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## First National Reports Strong Second Quarter Results

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Continued growth in mortgages under administration, revenue, net income and EBITDA

TORONTO, July 27, 2010 /CNW/ - First National Financial Income Fund (TSX: FN.UN) (the "Fund") today announced its financial results for the quarter ended June 30, 2010. The Fund derives all of its earnings from its 21% investment in First National Financial LP ("FNFLP" or "First National"), which reports continued profitability with sustained growth in mortgages under administration, revenue, net income and EBITDA\*.

First National Financial LP's Q2 2010 Summary:

- Mortgages under administration up 16% year-over-year to \$50.5 billion
- Revenue increased by 14% to \$104.6 million, up from \$91.6 million
- Mortgage originations declined by 9% to \$3.2 billion from \$3.5 billion year-over-year
- Net income was up 36% year-over-year to \$56.4 million
- EBITDA was up 36% year-over-year to \$56.8 million
- Distributions declared to unitholders totalled \$4.8 million

"First National recorded strong results in the second quarter of 2010, reaching over \$50 billion in mortgages under administration despite increased competition and a relatively slow real estate market," said **Stephen Smith**, Chairman and President. "The Company was able to achieve this significant milestone in a slowing market by optimizing the use of its diverse funding sources. Continued high demand for prime insured mortgages and profitable spreads earned on much of the Company's origination also contributed to our success this quarter."

"The economic recovery evident at the beginning of 2010 slowed as global markets showed some weakness. For First National, this meant wider spreads during the period as Canadian banks posted higher mortgage rates to accommodate increased costs of capital," said **Moray Tawse**, Vice President, Mortgage Investments. "By continuing to take advantage of opportunities for growth and maintaining a conservative business strategy, the Company has succeeded in preserving its strong market position in an unsettled economy."

Selected Financial Highlights for First National Financial LP

|                                   | Quarter ended    |                  | Six months ended |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | June 30,<br>2010 | June 30,<br>2009 | June 30,<br>2010 | June 30,<br>2009 |
| For the Period                    |                  |                  |                  |                  |
|                                   |                  |                  |                  | (\$ 000's)       |
| Revenue                           | 104,620          | 91,570           | 180,161          | 157,275          |
| Net income                        | 56,389           | 41,519           | 94,601           | 73,985           |
| EBITDA (1)                        | 56,807           | 41,942           | 95,437           | 74,742           |
| At Period end                     |                  |                  |                  |                  |
| Total assets                      | 1,095,097        | 919,300          | 1,095,097        | 919,300          |
| Mortgages under<br>administration | 50,530,254       | 43,702,670       | 50,530,254       | 43,702,670       |

Note:

(1) This non-GAAP measure adjusts income before income taxes by adding back expenses for amortization of capital assets.

Q2 2010 Results

First National's mortgages under administration were \$50.5 billion at June 30, 2010, up 16% from \$43.7 billion at June 30, 2009, and up 15%, on an annualized basis, from \$48.7 billion at March 31, 2010. The growth was driven primarily by mortgage originations. Although originations declined by 9% to \$3.2 billion from \$3.5 billion in the same period last year, new mortgage production exceeded mortgages lost to regular portfolio run-off.

Total single-family originations were up 1% for the quarter compared to the same period last year, while the commercial segment experienced increased competition within a slower market. As a result, origination volumes in this segment decreased 37% to \$0.6 billion, compared to \$1 billion for the period ended June 30, 2009.

Revenue for the quarter increased by 14%, from \$91.6 million to \$104.6 million, as the Company earned large gains from both new and existing securitizations. The largest component of the revenue growth was a gain of \$21.9 million earned on the revaluation of the Company's securitization receivable related to prime based variable rate mortgages. This unrealized gain pertains primarily to the Company's entire portfolio of single-family floating rate mortgages securitized through the MBS market between April 1, 2009, and May 31, 2010, and accounts for the long-term increase in the spread between bank prime lending rates and overnight funding rates on these mortgages.

Net income for the quarter was \$56.4 million, an increase of 36% from \$41.5 million in the same period in 2009. EBITDA for the quarter was \$56.8 million, an increase of 36% from \$41.9 million in the same period in 2009. The increases come as a result of the favourable fair value adjustment of \$21.9 million to the existing securitized portfolio of single-family floating rate mortgages, higher gains on securitization, and more residual securitization income.

