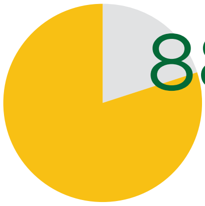
FIRST NATIONAL
FINANCIAL CORPORATION

ANNUAL REPORT 2015

2015 AT A GLANCE

$93.8 Billion

Mortgages Under Administration ("MUA") grew 9% or $7.9 billion in 2015 to an all-time record. By expanding MUA, revenue grows, per unit servicing costs decline and renewal opportunities are created.



88%

The ratio of dividends paid to earnings available to common shareholders in 2015 improved by four percentage points compared to 2014 despite ongoing investments and a higher cash payout.

8

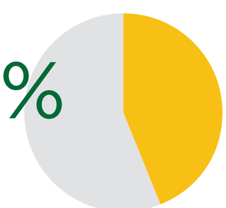
In 2015, First National increased its common share dividend for the eighth time since its IPO in 2006 and now pays at an annualized rate of $1.55 per share.

Annual 2015 revenue grew 14% from $803.1 million in 2014 with contributions from the Company's new underwriting and fulfillment services business, placement fees and securitization related interest revenue.

$915.3 Million

The after-tax Pre-Fair Market Value[1] return on shareholders' equity in 2015 demonstrates the Company's efficient use of capital.

44%



The aggregate yield from distributions and dividends earned by a shareholder who purchased First National on the IPO in June 2006 is greater than 100%.

133%

[1]The after-tax Pre-Fair Market Value return is a non-IFRS measure, see page 15

LETTER FROM THE CEO

FELLOW SHAREHOLDERS:

For First National, 2015 was a successful year. Market share increased, a new business line transitioned to profitability and lower demand for mortgages in Western Canadian communities, hurt by the cyclical decline in the energy industry, was offset with growth in other regions.

2015 also validated—for the 27th year since our founding—the value of First National's approach to business. In form, our Company is different because it is a non-bank lender and funds mortgages through various cost-effective sources: institutional partners, National Housing Act Mortgage Backed Securities, the Canada Mortgage Bonds program, asset-backed commercial paper and commercial mortgage backed securities. This strategy results in the efficient use of our capital and residual credit risk.

In function, First National is differentiated in the eyes of customers by its ability to provide responsive service. Put simply, we think like our customers and strive to create the best financing solutions with the best turnaround time in the industry.

We rely on proprietary technology and knowledgeable staff members working collaboratively across origination, underwriting, credit, funding and anti-money laundering departments to make a difference to customers while protecting the integrity of the institution.

This approach has allowed First National to steadily increase its position as Canada's largest non-bank originator and underwriter of mortgages and presence in the mortgage broker distribution channel where it is consistently ranked among the top three in market share.

To quantify the Company's growing stature, consider that MUA at year-end 2015 was $93.8 billion. Five years ago, MUA was $53.3 billion and ten years ago it was $18.6 billion. This growth reflects ongoing success in originating and renewing mortgages across two segments. In 2015, single family mortgage originations and renewals amounted to $17.2 billion, up 8% over 2014. Commercial segment mortgage originations and renewals totalled $5.3 billion, a 7% year-over-year advancement. We are pleased with this growth and what it says about First National as a service provider to its customers.

Growth has also served to make the Company a consistent creator of value for our shareholders. In 2015, First National returned more money than ever to shareholders in the form of monthly common share dividends. In the year, $90.5 million of dividends were declared in aggregate, or $1.51 per common share. Since its initial public offering in 2006, First National has raised the dividend rate eight times, including the most recent increase of 3.3% effective with the dividend paid on December 15, 2015. Total dividends and distributions, excluding preferred share payments, amounted to just under $800 million over this period. Dividends at all times have been fully supported by profitable operations, including income and cash flow generated from MUA.

First National has been profitable every year since the IPO on each metric it uses to assess profitability. On a GAAP basis, the Company uses net income to assess performance. On this basis, First National earned $1.71 per common share, 6% more than in 2014. We also assess performance using Pre-Fair Market Value EBITDA. This is a non-GAAP figure but in our view, a useful gauge of profitability as it removes the impacts of gains and losses on financial instruments, which tend to skew financial results during periods of capital market volatility and mask the performance of the core business itself. In 2015, Pre-Fair Market Value EBITDA grew 15% to $209.9 million, reflecting increased earnings from securitization and a first-time contribution from First National's new third party underwriting business.

With respect to net income attributable to common shareholders, the common share dividend payout ratio was 88% in 2015. Using after tax Pre-Fair Market Value EBITDA, the payout ratio was 64%. No matter how it is measured, we believe the payout is sustainable because of First National's ability to make efficient use of capital through its business model. This is demonstrated in return on shareholders' equity (ROE). After tax Pre-Fair Market Value EBITDA ROE was 44% in 2015, which was also the average over the past five years.

First National retains capital, in part, to invest in mortgage securitization. The securitized portfolio grew by over $2 billion in 2015 to $24.5 billion to represent just over a quarter of all MUA. The size of this portfolio is important because securitizations produce net interest margin which enhances future earnings. Consider that in 2015, First National earned $132.2 million in net interest margin from its portfolio of securitized mortgages, making this portfolio a significant driver of profitability and a solid platform to sustain our business.

New Business

As I reported in last year's letter, First National entered into an agreement with one of Canada's major banks to provide underwriting and fulfillment processing services for mortgages originated by that Bank through the residential mortgage broker distribution channel.

After announcing the partnership in the summer of 2014, First National recruited and trained over 100 new employees to work inside a separate division created to provide the services for this opportunity. With the successful launch of the Ontario, Western Canada and Quebec branches in 2015, the investment of the Company's capital began to pay off as the business transitioned to profitability in the third quarter of 2015, on schedule.

While this business does not add to MUA, it leverages the Company's strong underwriting culture and MERLIN technology to increase earnings from existing competencies.

The Importance of Mortgage Brokers

All of First National's single family originations come through the broker channel and mortgage brokers play a key role as advisors to the 250,000 plus single family borrowers we serve.

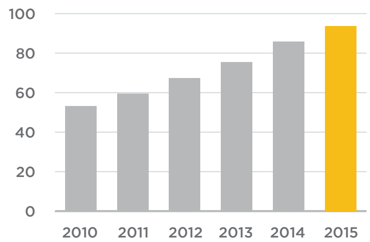
First National is an unabashed supporter of the channel and our alignment with it is one of the reasons for First National's long-term success. We believe the channel will be equally important to our future and to future homebuyers.

One of the telling stats from the 2015 CMHC First Time Home Buyers Survey was that 55% of first-time home buyers use mortgage brokers. When first-timers use the channel to this extent, it illustrates how important mortgage brokers are in Canada and validates First National's strategy to give them the best service possible.

The starting point for that service is MERLIN, our proprietary technology, which is viewed by mortgage broker users as an indispensable work tool for interacting with us through the mortgage approval process. But we go beyond just fintech: it is First National's service-driven culture around MERLIN that creates a meaningful value proposition for our Company with brokers.

Service is also a distinguishing feature for First National in its commercial segment where we work collaboratively to develop financing solutions for more than 5,000 borrowers. Getting to know these customers is more than just a compliance requirement at First National: it is a critical initiative to achieve our vision.

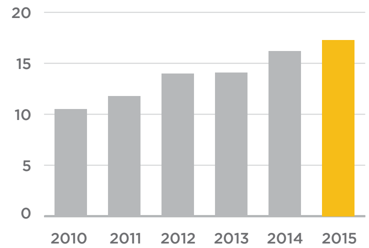
Mortgages Under Administration
($ Billions)



9%

Year-Over-Year Growth
2014 to 2015

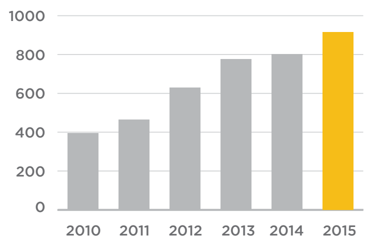
Mortgage Originations
($ Billions)



7%

Year-Over-Year Growth
2014 to 2015

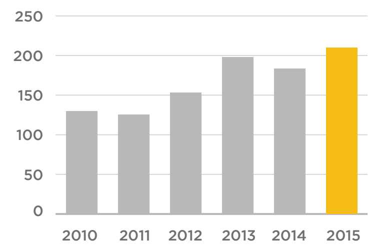
Revenue
($ Millions)



14%

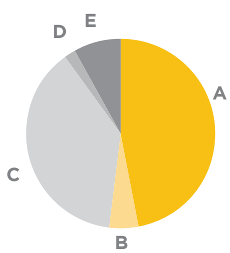
Year-Over-Year Growth
2014 to 2015

PRE-FMV EBITDA
($ Millions)



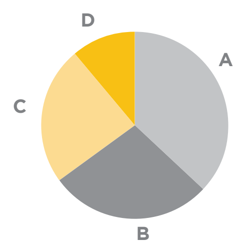
15%

Year-Over-Year Growth
2014 to 2015



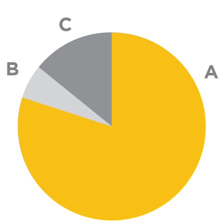
Funding Sources
(for the year ended December 31, 2015)

A	47%	Institutional Placements
B	5%	CMB Dealers
C	38%	NHA MBS
D	2%	Internal Resources
E	8%	ABCP



Revenue Sources Prior To Fair Value Gains/ Losses
(for the year ended December 31, 2015)

A	37%	Institutional Placements
B	28%	Net Interest – Securitized Mortgages
C	24%	Mortgage Servicing
D	11%	Investment Income



Mortgages Under Administration
(as at December 31, 2015)

A	80%	Insured
B	6%	Multi-unit Residential and Commercial
C	14%	Conventional Single Family Residential

Looking Ahead

Real estate and mortgage markets do not always grow, even though the experience of the past few years has made it seem that way in Canada.

In reality, these markets are cyclical and influenced by a host of economic factors, employment being the largest. When the unemployment rate climbs, the housing market cools. We saw a clear demonstration of that in 2015 in Western Canada. In markets where the energy industry is the dominant employer, mortgage originations were 11% lower in 2015. Finding offsetting opportunities is not a given, but First National's national presence helped, as did the continuation of a low interest rate environment. Low rates, which look to be here for some time to come, keep mortgage affordability at favourable levels and mitigate refinancing risk.

First National is of course not immune to the effects of a downturn, but over past market cycles the inherent strengths of our business model have tended to stabilize performance.

For the future, I believe we can count on First National's ability to generate income and cash flow from its nearly $25 billion portfolio of mortgages pledged under securitization and $69 billion servicing portfolio to maximize financial performance. Significant value is also available in mortgage renewal opportunities.

We can also look forward to the contributions from the Company's new business line and the potential for growth in mortgages processed as mortgage brokers respond positively to the First National service experience.

Gauging Our Potential

Despite substantial growth over the past 27 years, First National is far from reaching its full potential. Today, it provides financing for about 5% of all single family mortgages in Canada. Although our Company is one of the biggest commercial lenders in the country, there are still places to grow this business as well.

> "To quantify the Company's growing stature, consider that MUA at year-end 2015 was $93.8 billion. Five years ago, MUA was $53.3 billion and ten years ago it was $18.6 billion. This growth reflects ongoing success in originating and renewing mortgages..."

Accordingly, there is significant opportunity ahead for a business that is enterprising, pragmatic and entrepreneurial at heart. I believe First National is all of these things because of the efforts of 900+ valued employees and the six other dedicated members of our Board of Directors. I thank each of you for your ongoing contributions.

On their behalf, I thank our customers, shareholders and funding partners for believing in First National and choosing to be part of our successful story.

Yours sincerely,

Stephen Smith
Chairman and Chief Executive Officer

OUR MANAGEMENT TEAM

From left to right

Rick Votano, Vice President, Information Technology
Lisa White, Vice President, Mortgage Operations
Scott McKenzie, Senior Vice President, Residential Mortgages
Stephen Smith, Co-founder, Chairman and Chief Executive Officer
Moray Tawse, Co-founder and Executive Vice President
Jeremy Wedgbury, Senior Vice President, Commercial Mortgages
Robert Inglis, Chief Financial Officer
Jason Ellis, Managing Director, Capital Markets
Hilda Wong, Vice President and General Counsel

CORPORATE PROFILE

First National Financial Corporation (TSX: FN, TSX: FN.PR.A) is the parent company of First National Financial LP, a Canadian-based originator, underwriter and servicer of predominantly prime residential (single-family and multi-unit) and commercial mortgages. With almost $94 billion in mortgages under administration, First National is Canada's largest non-bank originator and underwriter of mortgages and is among the top three in market share in the mortgage broker distribution channel. For more information, please visit www.firstnational.ca.

OUR DIFFERENCE

Our Product is Service

Not all mortgages are the same. Terms and conditions vary between lenders making it necessary to shop the market to find the mortgage that is right for the borrower.

But what about the lenders behind the mortgages; is there any real difference? First National believes there is. It's called service.

Our team goes beyond what other lenders call good service by approaching each mortgage as the beginning of a mutually beneficial long-term partnership as well as a financial transaction.

We start with a simple pledge: treat our customers as we want to be treated. That means being responsive, committed, and forthright but also solutions focused. The term we often use to describe First National's approach is "pragmatically entrepreneurial" because it summarizes the practical, can-do attitude that shapes how our team responds to opportunity and innovates in addressing customer needs.

One Core Belief

The essence of our philosophy is that our product is service. We are accountable for delivering service every day. However, our customers don't come to us simply because of our philosophy: they come to us for tangible results which First National has always provided.

For mortgage brokers, having First National as a partner means gaining the support of a national organization that is dedicated to responding quickly to mortgage applications while providing strong underwriting to ensure deals are done right every time.

To be the kind of organization that is known for a consistently superior level of mortgage broker service, First National is structured to encourage collaboration and fast decision making across underwriting, funding and account management teams. This is achieved using our own homegrown technology called MERLIN.

MERLIN gives mortgage brokers real-time access to track the status of every mortgage application they bring to First National and across each stage of the approval process. There is nothing like it in the market today and it is the cornerstone of our mortgage broker partnerships.

We also look to provide value beyond a competitive interest rate by sharing our expertise to help brokers deliver best-in-class advice and guidance to borrowers. By hosting seminars and workshops attended by hundreds of mortgage brokers in 2015, First National plays a constructive role in helping these independent professionals enhance their skills and grow their books of business.

MERLIN gives mortgage brokers real-time access to track the status of every mortgage application they bring to First National and across each stage of the approval process.

For single family borrowers, having First National as a partner means working with a non-bank mortgage lender with a decidedly non-bank attitude. While we follow disciplined processes to arrive at our funding decisions, we also strive to eliminate roadblocks and red tape on the way to creating financial solutions. Put simply, we try to make it as easy as possible to do business with First National whether the borrower is buying a home for the first time, or renewing a mortgage for the tenth time.

Here again First National employs its own technology to enhance the borrower experience. Called *My Mortgage*, our online portal gives borrowers anywhere, anytime access to critical details including mortgage balances, and the power to change payment dates and calculate interest savings from accelerating payment frequency.

A key objective for our single family team is what we term "first-call resolution". It means striving to resolve each customer's question or concern in its entirety the first time they reach us. We don't always succeed, but more often than not our team members take ownership of the issue instead of just passing it on to another department.

