



**Management's Discussion and Analysis**

**For the three and nine months ended September 30, 2021**

## Interpretation

The current and prior period comparative results for Sagen MI Canada Inc., formerly Genworth MI Canada Inc., (“**Sagen**” or the “**Company**”) reflect the consolidation of the Company and its subsidiaries, including Sagen Mortgage Insurance Company Canada, (the “**Insurance Subsidiary**”) formerly Genworth Financial Mortgage Insurance Company Canada. The Insurance Subsidiary is engaged in the provision of mortgage insurance in Canada and is regulated by the Office of the Superintendent of Financial Institutions (“**OSFI**”) as well as financial services regulators in each province.

The following Management’s Discussion and Analysis (“**MD&A**”) of the financial condition and results of operations as approved by the Company’s board of directors (the “**Board**”) on November 3, 2021 is prepared for the three and nine months ended September 30, 2021. The unaudited condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”). This MD&A should be read in conjunction with the Company’s financial statements.

In this MD&A, references to “\$”, “CDN\$”, “dollars” or “Canadian dollars” are to Canadian dollars and references to “US\$” are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated.

Unless the context otherwise requires, all references in this MD&A to “Sagen” or the “Company” refer to Sagen MI Canada Inc. and its subsidiaries.

Unless the context otherwise requires, all financial information is presented on an IFRS basis.

## Caution regarding forward-looking information and statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws (“**forward-looking statements**”). When used in this MD&A, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the impact of any potential guideline changes by OSFI or legislative changes introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act (“**PRMHIA**”); the effect of changes to the mortgage insurance rules, including government guarantee mortgage eligibility rules; the impact of the COVID-19 pandemic on the economy and the Company’s business; the Company’s beliefs as to housing demand and home price appreciation, key macroeconomic factors, unemployment rates; the Company’s future operating and financial results; the operating range for the Company’s expense ratio; expectations regarding premiums written; and capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein. Inherent in the forward-looking statements are known and unknown risks, uncertainties, and other factors beyond the Company’s ability to control or predict, that may cause the actual results, performance or achievements of the Company, or developments in the Company’s business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Actual results or developments may differ materially from those contemplated by the forward-looking statements.

The Company’s actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including: the continued availability of the Canadian government’s guarantee of private mortgage insurance on terms satisfactory to the Company; the Company’s expectations regarding its revenues, expenses and operations; the Company’s plans to implement its strategy and operate its business; the Company’s expectations regarding the compensation of directors and officers; the Company’s anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company’s plans for and timing of expansion of service and products; the Company’s ability to accurately assess and manage risks associated with the policies that are written; the Company’s ability to accurately manage market, interest and credit risks; the Company’s ability to maintain ratings, which may be affected by the ratings of the sole holder of the Company’s Class A common shares, Brookfield Business Partners L.P. together with certain of its affiliates and institutional partners (“**Brookfield**”); interest rate fluctuations; a decrease in the volume of high loan-to-value mortgage originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company’s lenders of new

technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems or potential cyber threats; and potential conflicts of interest between the Company and its sole Class A common shareholder, Brookfield.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "AIF") dated March 17, 2021. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities (including the Company's AIF) and can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

### **Non-IFRS financial measures**

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses certain non-IFRS financial measures to analyze performance. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include, among others, net operating income (excluding fee on early redemption of debt, as applicable), operating investment income and interest and dividend income, net of investment expenses.

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include outstanding insured mortgage balances, delinquency ratio on outstanding insured mortgage balances, loss ratio, expense ratio, combined ratio, investment yield and Mortgage Insurer Capital Adequacy Test ("MICAT") ratio. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors as they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

See the **Non-IFRS financial measures** section at the end of this MD&A for a reconciliation of total investment income to interest and dividend income, net of investment expenses.

Definitions of key non-IFRS financial measures and explanations of why these measures are useful to investors and management can be found in the Company's **Non-IFRS financial measures glossary**, in the **Non-IFRS financial measures** section at the end of this MD&A.

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## Business profile

### Business background

Sagen is the largest private-sector residential mortgage insurer in Canada and has been providing mortgage default insurance in the country since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. Sagen underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private-sector mortgage insurers. The Canada Mortgage and Housing Corporation ("CMHC"), a crown corporation, and Canada Guaranty Mortgage Insurance Company, a private mortgage insurer, are the Company's main competitors.

Federally regulated lenders are required to purchase transactional mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value ratio exceeds 80%. The Company offers both transactional and portfolio mortgage insurance. The Company's transactional mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from any resulting losses on claims. By offering insurance for transactional mortgages, the Company plays a significant role in providing access to homeownership for Canadian residents. Homebuyers who can only afford to make a smaller down payment can, through the benefits provided by mortgage insurers such as Sagen, obtain mortgages at rates comparable to buyers with more substantial down payments.

The Company also provides portfolio mortgage insurance to lenders for loans with loan-to-value ratios of 80% or less. Portfolio mortgage insurance is beneficial to lenders as it provides the ability to manage capital and funding requirements and mitigate risk. The Company views portfolio mortgage insurance as an extension of its relationship with existing transactional insurance customers. Therefore, the Company carefully manages the level of its portfolio mortgage insurance relative to its overall mortgage insurance business. Premium rates on portfolio mortgage insurance have historically been lower than those on transactional mortgage insurance due to the lower risk profile associated with portfolio loans.

### Seasonality

The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, interest and dividend income, net of investment expenses, and administrative expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated transactional new insurance written, which typically peak in the spring and summer months. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions, changes in employment levels and characteristics of the outstanding insured mortgage balances, such as size, age, seasonality and geographic mix of delinquencies. However, the COVID-19 pandemic impacted the typical seasonal patterns in 2020 and 2021, including dampening of the typically higher transactional premiums written in the second quarter of 2020, followed by a significant increase in housing demand in the third and fourth quarters of 2020, as well as the first three quarters of 2021, resulting in higher transactional premiums written.

Typically, losses on claims increase during the winter months, primarily due to an increase in new delinquencies, and decrease during the spring and summer months. The actions taken by lenders and mortgage insurers in respect of mortgage payment deferrals have impacted the typical seasonal patterns of mortgage delinquencies.

The Company's premiums written from portfolio mortgage insurance varies from period to period based on a number of factors including the amount of portfolio mortgages lenders seek to insure; the competitiveness of the Company's pricing, underwriting guidelines and credit enhancement for portfolio insurance; and the Company's risk appetite for such mortgage insurance.

### Distribution and marketing

The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more accessible for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage loan and trust companies, credit unions and other lenders. These lenders typically determine which mortgage insurer they will use for the placement of mortgage insurance written on loans originated by them. The five largest Canadian chartered banks have historically been the largest residential mortgage originators in Canada.

## Overview

### Third quarter financial highlights

**Table 1: Selected financial information**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Premiums written				
Transactional insurance	364	291	955	568
Portfolio insurance	7	6	20	70
<b>Total premiums written</b>	<b>\$ 372</b>	<b>\$ 297</b>	<b>\$ 975</b>	<b>\$ 638</b>
Premiums earned	\$ 206	\$ 173	\$ 590	\$ 516
Net (recoveries) losses on claims	(32)	23	(43)	94
Expenses	38	33	112	102
<b>Total losses on claims and expenses</b>	<b>6</b>	<b>56</b>	<b>70</b>	<b>196</b>
Net underwriting income	200	117	520	320
Interest and dividend income, net of investment expenses <sup>1</sup>	44	44	130	134
Realized income from the interest rate hedging program	3	4	9	15
Net (losses) gains from investments, derivatives and foreign exchange <sup>2</sup>	(2)	7	(16)	(27)
Total investment income	45	55	123	122
Interest expense	11	6	28	19
Fee on early redemption of long-term debt	-	-	-	2
Income before income taxes	234	166	616	422
<b>Net income</b>	<b>\$ 174</b>	<b>\$ 124</b>	<b>\$ 460</b>	<b>\$ 317</b>
<b>Net operating income<sup>1</sup></b>	<b>\$ 176</b>	<b>\$ 119</b>	<b>\$ 472</b>	<b>\$ 338</b>
<b>Selected non-IFRS financial measures<sup>1</sup></b>				
Outstanding insured mortgage balances <sup>3</sup>	\$ 203,200	\$ 205,644	\$ 203,200	\$ 205,644
Delinquency ratio on outstanding insured mortgage balances	0.16 %	0.20 %	0.16 %	0.20 %
Loss ratio	(16)%	13 %	(7)%	18 %
Expense ratio	18 %	19 %	19 %	20 %
Combined ratio	3 %	32 %	12 %	38 %
MICAT ratio <sup>4</sup>	214 %	178 %	214 %	178 %

Note: Amounts may not total due to rounding.

<sup>1</sup>These financial measures are not calculated based on IFRS. See the **Non-IFRS financial measures** section at the end of this MD&A for additional information. <sup>2</sup>Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income or expense from the interest rate hedging program. <sup>3</sup>This estimate is based on the amounts reported by lenders to the Company which represents the vast majority of outstanding insured mortgage balances. <sup>4</sup>Company estimate as at September 30, 2021. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA is 150% and the Company's internal target ratio under the MICAT is 157%.

The Company reported net income of \$174 million in the third quarter of 2021, \$50 million higher than the same quarter in the prior year, primarily due to lower losses on claims and higher premiums earned partially offset by higher expenses, higher interest expense on the Company's long-term debt and lower investment income. Net operating income of \$176 million in the third quarter of 2021 was higher than net income due to the after-tax impact of net losses from investments, derivatives, and foreign exchange which are excluded from net operating income.

The Company reported net income of \$460 million on a year-to-date basis, \$143 million higher than the prior year's period, primarily due to lower losses on claims, higher premiums earned, and higher investment income, partially offset by higher expenses and higher interest on the Company's long-term debt. Net operating income of \$472 million on a year-to-date basis was higher than net income due to the after-tax impact of net losses from investments, derivatives, and foreign exchange, which are excluded from net operating income.

## Recent business and regulatory developments

### CMHC product changes

In July 2020, CMHC implemented several underwriting changes. On July 5, 2021 CMHC announced it was returning to its pre-July 2020 underwriting practices for homeowner insurance, including:

- CMHC will consider the gross debt service ratio (“**GDSR**”) up to 39% of annual income and total debt service ratio (“**TDSR**”) ratio up to 44% for borrowers who have a strong history of managing their payment obligations;
- At least one borrower (or guarantor) must have a credit score that is greater than or equal to 600 at the time of the request for insurance; and
- CMHC will consider the overall strength of mortgage loan insurance application, including alternative methods of establishing creditworthiness for borrowers without a credit history.

Over the course of the second half of 2020 and the first nine months of 2021, the Company’s market share increased significantly based on the Company’s assessment of the mortgage insurance market and data from its customers. The Company believes that its market share in the future may be adversely impacted by CMHC’s decision to re-enter certain segments of the homeowner insurance market.

### Share capital

On April 1, 2021, the Company and Brookfield completed the previously announced plan of arrangement (the “**Transaction**”) pursuant to which Brookfield purchased all of the outstanding common shares that were not already owned by Brookfield at a price of \$43.50 in cash per common share or approximately \$1.6 billion. The common shares have been de-listed from the Toronto Stock Exchange (“**TSX**”).

All of the common shares were exchanged in a reorganization transaction (the “**Share Exchange**”) pursuant to which 1,000,000 Class A common shares in the capital of the Company and a \$700 million demand note were issued to Brookfield, resulting in no common shares outstanding and Brookfield holding all of the Class A common shares. The Class A common shares are not listed on the TSX. On April 1, 2021, the Company paid Brookfield \$700 million as full repayment of the demand note issued in connection with the Share Exchange.

### Dividends

On November 3, 2021, the Board declared a dividend of \$50.00 per Class A Common Share, or \$50 million in the aggregate, payable on November 5, 2021, to Brookfield, the sole holder of the Class A common shares.

On November 3, 2021, the Board declared a dividend of \$0.3375, per Class A Preferred Shares, Series 1, or approximately \$1 million in the aggregate payable on December 31, 2021 to holders of record of the Series 1 Preferred Shares at the close of business on December 15, 2021.

On September 30, 2021, the Company paid a dividend of \$0.3375, per Class A Preferred Shares, Series 1, or approximately \$1 million in the aggregate to holders of record of the Series 1 Preferred Shares at the close of business on September 15, 2021.

On June 30, 2021, the Company paid a dividend of \$0.48822, per Class A Preferred Shares, Series 1, or approximately \$2 million in the aggregate, to holders of record of the Series 1 Preferred Shares at the close of business on June 15, 2021.

Subsequent to the completion of the Transaction, the Company paid the following dividends on the Class A common shares to Brookfield, the sole holder of the Class A common shares:

- On August 6, 2021, a quarterly dividend of \$50.00 per Class A common share, or \$50 million in the aggregate.
- On June 17, 2021, a special dividend of \$50.00 per Class A common share, or \$50 million in the aggregate.
- On May 5, 2021, a quarterly dividend of \$50.00 per Class A common share, or \$50 million in the aggregate.
- On April 1, 2021, a dividend of \$5.00 per Class A common share, or \$5 million.

On March 3, 2021, prior to the completion of the Transaction, the Company paid a quarterly dividend of \$0.54 per common share.



### Issuance of preferred shares

On February 18, 2021, the Company completed an offering of 4,000,000 non-cumulative Class A Preferred Shares, Series 1 (the “**Series 1 Preferred Shares**”) at a price of \$25.00 per Series 1 Preferred Share, for aggregate gross proceeds of \$100 million, or \$98 million net of issuance costs. The Series 1 Preferred Shares have an annual dividend yield of 5.40% and dividends, if declared by the Board, will be \$0.3375 per Series 1 Preferred Share. For purposes of the Company’s debt to equity calculation, the Series 1 Preferred Shares are treated as debt. In order to maintain in force an exemption order from the public voting requirement in section 411 of the Insurance Companies Act (Canada) (the “**ICA**”) that has been granted to the Insurance Subsidiary, and subject to certain other limitations and conditions, the Series 1 Preferred Shares, as a class, carry adjustable voting rights to ensure that, at any given time, 35% of the voting rights in the Company will be held by persons who, among other things, do not hold 20% or more of any class of voting shares of the Company.

For further details, see the **Capital Management** section.

### Issuance of debt securities

On March 5, 2021, the Company issued \$300 million principal amount of Debentures (“**Series 5 debentures**”) due March 5, 2031. The Series 5 debentures have a coupon rate of 3.261% and may be redeemed at the option of Sagen, in whole or in part at any time, prior to December 5, 2030 at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus 0.475% or their par value and thereafter at a redemption price equal to their par value.

On March 23, 2021, the Company issued \$150 million principal amount of Hybrid Notes (“**Series 6 notes**”) due March 24, 2081. The Series 6 notes initially have a coupon of 4.95%. On March 24, 2031, and on every fifth anniversary thereafter, the coupon rate will reset to a rate per annum equal to the 5-year Government of Canada Yield plus a spread of 3.566% for the period from March 2031 and March 2051 and 4.316% for the period from March 2051 until maturity.

