

**SAGEN MI CANADA INC.**

**ANNUAL INFORMATION FORM**  
**For the year ended December 31, 2024**

**March 19, 2025**

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## NOTICE TO INVESTORS

### Interpretation

Unless the context otherwise requires, in this annual information form (“AIF”), all references to “**Sagen MI Canada**” refer to Sagen MI Canada Inc. and all references to the “**Company**” refer to Sagen MI Canada Inc. and its subsidiaries. To the extent references in this AIF are made to matters undertaken by a predecessor in interest to Sagen MI Canada or its subsidiaries, include such predecessor in interest. Unless the context otherwise requires, all references in this AIF to subsidiaries of Sagen MI Canada include Sagen Mortgage Insurance Company Canada (“**Sagen**”) and MIC Insurance Company Canada (“**MIC ICC**”).

The Company presents its Consolidated Financial Statements (as defined below) in Canadian dollars. In this AIF, references to “\$”, “dollars” or “Canadian dollars” are to Canadian dollars and references to “US\$” and “U.S. dollars” are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Except as otherwise noted, the information in this AIF is given as of March 19, 2025.

### Caution Regarding Forward-Looking Information and Statements

Certain statements made in this AIF contain forward-looking information within the meaning of applicable securities laws (“**forward-looking statements**”). When used in this AIF, 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 Company’s expectations regarding the effect of the Canadian government guarantee legislative framework; the impact of guideline changes by OSFI and the Company’s response to such changes, including the Company’s plans to strengthen operational resilience practices; the impact of legislation 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 availability of portfolio mortgage insurance, and provincial or territorial action taken to impact local markets; the impact of the implementation of new accounting standards, including IFRS 17 and IFRS 9 (each as defined below), on the Company’s financial statements; the Company’s beliefs as to housing demand and home price appreciation, key macroeconomic factors, and unemployment rates; the Company’s future operating and financial results; capital expenditure plans; and the ability of the Company 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 its sole holder of Class A Common Shares, Brookfield Business Partners L.P. together with certain of its affiliates and institutional partners (collectively "**Brookfield**"); interest rate, credit spreads, foreign exchange rates and equity price 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 or impacting the competitive landscape of the mortgage insurance industry; 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 governing party or philosophy at the federal or provincial levels; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; increased market volatility, political risk, regulatory compliance and costs associated with international investing; geopolitical risk including deterioration in international trade or consumer confidence due to the imposition or escalation of material international trade tariffs, or geopolitical instability resulting from armed conflicts or acts of terrorism or war; environmental concerns, including climate change; changes in the value of investment securities held by the Company; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; negative publicity; operational risks, including the failure of the Company's computer systems, potential cyber threats and the use of artificial intelligence; impact of the implementation of new accounting standards; reduction of business or adverse selection of loans with key lenders; the Company's reliance on its subsidiaries; litigation; insufficient insurance coverage; and potential conflicts of interest between the Company and its sole holder of Class A Common Shares, 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 herein under the heading "*Risk Factors*". 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 and can be found on the System for Electronic Document Analysis and Retrieval + ("**SEDAR+**") website at [www.sedarplus.com](http://www.sedarplus.com). The forward-looking statements contained in this AIF represent the Company's views only as of the date hereof. Forward-looking statements contained in this AIF 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.

### **GAAP, Non-GAAP and Other Financial Measures**

To supplement the Company's consolidated financial statements, which are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), the Company uses certain non-GAAP financial measures to analyze performance. Such non-GAAP financial measures include premiums written; net operating income; operating investment income; interest and dividend income, net of investment expenses; pre-tax equivalent operating investment income; net insurance revenue; and net insurance service results. See the "Non-GAAP and other financial measures" section of the MD&A (as defined below), which is incorporated by reference herein, and in this AIF for a reconciliation of (i) net insurance revenue to the comparable financial measure of insurance revenue, (ii) net insurance service result to the comparable financial measure of insurance service result, (iii) operating investment income and interest and dividend income, net of investment expenses to the comparable financial measure of total investment income; (iv) net operating income to the comparable financial measure of net income; and (v) pre-tax equivalent operating investment income to the comparable financial measure of total investment income. These non-GAAP financial measures have been restated to reflect the impact of new accounting standards as described below. Non-GAAP ratios used by the Company include investment yield.

Supplementary financial measures used by the Company to analyze performance include loss ratio, expense ratio, combined ratio, financial leverage ratio and contractual service margin ratio. The supplementary financial measures can be calculated using financial measures from the Company's consolidated financial statements. The Company believes that these non-GAAP financial measures, non-GAAP ratios and supplementary financial measures provide meaningful 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. These measures and ratios may not have standardized meanings and may not be comparable to similar measures presented by other companies. Definitions of key non-GAAP and other financial measures and explanations of why these measures are useful to investors and management can be found in the Company's Non-GAAP and other financial measures glossary, in the Non-GAAP and other financial measures section in the Company's MD&A. Operational metrics used by the Company include outstanding insured mortgage balances, delinquency ratio on outstanding insured mortgage balances, new reported delinquencies, cures, average reserve per delinquencies and average premium rate. These metrics are used by the Company to analyze performance in regard to the aggregate amount of outstanding insurance, delinquency trends and premium rate trends.

## Documents Incorporated by Reference

The following documents are incorporated by reference in and form part of this AIF:

- (i) the Company's Management's Discussion and Analysis ("**MD&A**") for the year ended December 31, 2024, and
- (ii) the Company's Consolidated Financial Statements and accompanying notes ("**Consolidated Financial Statements**") as at and for the years ended December 31, 2024 and 2023.

These documents have been filed with securities regulators in Canada and may be accessed on SEDAR+ at [www.sedarplus.com](http://www.sedarplus.com).

## CORPORATE STRUCTURE

### Name, Address and Incorporation

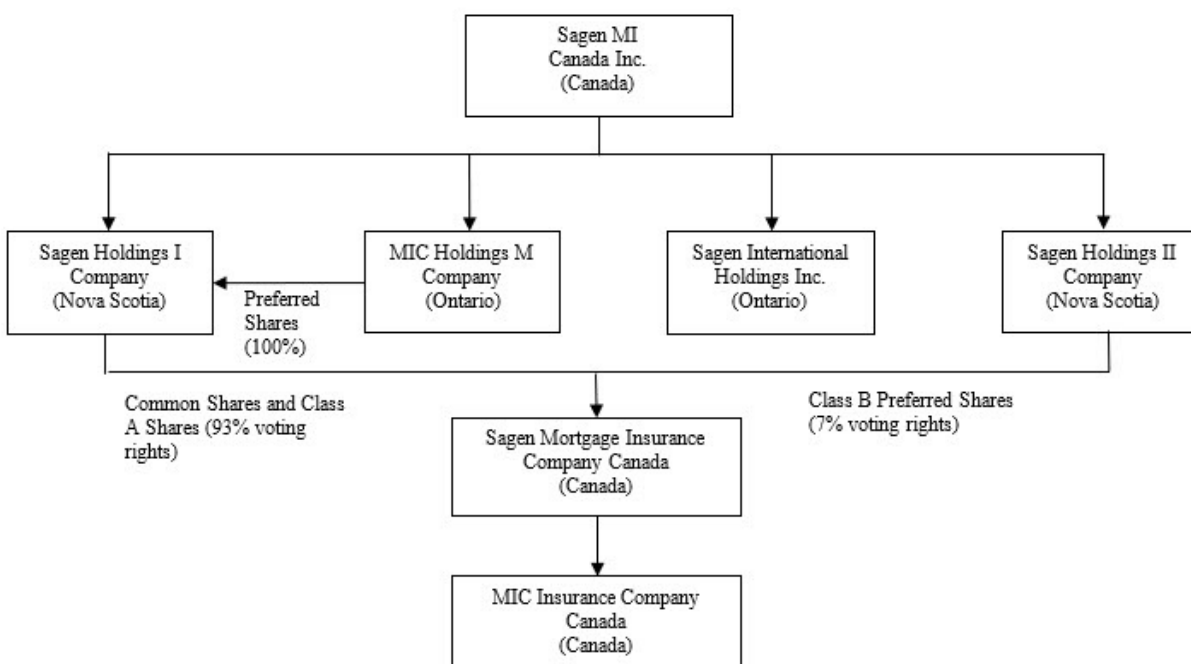
Sagen MI Canada was incorporated as a corporation under the *Canada Business Corporations Act* pursuant to a Certificate of Incorporation dated May 25, 2009. From 1995 to 2004, the Company's business was operated by Genworth Financial, Inc. ("**Genworth Financial**") (when it operated as a wholly owned subsidiary of the General Electric Company). Pursuant to a reorganization on July 6, 2009, Sagen MI Canada acquired Sagen Holdings I Company and Sagen Holdings II Company, which control Sagen. On November 15, 2012 Sagen acquired MIC ICC. On December 12, 2019, Genworth Financial and Brookfield closed the sale of Genworth Financial's majority interest in Sagen MI Canada to Brookfield (the "**Brookfield Transaction**"). On February 18, 2021, the Company completed an offering of 4,000,000 non-cumulative, voting Class A Preferred Shares, Series 1 (the "**Series 1 Class A Preferred Shares**"). On April 1, 2021, a plan of arrangement was completed, pursuant to which Brookfield purchased all of the outstanding common shares of the Company ("**Former Shares**") that were not already owned by Brookfield, following which the Former Shares were de-listed from the Toronto Stock Exchange ("**TSX**"). MIC Holdings M Company is a holding company that will be utilized for intercorporate purposes. Sagen International Holdings Inc. is an Ontario corporation that is being utilized for investments.

Effective June 1, 2021, the legal name of Genworth Financial Mortgage Insurance Company Canada became Sagen Mortgage Insurance Company Canada. The principal business office and registered office of the Company is located at 2060 Winston Park Drive, Suite 300, Oakville, Ontario L6H 5R7.



## Inter-corporate Relationships

The following chart illustrates the Company's corporate structure, together with the jurisdiction of incorporation or continuance of each of Sagen MI Canada's subsidiaries. Each such subsidiary is wholly owned and 100% controlled by Sagen MI Canada, unless otherwise indicated in the chart below.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Introduction

The Company is the largest private residential mortgage insurer in Canada and has been providing mortgage default insurance in Canada 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 majority of Canada's residential mortgage lenders and originators. The Company underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among mortgage insurers. Canada Mortgage and Housing Corporation ("CMHC"), a Crown Corporation, and Canada Guaranty Mortgage Insurance Company ("Canada Guaranty") are the Company's major competitors. As of December 31, 2024, Sagen MI Canada had \$6.8 billion in total assets and \$2.9 billion in shareholders' equity. For the full year ended December 31, 2024, the Company had net operating income of \$605 million. The Company employs approximately 260 people across Canada.

### Three Year History

As at December 31 of each year-end set out below, the Company achieved the following financial results:

	2022	2023	2024
Total premiums written	\$825 million	\$612 million	\$775 million
Net Income IFRS 4	\$637 million	-	-
Net Income IFRS 17	\$421 million	\$512 million	\$606 million
Net operating income IFRS 4 <sup>(1)</sup>	\$653 million	-	-
Net operating income IFRS 17 <sup>(1)</sup>	\$476 million	\$539 million	\$605 million
Net (recoveries) losses on claims	\$22 million	\$38 million	\$36 million
Loss Ratio IFRS 4 <sup>(2)</sup>	3%	-	-
Loss Ratio IFRS 17 <sup>(2)</sup>	4%	6%	5%

(1) Non-GAAP financial measure.

(2) Supplementary financial measure. See the “Non-GAAP and other financial measures” section of the MD&A and in this AIF for a reconciliation of non-GAAP financial measures and supplementary financial measures, including net operating income and loss ratio.

## 2024

In April 2024, Morningstar DBRS (“**DBRS**”) affirmed (i) Sagen’s AA financial strength rating, (ii) Sagen MI Canada’s issuer rating of A (high), senior unsecured debentures rating of A (high), subordinated notes rating of A (low) and preferred share rating of Pfd-2 (high) and (iii) Sagen’s and Sagen MI Canada’s trends as stable. In April 2024, Standard & Poor’s Ratings Services (“**S&P**”) confirmed Sagen MI Canada’s issuer rating of BBB+, senior unsecured debentures rating of BBB+, subordinated notes rating of BBB- and preferred share rating of P-2 (low) and (iii) Sagen MI Canada’s trends as stable. See “*Description of Capital Structure – Ratings*” for further details on the applicable ratings.

As of December 31, 2024, Sagen had a Mortgage Insurer Capital Adequacy Test (“**MICAT**”) ratio of approximately 177%, 20 percentage points higher than the internal MICAT ratio target of 157% and 27 percentage points higher than the OSFI Supervisory MICAT ratio target of 150% and the minimum MICAT ratio under PRMHIA of 150%.

See “*Regulatory Overview – Capital Requirements*” and “*Regulatory Overview – Regulatory Changes*” and “*Dividends*” for details on pertinent regulatory developments during the prior three years and for details on dividend payments by the Company during the prior three years.

## 2023

On January 1, 2023, the Company applied IFRS 17: Insurance contracts (“**IFRS 17**”) and IFRS 9: Financial instruments (“**IFRS 9**”) for the first time. These standards result in significant changes to the accounting for insurance and financial instruments from their previous framework under IFRS 4 and IAS 39, respectively.

On May 19, 2023, the Company completed a private placement of \$200 million principal amount of 5.909% debentures due May 19, 2028 (“**Series 7 Debentures**”). On June 19, 2023, the Company used the proceeds from the Series 7 Debentures offering, in part, to redeem approximately \$170 million principal amount of its 4.242% debentures due April 1, 2024 (the “**Series 3 Debentures**”), being all of the then outstanding Series 3 Debentures.

In May 2023, DBRS affirmed (i) Sagen’s AA financial strength rating, (ii) Sagen MI Canada’s issuer rating of A (high), senior unsecured debentures rating of A (high), subordinated notes rating of A (low) and preferred share rating of Pfd-2 (high) and (iii) Sagen’s and Sagen MI Canada’s trends as stable. In April 2023, S&P withdrew its ‘A+’ long-term issuer credit rating and financial strength rating on Sagen at the Company’s request, as the S&P rating was no longer needed. The outlook was stable at the time of withdrawal. S&P maintained Sagen MI Canada’s issuer rating of BBB+, senior unsecured debentures rating of BBB+, subordinated notes rating of BBB- and preferred share rating of P-2 (low) and (iii) Sagen MI Canada’s trends as stable.

As of December 31, 2023, Sagen had a MICAT ratio of approximately 172%, 15 percentage points higher than the internal MICAT ratio target of 157% and 22 percentage points higher than the OSFI Supervisory MICAT ratio target of 150% and the minimum MICAT ratio under PRMHIA of 150%.

## 2022

During the last three quarters of 2022, the Company repurchased an aggregate principal amount of approximately \$114 million of long-term debentures issued by the Company in open market purchases, as permitted by the terms of such debentures. See the MD&A section titled “Capital management - Debt” for further details on the long-term debt of the Company.

On March 29, 2022, the Company repaid the remaining outstanding balance of US\$17 million, or approximately \$22 million, of a LIBOR loan under the Company’s 2026 Term Facility (as defined below) and terminated the 2026 Term Facility. On May 3, 2022, the Company repaid the full amount outstanding of \$76 million of the prime rate loan under the 2025 Term Facility (as defined below). On September 29, 2022, the Company entered into an amended and restated credit agreement to amend the 2025 Term Facility, extending the term of the undrawn unsecured syndicated revolving credit facility of \$300 million until September 2027 (the “**Credit Facility**”). See the MD&A section titled “Capital management – Credit facility” for further details on the Credit Facility.

In October 2022, DBRS affirmed (i) Sagen’s AA financial strength rating, (ii) Sagen MI Canada’s issuer rating of A (high), senior unsecured debentures rating of A (high), subordinated notes rating of A (low) and preferred share rating of Pfd-2 (high) and (iii) Sagen’s and Sagen MI Canada’s trends as stable. In October 2022, S&P affirmed (i) Sagen’s A+ financial strength rating, (ii) Sagen MI Canada’s issuer rating of BBB+, senior unsecured debentures rating of BBB+, subordinated notes rating of BBB- and preferred share rating of P-2 (low) and (iii) Sagen’s and

Sagen MI Canada's outlook as stable. See "*Description of Capital Structure – Ratings*" for further details on the applicable ratings.

As of December 31, 2022, Sagen had a MICAT ratio of approximately 178%, 21 percentage points higher than the internal MICAT ratio target of 157% and 28 percentage points higher than the OSFI Supervisory MICAT ratio target of 150% and the minimum MICAT ratio under PRMHIA of 150%.

### **Acquisitions, Disposals, Reorganizations and Other Developments**

No significant acquisitions, disposals, or other developments or material reorganizations were completed by the Company during the year ended December 31, 2024. During such period, Sagen MI Canada did not file a Form 51-102F4 - *Business Acquisition Reports* in respect of any transactions.

## **DESCRIPTION OF THE BUSINESS**

### **General**

Information about the Company's business and its operations is included in the MD&A which is incorporated by reference in this AIF and should be read in conjunction with the Consolidated Financial Statements. These documents are available on SEDAR+ at [www.sedarplus.com](http://www.sedarplus.com).

### **Employees, Facilities and Organizational Structure**

The Company's head office is located on leased premises in Oakville, Ontario. The Company's head office and primary business functions, including Finance, Legal, Risk Management, Operations, Information Technology and Human Resources are based in Oakville. The Company also employs regional sales, risk, underwriting and information technology employees located across Canada operating out of personal residences. The Company employed approximately 260 people across Canada as of December 31, 2024.

### **Overview of the Canadian Mortgage Insurance Industry**

Canada's housing finance system is one of the most efficient and stable in the world. Mortgage lending practices and regulation in Canada have led to a high degree of loan accessibility for consumers, competitive mortgage rates, and requirements and incentives for lenders to maintain solid underwriting disciplines. This has resulted in high levels of homeownership and a relatively stable housing market in Canada. See "*Industry Overview*" for further details on the Canadian housing finance system.

As a result of the regulatory regime in place, the majority of mortgages in Canada that are originated with a loan-to-value ratio of greater than 80% are insured by a mortgage insurer. Currently, lenders may also obtain mortgage insurance for mortgages with loan-to-value ratios of 80% or less, for a number of reasons, including: to obtain credit enhancement for the securitization market that exists for Canadian mortgages (which typically requires that a mortgage loan be insured to become eligible for securitization); to obtain capital relief from regulatory capital

requirements for lenders (which is available in respect of insured mortgages); and to mitigate risks associated with certain mortgage loans.

Under a mortgage insurance policy, the mortgage lender is insured against risk of loss for the entire unpaid loan balance, plus interest, customary selling costs and expenses related to the sale of the underlying property upon default by the borrower. Lenders pay the insurance premiums for mortgage insurance to a mortgage insurer in full on an upfront, non-refundable, single premium basis, but are reimbursed by the borrower in the case of transactional insurance. For transactional insurance, the cost is typically passed on to the borrower by adding the mortgage insurance premium to the principal amount of the mortgage and amortizing the amount within the borrower's monthly mortgage payments. There is no requirement for a mortgage loan customer to re-apply or pay for mortgage insurance on a mortgage renewal. Insurers recognize premiums received as insurance contract liabilities, invest those premiums and recognize them as insurance revenue over the coverage period as the Company provides services under the contract in accordance with the accounting standard for insurance contracts, IFRS 17. The revenue recognition approach provides insurers with a significant future stream of insurance revenue based on insurance written in prior periods.

The Company applied IFRS 17 for the first time in January 1, 2023. Transition to IFRS 17 resulted in material changes to how the Company measured, presented and recognized revenue from insurance contracts prior to that time. Additional information about the Company's accounting policies under IFRS 17 can be found in the Company's Consolidated Financial Statements.

The mandatory requirement for mortgage insurance, coupled with sound capital regulation of lending institutions as well as private sector mortgage insurers, has fostered a stable housing market in Canada supported by prudent and sustainable lending practices that help moderate the impact of economic and housing market cycles. The mortgage insurance business is seasonal. Business volumes vary each quarter, while interest and dividend income, net of investment expenses, and administrative expenses tend to be relatively more stable from quarter to quarter. The variations in business volumes are driven by mortgage origination activity, which typically peaks 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. Typically, losses on claims increase during the winter months and decrease during the spring and summer months.

Pursuant to PRMHIA and the NHA, the Minister of Finance (the “**Minister**”) has the authority to regulate and limit product availability within the mortgage insurance market (see “*Regulatory Overview - Regulatory Changes*”).

## ***PRMHIA***

PRMHIA came into effect on January 1, 2013, replacing a similar structure previously outlined in the Government Guarantee Agreement with Sagen. The stated purposes of PRMHIA are: (i) to authorize the Minister to provide protection in respect of certain mortgage or hypothecary insurance contracts in order to support the efficient functioning of the housing finance market and

the stability of the financial system in Canada; and (ii) to mitigate the risks arising from the provision of that protection.

Under the capital guidelines applicable to federally-regulated financial institutions, residential mortgage loans insured by CMHC receive a zero percent risk-weighting, which means that the lending institution is not required to hold capital in respect of the loan. The 90% government guarantee typically reduces the risk weight for a mortgage insured by the Company.

The maximum outstanding insured exposure for all private sector insured mortgages permitted by PRMHIA is \$350 billion. The Company estimated (based on information reported to it from its lenders) that as of December 31, 2024, it had approximately \$194 billion in outstanding principal amount of mortgages that counted toward the cap set out in PRMHIA and the outstanding insured mortgage balances for all private sector insured mortgages was \$316 billion. As outstanding principal mortgage amounts approach the legislative cap, the Government of Canada has historically increased the cap to ensure that the private sector could continue to compete with CMHC; however, there is no guarantee that such historical patterns will continue. Also in place is a \$1.5 million cap on the qualification criteria for insured mortgages with a loan-to-value ratio greater than or equal to 80%. A \$1.0 million cap remains in place for insured mortgages with a loan-to-value ratio less than 80%. Over time, continued home price appreciation, coupled with the maintenance of a price cap, will reduce the number of eligible insurable properties.

### ***Regulatory Changes***

Industry changes are described below in the section titled “*Regulatory Overview - Regulatory Changes*”.

### **Competition**

The Company’s major mortgage insurance competitors are CMHC and Canada Guaranty. CMHC is a Canadian Crown Corporation and Canada Guaranty is the Company’s only private sector mortgage insurance competitor. Canada Guaranty originally entered the Canadian private sector mortgage insurance market in 2006.

Other competitors have entered or attempted to enter the Canadian market from time to time. The Company competes with CMHC and Canada Guaranty primarily based upon the Company’s reputation for high quality customer service, efficient decision-making on insurance applications and strong underwriting expertise. The Company’s ability to write new business is also impacted by the limits set out in legislation on the total amount of insurance that may be written by private insurers and by CMHC.