Commercial borrowers also find a welcoming difference at First National, where partnerships are built on knowledge. Our originators are experts in financing alternatives (CMHC, conventional, bridge, mezzanine, private placements, to name a few) as well as in real estate itself. They know what questions to ask and when to ask them in order to gain an understanding of not just the property and risk profile of the transaction, but the vision and objectives of the owners.

"We start with a simple pledge: treat our customers as we want to be treated. That means being responsive, committed, and forthright but also solutions focused. The term we often use to describe First National's approach is pragmatically entrepreneurial."

What's more, our commercial team is entrepreneurial—just like the borrowers they serve—this gives us the expertise and confidence to find innovative financing strategies. As commercial financing has many moving parts, First National is valued as a partner because we know how to make even the most complex decisions quickly, which expedites funding across all major asset classes including retail, medical and other types of offices, self-storage, light industrial, retirement and, our bread and butter, apartment buildings.

At its heart, mortgage lending is not about assets or liabilities, profit spreads or terms. It is about people, their goals, the home they want to own or the business they want to grow.

First National keeps that in mind every day.

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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 February 23, 2016. 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, 2015. 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 EBITDA" and "After tax Pre-FMV Dividend Payout Ratio" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with 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 over $93 billion in mortgages under administration ("MUA"), First National is Canada's largest non-bank originator and underwriter of mortgages and is among the top three in market share in the mortgage broker distribution channel.

In 2013, First National consolidated its interest in First National Mortgage Investment Fund (the "Fund"), which it launched in late 2012. Although the Company only owns about 18% of the units issued by the Fund, because of its status as sole seller to the Fund and its rights as promoter, the application of IFRS suggests that First National exercises control over the Fund. The Fund was created to obtain economic exposure to a diversified portfolio of primarily commercial mezzanine mortgages. Through the Fund's consolidation, the Company has effectively taken on a portfolio of about $47 million (December 31, 2014 - $55 million) of mortgages. Because of the Company's small proportionate interest in the Fund's units, it has also recorded a $33 million (December 31, 2014 - $39 million) non-controlling interest in equity which offsets these assets.

2015 Results Summary

The Company is pleased with 2015 results. Single-family origination increased 3% compared to 2014 to a new annual record in spite of weakness in Alberta and Saskatchewan's economies. New commercial origination was very strong and increased by 19%. These volumes and consistent renewal rates enabled the Company to grow its MUA and build the value of its portfolio of securitized mortgages.

"With First National's large portfolio of mortgages pledged under securitization, quarterly revenue is driven primarily by the gross interest earned on the mortgages pledged under securitization."

- MUA grew to $93.8 billion at December 31, 2015 from $85.9 billion at December 31, 2014, an increase of 9%; the growth from September 30, 2015, when MUA was $92.6 billion, represented an annualized increase of 5%;

- The Canadian single-family real estate market performed steadily in 2015 despite the oil-related slowdown evident in Western Canada. Even with a decrease in origination of 11% out of its Calgary office, the Company increased national new single-family mortgage origination by 3% to $12.9 billion in 2015 from $12.5 billion in 2014. The commercial segment had a very strong year as volumes increased by 19%, from $3.7 billion in 2014 to over $4.4 billion in 2015. Together, overall origination for 2015 increased by 7% year over year;

- The Company also took advantage of opportunities in the year to renew $4.3 billion of single-family mortgages. In 2014, the Company renewed $3.4 billion of single-family mortgages. The growth is attributable to more mortgages up for renewal than in the prior year and slightly higher retention rates. For the commercial segment, renewals decreased to $0.9 billion from $1.3 billion as more borrowers elected to refinance with the Company at increased mortgage values on maturity. While this reduced renewal production, this trend was reflected in the higher new origination volumes noted above;

- Revenue for 2015 increased to $915.3 million from $803.1 million in 2014. The 14% increase is attributable to higher revenues from the Company's underwriting and fulfillment business offset by losses on financial instruments which decreased revenue by $17.2 million year over year.

- Placement fee revenue and Interest revenue – securitized mortgages also grew as the Company increased the volume of mortgages placed with institutions and its portfolio of securitized mortgages;

- Income before income taxes for the year increased by 6% from $140.3 million in 2014 to $148.7 million in 2015. The increase was achieved despite large changes in the capital markets, which negatively affected the Company's interest rate hedges and mortgages held at fair value in both years. The Company recorded losses of $52.1 million on financial instruments in 2015 in contrast to smaller losses on financial instruments of $34.9 million in 2014. The net change in losses on financial instruments between 2015 and 2014 decreased income before income taxes between the years by $17.2 million.

- Without the impact of gains and losses on financial instruments, the Company's earnings before income taxes, depreciation and amortization ("Pre-FMV EBITDA[1]") for 2015 increased by almost 15%, from $183.1 million in 2014 to $209.9 million in 2015. The increase was due primarily to increased earnings from securitization and the transition to profitability in the new underwriting and fulfilment processing services business.

The Company was very pleased with these results as the year progressed. In October 2015, the Board of Directors approved an increase in the dividend on its common shares. Effective with the dividend paid on December 15, 2015, the annual dividend rate was increased from $1.50 per share to $1.55 per share, an increase of 3.3%.

Outstanding Securities of the Corporation

At December 31, 2015 and February 23, 2016, the Corporation had 59,967,429 common shares, 4,000,000 Class A preference shares, Series 1 and 175,000 April 2020 notes outstanding.

[1]Non-GAAP measure.

Selected Quarterly Information

Quarterly Results of First National Financial Corporation

($000s, except per share amounts)

	Revenue	Net Income (Loss) for the period	Pre-FMV EBITDA for the period [1]	Net Income (Loss) per Common Share	Total Assets
2015					
Fourth Quarter	**$ 250,008**	**$ 41,084**	**$ 58,527**	**$ 0.66**	**$ 27,926,732**
Third Quarter	**$ 246,641**	**$ 29,308**	**$ 60,955**	**$ 0.46**	**$ 27,624,359**
Second Quarter	**$ 251,206**	**$ 42,538**	**$ 52,012**	**$ 0.68**	**$ 27,585,945**
First Quarter	**$ 167,460**	**($3,499)**	**$ 38,439**	**($0.09)**	**$ 26,638,048**
2014					
Fourth Quarter	$ 198,254	$ 17,856	$ 43,229	$ 0.27	$ 25,953,914
Third Quarter	$ 230,552	$ 35,331	$ 50,121	$ 0.56	$ 25,077,361
Second Quarter	$ 201,596	$ 28,217	$ 48,392	$ 0.44	$ 23,902,513
First Quarter	$ 172,705	$ 23,061	$ 41,388	$ 0.35	$ 21,683,307

[1] This non-IFRS measure adjusts income before income taxes by adding back expenses for amortization of intangible and capital assets but it also eliminates the impact of changes in fair value by adding back losses on the valuation of financial instruments and deducting gains on the valuation of financial instruments.

With First National's large portfolio of mortgages pledged under securitization, quarterly revenue is driven primarily by the gross interest earned on the mortgages pledged under securitization. Servicing revenue will also change as the third-party portfolio of mortgages grows or contracts. The gross interest on the mortgage portfolio is dependent both on the size of the portfolio of mortgages pledged under securitization as well as weighted average mortgage rates. Although mortgage rates have declined recently, the Company has steadily increased MUA and its portfolio of securitized mortgages over the last 24 months. Net income is partially dependent on conditions in the debt 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 (primarily conditions in the bond markets). By removing this volatility and analyzing Pre-FMV EBITDA, management believes a more appropriate measurement of the Company's performance can be assessed.

Generally, in the last eight quarters, the Company has grown its origination volumes in order to build its servicing portfolio and to enable it to securitize larger amounts of mortgages in the NHA-MBS market. This longer-term strategy has been successful and Pre-FMV EBITDA grew steadily to over $209 million in 2015. Despite continued success in growing MUA and mortgage origination volume, tightening mortgage spreads over the past 5 years has reduced relative profitability of mortgages pledged for securitization and deferred placements fees. The table above shows a trend of growing income reflecting typical Canadian seasonality: slower first and fourth quarters and stronger mid-year quarters. In the first quarter of 2015, the surprise cut in the Bank of Canada's overnight rate on January 21, 2015, had a large, unfavourable effect on the Company's net income.

Although the Company recorded growth in origination volumes and grew its MUA, the first quarter of 2015 featured large net losses on the fair value of financial instruments as bond yields fell. In the third and fourth quarters of 2015, the Company achieved the highest quarterly levels of Pre-FMV EBITDA since the Company began tracking this measure in 2012 due to a combination of steady origination and contributions from its third party underwriting and fulfillment services business.

Selected Annual Financial Information and Reconciliation to Pre-FMV EBITDA

($000s, except per share amounts)

	2015	2014	2013
FOR THE YEAR ENDED DECEMBER 31,			
Income Statement Highlights			
Revenue	**$ 915,315**	$ 803,107	$ 776,508
Interest expense – securitized mortgages	**(488,659)**	(434,726)	(323,236)
Brokerage fees	**(107,045)**	(77,105)	(84,420)
Salaries, interest and other operating expenses	**(161,821)**	(143,062)	(127,404)
Add (deduct): realized and unrealized (gains) losses on financial instruments	**52,143**	34,916	(43,866)
Pre-FMV EBITDA[1]	**209,933**	183,130	197,582
Amortization of capital assets	**(4,114)**	(2,909)	(2,374)
Amortization of intangible assets	**(5,000)**	(5,000)	(5,563)
Add (deduct): realized and unrealized gains (losses) on financial instruments	**(52,143)**	(34,916)	43,866
Provision for income taxes	**(39,245)**	(35,840)	(61,410)
Net income	**109,431**	104,465	172,101
Dividends declared	**95,101**	93,602	90,294
Per Share Highlights			
Net income per common share	**1.71**	1.62	2.75
Dividends per common share	**1.51**	1.48	1.38
AT YEAR END			
Balance Sheet Highlights			
Total assets	**$ 27,926,732**	$ 25,953,914	$ 20,569,217
Total long-term financial liabilities	**$ 174,420**	$ 176,418	$ 179,195

Notes:

[1]Pre-FMV EBITDA is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Pre-FMV EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that Pre-FMV EBITDA 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 virtually the entire mortgage market 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 the leading non-bank mortgage lender in the industry. Growth has been achieved while maintaining a relatively conservative risk profile. 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 assets under administration; employing technology to enhance service to mortgage brokers and borrowers, lower costs and rationalize business processes; and maintaining a conservative risk profile. An important element of the Company's strategy is its direct relationship with the mortgage borrower. Although the Company places most of its originations with third parties, FNFLP is perceived by most of its borrowers as the mortgage lender. This is a critical distinction. It allows the Company 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;
- Lowering the costs of operations through the innovation of systems and technology; and
- Employing innovative securitization transactions to minimize funding costs.

Growth in Portfolio of Mortgages under Administration

Management considers the 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, longer-term value from servicing fees, mortgage administration fees, renewals and the growth of the customer base for marketing initiatives. As at December 31, 2015, MUA totalled $93.8 billion, up from $85.9 billion at December 30, 2014, an increase of 9%. This compares to $92.6 billion at September 30, 2015, representing an annualized increase of 5%.

Growth in Origination of Mortgages

The origination of mortgages not only drives the growth of MUA as described above, but leverages the Company's origination platform, which has a large fixed-cost component. As more mortgages are originated, the marginal costs of underwriting decrease. By growing origination, not only can the Company satisfy demand from its institutional customers, but it can also produce volume for its own securitization programs. Despite a decrease in origination of 11% out of its Calgary office, the Company exceeded the record origination experienced in 2014 by 3%. The commercial segment had a very strong year as volumes increased by 19%, from $3.7 billion in 2014 to $4.4 billion in 2015. Together, overall origination for 2015 increased by 7% year over year.

Mortgage Underwriting and Fulfillment Processing Services

Early in the third quarter of 2014, the Company entered into an agreement with a large Canadian schedule I bank ("Bank") to provide underwriting and fulfillment processing services for mortgages originated by the Bank through the single-family residential mortgage broker channel. Under the strategic agreement, 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. The new business was launched in Ontario in early 2015, Western Canada in April 2015, and finally in Quebec in July 2015. 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 the third quarter of 2015, this business transitioned to profitability as volumes of mortgages underwritten increased with the summer season and operations normalized.

Lowering Costs of Operations

Innovations in Systems and Technology

The Company has always used technology to provide for efficient and effective operations. This is particularly true for its MERLIN underwriting system, Canada's only web-based, real-time broker information system. By creating a paperless, 24/7 commitment management platform for mortgage brokers, the Company is now ranked among the top three lenders by market share in the broker channel. This has translated into increased single-family origination volumes and higher closing ratios (the percentage of mortgage commitments the Company issues that actually become closed mortgages).

Bank Credit Facility

The Company uses a $1 billion revolving line of credit with a syndicate of banks. This facility enables the Company to fund the increasing amount of mortgages accumulated for securitization. The entire facility is floating rate and has a five-year term.

The Company has elected to undertake this debt for a number of reasons: (1) the transaction increases the amount of debt available 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 the Senior Unsecured Notes, which are fully drawn during their term; (3) the five-year term extension 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 6, 2015, the Company issued 175,000 4.01% Series 1 Senior Unsecured Notes due April 9, 2020 pursuant to a private placement under an offering memorandum. The net proceeds of the offering, after broker commissions, of $174.3 million were invested in FNFLP. On settlement, the proceeds were used to repay a portion of the outstanding amount drawn on the bank credit facility. On May 7, 2015, the Company drew on the bank credit facility to repay the maturing 5.07% $175 million debenture. Effectively the new note issuance has replaced the funding provided by the maturing debenture. Unlike the debenture, which was secured on a pari passu basis with the bank syndicate, the newly issued notes are unsecured and can be invested in FNFLP such that the amount will qualify as "net worth" which allows the Company to increase the amount of NHA MBS it can issue under CMHC guidelines. Accordingly, the Company considers these funds to represent a source of capital to fund the upfront investment required by its securitization program. The 5.07% debenture was used primarily to fund mortgages in the holding period prior to securitization.

Employing Securitization Transactions to Minimize Funding Costs

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

The Company has been involved in the issuance of NHA-MBS since 1995. 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 CMB program. Issuer status has provided the Company with a funding source that it can access independently. Perhaps more importantly, seller status for the CMB gives the Company direct access to the CMB. Generally, the demand for high-quality fixed and floating rate investments increased significantly with the economic turmoil in 2009. This demand has continued into 2015 and allowed the Company to issue almost $6.4 billion of mortgages through the NHA-MBS and CMB programs during the year. In August 2013, CMHC announced that it would be limiting the amount of guarantees it would issue on NHA-MBS pools created for sale to the "market". CMHC indicated that the amount of guarantees it was providing for such market pools (generally any pool not sold to the Canada Housing Trust ("CHT") for the CMB) was growing significantly. In order to better control the absolute amount of risk that it takes on in this respect, CMHC has implemented policies to allocate the amount of guarantees to issuers. The current amount being allocated to First National is approximately the amount that the Company used in 2015. These rules are similar to the CMB allocation rules described below, which have been in place since 2008 and are subject to change each year.

Mortgage spreads can be illustrated by comparing posted five-year fixed single-family mortgage rates to a similar-term Government of Canada bond as listed in the table below.