For further details, see the **Capital Management** section.

### Credit facilities

On April 1, 2021, the Company entered into a new term facility (the “**2026 Term Facility**”) for an aggregate amount of up to \$150 million and borrowed US\$118 million, or approximately \$149 million, by way of a LIBOR loan under the 2026 Term Facility. The 2026 Term Facility, which matures on March 31, 2026 has similar terms to the existing facility (the “**2025 Term Facility**”).

As at September 30, 2021, the Company had an undrawn unsecured syndicated revolving credit facility of \$300 million which matures in January 2025, a prime rate term loan of \$76 million which matures in January 2025 and a LIBOR loan of \$149 million which matures in March 2026.

For further details, see the **Capital Management** section.

### Government stimulus programs

Since March 2020, the Canadian federal and provincial governments have announced several economic and regulatory actions to support households, businesses, and financial institutions in order to improve the stability of the Canadian financial system and economy in response to challenges posed by COVID-19. These measures include programs to assist Canadians facing loss of employment and possible foreclosure, eviction or other financial hardships as a direct result of the economic ramifications of COVID-19. The Company believes that the government-support measures, have been very important in supporting the well-being of Canadians including the Canada Emergency Wage Subsidy (“**CEWS**”) and the Canada Recovery Benefit (“**CRB**”) program, which ended October 23, 2021. On October 21, 2021, the Government announced targeted COVID-19 measures from October 24, 2021 to May 7, 2022 to support the hardest hit businesses and individuals still facing pandemic-related challenges.

In addition, on October 27, 2021, the Bank of Canada announced it held the overnight rate at one quarter percent and is ending its quantitative easing program, which had been purchasing \$2 billion Government of Canada Bonds per week, to purchase Government of

Canada Bonds to solely to replace maturing bonds noting that global recovery from the COVID-19 pandemic was progressing and while bond yields had risen recently, financial condition remain accommodative and continue to support economic activity.

### **Mortgage payment deferrals**

The Company, as well as Canada's other mortgage insurers, have provided eligible homeowners with opportunities to mitigate temporary financial hardship due to COVID-19. Consistent with lenders' policies for uninsured mortgages, the Company, as well as Canada's other mortgage insurers, communicated that lenders were permitted to defer up to six monthly mortgage payments for borrowers impacted by COVID-19 beginning in March 2020. The goal of this program was to give borrowers affected by COVID-19 the opportunity to return to work so that they could avoid defaulting on their mortgages during such period of interrupted income. Mortgages subject to payment deferrals were treated as being in good standing by lenders during the deferral period.

The Company believes that mortgage payment deferrals were an effective loss mitigation strategy in the COVID-19 environment because the deferrals helped borrowers bridge income interruptions. Due to expectation that a subset of insured mortgages would end up in default and be reported by lenders as delinquent after the deferral period ended, the Company and its lender customers increased loss mitigation activities to address the increase in reported delinquencies that were expected subsequent to the end of the deferral period. A number of borrowers that have taken advantage of the Company's Homeowner's Assistance Program to modify the terms of their insured mortgages in order to provide some form of payment relief. The mortgage deferral program ended on March 31, 2021 and the vast majority of borrowers with payment deferrals have returned to making regular scheduled mortgage payments.

To reflect the impact of the COVID-19 pandemic and mortgage deferrals in the Company's financial results, the Company included a provision in its Incurred But Not Reported ("IBNR") reserve from the second quarter of 2020 through the second quarter of 2021, for its estimate of those borrowers that otherwise would have become delinquent in the reporting period if the mortgage payment deferrals had not taken place. The number of new reported delinquencies has generally stabilized since the mortgage deferral program ended primarily due to the majority of borrowers returning to making regular scheduled mortgage payments, strong home price appreciation experienced in most markets across the country and the strong job recovery. Accordingly, during the third quarter of 2021, the Company fully transitioned to estimating its IBNR reserve using its traditional pre-COVID-19 IBNR methodology. The IBNR reserve as at September 30, 2021 is \$18 million. Losses on claims in the third quarter of 2021 were in a recovery position of \$32 million inclusive of favourable development primarily in relation to the IBNR reserve at the end of the second quarter of 2021.

### **IFRS 17 tax consultation**

On May 28, 2021, the federal Department of Finance launched consultations on tax implications of IFRS 17 Insurance Contracts ("IFRS 17"). The Department of Finance's proposal could result in the payment of income taxes on future estimated insurance income prior to its recognition as revenue under IFRS 17. The Company participated in industry discussions on the taxation of mortgage insurance under IFRS 17 and has submitted comments to the Department of Finance in advance of the July 30, 2021 deadline for comments.

## OSFI regulatory changes

OSFI announced several regulatory actions in 2020 and thus far in 2021 aimed at supporting Canada's financial institutions. Following a temporary suspension, OSFI has also restarted consultation and policy development. Key OSFI regulatory actions in 2020 and 2021 include:

- On June 21, 2021 OSFI issued a revised draft MICAT 2023 guideline for public consultation seeking input by September 30, 2021. Key revisions to the MICAT 2023 guideline aim to:
  - Adapt the MICAT for IFRS 17 introducing concepts and measurements for insurance liabilities that are consistent with IFRS 17. For example, the new guideline uses "liabilities for incurred claims" and "liabilities for remaining coverage" instead of "unpaid claims" and "unearned premiums liabilities", respectively.
  - Introduce a capital requirement on the loss components of the liability for remaining coverage under IFRS 17 so that the MICAT ratios better reflect the changes in the level of insurance risk during the period when mortgage insurers are under stress.
  - Specify credit risk requirements in a manner consistent with IFRS 9 Financial Instruments ("IFRS 9").
- On June 1, 2021, amendments to the B-20 guideline related to the minimum qualifying rating for uninsured mortgages went into effect and the federal government aligned the minimum qualifying rate for insured mortgages with that for uninsured mortgages. The minimum qualifying rate is intended to ensure borrowers will be able to make mortgage payments in the event that there is an increase in mortgage rates or loss of income. The new qualifying rate is the higher of the mortgage contract rate plus 2% or 5.25% which will be reviewed at least annually, in December of each year, to ensure that it remains appropriate for the inherent risks. The new rate is approximately 50 basis point higher than the previous minimum qualifying rate.
- On April 6, 2021, OSFI announced the covered bond limits would revert to 5.5% of total assets, after having been temporarily increased to 10% in 2020 to support Canada's financial institutions in response to the initial wave of COVID-19. OSFI noted that financial institutions' liquidity and access to funding has stabilized since measures were put in place.
- On March 11, 2021, OSFI launched a consultation on its latest and final round of Basel III reforms to its capital, leverage and related disclosure guideline for banks. Included in this consultation is a proposed update to the capital treatment of privately insured mortgages that are partially guarantee by the government under PRMHIA. OSFI plans to release its final guidance in late 2021. At this point the Company is unable to determine the effect that this potential change may have on bank's capital for privately insured mortgages or the mortgage insurance market.
- OSFI had previously communicated its expectation for all federally regulated financial institutions that dividend increases and share buybacks should be suspended until further notice. On December 14, 2020, OSFI issued a letter to the federally regulated entities outlining the criteria for exceptional circumstances where a non-recurring payment of special or irregular dividends may be acceptable. However, OSFI's expectation is that institutions will not increase regular dividends, undertake common share buybacks or raise executive compensation. OSFI reconfirmed its commitment that any regulatory or supervisory adjustments made in response to the pandemic would be credible, consistent, necessary and fit-for-purpose.
- On December 8, 2020 OSFI communicated that the Domestic Stability Buffer for banks will remain at 1.00% of total risk-weighted assets.

The Company does not know the full implications of the regulatory changes on the housing market, or on the business of the Company, and if further actions will be forthcoming from OSFI.

## Third quarter review

Table 2: Results of operations

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
<b>Premiums written</b>	\$ 372	\$ 297	\$ 74	25 %	\$ 975	\$ 638	\$ 336	53 %
Premiums earned	\$ 206	\$ 173	\$ 33	19 %	\$ 590	\$ 516	\$ 74	14 %
Losses on claims and expenses:								
Net (recoveries) losses on claims	(32)	23	(55)	(239)%	(43)	94	(137)	(145)%
Expenses	38	33	5	17 %	112	102	10	10 %
<b>Total losses on claims and expenses</b>	<b>6</b>	<b>56</b>	<b>(50)</b>	<b>(90)%</b>	<b>70</b>	<b>196</b>	<b>(126)</b>	<b>(64)%</b>
Net underwriting income	200	117	83	71 %	520	320	200	63 %
Investment income:								
Interest and dividend income, net of investment expenses <sup>1</sup>	44	44	-	0 %	130	134	(4)	(3)%
Realized income from the interest rate hedging program	3	4	(1)	(20)%	9	15	(6)	(41)%
Net (losses) gains from investments, derivatives and foreign exchange <sup>2</sup>	(2)	7	(9)	NM	(16)	(27)	11	(39)%
Total investment income	45	55	(10)	(19)%	123	122	1	1 %
Interest expense	11	6	5	85 %	28	19	8	44 %
Fee on early redemption of long-term debt	-	-	-	NM	-	2	(2)	NM
Income before income taxes	234	166	68	41 %	616	422	194	46 %
Provision for income taxes	60	42	18	42 %	156	105	51	49 %
<b>Net income</b>	<b>\$ 174</b>	<b>\$ 124</b>	<b>\$ 50</b>	<b>40 %</b>	<b>\$ 460</b>	<b>\$ 317</b>	<b>\$ 143</b>	<b>45 %</b>
Adjustment to net income, net of taxes:								
Fee on early redemption of long-term debt	-	-	-	-	-	1	(1)	NM
Net losses (gains) from investments, derivatives and foreign exchange <sup>2</sup>	2	(5)	7	(135)%	12	20	(8)	(39)%
<b>Net operating income<sup>1</sup></b>	<b>\$ 176</b>	<b>\$ 119</b>	<b>\$ 57</b>	<b>48 %</b>	<b>\$ 472</b>	<b>\$ 338</b>	<b>\$ 134</b>	<b>40 %</b>
Effective tax rate	25.6 %	25.3 %		0.3 pts	25.3 %	24.9 %		0.4 pts
<b>Selected non-IFRS financial measures<sup>1</sup></b>								
Loss ratio	(16)%	13 %		(29) pts	(7)%	18 %		(25) pts
Expense ratio	18 %	19 %		- pts	19 %	20 %		(1) pts
Combined ratio	3 %	32 %		(29) pts	12 %	38 %		(26) pts
Investment yield	2.7 %	3.0 %		(0.3) pts	2.7 %	3.1 %		(0.4) pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.

<sup>1</sup>These financial measures are not calculated based on IFRS. See the **Non-IFRS financial measures** section at the end of this MD&A for additional information. <sup>2</sup>Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

**Table 3: Premiums written and premiums earned**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
<b>Premiums written</b>								
Transactional	364	291	73	25 %	955	568	387	68 %
Portfolio	7	6	1	17 %	20	70	(50)	(72)%
<b>Total</b>	<b>\$ 372</b>	<b>\$ 297</b>	<b>\$ 74</b>	<b>25 %</b>	<b>\$ 975</b>	<b>\$ 638</b>	<b>\$ 336</b>	<b>53 %</b>
<b>Average premium rate</b> <i>(in basis points)</i>								
Transactional	351	351	-	- %	351	349	1	- %
Portfolio	40	37	3	8 %	36	44	(8)	(18)%
<b>Total</b>	<b>306</b>	<b>300</b>	<b>6</b>	<b>2 %</b>	<b>298</b>	<b>198</b>	<b>100</b>	<b>50 %</b>
<b>Premiums earned</b>	<b>\$ 206</b>	<b>\$ 173</b>	<b>\$ 33</b>	<b>19 %</b>	<b>\$ 590</b>	<b>\$ 516</b>	<b>\$ 74</b>	<b>14 %</b>

Note: Amounts may not total due to rounding. NM means Not Meaningful.

### Current quarter

Premiums written from transactional insurance were \$364 million in the third quarter of 2021, an increase of \$73 million, or 25%, as compared to the same quarter in the prior year. The increase was primarily related to an increase in transactional new insurance written arising from a larger mortgage originations market and a significant increase in the Company's market share. The average premium rate of 351 basis points in the third quarter of 2021 was consistent with the same quarter in the prior year.

Premiums written from portfolio insurance were \$7 million in the third quarter of 2021, an increase of \$1 million, or 17% as compared to the same quarter in the prior year. The increase was primarily related to the modestly higher demand for portfolio insurance.

Premiums earned of \$206 million in the third quarter of 2021 increased by \$33 million, or 19%, as compared to the same quarter in the prior year, reflecting relatively higher levels of total premiums written in 2021, 2020 and 2019 as compared to the preceding years.

### Year-to-date

Premiums written from transactional insurance were \$955 million in the nine months ended September 30, 2021, an increase of \$387 million, or 68%, as compared to the prior year's period. The increase was primarily related to an increase in transactional new insurance written arising from a larger mortgage originations market and a significant increase in the Company's market share. The average premium rate of 351 basis points in the nine months ended September 30, 2021 was consistent with the prior year's period.

Premiums written from portfolio insurance were \$20 million in the nine months ended September 30, 2021, a decrease of \$50 million as compared to the prior year's period. The decrease was primarily related to the higher demand for portfolio insurance in the prior year due to a temporary relaxation in the portfolio insurance eligibility criteria by the Minister of Finance in 2020 as a result of COVID-19, and an 8-basis point lower average premium rate primarily as a result of a modest improvement in credit score mix in portfolio insurance written the current period.

Premiums earned of \$590 million in the nine months ended September 30, 2021 increased by \$74 million, or 14%, as compared to prior year's period, reflecting relatively higher levels of total premiums written in 2021, 2020 and 2019 as compared to the preceding years.

**Table 4: Losses on claims**

	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
New reported delinquencies	496	756	(260)	(34)%	2,007	2,552	(545)	(21)%
Cures	450	764	(314)	(41)%	1,616	1,785	(169)	(9)%
New reported delinquencies, net of cures	46	(8)	54	NM	391	767	(376)	(49)%
<b>Average reserve per delinquency</b> (in thousands of dollars)	\$ 71	\$ 101	\$ (31)	(30)%	\$ 71	\$ 101	\$ (31)	(30)%
<b>Net (recoveries) losses on claims</b> (in millions of dollars)	\$ (32)	\$ 23	\$ (55)	(239)%	\$ (43)	\$ 94	\$ (137)	(145)%
<b>Loss ratio</b>	(16)%	13 %		(29) pts	(7)%	18 %		(25) pts

Note: Amounts may not total due to rounding.

### Current quarter

Losses on claims were in a recovery position of \$(32) million in the third quarter of 2021, a decrease of \$55 million as compared to the same quarter in the prior year. The decrease was primarily due to favourable development in the quarter related to the change in the IBNR reserve and reported delinquencies from the impact of the strong housing market. The loss ratio was negative 16% for the third quarter of 2021 as compared to 13% in the same quarter in the prior year, 29 percentage points lower primarily due to the lower losses on claims.

