

First National Financial Corporation

**Consolidated financial statements
December 31, 2024**

Independent auditor's report

To the Shareholders of
First National Financial Corporation

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **First National Financial Corporation** and its subsidiaries [collectively, the "Company"], which comprise the consolidated statements of financial position as at December 31, 2024 and December 31, 2023, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2024 and December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Measurement of estimated credit losses

As more fully described in Note 2 and Note 3 to the financial statements, the Company is exposed to credit risk on its mortgage assets. In 2024 the Company has recorded an allowance for credit losses of \$6,793 thousand. The Company manages credit risk by employing underwriting policies and procedures designed to minimize exposure to credit losses, and by acquiring insurance against borrower default on substantially all its mortgages. The Company's expected credit loss ["ECL"] impairment analysis considers a range of possible outcomes supported by past loss events, current conditions and an expectation of future possible outcomes.



The allowance for credit losses was identified as a key audit matter due to the number of key data inputs and criteria being assessed as part of the underwriting process. Management judgment was involved in selecting appropriate values for key assumptions, which in the event of a credit loss includes estimates of the amounts recoverable from underlying collateral. In forming their judgement, management had to both assess the effectiveness of their credit management strategies in minimizing future credit losses as well as make a forecast of possible future economic conditions and consider the impact of each on their critical assumptions. Variations in the key assumptions and key data inputs described can have a material effect on the measurement of ECL for each loan underwritten by the Company.

We obtained an understanding of management's controls over exposure to credit risk, including mortgage underwriting policies and processes used to assess borrower capacity, income verification, creditworthiness and collateral. We tested the operating effectiveness of these controls by assessing for a sample of mortgages originated and funded. We tested compliance with management's underwriting policy and processes and eligibility, when arranged, for insurance against borrower default based on criteria of the mortgage default insurer.

For the purpose of auditing the allowance for credit losses, among other procedures,

- We tested management's data and model by obtaining contrary data from independent sources, to develop a range for the estimated ECL on the uninsured portfolio of mortgages held at amortized cost.
- We compared our range to management's estimate of allowance for credit losses.
- With the assistance of our credit risk specialists, we also evaluated management's methodology and governance over the application of expert credit judgment by evaluating that the amounts recorded were reflective of underlying credit quality and macroeconomic trends
- We also assessed the adequacy of the Company's disclosures on the management of credit risk.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Tedesco.

Ernst & Young LLP

Toronto, Canada
March 4, 2025

Chartered Professional Accountants
Licensed Public Accountants

First National Financial Corporation

Consolidated statements of financial position

[in thousands of Canadian dollars]

As at December 31

	2024	2023
	\$	\$
Assets		
Restricted cash <i>[note 3]</i>	855,809	550,842
Cash held as collateral for securitization <i>[note 3]</i>	172,795	151,557
Accounts receivable and sundry	166,856	133,264
Mortgages accumulated for sale or securitization <i>[note 5]</i>	3,441,028	2,583,634
Mortgages pledged under securitization <i>[note 3]</i>	43,976,776	39,427,192
Deferred placement fees receivable <i>[note 4]</i>	71,176	73,904
Mortgage and loan investments <i>[note 6]</i>	139,907	270,921
Securities purchased under resale agreements <i>[note 14]</i>	2,230,658	2,653,376
Other assets <i>[note 7]</i>	102,136	112,709
Total assets	51,157,141	45,957,399
Liabilities and equity		
Liabilities		
Bank indebtedness <i>[note 9]</i>	1,077,629	1,083,000
Obligations related to securities and mortgages sold under repurchase agreements <i>[note 15]</i>	2,375,117	1,524,192
Accounts payable and accrued liabilities <i>[note 16]</i>	284,432	285,344
Securities sold short <i>[note 14]</i>	2,233,288	2,649,249
Debt related to securitized mortgages <i>[note 10]</i>	43,677,981	38,880,798
Senior unsecured notes <i>[note 12]</i>	598,630	598,745
Income taxes payable <i>[note 18]</i>	353	47,408
Deferred income tax liabilities <i>[note 18]</i>	171,500	150,900
Total liabilities	50,418,930	45,219,636
Common shares <i>[note 17]</i>	122,671	122,671
Preferred shares <i>[note 17]</i>	97,394	97,394
Retained earnings	499,888	477,799
Accumulated other comprehensive income (loss)	18,258	39,899
Total equity	738,211	737,763
Total liabilities and equity	51,157,141	45,957,399

See accompanying notes

On behalf of the Board:



Robert Mitchell



Robert Pearce

First National Financial Corporation

Consolidated statements of income

[in thousands of Canadian dollars, except earnings per share]

Years ended December 31

	2024	2023
	\$	\$
Revenue		
Interest revenue – securitized mortgages	1,598,544	1,336,063
Interest expense – securitized mortgages	(1,372,182)	(1,119,475)
Net interest – securitized mortgages <i>[note 3]</i>	<u>226,362</u>	216,588
Placement fees	209,344	248,313
Gains on deferred placement fees <i>[note 4]</i>	14,972	25,307
Mortgage investment income <i>[note 6]</i>	149,663	139,929
Mortgage servicing income	258,120	252,552
Realized and unrealized gains (losses) on financial instruments <i>[note 19]</i>	(13,666)	22,121
	<u>844,795</u>	904,810
Expenses		
Brokerage fees	95,508	139,199
Salaries and benefits	229,646	200,489
Interest	161,681	153,407
Other operating	81,310	67,808
	<u>568,145</u>	560,903
Income before income taxes	276,650	343,907
Income tax expense <i>[note 18]</i>	73,260	91,100
Net income for the year	<u>203,390</u>	252,807
Earnings per share		
Basic <i>[note 17]</i>	<u>3.33</u>	4.15

See accompanying notes

First National Financial Corporation

Consolidated statements of comprehensive income

[in thousands of Canadian dollars]

Years ended December 31

	2024	2023
	\$	\$
Net income for the year	203,390	252,807
Other comprehensive income items that may be subsequently reclassified to income		
Net losses from change in fair value of cash flow hedges	(28,906)	(6,548)
Reclassification of net gains to income	(535)	(21,724)
	(29,441)	(28,272)
Income tax recovery [note 18]	7,800	7,500
Total other comprehensive losses	(21,641)	(20,772)
Total comprehensive income	181,749	232,035

See accompanying notes

First National Financial Corporation

Consolidated statements of changes in equity

[in thousands of Canadian dollars]

Years ended December 31

	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance as at January 1, 2024	122,671	97,394	477,799	39,899	737,763
Net income for the year	—	—	203,390	—	203,390
Other comprehensive income	—	—	—	(21,641)	(21,641)
Dividends paid or declared	—	—	(181,301)	—	(181,301)
Balance as at December 31, 2024	122,671	97,394	499,888	18,258	738,211

	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance as at January 1, 2023	122,671	97,394	418,244	60,671	698,980
Net income for the year	—	—	252,807	—	252,807
Other comprehensive income	—	—	—	(20,772)	(20,772)
Dividends paid or declared	—	—	(193,252)	—	(193,252)
Balance as at December 31, 2023	122,671	97,394	477,799	39,899	737,763

See accompanying notes

First National Financial Corporation

Consolidated statements of cash flows

[in thousands of Canadian dollars]