Period	Average five year Mortgage Spread for the Period
2006	1.12%
2007	1.50%
2008	2.68%
2009	1.76%
2010	1.75%
2011	1.76%
2012	1.92%
2013	1.75%
2014	1.57%
2015	1.87%

The table shows an average spread of 1.12% in 2006. With the credit crisis, this spread ballooned to as high as 3.46% in 2008. Between 2009 and 2011, liquidity issues at financial institutions diminished and the competition for mortgages increased such that spreads remained consistently higher than pre-crisis levels. In mid-2011, the United States credit rating was downgraded and interest rates fell significantly, accounting for wider mortgage spreads in 2012 which tightened again in 2013. In 2014, more competitive pressures took mortgage rates lower and compressed mortgage spreads to 2007 levels. To begin 2015, mortgage spreads quickly widened as a slowdown in economic growth and the Bank of Canada rate cut reduced bond yields dramatically. This trend continued through to the end of the year as economic indicators continued to decline such that as at December 31, 2015, the spread widened to 1.87%. While funding spreads have also moved out, spreads are wide enough to support the Company's securitization program. In 2015, the Company originated and renewed for securitization purposes approximately $6.7 billion of single-family mortgages and $1.7 billion of multi-unit residential mortgages in order to take advantage of these spreads. In 2015, the Company securitized through NHA-MBS approximately $2.0 billion of floating rate single-family mortgages, $3.7 billion of fixed rate single-family mortgages and $0.6 billion of fixed rate multi-unit residential mortgages.

Canada Mortgage Bonds Program

The CMB program is an initiative sponsored by CMHC whereby the CHT issues securities to investors in the form of semi-annual interest—yielding five—and 10-year bonds. Pursuant to the Company's approval as a seller into the CMB, the Company is able to make direct sales into the program. Because of the similarities to a traditional Government of Canada bond (both have five- and 10-year non-amortizing terms and a federal government guarantee), the CMB trades in the capital markets at a modest premium to the yields on Government of Canada bonds. 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. The Company also enjoys demand for mortgages from investment dealers who sell directly into the CMB. Because of the effectiveness of the CMB, there have been requests from approved CMB sellers for larger issuances. CHT has indicated that it will not unduly increase the size of its issuances and 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.

Key Performance Indicators

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

- Earnings before income taxes, depreciation and amortization, and losses and gains on financial instruments ("Pre-FMV EBITDA" [1]) ; and
- Dividend payout ratio.

Pre-FMV EBITDA is not a recognized measure under IFRS. However, management believes that Pre-FMV EBITDA is a useful measure that provides investors with an indication of income normalized for capital market fluctuations and prior to capital expenditures. Pre-FMV EBITDA 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 EBITDA may differ from other issuers and, accordingly, Pre-FMV EBITDA may not be comparable to measures used by other issuers.

($000's)	QUARTER ENDED		YEAR ENDED	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
FOR THE PERIOD				
Revenue	**250,008**	198,254	**915,315**	803,107
Income before income taxes	**56,384**	23,206	**148,676**	140,305
Pre-FMV EBITDA [1]	**58,527**	43,229	**209,933**	183,130
AT PERIOD END				
Total assets	**27,926,732**	25,953,914	**27,926,732**	25,953,914
Mortgages under administration	**93,829,513**	85,889,561	**93,829,513**	85,889,561

Note:

[1] This non-IFRS measure adjusts income before income taxes by adding back expenses for amortization of intangible and capital assets but it also eliminates the impact of changes in fair value by adding back losses on the valuation of financial instruments and deducting gains on the valuation of financial instruments.

Since going public in 2006, First National has been considered a high-yielding dividend paying company. Over this period, the Company has paid almost $800 million of dividends/distributions to common shareholders/unitholders. With a large MUA which generates continuing income and cash flow and a business model which is designed to make efficient use of capital, the Company has been able to pay distributions to its shareholders which 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 which have been paid out in dividends. Similar to the performance measure for earnings, the Company also calculates the dividend payout ratio on a basis using after tax Pre-FMV EBITDA.

Determination of Common Share Dividend Payout Ratio

($000's)	QUARTER ENDED		YEAR ENDED	
	December 31, 2015	December 31, 2014	December 30, 2015	December 31, 2014
FOR THE PERIOD				
Net income attributable to common shareholders	**$ 39,387**	$ 16,018	**$ 102,468**	$ 97,060
Dividends paid or declared on common shares	**22,988**	22,488	**90,451**	88,952
Common Share Dividend Payout Ratio	**58%**	140%	**88%**	92%
After tax Pre-FMV Dividend Payout Ratio(1)	**59%**	76%	**64%**	72%

Note:

This non-IFRS measure adjusts the net income used in the calculation of the dividend payout ratio to after tax Pre-FMV earnings so as to eliminate the impact of changes in fair value by adding back losses on the valuation of financial instruments and deducting gains on the valuation of financial instruments. 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, 2015, the common share payout ratio was 88% compared to 92% in 2014. In both 2015 and 2014, the Company recorded large losses on account of the fair value of financial instruments. These amounts are largely recorded in a period in which yields on Government of Canada bond yields changed; however, the offsetting economic impact is reflected in wider spreads on the mortgages pledged for securitization and will be generally realized in net interest margin over the terms of the mortgages. If the gains and losses on financial instruments in both years are excluded from the above calculations, the dividend payout ratio for 2015 would have been 64% compared to 72% in 2014.

The Company also paid $4.65 million of dividends on its preferred shares in 2015 and 2014.

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. Depending upon market conditions, either an institutional placement or a securitization conduit may be the most cost-effective means for the Company to fund individual mortgages. In general, originations are allocated from one funding source to another depending on market conditions and strategic considerations related to maintaining diversified funding sources. The Company retains servicing rights on virtually all of the mortgages it originates, which provide the Company with servicing fees to complement revenue earned through originations. For the year ended December 31, 2015, new origination volume increased from $16.2 billion to $17.3 billion, or about 7%, compared to 2014.

Securitization

The Company securitizes a portion of its origination through various vehicles, including NHA-MBS, CMB and Asset-backed Commercial Paper ("ABCP"). Although legally these transactions represent sales of mortgages, for accounting purposes they do

> "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."

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 $22.5 billion of new originations and renewals for the year ended December 31, 2015, $8.4 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 sold. Normally the Company 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 $22.5 billion of new originations and renewals in 2015, $13.5 billion was placed with institutional investors.

For all institutional placements and mortgages sold to institutional investors for the NHA-MBS market, 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 and NHA-MBS 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 a mortgage originator 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 is included in "Mortgage servicing income" in the consolidated statement of comprehensive income.

Results of Operations

The following table shows the volume of mortgages originated by First National and mortgages under administration for the periods indicated:

($ millions)	QUARTER ENDED December 31, 2015	QUARTER ENDED December 31, 2014	YEAR ENDED December 31, 2015	YEAR ENDED December 31, 2014
MORTGAGE ORIGINATIONS BY SEGMENT				
New Single-family residential	**2,921**	2,860	**12,880**	12,525
New Multi-unit and commercial	**1,266**	1,195	**4,420**	3,701
Sub-total	**4,187**	4,055	**17,300**	16,226
Single-family residential renewals	**1,246**	823	**4,287**	3,365
Multi-unit and commercial renewals	**321**	328	**923**	1,306
Total origination and renewals	**5,754**	5,206	**22,510**	20,897
MORTGAGE ORIGINATIONS BY FUNDING SOURCE				
Institutional investors – new residential	**2,224**	1,434	**8,350**	6,323
Institutional investors – renew residential	**436**	372	**1,827**	1,700
Institutional investors – multi/commercial	**856**	1,091	**3,327**	3,343
NHA-MBS/ CMB/ ABCP securitization	**2,122**	2,095	**8,433**	8,942
Internal Company resources /CMBS	**116**	214	**573**	589
Total	**5,754**	5,206	**22,510**	20,897
MORTGAGES UNDER ADMINISTRATION				
Single-family residential	**73,312**	66,992	**73,312**	66,992
Multi-unit residential and commercial	**20,518**	18,898	**20,518**	18,898
Total	**$ 93,830**	$ 85,890	**$ 93,830**	$ 85,890

Total new mortgage origination volumes increased in 2015 compared to 2014 by 7%. Single-family volumes increased by 3% and commercial segment volumes increased by 19% year over year as demand for housing and commercial real estate continued and the Company increased its share in the mortgage broker channel. The growth rate was mitigated by lower volumes originated from the Company's Calgary office. These volumes were lower by 11% year over year as the turmoil associated with the rapid decline in the price of oil slowed the housing market in Alberta and Saskatchewan. When combined with renewals, total production increased from $20.9 billion in 2014 to $22.5 billion in 2015, or by 8%. The low interest rate environment which existed for most of 2014 continued in 2015, highlighted by the Bank of Canada's two reductions to its overnight rate. Low mortgage rates, which stimulate increased real estate transactions, together with the Company's expertise in mortgage underwriting, drove higher origination volumes. Origination for direct securitization into NHA-MBS, CMB and ABCP programs remained a large part of the Company's strategy with volumes of $8.4 billion in 2015, lower than the

$8.9 billion originated in the 2014 year. The Company used more institutional placements in 2015 as demand from investors increased and securitization markets exhibited increased volatility with the recent economic uncertainty.

Net Interest - Securitized Mortgages

Comparing the year ended December 31, 2015 to the year ended December 31, 2014, "net interest – securitized mortgages" increased by 14% to $132.2 million from $115.5 million. The increase was due to a larger portfolio of securitized mortgages together with wider weighted-average spreads on the portfolio year over year. The portfolio of mortgages funded through securitization increased by 10% from $22.3 billion as at December 31, 2014 to $24.5 billion as at December 31, 2015. Although mortgage spreads have only recently widened, in 2014 and 2015 the Company experienced large losses on account of the financial instruments. These losses primarily comprise losses on short bonds used by the Company for its hedging program. As described below, the typical offset to these losses is wider mortgage spreads, which the Company earns in net interest on securitized mortgages over their terms. The result of these wider spreads can now be seen in the Company's net interest – securitized mortgages revenue. Net interest is also affected by the amortization of deferred origination and other costs that are capitalized on securitized mortgages.

Placement Fees

Placement fee revenue increased by 30% to $165.7 million from $127.1 million in 2014. New residential origination volume for institutional customers, excluding renewals, increased from $6.32 billion in 2014 to $8.35 billion in 2015 or by 32%. The year-over-year change was also affected by renewal related placement fees and commercial segment fees, both of which grew but not as much as fees related to new single-family origination.

Gains on Deferred Placement Fees

Gains on deferred placement fees revenue increased 6% to $11.1 million from $10.5 million. The gains relate to multi-unit residential mortgages originated and sold to institutional NHA-MBS issuers. Although volumes for these transactions decreased by 8% from 2014 to 2015, spreads on these transactions widened so that the Company realized higher per unit gains.

Mortgage Servicing Income

Mortgage servicing income increased 26% to $117.1 million from $93.1 million. This increase was due to revenue earned on the new underwriting and fulfillment processing services business which the Company launched in January 2015. Without this revenue, mortgage servicing income grew at a rate lower than the MUA growth of 9% as a result of the decline in the average per unit servicing fee. The decline is a consequence of lower fees charged to some of the largest residential investors which commenced in late 2013.

Mortgage Investment Income

Mortgage investment income decreased 8% to $52.8 million from $57.1 million. A portion of the decrease relates to a $2.5 million provision for loan loss on its portfolio of mortgage and loan investments which the Company has determined is required on four non-performing commercial mortgages. In 2014, the Company did not accrue any provision for loss. The decrease is also due to the Company's securitization program. As the Company elects to securitize, it funds mortgages accumulated for securitization and earns the mortgage interest rate income in the warehousing period prior to securitization. Generally mortgage rates have fallen between 2014 and 2015. Prevailing interest rates on five year closed mortgages were about 3.50% in mid-2014 compared to 2.65% in mid-2015. This decreases revenue on such mortgages. The decrease has been offset partially by greater revenue on the Company's performing mortgage and loan investments which have grown by over $15 million between December 2014 and 2015.

Realized and Unrealized Gains (Losses) on Financial Instruments

For First National, this financial statement line item typically consists of two components: (1) gains and losses related to the Company's economic hedging activities, and (2) gains and losses related to holding term assets derived using discounted cash flow methodology. Much like the short bonds that the Company uses for hedging, the term assets are affected by changes in credit markets and Government of Canada bond yields (which form the risk-free benchmarks used to price the Company's deferred placement fees receivable, and mortgages designated as held for trading). The following table summarizes these gains and losses by category in the periods indicated:

	QUARTER ENDED		YEAR ENDED	
($000's)	**December 31, 2015**	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Losses on short bonds used for the economic hedging program	**(734)**	(16,550)	**(35,076)**	(41,486)
Gains (losses) on mortgages held at fair value	**1,050**	(1,447)	**18,642**	15,733
Losses on interest rate swaps	**(13)**	(173)	**(36,457)**	(9,396)
Gains on deferred placement fees receivable	**16**	226	**724**	307
Other gains (losses)	**11**	(44)	**24**	(74)
Total losses on financial instruments	**330**	(17,988)	**(52,143)**	(34,916)

For 2015, negative economic news during the year meant 5-year bond yields decreased by about 0.60% in the year. 2014 also featured poor global economic sentiment and 5-year bond yields also fell by about 0.60%. For the Company, this meant the value of holding short bond positions as a hedge against its mortgages pending securitization decreased in both 2015 and 2014. Accordingly, the Company recorded significant net losses related to the valuation of these financial instruments in 2015 and 2014.

The Company uses short Government of Canada bonds (including CHT-issued bonds) together with repurchase agreements to create forward interest rate contracts to hedge the interest rate risk associated with fixed rate mortgages originated for its own securitization programs. For accounting purposes, these do not qualify as interest rate hedges as the bonds used are not derivatives but cash-based financial instruments. These gains or losses are recorded in the period in which the bond yields change; however, the offsetting economic gains or losses are not recorded in the same period. Instead, the resulting economic gain (or loss) will be reflected primarily in wider or narrower spreads on the mortgages pledged for securitization and will be realized in net interest margin over the terms of the mortgages and the related debts. In 2015, the Company recorded losses on these hedges of $35.1 million (2014 – $41.5 million). While these losses decreased the net income earned in 2015, the gross spread on the related portfolio of securitized mortgages going forward will be proportionally wider as the Company issues securitization-related debt at lower relative interest rates than it would have prior to the movement in bond yields. In order to adequately hedge its interest rate exposure, the Company had more than $740 million of bonds sold short as at December 31, 2015.

The portion of the Company's mortgages, which is held at fair value (primarily those funded through ABCP), was affected positively by the change in bond yields; however, these gains were offset by the widening of mortgage funding credit spreads experienced which negatively impacted these mortgages to a greater extent in 2015 than in the prior year such that these mortgages gained only $18.6 million of value (2014 - $15.7 million). The valuation of interest rate swaps, which were used to manage the interest rate exposure from fixed-rate mortgages in the ABCP portfolio, was negatively affected in both years by lower bond yields such that unrealized losses of $36.5 million (2014 - $9.4 million) were recorded.

Brokerage Fees Expense

Brokerage fees expense increased 39% to $107.0 million from $77.1 million. This increase is explained almost entirely by higher origination volumes of single-family mortgages for institutional investors, which increased by 32%. The expense also increased because of higher per unit broker fees and the costs of portfolio insurance, which both increased between 2% and 3% from 2014.