### Year-to-date

Losses on claims were in a recovery position of \$(43) million in the nine months ended September 30, 2021, a decrease of \$137 million, or 145%, as compared to the prior year's period. The decrease was primarily due to year-to-date favourable development related to the change in the IBNR reserve and reported delinquencies from the impact of the strong housing market. The loss ratio was negative 7% for the nine months ended September 30, 2021 as compared to 18% in prior year's period, 25 percentage points lower primarily due to the lower losses on claims.

See **Mortgage payment deferrals** section in the **Recent business and regulatory developments** section for further details.

**Table 5: Expenses**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
<b>Expenses</b>								
Premium taxes and underwriting fees	\$ 25	\$ 22	\$ 3	14 %	\$ 71	\$ 47	\$ 24	50 %
Employee compensation	16	12	3	28 %	45	38	7	19 %
Other	8	8	(1)	(9)%	25	26	-	-
Expenses before net change in deferred policy acquisition costs	49	43	6	14 %	141	111	30	27 %
Deferral of policy acquisition costs	(30)	(27)	(3)	(10)%	(85)	(59)	(26)	(43)%
Amortization of deferred policy acquisition costs	19	17	2	14 %	56	51	6	11 %
<b>Total Expenses</b>	<b>\$ 38</b>	<b>\$ 33</b>	<b>\$ 5</b>	<b>17 %</b>	<b>\$ 112</b>	<b>\$ 102</b>	<b>\$ 10</b>	<b>10 %</b>
<b>Expense ratio</b>	<b>18 %</b>	<b>19 %</b>		<b>- pts</b>	<b>19 %</b>	<b>20 %</b>		<b>(1) pts</b>

Note: Amounts may not total due to rounding.

### Current quarter

Total expenses of \$38 million increased by \$5 million and the expense ratio, as a percentage of premiums earned, of 18% in the third quarter of 2021 was relatively unchanged as compared to the same quarter in the prior year and within the Company's expected operating range of 18% to 20%. Expenses before the net change in deferred policy acquisition costs increased by \$6 million, or 14%, to \$49 million in the third quarter of 2021 as compared to the same quarter in the prior year. The increase was primarily due to a \$3 million increase in premium taxes and underwriting fees related to the higher level of premiums written and a \$3 million increase in employee compensation including higher share-based compensation. Share-based compensation was approximately \$4 million in the third quarter of 2021 as compared to less than \$1 million in the third quarter of 2020.

Deferral of policy acquisition costs increased by approximately \$3 million, and the amortization of previously deferred policy acquisition costs increased by \$2 million as compared to the same quarter in the prior year.

### Year-to-date

Total expenses of \$112 million increased by \$10 million and the expense ratio, as a percentage of premiums earned, of 19% in the nine months ended September 30, 2021 was one percentage point lower as compared to the prior year's period and within the Company's expected operating range of 18% to 20%. Expenses before the net change in deferred policy acquisition costs increased by \$30 million, or 27%, to \$141 million in the nine months ended September 30, 2021 as compared to the prior year's period. The increase was primarily due to a \$24 million increase in premium taxes and underwriting fees related to the higher level of premiums written and a \$7 million increase in employee compensation including higher share-based compensation expense and restructuring expenses.

Deferral of policy acquisition costs increased by approximately \$26 million, and the amortization of previously deferred policy acquisition costs increased by \$6 million as compared to the prior year's period.

**Table 6: Investment income**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
Interest and dividend income, net of investment expenses <sup>1</sup>	\$ 44	\$ 44	\$ -	-	\$ 130	\$ 134	\$ (4)	(3)%
Realized income from the interest rate hedging program	3	4	(1)	(20)%	9	15	(6)	(41)%
Operating investment income <sup>1</sup>	47	48	(1)	(2)%	139	149	(10)	(7)%
Net realized gains (losses) on sale of investments	1	9	(8)	(84)%	(2)	16	(18)	NM
Net losses from derivatives and foreign exchange <sup>2</sup>	(4)	(2)	(2)	74 %	(15)	(43)	28	(66)%
<b>Total investment income</b>	<b>\$ 45</b>	<b>\$ 55</b>	<b>\$ (10)</b>	<b>(19)%</b>	<b>\$ 123</b>	<b>\$ 122</b>	<b>\$ 1</b>	<b>1 %</b>
<b>Invested assets, fair value average</b>	<b>\$ 7,380</b>	<b>\$ 6,592</b>	<b>\$ 789</b>	<b>12 %</b>	<b>\$ 7,327</b>	<b>\$ 6,432</b>	<b>\$ 894</b>	<b>14 %</b>
<b>Invested assets, book value average</b>	<b>7,203</b>	<b>6,458</b>	<b>745</b>	<b>12 %</b>	<b>7,146</b>	<b>6,390</b>	<b>757</b>	<b>12 %</b>
<b>Investment yield, average</b>	<b>2.7 %</b>	<b>3.0 %</b>		<b>(0.3) pts</b>	<b>2.7 %</b>	<b>3.1 %</b>		<b>(0.4) pts</b>

Note: Amounts may not total due to rounding. NM means Not Meaningful.

<sup>1</sup> This financial measure is not calculated based on IFRS. See the **Non-IFRS financial measures** section at the end of this MD&A for additional information. <sup>2</sup> Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

### Current quarter

Operating investment income of \$47 million was \$1 million, or 2%, lower in the third quarter of 2021 as compared to the same quarter in the prior year, primarily due to lower overall interest rates partially offset by an increase in invested assets. The average fair value of invested assets increased by \$789 million, or 12%, over the period, primarily as a result of strong cashflows from operating activities.

The investment yield for the third quarter of 2021 was 2.7%, approximately 30 basis points lower as compared to the same quarter in the prior year. The decrease in investment yield was primarily the result of lower reinvestment rates.

The Company recorded \$1 million of net realized gains on sale of investments in the third quarter of 2021 as compared to \$9 million realized gains in the same quarter in the prior year.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, was \$4 million in the third quarter of 2021 primarily due to a net loss of \$3 million in the net market value change of the Company's interest rate swaps and interest rate floors used to hedge interest rate risk resulting from the relatively lower interest rate environment, and a net loss on foreign exchange of \$1 million.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were \$2 million in the third quarter of 2020 primarily due to a net loss of \$5 million in the net market value change of the Company's interest rate swaps and interest rate floors used to hedge interest rate risk resulting from the relatively lower interest rate environment, partially offset by a net gain on foreign exchange of \$3 million.

### Year-to-date

Operating investment income of \$139 million was \$10 million, or 7%, lower in the nine months ended September 30, 2021 as compared to the prior year's period primarily due to an overall lower interest rate environment, partially offset by an increase in invested assets. The average fair value of invested assets increased by \$894 million, or 14%, over the period, primarily as a result of strong cashflows from operating activities.

The investment yield for the nine months ended September 30, 2021 was 2.7%, approximately 40 basis points lower as compared to the prior year's period. The decrease in investment yield was a result of lower reinvestment rates and higher average cash balance due to lack of investment opportunities from a lower interest rate environment.



The Company recorded \$2 million of net realized losses on sale of investments in the nine months ended September 30, 2021 primarily driven by losses on the sale of preferred shares as compared to \$16 million realized gains on the sale of bonds in the prior year's period.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were \$15 million in the nine months ended September 30, 2021 primarily due to a net loss of \$9 million in the net market value change of the Company's interest rate swaps and interest rate floors used to hedge interest rate risk resulting from the relatively lower interest rate environment and a net loss on foreign exchange of \$6 million.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were \$43 million in the nine months ended September 30, 2020 primarily due to a net loss of \$41 million in the net market value change of the Company's interest rate swaps and interest rate floors used to hedge interest rate risk resulting from the relatively lower interest rate environment, and a net loss on foreign exchange of \$2 million.

**Table 7: Net Income**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,				Nine months ended September 30,			
	2021	2020	Change		2021	2020	Change	
Income before income taxes	\$ 234	\$ 166	\$ 68	41 %	\$ 616	\$ 422	\$ 194	46 %
Provision for income taxes	60	42	18	42 %	156	105	51	49 %
<b>Net income</b>	<b>\$ 174</b>	<b>\$ 124</b>	<b>\$ 50</b>	<b>40 %</b>	<b>\$ 460</b>	<b>\$ 317</b>	<b>\$ 143</b>	<b>45 %</b>
Effective tax rate	<b>25.6 %</b>	25.3 %	0.3 pts		<b>25.3 %</b>	24.9 %	0.4 pts	

Note: Amounts may not total due to rounding.

#### Current quarter

Income before income taxes increased by \$68 million, or 41%, to \$234 million and net income increased by \$50 million, or 40%, to \$174 million in the third quarter of 2021 as compared to the same quarter in the prior year, primarily as a result of lower losses on claims and higher premiums earned, partially offset by higher expenses, higher interest expense on the Company's long-term debt and lower investment income. The effective tax rate was 25.6% for the third quarter of 2021, consistent with the same quarter in the prior year.

#### Year-to-date

Income before income taxes increased by \$194 million, or 46%, to \$616 million and net income increased by \$143 million, or 45%, to \$460 million in the nine months ended September 30, 2021 as compared to the prior year's period, primarily as a result of lower losses on claims, higher premiums earned, and higher investment income partially offset by higher expenses and higher interest expense on the Company's long-term debt. The effective tax rate was 25.3% for the nine months ended September 30, 2021, approximately 40 basis points higher as compared to the prior year's period, primarily due to higher non-deductible expenses.

**Table 8: Summary of financial position highlights**

<i>(in millions of dollars, unless otherwise specified)</i>	As at September 30,		As at December 31,		Change		
	2021		2020				
Total investments	\$	7,499	\$	6,980	\$	519	7 %
Derivative financial instruments		57		115		(58)	(50)%
Subrogation recoverable		28		34		(6)	(18)%
Other assets		393		341		52	15 %
<b>Total assets</b>		<b>7,978</b>		<b>7,471</b>		<b>507</b>	<b>7 %</b>
Unearned premiums reserve		2,791		2,406		385	16 %
Loss reserves		95		186		(90)	(49)%
Debt outstanding		1,230		634		595	94 %
Derivative financial instruments		82		94		(13)	(13)%
Other liabilities		283		277		6	2 %
<b>Total liabilities</b>		<b>4,481</b>		<b>3,597</b>		<b>884</b>	<b>25 %</b>
Shareholders' equity excluding accumulated other comprehensive income ("AOCI")		3,370		3,715		(345)	(9)%
AOCI		127		159		(32)	(20)%
<b>Shareholders' equity</b>		<b>3,497</b>		<b>3,874</b>		<b>(377)</b>	<b>(10)%</b>
<b>Total liabilities and shareholders' equity</b>	\$	<b>7,978</b>	\$	<b>7,471</b>	\$	<b>507</b>	<b>7 %</b>
<b>Dividends paid per share during the year:<sup>1</sup></b>							
Common share	\$	0.54	\$	6.80			
Class A common share	\$	155.00	\$	-			
Series 1 preferred share	\$	0.83	\$	-			

<sup>1</sup> Dividends paid per common share for the nine months ended September 30, 2021 include a quarterly dividend of \$0.54 per common share in March 2021. Dividends per Class A common shares include a dividend of \$5 per Class A common share in April 2021, a quarterly dividend of \$50 per Class A common share in May 2021, a special dividend of \$50 per Class A common share in June 2021 and a quarterly dividend of \$50 per Class A common share in August 2021. The number of common shares outstanding as at March 31, 2021 was approximately 86 million and the number of Class A common shares outstanding as at September 30, 2021 was 1 million. As part of the Share Exchange on April 1, 2021, the Company exchanged its 86 million common shares for 1 million Class A common shares and a demand note. Dividends paid per Series 1 Preferred Share for the nine months ended September 30, 2021 include a dividend of \$0.49 per Series 1 Preferred Share in June 2021 and a dividend of \$0.34 per Series 1 Preferred Share in September 2021. In 2020 special dividends were paid prior to OSFI's communication of their expectation that dividend increases and share buybacks be suspended. Dividends paid per common share in 2020 include quarterly dividend of \$0.54 per common share in March 2020, May 2020, September 2020 and November 2020, a special dividend of \$2.32 per common share in February 2020 and a special dividend of \$2.32 per common share in March 2020.

## Summary of quarterly results

**Table 9: Summary of quarterly results**

<i>(in millions of dollars, unless otherwise specified)</i>	3Q'21	2Q'21	1Q'21	4Q'20	3Q'20	2Q'20	1Q'20	4Q'19
<b>Premiums written</b>	\$ 372	\$ 380	\$ 223	\$ 354	\$ 297	\$ 227	\$ 114	\$ 183
Premiums earned	206	196	188	181	173	172	171	171
Net (recoveries) losses on claims	(32)	(17)	6	18	23	46	25	34
Expenses	38	39	35	38	33	32	37	35
Net underwriting income	200	173	147	125	117	94	109	102
Interest and dividend income, net of investment expenses <sup>1</sup>	44	44	43	43	44	43	47	49
Realized income from the interest rate hedging program	3	3	3	4	4	5	7	7
Net (losses) gains from investments, derivatives and foreign exchange <sup>2</sup>	(2)	(6)	(8)	1	7	(5)	(29)	(6)
Total investment income	45	41	38	48	55	43	25	50
Interest expense	11	11	7	6	6	6	8	6
Fee on early redemption of long-term debt	-	-	-	-	-	-	2	-
<b>Net income</b>	\$ 174	\$ 152	\$ 133	\$ 124	\$ 124	\$ 98	\$ 95	\$ 108
Adjustment to net income, net of taxes:								
Fee on early redemption of long-term debt	-	-	-	-	-	-	1	-
Net losses (gains) from investments, derivatives and foreign exchange <sup>2</sup>	2	4	6	(1)	(5)	4	21	4
<b>Net operating income<sup>1</sup></b>	\$ 176	\$ 156	\$ 139	\$ 124	\$ 119	\$ 101	\$ 117	\$ 112
<b>Selected non-IFRS financial measures<sup>1</sup></b>								
Loss ratio	(16)%	(9)%	3%	10%	13%	27%	14%	20%
Expense ratio	18%	20%	19%	21%	19%	19%	22%	20%
Combined ratio	3%	11%	22%	31%	32%	45%	36%	41%

Note: Amounts may not total due to rounding.