Years ended December 31

	2024	2023
	\$	\$
Operating activities		
Net income for the year	203,390	252,807
Add (deduct) items		
Provision for deferred income taxes	28,400	9,000
Non-cash portion of gains on deferred placement fees	(14,105)	(24,551)
Decrease (increase) in restricted cash	(304,967)	54,866
Net investment in mortgages pledged under securitization	(4,475,185)	(2,067,552)
Net increase in debt related to securitized mortgages	4,722,784	1,918,585
Securities purchased under resale agreements, net	422,718	299,812
Securities sold short, net	(402,163)	(409,690)
Amortization of deferred placement fees receivable	16,833	15,295
Amortization of property, plant and equipment	14,953	14,160
Unrealized losses (gains) on financial instruments	(47,570)	70,078
	<u>165,088</u>	<u>132,810</u>
Net change in non-cash working capital balances related to operations	(928,806)	(236,316)
Cash used in operating activities	<u>(763,718)</u>	<u>(103,506)</u>
Investing activities		
Additions to property, plant and equipment	(4,380)	(6,200)
Repayment (investment) in cash held as collateral for securitization	(21,238)	9,155
Investment in mortgage and loan investments	(724,386)	(929,146)
Repayment of mortgage and loan investments	855,400	848,744
Cash used in investing activities	<u>105,396</u>	<u>(77,447)</u>
Financing activities		
Dividends paid	(181,117)	(192,884)
Obligations related to securities and mortgages sold under repurchase agreements	850,925	163,245
Repayment of lease liabilities	(5,587)	(5,628)
Issuance of senior unsecured notes	199,472	199,088
Repayment of senior unsecured notes	(200,000)	—
Cash provided by financing activities	<u>663,693</u>	<u>163,821</u>
Net decrease (increase) in bank indebtedness during the year	5,371	(17,132)
Bank indebtedness, beginning of year	(1,083,000)	(1,065,868)
Bank indebtedness, end of year	<u>(1,077,629)</u>	<u>(1,083,000)</u>
Supplemental cash flow information		
Interest received	1,812,819	1,526,201
Interest paid	1,391,327	1,139,276
Income taxes paid	91,916	16,230

See accompanying notes

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

1. General organization and business of First National Financial Corporation

First National Financial Corporation [the “Corporation” or “Company”] 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 over \$153 billion in mortgages under administration as at December 31, 2024, FNFLP is a significant participant in the mortgage broker distribution channel.

The Corporation is incorporated under the laws of the Province of Ontario, Canada and has its registered office and principal place of business located at 16 York Street, Toronto, Ontario. The Corporation’s common and preferred shares are listed on the Toronto Stock Exchange under the symbols FN, FN.PR.A and FN.PR.B, respectively.

2. Material accounting policy information

[a] Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”]. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain financial assets and financial liabilities that are recorded at fair value through profit or loss [“FVTPL”] and measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges, and that would otherwise be carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being mitigated in effective hedge relationships. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2025.

[b] Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, including FNFLP, First National Financial GP Corporation [“GP”, the general partner of FNFLP], FNFC Trust, a special purpose entity [“SPE”], which is used to manage undivided co-ownership interests in mortgage assets funded with Asset-Backed Commercial Paper [“ABCP”], First National Asset Management Inc. [“FNAM”], and First National Mortgage Corporation.

FNAM is a wholly owned subsidiary of the GP, and an indirect subsidiary of the Company. FNAM is a National Housing Act [“NHA”] approved lender and NHA-MBS issuer in the capacity of an “aggregator”. Its business model is to purchase mortgages from mortgage originators in order to create NHA-MBS pools, and subsequently sell these into the Canada Mortgage Bonds programs [“CMB”].

The Company earns interest income from the retained interest related to mortgages transferred to four SPEs, which the Company does not control. The SPEs are sponsored by third-party financial institutions, which acquire assets from various sellers including mortgages from the Company. As at December 31, 2024, the Company recorded, on its consolidated statements of financial position, its portion of the assets of the SPEs amounting to \$3,775 million [2023 – \$3,438 million]. The Company also recorded, in its consolidated statements of income, interest revenue – securitized mortgages of \$205,003 [2023 – \$163,477] and interest expense – securitized mortgages of \$164,484 [2023 – \$128,836] related to its interest in the SPEs.

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

The consolidated financial statements have been prepared using consistent accounting policies for like transactions and other events in similar circumstances. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between these companies are eliminated in full on consolidation.

[c] Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including contingencies, at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Major areas requiring use of estimates by management are those that require reporting of financial assets and financial liabilities at fair value.

[d] Material accounting policy information

Financial instruments

The Company accounts for its financial assets and liabilities in accordance with IFRS 9, *Financial Instruments* ["IFRS 9"].

Classification and measurement of financial assets

The Company classifies its financial assets as either amortized cost or at FVTPL as summarized below:

Securities purchased under resale agreements	Amortized cost
Mortgages accumulated for securitization	Amortized cost
Mortgages accumulated for sale	FVTPL
Mortgages pledged under securitization	Amortized cost
Mortgage and loan investments – commercial segment	FVTPL
Mortgage and loan investments — residential segment other than one specific portfolio of residential mortgages	Amortized cost
A portfolio of residential mortgages in Mortgage and loan investments	FVTPL
Deferred placement fees receivable	Amortized cost

Classification and measurement of financial liabilities

The Company classifies its financial liabilities as either amortized cost or at FVTPL as summarized below:

Obligations related to securities and mortgages sold under repurchase agreements	Amortized cost
Securities sold short	FVTPL
Debt related to securitized mortgages	Amortized cost
Servicing liabilities	Amortized cost
Senior unsecured notes	Amortized cost

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

Impairment

The expected credit loss ["ECL"] impairment model applies to all financial assets classified as amortized cost or fair value through other comprehensive income ["FVOCI"], as well as certain off-balance sheet loan commitments. The IFRS 9 ECL approach has three stages: Stage 1 – the credit risk has not increased significantly since initial recognition such that an allowance for credit loss is recognized and maintained equal to 12 months of expected credit loss; Stage 2 – the credit risk has increased significantly since initial recognition, and the allowance for credit loss is increased to cover full lifetime expected credit loss; and Stage 3 – a financial asset is considered credit impaired and the allowance for credit loss continues to be the full lifetime expected credit loss, with interest revenue calculated on the carrying amount [net of the allowance for credit loss], rather than the gross carrying value of the financial assets.

The Company assesses the credit risk of the mortgages based on the expected repayments of principal and interest. All mortgages with arrears that are less than 31 days past due are included in Stage 1 whereas mortgages with principal in arrears between 31 to 90 days are included in Stage 2. While mortgages in these two stages are not considered to be impaired, the Company recognizes a 12-month ECL for Stage 1 mortgages and a lifetime ECL for Stage 2 mortgages. When a mortgage is in arrears for over 90 days or the Company has issued a legal demand for repayment, there is a specific expectation of a detrimental impact on the estimated cash flows and, therefore, the Company considers the mortgages as impaired and includes them in Stage 3. The key inputs in the measurement of ECL include probability of default, loss given default and forecast of future economic conditions, which involve significant judgement.

Hedge accounting

The Company applies IFRS 9 hedge accounting for certain mortgage commitments and funded mortgages.

The Company uses a combination of short Government of Canada bonds and bond repo arrangements to manage exposure to interest rate risk associated with mortgage commitments and funded mortgages held prior to securitization. In addition, the Company uses interest rate swaps to manage exposure to interest rate risk for mortgages in SPEs. The Company documents a hedging relationship between the hedging instrument and the hedged item at inception when the relationship is established. The Company also assesses the effectiveness of the hedges at both the hedge inception and on an ongoing basis. Any ineffectiveness of any hedging relationship is recognized immediately in the consolidated statements of income.