### **Overview of the Company’s Mortgage Insurance Business**

The Company offers both transactional and portfolio insurance. For the 12-month period ended December 31, 2024, with total premiums written of approximately \$775 million, transactional insurance represented approximately 96% of the Company’s total premiums written and portfolio insurance represented approximately 4% of its total premiums written. As of December 31, 2024, the Company estimated the total outstanding balance of insured mortgages to be approximately \$194 billion. Transactional insured mortgages represent the majority of the

Company's aggregate insured mortgages, however premium rates on portfolio insurance are significantly lower than those on transactional insurance, due to the lower risk profile associated with such loans.

### ***Transactional Insurance***

Lenders are required to purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. In some instances, lenders decide to insure mortgages that have a loan-to-value below 80% on an individual basis. The Company's mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from losses on claims resulting from default on any type of residential mortgage loan instrument that the Company has approved.

By offering mortgage insurance in the above transactional insurance scenarios, the Company plays a significant role in increasing 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 the Company, obtain mortgages at rates comparable to buyers with more substantial down payments.

### ***Transactional Insurance - Served Market***

The Company's transactional insurance portfolio can be segmented by various classifications, including book year, geographic region, credit score, original loan-to-value ("LTV"), amortization and product type. The Company's served market for transactional insurance consists primarily of first-time homebuyers. As at December 31, 2024, the Company's new insurance written for the preceding year, at origination, had average profiles as follows:

Age Profile		Income Profile		Credit Score Profile	
35 or under	54%	\$50,000 or under	1%	599 or under	0%
36 to 45	30%	\$50,001 to \$100,000	17%	600 to 679	5%
46 to 55	12%	\$100,001 to \$150,000	37%	680 to 720	14%
56 or older	4%	Over \$150,000	46%	Over 720	81%

Loan-to-Value Mix	
75% and under	1%
75.01 to 80%	1%
80.01 to 85%	7%
85.01 to 90%	30%

Provincial Mix	
Alberta	24%
British Columbia and Territories	8%
Manitoba	3%
New Brunswick	3%
Newfoundland & Labrador	2%
Nova Scotia & P.E.I.	4%
Ontario	29%

Over 90%	62%	Quebec	23%
		Saskatchewan	5%

Note: Percentages may not total to 100% due to rounding.

Interest Rate Type			
		2024 NIW	Total Portfolio
Fixed Rate Mortgage	Interest rate and payment remain fixed for the duration of the mortgage term, and the mortgage remains on amortization schedule.	94%	85%
Variable Rate Mortgage (VRM)	Interest rate changes but payment remains fixed for the duration of the mortgage term and the proportion of principle vs interest adjusts according to interest rate changes, remaining amortization adjusts to account for decrease in principle pay down.	1%	6%
Adjustable Rate Mortgage (ARM)	Interest rate and payment adjusts throughout the duration of the mortgage term and the mortgage remains on amortization schedule.	4%	8%
Capped Rate Mortgage	Combination of VRM & ARM – Interest rate and payment adjusts until capped interest rate reached then interest rate changes but payment remains fixed for the remaining term of the mortgage and the proportion of principle vs interest adjusts according to interest rate changes, remaining amortization adjusts to account for decrease in principle pay down.	0%	1%

Notes: Percentages may not total to 100% due to rounding.

Approximately 50% of the Company's transactional new insurance written is attributed to five-year fixed rate mortgages or terms of longer duration and approximately 44% is attributed to fixed rate mortgages with terms of less than five years. Transactional new insurance written was \$21.34 billion in 2024, representing an increase of \$4.27 billion, or 25%, as compared to 2023, primarily due to a lower rate environment stimulating housing market activity in the period.

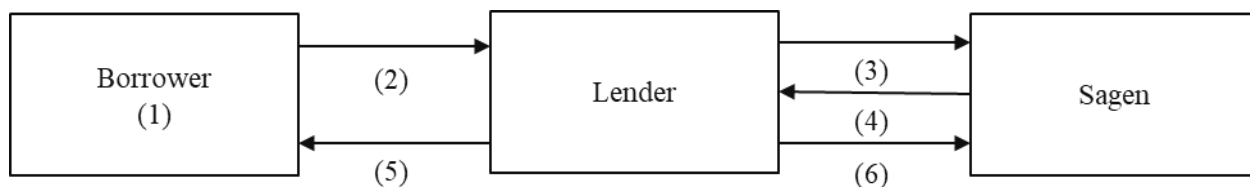
Pursuant to the rules governing government guaranteed mortgages (more fully described in “*Description of the Business - Overview of the Canadian Mortgage Insurance Industry - PRMHIA*” and “*Regulatory Overview - Regulatory Changes*”), all homebuyers must qualify for mortgage insurance at a minimum qualifying rate. 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. See “*Regulatory Overview - Regulatory Changes*” for further details on the minimum qualifying rate.

#### Transactional Insurance - Purchase Process

The process by which lenders purchase transactional insurance from the Company is summarized in the following diagram.

#### **Process for New Insurance Written**





- |     |                    |     |                                        |     |                                                                                         |
|-----|--------------------|-----|----------------------------------------|-----|-----------------------------------------------------------------------------------------|
| (1) | Borrower buys home | (2) | Borrower requests mortgage from Lender | (3) | Lender submits insurance application to Sagen                                           |
|     |                    | (5) | Lender advances mortgage funds         | (4) | Sagen reviews and approves applications if the Company's underwriting standards are met |
|     |                    |     |                                        | (6) | Lender submits premium to Sagen                                                         |

The Company reviews its insurance in-force constantly to assess the nature and risks of its portfolio. Below are details of the Company's outstanding insured balances by year of policy origination.

***Outstanding Insured Balances by Year of Policy Origination***

	As at December 31, 2024			As at December 31, 2023		
	Transactional	Portfolio	Total	Transactional	Portfolio	Total
2010 & prior	\$6	-	\$6	\$7	-	\$7
2011	\$2	-	\$2	\$2		\$3
2012	\$2	\$1	\$3	\$3	\$1	\$4
2013	\$2	\$1	\$4	\$3	\$1	\$4
2014	\$3	\$2	\$5	\$4	\$2	\$7
2015	\$5	\$4	\$9	\$6	\$5	\$11
2016	\$5	\$8	\$13	\$6	\$9	\$15
2017	\$5	\$3	\$8	\$6	\$4	\$9
2018	\$6	\$2	\$7	\$7	\$2	\$9
2019	\$7	\$2	\$9	\$10	\$3	\$14
2020	\$15	\$8	\$23	\$17	\$10	\$27
2021	\$25	\$5	\$29	\$28	\$5	\$33
2022	\$20	\$4	\$24	\$22	\$5	\$27
2023	\$16	\$5	\$21	\$17	\$6	\$23
2024	\$21	\$8	\$29			
<b>Total</b>	<b>\$141</b>	<b>\$53</b>	<b>\$194</b>	<b>\$137</b>	<b>\$55</b>	<b>\$192</b>

Note: Amounts noted in billions of dollars.

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year

decreases. The estimated effective loan-to-value ratio of the Company's insured mortgages was approximately 43% as of December 31, 2024.

***Estimated effective loan-to-value % of the Company's  
outstanding insured mortgage balances<sup>(1)</sup> by book of business***

	As at December 31, 2024			As at December 31, 2023		
	Transactional	Portfolio	Total	Transactional	Portfolio	Total
2010 & prior	20%	10%	16%	23%	11%	18%
2011	28%	13%	20%	31%	14%	22%
2012	30%	15%	22%	33%	17%	24%
2013	32%	17%	22%	35%	18%	25%
2014	36%	19%	25%	40%	21%	27%
2015	38%	21%	26%	42%	22%	28%
2016	41%	23%	29%	45%	25%	31%
2017	48%	27%	41%	53%	29%	44%
2018	52%	28%	42%	57%	30%	45%
2019	55%	30%	44%	60%	33%	46%
2020	60%	32%	51%	65%	35%	55%
2021	72%	39%	65%	78%	43%	71%
2022	85%	48%	75%	91%	52%	80%
2023	85%	47%	70%	91%	52%	78%
2024	92%	52%	78%			
<b>Total</b>	<b>57%</b>	<b>26%</b>	<b>43%</b>	<b>58%</b>	<b>26%</b>	<b>43%</b>

(1) This estimate is based on the amounts reported by lenders to the Company, which represents the majority of insurance in-force.

***Average remaining amortization (in years) of Company's  
outstanding insured mortgage balances<sup>(1)</sup> by interest rate type***

	As at December 31, 2024			As at December 31, 2023		
	Transactional	Portfolio	Total	Transactional	Portfolio	Total
Fixed	18	15	17	20	15	18
VRM	25	16	22	39	21	35
ARM	19	16	17	24	16	20
Capped	16	-	16	21	16	20

(1) This estimate is based on the amounts reported by lenders to the Company, which represents the majority of insurance in-force.

Note: Average remaining amortization for 5-year term mortgages, excluding mortgages with negative amortizations for December 2024.

See “*General Development of the Business - Three Year History*” and “*Regulatory Overview - Regulatory Changes*” for further details on the implementation, regulatory and policy changes at the federal and provincial levels over recent years and the impact of such changes.

### *Transactional Insurance - Pricing*

The Company reviews its underwriting, pricing and risk selection strategies on a regular basis to ensure that its products remain competitive and consistent with its marketing and profitability objectives. The Company’s pricing approach takes into consideration long-term historical loss experience on loans with similar loan-to-value ratios, terms and types of mortgages, borrower credit histories and capital required to support the product. The average transactional premium rate for 2024 of 348 basis points was modestly higher as compared to 344 in the prior year due to a modest shift in the loan-to-value mix and slightly higher premiums for longer amortizing loans.

### ***Portfolio Insurance***

The Company also provides portfolio insurance to lenders with loan-to-value ratios of 80% or less. These policies are beneficial to lenders as they provide the ability to manage capital and funding requirements and mitigate risk. The Company views portfolio insurance as an extension of its relationship with existing transactional customers and carefully manages the level of its portfolio insurance relative to its overall insurance in-force.

Lenders choose to acquire portfolio insurance to achieve maximum funding flexibility, as it enables them to access lower-cost funds through securitization programs, such as the CMHC-sponsored NHA Mortgage-Backed Securities (“**MBS**”) program, which requires that a mortgage be insured in order to be eligible for the program. Participation in the MBS program also enables lenders to access the Canada Mortgage Bonds (“**CMB**”) program. Because the benefits payable under the Company’s mortgage insurance policies are subject to the 90% Guarantee, lenders that purchase insurance for a mortgage can reduce their risk-weighted regulatory capital charges for credit risks on mortgages insured by the Company.

Demand for portfolio mortgage insurance is limited by the fact that the Government of Canada restricts the insurance of low loan-to-value mortgages to only those mortgages that will be used in CMHC securitization programs. CMHC guarantees the timely payment of interest and principal for NHA MBS and CMBs, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors. The guarantee fees are in addition to the mortgage insurance premium for insured mortgages.

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

### *Portfolio Insurance - Pricing*

Pricing on portfolio insurance is based on an evaluation of the quality and characteristics of the underlying mortgages. Since the new capital framework was implemented, the rise in

premium rates has primarily been offset by two factors: more insured mortgages have loan-to-value ratios of less than 75%, and the average credit scores have improved. As a result, the average premium rates have decreased.

## **Distribution and Marketing**

The Company's marketing strategy focuses on creating and maintaining value added delivery beyond mortgage insurance and supporting customer relationships as all levels of its diverse customer base. The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more affordable for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage finance 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. Historically, the five largest Canadian chartered banks (the "**Big Five Banks**") have been the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Canadian mortgage lenders, and the Company's distribution model, can be divided into three segments. In order of magnitude, new insurance written for transactional insurance by the Company, is segmented among: (1) the Big Five Banks; (2) mortgage finance companies; and (3) regional lenders and other originators (such as credit unions). By segmenting its customer base, the Company believes it is able to provide superior customer experience through sales and underwriting support and technology solutions designed to meet the specific needs of lenders. The Company seeks to enhance customer satisfaction by achieving and sharing process efficiencies through risk management, automation and customized services that help lenders reduce costs, improve efficiencies, as well as originate and fund better quality loans. The Company continues to develop sophisticated technological tools that enhance performance by automating key processes and reducing response times and process variations. See "*Description of the Business - Insurance Risk - Underwriting*".

Based on customer input, the Company has developed customized distribution and marketing approaches for each of the mortgage insurance industry segments it serves to align its resources with its customers' key stakeholders.

**Big Five Banks** - The priority in this lender segment is to focus on the specific needs of each Big Five Bank. The Big Five Banks typically operate according to one of two models when allocating business to mortgage insurers: (i) centralized allocation; and (ii) decentralized, or "field", allocation. The emphasis is on maintaining a strong institutional relationship and providing on-going support by meeting each bank's service level requirements for risk, sales, training, service and product enhancement. Through pro-active, frequent communication, the Company stays attuned to the changing needs of the market and those of its customers. The Company endeavours to have an in-depth understanding of each bank's strategy and align the Company's capabilities to assist the lender to meet its objectives. The Company provides broad services to each lending institution as a whole, as well as delivering customized solutions and training where necessary on a local and regional level.

**Mortgage finance companies** - The Company strives to deliver customized solutions and training to its mortgage finance company customers. In addition, the Company provides these

lenders with tools and access to its risk management and underwriting infrastructure to enable them to improve their processes. In general, there is an increased focus in this lender segment on training the lenders' underwriting and sales functions, communicating industry best practices, enhancing third party relationships with brokers as well as providing risk guidance and support.

***Regional lenders and other originators*** - The Company emphasizes the development of strong relationships with regional lenders and other originators. These relationships are characterized by frequent contact and the provision of training, market updates and intelligence, and insights into industry best practices and trends. Credit unions are highly customer-focused, as they are owned by their members. The Company works collaboratively with lenders to add value for their borrowing customers.

Overall, the Company believes it is an essential resource and thought leader in the mortgage industry. The Company conducts ongoing and extensive market research that analyzes buying behaviour of first-time homebuyers and their financial fitness. As a result, the Company is able to deliver a best-in-class service experience and keep its customers apprised of homebuyer insights and regulatory-driven industry changes. Leveraging its staff's deep understanding of mortgage underwriting practices and the economic and competitive climate, the Company aims to deliver the best customer experience.

### ***Servicing of Customers***

***Dedicated Business Development Leaders and Underwriting Teams*** - The Company has experienced business development leaders who work as customer relationship managers and customer advocates to ensure each lender's needs are understood and incorporated within the Company as they relate to risk, marketing, program launches, securitization and technology. These leaders are responsible for the development and execution of sales and marketing strategies aimed at growing lender volumes while at the same time acting as a focal point for open communication with lenders. In addition, underwriting and mortgage information specialist teams are assigned geographically to provide lenders with the benefit of consistent service, decision-making and alignment with regional variances and the lender's policies and guidelines.

***Regular Portfolio and Risk Management Reviews with Lenders*** - The Company routinely conducts insured mortgage portfolio reviews with its lenders, during which it shares detailed information on a lender's portfolio quality across geographic, product and distribution channels. These reviews also include detailed loan performance metrics such as delinquency and loss severity rates. During such reviews, the Company shares insights on historical performance and risk management initiatives, the current housing market environment and emerging trends in both new mortgage originations as well as loan performance metrics.

***Regional Field Support and Customized Training*** - The Company provides local sales support through three regional sales teams: Western: British Columbia, Yukon, the Prairie Provinces and the other Territories; Central: Manitoba and Ontario; and Eastern: Québec and the Atlantic Provinces. The Company's field sales team is comprised of three regional vice presidents who are responsible for all regional sales activities, including relationship management, education and customer training. The Company places considerable value on customer and consumer education programs and allocates significant resources to them. For example, the Company's interactive training programs are recognized for their delivery of high-quality modules on technical

product information, tailored workshops and seminars. Each program is designed to help customers grow their business and enhance their industry knowledge and business development skills.

The Company also hosts a variety of educational events across the country which are designed to provide lenders and mortgage brokers with information on the latest trends and developments impacting the industry and Canadian housing finance system.

In addition to its national underwriting centre in Oakville, Ontario the Company also provides regional underwriting support in British Columbia, Quebec, the Prairies, Pacific and Atlantic regions. Regional underwriters work closely with their local sales team, adding another dimension of local knowledge and expertise to their customer interactions.

The Company monitors customer satisfaction and adapts its distribution and marketing approaches to meet changing customer demands. The Company conducts independently administered one-on-one executive level surveys to capture customer feedback and stratifies results regionally and by origination channel. The Company consistently ranks well above the competition on overall satisfaction ratings in these surveys. The Company believes that its historic growth in its business has been a direct result of its focus on its response to feedback, customer experience and satisfaction.

***Homebuyer Programs and Education*** - Although lenders are the beneficiaries of mortgage insurance policies, borrowers have benefited from the Company's enhanced service standards. The Company has been able to differentiate itself in the Canadian mortgage insurance marketplace through customer-focused support services such as the Homeowner Assistance Program, which is designed to help homeowners who are experiencing temporary financial difficulties that prevent them from making mortgage payments when due. For further details on the Homeowner Assistance Program, see "*Description of the Business - Insurance Risk - Loss Mitigation and Loan Modification Initiatives*" below. In addition, for more than a decade, the Company has designated a week in May as Homeownership Education Week during which the Company hosts a series of topical and relevant webinars designed to educate mortgage industry professionals.

The Company also creates and makes available to the public a variety of educational resources. Market research is important to the Company's business on many fronts. It provides the opportunity for the business to better understand the buying intentions and homeownership perceptions of various segments with the housing market. Annually, the business commissions a first-time homebuyer survey of Canadians. The survey results offer deeper insights into Canadian's attitudes on homeownership and the financial fitness of today's first-time homebuyer. The business also conducts a Financial Fitness Study, on an annual basis, which helps monitor the financial health and behaviours of Canadians with respect to homeownership. The business also informs and engages with consumers through social media, with regular tips and discussions on topics related to responsible homeownership.

## **Risk Management**

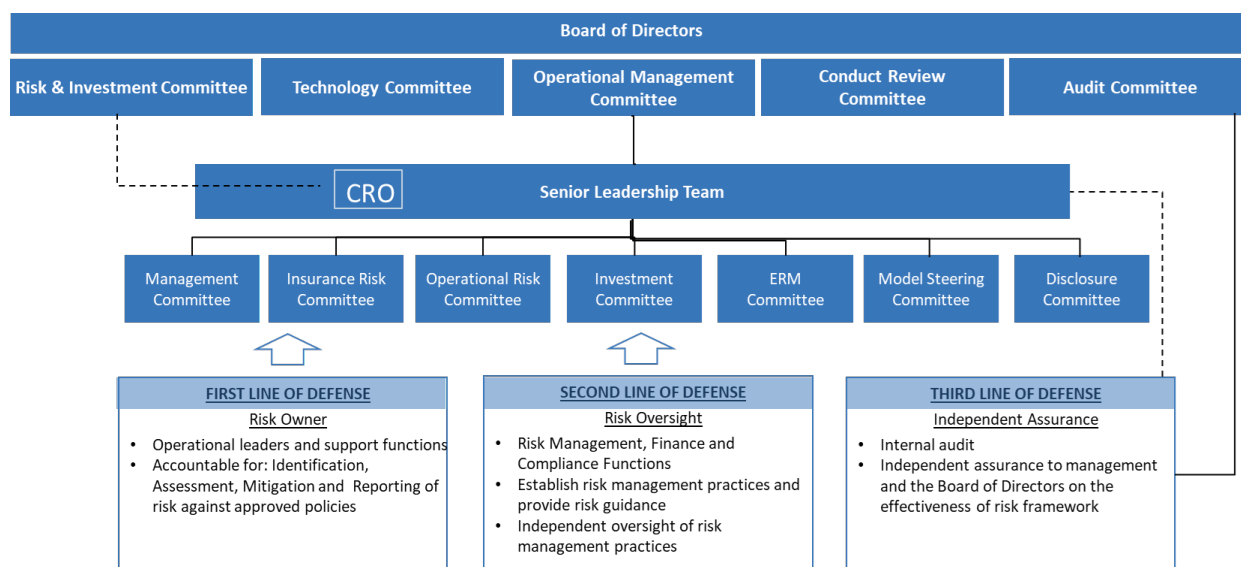
Risk management is a critical part of the Company's business. The Company's Enterprise Risk Management ("ERM") Framework comprises the totality of the frameworks, systems, processes, policies, and people for identifying, assessing, mitigating and monitoring risks.

## Governance framework

Sagen MI Canada’s governance framework is designed to ensure the Board of Directors of the Company (the “**Board**”) and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles, responsibilities and inter-relationships. The governance framework is comprised of three core elements: Board oversight of risk and risk management practices; Company management’s oversight of risks; and the “three lines of defense” operating model.

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 its Risk and Investment Committee having responsibility for oversight of insurance, investment, operational, technology and cybersecurity risks.

The Company’s management is responsible for risk management under the oversight of the Board and fulfills its responsibility through several committees. 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:



Sagen uses a “three lines of defense” approach to risk management, which serves to allocate accountability and responsibility for risk management, key elements of which are outlined below:

### First Line

Accountability and responsibility for risk management starts with the operational area where the risk may originate. Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis.

Second Line	An independent risk function establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risks. It evaluates and opines on the adequacy and effectiveness of first line controls and the application of frameworks and policies and monitors the risk profile of the Company including any emerging trends or weaknesses.
Third Line	An independent audit function provides assurance to the Board and the senior leadership team on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second line of defense achieves risk management and control objectives.

### ***Risk principles***

The Company employs the following methods of managing risk that originates 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 a deep understanding of risk drivers as they relate to the Company's key objectives, including addressing potential reputational risk issues;
- Employ a "three lines of defense" risk governance model, which ensures that the responsibility for risk management is shared across the business;
- Proactively address emerging risks as they arise; and
- Ensure 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. It articulates the desired balance between risk objectives, meeting customer needs and profitability objectives, and is a major communication tool that enables key messages to be disseminated 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 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:

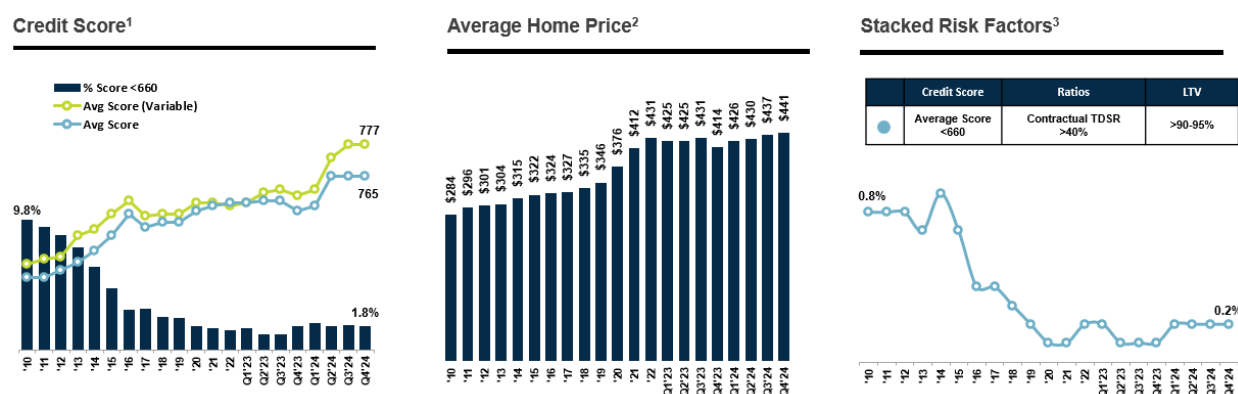
- **ERM Framework:** Provides an overview of the enterprise-wide program for identifying, measuring, controlling and reporting of material risks the Company faces;
- **Risk-Specific Frameworks:** Provides an overview of the Company's program for identifying, measuring, controlling and reporting for each 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.