Salaries and Benefits Expense

Salaries and benefits expense increased 25% to $84.8 million from $67.6 million. The increase is due primarily to an increase in headcount and higher employee costs associated with the new third party underwriting business. The Company hired 117 employees during the fourth quarter of 2014 and the first half of 2015 for this business. Accordingly, the Company had about $8.8 million of direct salary-related expenses for this division in 2015 compared to $0.9 million in 2014. The increase is also the result of higher employee costs associated with commercial segment origination. The Company compensates its commercial sales staff with commissions based on the profitability of originated mortgages. Commercial origination, excluding renewals, increased by 19% from 2014 and the related compensation to sales staff increased by $3.1 million year over year. As at December 31, 2015, the Company had 915 employees, compared to 770 as at December 31, 2014. The growth in head count, excluding employees working in the third-party underwriting and fulfillment services business, was 7%. This growth largely reflected the need to meet the administrative demand associated with increased MUA, which grew by 9% year over year. Management salaries were paid to the two senior executives (Co-founders) who together control about 77% 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").

Interest Expense

Interest expense decreased 1% to $35.9 million from $36.3 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 ultimate investor or funding with a securitization vehicle. The Company used the senior unsecured note together with a $1 billion credit facility with a syndicate of banks and 30-day repurchase facilities to fund the mortgages during this period. The overall interest expense has decreased from the prior period due to falling interest rates as the prime lending rate of most banks was lowered from 3.0% to 2.70% during the year as a result of the cuts made by the Bank of Canada during 2015.

Other Operating and Amortization of Intangibles Expenses

Other operating and amortization of intangibles expenses increased 7% to $50.2 million from $47.1 million. The amortization of intangible assets recognized on the IPO was $5.0 million in each of 2015 and 2014. Other operating expenses increased by $4.3 million related to the costs of running the new third party underwriting department which launched in 2015. These expenses and general growth in operating costs associated with a larger MUA were offset by $3.6 million of lower hedge costs. These are costs the Company incurs to operate its economic hedging program. The costs are lower as a consequence of lower bond yields which generally decrease the costs of carrying the instruments used in the program.

Income before Income Taxes and Pre-FMV EBITDA

Income before income taxes increased 6% to $148.7 million from $140.3 million. There was an increase despite changes in the capital markets, which negatively affected the Company's interest rate hedges and the carrying values of certain mortgage assets in both 2015 and 2014. Income before income taxes was comparatively lower in 2015 than

2014 by $17.2 million because of the unfavourable change in losses on financial instruments. Pre-FMV EBITDA, which eliminates the impact of gains and losses on financial instruments, increased 15% to $209.9 million from $183.1 million. The increase was due primarily to: 1) the Company's decision to place more of its origination with institutional customers; and 2) the transition to profitability in its new underwriting and fulfillment services business. The Company earned more placement fees which translated to increased earnings as there is a fixed cost of operating the origination departments. With respect to the new third party underwriting services business, the third quarter confirmed the successful implementation of the Company's business model. With strong seasonal origination for this business in the third and fourth quarter of 2015, the Company surpassed break even volumes and the division contributed earnings to overall corporate profitability. In 2014, the start-up losses related to this business represented drag on the Company's consolidated earnings.

Provision for Income Taxes

The provision for taxes increased by 9% to $39.2 million from $35.8 million. The provision is higher due to the higher income earned in 2015 compared to the income recorded in 2014.

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

($000's except percent amounts)

	RESIDENTIAL		COMMERCIAL	
QUARTER ENDED	**December 31, 2015**	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Originations and renewals	**17,167,524**	15,889,345	**5,343,080**	5,007,918
Percentage change	**8.0%**		**6.7%**	
Revenue	**706,040**	608,471	**209,275**	194,636
Percentage change	**16.0%**		**7.5%**	
Income before income taxes	**100,455**	95,631	**48,221**	44,674
Percentage change	**5.0%**		**7.9%**	
PERIOD ENDED	**December 31, 2015**	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Identifiable assets	**22,276,053**	21,112,421	**5,620,903**	4,811,717
Mortgages under administration	**73,311,858**	66,991,706	**20,517,771**	18,897,855

Residential Segment

Overall residential origination including renewals increased by 8% between 2015 and 2014 while residential revenues increased by about 16%. Part of the change in revenue is due to the change in gains and losses on financial instruments. Excluding these changes, revenue increased by 19% as the Company's new third party underwriting and fulfillment began producing revenue in 2015. The increase in normalized revenue also includes growth in gross revenue from the securitization program. The net change in gains and losses on financial instruments of $22 million also affected net income before income taxes. Without the impact of this fair value change, net income before income taxes for the residential segment would have increased by 22% year over year, indicative of revenue growth and increased profitability from the Company's renewal pipeline. Together with the profits earned by the third party underwriting services business, income grew faster than revenue. Identifiable assets increased from December 31, 2014, as the Company added about $1.7 billion of net single-family mortgages to mortgages pledged under securitization. This increase was offset by a decrease of almost $600 billion of government bonds purchased under resale agreements for hedging purposes as the Company elected to place more of its origination with institutional customers and accordingly, reduced its short bond position.

Commercial Segment

2015 commercial revenues increased by about 8% from 2014, but increased by 5% if the impact of changes in gains and losses on the fair value of financial instruments are excluded. This difference is due largely to the provision for loss of $2.5 million which reduced mortgage investment income and falling interest rates which reduced gross securitization interest, mortgage interest earned on mortgages on the balance sheet and interest earned on funds held in trust. Although higher net revenue from the securitized mortgage portfolio in the Company's commercial segment and better spreads on deferred placement fees contributed to increase profits, without fair value amounts, net income before tax decreased by 3% year over year. This is the result of the provision for loss and more origination being securitized by the Company directly. This increases salary costs to in-house sales staff but produces very little profit in the year of securitization. Identifiable assets increased since December 31, 2014, as the Company added about $500 million of net commercial mortgages to mortgages pledged under securitization and increased the amount of government bonds purchased for hedging purposes by about $200 million.

Liquidity and Capital Resources

The Company's fundamental liquidity strategy has been to invest in prime Canadian mortgages. Management's belief has always been that these mortgages are considered "AAA" by investors and will always be well bid and highly liquid. This strategy proved effective during the turmoil experienced in 2007 through 2009, when capital markets retreated and only the highest-quality assets were bid. As the Company's results in those years demonstrated, First National had little trouble finding 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 the securitization markets. For this purpose, the Company uses the combination of the $175 million 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 eleven financial institutions for a total credit of $1 billion. This facility was extended in May 2015 for a five-year term maturing in May 2020. Bank indebtedness may also include borrowings obtained through overdraft facilities. At December 31, 2015, the Company entered into repurchase transactions with financial institutions to borrow $806 million related to $822 million of mortgages held in "mortgages accumulated for sale or securitization" on the balance sheet.

At December 31, 2015, outstanding bank indebtedness (excluding bank indebtedness at the Fund level) was $576.9 million (December 31, 2014 - $601.9 million). Together with the unsecured notes of $175 million (December 31, 2014 – debenture of $175 million), this "combined debt" was used to fund $675.3 million (December 31, 2014 - $690.2 million) of mortgages accumulated for sale or securitization. At December 31, 2015, the Company's other interest-yielding assets included: (1) deferred placement fees receivable of $38.2 million (December 31, 2014 – $34.6 million) and (2) mortgage and loan investments of $246.0 million (December 31, 2014 - $230.4 million). The difference between "combined debt" and the mortgages accumulated for sale or securitization funded by it, which the Company considers a proxy for true leverage, has decreased between December 31, 2014 and December 31, 2015, and now stands at $76.0 million (December 31, 2014 – $86.7 million). This represents a debt-to-equity ratio of approximately

0.18 to 1, which the Company believes is conservative. This ratio decreased from December 31, 2014 when it was 0.21 to 1 as, generally, the Company reinvested retained earnings to reduce debt.

The Company funds a large 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 on the day of the advance of the mortgage. On specified days, sometimes daily, the Company aggregates all mortgages warehoused to date for an institutional investor and transacts a settlement with that institutional investor. A similar process occurs prior to arranging for term funding through securitization. The Company uses a portion of the 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 six- to 18-month terms, to bridge existing borrowers in the interim period between long-term financing solutions. The banking syndicate has provided credit facilities to partially fund these investments. As these investments return cash, it 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 miscellaneous longer-term financing needs.

The Company uses ABCP as an efficient source of funding primarily for short term insured mortgages. In the May 2013 federal budget, the government announced it was going to take steps to limit the securitization of government insured mortgages to CMHC sponsored programs. As ABCP is not sponsored by CMHC, such a limitation would impact the Company. Almost two years after the announcement, legislation was passed and detailed transition information was published. With the change in the federal government, the legislation was reconfirmed in February 2016 with some delayed application dates. Generally, the regulations make mortgage default insurance invalid for single-family mortgages sold to non-CMHC sponsored securitizations after June 30, 2016. Accordingly, existing single-family mortgages in ABCP conduits as at June 30, 2016 can be funded by ABCP until their maturity, not to exceed 5 years. There is still discussion in the industry concerning the legislation; however if implemented as currently described, the new legislation would mean that the Company must find other funding sources for the insured mortgages it has historically funded with ABCP. The Company is considering various alternatives including whole loan sales and selling short term NHA-MBS pools to ABCP conduits. The Company may also adjust its renewal offering to provide incentives to borrowers to select five year terms as opposed to shorter terms. These alternatives may not be as economical to the Company as ABCP. 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, 2015, the investment in cash collateral was $29.2 million (December 31, 2014 - $19.0 million).

"The Company's fundamental liquidity strategy has been to invest in prime Canadian mortgages. Management's belief has always been that these mortgages are considered "AAA" by investors and will always be well bid and highly liquid."

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 December 31, 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. For the preference shares, the Company has elected to pay any tax under Part VI.1 of the *Income Tax Act*, such that corporate holders of the shares will not be required to pay tax under Part VI.1 of the *Income Tax Act* on dividends received on such shares.

Financial Instruments and Risk Management

The Company has elected to treat deferred placement fees receivable, certain mortgages pledged under securitization that have been funded with ABCP and NHA-MBS debt and several mortgages within 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 comprehensive income. Effectively, these assets are treated much like bonds earning the Company a coupon at the discount rates used by the Company. The discount rates used represent the interest rate associated with a risk-free bond of the same duration plus a premium for the risk/uncertainty of the asset's residual cash flows. As rates in the bond market change, the carrying values of these assets will change. These changes may be significant (favourable and unfavourable) from quarter to quarter. The Company enters into fixed-for-float swaps to manage the interest rate exposure of fixed mortgages sold to ABCP conduits. These instruments will also be treated as fair value through profit or loss. While the Company has attempted to exactly match the principal balances of the fixed mortgages over the next five-year period to the notional swap values for the same period, there will be differences in these amounts. Any favourable or unfavourable amounts will be recorded in the consolidated statement of comprehensive 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. From an accounting perspective, any gains or losses on these instruments are recorded in the current period, as the Company's economic hedging strategy does not qualify as hedging for accounting purposes. 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 transferred to the securitization vehicle and the matched term debt is arranged. As interest rates change, the value of these short bonds will vary inversely with the value of the related mortgages. As interest rates increase, a gain will be recorded on the bonds, which should be offset by a tighter interest rate spread between the interest rates on mortgages and the securitization debt. This spread will be earned over the term of the related mortgages. For single-family mortgages, primarily mortgages for the Company's own securitization programs, only some of the mortgage 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 hedged is the expected value of mortgages funding within the next 120 days (120 days being the standard maximum rate hold period available for the mortgages). As at December 31, 2015, the Company had $413 million 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 for transfer to the Company's other securitization vehicles. As at December 31, 2015, the Company had entered into $332 million of notional value forward bond sales for this segment. The total net value of realized and unrealized gains and losses on account of all notional hedges pertaining to the period January 1, 2015 to December 31, 2015 was a $35.1 million loss. This amount has been included in revenue in the statement of comprehensive income.

The Company is party to two interest rate swaps that economically hedge the interest rate exposure related to certain mortgages held on the balance sheet that the Company has originated as replacement assets for its CMB activities. As at December 31, 2015, the aggregate notional value of these swaps was $26.8 million. During the year the value of these swaps did not change significantly. The swaps mature between December 2016 and June 2021.

As described above, the Company employs various strategies to reduce interest rate risk. In the normal course of business, the Company takes some 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 date of sale or securitization. This can be illustrated by the Company's experience with commercial mortgages originated for the CMBS market in the spring of 2007. These mortgages were originated at credit spreads designed to be profitable to the Company when sold to a bank-sponsored CMBS conduit. Unfortunately for the Company, when these mortgages funded, the CMBS market had shut down. The alternative to this channel was more expensive as credit spreads elsewhere in the marketplace for this type of mortgage had widened. The Company adjusted for market-suggested increases in credit spreads in 2007 and 2008, adjusting the value of the mortgages downward. In 2009, the economic environment remained weak but did not worsen from what it was at the end of 2008. Overall credit spreads stopped widening such that the Company applied the same spreads to these mortgages and the Company did not record any additional unrealized losses or gains related to credit spread movement. Despite entering into effective economic interest rate hedges, the Company's exposure to credit spreads remained. This risk is inherent in the Company's business model and cannot be economically hedged.

The same exposure to risk is inherent in the Company's securitization through ABCP. The Company is exposed to the risk that 30-day ABCP rates are greater than 30-day BA rates. Prior to the financial crisis, the Company considered this a low risk given the quality of the assets securitized, the amount of credit enhancements provided by the Company and the strong covenant of the bank-sponsored conduits with which the Company transacted. In 2008, 30-day ABCP traded at approximately 1.10 percentage points over BAs; but by the end of March 2011 and continuing until the current period, it was priced at a discount to BAs. At the same time the Company has leveraged on changing credit spreads. The success of this approach has been demonstrated through the increase in volume and profitability of the NHA-MBS program and significant increases in gains on deferred placement fees from the sale of prime insured mortgages.

As at December 31, 2015, the Company had various exposures to changing credit spreads. In particular, in mortgages accumulated for sale or securitization, there were almost $1.5 billion of mortgages that are susceptible to some degree of changing credit spreads.

Capital Expenditures

A significant portion of First National's business model consists of the origination and placement or securitization of financial assets. Generally, placement activities do not require much capital investment as the Company acts primarily in the capacity of a broker. On the other hand, the undertaking of securitization transactions may require 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. For fixed assets, the business requires capital expenditures on technology (both software and hardware), leasehold improvements and office furniture. During the year ended December 31, 2015, the Company purchased new computers and office and communications equipment. In the long term, the Company expects capital expenditures on fixed assets will be approximately $4.0 million annually.

Summary of Contractual Obligations

The Company's long-term obligations include five- to 10-year premises leases for its six 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.

($000's)	PAYMENTS DUE BY PERIOD				
	Total	**0-1 Years**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Lease Obligations	21,232	6,192	11,511	2,920	609

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, 2015. The policies which 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 (derived from the present value of expected future cash flows) 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 uses different rates for its various programs, which average approximately 11% for single-family mortgages. The Company assumes there is virtually no prepayment on multi-unit residential fixed rate mortgages.

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 lives of the mortgages. The assumptions underlying the estimates used for the year ended December 31, 2015 continue to be consistent with those used for the year ended December 31, 2014 and the quarters ended September 30, June 30 and March 31, 2015.