Cash flow hedges

The Company applies cash flow hedge accounting for the anticipated funding of its multi-unit residential commercial segment mortgages. At the time of mortgage commitment, the Company shorts Government of Canada bonds as the hedging instrument to hedge the cash flows on the anticipated future debt to be arranged through securitization of these mortgages obtained through CMB, disclosed as debt related to securitized mortgages. The Company also uses the same hedging strategy when placing mortgages with institutional investors who plan to use CMB funding. The effective portion of the change in the fair value of the designated hedging instrument qualifying as a cash flow hedge is recognized in other comprehensive income ["OCI"] in the consolidated statements of comprehensive income. When the hedge relationship is terminated, the cumulative amounts recognized in OCI are amortized into interest expense – securitized mortgages over the term of the securitized debt, or amortized against placement fees from institutional investors. Any change in fair value of the hedge determined as ineffective is recognized immediately in the consolidated statements of income.

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

Fair value hedges

The Company enters into interest rate swaps to protect against changes in the fair value of fixed rate mortgages funded by ABCP debt. The Company also shorts Government of Canada bonds to manage interest rate exposure for a portion of single-family mortgage commitments and funded residential mortgages accumulated for securitization. The Company applies hedge accounting for the swaps. For the short bond hedges, the Company documents a hedging relationship during the period when the mortgages are funded until the date they are securitized or placed with an arm's length investor. The Company does not apply hedge accounting to the short bonds used to mitigate interest rate risk on single-family mortgage commitments. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

In the case of the swaps and short bonds used to hedge funded mortgages, changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging instrument, both of which are recognized in the consolidated statements of income. At hedge unwind, the realized change in the value of the hedged risk is adjusted to the carrying value of the hedged mortgages and amortized into interest revenue over the term of the hedged mortgages. Any changes in the fair value of an ineffective hedge are immediately recorded in the consolidated statements of income.

Revenue recognition

The Company earns revenue from placement, securitization and servicing activities related to its mortgage business. The majority of originated mortgages are sold to institutional investors through the placement of mortgages or funded through securitization conduits. The Company retains servicing rights on substantially all of the mortgages it originates, providing the Company with servicing fees.

Interest revenue and expense from mortgages pledged under securitization

The Company enters into securitization transactions to fund a portion of the mortgages it has originated. Upon transfer of these mortgages to securitization vehicles, the Company receives cash proceeds from the transaction. These proceeds are accounted for as debt related to securitized mortgages and the Company continues to hold the mortgages on its consolidated statements of financial position, unless:

- [i] substantially all of the risks and rewards associated with the financial instruments have been transferred, in which case the assets are derecognized in full; or
- [ii] a significant portion, but not all, of the risks and rewards have been transferred. The asset is derecognized entirely if the transferee has the ability to sell the financial asset; otherwise the asset continues to be recognized to the extent of the Company's continuing involvement.

Where [i] or [ii] above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the mortgage.

For securitized mortgages that do not meet the criteria for derecognition, no gain or loss is recognized at the time of the transaction. Instead, net interest income is recognized over the term of the mortgages. Interest revenue – securitized mortgages represents the interest portion of mortgage payments received and accrued by borrowers and is net of the amortization of capitalized origination costs. Interest expense – securitized mortgages represents the costs to finance these mortgages, net of the amortization of debt discounts and premiums.

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

Capitalized origination fees and debt discounts or premiums are amortized on an effective yield basis over the term of the related mortgages or debt.

Derecognition

A financial asset is derecognized when:

- The right to receive cash flows from the asset has expired; or
- The Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the cash flows, received in full without material delay to a third party under a “pass-through” arrangement; and either [a] the Company has transferred substantially all the risks and rewards of the asset; or [b] the Company has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

Placement fees and deferred placement fees receivable

The Company enters into placement agreements with institutional investors to purchase the mortgages it originates. When mortgages are placed with institutional investors, the Company transfers the contractual right to receive mortgage cash flows to the investors. Because it has transferred substantially all the risks and rewards of these mortgages, it derecognizes these assets. The Company retains a residual interest representing the rights and obligations associated with servicing the mortgages. Placement fees are earned by the Company for its origination and underwriting activities on a completed transaction basis when the mortgage is funded. Amounts immediately collected or collectible in excess of the mortgage principal are recognized as placement fees. When placement fees and associated servicing fees are earned over the term of the related mortgages, the Company determines the present value of the future stream of placement fees and records a gain on deferred placement fees and deferred placement fees receivable. Since quoted prices are generally not available for retained interests, the Company estimates values based on the net present value of future expected cash flows, calculated using management’s best estimates of key assumptions related to expected prepayment rates and discount rates commensurate with the risks involved.

Mortgage servicing income

The Company services substantially all of the mortgages that it originates whether the mortgage is placed with an institutional investor or transferred to a securitization vehicle. In addition, mortgages are serviced on behalf of third-party institutional investors and securitization structures. For all mortgages administered for investors or third parties, the Company recognizes servicing income when services are rendered. For mortgages placed under deferred placement arrangements, the Company retains the rights and obligations to service the mortgages. The deferred placement fees receivable is the present value of the excess retained cash flows over market servicing fee rates and is reported as deferred placement revenue at the time of placement. Servicing income related to mortgages placed with institutional investors is recognized in income over the life of the servicing obligation as payments are received from mortgagors. Interest income earned by the Company from holding cash in trust related to servicing activities is classified as mortgage servicing income. The amortization of any servicing liabilities is also recorded as mortgage servicing income.

The Company provides underwriting and fulfillment processing services for mortgages originated by three large Canadian banks through the mortgage broker distribution channel. The Company recognizes servicing income when the services are rendered and the underwritten mortgages have been funded.

First National Financial Corporation

Notes to consolidated financial statements

[in thousands of Canadian dollars, unless otherwise indicated]

December 31, 2024

Mortgage investment income

The Company earns interest income from its interest-bearing assets including deferred placement fees receivable, mortgage and loan investments and mortgages accumulated for sale or securitization. Mortgage investment income is recognized on an accrual basis.

Brokerage fees

Brokerage fees are primarily fees paid to external mortgage brokers. Brokerage fees relating to mortgages placed with institutional investors are expensed as incurred, and those relating to mortgages recorded at amortized cost are capitalized to the carrying cost of the related mortgages and amortized over the term of the mortgages.

Mortgages pledged under securitization

Mortgages pledged under securitization are mortgages that the Company has originated and funded with debt raised through the securitization markets and have been classified at amortized cost. The Company has a continuous involvement in these mortgages, including the right to receive future cash flows arising from these mortgages. Origination costs, such as brokerage fees and bulk insurance premiums that are directly attributable to the acquisition of such assets, are deferred and amortized over the term of the mortgages on an effective yield basis.

Debt related to securitized mortgages

Debt related to securitized mortgages represents obligations related to the financing of mortgages pledged under securitization. This debt is measured at its amortized cost using the effective yield method. Any discount/premium and issuance costs on raising these debts that are directly attributable to obtaining such liabilities are deferred and amortized over the term of the debt obligations.

Mortgages accumulated for sale or securitization

Mortgages accumulated for sale are mortgages funded pending subsequent settlement with institutional investors and are classified as FVTPL and recorded at fair value. These mortgages are held for terms usually not exceeding 90 days.

Mortgages accumulated for securitization are mortgages funded pending the arrangement of term debt through the Company's various securitization programs and are measured at amortized cost.

Securities sold short and securities purchased under resale agreements

Securities sold short consist typically of the short sale of Government of Canada bonds. Bonds purchased under resale agreements consist of the purchase of a bond with the commitment from the Company to resell the bond to the original seller at a specified price. The Company uses the combination of bonds sold short and bonds purchased under resale agreements to economically hedge its mortgage commitments and the portion of funded mortgages that it intends to securitize in subsequent periods.

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Bonds sold short are classified as FVTPL and are recorded at fair value. The effective yield payable on bonds sold short is recorded as hedge expense in other operating expenses. Bonds purchased under resale agreements are carried at cost plus accrued interest, which approximates their market value. The difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded over the term of the hedged mortgages as an offset to hedge expense. Transactions are recorded on a settlement date basis.