## **Insurance risk**

The Company's mortgage insurance risk management involves actively managing 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. In 2024, the Company has continued to focus on insuring borrowers with a strong financial profile as demonstrated by the high average credit score which indicated the financial discipline of such homebuyers. The charts below set out certain characteristics of the Company's transactional insured mortgage portfolio and show the trend in the credit quality (calculated using a straight average of all valid scores received in respect of each mortgage application), underlying home prices and stacked risk factors for transactional insurance provided by the Company.

## Transactional Insured Mortgages Characteristics



- (1) Company sources for transactional new insurance written. Average score for all borrowers.
- (2) Company sources for transactional new insurance written. Purchase only.
- (3) Stacked risk factors: 90%+ LTV and <660 average credit score, and Contractual total debt service ratio >40%.

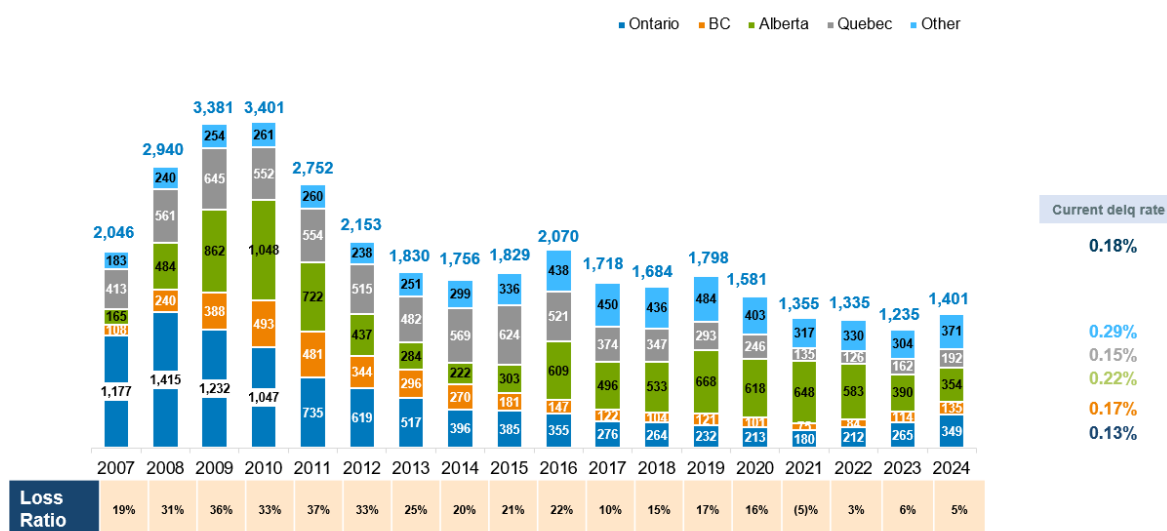
As a result of government regulations limiting the market and consequential underwriting changes implemented by the Company, the Company has limited exposure to higher risk products. See “*Industry Overview - Industry Performance*” for examples of regulatory limitations.

The Company carefully monitors the geographic distribution of its insurance portfolio against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada and takes underwriting actions to manage its exposure to the various regions based on prevailing conditions. For example, the Company monitors the effects of interest rate changes and housing affordability across the country and modifies its property risk assessment process accordingly.

The Company'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. The Company believes this model significantly enhances the ability to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score. The Company also utilizes internally developed models to estimate projected losses on claims and to measure the severity of loss and delinquency rate.

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines and risk technology. 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. The chart below shows a general declining trend of delinquencies from 2010 through to 2024 with a slight increase in 2024. Favorable labour market conditions and a low interest rate environment through mid-2022 contributed to low delinquency development. As mortgage rates increased from 2022 through 2023, the Company did not observe signs of a material deterioration in the performance of the Company's insurance portfolio. A decreasing interest rate environment in 2024 has contributed to continued relatively low levels of delinquency in the insurance portfolio. The strength of portfolio quality due to prudent risk appetite limits, as well as qualifying rate stress testing, has materially reduced the risk to the portfolio.

### Number of Reported Delinquencies



- (1) Based on outstanding insured mortgages as at December 31, 2024. Since 2016, delinquency rate is based on outstanding balance reporting from lenders to the Company. Prior to that year, lenders did not report outstanding balances to the Company and delinquency rate was derived by the Company based on available Company customer and insured mortgage data.
- (2) Loss ratio in 2009 excludes the impact of the change to the premium recognition curve in the first quarter of 2009; Loss Ratio is based on Annual/Quarterly total losses.
- (3) The 2022 loss ratio restated to reflect IFRS 17 transition is 4%.

### 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 routine reviews of a random sample of loans adjudicated by the Company's underwriters. Similarly, external lender audits are conducted on a routine basis, using when possible, a statistically relevant sample of approved 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 of all three areas are reviewed by management on a quarterly basis.

Through the Company's risk management system, the Company takes active steps to identify and help 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.

### ***Underwriting***

The Company's underwriting function is responsible for: (i) evaluating applications for transactional insurance and a subset of portfolio insurance submitted to the Company by lenders; (ii) ensuring that the Company's approved underwriting policies and guidelines are consistently followed; (iii) assessing the market value of a property collateralizing a mortgage; (iv) identifying any potential fraud; and (v) assisting lenders in the underwriting process.

The underwriting function consists of an underwriting group, a fraud prevention and quality control team and a customer service call centre. The underwriting group is responsible for underwriting applications, as well as manages the requisition and follow up of appraisals. The call centre services questions regarding application status and product or general questions.

The Company's underwriting group is divided into three regional specific teams. The region-dedicated nature of these teams facilitates a deep understanding of the processes and systems applicable to each particular province, thus enabling the underwriters to provide superior customer service as they assist lenders with mortgage insurance applications. The teams provide full coverage across Canada and do so in both official languages.

Authority levels for underwriting decisions are assigned by the Operations Management team and monitored by the Company's risk management function. Underwriters are given authority to approve mortgage insurance applications based on their experience and proficiency level. The authority levels govern the escalation of applications within the Company's underwriting group. The Company provides training on a regular basis to facilitate ongoing learning and improvements in underwriting proficiency.

In general, the Company evaluates portfolio insurance loans submitted to the Company by lenders for mortgage insurance on a portfolio basis in addition to on a loan-by-loan basis. When assessing portfolios, the Company evaluates the attributes and mix of loans. In addition, the Company audits a sample of loans from each insured portfolio to assess the underwriting procedures applied by the lender at origination. Also see "*Description of the Business - Overview of the Company's Mortgage Insurance Business - Portfolio Insurance*" for further details on portfolio insurance.

### ***Automation of Underwriting and the Risk Selection Process***

The Company uses its proprietary automated underwriting system and mortgage scoring model to process mortgage insurance applications electronically submitted by lenders. The Company's proprietary system captures details relevant to the application. The system calculates

the premium due based on the loan-to-value and product type. The system collects additional data from third party suppliers and evaluates the application against a set of risk rules and guidelines, which include fraud and compliance screens, and generates an automated response of either “Approved” or “Referred to Underwriter”. These rules and guidelines are recalibrated as required to align the automated underwriting process with changes made under the Company’s underwriting policies and guidelines and the risk management framework. In addition, the Company endeavours to continuously improve and add third party risk processes that assist in operational efficiencies or improve the quality of risk management decisions.

### ***Liability for Incurred Claims and Liability for Remaining Coverage***

The Company establishes the Liability for Incurred Claims (“**LIC**”) to provide for the expected ultimate net cost of settling claims, including loss adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. The LIC is presented net of any expected recoveries from losses on claim. LIC may deviate from the ultimate cost to settle claims. Rather, LIC reflects the Company’s estimate of what the Company expects to be the ultimate cost of resolution and administration of claims for notices of delinquencies reported to the Company by lenders. The Company refines its LIC estimates in an ongoing process based on the most recently available information as claims are adjusted and settled. Establishing an appropriate level of LIC is an inherently uncertain process, as it requires estimates and assumptions about future events. The following are some of the factors that may have a substantial impact on the Company’s ultimate losses on claims and the adequacy of its LIC: (i) number of delinquencies that will cure and therefore not result in a claim; (ii) the expenses that the Company incurs in resolving claims; (iii) legislative and judicial developments; (iv) changes in economic conditions, including inflation and changes in home prices; and (v) the level of undiscovered insurance fraud. See the MD&A for further details on the establishment of LIC.

The process for the establishment of the LIC 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. Estimates made during the reserving process are sensitive to inputs used in internally developed models, macroeconomic variables and economic forecasts.

The Company utilizes a model that establishes a Liability for Remaining Coverage (“**LRC**”) for groups of insurance contracts based on the Company’s estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk, and a Contractual Service Margin (“**CSM**”). The risk adjustment represents the compensation that the Company would require for bearing uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The CSM represents the unearned profit in the group of contracts. Insurance revenue is recognized in profit or loss over the lifetime of the insurance contracts and the revenue recognition pattern is primarily driven by: (i) the expected emergence of fulfilment cash flows, including the risk adjustment for non-financial risk, and (ii) the timing of the recognition of the CSM as services are provided under the insurance contract based on the change in coverage units, which are an estimate of the loss given default for outstanding insured mortgages. The Company’s appointed actuary performs a liability adequacy

test on the Company's LRC (previously on the unearned premiums reserve) to ensure the liability is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts.

### ***Claims Management***

The Company actively monitors and manages its claims internally through its claims management personnel in order to provide efficient, high-quality customer service and to mitigate potential losses on claims. Losses on claims represent the difference between the amounts claimed by the lender plus loss adjustment expenses and the amounts recovered or estimated to be recoverable from the sale of property securing the insured mortgage loan.

The claim amount is subject to the Company's review, appraisal and possible adjustment. With few exceptions, the policies exclude coverage for physical damage beyond normal wear and tear, whether caused by fire, earthquake or other hazard. In addition, the policies provide that the Company has the right to rescind coverage and refuse to pay a claim if it is determined that the insured or its agents made a misstatement or omission of a fact in the insurance application that was material to the Company's acceptance of risk. The insured lender is covered under the mortgage insurance policy for the entire unpaid loan balance, plus interest, customary selling costs and expenses related to the sale of the underlying property upon default by the borrower. An illustration of the calculation of an insurance claim is as follows.

#### **Mortgage Insurance Claim Illustration**

Purchase Value	<u>\$450,000</u>
Original Loan	\$427,500
Premium Amount <sup>(1)</sup>	<u>\$17,100</u>
Insured Amount	\$444,600
Unpaid Balance (at time of default)	\$400,000
Accrued Loan Interest	\$15,000
Foreclosure Fees	<u>\$32,000</u>
Gross Claim (A)	\$447,000
Property Value	\$380,000
Real Estate Fees and Taxes	<u>(\$22,000)</u>
Net Proceeds (B)	\$358,000
Net Claim Amount to Company (A-B)	\$89,000

(1) Based on current premiums.

The Company's policies require the insured lender to report a delinquency when payments on the insured mortgage are more than 90 days in arrears. A case reserve, a component of the LRC, is established when payments on the insured mortgage exceed 90 days in arrears or the Company considers it probable that a delinquency by a borrower may result in a claim.

The party insured by a residential mortgage policy issued by the Company is the lending institution. When the borrower is in arrears, the insured lender is obligated to diligently pursue efforts to require the borrower to remedy such arrears. Lenders report delinquent loans to the Company on a monthly basis. The typical delinquency management process is illustrated in the following diagram.



### **Delinquency Management Process**

- **Homeowner Assistance Program**
  - Prior to and during the assessment phase, the Homeowner Assistance Program is utilized to help qualified homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgage
- **Assessment**
  - Following a missed mortgage payment, lender commences “soft” collections to bring the mortgage back into good standing
- **Enforcement**
  - Law firm engaged for legal enforcement
- **Sale**
  - Property listed for sale and sold
- **Recoveries**
  - Recoveries from borrowers for mortgage losses and third parties

### ***Loss Mitigation and Loan Modification Initiatives***

The Company has had its primary loss mitigation program, the Homeowner Assistance Program, or similar programs, in place for over 25 years. The Homeowner Assistance Program is designed to help qualified homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgage. This program enables lenders to work with the Company to establish alternative arrangements, referred to as “workouts,” that may help borrowers remain in their home during or after times of temporary economic hardship, such as loss of employment or reduced income, marital breakdown or unexpected illness or disability.

Requests for assistance under the Homeowner Assistance Program may originate directly from borrowers, or indirectly from lenders on behalf of the borrowers. Such requests typically relate to borrowers who have not yet become delinquent but are experiencing difficulty with making mortgage payments. The Company reviews every new reported delinquency to determine if an opportunity exists to assist the borrower through the Homeowner Assistance Program. If such an opportunity is identified, the Company contacts the lender and initiates the process, which may include making contact with the borrower.

The Company's dedicated team of Homeowner Assistance Program specialists are trained in deploying the best workout solutions for lenders and their customers. In addition to the dedicated team, a number of other employees are focused on identifying potential workout opportunities, including loss mitigation officers, sales and customer service personnel and underwriting teams. The Company considers a number of options that may be employed to assist a homeowner when faced with temporary hardships, including, capitalizing arrears; deferring payments; arranging a partial repayment plan; increasing the amortization period; or completing a shortfall sale.

Most of the Company's lender customers participate in the Homeowner Assistance Program. Although the Homeowner Assistance Program or similar workout programs have been in existence since 1995, the volume of workouts is a product of economic conditions and the number of claims the Company is receiving. The Company believes the Homeowner Assistance Program benefits: (i) borrowers, by enabling them to remain in their homes; (ii) lenders, by allowing them to maintain strong relationships with their customers; and (iii) the Company, by avoiding or mitigating losses on claims under its policies.

The Company's loss mitigation function is comprised of personnel that focus on specific lenders. This allows loss mitigation personnel to become familiar with the lenders' processes and systems, enabling them to assist lenders for which they are responsible with the claim submission, update and review process. Lenders report delinquent loans to the Company on a monthly basis and the delinquent loan details are used by the Company to inform management's best estimate of losses for the calculation of the LIC.

Typically, over the course of several months of a delinquency, loss mitigation personnel will work with lenders to help contain costs associated with properties and to try and maximize offers to purchase properties. As part of its loss mitigation actions and in the ordinary course of business, the Company in some instances takes ownership of certain residential properties which have gone into default before they are subsequently sold by the Company.

The Company has continued its initiative to accelerate and facilitate the conveyance of real estate to the Company, in order to reduce losses. Under the initiative, once a property has been vacated, the lender's claim is paid in full by the Company and the Company then takes over the marketing and sale of the property. In each instance, following discussions with the lenders, it is at the Company's discretion if it wishes to take over the sale of the property. Benefits for the Company of this program include: (i) control of the marketing process; (ii) reducing accruing interest costs; (iii) reducing property management fees by generally shortening the time that such properties are on the market; (iv) reducing real estate agent commissions; and (v) the potential realization of a higher sale price. The benefits to the lenders include: (i) faster claim payments; (ii) productivity improvements; and (iii) reduced administration costs.



Large claims and early-term delinquencies (where the borrower has made 24 or fewer payments) are reviewed by a special investigations team to determine if any misrepresentation occurred during the underwriting of the insurance application. In the event of a misrepresentation, the Company pursues recovery of such losses on claims.

Discussions with lenders are tracked by the Company to facilitate review by management personnel from the Loss Mitigation team. Loss mitigation officers have authority to approve claims up to a maximum dollar amount, based on their level of experience and seniority. Claims in excess of a person's authority level are referred to more senior officers, and in some cases, to the Company's senior management.

Where a claim has been paid, the Company generally seeks to obtain a legally enforceable judgement against the borrower(s) for the amount of the loss. Such recourse against the borrower(s) is available in all provinces and territories in Canada, except in Alberta (in the case of mortgages with a loan-to-value equal to or less than 80%) and Saskatchewan. A judgement allows the Company to pursue recovery from the borrower(s) through a number of means, beyond just the sale of the property, including lump sum settlements, garnishing of wages and monthly payment arrangements. In such cases, the registration of a judgement typically expires seven years after it is obtained; however, the Company can seek the renewal of the registration prior to its expiry. The Company employs its own staff and a number of third-party professionals to pursue recovery on the judgements obtained and has built a history of successful collection activities.

In response to the rising interest rate environment, the Company issued guidance on the use of extended amortization as a workout option to lenders in late 2022, to assist homeowners facing financial hardship due to mortgage payment shock. Under this guidance, lenders are permitted (without Sagen's approval) to extend the current amortization up to 15 years to a maximum of 40 years, for homeowners experiencing hardship from payment shock (where hardship is defined when a homeowner's current GDS exceeds 39%). This workout option is applicable to all mortgage rate types; however, the effective LTV must be greater than or equal to 70% and amortization extension is permitted to bring GDS no lower than 39%. This guidance remains in effect and was designed to provide lenders with the ability to quickly assess and implement an amortization extension where applicable. Homeowners facing hardship that do not meet the criteria noted above will continue to be supported by Sagen's Homeowner Assistance Team.

### ***Insurance Coverage***

In addition to the risk mitigants set out above, the Company has in place director and officer liability insurance, errors and omissions insurance, cybersecurity insurance and other insurance to reduce the Company's exposure to such risks.

### **Operations and Technology**

#### ***Service and Support***

The Company has a dedicated team of service and support personnel. The Company uses advanced proprietary technology to provide underwriting services and manage losses. The Company has introduced technologically advanced services to lenders over the past several years.

Current technology enables the Company to accept applications through digital submission and to issue digital insurance approvals across Canada. Through the Company's secure digital portal, lenders can receive information about their loans, as well as provide updated information, access payment histories and file claims.

### ***Technology Capabilities and Process Improvement***

The Company continuously updates its technology and proprietary software. It considers its own needs and those of its lenders in determining priorities for investment in technology. The Company's technology team is experienced in large-scale project delivery, including insurance administration systems and the development of digital servicing capabilities. The Company manages technology costs by standardizing its technology infrastructure, consolidating application systems and managing project execution risks. The Company believes its proprietary underwriting system has increased its underwriting efficiency and enabled the Company to be more responsive to lenders' needs.

The Company continuously monitors and attempts to enhance its operating efficiency and competitive advantages by using a variety of process tools designed to address all aspects of process management, as well as increase its decision-making process using advanced data decisioning tools. These tools enable the Company to increase its operational effectiveness, improve its process performance and build new processes.

### **Investment Management**

The Company has a conservatively managed, high quality investment portfolio. 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, collateralized loan obligations, corporate bonds, including U.S. dollar denominated emerging market bonds, private credit loans and Canadian preferred shares. All foreign denominated investments are hedged back into Canadian dollars at time of purchase. 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.

### ***Organization***

To diversify management styles and to broaden credit expertise, the Company has allocated the management of the Company's portfolio assets among multiple external investment managers. 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.

On a quarterly basis, under the direction of the Company's management-level investment committee, the Company reviews the investment portfolio's performance against selected

benchmarks, compliance against the Board approved limits (including investment portfolio composition and duration) and asset mix, and to ensure the suitability of the investment portfolio in light of the current and potential future macroeconomic environment and the Company's liability profile with respect to its insurance portfolio. In addition, the Risk and Investment Committee of the Board meets quarterly to review the Company's investments to monitor adherence to the approved investing policies, standards, procedures and guidelines.

### ***Investment Philosophy and Strategies***

The Company's primary investment objective is to meet its obligations to its policyholders while increasing value to the Company's shareholders by investing in a diversified, high-quality portfolio, comprised of income-producing securities and other assets. The Company's investment strategy focuses primarily on:

- selecting investments based on fundamental, research-driven strategies;
- emphasizing fixed income, low-volatility investments while actively pursuing strategies to enhance yield through limited exposure to common and/or preferred shares with attractive dividend yields, high yield bonds and private loans with attractive credit spreads;
- regularly evaluating, and where possible optimizing, the Company's asset class mix;
- maintaining sufficient liquidity to meet unexpected financial obligations;
- mitigating interest rate risk through proactive management of asset duration and the use of interest rate swaps;
- continuously monitoring investment quality and regulatory capital requirements;
- limiting exposure where possible to investments correlated to the residential property market; and
- diversifying exposure outside of Canada to further provide lower correlated assets to Canadian business risk.

The Company is exposed to the following primary sources of investment risk: credit risk, interest rate risk, equity market risk, liquidity risk, emerging markets risk, currency risk and mark to market risk. See "*Risk Factors – Market Risks*" for more details on these risks.

The Company, working with its external asset managers and advisors, manages credit risk by analyzing issuers, transaction structures and any associated collateral. On an ongoing basis, the Company monitors credit risk, the probability of credit default and the estimated loss in the event of such a default, which provides the Company with early notification of worsening credits. The Company also manages credit risk through country, industry, sector and issuer diversification and prudent asset allocation practices. To mitigate credit risk related to derivative counterparties, the Company has adopted a derivative policy whereby, upon signing the derivative contract, the counterparty is required to maintain specified minimum credit ratings and all counterparty

derivatives transactions are marked to market daily, with corresponding collateralization postings as specified within the derivative contract.

The Company primarily mitigates interest rate risk through proactive management of the duration of its investment portfolio, and the use of interest rate swaps in order to reduce the volatility in unrealized gains and losses in its investment portfolio in both rising and falling interest rate environments. The Company currently does not hold any common share equities, however when it does acquire common share equities it attempts to mitigate equity market risk by targeting dividend paying stocks with volatility generally equal to or less than market volatility, limiting exposure to individual sectors and issuers, and maintaining a relatively low aggregate exposure cap for common share equities expressed as a percentage of the total assets under management. To mitigate liquidity risk the Company holds a portion of investment assets in liquid securities and maintains a relatively short portfolio duration in order to match fixed income maturities with expected cash flows in modestly adverse economic scenarios.

The Company uses derivative financial instruments in the form of foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds 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 has also adopted a derivatives policy which allows the Company to use derivatives for hedging purposes only. The Company primarily uses derivative contracts to mitigate investment risk related to foreign exchange, and interest rate risk. The hedging of these market risks assists the Company in the implementation of its capital management policies. See the Consolidated Financial Statements for greater detail on the amount of foreign-denominated financial assets and the derivative financial instruments used to reduce currency risk and interest rate risk.