<sup>1</sup>These financial measures are not calculated based on IFRS. See the **Non-IFRS financial measures** section at the end of this MD&A for additional information. <sup>2</sup>Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

The Company's key financial measures for each of the last eight quarters are summarized in the above table. This table illustrates the Company's net income, loss ratio, expense ratio and combined ratio. The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, interest and dividend income, net of investment expenses, and operating expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated new insurance written, which typically peak in the spring and summer months, in addition to changes in market share and premium rates. Portfolio mortgage insurance volume and mix varies from quarter to quarter based on lender demand. The COVID-19 pandemic has impacted the typical seasonal patterns, most notably on transactional premiums written as there was a shift in the traditional spring market from the second quarter of 2020 to the second half of 2020 and the housing market has remained strong in 2021. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions and characteristics of the insurance in-force portfolio, such as loan size, age, seasonality and geographic mix of delinquencies. Typically, losses on claims increase during the winter months primarily due to an increase in new delinquencies and decrease during the spring and summer months. The loss ratios for the second and third quarters of 2021 were negative 9% and negative 16%, respectively, due to favourable development on existing delinquencies and the change in the IBNR reserve related to the strong housing market.

## Financial condition

### Financial instruments

As at September 30, 2021, the Company had total cash and cash equivalents and invested assets of approximately \$7.5 billion in its investment portfolio. All of the Company's invested assets are classified as available-for-sale ("AFS") with the exception of cash and cash equivalents and accrued investment income and other receivables which are classified as loans and receivables, and derivative financial instruments which are classified as Fair Value through Profit or Loss ("FVTPL"). Fair value measurements for AFS securities are based on quoted market prices for identical assets when available. In the event an active market does not exist, estimated fair values are obtained primarily from industry-standard pricing sources using market observable information and through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

**Table 10: Invested assets by asset class for the portfolio**

Asset Class	As at September 30, 2021			As at December 31, 2020		
	Fair value	%	Unrealized gains (losses)	Fair value	%	Unrealized gains (losses)
<i>(in millions of dollars, unless otherwise specified)</i>						
<b>Collateralized loan obligations</b>	\$ 852	11	\$ -	\$ 727	10	\$ (1)
Corporate bonds and debentures:						
Financial	760	10	20	816	12	38
Energy	314	4	9	247	4	17
Infrastructure	125	2	4	128	2	9
Utilities	554	7	20	474	7	34
All other sectors	757	10	21	612	9	37
<b>Total corporate bonds and debentures</b>	<b>2,511</b>	<b>33</b>	<b>74</b>	<b>2,277</b>	<b>34</b>	<b>135</b>
Short-term investments:						
Canadian federal government treasury bills	241	3	-	72	1	-
<b>Total short-term investments</b>	<b>241</b>	<b>3</b>	<b>-</b>	<b>72</b>	<b>1</b>	<b>-</b>
Government bonds and debentures:						
Canadian federal government	1,931	26	43	2,015	29	105
Canadian provincial and municipal governments	721	10	29	793	11	55
<b>Total government bonds and debentures</b>	<b>2,651</b>	<b>35</b>	<b>72</b>	<b>2,808</b>	<b>40</b>	<b>160</b>
Preferred shares:						
Financial	439	6	19	376	5	(33)
Energy	87	1	4	85	1	(25)
Utilities	124	2	3	83	1	(15)
All other sectors	20	-	(1)	15	-	(5)
<b>Total preferred shares</b>	<b>671</b>	<b>9</b>	<b>25</b>	<b>559</b>	<b>7</b>	<b>(78)</b>
<b>Total invested assets</b>	<b>\$ 6,926</b>	<b>92</b>	<b>\$ 171</b>	<b>\$ 6,443</b>	<b>92</b>	<b>\$ 216</b>
Cash and cash equivalents <sup>1</sup>	573	8	-	537	8	-
<b>Total investments</b>	<b>\$ 7,499</b>	<b>100</b>	<b>\$ 171</b>	<b>\$ 6,980</b>	<b>100</b>	<b>\$ 216</b>
Accrued investment income and other receivables	64		-	55		-
Derivative financial instruments	(24)		(24)	21		21
<b>Total invested assets, derivatives, accrued investment income and other receivables</b>	<b>\$ 7,539</b>		<b>\$ 147</b>	<b>\$ 7,056</b>		<b>\$ 237</b>

Note: Amounts may not total due to rounding.

<sup>1</sup> Cash and cash equivalents include \$7 million of collateral posted to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral in accounts payable and accrued liabilities (2020 - \$8 million).

Unrealized gains on total investments were \$171 million as at September 30, 2021, a decrease of \$45 million, as compared to unrealized gains of \$216 million as at December 31, 2020. The decrease in unrealized gains is primarily driven by bonds and debentures with higher market interest rates for durations of 3 to 10 years, partially offset by an increase in fair value of preferred shares.

Unrealized gains from the preferred shares were \$25 million as at September 30, 2021, an improvement of \$103 million as compared to unrealized losses of \$78 million as at December 31, 2020. The decrease in unrealized losses is primarily due to the recovery of the equity

markets, higher market interest rates for durations of 3 to 10 years, higher investor demand and tight supply in the preferred share market due to preferred share redemptions by Canadian financial institution issuers.

The Company has economically hedged a portion of its foreign exchange and interest rate risk and the net market value of these derivatives is a net liability value of \$24 million as at September 30, 2021 as compared to a net asset value of \$21 million as at December 31, 2020.

The Company's average investment yield for the third quarter of 2021 was 2.7%, which included the favourable impact of non-taxable dividend income from its preferred shares.

The Company assigns credit ratings based on the asset risk guideline as outlined in OSFI's MICAT guideline. Based on the guideline, the Company assigns ratings from DBRS Limited ("DBRS") when available. The majority of the assets in the Company's current investment portfolio have a DBRS rating. In the absence of a DBRS rating, the Company assigns Standard & Poor's ("S&P") or Moody's ratings.

**Table 11: Invested assets by credit rating for the portfolio**

Credit Rating	As at September 30, 2021				As at December 31, 2020			
	Fair value	%	Unrealized gains (losses)		Fair value	%	Unrealized gains (losses)	
<i>(in millions of dollars, unless otherwise specified)</i>								
Cash and cash equivalents	\$ 573	8	\$ -		\$ 537	8	\$ -	
AAA	2,441	36	43		2,451	38	105	
AA	1,467	21	31		1,349	21	63	
A	1,334	20	47		1,404	22	85	
BBB	699	10	22		648	10	40	
BB and B	314	5	3		32	-	1	
<b>Total investments (excluding preferred shares)</b>	<b>\$ 6,828</b>	<b>100</b>	<b>\$ 146</b>		<b>\$ 6,421</b>	<b>100</b>	<b>\$ 294</b>	
Preferred shares								
P1	23	3	1		-	-	-	
P2	532	79	20		427	76	(41)	
P3	116	17	4		132	24	(37)	
<b>Total preferred shares</b>	<b>671</b>	<b>100</b>	<b>25</b>		<b>559</b>	<b>100</b>	<b>(78)</b>	
<b>Total investments</b>	<b>\$ 7,499</b>		<b>\$ 171</b>		<b>\$ 6,980</b>		<b>\$ 216</b>	

Note: Amounts may not total due to rounding.

### Investment portfolio management

The Company manages its portfolio assets to meet liquidity, credit quality, diversification, and yield objectives by investing primarily in fixed income securities, including federal and provincial government bonds, corporate bonds and preferred shares. The Company also holds short-term investments. In all cases, investments are required to comply with restrictions imposed by law and insurance regulatory authorities as well as the Company's own investment policy, which has been approved by the Board.

To diversify management styles and to broaden credit expertise, the Company has split these assets primarily among six external investment managers, including Oaktree Capital Management L.P. and Brookfield Public Securities Group LLC, subsidiaries of Brookfield. The Company works with these managers to optimize the performance of the portfolios within the parameters of the stated investment objectives outlined in its investment policy. The policy takes into account the current and expected condition of capital markets, the historical return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, the regulatory capital required to support the various asset types, security ratings and other material variables likely to affect the overall performance of the Company's investment portfolio. Compliance with the investment policy is monitored by the Company and reviewed at least quarterly with the Company's management-level Investment Committee and the Risk and Investment Committee of the Board.

### **Collateralized loan obligations**

The Company held approximately 11% of the investment portfolio in collateralized loan obligations as of September 30, 2021, 1% higher as compared to the level as at December 31, 2020. These securities are floating rate collateralized loan obligations denominated in U.S. dollars, of which 57% are rated AAA, 38% are rated AA and 5% are rated A.

### **Corporate bonds and debentures**

As of September 30, 2021, approximately 33% of the investment portfolio was held in corporate bonds and debentures, 1% lower as compared to the level as at December 31, 2020. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers. Financial sector exposure through corporate bonds and debentures represents 10% of the investment portfolio, or approximately 30% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents a significant proportion of the corporate issuances of fixed income securities in the Canadian marketplace. The Company is mindful of correlation risk and looks for opportunities to diversify the portfolio outside of Canada to sectors and issuers that have a lower correlated risk to Canada. Utilities sector and energy sector exposure through corporate bonds and debentures represent 7% and 4% of the investment portfolio respectively.

Securities rated BBB were \$699 million or 10% of the total bonds and debentures as of September 30, 2021, unchanged as compared to the level as of December 31, 2020. Securities rated BB and B were \$314 million, or 5% of the total bonds and debentures, as of September 30, 2021 as compared to less than 1% as of December 31, 2020. The Company has started to invest in high yield bonds with a minimum B quality rating at the time of purchase with a weighted average quality rating of BB, up to 5% of assets under management.

### **Government bonds and debentures**

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of September 30, 2021, 35% of the investment portfolio was invested in sovereign fixed income securities, consisting of approximately 26% in federal fixed income securities and 10% in provincial and municipal fixed income securities, relatively consistent with December 31, 2020.

Canadian federal government treasury bills held by the Company consist primarily of short-term investments with original maturities greater than 90 days and less than 365 days. The Company held \$241 million in Canadian federal government short-term treasury bills in the investment portfolio as of September 30, 2021, an increase of \$169 million from December 31, 2020.

### **Preferred shares**

As of September 30, 2021, the Company held \$671 million of preferred shares, of which the financial sector represented 65%. The Company believes that preferred shares have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MICAT guidelines. Utilities sector and energy sector exposure through preferred shares represents 2% and 1% of the investment portfolio respectively.

### **Cash and cash equivalents**

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash and cash equivalents based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash and cash equivalents in the investment portfolio were \$573 million, or 8%, as at September 30, 2021. Refer to the **Liquidity** section below for additional information. Cash and liquid investments held outside of the Insurance Subsidiary were \$97 million as at September 30, 2021.

## Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations. The Company has several primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, proceeds from the issuance of debt securities, preferred shares and equity, a Revolving Facility, the 2025 Term Facility and the 2026 Term Facility. The Company has an aggregate outstanding net carrying value of \$1,230 million in debt and \$98 million in preferred shares. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and in future financial years.

**Table 12: Summary of the Company's cash flows**

<i>(in millions of dollars)</i>	Nine months ended September 30,	
	2021	2020
Cash provided by (used in):		
Operating activities	\$ 722	\$ 438
Financing activities	(213)	(347)
Investing activities	(473)	55
Change in cash and cash equivalents	\$ 36	\$ 146
<b>Cash and cash equivalents, beginning of period</b>	<b>537</b>	<b>293</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 573</b>	<b>\$ 438</b>

Note: Amounts may not total due to rounding.

The Company generated \$722 million of cash from operating activities in the nine months ended September 30, 2021 due to higher levels of premiums written and lower losses on claims as compared to \$438 million in the prior year's period.

The Company used \$213 million of cash for financing activities in the nine months ended September 30, 2021, primarily from the repayment of the demand loan of \$700 million in the second quarter of 2021 and the payment of ordinary and special dividends of \$205 million partially offset by net proceeds of the debt issuance, loan proceeds and preferred share issuance \$691 million. In the prior year, the Company used \$347 million of cash, primarily related to the payment of ordinary and special dividends of \$540 million partially offset by debt issuance and loan proceeds, net of debt redemption, of \$192 million.

The Company used \$473 million of cash for investing activities in the nine months ended September 30, 2021 primarily for net purchases of investments, as compared to \$55 million generated from net investment sales and maturities in the prior year's period.

The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of September 30, 2021, the Company held liquid assets of approximately \$1.1 billion, comprised of \$537 million in cash and cash equivalents, and \$586 million in bonds and debentures and short-term investments maturing within one year. Of the approximately \$1.1 billion liquid assets, \$97 million were held outside of the Insurance Subsidiary. As at September 30, 2021, the duration of the fixed income portfolio was 3.4 years.

In addition to cash and cash equivalents, 39%, or \$2,892 million, of the Company's investment portfolio comprises federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders. Potential liquidity risks are discussed in more detail in the **Risk Factors** section of the Company's AIF.

## Derivative financial instruments

Derivative financial instruments are used by the Company for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board.

The Company uses foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds and collateralized loan obligations denominated in U.S. dollars. Foreign currency forwards and cross currency interest rate swaps are contractual obligations to exchange one currency for another at a predetermined future date.

The Company uses fixed-for-floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities. The interest rate swaps are derivative financial instruments in which the Company and its counterparty agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate.

The Company uses interest rate floors to mitigate the downside risk that may arise from existing fixed-for-floating interest rate swaps. The interest rate floors are derivative financial instruments in which the counterparty will compensate the Company when a reference interest rate falls below an agreed upon floor strike rate at a specified date.

The Company previously used equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's common shares in relation to risks associated with share-based compensation expense. The swaps were terminated in the first quarter of 2021.

**Table 13: Fair value and notional amounts of derivatives by terms of maturity**

<i>(in millions of dollars, unless otherwise specified)</i>	Derivative asset	Derivative liability	Net fair value	Notional Amount				Total
				1 year or less	1-3 years	3-5 years	Over 5 years	
<b>September 30, 2021</b>								
<b>Fair value through profit and loss</b>								
Foreign currency forwards	\$ 5	\$ (35)	\$ (30)	\$ 1,358	\$ 81	\$ 110	\$ 172	\$ 1,720
Cross currency interest rate swaps	5	(3)	2	30	62	72	134	298
Interest rate swaps	35	(44)	(9)	2,300	-	4,000	-	6,300
Interest rate floors	11	-	11	2,300	-	-	-	2,300
	56	(82)	(26)	5,988	143	4,181	306	10,618
<b>Elected for hedge accounting</b>								
Interest rate swaps	1	-	1	-	-	76	-	76
<b>Total</b>	<b>\$ 57</b>	<b>\$ (82)</b>	<b>\$ (24)</b>	<b>\$ 5,988</b>	<b>\$ 143</b>	<b>\$ 4,257</b>	<b>\$ 306</b>	<b>\$ 10,694</b>

Note: Amounts may not total due to rounding.