Mortgage and loan investments

Mortgage and loan investments consists of two portfolios: a portfolio of commercial segment bridge and mezzanine loans and a portfolio of residential segment mortgages. Both commercial segment and residential segment mortgages are non-derivative financial assets with fixed or determinable payments. The Company classifies the mortgages as FVTPL or at amortized cost depending on the Company's intention. The mortgages held at fair value are measured using management's best estimate of the fair value. Changes in fair value are recognized immediately in the consolidated statements of income. Generally, commercial investments are measured at FVTPL, and residential segment investments are measured at amortized cost.

Leases

The Company measures right-of-use assets at cost. The right-of-use assets are subsequently amortized using the straight-line method. The right-of-use assets are also subject to impairment. Lease liabilities are calculated using the present value of future lease payments, discounted at the Company's incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The Company's major leases are for premises at its Toronto head office and four regional offices. The Company has elected not to recognize right-of-use assets and a lease liability for its various office equipment leases, which are insignificant for application of the standard.

Property, plant and equipment

Property, plant and equipment is recorded at cost and depreciated over the estimated useful life of the assets on a straight-line basis.

Computer equipment	3 years
Office equipment	5 years
Leasehold improvements	1 – 10 years
Computer software	5 – 10 years

Property, plant and equipment are subject to an impairment review if there are events or changes in circumstances that indicate the carrying amount may not be recoverable.

Goodwill

Goodwill represents the price paid for the Company's business in excess of the fair value of the net tangible assets and identifiable intangible assets acquired in connection with the IPO. Goodwill is reviewed annually for impairment or more frequently when an event or change in circumstances indicates that the asset might be impaired.

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Restricted cash

Restricted cash represents principal and interest collected on mortgages pledged under securitization that is held in trust until the repayment of debt related to these mortgages is made in a subsequent period.

Bank indebtedness

Bank indebtedness consists of bank loans net of cash balances or deposit with banks.

Cash held as collateral for securitization

Cash held as collateral for securitization represents cash-based credit enhancements held by various securitization vehicles, including FNFC Trust and a Canadian Trust Company acting as the title custodian for the Company's NHA-MBS program.

Servicing liability

The Company places mortgages with third-party institutional clients and retains the rights and obligations to service these mortgages. When the service-related fees are paid upfront by a third party, the Company records a servicing liability. The liability represents the portion of the upfront fee required to earn a market rate of servicing over the related mortgage term. This is similar to the method which the Company uses to calculate deferred placement fees. Since quoted prices are generally not available for retained interests, the Company estimates its value based on the net present value of future expected cash flows, calculated using management's best estimates of key assumptions related to expected prepayment rates and discount rates commensurate with the risks involved. The Company earns the related servicing fees over the term of the mortgages on an effective yield basis.

Income taxes

The Company accounts for income taxes in accordance with the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates substantively enacted as at the dates of the consolidated statements of financial position. The income tax provision consists of current income taxes and deferred income taxes. Current and deferred taxes relating to items in the Company's equity are recorded directly against equity.

Current income taxes are amounts expected to be payable or recoverable as the result of operations in the current year and any adjustment to tax payable or tax recoverable amounts recorded in previous years.

Deferred income taxes arise on temporary differences between the carrying amounts of assets and liabilities on the consolidated statements of financial position and their tax bases. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that future realization of the tax benefit is probable. Deferred taxes are calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

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Earnings per common share

The Company presents earnings per share ["EPS"] amounts for its common shares. EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

3. Mortgages pledged under securitization

The Company securitizes residential and commercial mortgages in order to raise debt to fund these mortgages. Most of these securitizations consist of the transfer of fixed and floating rate mortgages into securitization programs, such as ABCP, NHA-MBS and CMB. In these securitizations, the Company transfers the assets to structured entities for cash, and incurs interest-bearing obligations typically matched to the term of the mortgages. These securitizations do not qualify for derecognition, although the structured entities and other securitization vehicles have no recourse to the Company's other assets for failure of the mortgages to make payments when due.

As part of the ABCP transactions, the Company provides cash collateral for credit enhancement purposes as required by the rating agencies. Credit exposure to securitized mortgages is generally limited to this cash collateral. The principal and interest payments on the securitized mortgages are paid by the Company to the structured entities monthly over the term of the mortgages. The full amount of cash collateral is recorded as an asset and the Company anticipates full recovery of these amounts. NHA-MBS securitizations may also require cash collateral in some circumstances. As at December 31, 2024, the cash held as collateral for securitization was \$172,795 [2023 – \$151,557].

The following table compares the carrying amount of mortgages pledged for securitization and the associated debt:

	2024	
	Carrying amount of securitized mortgages	Carrying amount of associated liabilities
	\$	\$
Securitized mortgages	43,630,368	(43,963,542)
Capitalized amounts related to hedge accounting	101,572	(93,502)
Capitalized origination costs	244,836	—
Debt discounts	—	379,063
Add	43,976,776	(43,677,981)
Principal portion of payments recorded in restricted cash	761,937	—
	44,738,713	(43,677,981)

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	2023	
	Carrying amount of securitized mortgages	Carrying amount of associated liabilities
	\$	\$
Securitized mortgages	39,264,199	(39,300,233)
Capitalized amounts related to hedge accounting	(41,212)	(19,103)
Capitalized origination costs	204,205	—
Debt discounts	—	438,538
	<hr/>	<hr/>
Add	39,427,192	(38,880,798)
Principal portion of payments recorded in restricted cash	473,080	—
	<hr/>	<hr/>
	39,900,272	(38,880,798)

The principal portion of payments held in restricted cash represents payments on account of mortgages pledged under securitization, which have been received prior to year-end but have not yet been applied to reduce the associated debt. The cash is applied to pay down the debt in the month subsequent to collection. In order to compare the components of mortgages pledged under securitization to securitization debt, this amount is added to the carrying value of mortgages pledged under securitization in the above table.

Mortgages pledged under securitization have been classified as amortized cost and are carried at par plus adjustment for unamortized origination costs and amounts related to hedge accounting.

The changes in capitalized origination costs for the years ended December 31 are summarized as follows:

	2024	2023
	\$	\$
Opening balance, January 1	204,205	204,248
Add new origination costs capitalized in the year	141,405	91,120
Less amortization in the year	(100,774)	(91,163)
Ending balance, December 31	244,836	204,205

During the year ended December 31, 2024, the Company invested in mortgages that were transferred into the securitization vehicles with principal balances as at December 31, 2024 of \$12,384,765 [2023 – \$9,321,681].

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The contractual maturity profile of the mortgages pledged under securitization programs is summarized as follows:

	\$
2025	7,497,331
2026	7,792,327
2027	6,325,625
2028	6,663,856
2029 and thereafter	15,351,229
	<u>43,630,368</u>

The following table summarizes the mortgages pledged under securitization that are 31 days or more past due as at December 31:

	2024	2023
	\$	\$
Arrears days		
31 to 60	14,855	4,683
61 to 90	2,021	3,692
Greater than 90	11,943	9,868
	<u>28,819</u>	<u>18,243</u>

Of the mortgages in arrears summarized above, 63 mortgages are uninsured and have a principal balance of \$28,476 as at December 31, 2024 [2023 – 29 mortgages, \$16,985], while the remaining loans are insured. The Company's exposure to credit loss is limited to uninsured mortgages with principal balances totaling \$5,698,928 [2023 – \$4,851,746], before consideration of the value of underlying collateral. All the above uninsured are single-family mortgages, with loan to value ratios of 80% or less.

The Company has provided an allowance for expected credit losses of \$6,793 as of December 31, 2024 [2023 – \$5,808] related to mortgages pledged under securitization.