## ***Performance***

The Company continually evaluates its investment portfolio and measures performance against a range of benchmarks. The Company's overall fixed income benchmark represents the universe of Canadian bonds, weighted among government bonds, corporate bonds and short term investments, customized based on the Company's composition of assets and duration. The Company's benchmark for Canadian preferred equities is the S&P/TSX preferred share index. The total return performance of the Company's investment portfolio for the period ended December 31, 2024 is summarized in the chart below.

### **Annualized Total Return Investment Portfolio Performance<sup>(1)</sup>**

#### **Market Value of Assets as of December 31, 2024**

<b>(\$ million)</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
\$6,333	6.77%	2.37%	2.54%

(1) Inclusive of interest rate hedging.

Note: Return is calculated as total investment income, inclusive of changes in asset fair value, divided by the quarterly average of the market value of assets.

## **Environment, Social and Governance (“ESG”)**

The Company is exposed to risks related to environmental conditions and extreme weather events that could potentially disrupt its operations, impact borrowers and, ultimately, its financial results. Factors contributing to heightened environmental risks include the impacts of climate change and the continued intensification of housing development in areas of greater environmental sensitivity. Business continuity management plans provide the Company’s management team with the roadmap and tools that support the resilience, recovery, restoration, maintenance and management of critical operations and processes in the event of a business disruption. The Company is also exposed to climate-related events and government policies, which could lead to an increase in unemployment as well as negatively impact housing prices in specific areas, or across Canada. This could lead to an increase in new delinquencies and the severity of losses on claims. Further, the Company’s investment portfolio, which is predominantly comprised of high quality fixed and floating rate investments, could be impacted by the volatility created by the transition to a more sustainable green market.

Further information regarding the Company’s approach to ESG related issues can be found in the Company’s annual Public Accountability Statement. This statement is available in the “Investor Relations” section of the Company’s website at [www.sagen.ca](http://www.sagen.ca). The information on the Company’s website does not form a part of this AIF.

### ***Operating with an environmentally sensitive business model***

- Sagen leverages a fully digital mortgage insurance underwriting process to increase the speed of decisions and to reduce the use of paper.
- Sagen primarily utilizes digital options for marketing and communications.
- Sagen offers incentives to aid in energy efficient homes by offering a mortgage insurance premium discount for homes that meet the current government standard for energy efficiency.

### ***Mature corporate governance practices***

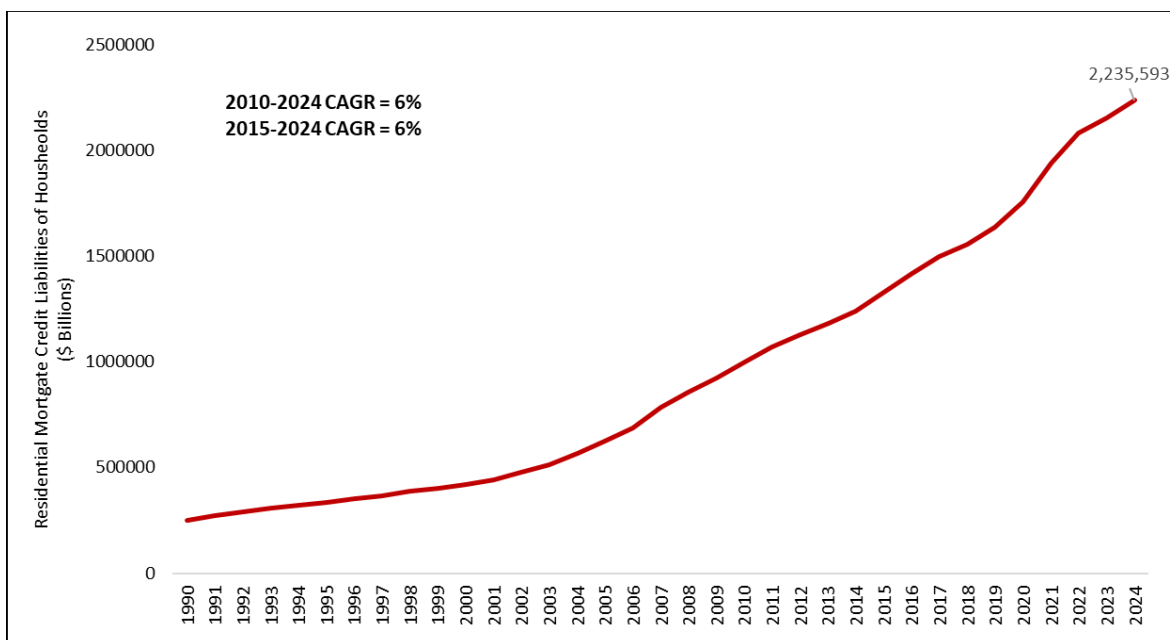
- Sagen has a comprehensive Code of Business Conduct and Ethics & Whistleblower Procedures to govern the conduct of the Company’s directors, officers and employees.
- The Board has a diverse set of skills and experience in the important areas of strategy development, risk management, technology, audit, mortgage lending, capital markets, investment banking as well as corporate and regulatory governance, actuarial and accounting and operations.
- The Lead Independent Director is responsible for facilitating the functioning of the Board independent of the Company’s management and other non-independent directors.
- The Board reviews and approves the Company’s risk appetite covering insurance, operational and financial risks.

- The Audit Committee, responsible for reviewing the Company's financial reporting and public disclosures, including the related controls, is independent and has extensive experience in the area of financial reporting.
- The Risk and Investment Committee is responsible for reviewing and reporting to the Board on the Company's business plans, investment management and risk management procedures, including the implementation by management of appropriate enterprise risk management systems to manage risk.
- The Technology Committee is responsible for reviewing and reporting to the Board on the Company's technology plans, infrastructure and associated risks.
- Sagen's executive compensation programs are designed to be aligned with the interests of the Company and its shareholders.
- Sagen has an ongoing focus on diversity for the senior leadership team and the Board.

## **INDUSTRY OVERVIEW**

Canada's housing finance system is one of the most efficient and stable in the world. Mortgage lending practices and regulation in Canada have led to a high degree of loan accessibility for consumers, competitive mortgage rates, and requirements and incentives for lenders to maintain solid underwriting disciplines. This has resulted in high levels of homeownership and a relatively stable housing market in Canada.

The success of Canada's housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable homeownership. The important role of mortgage insurance in Canada's housing finance system is evidenced by the requirement that all financial institutions that make residential mortgage loans and that are federally regulated by OSFI must purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. Moreover, the Government of Canada provides an explicit guarantee of the benefits payable to approved mortgage lenders under eligible private sector mortgage insurance policies, less 10% of the original principal amount of an insured loan, in the event that the private sector mortgage insurer is unable to meet its obligations to the beneficiaries of its policies upon bankruptcy or insolvency. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages insured under the guarantee by approved and regulated private sector mortgage insurers, including Sagen. The Government of Canada helps to maintain sound underwriting standards in the market by establishing, in conjunction with mortgage insurance providers, the types of mortgage products that are eligible for coverage under the guarantee. The total Canadian residential mortgage industry total premiums written were reported to be approximately \$2.7 billion in 2023 and \$2.6 billion for the nine months ended September 30, 2024. In addition, from 1997 through November 2024, mortgage loans outstanding grew at a CAGR of 6%. The following chart depicts the increase in the amount of residential mortgage credit outstanding in Canada since 1990.



Source: Statistics Canada. Table 36-10-0639-01 Credit liabilities of households (x 1,000,000)

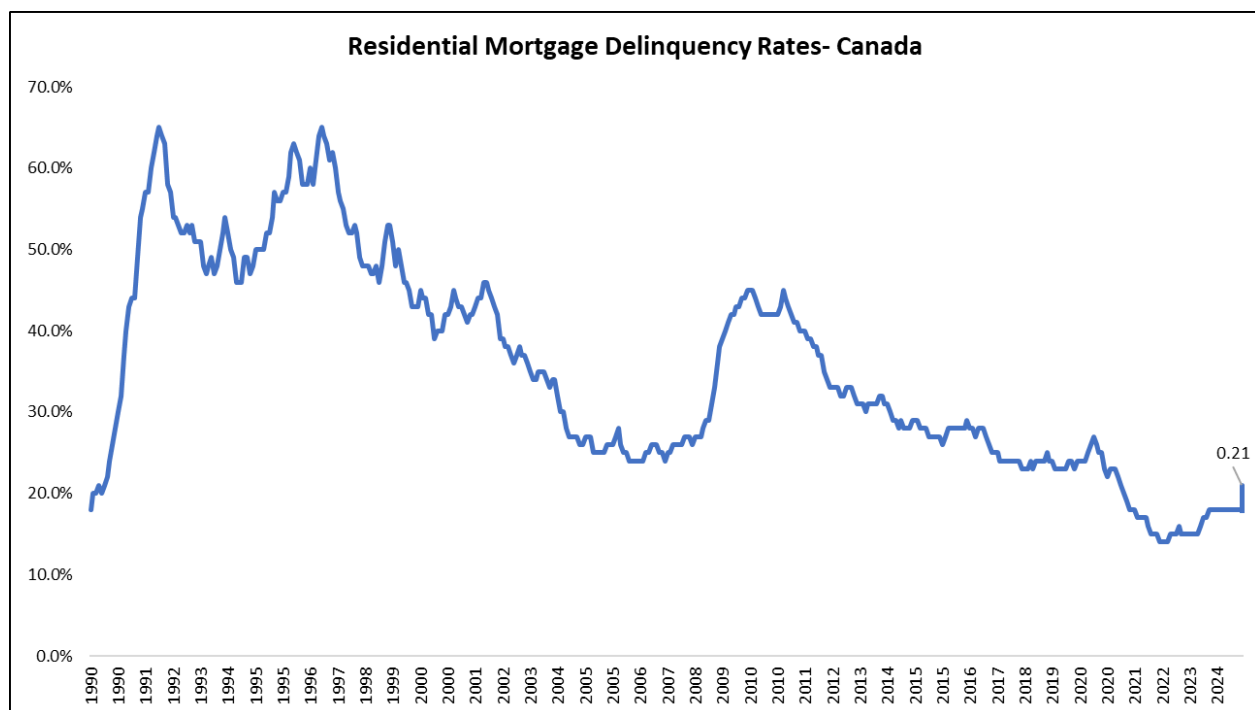
Several factors contribute to the stable nature of Canada's residential mortgage insurance environment:

- ***Lenders' Recourse*** - Lenders in all provinces and territories in Canada have the ability to attach personal assets and garnish wages in the event of any mortgage deficiency after the sale of a property, except Saskatchewan and in Alberta, in the case of mortgages with a loan-to-value equal to or less than 80%.
- ***Prepayment Restrictions*** - In Canada, mortgages tend to have a prepayment fee for prepayments in excess of specified limits (typically 10% to 20% a year). This allows lenders to recover some of the costs and lost interest associated with early repayment and discourages borrowers from aggressively refinancing on a more frequent basis.
- ***Lack of Interest Deductibility*** - Interest payments arising from mortgages in Canada are generally not tax deductible. As a result, there is generally no tax incentive to have a large mortgage outstanding. Canadian residents tend to pay down mortgages quickly and build equity in their homes, lowering the probability of default.
- ***Large Proportion of Chartered Bank Origination*** - Historically, the largest mortgage originators in Canada have been the chartered banks. The major Canadian banks keep a large percentage of mortgages they originate on their balance sheets and therefore tend to employ a more cautious underwriting philosophy in comparison to other origination channels.
- ***Canadian Government Oversight*** - The Canadian government provides oversight and liquidity to the mortgage market through various measures including the regulation of

lenders, its operation of the Canadian Mortgage Bond program and its control of the rules for government-backed insured mortgages.

- ***Historical Government Changes to Ensure Prudent Risk in the Market*** - Product restrictions have been implemented over the years by the Government of Canada, such as the restriction to home purchase transactions only and minimum credit score and debt servicing requirements, including a mortgage stress test.
- ***Limited Subprime Market*** - Canadian Federally Regulated Financial Institutions (“**FRFI**”) lenders have limited their exposure to the higher risk subprime market, low documentation and other mortgage products. Residential mortgages in Canada are mostly conventional (i.e., less than 80% loan-to-value), and there is a small market for subprime loans.

There are a number of factors and differences in practices, including some of the items noted above, that may account for the variance in rates of delinquency performance of mortgages in certain other markets relative to those for Canadian mortgages. The following chart illustrates the overall historical levels of delinquency in residential mortgage loans outstanding in Canada from 1990 to 2024.



Source: Canadian Bankers Association as at November 2024.

Note: Delinquencies reflect mortgage arrears of three or more months as of the end of each quarter.



	Total Insured Loan Delinquency Rate	
	Q4'23 <sup>(1)</sup>	Q4'24 <sup>(1)</sup>
CMHC	0.28% <sup>(2)</sup>	0.29% <sup>(2)</sup>
Sagen MI Canada	0.16%	0.18%
Other Mortgage Insurers	0.10%	0.12%
Canadian Bankers Association	0.18% <sup>(3)</sup>	0.21% <sup>(3)</sup>
(1)	Q4'24 data unless otherwise indicated	
(2)	For Q3'23 and Q3'24	
(3)	For December '23 and November '24	

A key performance measure of the Canadian mortgage insurance industry is the loss ratio. The Company's loss ratio for the full year at the end of the last five years has ranged from -5% to 16%.

The Canadian government's housing finance policy is aimed at promoting financial stability, access to financing, competition and efficiency. Private sector mortgage insurers, such as the Company, provide incremental private capital and financial strength to the Canadian housing market. The Company believes that there are a number of additional benefits related to the presence of private sector mortgage insurance providers in Canada, including:

- reduced Canadian taxpayer exposure through maintaining strong claim paying ability for tail events;
- increased competition in the mortgage lending market between large and small lenders through the transfer of mortgage default risk to a mortgage insurer;
- increased competition and efficiency in the overall mortgage insurance market;
- increased services for mortgage insurance customers; and
- increased diligence and review of loan quality standards through an additional review of mortgage loan applications by a mortgage insurer and ongoing quality assurance audits.

Mortgage insurance is purchased by lenders for a variety of reasons. See *"Description of the Business - Overview of the Company's Mortgage Insurance Business"* for further details on transactional and portfolio mortgage insurance utilization. Mortgage insurance is available for home purchases and is generally transferable between lenders. Mortgage insurance remains in force for the entire amortization period of an insured mortgage loan and, in the event of default, it provides lenders with insurance coverage for 100% of the mortgage loan amount, customary selling costs and interest. The dollar amount of the Company's insurance in-force does not take into account the value of the collateral underlying each mortgage. Upon a borrower default, the value of the collateral serves to reduce the Company's loss exposure.

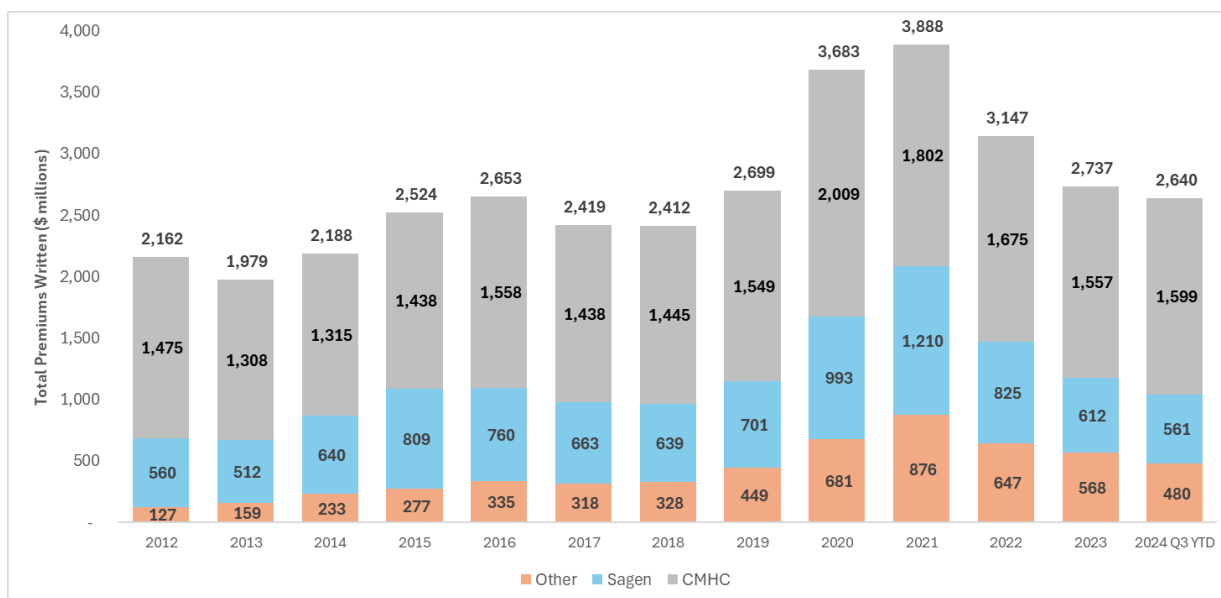
## Customers and Distribution

Although the cost of transactional insurance is generally borne by the borrower, the insurance is purchased by the mortgage lender. Consequently, mortgage insurers endeavour to forge strong relationships with lenders. The majority of mortgage loans in Canada are originated by chartered banks, making them the largest and most important customers to Canadian mortgage insurance participants.

## Industry Performance

In a given year, the size of the Canadian mortgage insurance market is primarily driven by the number and dollar value of transactional insurance mortgages. Premiums written by mortgage insurers are used to pay claims and operating costs and to provide a return to investors. Since premiums are paid in full at the outset of the policy, there is a time lag between the receipt of premiums and the payment of claims. This allows insurers to invest premiums written and earn an investment return until claims and operating costs are paid.

The chart below displays the general growth of the Canadian mortgage insurance industry since 2012, measured by total premiums written and segmented by industry participant. The mortgage insurance industry overall has exhibited strong, long-term growth characteristics. See *“Description of the Business - Overview of the Company’s Mortgage Insurance Business - Transactional Insurance”* and *“Description of the Business Portfolio Insurance”* for details on the factors that have impacted the market size of each market, respectively. The total premiums written figures published by CMHC include both total premiums written on multi-family mortgage insurance such as apartment buildings and long-term care facilities, a market in which the Company has not historically participated, as well as residential mortgage insurance on buildings with more than four units, a market in which the Company does not participate. In addition, the CMHC figures include application and underwriting fees that are primarily from its multi-family mortgage loans, while the Company figures do not. As a result, as depicted in the chart below, the Company estimates that it had an approximately 21% share of the total Canadian residential mortgage and multi-family mortgage insurance written premiums as at September 30, 2024.



Source: CMHC, OSFI.

Notes: Canadian Mortgage Insurance Industry for the complete years of 2012 - 2023 CAGR = 2%

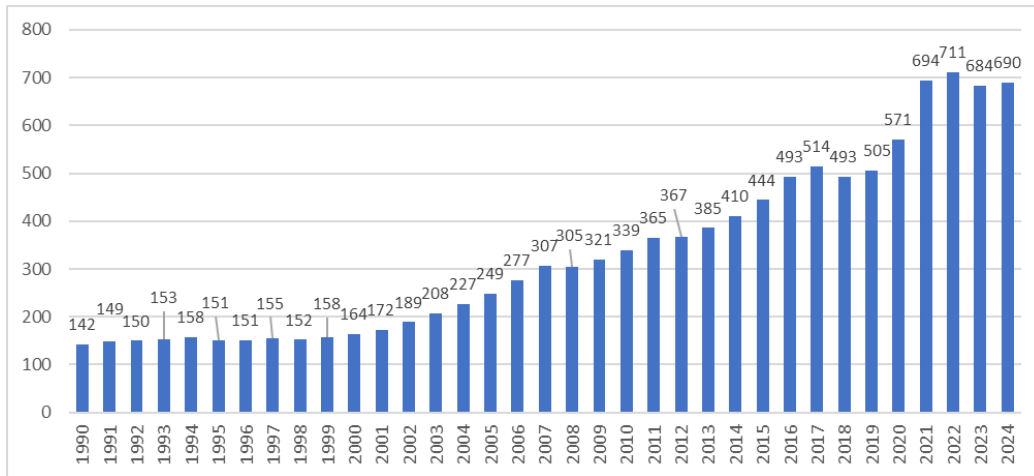
CMHC Segment for the complete years of 2012 - 2023 CAGR = 0%

Sagen for the complete years of 2012 - 2023 CAGR = 1%

The rate of growth of the Canadian mortgage insurance industry is highly dependent on the prevailing state of the Canadian economy, housing market and government policy. Sales activity and home price changes in the Canadian housing market influences mortgage origination, which in turn affects the volume of premiums written. See “*Regulatory Overview - Regulatory Changes*” for details on regulatory changes implemented from 2008 to 2024.

The Canadian housing market has historically experienced strong growth. The Teranet House Price Index and the Canadian Real Estate Association (“**CREA**”) charts below illustrate the Canadian home price appreciation leading up to and following the Global Financial Crisis (“**GFC**”) that took place from September 1, 2008 to August 31, 2009. Pre-GFC, Canadian home prices (as per CREA) appreciated 4.4% annually followed by 5.8% annual appreciation in the post-GFC period.