Distributable Cash

The Fund's distributable cash\* for the quarter was \$4.9 million or \$0.39 per unit and distributions declared totalled \$4.8 million or \$0.38 per unit. The payout ratio of 97% was down from 103% in the first quarter of

2010. Despite large cash investments in securitization transactions over the past two quarters, the Fund has continued to produce sufficient cash flow from operations to maintain distributions at the current level. The ratio of distributions to net income, which the Company believes is as important as the payout ratio, was 40% for the quarter.

Statement of Distributable Cash

(in \$000s, except where noted)

|   | For the quarter ended |          | For the six months ended |          |
|---|-----------------------|----------|--------------------------|----------|
|   | June 30,              | June 30, | June 30,                 | June 30, |
|   | 2010                  | 2009     | 2010                     | 2009     |
| First National<br>Financial LP<br>Distributable Cash<br>of First National<br>Financial LP(1)  | 23,387                | 26,375   | 44,709                   | 36,969   |
| First National<br>Financial Income<br>Fund<br>Weighted Average<br>Share of<br>Distributable<br>Cash from<br>First National<br>Financial LP(1) | 4,946                 | 5,578    | 9,456                    | 7,818    |
| Distributable Cash<br>per Unit<br>(\$/Unit) (1)   | 0.39                  | 0.44     | 0.75                     | 0.62     |
| Distributions<br>Declared   | 4,756                 | 4,280    | 9,511                    | 8,560    |
| Distributions<br>Declared per Unit<br>(\$/Unit)   | 0.38                  | 0.34     | 0.75                     | 0.68     |
| Payout Ratio  | 97%                   | 77%      | 100%                     | 110%     |

(1) Distributable cash and distributable cash per unit are non-GAAP measures generally used by Canadian open-ended trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distributions to unit holders. For FNFLP this measure adjusts cash provided by (used in) operating activities by accounting for changes between periods of mortgages accumulated for sale and deducting capital expenditures.

Conference Call and Webcast

Conference Call and Webcast July 28, 2010, 10 a.m. EDT

Participant Numbers 416-644-3416 or 1-877-974-0446

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The audio of the conference call will be webcast live and archived on First National's website at [www.firstnational.ca](http://www.firstnational.ca). A question and answer session for analysts and institutional investors will be held following management's presentation.

A taped rebroadcast will be available following the call until 12 a.m. (ET) on August 4, 2010. To access the rebroadcast, please dial 416-640-1917 or 1-877-289-8525 and enter passcode 4328717 followed by the number sign.

Complete consolidated financial statements for the Fund and FNFLP as well as management's discussion and analysis are available at [www.sedar.com](http://www.sedar.com) and at [www.firstnational.ca](http://www.firstnational.ca).

#### About First National Financial Income Fund

First National Financial Income Fund (TSX: FN.UN) owns a 21% interest in First National Financial LP, a Canadian-based originator, underwriter and servicer of predominantly prime residential (single family and multi-unit) and commercial mortgages. With over \$50 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 growing mortgage broker distribution channel. For more information, please visit [www.firstnational.ca](http://www.firstnational.ca).

#### \*Non-GAAP Measures

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The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "EBITDA", "Distributable Cash", and "Distributable Cash per Unit" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

#### Forward-Looking Information

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Certain information included in this news release may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts.

Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, product development activities, projected costs and capital expenditures, financial results, risk management strategies, hedging activities, geographic expansion, licensing plans, taxes and other plans and objectives of or involving the Company. Particularly, information regarding growth objectives, any future increase in mortgages under administration, future use of securitization vehicles, industry trends and future revenues is forward-looking information. Forward-looking information is based on certain factors and assumptions regarding, among other things, interest rate changes and responses to such changes, the demand for institutionally placed and securitized mortgages, the status of the

applicable regulatory regime and the use of mortgage brokers for single family residential mortgages. This forward-looking information should not be read as providing guarantees of future performance or results, and will not necessarily be an accurate indication of whether or not, or the times by which, those results will be achieved. While management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect. Forward looking-information is subject to certain factors, including risks and uncertainties listed under "Risk and Uncertainties Affecting the Business" in the MD&A, that could cause actual results to differ materially from what management currently expects. These factors include reliance on sources of funding, concentration of institutional investors, reliance on relationships with independent mortgage brokers and changes in interest. This forward-looking information is as of the date of this release, and is subject to change after such date. However, management and the Fund disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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