4. Deferred placement fees receivable

The Company enters into transactions with institutional investors to sell primarily fixed-rate mortgages in which placement fees are received over time as well as at the time of the mortgage placement. These mortgages are derecognized when substantially all of the risks and rewards of ownership are transferred and the Company has minimal exposure to the variability of future cash flows from these mortgages. The investors have no recourse to the Company's other assets for failure of mortgagors to make payments when due.

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Deferred placement fees receivable are classified as amortized cost and are initially determined based on the present value of the anticipated future stream of cash flows. This determination assumes there will be no credit losses, commensurate with the credit quality of the investors. It is also assumed that there will be no prepayment for the commercial segment as borrowers cannot refinance for financial advantage without paying the Company a fee commensurate with the value of its investment in the mortgage. The effect of variations, if any, between actual experience and assumptions will be recorded in future consolidated statements of income but is expected to be minimal.

	2024		
	Residential	Commercial	Total
	\$	\$	\$
Mortgages placed with institutional investors	—	4,794,786	4,794,786
Gains on deferred placement fees created	—	14,972	14,972
Cash receipts on deferred placement fees received	303	20,431	20,734
	2023		
	Residential	Commercial	Total
	\$	\$	\$
Mortgages placed with institutional investors	—	5,460,050	5,460,050
Gains on deferred placement fees created	—	25,307	25,307
Cash receipts on deferred placement fees received	346	18,246	18,592

The Company estimates that the expected undiscounted cash flows to be received on the deferred placement fees receivable will be as follows:

	Residential	Commercial	Total
	\$	\$	\$
2025	276	19,470	19,746
2026	134	16,167	16,301
2027	—	13,852	13,852
2028	—	10,508	10,508
2029 and thereafter	—	22,818	22,818
	410	82,815	83,225

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5. Mortgages accumulated for sale or securitization

Mortgages accumulated for sale or securitization consist of mortgages the Company has originated for its own securitization programs, together with mortgages funded in advance of settlement with institutional investors.

Mortgages originated for the Company's own securitization programs are classified as amortized cost and are recorded at par plus adjustment for unamortized origination costs. Mortgages funded for placement with institutional investors are designated as FVTPL and are recorded at fair value. The fair values of mortgages classified as FVTPL approximate their carrying values as the time period between origination and sale is short. The following table summarizes the components of mortgages according to their classification:

	2024	2023
	\$	\$
Mortgages accumulated for securitization	3,386,959	2,556,521
Mortgages accumulated for sale	54,069	27,113
	3,441,028	2,583,634

The Company's exposure to credit loss is limited to \$809,976 [2023 – \$396,402] of principal balances of uninsured mortgages within mortgages accumulated for securitization, before consideration of the value of underlying collateral. As at December 31, 2024, 14 of these mortgages are in arrears past 31 days, with a total principal balance of \$9,349 [2023 – 14 mortgages with a balance of \$6,524]. All the above uninsured are single-family mortgages, with loan to value ratios of 80% or less, similar to the mortgages described in note 3. Accordingly, the expected credit loss related to these mortgages is insignificant.

6. Mortgage and loan investments

Mortgage and loan investments consist of two portfolios: commercial first and second mortgages held for various terms, the majority of which mature within one year; and residential first mortgages which are held to maturity.

Except for a portion of the residential loan portfolio that is classified as amortized cost, mortgages and loans are measured at FVTPL with any change in fair value being immediately recognized in income. The portion of the residential loan portfolio that is classified at amortized cost has a total balance of \$40,497 as at December 31, 2024 [2023 - \$45,327], which is subject to expected credit loss. The Company recorded nil [2023 – \$397] fair value gains related to the commercial segment investments for the year ended December 31, 2024.

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The following table discloses the composition of the Company's portfolio of mortgage and loan investments by geographic region as at December 31, 2024:

Province/Territory	Portfolio balance	Percentage of portfolio
	\$	%
Alberta	19,543	14.0
British Columbia	22,264	15.9
Manitoba	364	0.3
New Brunswick	107	0.1
Newfoundland and Labrador	384	0.3
Nova Scotia	4,867	3.5
Ontario	81,055	57.9
Prince Edward Island	136	0.1
Quebec	10,925	7.8
Saskatchewan	216	0.1
Yukon	46	0.0
	139,907	100.0

The following table discloses the mortgages that are past due as at December 31:

Arrears days	2024	2023
	\$	\$
31 to 60	1,411	1,822
61 to 90	427	456
Greater than 90	110	161
	1,948	2,439

The portfolio contains \$11,926 [2023 – \$21,837] of insured mortgages and \$127,981 [2023 – \$249,084] of uninsured mortgage and loan investments as at December 31, 2024. Of the uninsured mortgages, approximately \$1,071 [2023 – \$2,439] have principal balances in arrears of more than 30 days.

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The maturity profile of the principal amount of the loans in the table below is based on the earlier of contractual renewal or maturity dates:

						2024	2023
	2025	2026	2027	2028	2029 and thereafter	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Residential	27,252	5	6,725	3,298	46,582	83,862	96,097
Commercial	30,063	23,911	2,025	-	46	56,045	174,824
	57,315	23,916	8,750	3,298	46,628	139,907	270,921

Interest income earned for the year was \$15,408 [2023 – \$15,645] and is included in mortgage investment income on the consolidated statements of income.

7. Other assets

The components of other assets are as follows as at December 31:

	2024	2023
	\$	\$
Property, plant and equipment, net	29,997	36,285
Right-of-use assets	42,363	46,648
Goodwill	29,776	29,776
	102,136	112,709

The right-of-use assets pertain to five premises leases for the Company's office space. The leases have remaining terms of one to 12 years. The related lease liability of \$46,675 as at December 31, 2024 [2023 – \$49,686] is grouped with accounts payable and accrued liabilities on the consolidated statements of financial position.

The recoverable amount of the Company's goodwill is calculated by reference to the Company's market capitalization, mortgages under administration, origination volume and profitability. These factors indicate that the Company's recoverable amount exceeds the carrying value of its net assets and, accordingly, goodwill is not impaired.

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8. Mortgages under administration

As at December 31, 2024, the Company managed mortgages under administration of \$153,697,009 [2023 – \$143,546,966], including mortgages held on the Company's consolidated statements of financial position. Mortgages under administration are serviced for financial institutions such as banks, insurance companies, pension funds, mutual funds, trust companies, credit unions and securitization vehicles. As at December 31, 2024, the Company administered 330,389 mortgages [2023 – 333,488] for 77 institutional investors [2023 – 83] with an average remaining term to maturity of 41 months [2023 – 40 months].

Mortgages under administration are serviced as follows:

	2024	2023
	\$	\$
Institutional investors	105,679,528	100,340,846
Mortgages accumulated for sale or securitization and mortgage and loan investments	3,577,424	2,819,648
Mortgages pledged under securitization	43,630,368	39,264,199
CMBS conduits	809,689	1,122,273
	153,697,009	143,546,966

The Company's exposure to credit loss is limited to mortgage and loan investments as described in note 6, securitized mortgages as described in note 3 and uninsured mortgages held in mortgages accumulated for securitization as described in note 5.

The Company maintains trust accounts on behalf of the investors it represents. The Company also holds municipal tax funds in escrow for mortgagors. Since the Company does not hold a beneficial interest in these funds, they are not presented on the consolidated statements of financial position. The aggregate of these accounts as at December 31, 2024 was \$895,326 [2023 – \$742,373].

9. Bank indebtedness

Bank indebtedness includes a revolving credit facility of \$1,500,000 [2023 – \$1,500,000] maturing in March 2029. At December 31, 2024, \$1,077,629 [2023 – \$1,083,000] was drawn, of which the following have been pledged as collateral:

- [a] a general security agreement over all assets, other than real property, of the Company; and
- [b] a general assignment of all mortgages owned by the Company.