### CREA House Price Appreciation (000's) - Canada

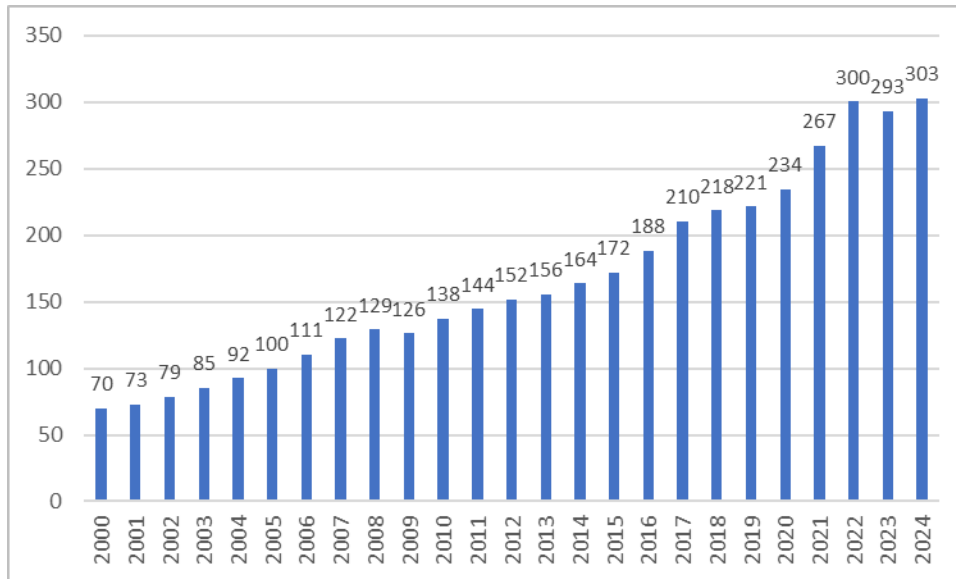


Source: CREA

Notes: Pre-GFC CAGR (1990-2009) = 4.4%

Post-GFC CAGR (2010-2024) = 5.2%

### Teranet House Price Index - Canada



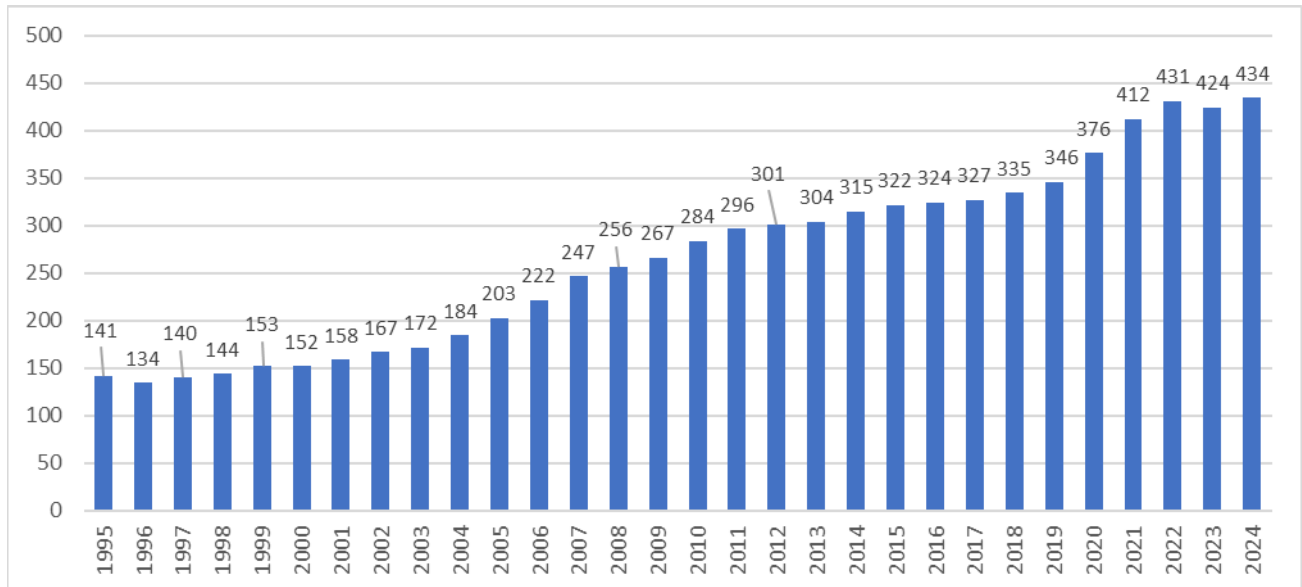
Source: Teranet

Notes: Pre-GFC CAGR (2000-2009) = 6.8%

Post-GFC CAGR (2010-2024) = 5.8%

The below chart illustrates an increase in the average home price of pre-GFC of 4.6% and post-GFC of 3.1% for the homes in the Company's insured portfolio. The Company believes that its target market first-time homebuyers buy modestly-priced, middle market homes and that the changes in the average home prices they purchase aligns more directly with changes in average income during this time. Should income not keep pace with appreciation (as reflected in the Teranet and CREA national averages) it may result in changes to the location and characteristics of the homes purchased by first-time homebuyers, and as a result, the composition of the Company's insured portfolio.

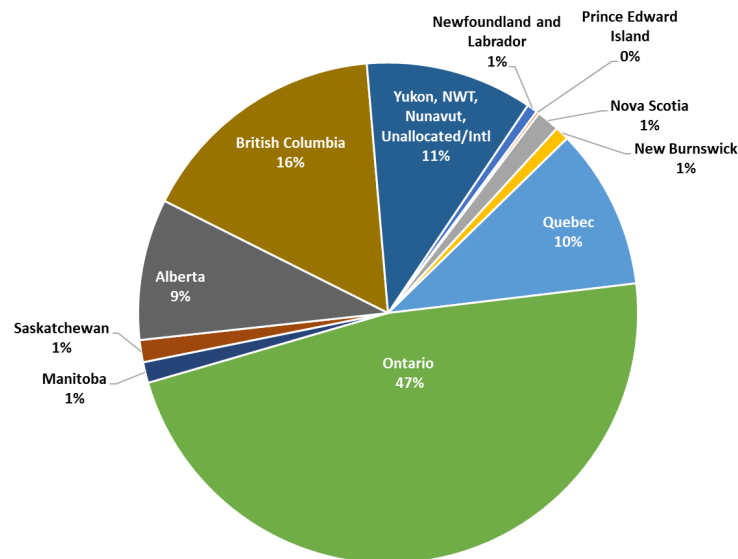
## Insured Transactional Average House Prices



Source: Company actuals; NIW as at Dec'24; Purchase Business

The following chart displays the dollar value distribution of the Canadian mortgage market for chartered banks by geography as of September 2024. In general, the Company's regional distribution of insured mortgages is relatively consistent with that of the Canadian chartered banks.

## Chartered Bank Regional Residential Mortgage Distribution



Source: Statistics Canada data published quarterly by The Bank of Canada as at September 2024 and reported in December 2024.

## REGULATORY OVERVIEW

Sagen is federally incorporated under the *Insurance Companies Act* (Canada) (the “ICA”) and is licensed under insurance legislation in each of the Canadian provinces and territories in which it conducts business. The ICA is administered by, and Sagen is regulated by, OSFI. The Superintendent of Financial Institutions (Canada) (the “**Superintendent**”) is responsible to the Minister for the supervision of federal insurance companies and other federal financial institutions. OSFI’s regulatory powers also apply to other private sector mortgage insurers and OSFI has supervisory powers over CMHC, including the monitoring of CMHC’s commercial activities to ensure that they are being carried on in a safe and sound manner with due regard to its exposure to loss. OSFI is responsible for PRMHIA compliance and the Superintendent must periodically examine the business and financial condition of Sagen for the purpose of determining whether it is in sound financial condition, and must report to the Minister. The Superintendent has a broad range of remedial powers and, for example, where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federal insurance company, the Superintendent may direct such company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a company or take control of a company.

The ICA and provincial and territorial insurance legislation require insurers to file annual and other reports on its financial condition and establishes requirements governing margins for insurance liabilities and the safekeeping of assets and other matters. The ICA generally prohibits transactions among related parties other than specifically permitted types of transactions. Permitted transactions include, without limitation, buying and providing services from and to related parties and reinsurance transactions with related parties. Generally, permitted transactions must be on terms and conditions that are at least as favourable to the insurer as market terms and conditions. Sagen MI Canada and Brookfield Business Partners, and their respective subsidiaries, are related parties of Sagen under the ICA.

### Capital Requirements

Under the ICA and PRMHIA, insurance companies must maintain adequate capital, and must comply with any OSFI guidelines requiring capital. The ICA and PRMHIA provide the Minister and Superintendent with various remedies including directing companies to increase their capital or assets or to provide additional liquidity, requiring that they enter into prudential agreements, suspending or removing directors or senior officers, and taking control of companies or the assets of companies, if seen to be necessary, to protect the interests of policyholders or creditors.

The Company is subject to the MICAT, which consolidates OSFI’s capital requirements for mortgage insurers into a single instrument. The OSFI Supervisory MICAT target ratio and minimum MICAT ratio under government guarantee legislation for 2024 remains at 150%. The Company’s internal target ratio for 2024 under the MICAT remained unchanged at 157%. The regulatory capital requirements related to the seasoning of the Company’s outstanding insured mortgage balances are influenced by changes in the loan-to-value and credit score mix of outstanding mortgage balances, the repayment pattern including scheduled payments and partial pre-payments, and the lapse rate of insurance coverage related to full repayments, refinances or

sale of the property. The Company reviews its sources and uses of capital on a quarterly basis to inform any decisions on the redeployment of capital.

### **Financial Condition Testing**

The Standards of Practice of the Canadian Institute of Actuaries and OSFI require that the appointed actuary review annually the capital adequacy of federally regulated insurance companies by conducting Financial Condition Testing (“**FCT**”) which examines the effect of various plausible adverse scenarios on the insurer’s forecasted capital adequacy. This is the primary tool used by the Company’s appointed actuary for the investigation of the Company’s financial condition.

The purpose of the FCT is to identify plausible threats to satisfactory financial condition, actions which lessen the likelihood of those threats and actions which would mitigate a threat if it materialized. The FCT is defensive in that it addresses threats to financial condition rather than the exploitation of opportunity. According to the Standards of Practice, an insurer’s financial condition is satisfactory if:

- (a) under the solvency scenarios, the statement value of the insurer’s assets is greater than the statement value of its liabilities;
- (b) under going concern scenarios, the insurer meets the regulatory minimum capital ratio(s); and
- (c) under the base scenario, the insurer meets its internal target capital ratio(s) as determined by the ORSA.

For federally regulated insurance companies, the appointed actuary considers threats to capital adequacy under plausible adverse scenarios that include, but are not limited to changes in unemployment levels, interest rates and housing prices. The appointed actuary reports the FCT results annually to the Board and files a copy of its report with OSFI.

### **Underwriting Guidelines**

The Company underwrites its business in accordance with OSFI’s Guideline B-21 “Residential Mortgage Insurance Underwriting Practices and Procedures” (“**Guideline B-21**”). In Guideline B-21, OSFI sets out principles that promote and support sound residential mortgage insurance underwriting and its expectations for prudent residential mortgage underwriting by FRFIs, in the areas of income verification, property valuation, as well as fraud detection and prevention.

### **Investment Powers**

Under the ICA, the directors of federally regulated insurance companies must establish prudent investment and lending policies, standards and procedures, and must maintain a prudent portfolio of investments and loans, subject to overall portfolio limits on the amounts it may invest in certain classes of investments, such as corporate bonds, real property and equities. See

*“Description of the Business - Investment Management”* for details on the Company’s investment policies and philosophies.

The ICA provides companies with broad powers to invest in securities, but limits the acquisition of control or substantial investments in other entities, as well as restrictions on certain related party transactions. A federal insurance company will have a substantial investment in an entity if it, or entities that it controls, have direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a body corporate, voting or non-voting shares representing more than 25% of the shareholders’ equity of a body corporate, or more than 25% of the ownership interests in an unincorporated entity.

Certain substantial investments are impermissible and certain others require regulatory approval, or must be controlled, or both. The Superintendent has the authority to make a divestment order if an insurance company contravenes the investment restrictions.

### **Restrictions on Dividends 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 a 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 the Superintendent 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 the Superintendent. Finally, the Superintendent has broad authority to take actions that could restrict the insurance company. See also *“Regulatory Overview - Regulatory Changes”* and *“Dividends”* for further details on the regulatory developments impacting dividend payments.

### **Constraints on the Transfer of Shares or Assets**

The ICA prohibits the acquisition of direct or indirect control, including control in fact, of a federal insurance company, unless the prior written approval of the Minister is obtained. Sagen MI Canada and each entity that controls Sagen MI Canada control Sagen and MIC ICC. Accordingly, an approval would be required under the ICA for a person to acquire more than 50% of the voting securities of, or control in fact over, Sagen MI Canada or any other entity that controls Sagen MI Canada.

In addition, no person is permitted to acquire shares of a federal insurance company, or to acquire control of an entity that holds such an interest, if the acquisition would cause the person to have a “significant interest” in any class of shares of the company, unless the prior written approval of the Minister is obtained. The ICA provides that a person has a significant interest in a class of shares of a federal insurance company where the aggregate of any shares of that class beneficially owned by that person, or an entity controlled by that person and by any person acting jointly or in concert with that person, exceeds 10% of all outstanding shares of that class. Moreover, a federal insurance company is not permitted to record any transfer or issue of shares to a person if the



transfer or issue would cause the person to have or increase a significant interest in the company where the Minister's approval has not been obtained.

If a person contravenes any of these ownership restrictions, the person may not exercise any voting rights attached to the shares of the insurance company owned by the person or any entity controlled by the person. Moreover, the Minister may, by order, direct that person to dispose of all or any portion of those shares.

Under the ICA, the approval of the Minister is required for a federal insurance company to transfer all or substantially all of its assets to another person, or to reinsure on an assumption reinsurance basis any of its policies. Superintendent approval is generally required by an insurance company to acquire assets from, or transfer assets to, a person if the total value of the assets and all other assets acquired from or transferred to the person by the company and its subsidiaries in the 12 months preceding the transfer is greater than 10% of the total value of the assets of the company.

### **Provincial Regulation**

Insurance companies conducting business in Canada are subject to provincial and territorial regulation and supervision in each of the provinces and territories of Canada in which they conduct business. Provincial insurance regulation deals primarily with the sale, marketing and content of insurance products, including licensing and supervision of insurance distributors. To date, the provincial and territorial insurance regulators have not required the Company to use licensed individuals to sell its products. Provincial governments can also introduce measures to affect supply, demand, affordability or other characteristics of the housing market (see "*Regulatory Overview - Regulatory Changes*" for examples of such changes).

### **Federal Market Conduct Regulation of Mortgage Lenders**

FRFIs are subject to consumer protection-oriented regulation in the making of mortgage loans generally and in purchasing mortgage insurance for those loans, particularly where the cost of the mortgage insurance is passed on to the borrower. As such, these regulations can affect the Company's business. Pursuant to federal legislation, such mortgage lenders are prohibited from charging customers amounts for mortgage insurance that exceeds the lender's actual costs, and have disclosure obligations in respect of the actual mortgage insurance costs.

### **Privacy of Personal Information**

Federal and provincial laws and regulations require financial institutions to protect the security and confidentiality of personal information and to notify customers about their privacy policies and practices relating to their collection, use and disclosure of personal information and their policies relating to protecting the security and confidentiality of that information. Federally, the *Personal Information Protection and Electronic Documents Act* governs the collection, use and disclosure of personal information by organizations in the private sector. It sets out specific obligations with respect to accountability and identifying purposes, consent, collection, use, disclosure, retention, accuracy, safeguards, individual access and compliance. Similar such legislation is in place at the provincial level in several jurisdictions. The federal and provincial privacy regulators have powers of investigation and intervention, and provisions of Canadian law

regarding civil liability are also applicable to the Company in the event of unlawful processing of personal information which is prejudicial to the persons concerned.

## **Financial Consumer Agency of Canada**

Under the *Financial Consumer Agency of Canada Act* (“**FCAC Act**”), the Financial Consumer Agency of Canada (the “**FCAC**”) enforces consumer-related provisions in federal statutes that govern financial institutions. “Consumer provisions” include ICA provisions dealing with customer confidentiality, complaint-handling procedures and cost of borrowing disclosure.

The Commissioner of the FCAC (the “**Commissioner**”) has the duty to supervise federal insurance companies to determine whether they are in compliance with the consumer provisions that apply to them. The Commissioner has the power to issue notices of violation and to compel the disclosure of personal information necessary to ensure compliance. In addition, the Commissioner may carry on any activity in furtherance of consumer awareness of financial institution obligations under consumer provisions. The Commissioner must report to the Minister on all matters connected with the administration of the FCAC Act and the consumer provisions of the federal financial institutions statutes, including the ICA.

## **Regulatory Changes**

The rules governing the insurance of residential mortgages (particularly with respect to mortgages with a loan-to-value greater than 80%) and the sale of residential real estate are ever evolving. The most material recent changes are as follows:

### **2021**

Material regulatory changes introduced in 2021 included the following:

#### **Minimum Qualifying Rates**

On June 1, 2021, amendments to the Guideline B-20 related to the minimum qualifying rate for uninsured mortgages went into effect and the Government of Canada aligned the minimum qualifying rate for insured mortgages with that for uninsured mortgages. The qualifying rate is the higher of the mortgage contract rate plus 2% or 5.25%, which will be reviewed at least annually, in December, to ensure that it remains appropriate for the inherent risks.

### **2022**

Material regulatory changes introduced in 2022 included the following:

#### **Basel III Reforms**

In early 2022, OSFI announced revised capital, leverage, liquidity and disclosure rules that incorporate the final Basel III banking reforms with additional adjustments in respect of federally regulated deposit-taking institutions. Most of these revised rules took effect over the course of 2023 and 2024. OSFI launched a consultation on its latest and final round of Basel III reforms to its capital, leverage and related disclosure guidelines for banks. Included in this consultation was a proposed change to the capital treatment of privately insured mortgages that are partially

guaranteed by the government under PRMHIA that could increase the regulatory capital held on privately insured mortgages.

### **Guideline B-13: Technology and Cyber Risk Management**

On July 13, 2022, OSFI issued Guideline B-13: “Technology and Cyber Risk Management” which is effective January 1, 2024. Guideline B-13 is intended to provide financial institutions with a risk-based approach to compete effectively and to take full advantage of digital innovation, while maintaining sound technology and cyber risk management.

### **OSFI MICAT interpretation for Variable Rate Mortgages (“VRMs”)**

As a result of rising interest rates, VRMs that have fixed payments for a period of time, potentially until the end of a term of up to five years, could have the calculated remaining amortization period temporarily increase until such time as the payment is reset to align to the original amortization period. OSFI’s MICAT framework captures the risks associated with differing mortgage amortization periods of up to 40 years. However, it was not designed or calibrated for situations in which the calculated remaining amortization period temporarily increases including, in some cases, to periods exceeding 40 years. Accordingly, on September 28, 2022, OSFI issued an advisory with revisions to the MICAT indicating that the lesser of the calculated remaining amortization period and 40 years should be used in the calculation of base and supplemental capital requirements for an individual VRM mortgage. As a result, the Company experienced a decrease of its MICAT ratio at that time.

### **OSFI guideline for assurance on capital, leverage and liquidity returns**

On November 7, 2022, OSFI released a new guideline setting out their assurance expectations for capital, leverage and liquidity regulatory returns. This guideline seeks to inform external auditors and institutions on the work to be performed on their regulatory returns in an effort to enhance and align OSFI’s assurance expectations across all FRFIs. OSFI expects senior management to review and attest on the accuracy and completeness of the MICAT cover schedule on a quarterly basis, beginning in fiscal year 2024. In addition, OSFI expects internal auditors to evaluate and opine on the effectiveness of the processes and internal controls over the MICAT, including related systems, effective beginning in fiscal year 2023, at least once every three years. Beginning in fiscal year 2025, on an annual basis, OSFI expects external auditors to evaluate and opine on MICAT-related calculations to ensure they have been prepared in accordance with the appropriate regulatory framework and are free of material misstatements.

### **Limited Recourse Capital Notes (“LRCNs”)**

In December 2022, OSFI published an update to its July 18, 2020 capital ruling on LRCNs, in which it clarifies issuance limitations for property and casualty insurers and mortgage insurers. This ruling follows an amendment to the ICA in June 2022 that permitted LRCNs to be included in regulatory capital available by property and casualty companies, including mortgage insurance companies. The permitted LRCN structure is the same as that for banks and life insurance companies, subject to certain limits, including an issuance cap of the greater of (a) \$150 million

and (b) 20% of available capital excluding Accumulated Other Comprehensive Income. Similar to preferred shares, LRCNs qualify as regulatory capital but the interest paid is generally deductible for income tax purposes.

## **2023**

Material regulatory changes introduced in 2023 included the following:

### **OSFI Guideline B-20: Residential Mortgage Underwriting Practices and Procedures**

In 2023, OSFI launched a public consultation of Guideline B-20 on Residential Mortgage Underwriting Practices and Procedures for federally regulated mortgage lenders. OSFI was interested in stakeholder feedback on a set of proposed complementary debt serviceability measures designed to better control prudential risks arising from high consumer indebtedness. The proposed debt serviceability measures included loan-to-income and debt-to-income restrictions, debt service coverage restrictions, and interest rate affordability stress tests. On October 16, 2023, OSFI published the results and next steps of the consultation. OSFI believes additional measures were needed to mitigate the underlying vulnerability of a buildup in highly indebted borrowers, and that it will pursue targeted supervisory actions that will aim to limit FRFIs' individual exposures to high household indebtedness over time. These actions will take into account the size, nature, complexity, and risk profile of each FRFI, balancing sound risk management against the need for FRFIs to compete effectively and take reasonable risks. OSFI has indicated that it would continue reviewing its expectations relating to real estate secured lending through 2024.

### **IFRS 17**

Starting on January 1, 2023, the Company applied IFRS 17: Insurance contracts and IFRS 9: Financial instruments for the first time. These standards brought significant changes to the accounting for insurance contracts and financial instruments and had a material impact on the Company's consolidated financial statements in the period of initial application. Please see the MD&A and the Consolidated Financial Statements for details on how the application of IFRS 17 impacted the Company's regulatory capital and financial disclosure.

#### *Impact on regulatory capital:*

The final MICAT guideline introduced new concepts in the definitions of capital available and capital required to conform to the changes in measurement and presentation under the new accounting standards. The adoption of IFRS 17 resulted in a lower MICAT ratio for the Company despite no change in underlying business. This is primarily due to a lower LRC under IFRS 17 as compared to the unearned premiums reserve under IFRS 4, as the LRC is recognized net of related acquisition expenses. The lower amount of liabilities under the LRC calculation increased capital required and therefore reduced the Company's MICAT ratio. The adoption of IFRS 9 did not have a significant impact on the Company's MICAT ratio.

#### *Impact on taxation:*

Upon adoption of IFRS 17 on January 1, 2023, the Company becomes subject to taxation on the opening transition adjustment. IFRS 17 also introduces a new reserve, the CSM, which

represents the expected unearned profit on the insurance contract that is deferred and released into income over the estimated life of the insurance contract. The CSM will not be fully deductible for life insurers, mortgage insurers and title insurers. However, 10% of the CSM will be permitted as a deduction in respect of life, mortgage and title insurance contracts. Although IFRS 17 accelerates taxation of the CSM, it does not impact the total tax that will be paid over the life of the insurance contract. There is a five-year transition period for the tax impacts of adopting IFRS 17, including the 90% non-deductible portion of the CSM. These tax measures, including the transitional rules, were effective concurrent with the effective date of IFRS 17. The adoption of IFRS 9 did not have a significant impact on taxation.

### **Guideline B-15: Climate Risk Management**

In March 2023, OSFI issued the final version of Guideline B-15: “Climate Risk Management”, which sets out OSFI’s expectations related to FRFIs’ management of climate-related risks. The Company’s mortgage insurance policy does not cover direct damages from climate risks. The economic transition risk is the most significant climate related risk and the Company has taken steps to more formally integrating climate-related risks into its strategic planning and public reporting process.

### **Guideline on Existing Consumer Mortgage Loans in Exceptional Circumstances**

On July 5, 2023, FCAC published its Guideline on Existing Consumer Mortgage Loans in Exceptional Circumstances, which sets out its expectations for FRFIs to contribute to the protection of consumers of financial products and services by providing tailored support to consumers with an existing residential mortgage loan on such consumer’s principal residence who are experiencing severe financial stress as a result of exceptional circumstances, and are at risk of mortgage default. These exceptional circumstances included the combined effects of high household indebtedness, changing interest rates and the increased cost of living. FRFIs were directed to pay particular attention to providing support to:

- Consumers whose payments on variable rate mortgages fluctuate with interest rates (variable payments) and whose payments increased materially;
- Consumers whose payments on variable rate mortgages are fixed and have had a materially larger portion (or all) of their payment covering the increased interest costs or for those who may be facing negative amortization; and
- Consumers with fixed rate mortgages reaching near-term maturity, who may be facing a material increase in payments.