The Company has elected to treat its financial assets and liabilities, including deferred placement fees receivable, specific mortgages pledged under securitization, some 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. 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 its securitized mortgages has a significant impact on earnings. The Company uses different prepayment rates for its various programs, which average approximately 10% for single-family mortgages. The Company assumes there is virtually no prepayment on multi-unit residential fixed rate mortgages. Actual prepayment experience has been consistent with these assumptions. The Company has also assumed discount rates based on Government of Canada bond yields plus a spread that the Company believes would enable a third party to purchase the mortgages and make a normal profit margin for the risk involved.

Future Accounting Changes

In July 2014, the IASB issued the final version of IFRS 9—Financial Instrument, replacing IAS 39 and all previous versions of IFRS 9. This final version of IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities which will be recognized in OCI, rather than in profit and loss as under IAS 39. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in process of evaluating the impact of IFRS 9 on the Company's financial statements.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, replacing IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programs, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step revenue recognition process to determine the nature, amount, timing and uncertainty of revenue and cash flows from the contracts with customers.

IFRS 15 is effective for fiscal years ending on or after December 31, 2018. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018 and is currently analyzing the impact on the Company's financial statements.

In January 2016, the IASB issued IFRS 16 - *Leases*, replacing IAS 17 - *Leases*. IFRS 16 requires lessees to recognize assets and liabilities for most leases instead of previous categories of finance leases, which are reported on the balance sheet, or operating leases, which are disclosed only in the notes to the financial statements, under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company is currently assessing the impact of this standard on the Company's consolidated financial statements.

Disclosure Controls and Internal Controls 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, 2015, 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, 2015.

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 of 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, 2015 and that no material weaknesses have been identified in the Company's internal control over financial reporting as of December 31, 2015. No changes were made in the Company's internal controls over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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, reliance on independent mortgage brokers, changes in interest rates, repurchase obligations and breach of representations and warranties on mortgage sales, risk of servicer termination events and trigger events on cash collateral and retained interests, reliance on multi-unit residential and commercial mortgages, general economic conditions, legislation and government regulation (including the policies set for mortgage default insurance companies), 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, and environmental liability. In addition, risks associated with the structure of the Company include those related to the dependence on FNFLP, leverage and restrictive covenants, dividends which are not guaranteed and could fluctuate with FNFLP's performance, restrictions on potential growth, the market price of the Company's shares, statutory remedies, control of the Company and contractual restrictions, and income tax matters. 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. 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 under "Risk and Uncertainties Affecting the Business". In evaluating this information, the reader should specifically consider various factors, including the risks outlined under "Risk and Uncertainties Affecting the Business", which 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 February 23, 2016, 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

Management is very pleased with both the MUA and origination growth in 2015. With higher origination levels and renewal volume, the Company was able to increase the volume it placed with institutional investors, and only reduce slightly the amount it retained for its securitization activities. Management is particularly pleased with the results from its underwriting and fulfillment processing services business which transitioned to profitability in the third quarter thanks to strong seasonal volumes and the execution of its business plan.

Looking forward, the Company expects the low interest rate environment, which was reinforced with January and July 2015 Bank of Canada rate cuts, to continue into 2016. Low rates will keep mortgage affordability at favourable levels and mitigate refinancing risk. The Company will focus on the significant value of renewal opportunities and its partnerships with institutional customers in order to maximize profitability. Management expects the Company to continue to generate cash flow from its $25 billion portfolio of mortgages pledged under securitization and $69 billion servicing portfolio that will maximize financial performance. First National also expects the underwriting and fulfillment processing services business to continue to add to earnings as mortgages processed increase in response to the Company's superior service levels to the mortgage broker distribution channel.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of First National Financial Corporation (the "Company") is responsible for the integrity, consistency and reliability of the consolidated financial statements and Management's Discussion and Analysis ("MD&A"). The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the consolidated financial statements and information contained in the MD&A, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report. Based on our knowledge, the consolidated financial statements together with MD&A and other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented. The preparation of consolidated financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the Company. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes. We evaluated, or caused to be evaluated under our supervision, the effectiveness of the Company's internal control over financial reporting at the financial year end and the Company has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year-end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. Ernst & Young LLP, the independent auditors appointed by the shareholders, perform an annual audit of the Company's consolidated financial statements and provide their report which follows.

Stephen Smith

Stephen Smith
Chairman and Chief Executive Officer

Robert Inglis
Chief Financial Officer

February 23, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of First National Financial Corporation

We have audited the accompanying consolidated financial statements of First National Financial Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First National Financial Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 23, 2016

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (in thousands of Canadian dollars)

	Notes	2015	2014
ASSETS			
Restricted cash	3	**$ 497,904**	$ 496,733
Cash held as collateral for securitization	3	**29,157**	18,973
Accounts receivable and sundry		**73,785**	71,160
Securities purchased under resale agreements and owned	15	**974,062**	1,331,615
Mortgages accumulated for sale or securitization	5	**1,497,413**	1,369,778
Mortgages pledged under securitization	3	**24,524,061**	22,337,378
Deferred placement fees receivable	4	**38,164**	34,644
Purchased mortgage servicing rights	8	**1,316**	2,230
Mortgage and loan investments	6	**246,011**	230,388
Income taxes recoverable	19	**—**	10,539
Other assets	7	**44,859**	50,476
Total assets		**$ 27,926,732**	$ 25,953,914
LIABILITIES AND EQUITY			
Liabilities			
Bank indebtedness	10	**582,973**	609,870
Obligations related to securities and mortgages sold under repurchase agreements	16	**805,850**	660,360
Accounts payable and accrued liabilities	17	**125,024**	94,524
Securities sold under repurchase agreements and sold short	15	**971,606**	1,330,699
Debt related to securitized and participation mortgages	11	**24,743,727**	22,573,362
Debenture loan payable	13	**—**	176,418
Senior unsecured notes	13	**174,420**	—
Income taxes payable	19	**10,202**	—
Deferred tax liabilities	19	**55,400**	57,400
Total liabilities		**$ 27,469,202**	$ 25,502,633
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Common shares	18	**122,671**	122,671
Preferred shares	18	**97,394**	97,394
Retained earnings		**204,686**	192,669
		424,751	412,734
Non-controlling interests		**32,779**	38,547
Total equity		**457,530**	451,281
Total liabilities and equity		**$ 27,926,732**	$ 25,953,914

See accompanying notes

On behalf of the Board:

John Brough

Robert Mitchell

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 (in thousands of Canadian dollars, except earnings per share)

	Notes	2015	2014
REVENUE			
Interest revenue – securitized mortgages		**620,822**	550,216
Interest expense – securitized mortgages		**(488,659)**	(434,726)
Net interest – securitized mortgages	3	**132,163**	115,490
Placement fees		**165,708**	127,129
Gains on deferred placement fees	4	**11,051**	10,520
Mortgage investment income		**52,818**	57,076
Mortgage servicing income		**117,059**	93,082
Realized and unrealized losses on financial instruments	20	**(52,143)**	(34,916)
		426,656	368,381
EXPENSES			
Brokerage fees		**107,045**	77,105
Salaries and benefits		**84,821**	67,551
Interest		**35,944**	36,275
Other operating		**45,170**	42,145
Amortization of intangible assets		**5,000**	5,000
		277,980	228,076
Income before income taxes		**148,676**	140,305
Income tax expense	19	**39,245**	35,840
Net income and comprehensive income for the year		**$ 109,431**	$ 104,465
Net income and comprehensive income attributable to:			
Shareholders		**107,118**	101,710
Non-controlling interests		**2,313**	2,755
		109,431	104,465
Earnings per share			
Basic	18	**$ 1.71**	$ 1.62

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31 (in thousands of Canadian dollars)

	Common shares	Preferred shares	Retained earnings	Non-controlling interest	Total equity
Balance as at January 1, 2015	**$ 122,671**	**$ 97,394**	**$ 192,669**	**$ 38,547**	**$ 451,281**
Comprehensive income	—	—	**107,118**	**2,313**	**109,431**
Dividends paid or declared	—	—	**(95,101)**	**(2,306)**	**(97,407)**
Redemption by non-controlling interests	—	—	**—**	**(5,775)**	**(5,775)**
Balance as at December 31, 2015	**$ 122,671**	**$ 97,394**	**$ 204,686**	**$ 32,779**	**$ 457,530**

	Common shares	Preferred shares	Retained earnings	Non-controlling interest	Total equity
Balance as at January 1, 2014	$ 122,671	$ 97,394	$ 184,561	$ 45,285	$ 449,911
Comprehensive income	—	—	$ 101,710	$ 2,755	$ 104,465
Dividends paid or declared	—	—	(93,602)	(2,714)	(96,316)
Redemption by non-controlling interests	—	—	—	(6,779)	(6,779)
Balance as at December 31, 2014	$ 122,671	$ 97,394	$ 192,669	$ 38,547	$ 451,281

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	(in thousands of Canadian dollars)	
	2015	**2014**
OPERATING ACTIVITIES		
Net income for the year	**$ 109,431**	$ 104,465
Add (deduct) items not affecting cash		
Deferred income tax expense	**(2,000)**	6,200
Non-cash portion of gains on deferred placement fees	**(10,716)**	(9,785)
Increase in restricted cash	**(1,171)**	(65,622)
Net investment in mortgages pledged under securitization	**(2,168,041)**	(4,670,001)
Net increase in debt related to securitized mortgages	**2,167,386**	4,683,052
Provision for loan loss	**2,500**	—
Amortization of deferred placement fees receivable	**7,920**	9,028
Amortization of purchased mortgage servicing rights	**914**	849
Amortization of property, plant and equipment	**4,114**	2,909
Amortization of intangible assets	**5,000**	5,000
Unrealized losses on financial instruments	**15,067**	8,590
	$ 130,404	$ 74,685
Net change in non-cash working capital balances related to operations	**$ (116,987)**	$ (305,361)
Cash provided by (used in) operating activities	**$ 13,417**	$ (230,676)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(3,497)**	(8,348)
Repayment (investment) of cash held as collateral for securitization	**(10,184)**	5,831
Investment in mortgage and loan investments	**(183,272)**	(179,726)
Repayment of mortgage and loan investments	**165,149**	133,922
Cash used in investing activities	**(31,804)**	(48,321)
FINANCING ACTIVITIES		
Dividends paid	**(97,188)**	(95,853)
Obligations related to securities and mortgages sold under repurchase agreements	**145,490**	51,068
Debt related to participation mortgages	**2,979**	6,007
Securities purchased under resale agreements and owned, net	**357,553**	(276,172)
Securities sold under repurchase agreements and sold short, net	**(357,093)**	265,340
Repayment of debenture loan	**(175,000)**	—
Issuance of senior unsecured notes	**174,318**	—
Redemption by non-controlling interests	**(5,775)**	(6,779)
Cash provided by (used in) financing activities	**45,284**	(56,389)
Net decrease (increase) in bank indebtedness during the year	**26,897**	(335,386)
Bank indebtedness, beginning of year	**(609,870)**	(274,484)
Bank indebtedness, end of year	**$ (582,973)**	$ (609,870)
Supplemental cash flow information		
Interest received	**743,160**	655,018
Interest paid	**505,500**	449,287
Income taxes paid	**20,504**	44,386

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 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 multiunit) and commercial mortgages. With almost $94 billion in mortgages under administration as at December 31, 2015, FNFLP is an originator and underwriter of mortgages and 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 100 University Avenue, Toronto, Ontario. The Corporation’s common and preferred shares are listed on the Toronto Stock Exchange under the symbols FN and FN.PR.A, respectively.

Note 2.

Significant Accounting Policies

(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 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 hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. 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 February 23, 2016.

(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 (the general partner of FNFLP), FNFC Trust, a special purpose entity (“SPE”) which is used to manage undivided coownership interests in mortgage assets funded with Asset-Backed Commercial Paper (“ABCP”), First National Asset Management Inc., First National Mortgage Corporation, First National Mortgage Investment Fund (the “Fund”), and FN Mortgage Investment Trust (the “Trust”).

The Fund and the Trust were created in 2012 as special purpose vehicles (“SPE”) to obtain exposure to a diversified portfolio of high yielding mortgages. While the Company has legal ownership of approximately 18% of the units issued by the Fund, because of its status as the sole seller of assets to the Fund and its rights as promoter, the Company determined that it has de facto control of the both the Fund and the Trust, and therefore, has consolidated the operations and net assets of the Fund and the Trust. Noncontrolling interests in the Fund and the Trust are shown as a separate component of equity on the consolidated statements of financial position to distinguish them from the equity of the Company’s shareholders. The net income attributable to non-controlling interests is also separately disclosed on the consolidated statements of comprehensive income.

The Company did not consolidate, in its financial statements, an SPE over which the Company does not have control. The SPE is sponsored by a third-party financial institution and acquires assets from various sellers including mortgages from the Company. The Company earns interest income from the retained interest related to these mortgages. As at December 31, 2015, the Company recorded, on its consolidated statements of financial position, its portion of assets of an SPE amounting to $165 million

(2014 – $242 million). The Company also recorded, on its consolidated statements of comprehensive income, interest revenue – securitized mortgages of $6.4 million (2014 – $8.6 million) and interest expense – securitized mortgages of $5.0 million (2014 – $6.7 million). The consolidated financial statements have been prepared using consistent accounting policies for like transactions and other events in similar circumstances. All intercompany balances and revenue and expenses have been eliminated 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) Significant accounting policies

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 its originated mortgages. 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 revenue is recognized over the term of the mortgages. Interest revenue – securitized mortgages represents interest received and accrued on mortgage payments by borrowers and is net of the amortization of capitalized origination fees. Interest expense—securitized mortgages represents financing costs to fund these mortgages, net of the amortization of debt discounts and premiums.

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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability.

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 has derecognized 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 a deferred placement fees receivable. 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.

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 normal 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.

Commencing in 2015, the Company provides underwriting and fulfillment processing services for mortgages originated by a large Canadian bank through its mortgage broker distribution channel. The Company recognizes servicing income when the services are rendered and the underwritten mortgages are funded.

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 the mortgages recorded at fair value are expensed as incurred, and those relating to mortgages recorded at amortized cost are deferred and amortized over the term of the mortgages.

Financial assets and financial liabilities

The Company classifies its financial assets as either at FVTPL or loans and receivables. Financial liabilities are classified as either at FVTPL or at amortized cost. Management determines the classification of financial assets and financial liabilities at initial recognition.

Financial assets and financial liabilities at FVTPL

Financial instruments are classified in this category if they are held for trading or if they are designated by management as FVTPL at inception. Financial instruments are classified as FVTPL if they are acquired principally for the purpose of selling in the short term. Financial assets and financial liabilities may be designated at FVTPL when:

(i) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or

(ii) a group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis.