The credit facility bears a variable rate of interest based on prime and bankers' acceptance rates.

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10. Debt related to securitized mortgages

Debt related to securitized mortgages represents the funding for mortgages pledged under the NHA-MBS, CMB and ABCP programs. As at December 31, 2024, debt related to securitized mortgages was \$43,677,981 [2023 – \$38,880,798], net of unamortized discounts of \$379,063 [2023 – \$438,538]. A comparison of the carrying amounts of the pledged mortgages and the related debt is summarized in note 3.

Debt related to securitized mortgages is reduced on a monthly basis when the principal payments received from the mortgages are applied. Debt discounts and premiums are amortized over the term of each debt on an effective yield basis. Debt related to securitization mortgages had a similar contractual maturity profile as the associated mortgages in mortgages pledged under securitization.

11. Swap contracts

Swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed-upon rates to a notional amount. The Company uses interest rate swaps to manage interest rate exposure relating to variability of interest earned on mortgages pledged under securitization. The swap agreements that the Company enters into are interest rate swaps where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency.

The following tables present, by remaining term to maturity, the notional amounts and fair values of the swap contracts outstanding as at December 31, 2024 and 2023:

	2024			Total notional amount	Fair value
	Less than 3 years	3 to 5 years	6 to 10 years		
	\$	\$	\$	\$	\$
Interest rate swap contracts	1,379,896	2,277,160	—	3,657,056	(33,096)

	2023			Total notional amount	Fair value
	Less than 3 years	3 to 5 years	6 to 10 years		
	\$	\$	\$	\$	\$
Interest rate swap contracts	3,622,867	707,363	—	4,330,230	36,971

Favourable fair values of the interest rate swap contracts are included in accounts receivable and sundry or mortgages pledged under securitization, and unfavourable fair values are included in accounts payable and accrued liabilities or debt related to securitized mortgages on the consolidated statements of financial position.

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12. Senior unsecured notes

The Company has three unsecured notes outstanding. \$200 million of five-year Series 3 senior unsecured notes bearing interest at 2.961% payable in equal semi-annual payments maturing in November 2025; \$200 million of three-year term Series 4 senior unsecured notes bearing interest at 7.293% payable in equal semi-annual payments maturing in September 2026, and \$200 million of 3.6-year term Series 5 senior unsecured notes maturing in November 2027. The 3.6-year note was issued on April 1, 2024. The notes bear interest at 6.261% payable in equal semi-annual payments, except the first payment which represented seven months of interest from April 1 to November 1, 2024. On settlement, the net proceeds of the offering [\$199.1 million, net of financing fees], were loaned to FNFLP.

In November 2024, the Company repaid \$200 million of matured five-year term Series 2 senior unsecured notes.

13. Commitments, guarantees and contingencies

As at December 31, 2024, the Company has the following operating lease commitments for its office premises:

	\$
2025	10,473
2026	10,019
2027	10,464
2028 and thereafter	78,101
	<u>109,057</u>

The Company's commitments for premises listed above have remaining terms of one to 12 years, and have been accounted in right-of-use assets and recorded as other assets on the consolidated statements of financial position.

Outstanding commitments for future advances on mortgages with terms of one to 10 years amounted to \$2,518,243 as at December 31, 2024 [2023 – \$1,920,620]. The commitments generally remain open for a period of up to 90 days. These commitments have credit and interest rate risk profiles similar to those mortgages that are currently under administration. Certain of these commitments have been sold to institutional investors while others will expire before being drawn down. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

In the normal course of business, the Company enters into a variety of guarantees. Guarantees include contracts where the Company may be required to make payments to a third party, based on changes in the value of an asset or liability that the third party holds. In addition, contracts under which the Company may be required to make payments if a third party fails to perform under the terms of the contract [such as mortgage servicing contracts] are considered guarantees. The Company has determined that the estimated potential loss from these guarantees is insignificant.

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14. Securities transactions under repurchase and resale agreements

The Company's outstanding securities purchased under resale agreements and securities sold under repurchase agreements have a remaining term to maturity of less than three months.

15. Obligations related to securities and mortgages sold under repurchase agreements

The Company uses repurchase agreements to fund specific mortgages included in mortgages accumulated for sale or securitization. The current contracts are with financial institutions, based on daily Canadian Overnight Repo Rate Average ["CORRA"] rates and mature on or before January 31, 2025.

16. Accounts payable and accrued liabilities

The major components of accounts payable and accrued liabilities are as follows as at December 31:

	2024	2023
	\$	\$
Accrued liabilities	90,548	96,948
Accrued dividends payable	13,435	13,246
Accrued interest on securitization debt	101,398	87,114
Servicing liability	32,376	38,350
Lease liability	46,675	49,686
	<u>284,432</u>	<u>285,344</u>

17. Shareholders' equity

[a] Authorized

Unlimited number of common shares

Unlimited number of cumulative five-year rate reset preferred shares, Class A Series 1

Unlimited number of cumulative five-year rate reset preferred shares, Class A Series 2

[b] Capital stock

	Common shares		Preferred shares	
	#	\$	#	\$
Balance, December 31, 2024 and 2023	<u>59,967,429</u>	<u>122,671</u>	<u>4,000,000</u>	<u>97,394</u>

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[c] Preferred shares

On January 25, 2011, the Company issued 4 million Class A Series 1 Preferred Shares at a price of \$25.00 per share for gross proceeds of \$100,000 before issue expenses.

Holders of Class A Series 1 Preferred Shares have the right, at their option, every five years on March 31 to convert their shares into cumulative, floating rate Class A Preferred Shares, Series 2 ["Series 2 Preferred Shares"], subject to certain conditions. As at December 31, 2024, there were 2,984,835 Series 1 Preferred Shares and 1,015,165 Series 2 Preferred Shares outstanding with an aggregate carrying value of \$97,394.

Holders of the Class A Series 1 Preferred Shares receive a cumulative quarterly fixed dividend at a rate equal to the five-year Government of Canada yield plus 2.07%. The dividend rate may be reset every five years, as and when approved by the Board of Directors. The current dividend rate on the Class A Series 1 Preferred Shares is 2.895% annually for a five-year term ending March 31, 2026. Holders of the Class A Series 2 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury bill yield plus 2.07%, as and when declared by the Board of Directors.

Both classes of preferred shares do not have voting rights, are redeemable only at the option of the Company, and are therefore classified as equity. The par value per preferred share is \$25.

[d] Earnings per share

	2024	2023
	\$	\$
Net income attributable to shareholders	203,390	252,807
Less: dividends declared on preferred shares	(3,897)	(3,855)
Net income attributable to common shareholders	199,493	248,952
Number of common shares outstanding	59,967,429	59,967,429
Basic earnings per common share	3.33	4.15

18. Income taxes

The major components of deferred provision for (recovery of) income taxes for the years ended December 31 consist of the following:

	2024	2023
	\$	\$
Related to origination and reversal of temporary differences	28,400	9,000

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The major components of the current income tax expense for the years ended December 31 consists of the following:

	2024	2023
	\$	\$
Income taxes relating to the current year	<u>44,860</u>	<u>82,100</u>

The effective income tax rate reported in the consolidated statements of income varies from the Canadian tax rate of 26.38% for the year ended December 31, 2024 [2023 – 26.42%] for the following reasons:

	2024	2023
	\$	\$
Company's statutory tax rate	26.38%	26.42%
Income before income taxes	276,650	343,907
Income tax at statutory tax rate	72,980	90,860
Increase (decrease) resulting from		
Permanent differences	352	325
Over accrual from previous tax years	(59)	(150)
Other	(13)	65
Income tax expense	<u>73,260</u>	<u>91,100</u>