### **2024 MICAT Guideline**

On October 20, 2023, OSFI published the 2024 MICAT Guideline which builds on the existing MICAT guideline and reflects two key revisions, including (i) incorporating the September 28, 2022 advisory, clarifying the maximum remaining amortization in the capital requirements calculations is the lesser of the calculated remaining amortization period and 40 years, and (ii) an increase to the maximum loan-to-value ratio from 100% to 105% in the capital requirements calculations, aligning the MICAT capital formula to the maximum permitted loan-

to-value ratio for insured mortgages. The revised 2024 MICAT Guideline became effective on January 1, 2024, and has not had a material impact on the Company's MICAT ratio.

### **OSFI Guideline E-23: Model Risk Management Guideline**

On November 20, 2023, OSFI proposed revising Guideline E-23 so that it applies to all analytical models used by FRFIs and federally regulated private pension plans. Guideline E-23 incorporates input received during public consultations undertaken in May 2022, and now also includes models used for non-financial risks such as climate, cyber and tech and digital innovation risk. OSFI recognizes that federally regulated insurers, including the Company, heavily rely on models to support their decision-making and is proposing to extend the applicability of Guideline E-23 to include this industry as well. The extended consultation period is expected to end in the Spring of 2024.

### **2024 to Present**

Material regulatory changes introduced in 2024 included the following:

### **OSFI's Integrity and Security Guideline**

On January 31, 2024, OSFI released its final Integrity and Security Guideline, which sets out OSFI's expectations for the policies and procedures that financial institutions employ to protect themselves against threats to their integrity and security, including foreign interference. It also describes how integrity and security relate to one another, and notes where those concepts are reflected in current guidelines. The Company is in compliance with integrity and security expectations and plans to continuously strengthen related practices.

### **OSFI's New Supervisory Framework**

On February 8, 2024, OSFI released a new supervisory framework for FRFIs and pension plans that came into effect in April 2024. The new framework is designed to respond quickly to the most serious risks that could jeopardize the public's confidence in the soundness of the Canadian financial system and provide greater transparency to financial institutions through disclosure of (i) a new tier rating based on size, complexity, and potential for contagion, (ii) a rating reflecting viability risk according to an expanded 8-point scale, and (iii) for larger institutions, it also includes ratings of business risk, financial resilience, operational resilience, and risk governance.

### **Reinforcing residential mortgage risk management practices**

On March 11, 2024, OSFI released a regulatory notice that applied to all FRFIs which was effective immediately. The notice responded to the heightened risk environment for real estate secured lending by reinforcing expectations on sound residential mortgage account and portfolio management practices. The notice directed institutions to implement its provisions in conjunction with Guideline B-20. This includes aspects such as income verification and addressing higher-risk mortgage products (e.g., variable-rate mortgages with fixed payments). Additionally, the notice highlighted the relevance of IFRS 9, particularly in managing significant increases in credit risk and lifetime loss provisions. The notice further provided that institutions should: proactively

identify and address vulnerable accounts, portfolio segments and concentrations; ensure forward-looking credit risk measurement, modeling, and stress testing to estimate potential losses; and apply timely recognition of expected and unexpected losses due to account vulnerabilities or adverse shifts in the risk environment.

### **Discontinuation of the First-Time Home Buyer Incentive Program**

In March 2024, the Government of Canada announced that following a review of current federal housing programs, the First-Time Home Buyer Incentive will be discontinued, as the program was undersubscribed and, in the opinion of the Government, could not provide significant impact to address housing challenges as currently designed.

### **Homebuyer Plan expansion**

In April 2024, the Government of Canada announced that the Home Buyers' Plan limit had increased from \$35,000 to \$60,000. Canadians who withdraw from their Home Buyers' Plan between January 1, 2022 and December 31, 2025 will have their repayment grace period extended by three years to five years from their initial withdrawal date. For other withdrawals the repayment period continues to start after two years from the initial withdrawal date.

### **OSFI Guideline E-21: Operational Risk Management and Resilience**

On August 22, 2024, OSFI released Guideline E-21: Operational Risk Management and Resilience which applies to all FRFIs and sets expectations for managing operational risk and resilience. Robust operational risk and resilience enhance an entity's ability to prevent, detect, respond to, and recover from adverse events, while continuing to deliver critical operations. Financial institutions are expected to have full adherence and operationalization by September 1, 2026. The Company is in compliance with operational risk management and governance expectations and plans to strengthen operational resilience practices as required by September 1, 2026.

### **Expansion of Eligible Mortgage Criteria under PRMHIA**

On September 16, 2024, the Government of Canada announced the following changes to mortgage insurance rules in Canada, effective December 15, 2024:

- Increasing the \$1 million price cap for insured mortgages to \$1.5 million; and
- Expanding eligibility for 30-year mortgage amortizations for insured mortgages to all first-time homebuyers and to all buyers of new build properties. This measure expands the change the Government of Canada made on August 1, 2024, that allowed only first-time homebuyers, who were buying new build properties, access to 30-year insured high ratio mortgages.

These measures were available for high-ratio mortgage insurance applications that were submitted, including previously submitted applications that were resubmitted, on or after December 15, 2024.

On October 8, 2024, the Government of Canada released details for lenders and mortgage insurers to offer the new insured mortgage refinancing products to encourage densification and enable homeowners to add more units to their current homes or properties. More specifically, these changes (i) allow refinancing of insured mortgages for secondary suites (up to 90% LTV), and (ii) increase the mortgage insurance home price limit to \$2 million for those refinancing to build a secondary suite.

This measure was effective for mortgage insurance applications submitted on or after January 15, 2025.

#### **Minimum Qualifying Rate**

On November 21, 2024, OSFI released confirmation that the prescribed minimum qualifying rate (“**MQR**”) for uninsured straight switches at renewal is no longer required and implemented a loan-to-income (“**LTI**”) limit on the uninsured mortgage portfolios of institutions. The LTI limit is a simple supervisory measure that will restrict high levels of household debt across each institution’s uninsured mortgage loan portfolio. The LTI limit measure is expected to take effect as of each institution’s respective first fiscal quarter of 2025 and it will not impact insured mortgages. Accordingly, no direct impact from the LTI limit measure is anticipated to the Company.

#### **Regulatory Notice on Cultural Risk Management**

On November 21, 2024, OSFI released a Regulatory Notice on Cultural Risk Management, setting expectations for managing culture risk in areas of governance and enterprise-wide culture management. This Regulatory Notice applies to all FRFIs. The Company is currently compliant with this Guideline. Accordingly, there is no expected impact from its finalization.

#### **2025 MICAT Guideline**

On November 21, 2024, OSFI released the final MICAT 2025 Guideline, which updates capital rules for multi-unit residential mortgage insurance risk by standardizing the approach and leveraging the Capital Adequacy Requirements Guideline. The revised 2025 MICAT Guideline became effective on January 1, 2025 and is not expected to have a material impact on the Company’s MICAT ratio.

#### **IFRS 17 Guideline**

On November 21, 2024, OSFI released the final IFRS 17 Guideline, which replaces the IFRS 17 Advisory and brings together existing accounting expectations, removes redundant information, clarifies accounting expectations, and addresses specific comparability concerns. This Guideline applies to federally regulated insurers using IFRS 17. The Company is currently compliant with this Guideline. Accordingly, there is no expected impact from its finalization.



### **Government of Canada 2024 Fall Economic Statement**

On December 16, 2024, the Government of Canada released its 2024 Fall Economic Statement which reiterated previously announced programs, and introduced some notable new measures, including:

- Removal of the stress test for low-ratio (loan-to-value ratio up to 80%) insurable mortgages when switching lenders at renewal, provided the mortgage meets the “straight switch” criteria, aligning Canadian federal rules with OSFI’s decision released on November 21, 2024;
- Secondary suites funding, which doubles loan limits for secondary suite program to \$80,000, and offers a 2% interest rate with a 15-year term; and
- The Government of Canada advance of plans to fight mortgage fraud through income verification and consultation with experts and mortgages lenders in order to design a secure and user-friendly tool to help financial institutions mitigate fraud.

On March 12, 2025 the Government of Canada published the “*Regulations Amending the Insurable Housing Loan Regulations and the Eligible Mortgage Loan Regulations*” articulating various of the regulatory changes noted above in legislation.

For further details on the mortgage insurance industry, see “*Industry Overview*”.

## **RISK FACTORS**

### ***Insurance Risk***

The Company is subject to the inherent insurance risk within its portfolio. The mortgage insurance business is influenced by macroeconomic conditions. Specifically, the level of premiums written is influenced by economic growth, interest rates, unemployment, housing activity, home prices and government policy, among other factors. A significant downturn in the global, Canadian and provincial economies could adversely affect the Company’s business and results of operations.

Insurance risk is the risk of loss arising from claims made by policyholders as a result of the borrower’s inability to fulfill their mortgage obligations, after taking into account recoveries from the sale of the mortgage property and associated costs. Insurance risk and potential loss tolerance is a function of both national and regional factors and the Company’s portfolio quality and mix. The key drivers of insurance risk for the Company can be categorized as economic and portfolio risk. Portfolio risk is the risk of increased losses due to the inaccurate assessment of risks entailed in underwriting an insurance policy; adverse risk concentrations with respect to credit and collateral risk; or a lack of diversification in regard to lender, loan-to-value, region or product. Economic risk factors such as unemployment, changes in home prices, the amount of consumer spending, business investment, government spending, the volatility and strength of the global and Canadian capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of the Company’s business. In an economic downturn, which may be characterized by higher unemployment, lower household income, lower corporate earnings, high interest rates, inflationary pressure, lower business investment, lower consumer spending and/or regulatory actions, the demand for homes in Canada may be adversely affected.

This could negatively impact the size of the Canadian mortgage insurance market, and the loss exposure and profitability of the Company.

A deterioration in Canadian economic conditions, regionally or nationwide, may also increase the likelihood that borrowers will lose their jobs or have insufficient income to pay their mortgages. This would result in increased claims which would adversely affect the Company's business and results of operations. Such a deterioration in Canadian national and provincial economic conditions could also be triggered or exacerbated by geopolitical risks, such as the threat of, or implementation of, a tariffs conflict between the United States of America and Canada. Such a tariff scenario could disrupt trade flows, making Canadian exports less competitive, slowing economic growth or triggering a short term or prolonged recession. A tariff scenario could also lead to higher costs for businesses and consumers, strain supply chains, and increase inflationary pressures.

A decline in home prices, whether or not in conjunction with deteriorating economic conditions, would also increase the Company's risk of loss.

Mortgage loans with higher loan-to-value ratios, which constitute a significant part of the Company's insurance in-force, typically have claim incidence rates higher than mortgage loans with lower loan-to-value ratios and may be more acutely impacted by economic volatility. Although mortgage insurance premiums for higher loan-to-value loans generally are higher than for loans with lower loan-to-value, the actual premium rates may not be sufficient to compensate the Company for the enhanced risks associated with mortgage loans bearing higher loan-to-values. This could have an adverse effect on the Company's financial condition and results of operations.

### ***Legal and Regulatory Risk***

The Company's business is heavily regulated by insurance regulatory legislative authorities, which are granted significant powers, at the federal, provincial and territorial level in Canada, and failure to meet their regulatory requirements or changes in regulation and governance requirements may impact the housing and mortgage markets, reduce the Company's profitability, impact regulatory capital requirements, affect the Company's ability to pay dividends or distribute capital to shareholders, expose the Company to claims, fines or penalties and could limit the Company's growth.

Applicable laws and regulations and the regulatory authorities that apply them are generally aimed at protecting policyholders and creditors rather than investors, and are related to matters including:

- restrictions on the insurance that may be written by the Company;
- regulatory capital and solvency standards;
- the distribution of the Company's products;
- restrictions on types of invested assets;
- the maintenance of adequate margins for LRC and LIC;

- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- corporate governance and operational risk factors such as cybersecurity reporting and internal policies; and
- limitations on dividends, distribution of capital and transactions with affiliates.

It is not possible to predict the future impact of federal, provincial, territorial and municipal laws, regulations and guidelines on the Company's operations, and the Company cannot assure investors that laws and regulations enacted now and in the future will not have an adverse impact on the size or nature of its portfolio or any other aspects of the business of the Company. For example, federal, provincial and municipal governments implemented several regulatory changes in the 2016 to 2024 period, including applying a mortgage rate stress test to all insured mortgages, changing portfolio mortgage insurance eligibility requirements, the coming into force of regulations relating to mortgage insurance used as collateral in private sector securitization, the introduction of a new capital framework for mortgage insurers, the introduction of measures to manage home affordability by the British Columbia and Ontario governments, and the introduction of a new OSFI supervisory framework and the expansion of eligible mortgage criteria under PRMHIA (see "*Regulatory Overview - Regulatory Changes*" for further details on recent regulatory changes).

The laws and regulations governing the Company also typically require it to regularly and periodically make various filings, including securities regulatory filings, stock exchange filings and insurance regulatory filings with OSFI and various ministries at the federal, provincial and territorial level. Some of these documents will include financial statements and annual reports, prepared in accordance with IFRS, and other information and analyses concerning the Company's capital structure and actions, ownership, financial condition and general business operations. The Company could be subject to regulatory actions, sanctions, claims, fines or the loss of needed licenses if an applicable authority believed the Company had failed to comply with any applicable law, regulation or requirement. Any such failure could result in the imposition of significant restrictions on the Company's ability to do business or significant penalties, which could adversely affect the Company's growth prospects and its results of operations, financial condition and cash flow.

The provincial and territorial insurance regulators have not required the Company to use licensed individuals to sell its products. If such regulators decide to require licensing of individuals, or if future regulations affecting the sale or distribution of the Company's products or services contribute to increased costs for training and licensing, or contribute to reduced sales of the Company's products, the Company's results of operations and financial condition may be adversely affected (see "*Regulatory Overview - Regulatory Changes*" for details on the changes introduced in these markets).

The attractiveness of insured residential mortgages to lenders is dependent, in part, on the capital requirements that apply to them, which, in Canada, are currently derived from international standards adopted by Basel II and Basel III. Any material changes to these international standards or the way in which they are applied in Canada in respect of private mortgage insurers, could

impact upon the risk weightings assigned to insured residential mortgages and could impact upon the attractiveness of insured residential mortgages as an asset class for lenders which could alter the competitive positions and financial performance of mortgage insurers, or the attractiveness of private mortgage insurers vis-à-vis CMHC. There can be no assurance that such changes will not be introduced or that if introduced, will not have an adverse effect on the Company's business, results of operations and financial condition.

The Company's loss mitigation efforts are also impacted by federal, provincial and territorial laws applicable to land transfers and mortgage enforcement. Changes to any such laws or the decreased efficiency of such legal processes could impact the cost and efficiency with which the Company can exercise its loss mitigation efforts and, ultimately, could adversely impact the severity of claims paid.

In addition to the above noted risks related to a changing regulatory landscape, the Company is also subject to legal and compliance risk. Compliance risk is the risk of legal sanctions, class action lawsuits, material financial loss, or loss to reputation that the Company may suffer as a result of its failure to comply with applicable laws, regulations, guidelines, government or court orders, its own policies, mandates, code of conduct, and standards of practice. Legal risk refers to the risk of financial or reputational loss arising from regulatory or legal action, disputes for or against the Company, failure to correctly document, enforce or adhere to contractual arrangements, and inadequate management of non-contractual rights.

### ***Government Policy Change Risk***

The Canadian government has a policy of supporting home ownership in Canada by providing mortgage insurance through CMHC and by supporting private sector competition to CMHC by guaranteeing the insurance provided by private sector mortgage insurance providers, subject to an aggregate cap of \$350 billion, and by recognizing these guarantees in the capital rules that it has established for federally regulated mortgage lenders. A change in the governing party or philosophy at the federal or provincial levels could lead to shifts in policies, laws, regulations, or priorities, which could potentially impact the housing market, general economy, business environment and operational strategies of the Company. If the Canadian government were to alter its policies in any manner adverse to the Company, including not increasing the cap to take into account growth in value of outstanding mortgages, altering the terms of or terminating its guarantee of the policies of private sector mortgage insurance providers, including those with the Company, or varying the treatment of private sector mortgage insurance in the regulatory capital rules for federally and provincially regulated financial institutions, the Company's ability to compete effectively with CMHC could be reduced and new business written by a private sector mortgage insurer in Canada could be effectively reduced or eliminated. This could have an adverse effect on the business, financial condition and results of operations of the Company. An example of this risk includes if private sector mortgage insurers reach or exceed the \$350 billion cap permitted under PRMHIA, and the Canadian government chose not to increase this cap, the business would be limited in its ability to write new insurance.

Additionally, from time to time, the Department of Finance reviews the federal financial services regulatory framework and has in the past examined whether to remove, in whole or in part, the requirement for mortgage insurance on high loan-to-value mortgages. Also, any increase

in the threshold loan-to-value ratio above which mortgage insurance is required could also result in a reduction in the amount of new insurance written by the Company in future years. Any of these events could have an adverse effect on the Company's business, results of operations and financial condition.

### ***Capital Requirement Risks***

The Company is subject to capital requirements imposed under Canadian law, including the ICA and PRMHIA. A decline in the Company's regulatory capital ratio or an increase in its regulatory capital requirements could result in: a decline in Sagen MI Canada's or Sagen's credit ratings, increased scrutiny by OSFI, preclude the Company from writing new business, distributing capital to shareholders or utilizing capital for business needs, and have an adverse impact on the Company's financial condition, results of operations and prospects.

Defaults or impairments in the Company's investment portfolio and/or an increase in reported losses could have an adverse impact on the Company's regulatory capital levels, in response to which the Company would be required to obtain capital from other sources. If adverse circumstances develop, there can be no assurance that the Company will not need additional capital or that the Company will be able to obtain it to maintain the targeted regulatory capital levels to support the Company's business operations, including its ability to write new insurance. There can be no assurance that Brookfield will be willing or able to provide additional capital to the Company.

Any changes to the capital requirements that are not matched with appropriate pricing responses could have an adverse impact on the Company's profitability or its ability to meet its targeted new insurance written in future years. The failure of the Company to meet applicable regulatory capital requirements could subject it to further examination or corrective action imposed by OSFI, including limitations on its ability to write additional business, a restriction on the payment of dividends or interest, heightened supervision or seizure or liquidation. See "*Regulatory Overview – Capital Requirements*" and "*Risk Factors – Operational Risk – IFRS 17*" for details on the impact of IFRS 17 on capital requirements.

### ***Risk of a Decrease in Transactional Insurance Origination Volumes***

The Company provides mortgage insurance primarily for high loan-to-value mortgages. Material changes in factors that impact the volume of such mortgages, could lead to a decrease in the volume of transactional insurance originations, including:

- a change in the level of mortgage interest rates or level of rate used to calculate debt service ratios;
- a decline in economic conditions generally, or in conditions in regional and local economies;
- the level of consumer confidence, which may be adversely affected by economic instability, epidemic, pandemic, war or terrorist events;
- material changes in the price of homes or the availability of affordable housing;

- adverse demographic and population trends, including lower homeownership rates;
- changes in government housing policy encouraging loans to first-time homebuyers;
- changes to the mortgage rate used for stress testing purposes or government action to reduce consumer debt levels;
- a change in the Company's risk appetite;
- changes to the capital treatment of privately insured mortgages that could disproportionately increase the regulatory capital held on privately insured mortgages relative non-privately insured mortgages; and
- changes in the underwriting practices or product offerings of the Company's competitors.

A decline in the volume of transactional insurance originations would reduce the demand for mortgage insurance and, therefore, could have an adverse effect on the Company's financial condition and results of operations.

### ***Competition Risk***

The Company competes with CMHC, a Crown Corporation and Canada Guaranty, a private mortgage insurer. CMHC may establish pricing terms and business practices that may be influenced by Canadian government policy initiatives such as advancing social housing policy or stabilizing the mortgage lending industry, initiatives which may not be consistent with maximizing return on capital or other profitability measures. In the event that CMHC determines to reduce prices or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than in accordance with commercial market terms, the Company may be unable to compete effectively, which could have an adverse effect on the Company's financial condition and results of operations.

CMHC is a sovereign entity that provides mortgage lenders with 100% capital relief from bank regulatory capital requirements on loans that it insures. In contrast, lenders receive less than 100% capital relief on loans the Company insures. See "*Description of the Business - Overview of the Canadian Mortgage Insurance Industry - PRMHIA*". This difference in capital relief inherently puts the Company at a competitive disadvantage vis-à-vis CMHC. CMHC also operates the CMB program, which provides lenders the ability to efficiently securitize their mortgage loan portfolios. Accordingly, if the Company is unable to effectively differentiate itself from CMHC with Canadian mortgage lenders in other ways, under current market conditions or in the future, the Company may be unable to compete effectively with CMHC. In addition, because CMHC is a sovereign entity, lenders may have lower funding costs for CMHC insured mortgages, which could make it more difficult for the Company to compete with CMHC.

The mortgage securitization programs administered by CMHC, including the CMB program, enable lenders to achieve maximum funding flexibility through access to low-cost funds for mortgage lending. As currently administered by CMHC, such programs accept mortgage loans insured by private sector mortgage insurers, including the Company, on substantially the same terms as loans insured by CMHC. However, if in the future CMHC no longer provides that private

sector insured mortgages may participate in such programs on substantially the same terms, then the demand for the Company's mortgage insurance may decrease and the Company's ability to effectively compete with CMHC would be negatively impacted.

A number of other companies have competed with the Company in the past by offering private sector mortgage insurance in the Canadian market, although most have currently ceased writing new business. Canada Guaranty is active in the market today and is endeavouring to expand its business, and additional competitors may enter the Canadian private sector mortgage insurance business. The addition of new competitors directly to the Canadian private sector mortgage insurance market or indirectly through the offering of other financial products could, among other things, result in fewer policies being written by the Company and increased competition. Such increased competition could have an adverse effect on the Company's business, results of operations and financial condition.

### ***Operational Risks***

Operational risk is inherent in virtually every process of the business, including underwriting, loss mitigation, sales and marketing, investment management and execution, financial reporting and controllership, modelling, risk management and third-party supplier management. The Company may be subject to direct or indirect losses due to inadequate internal procedures, personnel, systems, or the impact of internal events on the processes of the Company's daily operations. Examples include if the Company fails to maintain an effective system of internal controls it may not be able to accurately report its financial results or prevent fraud; a failure to maintain qualified individuals for the establishment of the LIC may result in actual results deviating, perhaps substantially, from the best estimates made; a failure in the process or procedures in the management of the investment portfolio could result in material losses in the investment portfolio; or the failure of information technology infrastructure (whether due to inadequate system updates, transition failures between suppliers, security breaches of a cloud provider, or other information technology issues) could impact the operations of the business. Some material operational risks are outlined below.

