This aggregate indebtedness is typically used to fund: (1) mortgages accumulated for sale or securitization (2) the origination costs associated with securitization and, (3) mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions for total credit of $1.5 billion. This facility was extended for a year in April 2024 and now matures in March 2029. As at December 31, 2024, the Company had entered into repurchase transactions with financial institutions to borrow $2.4 billion related to $2.5 billion of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At December 31, 2024, outstanding bank indebtedness was $1,077.6 million (December 31, 2023 – $1,083.0 million). This debt was used to fund a portion of mortgages accumulated for sale or securitization totalling $985.9 million (December 31, 2023 – $1,026.9 million). At December 31, 2024, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $71.2 million (December 31, 2023 – $73.9 million) and (2) mortgage and loan investments of $139.9 million (December 31, 2023 – $270.9 million). The Company considers the portion of bank indebtedness and the senior unsecured notes that fund assets other than mortgages accumulated for sale or securitization a proxy for true leverage. This leverage increased between December 31, 2023, and December 31, 2024, to stand at $690.3 million (December 31, 2023 – $654.8 million). This represents a debt-to-equity ratio of approximately 0.94:1. This ratio increased from 0.89:1 as at December 31, 2023. In general, the increase in this ratio is a result of losses related to the Company's hedging activities which reduced its equity.

The Company funds a portion of its mortgage originations for institutional placement on the same day as the advance of the related mortgage. The remaining originations are funded by the Company on behalf of institutional investors or pending securitization by First National. On specified days, the Company aggregates all mortgages warehoused to date for an institutional investor and transacts a settlement with that investor. A similar process occurs prior to arranging for funding through securitization. The Company uses a portion of its committed credit facility with the banking syndicate to fund the mortgages during this warehouse period. The credit facility is designed to be able to fund the highest balance of warehoused mortgages in a month and is normally only partially drawn.

The Company also invests in short-term mortgages, usually for 6- to 18-month terms, to bridge existing borrowers in the interim period before traditional term financing can be provided. The banking syndicate has provided credit facilities to partially fund these investments. The Company's mortgage and loan investments also include a portfolio of single-family mortgages not eligible for securitization. These arise when minor imperfections are discovered on mortgages otherwise originated for securitization. The portfolio comprises largely prime insured mortgages. To the extent these mortgages are financed by bank borrowings, as they repay, the cash will be used to pay down this bank indebtedness. The syndicate has also provided credit to finance a portion of the Company's deferred placement fees receivable and the origination costs associated with securitization, as well as other longer-term assets.

A portion of the Company's capital has been employed to support its ABCP and NHA-MBS programs, primarily to provide credit enhancements as required by rating agencies. The most significant portion of cash collateral is the investment made on behalf of the Company's ABCP programs. As at December 31, 2024, the investment in cash collateral was $172.8 million (December 31, 2023 – $151.6 million).

The Company's Board of Directors has elected to pay dividends, when declared, on a monthly basis on the outstanding common shares and on a quarterly basis on the outstanding preference shares. For purposes of the enhanced dividend tax credit rules contained in the *Income Tax Act* (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by the Company to Canadian residents on both common and preference shares after June 30, 2010, are designated as "eligible dividends". Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as "eligible dividends" for the purposes of such rules.

Financial Instruments and Risk Management

The Company records mortgages accumulated for sale and a portion of mortgage and loan investments as financial assets measured at "fair value through profit or loss" such that changes in market value are recorded in the consolidated statement of income. The mortgages accumulated for sale are held for very short periods, and any change in value due to changing interest rates is the obligation of the ultimate institutional investor. Accordingly, the Company believes there will be little, if any, effect on its income related to the change in fair value of these mortgages. The majority of mortgages in mortgage and loan investments are uninsured commercial segment bridge loans. These are primarily floating rate loans that have mortgage terms of 18 months or less. As the mortgages do not conform to conventional mortgage lending, there are few active quoted markets available to determine the fair value of these assets. The Company estimates fair value based upon: benchmark interest rates, credit spreads for similar products, creditworthiness and status of the borrower, valuation of the underlying real property, payment history, and other conditions specific to the rationale for the loan. Any favourable or unfavourable amounts will be recorded in the statement of income each quarter.