The movement in significant components of the Company's deferred income tax liabilities and assets for the years ended December 31, 2024 and 2023 are as follows:

	As at January 1, 2024	Recognized in income and OCI	As at December 31, 2024
	\$	\$	\$
Deferred income tax			
Deferred placement fees receivable	19,525	(749)	18,776
Deferred costs – securitization	167,739	(4,541)	163,198
Other	6,096	(55)	6,041
Right-of-use asset	12,324	(1,149)	11,175
Lease liability	(13,127)	814	(12,313)
Unrealized gains on interest rate swaps	(27,051)	24,777	(2,274)
Cumulative eligible capital property	(2,940)	210	(2,730)
Servicing liability	(10,132)	1,591	(8,541)
Fair value adjustments not deducted for tax purposes	(1,534)	(298)	(1,832)
Total	<u>150,900</u>	<u>20,600</u>	<u>171,500</u>

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	As at January 1, 2023 \$	Recognized in income and OCI \$	As at December 31, 2023 \$
Deferred income tax			
Deferred placement fees receivable	17,087	2,438	19,525
Deferred costs – securitization	155,437	12,302	167,739
Other	5,251	845	6,096
Right-of-use asset	13,050	(726)	12,324
Lease liability	(13,523)	396	(13,127)
Unrealized gains on interest rate swaps	(13,121)	(13,930)	(27,051)
Cumulative eligible capital property	(3,163)	223	(2,940)
Servicing liability	(10,496)	364	(10,132)
Fair value adjustments not deducted for tax purposes	(1,122)	(412)	(1,534)
Total	149,400	1,500	150,900

The amount of deferred tax expense recorded in income and OCI consists of an expense of \$28,400 [2023 – \$9,000] recorded in net income and a recovery of \$7,800 [2023 – \$7,500] recorded in OCI related to unrealized losses on cash flow hedges.

The calculation of taxable income of the Company is based on estimates and the interpretation of tax legislation. In the event that the tax authorities take a different view from management, the Company may be required to change its provision for income taxes or deferred income tax balances and the change could be significant

19. Financial instruments and risk management

Risk management

The various risks to which the Company is exposed and the Company's policies and processes to measure and manage them individually are set out below:

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's mortgages accumulated for securitization.

The Company uses various strategies to reduce interest rate risk. The Company's risk management objective is to maintain interest rate spreads from the point that a mortgage commitment is issued to the transfer of the mortgage to the related securitization vehicle or sale to an institutional investor. Primary among these strategies is the Company's decision to sell mortgages at the time of commitment, passing on interest rate risk that exists prior to funding to institutional investors. The Company uses synthetic bond forwards consisting of bonds sold short and bonds purchased under resale agreements to manage interest rate exposure between the time a mortgage rate is committed to the borrower and the time the mortgage is sold to a securitization vehicle and the underlying cost of funding is set. As interest rates change, the values of these interest rate-dependent financial instruments vary inversely with the values of the mortgage contracts. As interest rates increase, a gain will be recorded on the

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economic hedge which will be offset by the reduced future spread on mortgages pledged under securitization as the mortgage rate committed to the borrower is fixed at the point of commitment.

For single-family mortgages, only a portion of the commitments issued by the Company eventually fund. The Company must assign a probability of funding to each mortgage in the pipeline and estimate how that probability changes as mortgages move through the various stages of the pipeline. The amount that is actually economically hedged is the expected value of the mortgages funding within the future commitment period.

The table below provides the financial impact that an immediate and sustained 100 basis point and 200 basis point increase and decrease in short-term interest rates would have had on the net income of the Company in 2024 and 2023.

	Decrease in interest rate		Increase in interest rate	
	2024	2023	2024	2023
	\$	\$	\$	\$
100 basis point shift				
Impact on net income	12,452	12,287	(12,452)	(12,287)
200 basis point shift				
Impact on net income	24,905	24,575	(24,905)	(24,575)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Company's credit risk is mainly lending related in the form of mortgage default. The Company uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Company's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management. As at December 31, 2024, 87% [2023 – 88%] of the pledged mortgages were insured mortgages. See details in note 3. The Company's exposure is further mitigated by the relatively short period over which a mortgage is held by the Company prior to securitization.

The maximum credit exposures of the financial assets are their carrying values as reflected on the consolidated statements of financial position. The Company does not have significant concentration of credit risk within any particular geographic region or group of customers.

The Company is at risk that the underlying mortgages default and the servicing cash flows cease. The large portfolio of individual mortgages that underlies these assets is diverse in terms of geographical location, borrower exposure and the underlying type of real estate. This diversity and the priority ranking of the Company's rights mitigate the potential size of any single credit loss.

Securities purchased under resale agreements are transacted with large regulated Canadian institutions such that the risk of credit loss is very remote. Securities transacted are all Government of Canada bonds and, as such, have virtually no risk of credit loss.

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Liquidity risk and capital resources

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due.

The Company's liquidity strategy has been to use bank credit to fund working capital requirements and to use cash flow from operations to fund longer-term assets. The Company's credit facilities are typically drawn to fund: [i] mortgages accumulated for sale or securitization, [ii] origination costs associated with mortgages pledged under securitization, [iii] cash held as collateral for securitization, [iv] costs associated with deferred placement fees receivable, [v] accounts receivable and sundry, and [vi] mortgage and loan investments. The Company has a credit facility with a syndicate of financial institutions, which provides for a total of \$1,500,000 in financing.

The Company finances the majority of its mortgages with debt derived from the securitization markets, primarily NHA-MBS, ABCP and CMB. Debt related to NHA-MBS and ABCP securitizations reset monthly such that the receipts of principal on the mortgages are used to pay down the related debt within a 30-day period. Accordingly, these sources of financing amortize at the same rate as the mortgages pledged thereunder, providing an almost perfectly matched asset and liability relationship.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and credit spreads. The level of market risk to which the Company is exposed varies depending on market conditions, expectations of future interest rates and credit spreads.

Customer concentration risk

Placement fees and mortgage servicing income from one Canadian financial institution represent approximately 5.7% [2023 – 8.5%] of the Company's total revenue.

Fair value measurement

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value in the consolidated statements of financial position:

Level 1 – quoted market price observed in active markets for identical instruments;

Level 2 – quoted market price observed in active markets for similar instruments or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3 – valuation techniques in which one or more significant inputs are unobservable.

Valuation methods and assumptions

The Company uses valuation techniques to estimate fair values, including reference to third-party valuation service providers using proprietary pricing models and internal valuation models such as discounted cash flow analysis. The valuation methods and key assumptions used in determining fair values for the financial assets and financial liabilities are as follows:

[a] Mortgages and loan investments

Commercial segment mortgages and loan investments are measured at FVTPL. The fair value of these mortgages is based on non-observable inputs and is measured at management's best estimate of the fair value.

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[b] Deferred placement fees receivable

The fair value of deferred placement fees receivable at inception is determined by internal valuation models using market data inputs, where possible. The value is determined by discounting the expected future cash flows related to the placed mortgages at market interest rates. The expected future cash flows are estimated based on certain assumptions which are not supported by observable market data.

[c] Securities owned and sold short

The fair values of securities owned and sold short used by the Company to hedge its interest rate exposure are determined by quoted prices on a secondary market.

[d] Servicing liability

The fair value of the servicing liability at inception is determined by internal valuation models using market data inputs, where possible. The value is determined by discounting the expected future cost related to the servicing of explicit mortgages at market interest rates. The expected future cash flows are estimated based on certain assumptions which have one or more significant inputs that are unobservable.

[e] Other financial assets and financial liabilities

The fair value of mortgages accumulated for sale, cash held as collateral for securitization, restricted cash and bank indebtedness correspond to the respective outstanding amounts due to their short-term maturity profiles.