#### **Information Technology Management Risk**

The Company's business is highly dependent upon the effective operation of its computer systems and its internal control operating procedures. The Company relies on these systems throughout its business for a variety of functions, including underwriting new insurance, adjudicating applications, processing claims, providing information to lenders, performing portfolio analyses and maintaining financial records. Despite the implementation of security protocols and back-up measures, the Company's systems may be vulnerable to physical or electronic intrusions from both within and outside of the Company, computer viruses and other types of malicious software, cyber-attacks, hacking attempts from unauthorized persons or other attacks, programming errors, the physical theft of computer systems, internal programming or human errors, fraud, and other similar disruptive problems or events. There is also a risk that certain internal procedural and security controls, business continuity plans, or crisis management plans could fail, which could exacerbate the consequences from such events.

In addition, the Company retains confidential information in its computer systems, with third-party suppliers, including potentially public cloud providers, and the Company relies on

sophisticated commercial technologies and internal controls to maintain the security of the data and personal information that is held by it or its suppliers. Anyone who might be able to circumvent the security measures and penetrate the computer systems may be able to access, view, misappropriate, alter or delete any information in the systems, including personally identifiable consumer information and proprietary business information.

The Company actively monitors, manages, and continues to enhance its ability to mitigate these technology and cyber security risks through enterprise-wide programs, using industry standard practices, and robust threat and vulnerability assessments and responses. The Company continues to make investments to improve its cyber defences in accordance with industry accepted standards and practices to enable rapid detection and response to internal and external cyber incidents. It is possible that the Company, or those with whom the Company does business, may not anticipate or implement effective measures against all such cyber and technology related risks, particularly because the techniques used change frequently and risks can originate from a wide variety of sources that have also become increasingly sophisticated, and the Company's cyber insurance purchased to mitigate risk may not be sufficient to materially cover against all financial losses.

The Company is at risk of an attack, breach, disruption or compromise of the security of the Company's technology or information systems, hardware or related processes or a breach, disruption or compromise of its system resulting from internal programming or human errors, or any significant issues caused by weakness in information technology infrastructure. As a consequence of the above, the Company may experience, among other things, significant interruptions to the Company's operations; the unauthorized disclosure or inappropriate use of Company data or personally identifiable consumer information or confidential information; damage to the Company's computers or systems; violations of applicable privacy and other laws, litigation; regulatory penalties or intervention, remediation, investigation or restoration cost; increased costs to maintain and update the Company's operational and security systems and infrastructure; deterrence of lenders from purchasing the Company's products; the incurrence of significant technical, legal and other expenses and damage the Company's reputation in the marketplace, among other things, which could result in an adverse effect on its business, reputation, financial condition or results of operations.

Despite the Company's commitment to technology, information and cyber security, the Company may not be able to fully mitigate all risks associated with the increased complexity and high rate of change in the threat landscape. The threat environment is rapidly and constantly changing, and there remains a possibility that our processes and controls could be unsuccessful in detecting or preventing a security breach. The Company continuously monitors its risk profile for changes and continues to refine approaches to security protection and service resilience to minimize the impact of any incidents that may occur.

#### *Information Management Risk*

Information management risk is the risk of loss or harm resulting from the failure of the Company or its suppliers to manage information appropriately throughout its lifecycle. Exposure to this risk exists when information is acquired or created, processed, used, shared, accessed, retained, transferred, or disposed. With respect to personal information, the failure to manage information appropriately can result in the misuse of personally identifiable information or privacy



breaches. With respect to customer information, the inability to process information accurately and on a timely basis can result in service disruptions, errors in underwriting and inaccuracies in insurance contract liabilities. With respect to corporate and proprietary information, the mismanagement of information can result in the disclosure of confidential information, the inaccessibility of information when it is required and the reliance on inaccurate information for decision-making purposes. Such events could lead to legal and regulatory consequences, reputational damage, the loss of the confidence and business of customers and financial loss.

#### Staffing and Management Needs

The Company's future success is largely dependent on its ability to retain and attract qualified employees. The Company faces competition for key employees with demonstrated industry knowledge and ability, including actuarial, IT, modeling, finance, legal, investment, risk, compliance and other professionals. The occurrence of an event that is detrimental to the reputation or business of the Company, or the mortgage industry, could make it difficult to attract or retain employees. For example, should the employee value proposition be deemed to be less favourable than other employers, then the ability to attract or retain staff could be impacted. The Company's future success also depends upon the continued services of its senior management team and other key employees. There can be no assurance that the Company will be able to retain members of its senior management team and key employees or, in the event their employment with the Company is terminated, be able to replace them in a timely manner with qualified individuals with the necessary skills and expertise. The loss of one or more members of the Company's senior management team or other key personnel, without the opportunity to retain and train appropriate replacements, could have an adverse effect on the Company's business and prospects. To manage this risk, the Company offers long term incentive compensation plans for the leadership team as well as high performing key talent. The Company regularly engages with employees to assess their needs and solicit input, and if necessary, make the appropriate changes.

The Company is also subject to operational risk related to staffing due to rapid changes in economic conditions that might result in a rapid or unexpected increase in new business or in the number of claims received relative to expected and historical norms, which the Company may be unequipped to handle. In order to effectively manage a significant increase in new business volume, the Company has contingency plans in place to leverage additional underwriting capacity when required. For a short-term increase, the impacted operational team would be able to offer overtime hours as well as leverage cross-trained resources from other operational areas. The Company also has the ability to modify its underwriting and collateral systems with regards to auto-decision rules, subject to review and approval, when a significant and sustained positive shift in the economy supports such a change. The Loss Mitigation team also has the ability to rely on established relationships with third parties (e.g., legal firms) to facilitate claims management on the Company's behalf.

#### Third Party Risk Management

Third party management risk is the risk associated with outsourcing or using the products of third-party vendors or service providers. These could include financial, environmental, reputational, and security risks brought upon by the failure of such suppliers to provide the services or products agreed upon, and the failure of the business to evaluate or manage any suppliers throughout the lifecycle of the relationship with such suppliers.

### Artificial Intelligence Risk

The use of artificial intelligence in operations, including underwriting, claims processing, and customer interactions, introduces risks related to data privacy, algorithmic bias, and regulatory compliance. Any failure to manage these risks effectively could result in reputational damage, financial losses, or regulatory penalties, potentially impacting the company's business and operations. See “Model Risk” below for details on the use of artificial intelligence by the business.

### ***Investment and Market Risks***

The Company is subject to market risks that could impair the value of the investment portfolio and may reduce the Company's income. General economic conditions, political conditions, consumer confidence and many other elements can also adversely affect the equity and bond markets and, consequently, the fair value of the securities owned, and ultimately affect the timing and level of realized gains or losses. Movements in interest rates, credit spreads, foreign exchange rates and equity prices cause changes in realized and unrealized gains and losses. Mark to market risk may also arise due to fluctuations in the market value of the investment portfolio and derivative portfolio.

### Currency Risk

The Company uses interest rate swaps to hedge a portion of the interest rate risk. The rate of currency exchange may also have an unintended effect on earnings and shareholder equity when measured in domestic currency. The Company is exposed to currency risk arising from investments and receivables denominated in U.S. dollars. The Company uses foreign exchange forwards and cross currency swaps to mitigate currency risk.

### Credit and Default Risk

The Company is subject to the risk that the issuers or guarantors of fixed income securities and preferred shares that the Company owns may default or not make timely payment on principal and interest payments on such securities. If there were downgrades in the credit quality of certain issuers or guarantors, certain investments could become impaired, and, therefore, the Company's results of operations and financial position could be adversely affected.

### Equity Risk

The Company also invests in equity securities, which are valued based on the market price of those securities and includes the risk of gain or loss due to the changes in the prices and the volatility of individual equity instruments and equity indices. The price of a security is affected by individual company developments, by general economic and financial conditions in those countries where the issuer of the security is located or where the stock is listed for trading, as well as global equity market sentiment, consumer confidence and other factors.

### Emerging Markets Risk

The Company has exposure to emerging markets risk, relating to international investing including greater market volatility, political risk, disclosure, governance, divergent economic cycles, higher transaction and custody costs and taxation by foreign governments.

### Valuation Risk

The Company's valuation of fixed income and equity securities uses methodologies, estimations and assumptions that are subject to change and differing interpretations which could result in changes to investment valuations. Valuations use inputs and assumptions that are less observable or require greater estimation, as well as valuation methods that are more complex or require greater estimation, thereby resulting in values that are less certain and may vary significantly from the value at which the investments may be ultimately sold. The methodologies, estimates and assumptions the Company uses in valuing its investment securities evolve over time and are subject to different interpretation (including based on developments in relevant accounting literature), all of which can lead to changes in the value of investment securities. Rapidly changing and unanticipated interest rate, external macroeconomic, credit and equity market conditions could materially impact the valuation of investment securities as reported within the Consolidated Financial Statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on the Company's results of operations or financial condition.

Events reducing the value of the Company's investment portfolio could have an adverse effect on its business, results of operations and financial condition. Levels of write-downs or impairments are impacted by the Company's assessment of the financial condition of the issuer, whether or not the issuer is paying its principal and interest obligations and the Company's intent and ability to hold securities which have declined in value until recovery. If the Company decides to reposition or realign portions of the portfolio where it disposes of certain securities in an unrealized loss position, then the Company will incur an impairment charge which, as noted above, could have an adverse effect on the Company's business, results of operations and financial condition.

### Liquidity and Refinancing Risk

In the event market or other conditions have an adverse impact on the Company's capital and liquidity needs beyond expectations and its sources of liquidity do not satisfy its needs, it may need to seek additional funding. Funding sources could potentially include the generation of proceeds from the sale of assets, the incurrence of additional debt, the refinancing of existing debt or drawing on any credit facility. In addition, funding sources could potentially include issuing equity, with any decision to issue equity thoroughly considering the degree to which such an equity issuance would dilute current shareholders' value. All such funding sources can have various impacts on the Company's financial condition.

The availability of additional funding will depend on a variety of factors, such as market conditions, regulatory considerations, the general availability of credit, the overall availability of credit to the financial services industry, the level of activity of acquirers of assets, Sagen MI Canada's or Sagen's credit ratings and the Company's credit capacity and the performance of, and outlook for, its business. Market conditions or the Company's financial condition may make it difficult or impossible to access funding sources or complete asset sales to generate additional liquidity, especially in a restricted timeframe. The Company's access to funding may be further impaired if its credit or financial strength ratings are negatively impacted.

### Interest Rate Risks

Rising interest rates generally reduce the volume of new mortgage originations and demand for homes. A decline in the volume of new mortgage originations would have an adverse effect on the Company's new insurance written. Rising interest rates also can increase the monthly mortgage payments for insured homeowners with variable rate mortgages and for borrowers renewing mortgages that could have the effect of increasing default rates on variable rate or renewed mortgage loans and thereby increasing the Company's exposure on its mortgage insurance policies. In addition, rising interest rates may decrease the value of the Company's investment portfolio, which may negatively impact regulatory capital levels required to be maintained by the Company. By contrast, historically low interest rates can have an adverse impact on the economy in general and the housing market in particular by contributing to increased household debt levels and encouraging home price appreciation beyond sustainable levels.

Prevailing interest rates will also affect the market value of the Company's debentures, notes and other debt securities that may be outstanding from time to time (collectively, "**Debt Securities**"). The price or market value of Debt Securities will decline as prevailing interest rates for comparable securities rise. Sagen MI Canada may, if permitted by the terms thereof, choose to redeem Debt Securities from time to time, including when prevailing interest rates are lower than the interest rate of the applicable Debt Securities. If prevailing rates are lower at the time of redemption, a holder may not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Debt Securities being so redeemed.

Interest rate fluctuations also could have an adverse effect on the results of the Company's investment portfolio. During periods of declining market interest rates, the Company is forced to reinvest the cash it receives as interest or return of principal on its investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed income securities may also decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that the Company may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. During periods of rising interest rates, market value of the fixed income investments held by the Company would likely fall. A decrease in the value of the Company's investment portfolio would likely have an adverse effect on the Company's results of operations and financial condition.

### Geopolitical Risk

Geopolitical risk is the risk associated with wars, terrorist acts, and tensions between states that impact the normal and peaceful course of international relations. This can have a deleterious result on the Canadian or world economy as a whole or on specific regions within Canada that are dependent on trade or commerce with other international regions. Examples of this might include:

- a tariff and trade war between the U.S. and Canada could disrupt deeply integrated supply chains and strain the economic interdependence between the nations, which could weaken economic stability, impact employment in dependent industries, alter consumer confidence and spending, impact global trade partnerships, alter Canada's position in international markets, and impact the value of its currency and securities markets;

- a deterioration in international trade or consumer confidence due to geopolitical instability resulting from wars in Ukraine and the Middle-East or deteriorating international trade relations could adversely impact the Canadian economy;
- geopolitical events could also contribute to inflationary pressure in the Canadian economy, negatively impacting new insurance written, losses on claims, the performance of the investment portfolio; and
- the onset or protracted duration of a global or regional epidemic, pandemic or disease outbreak or the failure to distribute vaccines in an adequate or timely manner to combat any such pandemic, could adversely affect regional or international trade and commerce, equity markets, or employment.

## ***Concentration Risk***

### ***Customer Concentration***

Canada's residential mortgage lending market is highly concentrated, with the five largest mortgage originators providing the majority of the residential mortgage financing in Canada. The Company maintains relationships with each of these key lenders. The Company is at risk that key lenders, particularly the Big Five Banks, may change the type of loans or level of business that they write with the Company, for any number of reasons, including adverse capital allocation requirements associated with choosing a private sector mortgage insurer or adverse funding options for the lender associated with private sector mortgage insurers. These or other lenders may choose to terminate its relationship with the Company, direct a greater proportion of higher risk and less profitable loans to the Company, reduce the amount of business written with the Company in light of adverse developments in financial or capital markets, adverse rating agency actions, concerns about market-related or counterparty risks or adverse developments in the Company's or Brookfield Business Partners' business. A reduction in business with a key lender or adverse selection of loans could have an adverse effect on the Company's level of new insurance written, the Company's financial condition and results of operations.

### ***Geographic Concentration***

Although generally consistent with the geographic distribution of the Canadian population and mortgage origination market, much of the Company's business is concentrated in a relatively few number of provinces, which increases the Company's vulnerability to economic or market downturns, catastrophic events or acts of terrorism in those provinces. Currently, a significant proportion of the Company's primary transactional outstanding balance of insured mortgages is concentrated in Ontario, British Columbia, Alberta and Québec, with the highest percentage being in Ontario. A material adverse event such as a tariff induced economic downturn or recession, natural disaster, epidemic, pandemic, or an act of terrorism that results in increased unemployment in a region coupled with a downturn in any of these geographic regions that is more severe than the rest of Canada could result in greater defaults and losses on claims from loans originated in those regions and result in lower demand for new insurance. Any of these events could result in an adverse effect on the Company's business, results of operations and financial condition. For example, a downturn in regional economies in Ontario or British Columbia, in particular in the

GTA and the Greater Vancouver Area, coupled with downturns in home prices in those markets could result in more severe losses on claims in those regions relative to other Canadian regions.

### ***Risk Management Adequacy***

The Company's risk management framework or mortgage insurance policies may not be effective or adequate in controlling or mitigating the risks it faces or may not be implemented successfully through its underwriting practices. The Company's success depends upon its ability to accurately assess the risks associated with the mortgage insurance policies that the Company writes. The risk management framework includes the assessment of risk, a comprehensive decision-making process to determine which risks are acceptable and the ongoing monitoring and management of those risks.

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 the types of risks to which it is subject, including but not limited to operational risks such as employee fraud, borrower or lender fraud or misrepresentation and operational control failures. The Company regularly reviews its risk management program and works to update it on an ongoing basis to be consistent with evolving global best market practices. However, the risk management program may not fully identify, monitor, measure, mitigate, control and report all of the risks the Company faces.

The Company's mortgage insurance policies exclude coverage for claims resulting from certain matters including, but not limited to, fraudulent, criminal or knowingly wrongful acts, or misrepresentations, material physical damage (beyond normal wear and tear), environmental conditions or negligence of the insured or any of its agents or employees. Despite the efforts of the Company to exclude coverage for certain matters, there can be no certainty that the Company has sufficiently and completely limited its contractual or operational exposure to only those losses on claims it has contemplated and for which it has priced its insurance premiums. The failure to do so could have an adverse impact on the financial condition of the Company.

### ***Pricing and Reserve Adequacy***

If the Company's pricing is inadequate, or its LIC and LRC do not adequately reflect the Company's financial condition, its results of operations and regulatory capital may be adversely affected.

If the Company's losses on claims experience is higher than forecasted or capital requirements increase disproportionately, then premiums charged, and the associated investment income, may not be adequate to compensate the Company for the risks and costs associated with the insurance coverage provided to lenders. An increase in the number or size of claims, compared to what the Company anticipates, could adversely affect the Company's results of operations or financial condition. Similarly, the Company cannot be certain that existing premium amounts may be sufficient to address the imposition of any additional capital requirements by OSFI as it regularly reviews and updates its capital framework. See also "*Risk Factors - Insurance Risk - Competition Risk*" for details on competitive factors that impact the adequacy of pricing.

See “*Description of the Business - Insurance Risk - Liability for Incurred Claims and Liability for Remaining Coverage*” for details on the calculation of the LIC. Although LIC estimates may be appropriate initially, the ultimate cost of settling claims may vary significantly from initial LIC estimates. In the event that actual losses on claims and loss adjustment expenses exceed the amount of LIC the Company has established, the Company may be required to increase its LIC which could result in the Company taking unexpected charges to income, a downgrade in the Company’s financial strength ratings or the Company failing to meet minimum regulatory capital tests. Despite the Company’s liability adequacy testing for LRC and LIC, the LRC and LIC may prove to be inadequate. The failure to accurately estimate and establish adequate LIC or a requirement that the Company increase its LIC could have an adverse effect on the Company’s business, results of operations and financial condition.

### ***Risk of Variance to the Loss Experience***

The Company expects the majority of claims on insured loans in the Company’s current portfolio to occur between the second and fifth years after loan origination. Loss experience could increase as its policies age, for example, if there are significant national or regional home price corrections, which could adversely affect the Company’s results of operations and financial condition. Additionally, the Company recognizes LRC in accordance with IFRS 17. Under IFRS 17, the revenue recognition pattern is primarily driven by: (i) the expected emergence of fulfilment cash flows, including the risk adjustment for non-financial risk, and (ii) the timing of the recognition of the CSM as services are provided under the insurance contract based on the change in coverage units, which are an estimate of the loss given default for outstanding insured mortgages. Assumptions are required on each reporting date to calculate insurance revenue and LRC and could vary from period to period. Significant unexpected volatility in assumptions and economic variables and their impact on LRC could affect the timing of revenue recognition. The Company’s results of operations and financial condition could be adversely affected if such material shifts occurred.

### ***Risks related to Investment Portfolio Realignments***

Any steps taken by the Company to realign its investment portfolio towards below investment grade fixed income securities, private debt, hybrid securities, higher leverage ratios, or to meet desired ESG standards could have an adverse impact on the results of the investment portfolio, liquidity of the portfolio and ultimately the business and/or the financial condition of the Company depending on market conditions and the timing of any such investments.

### ***Ratings Risks***

#### **Company Ratings**

Downgrades or a potential downgrade in Sagen MI Canada’s or Sagen’s credit ratings or financial strength ratings, as applicable, could result in a loss of business and adversely affect the Company’s financial condition and results of operations and could impact the Company’s derivative and hedging program.

Although Sagen MI Canada and Sagen are not required to have a credit rating or financial strength rating to conduct business, such ratings are necessary in maintaining confidence in the

Company's products, the ability to market the Company's products and the Company's competitive position. See "*Description of Capital Structure - Ratings*" for a description of Sagen MI Canada's and Sagen's current ratings. The standards used by rating agencies in determining financial strength ratings may be different from capital requirements set by government regulators. The Company may need to take actions in response to changing standards set by any of the rating agencies, in addition to the requirements of regulatory capital requirements, which could cause the Company's business, results of operations and financial condition to suffer.

Credit ratings and financial strength ratings are subject to revision or withdrawal at any time without notice by the rating agencies. A ratings downgrade could occur at any time for a variety of reasons, including for reasons specifically related to the Company's business, generally related to the Company's industry or the broader financial services industry or as a result of changes by the rating agencies in their methodologies or rating criteria. A negative outlook on Sagen MI Canada's or Sagen's credit ratings or financial strength ratings, as applicable, or a downgrade in Sagen MI Canada's or Sagen's ratings, the announcement of a potential downgrade, or customer concerns about the possibility of a downgrade, could adversely affect the Company's relationships with key lenders and industry participants, which may reduce new sales of mortgage insurance. Any such event could also result in materially higher borrowing costs for the Company, may affect the price of outstanding debentures issued by Sagen MI Canada, and could impact market sentiment towards the securities of the Company.

A ratings downgrade could also require the Company to post additional collateral for its derivatives or hedging agreements (including those providing us with protection against certain foreign currency exchange movement, interest rate fluctuation and share-based compensation expenses) or enable the counterparties to these agreements to exercise their rights to terminate all transactions under the agreements. The Company's access to funding or ability to refinance its debt at acceptable costs to the business may be further impaired if its credit or financial strength ratings are negatively impacted.

#### *Brookfield Ratings*

The credit ratings and financial strength ratings of Sagen MI Canada or Sagen, as applicable, may be affected by changes in the credit ratings and the financial strength ratings of Brookfield, including as a result of the application by a rating agency of a group rating methodology that links the ratings of Sagen MI Canada or Sagen to the ratings of Brookfield. Such changes may not always impact the credit ratings and financial strength ratings of Sagen MI Canada or Sagen. See "*Description of Capital Structure - Ratings*" for further details on the Sagen MI Canada's and Sagen's ratings.

#### ***Model Risk***

Model risk is the risk of error in the design, development, implementation or subsequent use of models. The use of models plays an important role in many of the Company's business activities. The Company uses a variety of models for many purposes, including risk measurement and management of different types of risk, such as the mortgage scoring model used to predict the likelihood of borrower defaults. 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. A failure in the Company's modelling could adversely impact its ability to properly evaluate, reserve, price, and mitigate risks and the associated losses. The Company has established an enterprise risk management framework, including principles, policies and procedures, roles and responsibilities to manage model risk. One of the key factors in the framework to mitigate model risk is independent model validation. In particular, the capital framework implemented by OSFI includes extensive modelling. The Company may yet discover errors or other deficiencies in existing models, assumptions and/or methodologies. The use of artificial intelligence in the Company's models, introduces risks related to data privacy, algorithmic bias, and regulatory compliance. Any failure to manage these risks effectively could result in reputational damage, financial losses, or regulatory penalties, potentially impacting the Company's business and operations.

### ***Disaster, Climate Change and Pandemic Risk***

The Company and the general economy are exposed to risks related to the outbreak of pandemics, such as COVID-19, otherwise known as the coronavirus. The emergence of a pandemic could have a broad impact across industries and the economy. Impacted elements of the economy may include consumer confidence, global financial markets, regional and international travel, supply chain distribution of various products for many industries, oil prices, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce.