The Company believes its hedging policies are suitably designed such that the interest rate risk of holding mortgages prior to securitization is mitigated. The Company designates hedging relationships such that the results of any effective hedging does not affect the Company's statement of income. See previous discussion in this MD&A under "Realized and Unrealized Gains (Losses) on Financial Instruments". As at December 31, 2024, the Company had $1.4 billion of notional forward bond positions related to its single-family programs. For multi-unit residential and commercial mortgages, the Company assumes all mortgages committed will fund, and hedges each mortgage individually. This includes mortgages committed for the CMB program as well as mortgages to be sold to the Company's other securitization vehicles. As at December 31, 2024, the Company had $0.7 billion of notional value forward bond sales for this segment. The Company is also a party to two interest rate swaps that economically hedge the interest rate exposure related to certain CMB transactions in which the Company has replacement obligations. As at December 31, 2024, the aggregate value of these swaps which mature in September 2025 and September 2026, was a $3.3 million liability. During 2024, there were no significant gains or losses recorded related to these swaps.

As described above, the Company employs various strategies to reduce interest rate risk. In the normal course of business, the Company also takes on credit spread risk. This is the risk that the credit spread at which a mortgage is originated changes between the date of commitment of that mortgage and the ultimate date of placement or securitization. If credit spreads widen during this holding period, it is unfavourable for the Company. It means that the Company cannot fund the mortgages originated with a funding source as effectively as originally intended. Despite entering into effective interest rate hedges, the Company's exposure to credit spreads will remain. This risk is inherent in the Company's business model and the Company believes it cannot be economically hedged. As at December 31, 2024, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were approximately $3.4 billion of mortgages that were susceptible to some degree of changing credit spreads.

Capital Expenditures

A significant portion of First National's business model is the origination and placement or securitization of financial assets. Generally, placement activities do not require any capital investment. Securitization transactions may require the investment of significant amounts of the Company's own capital. This capital is provided in the form of cash collateral, credit enhancements, and the upfront funding of broker fees and other origination costs. These are described more fully in the "Liquidity and Capital Resources" section above. The business requires capital expenditures on technology (both software and hardware), leasehold improvements, and office furniture. During 2024, the Company purchased new computer equipment and software and made leasehold improvements. In the long term, the Company expects capital expenditures on fixed assets will be approximately $10 million annually.

Summary of Contractual Obligations

The Company's long-term obligations include leases of premises with terms up to 14 years for its offices across Canada, and its obligations for the ongoing servicing of mortgages sold to securitization conduits and mortgages related to purchased servicing rights. The Company sells its mortgages to securitization conduits on a fully serviced basis and is responsible for the collection of the principal and interest payments on behalf of the conduits, including the management and collection of mortgages in arrears.

			Payments Due by Period		
	Total	0-1 Years	1-3 Years	4-5 Years	After 5 Years
			($000s)		
Lease Obligations	109,057	10,473	20,483	17,936	60,165

Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with IFRS, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions that it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis. The significant accounting policies of First National are described in Note 2 to the Company's annual consolidated financial statements as at December 31, 2024. The policies that First National believes are the most critical to aid in fully understanding and evaluating its reported financial results include the determination of the gains on deferred placement fees and the impact of fair value accounting on financial instruments.

The Company uses estimates in valuing its gain or loss on the sale of its mortgages placed with institutions earning a deferred placement fee. Under IFRS, valuing a gain on deferred placement fees requires the use of estimates to determine the fair value of the retained interest in the mortgages. These retained interests are reflected on the Company's balance sheet as deferred placement fees receivable. The key assumptions used in the valuation of gains on deferred placement fees are prepayment rates and the discount rate used to present value future expected cash flows. The annual rate of unscheduled principal payments is determined by reviewing portfolio prepayment experience on a monthly basis. The Company assumes there is virtually no prepayment on multi-unit residential fixed-rate mortgages as most prepayments earn the Company a prepayment fee which offsets any impairment to retained interests.

On a quarterly basis, the Company reviews the estimates used to ensure their appropriateness and monitors the performance statistics of the relevant mortgage portfolios to adjust and improve these estimates. The estimates used reflect the expected performance of the mortgage portfolio over the duration of the mortgages. The method of determining the assumptions underlying the estimates used for the year ended December 31, 2024, are consistent with those used for the year ended December 31, 2023, and the quarters ended March 31, 2024, June 30, 2024, and September 30, 2024.