The Company has elected to measure certain of its assets at FVTPL. The most significant of these assets include a portion of mortgages pledged under securitization and funded with ABCP related debt, certain mortgages funded with MBS debt, deferred placement fees receivable, and mortgages held by the Trust. The mortgages funded with MBS debt were previously funded by ABCP debt and as such have retained their classification as FVTPL (together with other mortgages measured at fair value in mortgages pledged under securitization, "FVTPL mortgages"). For the portion of mortgages pledged under securitization and funded with ABCP related debt, the Company has entered into swaps to convert the mortgages from fixed rate to floating rate in order to match the mortgages with the 30day floating rate funding provided by the ABCP notes. The swaps are derivatives and are required by IFRS to be accounted for at fair value. This value can change significantly with the passage of time as the interest rate environment changes. In order to avoid a significant accounting mismatch, the Company has measured the swapped mortgages at fair value as well so that the asset and related swap liability values will move inversely as interest rates change. The cash flows related to deferred placement fees receivable are typically received over five-to-ten-year terms. These cash flows are subject to prepayment volatility as the mortgages underlying the deferred placement fees receivable can experience unscheduled prepayments. As well, the Company pledges these assets under its bank credit facility. Accordingly, the Company asserts that it manages these assets on a fair value basis.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value. Subsequent gains and losses arising from changes in fair value are recognized directly in realized and unrealized losses on financial instruments in the consolidated statements of comprehensive income.

Held-for-trading non-derivative financial assets can only be transferred out of the held at FVTPL category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Company has the intent and ability to hold the assets for the foreseeable future or until maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than in the case of credit deterioration.

Loans and receivables are initially recognized at cost, including direct and incremental transaction costs. They are subsequently valued at amortized cost.

Derivative financial instruments

Derivatives are categorized as trading unless they are designated as hedging instruments. Derivative contracts are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognized in income as they occur. Positive values are recorded as assets in accounts receivable and sundry and negative values are recorded as liabilities in accounts payable and accrued liabilities.

The Company enters into interest rate swaps primarily to manage its interest rate exposures associated with funding fixed-rate mortgages with floating rate debt. These contracts are negotiated overthecounter. Interest rate swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Mortgages pledged under securitization

Mortgages pledged under securitization are mortgages that the Company has originated and funded with debt raised through the securitization markets. The Company has a continuous involvement in these mortgages, including the right to receive future cash flows arising from these mortgages. Mortgages pledged under securitization (except for mortgages designated as FVTPL) have been classified as loans and receivables and are measured at their amortized cost using the effective yield method. 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. Certain mortgages (primarily those funded under bank-sponsored ABCP programs) are classified as FVTPL and recorded at fair value.

Debt related to securitized and participation 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 is directly attributable to obtaining such liabilities is deferred and amortized over the term of the debt obligations.

Debt related to participation mortgages represents obligations related to the financing of a portion of commercial mortgages included in mortgage and loan investments. These mortgages are subject to participation agreements with other financial institutions such that the Company's investment is subordinate to the other institutions' investment. The Company has retained various rights to the mortgages and a proportionately larger share of the interest earned on these mortgages, such that the full mortgage has been recorded on the Company's consolidated statements of financial position with an offsetting debt. This debt is recorded at face value and measured at its amortized cost.

Mortgages accumulated for sale or securitization

Mortgages accumulated for sale are mortgages funded for the purpose of placing with investors and are classified as FVTPL and are recorded at fair value. These mortgages are held for terms usually not exceeding 90 days.

Mortgages accumulated for securitization are mortgages funded pending securitization in the Company's various programs and are classified as loans and receivables. These mortgages are recorded at amortized cost.

Securities sold short and securities purchased under resale agreements

Securities sold short consist typically of the short sale of a government of Canada bond. 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.

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.

Securities owned and securities sold under repurchase agreements

The Company purchases bonds and enters into bond repurchase agreements to close out economic hedging positions when mortgages are sold to securitization vehicles or institutional investors. These transactions are accounted for in a similar manner as the transactions described for securities sold short and securities purchased under resale agreements.

Mortgage and loan investments

Mortgage and loan investments are classified as loans and receivables, except for mortgages held by the Trust which are measured at FVTPL. Mortgages and loan investments are classified as loans and receivable, and are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. An allowance for such loan losses is established for mortgages and loans that are known to be uncollectible. When management considers there to be no probability of collection, the investments are written off.

Intangible assets

Intangible assets consist of broker relationships which arose in connection with the Initial Public Offering ("IPO") in 2006. Intangible assets are subject to annual impairment review if there are events or changes in circumstances that indicate the carrying amount may not be recoverable.

Intangible assets with finite useful lives are amortized on a straightline basis over their estimated useful lives. The broker relationships are amortized on a straight-line basis over 10 years.

Goodwill

Goodwill represents the price paid for the Corporation'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.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated amortization, at the following annual rates and bases:

Computer equipment	30% declining balance
Office equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease
Computer software	30% declining balance except for a computer license, which is straight-line over 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.

Purchased mortgage servicing rights

The Company purchases the rights to service mortgages from third parties. Purchased mortgage servicing rights are initially recorded at cost and charged to income over the life of the underlying mortgage servicing obligation. The fair value of such rights is determined on a periodic basis to assess the continued recoverability of the unamortized cost in relation to estimated future cash flows associated with the underlying serviced assets. Any loss arising from an excess of the unamortized cost over the fair value is immediately recorded as a charge to income.

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 indebtedness net of cash balances 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 for the additional future servicing cost as compared to the market rate, and a corresponding reduction of placement fees at the time of sales. The Company determines the present value of servicing liability based on the net present value of the future expected cost of servicing these mortgages.

This is similar to the method 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/recoverable 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.

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.

Note 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 the Canada Mortgage Bonds ("CMB") program. In these securitizations, the Company transfers the assets to SPEs for cash, and incurs interest-bearing obligations typically matched to the term of the mortgages. These securitizations do not qualify for derecognition, although the SPEs 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 to the Company by the SPEs monthly over the term of the mortgages. The full amount of the 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, 2015, the cash held as collateral for securitization was $29,157 (2014 – $18,973).

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

	2015	
	Carrying amount of securitized mortgages	**Carrying amount of associated liabilities**
Securitized mortgages at face value	**$ 24,346,182**	**$ 24,787,631**
Mark-to-market adjustment	**39,914**	**—**
Capitalized origination costs	**137,965**	**—**
Debt discounts	**—**	**(64,566)**
	24,524,061	**24,723,065**
Add		
Principal portion of payments held in restricted cash	**452,226**	**—**
Participation debt	**—**	**20,662**
	$ 24,976,287	**$ 24,743,727**

	2014	
	Carrying amount of securitized mortgages	**Carrying amount of associated liabilities**
Securitized mortgages at face value	$ 22,170,195	$ 22,612,160
Mark-to-market adjustment	41,859	—
Capitalized origination costs	125,324	—
Debt discounts	—	(56,481)
	22,337,378	22,555,679
Add		
Principal portion of payments held in restricted cash	455,003	—
Participation debt	—	17,683
	$ 22,792,381	$ 22,573,362

The principal portion of payments held in restricted cash represents payments on account of mortgages pledged under securitization which has been received at year end but has not yet been applied to reduce the associated debt. This 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.

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

	2015	2014
Opening balance, January 1	**$ 125,324**	80,995
Add: new origination costs capitalized in the year	**72,668**	86,449
Less: amortization in the year	**(60,027)**	(42,120)
Ending balance, December 31	**$ 137,965**	$ 125,324

During the year ended December 31, 2015, the Company invested in mortgages that were transferred into the securitization vehicles with principal balances as of December 31, 2015 of $5,845,336 (2014 – $7,094,528).

As at December 31, 2015, mortgages pledged under securitization include $24,331,318 (2014 – $21,985,346) of insured mortgages and $14,864 (2014 – $184,849) of uninsured mortgages.

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

2016	$ 2,752,474
2017	3,403,238
2018	4,046,268
2019	5,993,129
2020 and thereafter	8,151,073
	$ 24,346,182

Mortgages pledged under securitization have been classified as loans and receivables, except for approximately $3.4 billion (2014 – $3.4 billon) of mortgages measured at FVTPL. The mortgages classified as loans and receivables are carried at par plus unamortized origination costs.

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

Arrears days	2015	2014
31 to 60	**$ 46,977**	$ 71,170
61 to 90	**8,480**	11,353
Greater than 90	**36,891**	53,389
	$ 92,348	135,912

Within mortgages pledged under securitization, the Company's exposure to credit loss is limited to uninsured mortgages with principal balances totalling $14,864 (2014 – $184,849), before consideration of the value of underlying collateral. None of these mortgages have principal and interest payments in arrears as at December 31, 2015 (2014 – $1,436). All such mortgages are conventional prime single-family mortgages, with an 80% or less loan to value, and verified borrower income. Accordingly, the Company considers there to be a very small risk of loss, and no provision for credit loss has been recorded related to these mortgages.

The Company uses various assumptions to value FVTPL mortgages, which are set out in the tables below, including the rate of unscheduled prepayment. Accordingly, FVTPL mortgages are subject to measurement uncertainty. The effect of variations between actual experience and assumptions will be recorded in future statements of comprehensive income. Key economic weighted average assumptions and the sensitivities of the current carrying values to immediate 10% and 20% adverse changes in those assumptions as at December 31 are as follows:

	2015	
	Commercial mortgages	**Residential mortgages**
FVTPL mortgages	**$ 116,878**	**$ 3,344,045**
Average life (in months) [(1)]	**28**	**23**
Prepayment speed assumption (annual rate)	**0.3%**	**11.4%**
Impact on fair value of 10% adverse change	**—**	**$408**
Impact on fair value of 20% adverse change	**—**	**$812**
Discount rate (annual rate)	**1.8%**	**1.7%**
Impact on fair value of 10% adverse change	**$ 516**	**$ 9,079**
Impact on fair value of 20% adverse change	**$ 1,026**	**$ 18,092**

	2014	
	Commercial mortgages	**Residential mortgages**
FVTPL mortgages	$ 152,542	$ 3,249,160
Average life (in months) [(1)]	30	23
Prepayment speed assumption (annual rate)	0.4%	11.5%
Impact on fair value of 10% adverse change	$ 1	$ 477
Impact on fair value of 20% adverse change	$ 1	$ 951
Discount rate (annual rate)	2.2%	2.0%
Impact on fair value of 10% adverse change	$ 819	$ 10,152
Impact on fair value of 20% adverse change	$ 1,626	$ 20,248

[(1)] The weighted average life of prepayable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in carrying value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear.

Also, in these tables, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might magnify or counteract the sensitivities.

Note 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 pay when due.

During the year ended December 31, 2015, $1,922,906 (2014 – $2,088,783) of mortgages were placed with institutional investors, which created gains on deferred placement fees of $11,051 (2014 – $10,520). Cash receipts on deferred placement fees receivable for the year ended December 31, 2015 were $9,835 (2014 – $9,718).

The Company uses various assumptions to value the deferred placement fees receivable, which are set out in the tables below, including the rate of unscheduled prepayments. Accordingly, the deferred placement fees receivable are subject to measurement uncertainty. As at December 31, 2015, the fair value of deferred placement fees receivable is $38,164 (2014 – $34,644). No assumption for credit losses was used, commensurate with the credit quality of the investors. An assumption of no prepayment speed for the commercial segment was used, as borrowers cannot refinance for financial advantage without paying the Company a fee commensurate with its investment in the mortgage. The effect of variations between actual experience and assumptions will be recorded in future statements of comprehensive income. Key economic weighted average assumptions and the sensitivity of the current carrying value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are summarized as at December 31 as follows. Note that there is no deferred placement fee receivable balance outstanding related to the residential segment as at December 31, 2015.

	2015
	Commercial mortgages
Average life (in months) (1)	**64**
Prepayment speed assumption (annual rate)	**—**
Impact on fair value of 10% adverse change	**—**
Impact on fair value of 20% adverse change	**—**
Residual cash flows discount rate (annual rate)	**3.5%**
Impact on fair value of 10% adverse change	**$ 339**
Impact on fair value of 20% adverse change	**$ 673**

	2014	
	Commercial mortgages	Residential mortgages
Average life (in months) [1]	60	26
Prepayment speed assumption (annual rate)	—	15.0%
Impact on fair value of 10% adverse change	—	$ 2
Impact on fair value of 20% adverse change	—	$ 5
Residual cash flows discount rate (annual rate)	4.4%	4.0%
Impact on fair value of 10% adverse change	$ 380	$1
Impact on fair value of 20% adverse change	$ 752	$1

[1] The weighted average life of prepayable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in carrying value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear.

Also, in these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might magnify or counteract the sensitivities.

The Company estimates that the expected cash flows from the receipt of payments on the deferred placement fees receivable will be as follows:

2016	$ 10,278
2017	9,061
2018	7,532
2019	5,315
2020 and thereafter	9,700
	$ 41,886

Note 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 for placement with institutional investors.

Mortgages originated for the Company's own securitization programs are classified as loans and receivables and are recorded at amortized cost. 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 due to their shortterm nature. The following table summarizes the components of mortgages according to their classification:

	2015	2014
Mortgages accumulated for securitization	**$ 1,483,836**	$ 1,347,712
Mortgages accumulated for sale	**13,577**	22,066
	$ 1,497,413	$ 1,369,778

The Company's exposure to credit loss is limited to $217,205 (2014 – $418,139) in principal balances of uninsured mortgages within mortgages accumulated for sale or securitization, before consideration of the value of underlying collateral. These are conventional prime single-family mortgages similar to the mortgages described in note 3. For the same rationale, the Company has not recorded any provision for credit loss related to these mortgages.

Note 6.

Mortgage and Loan Investments

As at December 31, 2015, mortgage and loan investments consist primarily of commercial first and second mortgages held for various terms, the majority of which mature within one year.

Mortgage and loan investments consist of the following:

	2015	2014
Mortgage loans, classified as loans and receivables	**198,744**	175,570
Mortgage loans, designated as FVTPL	**47,267**	54,818
	246,011	230,388

Mortgage and loan investments classified as loans and receivables are carried at outstanding principal balances adjusted for unamortized premiums or discounts and are net of specific provisions for credit losses, if any.

The following table discloses the composition of the Company's portfolio of mortgage and loan investments by geographic region as at December 31, 2015:

Province/Territory	Portfolio balance	Percentage of portfolio
Alberta	**$ 17,683**	**7.19 %**
British Columbia	**19,521**	**7.94**
Manitoba	**50,026**	**20.33**
New Brunswick	**768**	**0.31**
Newfoundland and Labrador	**444**	**0.18**
Nova Scotia	**3,404**	**1.38**
Nunavut	**214**	**0.09**
Ontario	**112,498**	**45.73**
Prince Edward Island	**440**	**0.18**
Quebec	**38,806**	**15.77**
Saskatchewan	**1,431**	**0.58**
Yukon	**776**	**0.32**
	$ 246,011	**100.00 %**

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

	2015	2014
Arrears days		
31 to 60	**$ 3,742**	$ 4,596
61 to 90	**2,857**	—
Greater than 90	**42,394**	34,453
	$ 48,993	$ 39,049

The portfolio contains $19,997 (2014 – $5,050) of insured mortgages and $226,014 (2014 – $225,338) of uninsured mortgage and loan investments as at December 31, 2015. Of the uninsured mortgages, approximately $49.2 million (2014 – $37.4 million) have principal balance in arrears. Six of these mortgages are non-performing and have principal balances totalling $42,394 as at December 31, 2015 (2014 – seven mortgages, totalling $37,421). The Company has stopped accruing interest on four of these mortgages, and has provided an allowance for potential credit loss of $6,541 as at December 31, 2015 (2014 – $4,041). The Company acknowledges that there is a higher risk of credit losses on this portfolio than the other mortgage portfolios on its consolidated statements of financial position. The Company believes it has adequately provided for such losses in the allowance for potential credit loss disclosed above and considers there to be a lower risk of credit losses on the performing mortgages, such that credit losses have been recorded only on account of non-performing mortgages.