**Table 13: Fair value and notional amounts of derivatives by terms of maturity (continued)**

<i>(in millions of dollars, unless otherwise specified)</i>	Derivative asset	Derivative liability	Net fair value	Notional Amount				Total
				1 year or less	1–3 years	3–5 years	Over 5 years	
<b>December 31, 2020</b>								
<b>Fair value through profit and loss</b>								
Foreign currency forwards	\$ 31	\$ (24)	\$ 6	\$ 854	\$ 92	\$ 89	\$ 103	\$ 1,137
Cross currency interest rate swaps	4	(1)	3	36	67	82	65	249
Equity total return swaps	-	-	-	21	-	-	-	21
Interest rate swaps	43	(68)	(26)	2,000	1,500	4,000	-	7,500
Interest rate floors	38	-	38	1,500	1,500	-	-	3,000
	115	(94)	22	4,410	3,159	4,170	168	11,907
<b>Elected for hedge accounting</b>								
Interest rate swaps	-	-	-	-	-	76	-	76
<b>Total</b>	<b>\$ 115</b>	<b>\$ (94)</b>	<b>\$ 21</b>	<b>\$ 4,410</b>	<b>\$ 3,159</b>	<b>\$ 4,246</b>	<b>\$ 168</b>	<b>\$ 11,983</b>

Note: Amounts may not total due to rounding.

## Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management loss mitigation and transition of services previously provided by Genworth Financial Inc. ("Genworth Financial"). In the nine months ended September 30, 2021, the Company invested approximately \$5 million in such technologies funded primarily from operating cash flows. In 2020, the Company invested approximately \$10 million in underwriting, loss mitigation and risk management technology enhancements and the transition of services previously provided by Genworth Financial. The COVID-19 pandemic has not impacted capital expenditures in the first nine months of 2021 and is not expected to impact capital expenditures in the remainder of 2021.

## Capital management

### Mortgage insurer capital adequacy test

The Insurance Subsidiary is regulated by OSFI and is subject to the MICAT requirements which went into effect January 1, 2019. Under the MICAT, an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of regulatory capital available, as defined for MICAT purposes, to capital required. The Company has established an internal MICAT target ratio of 157% as compared to the OSFI supervisory MICAT target ratio of 150% and the minimum MICAT ratio under PRMHIA of 150%.

As at September 30, 2021, the Insurance Subsidiary's MICAT ratio estimate was approximately 214%, 27 percentage points higher as compared to the MICAT of 187% as at December 31, 2020, 64 percentage points higher as compared to the OSFI Supervisory MICAT target ratio of 150% and 57 percentage points higher as compared to the Company's internal MICAT target ratio of 157%.

Capital above the amount required to meet the Insurance Subsidiary's MICAT operating targets could be used to support organic growth of the business or declaration and payment of dividends or other distributions, and if distributed to Sagen, to pay dividends or other distributions, for acquisitions, for repayment of debt, or for such other uses as permitted by law and approved by the Board.

In response to the COVID-19 pandemic, in the fourth quarter of 2020, OSFI communicated that special or irregular dividends may be paid in exceptional circumstances. Each such request will be reviewed individually and in the context of the institution's profile.

**Table 14: MICAT as at September 30, 2021 and as at December 31, 2020**

<i>(in millions of dollars, unless otherwise specified)</i>	<b>As at September 30, 2021</b>	<b>As at December 31, 2020</b>
Capital available	<b>\$4,599</b>	\$4,317
Capital required at 100% MICAT ratio	<b>\$2,150</b>	\$2,312
MICAT ratio <sup>1</sup>	<b>214 %</b>	187 %

<sup>1</sup> Company estimate at September 30, 2021. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA is 150% and the Company's internal target ratio under the MICAT is 157%.

Capital available increased in the nine months ended September 30, 2021, primarily due to ongoing profitability, net of dividends paid by the Insurance Subsidiary, which was partially offset by the change in the unrealized gain position after tax of the investment portfolio from approximately \$158 million as at December 31, 2020 to approximately \$126 million as at September 30, 2021.

Capital required decreased in the nine months ended September 30, 2021, primarily due to a decrease in capital required for prior books of business, due to the impact of declining outstanding mortgage balances and higher policy lapse rate due to home price appreciation partially offset by new insurance written on transactional insurance and new insurance written on portfolio insurance in the nine months ended September 30, 2021, and a modest increase in interest rate risk from the impact of the ageing of interest rate swaps.

## Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has an aggregate outstanding net carrying value of \$1,230 million in debt, and \$98 million of preferred shares, with a debt-to-capital ratio, including preferred shares, as at September 30, 2021 of 28%. The Company also has access to a Revolving Facility of up to \$300 million. At September 30, 2021 there were no amounts outstanding under the Revolving Facility. See **Credit Facilities** section for further details on the Company's Prime Rate and LIBOR loans.

On March 5, 2021, the Company issued Series 5 debentures due March 5, 2031 for gross proceeds of \$300 million. Net carrying value of the Series 5 debentures is \$298 million after approximately \$2 million of issuance costs. The Series 5 debentures have a coupon rate of 3.261% payable semi-annually on March 5 and September 5 and may be redeemed at the option of the issuer, in whole or in part at any time, prior to December 5, 2030 at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus 0.475% or their par value and thereafter at a redemption price equal to their par value.

On March 23, 2021, the Company issued Series 6 notes due March 24, 2081 for gross proceeds of \$150 million. Net carrying value of the Series 6 notes is \$148 million after issuance costs of approximately \$2 million. The Series 6 notes initially have a coupon of 4.95% per annum payable semi-annually on March 24 and September 24. On March 24, 2031, and on every fifth anniversary thereafter, the coupon rate will reset to a rate per annum equal to the 5-year Government of Canada Yield plus a spread of 3.566% for the period from March 2031 and March 2051 and 4.316% for the period from March 2051 until maturity. The Series 6 notes may be redeemed at the option of the Company on or after March 24, 2026 at a redemption price between 101% to 104% of the principal amount if redeemed prior to March 24, 2030, with the redemption price declining for each year that the Series 6 notes remain outstanding in accordance with the terms of the indenture, and 100% of the principal amount if redeemed on or after March 24, 2030, in each case plus accrued and unpaid interest. The Series 6 notes are subordinated to all indebtedness and obligations of the Company and are subject to automatic conversion into preferred shares of the Company in the event of certain bankruptcy or insolvency events.

**Table 15: Details of the Company's long-term debt, hybrid notes and credit facilities**

	Debentures			Hybrid Notes Series 6	Prime Rate Loan under 2025 Credit Facility	LIBOR Loan under 2026 Credit Facility
	Series 3	Series 4	Series 5			
Timing of maturity	3 – 5 years	More than 5 years	More than 5 years	More than 5 years	3 – 5 years	3 – 5 years
Principal amount outstanding	\$260 million	\$300 million	\$300 million	\$150 million	\$76 million	\$149 million
Net carrying value	\$261 million	\$298 million	\$298 million	\$148 million	\$75 million	\$149 million
Date issued	April 1, 2014	February 20, 2020	March 5, 2021	March 24, 2021	-	-
Date of supplemental issue	May 22, 2019	-	-	-	-	-
Maturity date	April 21, 2024	March 1, 2027	March 5, 2031	March 24, 2081	January 16, 2025	March 31, 2026
Fixed annual rate	4.242%	2.955%	3.261%	4.950%	1.634%	1.382%
Coupon payments due each year on	April 1 October 1	March 1, September 1	March 5, September 5	March 24, September 24	May 11, August 11 November 11, February 11	June 30, September 30, December 31, March 31
<b>Ratings</b>						
S&P <sup>1</sup>	BBB+, Stable	BBB+, Stable	BBB+, Stable	BBB-, Stable	-	-
DBRS <sup>1</sup>	A (High), Stable	A (High), Stable	A (High), Stable	A (Low), Stable	-	-

<sup>1</sup> See **Financial Strength Rating** section of this MD&A for additional information.

The principal debt covenants associated with the Series 3 debentures, Series 4 debentures and Series 5 debentures (collectively, the “**Debentures**”) are summarized as follows:

- A negative pledge under which the Company will not assume or create any security interest (other than permitted encumbrances) unless the debentures are secured equally and ratably with (or prior to) such obligation;
- The Company will not, nor will it permit any of its subsidiaries to, amalgamate, consolidate or merge with or into any other person or liquidate, wind-up or dissolve itself unless (a) the Company or one of its wholly-owned subsidiaries is the continuing or successor company or (b) if the successor company is not a wholly-owned subsidiary, at the time of, and after giving effect to, such transaction, no event of default and no event that, after notice or lapse of time, or both, would become an event of default shall have happened and be continuing under the trust indenture, in each case subject to certain exceptions and limitations set forth in the trust indenture; and
- The Company will not request that the rating agencies withdraw their ratings of the debentures.

As of September 30, 2021, all debt covenants with respect to the Debentures have been met.

In the case of certain events of default under the terms of the Debentures the aggregate unpaid principal amount of such debentures, together with all accrued and unpaid interest thereon and any other amounts owing with respect thereto, shall become immediately due and payable. The events of default that would trigger such an acceleration of payment include if the Company takes certain voluntary insolvency actions, such as instituting proceedings for its winding up, liquidation or dissolution, or consents to the filing of such proceedings against it; or if involuntary insolvency proceedings go uncontested by the Company or are not dismissed within a specified time period, or the final order sought in such proceedings is granted against the Company.

The principal debt covenants associated with the Series 6 notes are summarized as follows:

- Unless the Company has paid all accrued and payable interest on the Series 6 notes, the Company will not (i) declare any dividends on the preferred shares in the capital of the Company and the common shares in the capital of the Company (“**Dividend Restricted Shares**”), other than share dividends or dividends in kind, or pay any interest on any class or series of the Company’s indebtedness outstanding which ranks on a parity with the Series 6 notes as to distributions upon liquidation, dissolution or winding-up (“**Parity Notes**”), (ii) redeem, purchase or otherwise retire any Dividend Restricted Shares or Parity Notes, or (iii) make any payment to holders of any of the Dividend Restricted Shares or any of the Parity Notes in respect of dividends not declared or paid on such Dividend Restricted Shares or interest not paid on such Parity Notes, respectively;
- For so long as the preferred shares issuable upon the automatic conversion of the Series 6 notes are issuable or outstanding, the Company will not create or issue any preferred shares in the capital of the Company which, in the event of insolvency or winding-up of the Company, would rank in right of payment in priority to such preferred shares;
- The Company will not, nor will it permit any of its subsidiaries to, amalgamate, consolidate or merge with or into any other person or liquidate, wind-up or dissolve itself unless (a) the Company or one of its wholly-owned subsidiaries is the continuing or successor company or (b) if the successor company is not a wholly-owned subsidiary, at the time of, and after giving effect to, such transaction, no event of default and no event that, after notice or lapse of time, or both, would become an event of default shall have happened and be continuing under the trust indenture, in each case subject to certain exceptions and limitations set forth in the trust indenture; and
- The Company will not request that the rating agencies withdraw their ratings of the Series 6 notes.

As of September 30, 2021, all debt covenants with respect to the Series 6 notes have been met.

The Series 6 notes, including accrued and unpaid interest, will be converted automatically into preferred shares in the capital of the Company upon the occurrence of certain bankruptcy or insolvency events.

The summary above does not include all details relating to the Debentures or the Series 6 notes. For all details on the terms and conditions of the Debentures and the Series 6 notes, please see the relevant prospectus, prospectus supplement, trust indenture and supplemental trust indenture, copies of which are available with the Company’s filings on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Preferred shares

On February 18, 2021, the Company completed an offering of 4,000,000 Series 1 Preferred Shares, at a price of \$25.00 per share, for aggregate gross proceeds of \$100 million, or \$98 million net of share issuance costs.

<b>Preferred Shares Series 1</b>	
Outstanding number of shares	4,000,000
Principal amount outstanding	\$100 million
Net carrying value	\$98 million
Date issued	February 18, 2021
Option to redeem	April 21, 2024
Dividend yield	5.40%
Dividend per quarter	\$0.3375
Dividend payments, if declared, due each year on	March 31, June 30 September 30, December 31
TSX Symbol	MIC.PR.A
<b>Ratings</b>	
S&P	P-2 (low) Stable
DBRS	Pfd-2 (high) Stable

Each Series 1 Preferred Share entitles the holder thereof to fixed, non-cumulative dividends, if, as and when declared by the Board, with an annual dividend yield of 5.40%. Such dividends, if, declared by the Board, will be paid on the last day of March, June, September and December in each year at a rate equal to \$0.3375 per Series 1 Preferred Share. The Series 1 Preferred Shares commenced trading on February 18, 2021 on the Toronto Stock Exchange under the symbol MIC.PR.A.

On November 3, 2021, the Board declared a dividend of \$0.3375, per Class A Preferred Shares, Series 1, or approximately \$1 million in the aggregate payable on December 31, 2021 to holders of record of the Series 1 Preferred Shares at the close of business on December 15, 2021.

On September 30, 2021, the Company paid a dividend of \$0.3375, per Class A Preferred Shares, Series 1, or approximately \$1 million in the aggregate to holders of record of the Series 1 Preferred Shares at the close of business on September 15, 2021.

On June 30, 2021, the Company paid a dividend of \$0.48822, per Class A Preferred Shares, Series 1, or approximately \$2 million in the aggregate, to holders of record of the Series 1 Preferred Shares at the close of business on June 15, 2021.

On or after March 31, 2026, the Company may redeem, in whole or in part, at its option, the Series 1 Preferred Shares, subject to certain conditions.

In order to maintain in force an exemption order from the public voting requirement in section 411 of the ICA that has been granted to the Insurance Subsidiary, and subject to certain other limitations and conditions, the Class A Preferred Shares, as a class, carry adjustable voting rights to ensure that, at any given time, 35% of the voting rights in the Company will be held by persons who, among other things, do not hold 20% or more of any class of voting shares of the Company.

For purposes of the Company's debt to equity calculation, the Series 1 Preferred Shares are treated as debt.

## Credit Facilities

On September 30, 2021, the Company had an undrawn unsecured syndicated revolving credit facility of \$300 million that matures in January 2025 (the “**Revolving Facility**”), a prime rate loan of \$76 million that matures in January 2025 drawn under the 2025 Term Facility and a LIBOR loan of \$149 million that matures in March 2026 under the 2026 Term Facility. The Revolving Facility, the 2025 Term Facility and the 2026 Term Facility being, collectively, the (“**Credit Facility**”) are described in the summary below.

	<b>Revolving Facility</b>	<b>2025 Term Facility</b>	<b>2026 Term Facility</b>
Amount	Up to \$300 million	\$76 million	\$149 million
Type of loan	-	Prime rate loan	LIBOR loan
Maturity Date	January 16, 2025	January 16, 2025	March 31, 2026
Tenure	5 years	5 years	5 years
Draw Period	5 years	First 4 months after closing	First 4 months after closing
Status	Active	Active and drawn	Active and drawn

The Revolving Facility includes an accordion feature that permits the Company to request that individual commitments with respect to the Credit Facility be increased by an aggregate amount of up to \$100 million.

The Company has drawn a Prime Rate Loan under the 2025 Term Facility of \$76 million. The Company executed additional interest rate swaps to mitigate the interest rate risk associated with the Prime Rate Loan and designated a formal cash flow hedging relationship between the prime rate loan and the interest rate swap.

On April 1, 2021, the Company entered into the 2026 Term Facility for an aggregate amount of up to \$150 million and borrowed US\$118 million or approximately \$149 million, by way of a LIBOR loan under the 2026 Term Facility.