The Company elects to treat certain of its financial assets and liabilities, including mortgages accumulated for sale, a portion of mortgage and loan investments and bonds sold short, at fair value through profit or loss. Essentially, this policy requires the Company to record changes in the fair value of these instruments in the current period's earnings. A portion of the bonds sold short are designated as an effective hedge, and accordingly, a portion of the change in the short bonds' fair value may be recorded in Other Comprehensive Income or deferred on the balance sheet with the related mortgage assets. This accounting has reduced volatility in earnings as changes in the value on short bonds have been matched to the recognition of the change in value of the hedged mortgages. The Company's assets and liabilities are such that the Company must use valuation techniques based on assumptions that are not fully supported by observable market prices or rates in most cases. Much like the valuation of deferred placement fees receivable described above, the Company's method of determining the fair value of the assets listed above is subject to Company estimates. The most significant would be implicit in the valuation of mortgage and loan investments that are recorded at Fair Value Through Profit or Loss ("FVTPL"). These are generally non-homogeneous mortgages where it is difficult to find independent valuation comparatives. The Company uses information in its underwriting files, regional real estate information and other internal measures to determine the fair value of these assets.

As a mortgage lender, the Company invests in uninsured mortgages. When it funds these mortgages through securitization debt, it continues to be liable for any credit losses. The key inputs in the measurement of any expected credit loss ("ECL") include probability of default, loss given default and forecast of future economic conditions, which involves significant judgment. Because of the high proportion of government-insured mortgages in its securitized portfolio and the low historical loss rates on the uninsured mortgages on which the Company lends, credit losses are typically low compared to its securitization portfolio. In 2024, the Company recorded a provision for credit loss of $1.0 million.

Disclosure Controls and Internal Control over Financial Reporting

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified under those laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2024, management evaluated, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, management concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2024.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with reporting standards; however, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Management evaluated, under the supervision of and with the participation by the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on that evaluation, concluded that the Company's internal control over financial reporting was effective as of December 31, 2024, and that no material weaknesses have been identified in the Company's internal control over financial reporting as of December 31, 2024. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ESG

The Company issued its initial Public Accountability Statement in the fall of 2021. In November 2024, it issued an updated report which explores First National's approach to sustainability and provides environmental, social and governance disclosure that has been reviewed and approved by the Board of Directors. The Sustainability Report complements the Management Information Circular, Annual Information Form, Management Discussion and Analysis and Annual Report, all of which offer information about the financial position, priorities, responsibilities and commitments of the consolidated operations of First National.

Risks and Uncertainties Affecting the Business

The business, financial condition and results of operations of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company. In addition to the risks addressed elsewhere in this discussion and the financial statements, these risks include: ability to sustain performance and growth, reliance on sources of funding, concentration of institutional investors including third-party servicing customers, reliance on independent mortgage brokers, changes in interest rates, repurchase obligations and breach of representations and warranties on mortgage sales, risk of servicer termination including the impact of trigger events on cash collateral and retained interests, reliance on multi-unit residential and commercial mortgages, general economic conditions, legislation and government regulation (including regulations imposed by the Department of Finance and CMHC and the policies set by and for mortgage default insurance companies), potential for losses on uninsured mortgages, competition, reliance on mortgage insurers, reliance on key personnel and the ability to attract and retain employees and executives, conduct and compensation of independent mortgage brokers, failure or unavailability of computer and data processing systems and software, insufficient insurance coverage, change in or loss of ratings, impact of natural disasters and other events, unfavourable litigation, and environmental liability. In addition, there are risks associated with the structure of the Company, including: those related to the dependence on FNFLP, leverage and restrictive covenants, dividends that are not guaranteed and could fluctuate with the Company’s performance, restrictions on potential growth, the market price of the Company’s shares, statutory remedies, control of the Company, and contractual restrictions. The Company is subject to Canadian federal and provincial income and commodity tax laws and pays such taxes as it determines are compliant with such legislation. Among the risks of all potential tax matters, there is a risk that tax legislation changes are detrimental to the Company or that Canadian tax authorities interpret tax legislation differently than the Company’s filing positions. Risk and risk exposure are managed through a combination of insurance, a system of internal controls and sound operating practices. The Company’s key business model is to originate primarily prime mortgages and find funding through various channels to earn ongoing servicing or spread income. For the single-family residential segment, the Company relies on independent mortgage brokers for origination and several large institutional investors for sources of funding. These relationships are critical to the Company’s success. The total of one investor’s activities with the Company accounted for approximately 5.7% of the Company’s total revenues in 2024. On February 1, 2025, U.S. President Donald Trump signed three executive orders implementing a new tariff policy, imposing a 25% duty on merchandise imports from Mexico and Canada — impacting nearly US$900 billion in trade. The U.S. administration commenced such tariffs on March 4, 2025, but it remains uncertain on the extent of the impact to the economy, employment, and the housing market in Canada. At this time, there is still some uncertainty on the impact of these announced tariffs and the potential reaction by the Canadian government. Management believes these changes may affect Canada negatively and could have an unfavorable impact to the Company, particularly if employment is affected in future periods. Losses related to these risks described above could be material. For a more complete discussion of the risks affecting the Company, reference should be made to the Company’s Annual Information Form.