The maturity profile in the table below is based on the earlier of contractual renewal or maturity dates.

	2015						2014
	2016	2017	2018	2019	2020 and thereafter	Book value	Book value
Residential	**$ 11,250**	**$ 491**	**—**	**—**	**$ 8,554**	**$ 20,295**	$ 22,784
Commercial	**154,931**	**61,383**	**4,715**	**—**	**4,687**	**225,716**	207,604
	$ 166,181	**$ 61,874**	**$ 4,715**	**—**	**$ 13,241**	**$ 246,011**	$ 230,388

Interest income for the year was $15,381 (2014 – $13,607) and is included in mortgage investment income on the consolidated statements of comprehensive income.

7. Other Assets

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

	2015	2014
Property, plant and equipment, net	**$ 12,583**	$ 13,200
Intangible assets, net	**2,500**	7,500
Goodwill	**29,776**	29,776
	$ 44,859	$ 50,476

The intangible assets have a remaining amortization period of less than one year.

For the purpose of testing goodwill for impairment, the cashgenerating unit is considered to be the Corporation as a whole, since the goodwill relates to the excess purchase price paid for the Corporation's business in connection with the IPO. The recoverable amount of the Corporation is calculated by reference to the Corporation's market capitalization, mortgages under administration, origination volume, and profitability. These factors indicate that the Corporation's recoverable amount exceeds the carrying value of its net assets and accordingly, goodwill is not impaired.

Note 8.

Purchased Mortgage Servicing Rights

Purchased mortgage servicing rights consist of the following components:

	2015			2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Third-party commercial mortgage servicing rights	**$ 3,614**	**3,374**	**240**	**3,614**	3,287	327
Commercial mortgage-backed securities primary and master servicing rights	**8,705**	**7,629**	**1,076**	**8,705**	6,802	1,903
	$ 12,319	**11,003**	**1,316**	**12,319**	10,089	2,230

Amortization charged to income for the year ended December 31, 2015 was $914 (2014 – $849).

Note 9.

Mortgages Under Administration

As at December 31, 2015, the Company had mortgages under administration of $93,829,629 (2014 – $85,889,561), 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, 2015, the Company administered 292,905 mortgages (2014 – 274,674) for 94 institutional investors (2014 – 92) with an average remaining term to maturity of 42 months (2014 – 42 months).

Mortgages under administration are serviced as follows:

	2015	2014
Institutional investors	**$ 59,226,795**	$ 53,667,661
Mortgages accumulated for sale or securitization and mortgage and loan investments	**1,505,068**	1,550,902
Deferred placement investors	**6,006,487**	5,197,507
Mortgages pledged under securitization	**24,346,182**	22,170,195
CMBS conduits	**2,745,097**	3,303,296
	$ 93,829,629	$ 85,889,561

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. As at December 31, 2015, the Company has included in accounts receivable and sundry $19,776 (2014 – $17,462) of uninsured nonperforming mortgages (net of provisions for credit losses) and outstanding claims from mortgage default insurers. The Company incurred actual credit losses, net of recoveries, of $53 during the year ended December 31, 2015 (2014 – $625).

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, 2015 was $651,737 (2014 – $537,524).

Note 10.

Bank Indebtedness

Bank indebtedness includes a revolving credit facility of $1,000,000 (2014 – $1,000,000) maturing in May 2020, of which $592,908 (2014 – $609,639) was drawn as at December 31, 2015 and against 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.

Note 11.

Debt Related to Securitized Aand Participation

Mortgages

Debt related to securitized mortgages represents the funding for mortgages pledged under the NHA-MBS, CMB and ABCP programs. As at December 31, 2015, debt related to securitized mortgages was $24,723,065 (2014 – $22,555,679), net of unamortized discounts of $64,566 (2014 – $56,481).

A comparison of the carrying amounts of the pledged mortgages and the related debt is summarized in note 3.

As at December 31, 2015, debt related to participation mortgages was $20,662 (2014 – $17,683).

Debt related to securitized and participation 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.

Note 12.

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 a portion of mortgages accumulated for sale and mortgages pledged under securitization held on the consolidated statements of financial position. The swap agreements that the Company enter 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 that do not qualify for hedge accounting as at December 31, 2015 and 2014:

2015	Less than 3 years	3 to 5 years	6 to 10 years	Total notional amount	Fair value
Interest rate swap contracts	$ 133,739	$ 2,491,102	$ 10,188	$ 2,684,988	$ (30,244)

2014	Less than 3 years	3 to 5 years	6 to 10 years	Total notional amount	Fair value
Interest rate swap contracts	$ 261,395	$ 2,960,335	$ 11,770	$ 3,233,500	$ (8,148)

Positive fair values of the interest rate swap contracts are included in accounts receivable and sundry and negative fair values are included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Note 13.

Senior Unsecured Notes

On April 9, 2015, the Company issued $175 million of new senior unsecured notes for a five-year term maturing on April 9, 2020. The notes bear interest at 4.01% payable in equal semi-annual payments commencing October 9, 2015. The net proceeds of the issuance ($174.3 million, net of financing fees) have been invested in FNFLP. Effectively, the Company used the proceeds from the issuance to fund the maturity of the $175 million 5.07% debentures on May 7, 2015.

Note 14.

Commitments, guarantees and contingencies

As at December 31, 2015, the Company has the following operating lease commitments for its office premises:

2016	$ 6,192
2017	6,344
2018	5,167
2019	1,460
2020 and thereafter	2,069
	$ 21,232

Outstanding commitments for future advances on mortgages with terms of one to 10 years amounted to $849,722 as at December 31, 2015 (2014 – $889,294). 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.

Note 15.

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.

Note 16.

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, are based on bankers' acceptance rates and mature on or before January 31, 2016.

Note 17.

Accounts Payable and Accrued Liabilities

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

	2015	2014
Accounts payable	**36,634**	37,558
Accrued interest on securitization debt	**39,021**	38,380
Servicing liability	**19,125**	9,006
Swaps	**30,244**	9,580
	125,024	94,524

Accrued interest on securitization debt is the interest due on securitization related debt due subsequent to year end.

Note 18.

Shareholders' Equity

(a) Authorized

Unlimited number of common shares
Unlimited number of cumulative 5-year rate reset preferred shares, Class A Series 1
Unlimited number of cumulative 5-year rate reset preferred shares, Class A Series 2

(b) Capital stock

	Common shares		Preferred shares	
Balance, December 31, 2015 and 2014	# 59,967,429	$ 122,671	# 4,000,000	$ 97,394

(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 the Class A Series 1 Preferred Shares are entitled to receive a cumulative quarterly fixed dividend yielding 4.65% annually for the initial period ending March 31, 2016. Thereafter, the dividend rate may be reset every five years at a rate equal to the fiveyear Government of Canada yield plus 2.07%, as and when approved by the Board of Directors.

Holders of Class A Series 1 Preferred Shares have the right, at their option, to convert their shares into cumulative, floating rate Class A Preferred Shares, Series 2 ("Series 2 Preferred Shares"), subject to certain conditions, on March 31, 2016 and on March 31 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the threemonth Government of Canada treasury bill yield plus 2.07% as and when declared by the Board of Directors.

Preferred shares do not have voting rights. The par value per preferred share is $25.

(d) Earnings per share

	2015	2014
Net income attributable to shareholders	**$ 107,118**	$ 101,710
Less: dividends declared on preferred shares	**(4,650)**	(4,650)
Net earnings attributable to common shareholders	**$ 102,468**	$ 97,060
Number of common shares outstanding	**59,967,429**	59,967,429
Basic earnings per common share	**$ 1.71**	$ 1.62

Note 19.

Income Taxes

The major components of deferred tax expense (recovery) for the years ended December 31 consists of the following:

	2015	2014
Related to origination and reversal of timing differences	**(2,000)**	6,200

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

	2015	2014
Income taxes relating to the prior year	**(55)**	(560)
Income taxes relating to the year	**41,300**	30,200
	41,245	29,640

The effective income tax rate reported in the consolidated statements of comprehensive income varies from the Canadian tax rate of 26.44% for the year ended December 31, 2015 (2014 – 26.37%) for the following reasons:

	2015	2014
Company's statutory tax rate	**26.44 %**	26.37 %
Income before income taxes	**$ 148,676**	$140,305
Income tax at statutory tax rate	**39,310**	36,998
Increase (decrease) resulting from		
Prior year adjustments	**(55)**	(560)
Income not subject to tax	**(785)**	(998)
Permanent differences	**266**	277
Differences in current and future tax rates	**467**	(15)
Other	**42**	138
Income tax expense	**$ 39,245**	$ 35,840

Significant components of the Company's deferred tax liabilities for the years ended December 31 are as follows:

	2015	2014
Deferred placement fees receivable	**$ 10,136**	$ 9,136
Capitalized broker fees	**36,643**	33,048
Carrying values of mortgages pledged under securitization in excess of tax values	**10,601**	11,038
Intangible assets	**664**	1,978
Unamortized discount on debt related to securitized mortgages	**17,149**	14,894
Cumulative eligible capital property	**(5,282)**	(5,639)
Losses on interest rate swaps	**(9,329)**	(5,316)
Servicing liability	**(5,079)**	(2,375)
Loan loss reserves not deducted for tax purposes	**(1,264)**	(684)
Share and debenture issuance costs	**(13)**	(216)
Other	**1,174**	1,536
Deferred tax liabilities	**$ 55,400**	$ 57,400

The movement in significant components of the Company's deferred tax liabilities and assets for the years ended December 31, 2015 and 2014 are as follows:

	As at January 1, 2015	Recognized in income	As at December 31, 2015
DEFERRED INCOME TAX LIABILITIES			
Deferred placement fees receivable	$ 9,136	$ 1,000	$ 10,136
Capitalized broker fees	33,048	3,595	36,643
Carrying values of mortgages pledged under securitization in excess of tax values	11,038	(437)	10,601
Intangible assets	1,978	(1,314)	664
Unamortized discount on debt related to securitized mortgages	14,894	2,255	17,149
Other	1,536	(362)	1,174
Total deferred income tax liabilities	**$ 71,630**	**$ 4,737**	**$ 76,367**
DEFERRED INCOME TAX ASSETS			
Cumulative eligible capital property	(5,639)	357	(5,282)
Servicing liability	(2,375)	(2,704)	(5,079)
Loan loss reserves not deducted for tax purposes	(684)	(580)	(1,264)
Losses on interest rate swaps	(5,316)	(4,013)	(9,329)
Share and debenture issuance costs	(216)	203	(13)
Total deferred income tax assets	$ (14,230)	$ (6,737)	$ (20,967)
Net deferred income tax liabilities	**$ 57,400**	**$ (2,000)**	**$ 55,400**

	As at January 1, 2014	Recognized in income	As at December 31, 2014
DEFERRED INCOME TAX LIABILITIES			
Deferred placement fees receivable	$ 8,855	$ 281	$ 9,136
Capitalized broker fees	21,358	11,690	33,048
Carrying values of mortgages pledged under securitization in excess of tax values	10,009	1,029	11,038
Gains on interest rate swaps	978	(978)	—
Intangible assets	3,296	(1,318)	1,978
Unamortized discount on debt related to securitized mortgages	12,436	2,458	14,894
Other	1,665	(129)	1,536
Total deferred income tax liabilities	$ 58,597	$ 13,033	$ 71,630
DEFERRED INCOME TAX ASSETS			
Cumulative eligible capital property	(6,063)	424	(5,639)
Servicing liability	—	(2,375)	(2,375)
Loan loss reserves not deducted for tax purposes	(845)	161	(684)
Losses on interest rate swaps	—	(5,316)	(5,316)
Debenture issuance costs	(67)	49	(18)
Share issuance costs	(422)	224	(198)
Total deferred income tax assets	$ (7,397)	$ (6,833)	$ (14,230)
Net deferred income tax liabilities	$ 51,200	$ 6,200	$ 57,400

The calculation of taxable income of the Company is based on estimates and the interpretation of complex 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 tax balances and the change could be significant.

Note 20.

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 arises when changes in interest rates will affect the fair value of financial instruments.

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 fixed. 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 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 2015 and 2014.

	Decrease in interest rate[1]		Increase in interest rate	
	2015	**2014**	**2015**	**2014**
100 BASIS POINT SHIFT				
Impact on net income and equity attributable to shareholders	**$ 3,001**	$ 2,205	**$ (1,308)**	$ (2,205)
200 BASIS POINT SHIFT				
Impact on net income and equity attributable to shareholders	**10,649**	9,448	**(2,615)**	(4,410)

[1] *Interest rate is not decreased below 0%.*

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, 2015, 99.9% (2014 – 99.2%) 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.

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 and (v) mortgage and loan investments. The Company has a credit facility with a syndicate of eleven financial institutions, which provides for a total of $1,000,000 in financing. Bank indebtedness also includes borrowings obtained through outstanding cheques and overdraft facilities.

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 30day 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 13.7% (2014 – 11.4%) 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 thirdparty 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) FVTPL mortgages in mortgages under securitization and certain mortgage and loan investments

The fair value of these mortgages is determined by discounting projected cash flows using market industry pricing practices. 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. Impaired mortgages are recorded at net realizable value. Refer to note 3 "Mortgages pledged under securitization" for the key assumptions used and sensitivity analysis.

(b) Deferred placement fees receivable

The fair value of deferred placement fees receivable is determined by internal valuation models using market data inputs, where possible. The fair 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. Refer to note 4 "Deferred placement fees receivable" for the key assumptions used and sensitivity analysis.

(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.

(d) Servicing liability

The fair value of the servicing liability is determined by internal valuation models using market data inputs, where possible. The fair 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 are not supported by observable market data.

(e)Other financial assets and financial liabilities

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

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 $24,524,061 (2014 – $22,337,378) and a fair value of $24,996,681 (2014 – $22,734,523), debt related to securitized and participation mortgages, which has a carrying value of $24,743,727 (2014 – $22,573,362), and a fair value of $25,035,142 (2014 – $22,802,804), and senior unsecured notes, which has a carrying value of $174,420 (December 31, 2014 – nil), and a fair value of $177,233 (December 31, 2014 – nil). These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable (Level 3).

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

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Mortgages accumulated for sale	**$ —**	**$ 13,577**	**$ —**	**$ 13,577**
FVTPL mortgages	**—**	**—**	**3,460,924**	**3,460,924**
Deferred placement fees receivable	**—**	**—**	**38,164**	**38,164**
Mortgage and loan investments	**—**	**—**	**47,267**	**47,267**
Total financial assets	**$ —**	**$ 13,577**	**$ 3,546,355**	**$ 3,559,932**
FINANCIAL LIABILITIES				
Securities sold under repurchase agreements and sold short	**971,606**	**—**	**—**	**971,606**
Interest rate swaps	**—**	**30,244**	**—**	**30,244**
Total financial liabilities	**$ 971,606**	**$ 30,244**	**$ —**	**$ 1,001,850**

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Mortgages accumulated for sale	$ —	$ 22,066	$—	$ 22,066
FVTPL mortgages	—	—	3,983,793	3,983,793
Deferred placement fees receivable	—	—	34,644	34,644
Mortgage and loan investments	—	—	54,818	54,818
Interest rate swaps	—	1,432	—	1,432
Total financial assets	$ —	$ 23,498	$ 4,073,255	$ 4,096,753
FINANCIAL LIABILITIES				
Securities sold under repurchase agreements and sold short	$ 1,330,699	$ —	$ —	$ 1,330,699
Interest rate swaps	—	9,580	—	9,580
Debenture loan payable	—	176,418	—	176,418
Total financial liabilities	$ 1,330,699	$ 185,998	$ —	$ 1,516,697

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used, including those that are not fully supported by observable market prices or rates (Level 3). The amount of the change in fair value recognized by the Company in net income for the year ended December 31, 2015 that was estimated using a valuation technique based on assumptions that are not fully supported by observable market prices or rates was approximately a gain of $19,366 (2014 – $16,040). 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 the year, the Company did not have any transfers between levels.