The Company pays a standby fee based on the committed principal amount of the Credit Facility, which is recorded in interest expense in the condensed consolidated interim statement of income. The Credit Facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at September 30, 2021, the total amount on the 2025 Term Facility and 2026 Term Facility was approximately \$224 million, in the aggregate, net of capitalized costs. As at September 30, 2021 there was no amount outstanding under the Revolving Facility and all covenants under the Credit Facility were fully met.

## Financial strength ratings

The Insurance Subsidiary has financial strength ratings from both S&P and DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings may influence the confidence in an insurer and its products.

The Company has issuer, debt and preferred share ratings from both S&P and DBRS.

Below is the timeline for the S&P affirmations and ratings:

- On April 28, 2021 S&P revised its ratings' outlook from negative to stable and affirmed financial strength ratings of the Insurance Subsidiary and confirmed the Issuer Ratings for the Debentures, the Series 6 notes and the Series 1 Preferred Shares.
- On March 18, 2021 S&P assigned its BBB- issue rating to the Company's \$150 million Series 6 notes, two notch levels below the Company's Issuer Rating which reflects the subordination and deferability of interest payments.
- On March 2, 2021 S&P assigned its BBB+ issue rating to the Company's \$300 million Series 5 debentures.
- On February 8, 2021 S&P assigned its P-2 (low) rating to the Company's \$100 million Series 1 Preferred Shares.

Below is the timeline for the DBRS affirmations, actions and ratings:

- On April 14, 2021 DBRS revised its ratings' trend from negative to stable and confirmed the financial strength ratings of the Insurance Subsidiary and confirmed the Issuer Ratings for the Debentures, Series 6 hybrid notes and Series 1 Preferred Shares.
- On March 23, 2021 DBRS finalized its provisional rating of A (low) with negative trend on the Company's \$150 million of Series 6 notes
- On March 5, 2021, DBRS finalized its provisional rating of A (high) with negative trend on the Company's \$300 million of Series 5 debentures.
- On February 18, 2021 DBRS finalized its provisional rating of Pfd-2 (high) with negative trend on the Company's Series 1 Preferred Shares

Entity	Ratings Summary	S&P	DBRS
Insurance Subsidiary	Financial Strength	A+, Stable	AA, Stable
Company	Issuer Rating	BBB+, Stable	A (High), Stable
Company	Senior Unsecured Debentures (Series 3, 4, 5)	BBB+, Stable	A (High), Stable
Company	Subordinated Notes (Series 6)	BBB-, Stable	A (Low), Stable
Company	Preferred Shares (Series 1)	P-2 (low), Stable	Pfd-2 (high), Stable

## Capital transactions

On April 1, 2021, the Company and Brookfield completed the Transaction pursuant to which Brookfield, purchased all of the common shares that were not already owned by Brookfield at a price of \$43.50 in cash per common share or approximately \$1.6 billion. All of the common shares were exchanged in the Share Exchange pursuant to which 1,000,000 Class A common shares and a demand note in the amount of \$700 million bearing interest of 1.00% per annum were issued to Brookfield resulting in no common shares outstanding and Brookfield as being the sole holder of the Class A common shares. The Class A common shares are not listed on the TSX. On April 1, 2021, the Company repaid the Brookfield \$700 million demand note in full and also paid a dividend of \$5 million on the Class A common shares to Brookfield. During the nine months ended September 30, 2021, the Company has paid dividends of \$155 million, in the aggregate, on the Class A common shares to Brookfield.

## Restrictions on dividends and capital transactions

The Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The ICA prohibits directors from declaring or paying any dividend on shares of an insurance company if there are reasonable grounds for believing that the company is, or the payment of the dividend would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. The ICA also requires an insurance company to notify OSFI of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. Share cancellation or redemption would also require the prior approval of OSFI. Finally, OSFI has broad authority to take actions that could restrict the ability of an insurance company to pay dividends. See “OSFI Regulatory Changes” above for details on recent regulatory changes introduced by OSFI, including its expectation that all federally regulated financial institutions should halt dividend increases and share buybacks for the time being.

## Outstanding share data

**Table 16: Changes in the number of common shares and Class A common shares outstanding at September 30, 2021 and December 31, 2020**

	September 30, 2021	December 31, 2020
Common shares, beginning of period	86,357,979	86,228,879
Common shares issued in connection with share-based compensation plans	50,000	129,100
Common shares cancelled in connection with the Privatization transaction	(86,407,979)	-
Common shares, end of period	-	86,357,979
Class A common shares, beginning of period	-	-
Class A common shares issued on exchange of common shares in connection with the Privatization transaction	1,000,000	-
Class A common shares, end of period	1,000,000	-

On April 1, 2021, Brookfield purchased all the outstanding common shares that were not already owned by Brookfield pursuant to the Transaction. Additionally, the Company exchanged approximately 86 million common shares for 1 million Class A common shares and a \$700 million demand note. As at September 30, 2021 Brookfield, was sole holder of the Class A common shares as compared to holding approximately 56.7% of the common shares as at December 31, 2020.

On April 1, 2021, the closing of the Transaction and the de-listing of the Company’s shares from the TSX resulted in changes to the Company’s share-based plans. The Company settled all of its directors deferred shares units and in-the-money stock options (“**Option**”) in cash and out-of-the-money Options were cancelled. The Company also transitioned its outstanding restricted share units, performance share units and executive deferred share units to a private company share-based compensation plan. Additionally, on May 3, 2021, Options were granted to certain employees under the Company’s new Option plan. The value of the revised share-based compensation plans is based on the fair market value of the Company’s Class A common shares which is determined based on an internal valuation.

**Table 17: Changes in the number of Series 1 Preferred Shares outstanding at September 30, 2021 and December 31, 2020**

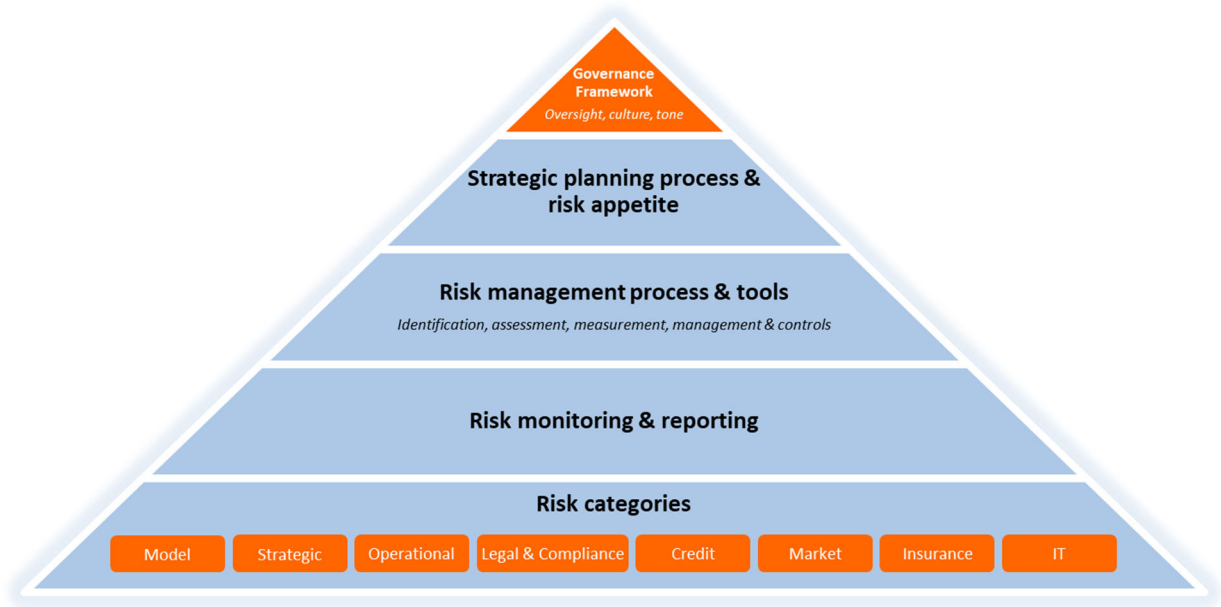
	September 30, 2021	December 31, 2020
Series 1 Preferred Shares, beginning of period	-	-
Series 1 Preferred Shares Issued	4,000,000	-
Series 1 Preferred shares, end of period	4,000,000	-



## Risk management

### Enterprise risk management framework

Risk management is a critical part of the Company's business. The Company's Enterprise Risk Management ("ERM") framework comprises the totality of the frameworks, systems, processes, policies, and people for identifying, assessing, mitigating and monitoring risks. The key elements of the ERM Framework are illustrated in the diagram below.



### Governance framework

The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

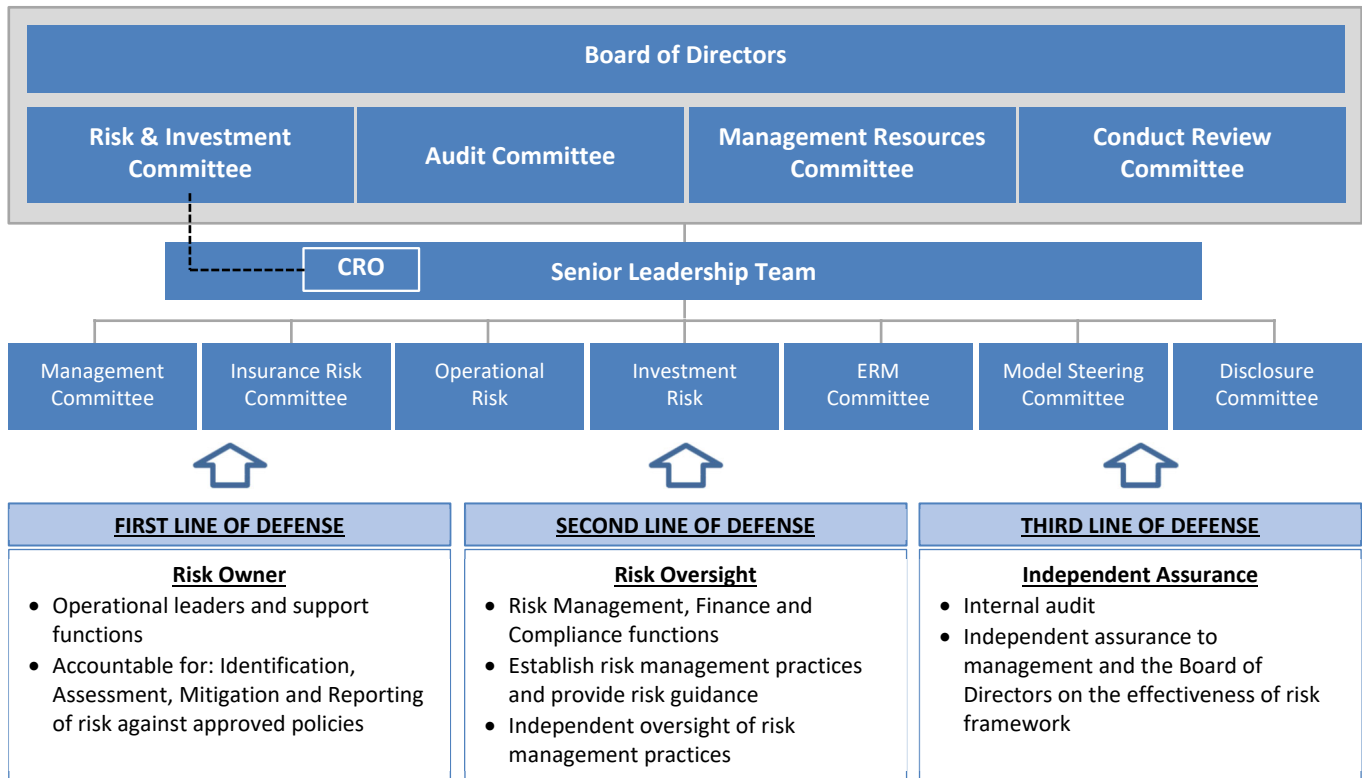
- I. Board's oversight of risk and risk management practices;
- II. Management's oversight of risks; and
- III. The "three lines of defense" operating model.

Following the 2021 annual general meeting of shareholders the Board reconstituted each of its committees and revised and updated certain of their mandates. The Risk, Capital and Investment Committee is now the Risk and Investment Committee. The Compensation and Nominating Committee is now the Management Resource Committee. Each committee has substantially similar duties to its predecessor committee.

The Board is responsible for reviewing and approving the Company's risk appetite and ensuring that it remains consistent with the Company's short and long-term strategy, business and capital plans. The Board carries out its risk management mandate primarily through its committees, with the Risk and Investment Committee having responsibility for oversight of insurance, investment and operational risks.

The Company's management is responsible for risk management under the oversight of the Board and fulfills its responsibility through several risk committees, as noted in the chart below. The following internal control functions have a reporting relationship to the Board and/or its Committees: Compliance, the CFO, internal audit, the Appointed Actuary and the Chief Risk Officer.

The Board and the board of directors of the Insurance Subsidiary use a “three lines of defense” approach to risk management, which serves to allocate accountability and responsibility for risk management within the various business functions, as outlined in the chart below.



**Risk principles**

The Company employs the following methods of managing risk that originate from the business objectives of the Company:

- Ensure the expected outcomes of risk-taking activities are consistent with the Company’s strategies and risk appetite;
- Ensure there is an appropriate balance between risk, return, capital, and liquidity in order to meet policyholder obligations and maximize shareholder value throughout economic cycles;
- Ensure an understanding of risk drivers as they relate to the Company’s key objectives, including addressing potential reputational risk;
- Employ a “three lines of defense” risk governance model, which ensures that a responsibility for risk management is shared across the business;
- Proactively address emerging risks as they arise; and
- Ensure strict adherence to legal, compliance and regulatory requirements.

The Company’s ERM framework and internal control procedures are designed to reduce the level of volatility in its financial results. The Company’s ERM framework is linked to its business strategy and decision-making framework. One of the key tools is the Own Risk and Solvency Assessment (“**ORSA**”) framework. The key elements and considerations of the Company’s ORSA framework include: the comprehensive identification and assessment of risks and the adequacy of the Company’s risk management; the assessment of the Company’s current and likely future capital needs and solvency positions in light of its risk assessments; the distinguishing of Board oversight and management responsibility for such processes; detailing related monitoring and reporting requirements; and detailing the Company’s internal controls and objective review process and procedures for such risk assessments. The Company’s ORSA framework is forward-looking and is undertaken in conjunction with the Company’s business and strategic planning.

## Risk appetite framework

Risk appetite is the maximum amount of risk that the Company is willing to accept in the pursuit of its business objectives. The objective in managing risk is to protect the Company from unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy, liquidity or reputation, while supporting the Company's overall business strategy.

The purpose of the risk appetite framework is to provide a framework for management and the Board for understanding the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives with due regard to its commitments and regulatory boundaries. It articulates the desired balance between risk objectives, meeting customer needs and profitability objectives, and is a major communication tool that enables the Board to cascade key messages throughout the organization. It establishes a common understanding around the acceptable level of variability in financial performance and answers the question of how much risk the Company is willing to take under expected and extreme scenarios.