Forward-Looking Information

Forward-looking information is included in this MD&A. 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 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 to it, they may prove to be incorrect. Forward-looking information is subject to certain factors, including risks and uncertainties, which 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 independent mortgage brokers, and changes in interest rates as outlined in the "Risk and Uncertainties Affecting the Business" section. In evaluating this information, the reader should specifically consider various factors, including the risks outlined in the "Risk and Uncertainties Affecting the Business" section, that may cause actual events or results to differ materially from any forward-looking information. The forward-looking information contained in this discussion represents management's expectations as of March 4, 2025, and is subject to change after such date. However, management and the Company 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.

Outlook

2024 unfolded much as the Company expected, except for the growth of single-family origination in the fourth quarter which increased by about 50% from the comparative quarter of 2023. As described in the third quarter results, commitment activity grew by about 50% over the same period in 2023. That commitment activity, translated to funded mortgages and the Company closed about 50% more new single family origination volume in the fourth quarter of 2024. In its commercial segment, First National recorded a quarterly record for new origination in the second quarter of 2024 and an annual record for origination including renewals of almost $15 billion. In 2024, the Company continued to build its MUA and its portfolio of mortgages pledged under securitization. It will benefit from both MUA and the securitized portfolio in the future: earning income from mortgage administration, net securitization margin and improving its position to capture increased renewal opportunities.

In the short term, the Company expects increased year-over-year single-family origination in the next two quarters as commitment levels were higher than those in late 2023. With the Bank of Canada expected to continue cutting overnight rates over the next six months, mortgage rates are expected to move lower which may increase home buying activity. Management believes this backdrop may provide confidence to borrowers who have remained on the sidelines. This outlook, however, must be considered alongside the potential negative impact of U.S. tariffs. On February 1, 2025, U.S. President Donald Trump signed three executive orders implementing a new tariff policy, imposing a 25% duty on merchandise imports from Mexico and Canada — impacting nearly US$900 billion in trade. The U.S. administration commenced such tariffs on March 4, 2025, but it remains uncertain on the extent of the impact to the economy, employment, and the housing market in Canada. At this time, there is still some uncertainty on the impact of these announced tariffs and the potential reaction by the Canadian government. Management believes these changes may affect Canada negatively and could have an unfavorable impact to the Company, particularly if employment is affected in future periods.

The Company continued to see year over year growth of single-family mortgage commitments in the fourth quarter of 2024. Although this growth rate moderated toward year end, management expects first quarter origination volumes to exceed those from the same quarter last year. For its commercial segment, the Company anticipates steady new origination volumes as government incentives support the creation of multi-unit housing and mortgage rates come down with expected BoC rate cuts. These initiatives, including the increase of the Canada Mortgage Bonds program from $40 to $60 billion, not only enhanced the level of financing available for multi-unit mortgages, but also removed uncertainties about such programs in the future. These developments have created a reliable and stable source of funds for the Company to originate CMHC insured multi-unit mortgages. However, with the increased certainty of these programs, other lenders have entered this market, and this competition has moved spreads tighter from the levels available in the first half of 2024. In both business segments, management is confident that First National will remain a competitive lender in the marketplace.

First National is well prepared to execute its business plan and is confident that the strong relationships it has with mortgage brokers and diverse funding sources are enduring competitive advantages. In 2025, the Company expects to continue to enjoy the value of its goodwill with broker partners earned over the last 35+ years. With diverse institutional investors relationships and solid securitization markets, the Company also has access to consistent and reliable sources of funding.

Going forward, the Company will generate income and cash flow from its now $44 billion portfolio of mortgages pledged under securitization and $106 billion servicing portfolio while focusing on the value inherent in its significant single-family renewal book.