[f] Fair value of financial instruments not carried at fair value

The fair value of these financial instruments is determined by discounting projected cash flows using market industry pricing practices, including the rate of unscheduled prepayment. Discount rates used are determined by comparison to similar term loans made to borrowers with similar credit. This methodology will reflect changes in interest rates which have occurred since the mortgages were originated. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3] and are calculated for disclosure purposes only.

Carrying value and fair value of selected financial instruments

The fair value of the financial assets and financial liabilities of the Company approximates its carrying value, except for mortgages pledged under securitization, which has a carrying value of \$43,976,776 [2023 – \$39,427,192] and a fair value of \$43,932,449 [2023 – \$38,647,614]; debt related to securitized mortgages, which has a carrying value of \$43,677,981 [2023 – \$38,880,798] and a fair value of \$42,716,317 [2023 – \$37,270,328]; and senior unsecured notes, which have a carrying value of \$598,630 [2023 – \$598,745] and a fair value of \$617,540 [2023 – \$590,820]. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3].

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The following tables represent the Company's financial instruments measured at fair value on a recurring basis as at December 31:

	2024			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Mortgages accumulated for sale	—	54,069	—	54,069
Mortgage and loan investments	—	—	67,379	67,379
Total financial assets	—	54,069	67,379	121,448
Financial liabilities				
Securities sold short	—	2,233,288	—	2,233,288
Interest rate swaps	—	33,096	—	33,096
Total financial liabilities	—	2,266,384	—	2,266,384
2023				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Mortgages accumulated for sale	—	27,113	—	27,113
Mortgage and loan investments	—	—	189,523	189,523
Interest rate swaps	—	36,971	—	36,971
Total financial assets	—	64,084	189,523	253,607
Financial liabilities				
Securities sold short	—	2,649,249	—	2,649,249
Total financial liabilities	—	2,649,249	—	2,649,249

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used, including those that have one or more significant inputs which are unobservable [Level 3]. For the year ended December 31, 2024, there were no amounts related to the change in fair value included in the Company's net income that were estimated using a valuation technique based on assumptions that are not fully supported by observable market prices or rates [2023 – gain of \$397]. Although the Company's management believes that the estimated fair values are appropriate as at the date of the consolidated statements of financial position, those fair values may differ if other reasonably possible alternative assumptions are used.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the period in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During 2024, the Company did not have any transfers between levels.

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The following table presents changes in the fair values, including realized losses of \$123,328 [2023 – gains of \$67,865], of the Company's financial assets and financial liabilities for the year ended December 31, 2024 and 2023, all of which have been classified as FVTPL:

	2024	2023
	\$	\$
FVTPL mortgages	—	397
Securities sold short	(16,797)	19,119
Interest rate swaps	3,131	2,605
	<u>(13,666)</u>	<u>22,121</u>

The Company does not have any assets or liabilities that are measured at fair value on a non-recurring basis.

Movement in Level 3 financial instruments measured at fair value

The following tables show the movement in Level 3 financial instruments in the fair value hierarchy for the years ended December 31, 2024 and 2023. The Company classifies financial instruments to Level 3 when there is reliance on at least one significant unobservable input in the valuation models.

	Fair value as at January 1, 2024	Investments	Gains recorded in income	Payment and amortization	Fair value as at December 31, 2024
	\$	\$	\$	\$	\$
Financial assets					
Mortgage and loan investments	189,523	724,386	—	(846,530)	67,379

	Fair value as at January 1, 2023	Investments	Gains recorded in income	Payment and amortization	Fair value as at December 31, 2023
	\$	\$	\$	\$	\$
Financial assets					
Mortgage and loan investments	164,919	929,146	397	(904,939)	189,523

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20. Capital management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. Management defines capital as the Company's common share capital and retained earnings. FNFLP has a minimum capital requirement as stipulated by its bank credit facility. The agreement limits the debt under bank indebtedness together with the unsecured notes to four times FNFLP's equity. As at December 31, 2024, the ratio was 1.92:1 [2023 – 1.89:1]. The Company was in compliance with the bank covenant throughout the year.

21. Earnings by business segment

The Company operates principally in two business segments, Residential and Commercial. These segments are organized by mortgage type and contain revenue and expenses related to origination, underwriting, securitization and servicing activities. Identifiable assets are those used in the operations of the segments.

	2024		
	Residential	Commercial	Total
	\$	\$	\$
Revenue			
Interest revenue – securitized mortgages	1,110,920	487,624	1,598,544
Interest expense – securitized mortgages	(962,466)	(409,716)	(1,372,182)
Net interest – securitized mortgages	148,454	77,908	226,362
Placement and servicing	347,061	135,375	482,436
Mortgage investment income <i>[note 6]</i>	103,223	46,440	149,663
Realized and unrealized losses on financial instruments	(13,666)	—	(13,666)
	585,072	259,723	844,795
Expenses			
Amortization	12,726	2,227	14,953
Interest	117,233	44,448	161,681
Other operating	299,305	92,206	391,511
	429,264	138,881	568,145
Income before income taxes	155,808	120,842	276,650
Identifiable assets	33,218,858	17,908,507	51,127,365
Goodwill	—	—	29,776
Total assets	33,218,858	17,908,507	51,157,141

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	2023		
	Residential	Commercial	Total
	\$	\$	\$
Revenue			
Interest revenue – securitized mortgages	937,470	398,593	1,336,063
Interest expense – securitized mortgages	(787,375)	(332,100)	(1,119,475)
Net interest – securitized mortgages	150,095	66,493	216,588
Placement and servicing	385,274	140,898	526,172
Mortgage investment income <i>[note 6]</i>	109,978	29,951	139,929
Realized and unrealized gains on financial instruments	21,712	409	22,121
	667,059	237,751	904,810
Expenses			
Amortization	12,171	1,989	14,160
Interest	127,320	26,087	153,407
Other operating	320,376	72,960	393,336
	459,867	101,036	560,903
Income before income taxes	207,192	136,715	343,907
Identifiable assets	30,362,969	15,564,654	45,927,623
Goodwill	—	—	29,776
Total assets	30,362,969	15,564,654	45,957,399

22. Related party and other transactions

The Company has servicing contracts in connection with commercial bridge and mezzanine mortgages originated by the Company and subsequently sold to various entities controlled by a senior executive and shareholder of the Company. The Company services these mortgages during their terms at market commercial servicing rates. During the year, the Company originated \$133,582 of new mortgages for the related parties. The related parties also funded several progress draws totalling \$3,572 on existing mortgages originated by the Company. All such mortgages, which are administered by the Company, have a balance of \$199,326 as at December 31, 2024 [2023 – \$204,011].

A senior executive and shareholder of the Company has a significant investment in a mortgage default insurance company. In the ordinary course of business, the insurance company provides insurance policies to the Company's borrowers at market rates. In addition, the insurance company has also provided the Company with portfolio insurance at market premiums. The total bulk insurance premium paid by the Company in 2024 was \$6,444 [2023 – \$3,514], net of third-party investor reimbursement.

A senior executive and shareholder of the Company has a significant investment in a Canadian bank. The Company has an agreement to originate and adjudicate applications for secured credit cards for the bank. These applications are originated through the Company's mortgage broker relationships. The Company receives a market fee for successfully adjudicating such applications.

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A senior executive and shareholder of the Company has a significant investment in a Canadian financial institution. The Company has existing agreements to originate and service mortgages with the financial institution. Mortgages are generally originated through the relationships the Company has directly with mortgage borrowers and are transacted at market rates with the financial institution. In 2024, the Company closed \$69,044 of mortgages which were placed with the financial institution. As at December 31, 2024, the Company administered a \$4,574,671 [2023 – \$5,132,839] mortgage portfolio for the financial institution at market servicing rates.