The Company has set risk limits that guide the business and ensure that risk taking activities are within its risk appetite. The Company's risk limits will be assessed for appropriateness at least annually and on a more frequent basis if there is a major change to the economic or business environment. The Company communicates risk limits across the organization through its policies, limit structures, operating procedures and risk reporting.

Where possible, the Company's risk appetite is subject to stress and scenario testing and can be expressed as the tolerance with respect to acceptable variances for earnings, liquidity and capital to deviate from their target levels under a variety of different scenarios.

## Risk controls

The Company's ERM approach is supported by a comprehensive set of risk controls. The controls are embedded through its ERM framework and risk-specific frameworks. These frameworks lay the foundation for the development and communication of management-approved policies and the establishment of formal review and approval processes. The Company's risk management framework and policies are organized as follows:

- **ERM Framework:** provides an overview of the enterprise-wide program for identifying, measuring, controlling and reporting of material risks the Company faces;
- **Risk-Specific Frameworks:** provides an overview of the Company's program for identifying, measuring, controlling and reporting for each of its material risks; and
- **Company-wide Policies and Procedures:** governs activities such as product risk review and approval, project initiatives, stress testing, risk limits and risk approval authorities.

## Risk categories

### Insurance risk

The Company's mortgage insurance risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company continued to originate a high-quality insurance portfolio with an average transactional credit score of 753 in the third quarter of 2021 including 2% below 660, primarily due to continued underwriting diligence. The average home price for transactional insurance originations in 2021 was approximately \$419 thousand, representing an increase of approximately 13% over the average home price in the same quarter in the prior year. The average gross debt service ratio in the third quarter of 2021 was 24%, approximately 2 percentage points higher as compared to the average gross debt service ratio in the same quarter in the prior year and below the PRMHIA mortgage stress test threshold of 39%.

Sagen's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes its proprietary transactional insurance performance database to build and improve its mortgage scoring

model. This mortgage scoring model employs a number of evaluation criteria to assign a score to each insured mortgage loan which is an indicator of the likelihood of a future claim. This evaluation includes criteria such as borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. The Company believes these factors, as well as other considerations, significantly enhance the ability of the mortgage scoring model to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score. The Company also utilizes internally developed stochastic modelling to estimate projected losses on claims and to measure the severity of loss and delinquency rate sensitivity to both changes in the economic environment as well as individual loan or borrower attributes.

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and actuarial modeling. The risk management team analyzes and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level insurance risk committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance.

## Quality Assurance

The Company also employs a quality assurance team to ensure that policies and guidelines established by the Company's mortgage portfolio risk management function are adhered to both internally within the Company and by lenders submitting applications to the Company. The quality assurance team conducts daily reviews of a random sample of loans adjudicated by the Company's underwriters. Similarly, external lender audits are conducted on a routine basis, using a statistically relevant sample of insured loans. In addition, the quality assurance team also reviews the Company's loss reserving and mitigation functions to ensure compliance with relevant Company policies and accounting standards. Audit results are reviewed by management on a monthly basis.

Through the Company's risk management system, it takes active steps to identify and prevent fraud. This includes collaborating with industry participants to promote best practices within the mortgage industry and to identify emerging trends, performing quality assurance audits on lender institutions and maintaining a proprietary database of properties or persons known to have been involved in fraud or misrepresentation.

## Market and credit risk

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk, currency risk, emerging markets risk and counterparty risk of its investment portfolio.

### Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets. The Company's investment management strategy is to invest primarily in debt instruments of Canadian government agencies and other high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer, business sector, or credit rating category, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies DBRS, S&P and Moody's and credit analysis completed by the Company and its investment managers. There have been no significant changes in the credit quality of the Company's investment portfolio as a result of the COVID-19 pandemic.

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. To mitigate credit risk related to derivative counterparties, the Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of A- and to collateralize its derivative obligations.

**Liquidity risk**

Liquidity risk is the risk of having insufficient cash resources to meet policy obligations and other financial commitments as they fall due without raising funds at unfavourable rates or selling assets on a forced basis. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. Adverse capital and credit market conditions and the MICAT requirements of the Insurance Subsidiary may significantly affect the Company's access to capital and may affect its ability to meet liquidity or debt refinancing requirements in the future. Potential liquidity risks are discussed in more detail in the **Risk Factors** section of the Company's AIF and the **Liquidity** section in this MD&A.

**Market risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks to which the Company is exposed are interest rate risk, currency risk, emerging markets risk and counterparty risk.

**Interest rate risk**

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income investment portfolio. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher-yielding fixed income investments are called, mature or are sold and the proceeds are reinvested at lower rates, and this will likely result in unrealized gains in the value of fixed income investments the Company continues to hold, as well as realized gains to the extent that the relevant investments are sold. During periods of rising interest rates, the market value of the Company's existing fixed income investments will generally decrease and gains on fixed income investments will likely be reduced or become losses. To mitigate interest rate risk, the Company uses fixed for floating interest rate swaps and interest rate floors to hedge a portion of the interest rate risk.

**Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk arising from investments denominated in U.S. dollars. The Company uses foreign exchange forward contracts and cross-currency interest rate swaps to mitigate currency risk.

**Emerging markets risk**

Emerging markets risk relates to emerging market investment grade bond holdings which are exposed to greater market volatility, have less availability of reliable financial information, carry higher transactional and custody costs, are subject to taxation by foreign governments, have decreased market liquidity and may be exposed to political instability.

**Counterparty risk**

Counterparty risk relates to the risk that a counterparty will fail to discharge its obligation related to a bond, derivative contract or other trade or transaction.

**Operational risk**

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems that cannot adequately respond to changes in the business environment. Operational risk can have implications on costs, revenues and/or the Company's reputation. The Company has developed a risk management program that includes risk identification, quantification, governance, policies and procedures and seeks to appropriately identify, monitor, measure, mitigate, control and report operational risks.

The Company's operational risk profile is a function of its operational effectiveness, control environment and its ability to deal with adverse external events.

During the unprecedented environment following the onset of the COVID-19 pandemic, the Company may face fluctuating new business volumes, claims and loss mitigation requests that are significantly higher than current levels. In order to effectively manage a significant increase in new business volume or loss mitigation requirements, the Company has contingency plans in place to leverage additional capacity when required. For a short-term increase, the business can leverage cross-trained staff from other operational areas (both Underwriting and Loss Mitigation). For a longer-term increase in new business volume or loss mitigation, the business would hire additional new staff. The ability to hire qualified new staff could also be impacted by market conditions. Potential operational risks are discussed in more detail in the **Risk Factors** section of the Company's AIF.

## Financial reporting controls and accounting disclosures

### Disclosure controls and procedures and internal controls over financial reporting

As required by National Instrument 52-109, the Company has in place disclosure controls and procedures and internal controls over financial reporting, designed under the Committee of Sponsoring Organizations of the Treadway Commission (Framework (2013)) to ensure the disclosure of all material information or changes relating to the Company to all members of the public in a fair and timely manner. Such controls and procedures ensure that all relevant material is gathered and reported to senior management (including the CEO, CFO and General Counsel) and the Company's management-level disclosure committee on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation and certification of the Company's disclosure controls and procedures and internal controls over financial reporting is done regularly under supervision by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and such certifications are available with the Company's filings on the SEDAR website at [www.sedar.com](http://www.sedar.com). The certifications filed in connection with certain interim and annual financial disclosure documents, confirm that the CEO and CFO have concluded that the design and operation of the disclosure controls and procedures and internal controls over financial reporting were effective, for such periods. There were no material changes in the Company's internal controls over financial reporting during the third quarter of 2021 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

### Changes in accounting standards and future accounting standards

The following amendments of existing standards have been issued by the IASB and are effective in 2021.

#### **Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFRS 16: Interest rate benchmark reform ("IBOR") - Phase 2:**

In August 2020, the IASB issued amendments that complement those issued in 2019 (Interest rate benchmark reform - Phase 1) and focus on the effects on financial statements when a Company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform (post-replacement period). The amendments modified the requirements in IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting, and disclosures. The amendments are effective for annual reporting periods beginning on or after January 1, 2021.

Most U.S. London Interbank Offered Rate ("LIBOR") values, including 3-month LIBOR rates, will be discontinued on June 30, 2023. Transition activities in the market are ongoing and are focused on two broad streams of work: (i) developing new alternative risk-free rate linked products, and (ii) converting existing LIBOR based contracts to alternative risk-free rates.

Transition activities for the Company will include incorporation of contractual provisions for new LIBOR-based financial instruments which provide a means to determine new alternative benchmark rates upon the expiry of LIBOR.

The Company invests in collateralized loan obligations, which are structured credit securities that pay interest based on floating interest rates indexed to the 3-month U.S. LIBOR. As at September 30, 2021, the market value of the collateralized loan obligations was \$852 million. Additionally, on April 1, 2021, the Company has drawn a loan on its 2026 Term Facility that carries an interest rate equal to LIBOR plus an applicable margin. As at September 30, 2021, the loan outstanding was \$149 million. The Company does not expect the transition to an

alternative risk-free rate to have a material impact on its financial statements. Additionally, the Company does not have any further exposure to LIBOR.

### **Future accounting standards**

The following new accounting standards have been issued by the IASB and are expected to be adopted by the Company after December 31, 2021.

#### **IFRS 17 - Insurance contracts**

In May 2017, the IASB issued IFRS 17, which is a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4 – Insurance contracts.

The measurement approach for insurance liabilities under IFRS 17 is based on the following:

- (a) Fulfilment cash flows which comprise:
  - (i) A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;
  - (ii) The effect of the time value of money;
  - (iii) A risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and
- (b) A contractual service margin which represents the unearned profit in a contract and that is recognized in profit or loss over time as the insurance coverage is provided.

There will also be new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 requires the Company to distinguish between groups of contracts expected to be profitable and groups of contracts expected to be onerous.

IFRS 17 is to be applied retrospectively to each group of insurance contracts. If full retrospective application to a group of contracts is impracticable, the modified retrospective or fair value methods may be used.

Following a two-year deferral period, the effective date for IFRS 17 has been established as annual reporting periods beginning on or after January 1, 2023.

In July 2021, the IASB issued an Exposure Draft that proposed a narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. This proposed amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. Applying the proposed amendment, an entity would be permitted to present comparative information about such a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Exposure Draft proposes no change to the transition requirements in IFRS 9.

IFRS 17 will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements and MD&A. In addition, it could have a material effect on tax, regulatory capital positions and other financial metrics that are dependent on IFRS accounting values.

IFRS 17 will require more data, systems, calculations, disclosures and controls compared to the current accounting standard. To support adoption of IFRS 17, the Company has established a formal governance framework and developed an implementation project plan. A multi-disciplinary project team has been established to analyze and implement IFRS 17 in accordance with the project plan. The Company has completed its evaluation of IFRS 17, including selecting accounting policies and elections available under IFRS 17. The Company has also assessed the financial statement and business implications of adopting IFRS 17, identifying where changes to the Company's existing accounting and reporting processes will be required. The Company is designing IFRS 17 methodologies which includes the continuous development of loss forecasting capabilities. Additionally, the Company has selected its IFRS 17 software solution and vendor and is

currently implementing the software solution as well as changes to existing systems that will be required for the implementation of IFRS 17.

### **IFRS 9 – Financial Instruments**

In July 2014, the IASB published the final version of IFRS 9, which replaces IAS 39: Financial instruments: recognition and measurement (“**IAS 39**”) and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at FVTPL that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

IFRS 9 is generally effective for periods beginning on or after January 1, 2018. However, in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17, (a) a temporary exemption to defer the implementation of IFRS 9, or alternatively (b) the option to remove from income the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

The Company concluded that it is an eligible insurer that qualifies for the transitional relief as its activities are predominantly connected with insurance and it has not previously applied IFRS 9. The Company has elected to apply the optional transitional relief that permits the deferral of the adoption of IFRS 9 for eligible insurers. As a result, the Company did not adopt IFRS 9 at January 1, 2018. Following the two-year deferral of IFRS 17, the fixed expiry date of the temporary exemption from applying IFRS 9 for qualifying insurers was also extended to January 1, 2023. The Company plans to adopt IFRS 9 on the same effective date as IFRS 17.

Effective in reporting periods in 2018, an insurer that elected to apply the transitional relief under IFRS 4 is required to provide additional disclosures that enable comparison with entities that applied IFRS 9 at January 1, 2018. The amendments to IFRS 4 require entities to disclose additional information regarding the contractual cash flow characteristics and credit exposure of their financial instruments. These disclosures are included in the Company’s consolidated financial statements.

### **Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets**

These amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract. Such costs include both the incremental costs of the contract and an allocation of other direct costs incurred on activities required to fulfill the contract. Insurance contracts are expressly excluded from the scope of this amendment.

The amendments are effective for annual reporting periods on or after January 1, 2022. The Company does not expect these amendments to have a significant impact on its consolidated financial statements.

### **Further amendments to IFRS 3 - Business combinations**

The amendments update references in IFRS 3 to the revised 2018 Conceptual Framework. To ensure that this update in referencing does not change which assets and liabilities qualify for recognition in a business combination, or create new Day 2 gains or losses, the amendments introduce new exceptions to the recognition and measurement principles in IFRS 3.

The amendments are effective for business combinations for which the date of acquisition is beginning on or after annual reporting periods commencing from January 1, 2022. The Company currently expects that these amendments will have no impact on the Company’s consolidated financial statements. However, there may be impact should the Company enter into any business combinations.



## Significant estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty are outlined below as accounting estimates and judgments. Actual results may differ from the estimates used, and such differences may be material.

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

### Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The Company performs actuarial studies of loss emergence at least annually and may adjust the factors in the premium recognition curve in accordance with the results of such studies. Changes in the premium recognition curve are treated as a change in estimate and are recognized on a prospective basis.

Under the potential economic scenarios related to the impact of COVID-19, the loss emergence pattern could be impacted. The potential economic scenarios related to the impact of COVID-19 and their impact on the loss emergence pattern are reflected in the Company's review of loss emergence to determine if an update to the Company's premium recognition curve is required. During the third quarter of 2021, the Company completed a review of its loss emergence pattern and determined that no update is required to its premium recognition curve.

### Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. In determining the ultimate claim amount, the Company estimates the expected recovery from the property securing the insured loan and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, IBNR reserves and supplemental loss reserves for potential adverse deviation.

For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values, and the condition of properties in default. The additional carrying costs incurred from delays in the foreclosure process, including property taxes, accrued interest and property management costs, have been reflected in the Company's case reserves.