The following table presents changes in the fair values, including realized losses of $37,076 (2014 – $26,326) of the Company's financial assets and financial liabilities for the years ended December 31, 2015 and 2014, all of which have been classified as FVTPL:

	2015	**2014**
FVTPL mortgages	**$ 18,642**	$ 15,733
Deferred placement fees receivable	**724**	307
Securities owned and sold short	**(35,076)**	(41,486)
Interest rate swaps	**(36,433)**	(9,470)
	(52,143)	(34,916)

The Company does not have any assets or liabilities that are measured at fair value on a nonrecurring 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, 2015 and 2014. 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, 2015	**Investments**	**Unrealized gain recorded in income**	**Payment and amortization**	**Fair value as at December 31, 2015**
FINANCIAL ASSETS					
FVTPL mortgages	**$ 3,983,793**	**$ 2,383,054**	**$ 18,642**	**$ (2,924,565)**	**$ 3,460,924**
Deferred placement fees receivable	**34,644**	**10,716**	**724**	**(7,920)**	**38,164**
Mortgage and loan investments	**54,818**	**25,215**	**—**	**(32,766)**	**47,267**
	$ 4,073,255	**$ 2,418,985**	**$ 19,366**	**$ (2,965,251)**	**$ 3,546,355**

	Fair value as at January 1, 2014	Investments	Unrealized gain recorded in income	Payment and amortization	Fair value as at December 31, 2014
FINANCIAL ASSETS					
FVTPL mortgages	$ 3,969,524	$ 3,110,849	$ 15,733	$ (3,112,313)	$ 3,983,793
Deferred placement fees receivable	33,580	9,785	307	(9,028)	34,644
Mortgage and loan investments	68,954	—	—	(14,136)	54,818
	$ 4,072,058	$ 3,120,634	$ 16,040	$ (3,135,477)	$ 4,073,255

Note 21.

Capital Management

The Company's objective is to maintain a strong 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 equity and retained earnings. The Company 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, 2015, the ratio was 1.64:1 (2014 – 1.85:1).

The Company was in compliance with the bank covenant throughout the year.

Note 22.

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.

	2015		
	Residential	Commercial	Total
REVENUE			
Interest revenue – securitized mortgages	477,552	143,270	620,822
Interest expense – securitized mortgages	(373,030)	(115,629)	(488,659)
Net interest – securitized mortgages	104,522	27,641	132,163
Placement and servicing	244,323	49,495	293,818
Mortgage investment income	33,176	19,642	52,818
Realized and unrealized losses on financial instruments	(49,011)	(3,132)	(52,143)
	$ 333,010	$ 93,646	$ 426,656
EXPENSES			
Amortization	6,374	2,740	9,114
Interest	30,797	5,147	35,944
Other operating	195,384	37,538	232,922
	232,555	45,425	277,980
Income before income taxes	$ 100,455	$ 48,221	$ 148,676
Identifiable assets	22,276,053	5,620,903	27,896,956
Goodwill	—	—	29,776
Total assets	$ 22,276,125	$ 5,620,903	$ 27,926,732
Capital expenditures	$ 2,449	$ 1,048	$ 3,497

	2014		
	Residential	Commercial	Total
REVENUE			
Interest revenue – securitized mortgages	$ 413,629	$ 136,587	$ 550,216
Interest expense – securitized mortgages	(322,930)	(111,796)	(434,726)
Net interest – securitized mortgages	90,699	24,791	115,490
Placement and servicing	185,195	45,536	230,731
Mortgage investment income	36,198	20,878	57,076
Realized and unrealized losses on financial instruments	(26,551)	(8,365)	(34,916)
	$ 285,541	$ 82,840	$ 368,381
EXPENSES			
Amortization	5,257	2,652	7,909
Interest	33,795	2,480	36,275
Other operating	150,858	33,034	183,892
	189,910	38,166	228,076
Income before income taxes	$ 95,631	$ 44,674	$ 140,305
Identifiable assets	21,112,421	4,811,717	25,924,138
Goodwill	—	—	29,776
Total assets	$ 21,112,421	$ 4,811,717	$ 25,953,914
Capital expenditures	$ 5,845	$ 2,503	$ 8,348

Note 23.

Related Party And Other Transactions

The Company has referred several commercial mezzanine mortgage opportunities to various businesses controlled by a senior executive and shareholder of the Company. The Company services these mortgages during their terms at market commercial servicing rates. The mortgages, which are administered by the Company, have a balance of $36,624 as at December 31, 2015 (2014 – $24,765). Three of the mortgages are secured by real estate in which the Company is also a mortgage lender. For one of the mortgages, the Company's interests are ranked subordinately to the interests held by the controlled business.

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 in 2015 was $2,366 (2014 – $2,494), net of third-party investor reimbursement. The insurance company has also engaged the Company to service a portfolio of mortgages at market commercial servicing rates. As at December 31, 2015, the portfolio had a balance of $4.1 million (2014 – $8.7 million).

Management compensation

During the year ended December 31, 2015, the Company paid a total annual compensation of $3,882 (2014 – $3,757) to six senior managers. Senior managers are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

Note 24.

Future Accounting Changes

The following accounting pronouncements issued by the IASB, although not yet effective, may have a future impact on the Company:

IFRS 9 – Financial Instruments

In July 2014, the International Accounting Standard Board ("IASB") issued the final version of IFRS 9 *Financial Instruments*, replacing IAS 39 and all previous versions of IFRS 9. This final version of IFRS 9 includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities which will be recognized in other comprehensive income, rather than in profit and loss as under IAS 39. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of IFRS 9 on the Company's consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, replacing IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step revenue recognition process to determine the nature, amount, timing and uncertainty of revenue and cash flows from the contracts with customers.

In September 2015, the IASB amended IFRS 15 by deferring its effective date for one year to fiscal years beginning on or after January 1, 2018. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018 and is currently analyzing the impact on the Company's consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, replacing IAS 17 – *Leases*. IFRS 16 requires lessees to recognize assets and liabilities for most leases instead of previous categories of finance leases, which are reported on the balance sheet, or operating leases, which are disclosed only in the notes to the financial statements, under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company is currently assessing the impact of this standard on the Company's consolidated financial statements.

Note 25.

Comparative Consolidated Financial Statements

The comparative audited consolidated financial statements have been restated from statements previously presented to conform to the presentation of the 2015 audited consolidated financial statements.

CORPORATE GOVERNANCE

First National's Board of Directors and management team fully acknowledge the importance of their duty to serve the long-term interests of shareholders.

Sound corporate governance is fundamental to maintaining the confidence of investors and increasing shareholder value. As such, First National is committed to the highest standards of integrity, transparency, compliance and discipline.

These standards define the relationships among all of our stakeholders – Board, management and shareholders – and are the basis for building these values and nurturing a culture of accountability and responsibility across the organization.

Policies

The Board supervises and evaluates the management of the Company, oversees matters related to our strategic direction and assesses results relative to our goals and objectives. As such, the Board has adopted several policies that reflect recommended practices in governance and disclosure. These include a Disclosure Policy, a Code of Business Ethics and Conduct, a Whistleblower Policy and an Insider Trading Policy. As a public company, First National's Board continues to update, develop and implement appropriate governance policies and practices as it sees fit.

Committees

The Board of Directors has established an Audit Committee and a Compensation, Governance and Nominating Committee to assist in the efficient functioning of the Company's corporate governance strategy.

Audit Committee

The Audit Committee's responsibilities include:

- Management of the relationship with the external auditor including the oversight and supervision of the audit of the Company's financial statements;
- Oversight and supervision of the quality and integrity of the Company's financial statements, and;
- Oversight and supervision of the adequacy of the Company's internal accounting controls and procedures, as well as its financial reporting practices.

The Audit Committee consists of three independent directors, all of whom are considered financially literate for the purposes of the Canadian Securities Administrators' Multilateral Instrument 52-110 – *Audit Committees*.

Committee Members
John Brough (Chair), Peter Copestake and Robert Mitchell

Compensation, Governance and Nominating Committee

The Compensation, Governance and Nominating Committee's responsibilities include:

- Reviewing and approving the compensation of the Company's senior executive officers;
- Periodically assessing and making recommendations on the Company's approach to governance issues;
- Assisting in the development of governance polices, practices and procedures for approval by the Board of Directors;
- Review of conflicts of interest and transactions involving related parties of the Company
- Periodically reviewing the composition and effectiveness of the Board of Directors and;
- Adopting and periodically reviewing and updating the Company's Disclosure Policy.

The Compensation, Governance and Nominating Committee consists of three directors, all of whom are independent for the purposes of the Canadian Securities Administrators' Multilateral Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

Committee Members

Peter Copestake (Chair), Duncan Jackman and Barbara Palk

BOARD MEMBERS

Collectively, the Board of Directors has extensive experience in mortgage lending, real estate, strategic planning, governance and finance. The Board consists of seven members, five of whom are independent.

Stephen Smith

is Chairman and Chief Executive Officer of the Corporation, President of First National and co-founder of First National. Mr. Smith, one of Canada's leading financial services entrepreneurs, is the Chairman, Chief Executive Officer and Co-Founder of First National Financial Corporation. He has been an innovator in the development and utilization of various securitization techniques to finance mortgage assets as well as a leader in the development and application of information technology in the mortgage industry. Mr. Smith is Chairman of Canada Guaranty Mortgage Insurance Company, which he owns in partnership with Ontario Teachers' Pension Plan. He is the largest shareholder in Equitable Bank, one of Canada's leading alternative lenders and the country's ninth largest bank. Mr. Smith is a member of the Board of Governors of the Royal Ontario Museum, the Board of Directors of the C.D. Howe Institute and the Empire Life Insurance Company. He is also Chairman of Historica Canada, producer of the Heritage Minutes and publisher of The Canadian Encyclopaedia. In 2012, Mr. Smith received the Queen Elizabeth II Diamond Jubilee Medal for contributions to Canada. In 2015, Queen's University announced the naming of the Stephen J.R. Smith School of Business at Queen's University in honour of Mr. Smith and his historic $50-million donation to the school. Mr. Smith holds a B.Sc (Hons.) in Electrical Engineering from Queen's University and a M.Sc. in Economics from the London School of Economics.

Moray Tawse
Is Executive Vice President and Secretary of the Corporation, Executive Vice President of First National and co-founder of First National. Mr. Tawse directs the operations of all of First National's commercial mortgage origination activities. With over 30 years of experience in the real estate finance industry, Mr. Tawse is one of Canada's leading experts on commercial real estate and is often called upon to deliver keynote addresses at national real estate symposiums.

John Brough
Served as President of both Wittington Properties Limited (Canada) and Torwest, Inc. (United States) real estate development companies from 1998 to 2007. From 1974 until 1996 he was with Markborough Properties, Inc, where he was Senior Vice President and Chief Financial Officer from 1986 until 1996. Mr. Brough is a Director of Kinross Gold Corporation, Silver Wheaton Corp. and Canadian Real Estate Investment Trust. Mr. Brough has a Bachelor of Arts (Economics) degree from the University of Toronto, as well as a Chartered Accountant degree. Mr. Brough is a graduate of the Directors Education Program at the University of Toronto, Rotman School of Management, is a member of the Institute of Corporate Directors and holds the designation Chartered Professional Accountant.

Peter Copestake
Serves as the Executive in Residence at the Queen's University School of Business and as a corporate director and business consultant. Over the past 30 years he has held senior financial and executive management positions at federally regulated financial institutions and in the federal government. Other current directorships include membership on the Finance and Pension committees of Queen's University and directorships at Royal and Sun Alliance Insurance Company of Canada and Canadian Derivatives Clearing Corporation. He additionally serves on the Independent Review Committees at First Trust Portfolios Canada and at PIMCO Canada and as Chair of the South East Ontario Medical and Academic Organization.

Duncan Jackman
Is the Chairman, President and Chief Executive Officer of E L Financial Corporation Limited, an investment holding company and has held similar positions with E-L Financial since 2003. Mr. Jackman is also the Chairman and President of Economic Investment Trust Limited and United Corporations Limited, both closed-end investment corporations, and has acted in a similar capacity with these corporations since 2001. Mr. Jackman sits on a number of public and private company boards. Prior to 2001, Mr. Jackman held a variety of positions including portfolio manager at Cassels Blaikie and investment analyst at RBC Dominion Securities Inc. Mr. Jackman holds a Bachelor of Arts from McGill University.

Robert Mitchell
Has been President of Dixon Mitchell Investment Counsel Inc., a Vancouver-based investment management company since 2000. Prior to that, Mr. Mitchell was Vice President, Investments at Seaboard Life Insurance Company. Mr. Mitchell is a director of, and chairs the audit committee for Discovery Parks Realty Corp. Discovery Parks was established to support the technology and research industries in British Columbia through the development of its real estate assets. Mr. Mitchell has an MBA from the University of Western Ontario, a Bachelor of Commerce (Finance) from the University of Calgary, and is a CFA charterholder.

Barbara Palk
Retired as President of TD Asset Management Inc. in 2010 following a 30 year career in institutional investment and investment management. She currently serves on the Boards of TD Asset Management USA Funds Inc. in New York, Ontario Teachers' Pension Plan, Crombie Real Estate Investment Trust and Queen's University where she is Chair. Her previous board experience includes the Canadian Coalition for Good Governance, whose Governance Committee she chaired, Greenwood College School, the Investment Counselling Association of Canada, the Perimeter Institute, the Shaw Festival and UNICEF Canada. Ms. Palk is a member of the Institute of Corporate Directors, a Fellow of the Canadian Securities Institute and a CFA charterholder. She holds a Bachelor of Arts (Honours, Economics) degree from Queen's University, and has been named one of Canada's Top 100 Most Powerful Women (2004).

STAKEHOLDER INFORMATION

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Annual Meeting

May 3, 2016, 9 a.m. ET
TMX Broadcast Centre
The Gallery
The Exchange Tower
130 King Street West
Toronto, Ontario

Senior Executives of First National Financial LP

Stephen Smith
Co-founder, Chairman and Chief Executive Officer

Moray Tawse
Co-founder and Executive Vice President

Robert Inglis
Chief Financial Officer

Scott McKenzie
Senior Vice President, Residential Mortgages

Jeremy Wedgbury
Senior Vice President, Commercial Mortgages

Lisa White
Vice President, Mortgage Operations

Hilda Wong
Vice President and General Counsel

Jason Ellis
Managing Director, Capital Markets

Rick Votano
Vice President, Information Technology

Legal Counsel

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Exchange Listing and Symbols

Common shares: (TSX) FN
Preferred shares: (TSX) FN.PR.A