The IBNR reserve is the Company's best estimate of losses that have been incurred but not reported from the time the first scheduled mortgage payment has been missed by a mortgage borrower. The Company, as well as Canada's other mortgage insurers, had provided eligible homeowners with opportunities to mitigate temporary financial hardship due to COVID-19. The Company, as well as Canada's other mortgage insurers, had communicated that lenders were permitted to defer up to six monthly mortgage payments for borrowers impacted by COVID-19. The goal of this program was to give borrowers affected by COVID-19 the opportunity to return to work so that they could avoid defaulting on their mortgages during such period of interrupted income. Mortgages subject to payment deferrals were treated as being in good standing by lenders during the deferral period. This mortgage deferral program ended on March 31, 2021. To reflect the impact of the COVID-19 pandemic and mortgage deferrals in the Company's financial results, commencing in the second quarter of 2020, the Company included a provision in its IBNR reserve for its estimate of those borrowers that otherwise would have become delinquent in the reporting period if the mortgage payment deferrals had not taken place and were believed by the Company to likely result in a claim to the Company subsequent to the end of the deferral period. As at September 30, 2021, the vast majority of borrowers who took payment

deferrals having returned to making regular scheduled mortgage payments. Therefore, IBNR at September 30, 2021 has been determined using the Company's traditional pre-COVID-19 IBNR methodology.

Under its pre-COVID-19 methodology, the Company establishes reserves for IBNR based on the reporting lag from the date of first missed payment to the reporting date for mortgages in default that have not been reported to the Company. IBNR is calculated using estimates of expected claim frequency and claim severity based on the most current available historical loss data, adjusted for seasonality.

In order to discount loss reserves to present value, the Company's appointed actuary determines a discount rate based on the market yield of the Company's investment portfolio.

The Company recognizes a provision for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses.

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that actual results will deviate, perhaps substantially, from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liability.

#### **Subrogation recoverable**

The Company estimates the fair value of subrogation rights related to real estate included in subrogation recoverable based on third party property appraisals or other types of third-party valuations deemed to be more appropriate for a particular property.

The Company estimates borrower recoveries related to claims paid and loss reserves included in subrogation recoverable based on historical recovery experience. Estimated borrower recoveries are discounted to present value and include an actuarial margin for adverse deviation.

#### **Deferred policy acquisition costs**

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to the acquisition of new mortgage insurance business. Deferred policy acquisition costs are deferred and expensed in proportion to and over the periods in which premiums are earned.

The Company estimates expenses eligible for deferral based on the nature of expenses incurred and results of time and activity studies performed to identify the portion of time the Company's employees incur in the acquisition of new mortgage insurance business.

#### **Objective evidence of impairment of AFS financial assets**

As of each reporting date, the Company evaluates AFS financial assets for objective evidence of impairment.

For investments in bonds and debentures and preferred shares, evaluation of whether impairment has occurred is based on the Company's assessment that a loss event has occurred and the Company's best estimate of the cash flows to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Impairment assessment is a qualitative and quantitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed investments. Impairment for bonds and debentures and preferred shares is deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

## Transactions with related parties

### Services

During the nine months ended September 30, 2021, the Company has in place service relationships with Brookfield subsidiaries. Oaktree Capital Management L.P. and Brookfield Public Securities Group LLC provide investment management services for certain investment portfolios. RPS Real Property Solutions Inc. provides property valuation services. WatServ Canada provides software services. Royal LePage provides services related to the sale of real estate and participates in certain charitable foundations alongside the Company. All of these arrangements are undertaken at market terms and conditions. The Company incurred aggregate charges of approximately \$1 million and \$4 million for the three and nine months ended September 30, 2021 for services provided by Brookfield.

On June 24, 2021 Sagen entered into a hedging agreement with Falcon Holdings Acquisition Corporation, a Brookfield subsidiary, and executed a cross currency swap that is subject to semi-annual coupon payments. The notional amount of the cross-currency interest rate swaps is approximately \$49 million.

All outstanding balances with related parties are unsecured and settled within nine months of the reporting date.

### Director fees for Brookfield affiliated directors

Due to internal policies of Brookfield and those of its institutional partners in respect of the investment in Sagen, employees of Brookfield and such institutional partners who serve on the Board are prohibited from personally receiving director fees from Sagen. Consequently, Sagen has agreed to pay director fees and other related amounts otherwise owing to such directors directly to Brookfield.

## Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include, among others, net operating income (excluding fee on early redemption of debt, as applicable), operating investment income and interest and dividend income, net of investment expenses. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

**Table 18: Non-IFRS financial measures reconciled to comparable IFRS measures for such periods**

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total investment income	\$ 45	\$ 55	\$ 123	\$ 122
Adjustment to investment income:				
Net losses (gains) from investments, derivatives and foreign exchange <sup>1</sup>	2	(7)	16	27
Operating investment income	47	48	139	149
Realized expense (income) from the interest rate hedging program	(3)	(4)	(9)	(15)
<b>Interest and dividend income, net of investment expenses</b>	<b>\$ 44</b>	<b>\$ 44</b>	<b>\$ 130</b>	<b>\$ 134</b>
Net income	174	124	460	317
Adjustments to net income, net of taxes:				
Fee on early redemption of long-term debt	-	-	-	1
Net losses (gains) from investments, derivatives and foreign exchange <sup>1</sup>	2	(5)	12	20
<b>Net operating income</b>	<b>\$ 176</b>	<b>\$ 119</b>	<b>\$ 472</b>	<b>\$ 338</b>

Note: Amounts may not total due to rounding.

<sup>1</sup> Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include outstanding insured mortgage balances, delinquency ratio on outstanding insured mortgage balances, loss ratio, expense ratio, combined ratio, investment yield and MICAT ratio.

**Table 19: Non-IFRS financial performance measures for which no comparable IFRS measure is available.**

For a more meaningful description of the measure, refer to the **Non-IFRS financial measures glossary**.

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>Selected non-IFRS financial measures</b>				
Outstanding insured mortgage balances <sup>1</sup>	\$ 203,200	\$ 205,644	203,200	205,644
Delinquency ratio on outstanding insured mortgage balances	0.16 %	0.20 %	0.16 %	0.20 %
Loss ratio	(16)%	13 %	(7)%	18 %
Expense ratio	18 %	19 %	19 %	20 %
Combined ratio	3 %	32 %	12 %	38 %
Investment yield	2.7 %	3.0 %	2.7 %	3.1 %
MICAT <sup>2</sup>	214 %	178 %	214 %	178 %

<sup>1</sup> This estimate is based on amounts reported to the Company by lenders which represent the vast majority of outstanding insured mortgage balances. <sup>2</sup> Company estimate as at September 30, 2021. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA is 150% and the Company's internal target ratio under the MICAT is 157%.

## Non-IFRS financial measures glossary

“**combined ratio**” means the sum of the loss ratio and the expense ratio. The combined ratio measures the proportion of the Company’s total cost to its premiums earned and is used to assess the profitability of the Company’s insurance underwriting activities.

“**delinquency ratio on outstanding insured mortgage balances**” means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of outstanding insured mortgages at a specified date. The delinquency ratio is an indicator of the emergence of losses on claims and the quality of the insurance portfolio and is a useful comparison to industry benchmarks and internal targets.

“**expense ratio**” means the ratio (expressed as a percentage) of sales, underwriting and administrative expenses to premiums earned for a specified period. The expense ratio measures the operational efficiency of the Company and is a useful comparison to industry benchmarks and internal targets.

“**interest and dividend income, net of investment expenses**” means the total net investment income excluding investment gains (losses) from derivatives and foreign exchange. This measure is an indicator of the core operating performance of the investment portfolio.

“**investment yield**” means the annualized investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for such period divided by the average of the quarterly investment book value, for such period. For quarterly results, the investment yield is the annualized investment income using the average of beginning and ending investments book value, for such quarter.

“**loss ratio**” means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to premiums earned during such period. The loss ratio is a key measure of underwriting profitability and the quality of the insurance portfolio and is used for comparisons to industry benchmarks and internal targets.

“**Mortgage Insurer Capital Adequacy Test**” or “**MICAT**” means the minimum capital test for federally regulated mortgage insurance companies established by OSFI. Under MICAT, companies calculate an MICAT ratio of regulatory capital available to regulatory capital required using a defined risk-based methodology prescribed by OSFI in monitoring the adequacy of a company’s capital. The MICAT ratio is a key metric of the adequacy of the Company’s capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets. Replaced “Minimum Capital Test” or “MCT” effective January 1, 2019.

“**net operating income**” means net income excluding after-tax net realized gains (losses) on sale of investments, unrealized gains (losses) on Fair Value through Profit or Loss (“**FVTPL**”) securities, fee on early redemption of debt and including realized income (expense) from the interest rate hedging program as represented by the difference between the fixed rate and floating rate. Net operating income estimates the recurring after-tax earnings from core business activities and is an indicator of core operating performance.

“**operating investment income**” means the total net investment income excluding gains (losses) from derivatives and foreign exchange and including realized income (expense) from the interest rate hedging program. This measure is an indicator of the realized operating performance of the investment portfolio and related hedging program.

“**outstanding insured mortgage balances**” means the amount of all mortgage insurance policies in effect at a specified date, based on the current balance of mortgages covered by such insurance policies, including any capitalized premiums. Outstanding insured mortgage balances measures the current total risk exposure under insurance contracts at any given time and is used to assess potential losses on claims.

## Other Glossary

“**accumulated other comprehensive income**” or “**AOCI**” is a component of shareholders’ equity and reflects the unrealized gains and losses, net of taxes, related to available-for-sale assets. Unrealized gains and losses on assets classified as available-for-sale are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of income.

“**available-for-sale**” or “**AFS**” means investments recorded at fair value on the balance sheet, using quoted market prices, with changes in the fair value of these investments included in AOCI.

“**average premium rate**” means the average premiums written collected divided by the new insurance written.

“**average reserve per delinquency**” means the average reserve per delinquent loan calculated by total loss reserves in dollars divided by the number of outstanding delinquent loans reported by lenders. Average reserve per delinquency measures the potential size of the average loss, including delinquent loans with no expected loss, and is used for trending purposes and comparisons against internal targets.

“**case reserves**” means the expected losses associated with reported delinquent loans. Lenders report delinquent loans to the Company on a monthly basis. The Company analyzes reported delinquent files on a case-by-case basis and derives an estimate of the expected loss. Case reserve estimates incorporate the amount expected to be recovered from the ultimate sale of the residential property securing the insured mortgage.

“**claim**” means the amount demanded under a policy of insurance arising from the loss relating to an insured event.

“**credit score**” means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application. This is a key measure of household financial health.

“**cures**” means previously reported delinquent loans where the borrower has made all scheduled mortgage payments or a successful workout has been completed and the loan is no longer considered a delinquent loan.

“**debt-to-capital ratio**” means the ratio (expressed as a percentage) of debt and preferred shares to total capital (the sum of debt and equity, including preferred shares). This is a measure of financial leverage that the Company considers in capital management planning.

“**deferral rate**” means the ratio (expressed as a percentage) of the estimated outstanding balance of mortgage payment deferrals divided by the estimated total outstanding balance.

“**deferred policy acquisition costs**” means the expenses incurred in the acquisition of new business, comprised of premium taxes and other expenses that relate directly to the acquisition of new business. Policy acquisition costs are only deferred to the extent that they are in excess of the service fees and can be expected to be recovered from unearned premium reserves. Deferred policy acquisition costs are amortized into income in proportion to and over the periods in which premiums are earned.

“**delinquent loans**” means loans where the borrowers have failed to make scheduled mortgage payments under the terms of the mortgage and where the cumulative amount of mortgage payments missed exceeds the scheduled payments due in a three-month period.

“**dividends paid per common share**” means the portion of the Company’s profits distributed to shareholders during a specified period and measures the total amount distributed by the Company to shareholders.

“**effective tax rate**” means the ratio (expressed as a percentage) of provision for income taxes to income before income taxes for a specified period. The effective tax rate measures the actual amount of pre-tax income the Company pays in taxes and is a useful comparison to industry benchmarks and prior periods.

**“Fair Value through Profit or Loss”** or **“FVTPL”** means investments recorded at fair value on the statement of financial position with changes in the fair value of these investments recorded in income.

**“gross debt service ratio”** or **“GDSR”** means the percentage of borrowers’ total monthly debt servicing costs, in respect of the debt in question, as a percentage of borrower’s monthly gross income. This is a key measure of household financial health.

**“incurred but not reported”** or **“IBNR”** reserves means the estimated losses on claims for delinquencies that have occurred prior to a specified date, but have not been reported to the Company.

**“investment portfolio”** means invested assets (including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments).

**“lapse rate”** means the rate of expiration of insurance coverage related to full repayments, refinances or sale of the property on the Company’s outstanding insured mortgage balances over a specified period.

**“loss adjustment expenses”** means all costs and expenses incurred by the Company in the investigation, adjustment and settlement of claims. Loss adjustment expenses include third-party costs as well as the Company’s internal expenses, including salaries and expenses of loss management personnel and certain administrative costs.

**“loss reserves”** means case reserves based on delinquencies reported to the Company, an estimate for losses on claims based on delinquencies that are IBNR, supplemental loss reserves for potential adverse developments related to claim severity and loss adjustment expenses representing an estimate for the administrative costs of investigating, adjusting and settling claims. Loss reserves are discounted to take into account the time value of money.

**“losses on claims”** means the estimated amount payable under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

**“market share”** or **“share”** of a mortgage insurer means the insurer’s gross premiums written as a percentage of the reported gross premiums written of the Canadian mortgage insurance industry.

**“net gains or losses from investments, derivatives and foreign exchange”** means the sum of net realized gains or losses on sales of investments, net gains or losses from derivatives and foreign exchanges and impairment losses.

**“net underwriting income”** means the sum of premiums earned and fees and other income, less losses and sales, underwriting and administrative expenses during a specified period.

**“original loan-to-value ratio”** means the original balance of a mortgage loan divided by the original value of the mortgaged property.

**“portfolio insurance”** means mortgage insurance covering an individual mortgage that is underwritten as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

**“portfolio new insurance written”** means the original principal balance of mortgages, insured during a specified period as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

**“premium tax”** means a tax paid by insurance companies to provincial and territorial governments calculated as a percentage of gross premiums written.

**“premiums written”** means gross payments received from insurance policies issued during a specified period.

**“sales, underwriting and administrative expenses”** means the cost of marketing and underwriting new mortgage insurance policies and other general and administrative expenses, including premium taxes, risk fee and net of the change in deferred policy acquisition costs.

**“severity”** means the dollar amount of losses on claims.

**“total debt service ratio”** or **“TDSR”** means the borrowers’ monthly debt servicing costs as a percentage of borrowers’ monthly gross income.

**“transactional insurance”** means mortgage insurance covering an individual mortgage that typically has been underwritten individually, and which is predominantly a mortgage with a loan-to-value ratio of greater than 80% at the time the loan is originated.

**“transactional new insurance written”** means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period predominantly on mortgages with a loan-to-value ratio of greater than 80% at the time the loan is originated. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

**“underwriter”** means an individual who examines and accepts or rejects mortgage insurance risks based on the Company’s approved underwriting policies and guidelines.

**“unearned premiums reserve”** or **“UPR”** means that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy life in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.