The Company is also exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, wildfires, floods, tornadoes and to man-made disasters, including acts of terrorism and military actions. These events could arise as a result of, or could be exacerbated by, climate change. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. A disaster or a pandemic could adversely affect the value of the assets in the Company's investment portfolio if it affects companies' ability to pay principal or interest on their securities. The prolonged impact of a disaster or pandemic could impact the economy and the Company in a number of ways including, but not limited to:

- adversely affecting local, national or international economies, property values or employment levels; triggering inflationary pricing or a recession, affecting borrowers' ability to make mortgage payments on loans insured by the Company's mortgage insurance policies;
- delaying the Company's losses on claims experience in the short to medium term or increasing the magnitude of losses on claims resulting from a decrease in the value of home prices or increased costs that could arise in the foreclosure process due to delays and increased burdens on government offices and the court system once they return to normal operations;
- adversely impacting new business written due to a material slowdown or temporary stoppage in home sales, and as a result, the volume of transactional mortgage insurance;

- adversely affecting the staffing and business operations of the Company, its material suppliers or the lenders that do business with the Company;
- causing continued or significant volatility in global financial markets, which may adversely impact the market value of securities issued by the Company, as well as securities and investments within the investment portfolio of the Company, the need for and parameters of hedging and derivative transactions and the Company's ability to return capital to shareholders;
- the Company experiencing business interruptions as a result of disruptions to remote work environments, an inability to receive required technology or other hardware due to supply chain interruptions or lacking necessary staffing needed for daily operations or the completion of extraordinary projects or its ability to implement its crisis management or business continuity plans;
- impacting government regulation, oversight and operations, including the operations of OSFI, and potential broad economic or industry specific governmental policy decisions that impact the housing market, the financial sector or any aspect of the regulatory landscape impacting the Company and its business; and
- disrupting public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations.

Any of the foregoing could have a material and adverse effect on the Company's business, results of operations, capital levels and financial condition.

### ***Reliance on Subsidiaries***

Sagen MI Canada acts as an indirect holding company for Sagen and does not have any significant operations of its own. Dividends or other distributions from Sagen and, in turn, Sagen MI Canada's other subsidiaries are Sagen MI Canada's principal source of cash to pay shareholder dividends, if declared, and to meet its other obligations. These obligations include Sagen MI Canada's operating expenses, taxes and interest and principal on its borrowings, including Debt Securities issued by Sagen MI Canada. There are or may be statutory, contractual, tax or other limitations on the ability of subsidiaries to make distributions to Sagen MI Canada. If the cash Sagen MI Canada receives from its subsidiaries pursuant to these distributions is insufficient for it to fund its obligations, or if Sagen or its other subsidiaries are unable to make such distributions, Sagen MI Canada may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets. However, there can be no assurance that Sagen MI Canada would be able to raise cash by any of these means in a timely manner or on terms that may be beneficial to the Company. The failure of the Company to pay its debt obligations could have a significant effect on the ratings of Sagen MI Canada or Sagen, the market price or value of the Company's securities and the confidence of investors and customers in the business of the Company. These same risks exist if the Company does not have the funds in the event a debt obligation comes due or is unable to access the Credit Facility at the time it is needed.

The payment of dividends and other distributions by federally regulated insurance companies is regulated by insurance laws and regulations. Mortgage insurance companies

maintain minimum levels of regulatory capital. If a company does not meet minimum capital requirements in compliance with the required MICAT ratio, its directors may not declare dividends. Furthermore, the Superintendent may direct a company to increase its capital or assets or to provide additional liquidity, even if the company has complied with capital regulations and guidelines. Additionally, if the Company were to write considerable new business, its regulatory capital requirements would increase significantly. Due to regulatory capital requirements or actions by the Superintendent, the Company's subsidiaries may be precluded from paying dividends in the future. The failure of Sagen MI Canada to pay dividends in circumstances where investors expect dividends to be paid could have a significant effect on the market price or value of the Company's securities.

### ***Risk of Negative Publicity***

Negative publicity about the Company, the mortgage insurance business or the housing market in general may negatively impact the Company's results of operations and financial condition. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the mortgage insurance industry as well as increased litigation, which may further increase the Company's costs of doing business and adversely affect the Company's profitability by impeding the Company's ability to market its products and support services, requiring it to change its products or support services or by increasing the regulatory burdens under which it operates. Negative publicity could also cause fluctuations in the cost of future debt issuances.

### ***Securities Valuation Fluctuation Risk***

Stock markets and debt markets in general may experience price and volume volatility. The market price and volume of Sagen MI Canada's securities may be subject to significant fluctuations due not only to general market conditions, but also to a change in sentiment in the market regarding the mortgage insurance industry, the Canadian real estate market, employment levels in Canada and the Canadian economy in general, as well as investor concern about the Company's products, operations, insurance contract liabilities, ratings, business prospects, capital positions, or its majority shareholder. In addition to the risk factors discussed above, the price and volume volatility of Sagen MI Canada's securities may be affected by, among other issues, the Company's financial performance and condition and future prospects.

### ***Risk of Insufficient Insurance Coverage***

There can be no guarantee that the Company's directors and officers liability insurance, errors and omissions insurance or cybersecurity insurance, or any other insurance coverage the Company might acquire, will be sufficient or applicable to compensate the Company or other stakeholders for all losses that may occur due to any incident. In addition, the Company's third-party insurance coverage will vary from time to time in both type and amount depending on availability, cost and decisions with respect to risk retention.

### ***Litigation Risk***

The Company faces the risk of litigation and regulatory investigations and actions in the ordinary course of business, including the risk of class action lawsuits. The Company may become subject to class actions and individual suits alleging, among other things, issues relating to sales

or underwriting practices, claims payments and procedures, product design, product disclosure, administration, charging excessive or impermissible fees on products, its pricing structures and business practices, including relating to electronic communications. In the Company's investment-related operations, the Company may be subject to litigation involving commercial disputes with counterparties. The Company may also be subject to litigation arising out of the Company's general business activities such as the Company's contractual and employment relationships. Plaintiffs in class action and other lawsuits against the Company may seek very large or indeterminate amounts, including punitive damages, which may remain unknown for substantial periods of time. The Company may also be subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from provincial and federal regulators and other authorities. The Company's positions in its tax filings could be challenged by taxation authorities and result in disputes regarding the Company's tax liabilities. A substantial legal liability, tax dispute or significant regulatory action against the Company could have an adverse effect on its business, financial condition and results of operations. Moreover, even if the Company ultimately prevails in any litigation, tax dispute, regulatory action or investigation, the Company could suffer significant reputational harm, which could have an adverse effect on its business, financial condition and results of operations.

There can be no assurance that any investigations, proceedings or disputes will not have an adverse effect on the Company's business, financial condition or results of operations. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could adversely affect the Company's business, financial condition and results of operations.

### ***Counterparty Risk***

The Company participates in a securities lending program managed through an intermediary, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives as collateral securities with an estimated fair value of at least 105% of the fair value of the securities loaned and an indemnity from such intermediary. The Company uses derivatives to hedge interest rates, and exchange rates which are marked to market daily with the posting of collateral by the Company or the counterparty as agreed to by the parties. The bankruptcy or liquidation of a securities lending or derivative counterparty financial institution could result in the Company being unable to seize upon, or being delayed in its ability to foreclose on, its collateral either of which may impact the value of the collateral ultimately realized. The occurrence of any such event could have an adverse effect on the Company's results of operations and financial condition.

### ***Risks related to the Ownership of the Company***

#### **Ownership Influence on the Business**

Brookfield beneficially owns a controlling interest in the Company. Any adverse developments affecting Brookfield may be harmful to the Company's business and prospects. In particular, in an adverse scenario for Brookfield, lenders could become less likely to do business with the Company, even though the Company may be financially sound. Brookfield (or any acquirer(s) of Brookfield or its interest in Sagen MI Canada), by virtue of its controlling interest, has the ability to exert influence over strategic decisions taken by the Board, such as capital

utilization plans. So long as Brookfield continues to beneficially own a controlling interest in the Company, Brookfield generally will be able to determine the outcome of most corporate actions requiring shareholder approval. Additionally, because Brookfield's interests may differ from other securityholders' interests, actions Brookfield takes with respect to Sagen MI Canada, as its controlling shareholder, and with respect to those corporate actions requiring its prior affirmative written consent, may not be favourable to other securityholders.

### *Conflicts of Interest*

Questions relating to conflicts of interest may arise between the Company and Brookfield in a number of areas relating to its past and ongoing relationships. A majority of Sagen MI Canada's current directors have been nominated by Brookfield. Some of these directors are current employees of Brookfield or the Caisse de dépôt et placement du Québec, both of which are investors in the Company. These directors own securities in their respective employers or their parent companies. Such financial interests of Sagen MI Canada's directors in such other entities, or service as a director or officer of both Sagen MI Canada and such other entities, could give rise to potential conflicts of interest when a director is faced with a decision that could have different implications for the different companies. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or treatment of Sagen MI Canada's capital plans. There can be no assurance that any conflicts will be resolved in a manner that is in the best interests of the Company and Sagen MI Canada's other securityholders.

### ***Derivative and Hedging Risk***

The Company uses derivatives for hedging purposes to mitigate certain market risks and to assist in the implementation of its capital management policies. Market risk may arise from positions in currencies, securities and derivatives arising from investment activities and in respect of the Company's outstanding debt. Market risk is defined as the potential for financial loss from adverse changes in underlying market factors, including interest and foreign exchange rates, credit spreads, and equity and commodity prices. The Company is also involved in derivative transactions that require the posting of collateral by the Company or the counterparty to the transactions. The Company's use of derivatives may expose it to a number of risks, including credit risk in respect of the potential failure of derivatives counterparties to perform their contractual obligations under the derivatives transactions (and any collateral and/or guarantees received in respect of such obligations not providing sufficient protection against such exposures). The hedging of market risks with derivatives may also result in basis risk. Basis risk is the risk that payment obligations under a hedging transaction will not exactly off-set price changes in the transaction or investment that was intended to be hedged, including due to the use of a reference value or price in the hedging derivative that is expected to, but ultimately does not, directly correlate to the value or price for the investment or derivative that is being hedged. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company has procedures in place to monitor the effectiveness of its hedges and compliance with its derivative policy on a regular basis and its capital management policy. Should the Company be unable to continue to hedge a portion of its interest rate risk and foreign exchange risk, the Company would be exposed to increased earnings volatility and capital requirements.

## DIVIDENDS

No dividend policy is in place in respect of the Class A Common Shares. On February 18, 2021 Sagen MI Canada completed the offering of the Series 1 Class A Preferred Shares. Each Series 1 Class A 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, 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 Class A Preferred Shares. Below are dividend details for the last three fiscal years.

Security	Aggregate Dividends Paid Per Share
<u>2024</u>	
Class A Common Shares	\$684.31
Series 1 Class A Preferred Shares	\$1.35
<u>2023</u>	
Class A Common Shares	\$448.70
Series 1 Class A Preferred Shares	\$1.35
<u>2022</u>	
Class A Common Shares	\$674.6166
Series 1 Class A Preferred Shares	\$1.35

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

Sagen MI Canada's authorized share capital consists of an unlimited number of class A common shares (the "**Class A Common Shares**"), an unlimited number of common shares (the "**Common Shares**"), an unlimited number of preferred shares (the "**Preferred Shares**") issuable in series, including the Preferred Shares, Series 2021-A issuable in certain circumstances on conversion of the Notes, and an unlimited number of class A preferred shares (the "**Class A Preferred Shares**") issuable in series, including the Series 1 Class A Preferred Shares. As of the date of this AIF, 1,021,332 Class A Common Shares, 4,000,000 Series 1 Class A Preferred Shares and no common shares or Preferred Shares, Series 2021-A have been issued and are outstanding.

### Class A Common Shares

Holders of Class A Common Shares are entitled, except where otherwise provided by law to vote at all meetings of shareholders of Sagen MI Canada, and will be entitled to one vote per

Class A Common Share. Holders of Class A Common Shares are entitled, subject to the rights of holders of Preferred Shares and any other shares ranking senior to the Class A Common Shares, to receive dividends as and when declared by the Board and, upon the voluntary or involuntary liquidation, dissolution or winding-up of Sagen MI Canada, the holders of Class A Common Shares are entitled to receive the remaining property and assets of Sagen MI Canada available for distribution, after payment of liabilities. No dividend policy is in place in respect of the Class A Common Shares.

## **Common Shares**

Holders of common shares, if any, are entitled, except where otherwise provided by law to vote at all meetings of shareholders of Sagen MI Canada, and will be entitled to one vote per common share. Holders of common shares, if any, are entitled, subject to the rights of holders of Preferred Shares and any other shares ranking senior to the common shares, to receive dividends as and when declared by the Board and, upon the voluntary or involuntary liquidation, dissolution or winding-up of Sagen MI Canada, the holders of common shares, if any, are entitled to receive the remaining property and assets of Sagen MI Canada available for distribution, after payment of liabilities. No dividend policy is in place in respect of the common shares.

## **Preferred Shares**

Preferred Shares are issuable from time to time in one or more series. The Board is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Preferred Shares of each series, which may include voting rights. The Preferred Shares of each series rank on par with the Preferred Shares of every other series and are entitled to preference over common shares of Sagen MI Canada with respect to payment of dividends and distribution of any assets in the event of Sagen MI Canada's liquidation, dissolution or winding-up. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be.

## **Class A Preferred Shares**

Class A Preferred Shares are issuable from time to time in one or more series. The Board is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Class A Preferred Shares of each series. The Class A Preferred Shares of each series rank on par with the Class A Preferred Shares of every other series and are entitled to preference over the common shares of Sagen MI Canada with respect to payment of dividends and distribution of any assets in the event of Sagen MI Canada's liquidation, dissolution or winding-up. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Class A Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be.

In order to maintain in force an exemption order from the 35% public voting requirement currently in section 411 of the ICA that has been granted to Sagen, 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 Company Shares. A series of Class A Preferred Shares may carry additional voting rights in certain circumstances.

As of the date hereof, the number of Class A Common Shares and Class A Preferred Shares beneficially owned by Brookfield were 1,021,332 and 200,000, respectively. As a result, under the Company's articles, the number of votes per Class A Preferred Share as at the date hereof (rounded up to the nearest one-ten-thousandth of a vote) is 0.1448. As such, as of the date hereof, a total of 550,240 votes currently attach to the Class A Preferred Shares, excluding those Class A Preferred Shares held by Brookfield, representing approximately 35.01% of the voting rights attached to all voting shares of the Company.

The Series 1 Class A Preferred Shares are not redeemable prior to March 31, 2026. On or after March 31, 2026, the Company may, on not less than 30 nor more than 60 days' notice, redeem the Series 1 Class A Preferred Shares in whole or in part, at the Company's option.

### **Undertaking to Ontario Securities Commission**

As a result of the variable voting rights of the Series 1 Class A Preferred Shares (as described above), such shares could, in certain circumstances, carry votes per Series 1 Class A Preferred Share that exceed the number of votes per share of the Common Shares (or any other equity shares of the Company which may be created in the future), such that the Common Shares (or other equity shares, as applicable) may, in such circumstances, be considered "restricted shares" as defined in Ontario Securities Commission Rule 56-501 Restricted Shares ("**Rule 56-501**"). Accordingly, in connection with (i) the court-approved plan of arrangement under the *Canada Business Corporations Act* pursuant to which, on April 1, 2021, Brookfield acquired all of the outstanding common shares in the capital of the Company not already owned by Brookfield and (ii) the creation of the Series 1 Class A Preferred Shares, the Company provided an undertaking to the Ontario Securities Commission that, if and to the extent the Company (a) determines to issue securities or take any other corporate action in respect of securities of the Company, or (b) receives notification of an intention to transfer or otherwise becomes aware of any transfer of securities of the Company, that, in the case of either (a) or (b), results in any non-"Major Shareholder" (as defined below) holding equity shares of the Company carrying fewer votes per equity share than the number of votes per Series 1 Class A Preferred Share at the then-applicable time, the Company shall apply the then-in effect restricted share provisions of Rule 56-501 to the Common Shares (or such other equity shares, as applicable) until such time as such shares no longer carry fewer votes per share than the number of votes per Series 1 Class A Preferred Share.

### **Constraints**

Under the ICA no person may, without the approval of the Minister, acquire any share of an insurance company such as Sagen, or control any entity, such as Sagen MI Canada, that holds a share of an insurance company, if as a result the person would control the insurance company or



the aggregate of the shares held by the person and by entities controlled by the person would exceed 10% of any class of shares of the insurance company.

In accordance with the terms of the Class A Preferred Shares, no person may be a Major Shareholder (as defined below) of the Class A Preferred Shares as a class, and no entity controlled by a person which is a Major Shareholder of the Class A Preferred Shares as a class shall beneficially own any Class A Preferred Shares. A person is a “Major Shareholder” of a class of any share of any class of shares in the capital of the Company now existing or hereafter created (a “**Company Share**”) where the aggregate, without duplication, of: (i) any Company Shares of that class beneficially owned by the person; (ii) any Company Shares of that class beneficially owned by persons controlled by the person; and (iii) any Company Shares of that class beneficially owned by persons acting in concert with such person (for purposes of this subsection (iii), “acting in concert” shall have the definition set forth in section 9 of the ICA), exceeds 20 per cent of all of the outstanding Company Shares of that class.

There are no other constraints on the ownership of securities of Sagen MI Canada imposed by Sagen MI Canada.

## **Ratings**

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. A rating is therefore not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

See the MD&A of Sagen MI Canada for its most current ratings and “*General Developments of the Business – Three Year History*” for the ratings as of year end 2024.

### *Debt Ratings*

DBRS rates long-term debt instruments with ratings ranging from “AAA”, which represents long-term debt instruments of the highest credit quality, to “D”, which represents long-term debt instruments from which an issuer has filed under any applicable bankruptcy, insolvency or winding up statute or for which there is a failure to satisfy an obligation after the exhaustion of grace periods. A rating of “A” by DBRS represents the third highest of the ten rating categories available from DBRS for long-term debt obligations. According to DBRS, long-term debt securities rated “A” are of good credit quality and the capacity for the payment of financial obligations is substantial, but of lesser quality than “AA”. Long-term debt instruments rated “A” may be vulnerable to future events, but qualifying negative factors are considered manageable. All rating categories other than “AAA” and “D” also contain subcategories “high” and “low”, which reflect the relative strength within the rating category. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category. A rating trend, expressed as “Positive”, “Stable” or “Negative”, provides guidance in respect of DBRS’ opinion regarding the outlook for the rating.

S&P rates long-term debt instruments with ratings ranging from “AAA”, which represents an extremely strong capacity of an obligor to meet its financial commitments, to “D”, which means that the issuer is in default or in breach of an imputed promise. A rating of “BBB” by S&P

represents the fourth highest of the ten rating categories available from S&P for long-term debt obligations. According to S&P, long-term debt securities rated “BBB” denotes an obligor having adequate capacity to meet its financial commitments; however, adverse economic conditions or changing circumstances are more likely to weaken the obligor’s capacity to meet its financial commitments on the obligation. S&P ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. The absence of either a plus (+) or minus (-) sign indicates the rating is in the middle of the category. A rating outlook, expressed as “Positive”, “Stable”, “Negative” or “Developing”, provides guidance in respect of S&P’s opinion regarding the potential direction of the rating over the intermediate term (generally up to two years for investment grade issues and generally up to one year for speculative grade issues).

### *Preferred Shares*

The DBRS preferred share rating scale reflects an opinion on the risk that an issuer will not fulfil its obligations with respect to both dividend and principal commitments in respect of preferred shares issued in the Canadian securities market in accordance with the terms under which the relevant preferred shares have been issued. The rating scale ranges from “Pfd-1” to “D”, which represents the range from highest to lowest quality of such securities rated. Each rating category may be denoted by the subcategories “high” and “low”. A “Pfd-2” rating is the second highest of six categories used by DBRS for preferred shares and is assigned to securities of good credit quality. Protection of dividends and principal is considered substantial, but earnings, the balance sheet and coverage ratios are not as strong as “Pfd-1” rated companies. Generally, “Pfd-2” ratings correspond with issuers with an “A” category or higher reference point.

The S&P Canadian preferred rating scale is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market relative to preferred shares issued by other issuers in the Canadian market. There is a direct correspondence between the specific ratings assigned on the Canadian preferred share scale and the various rating levels on the global debt rating scale. S&P’s Canadian preferred share rating scale ranges from “P-1”, which represents a very strong capacity of an obligor to meet its financial commitments, to “D”, which represents a general default and that the obligor that will fail to pay all or substantially all of its obligations as they become due. The ratings from “P-1” to “P-5” may be modified by a “High” or “Low” designation which indicate relative standing within the major rating categories. A rating of “P-2 (high)” is equivalent to a rating of “BBB+” on S&P’s global rating scale (which is discussed above).

### *Financial Strength Ratings*

Although Sagen is not required to have a financial strength rating to conduct its business, a rating is helpful to maintain confidence in an insurer and in the marketing of its products. A financial strength rating is a current opinion of the financial condition of an insurance organization, in particular with respect to its ability to pay liabilities or claims under its insurance policies and contracts in accordance with their terms. The financial strength ratings of Sagen reflect each rating agency’s opinion of Sagen’s financial strength, operating performance and ability to meet obligations to policyholders. These factors are important to lenders. Financial strength ratings are not evaluations directed to the protection of investors in the securities of the Company. They do

not represent a recommendation to buy, hold or sell securities and should not be relied upon when making a decision to buy, hold or sell any security of Sagen MI Canada.

As lenders benefit from the 90% Guarantee, the financial strength rating is primarily relevant to lenders in respect of the unguaranteed portions of Sagen's policies. In that respect, Sagen's ratings serve as an independent affirmation to lenders of Sagen's financial strength. This should provide lenders with additional comfort as to Sagen's ability to pay outstanding claims and provide credit enhancement for securitization purposes.

DBRS review their ratings periodically and there can be no assurance that Sagen MI Canada or Sagen will maintain their current ratings in the future. Other agencies may also rate Sagen MI Canada or Sagen on a solicited or an unsolicited basis. The ratings from DBRS apply a one-notch differential between Sagen MI Canada and Sagen to reflect the structural subordination of the Company's financial obligations relative to those of Sagen.

During 2024, the Company made payments to S&P and DBRS of approximately US\$482,000 and C\$171,000, respectively, in connection with the ratings services provided by such agencies. In addition, the Company has made customary payments in respect of certain other services provided to the Company by S&P during the last two years. The Company has not made any payments to DBRS in respect of any other service provided to the Company by DBRS.

## **MARKET FOR SECURITIES**

The Series 1 Class A Preferred Shares are listed and posted for trading on the TSX under the symbol "MIC.PR.A". The closing price ranges and average daily trading volume of the Series 1 Class A Preferred Shares on the TSX from the first day to the last day of public trading during 2024 were as follows (share price is stated in Canadian dollars per Series 1 Class A Preferred Share):

<b>2024</b>	<b>High</b>	<b>Low</b>	<b>Average Daily Volume</b>
January	\$19.01	\$17.89	18,495
February	\$19.50	\$19.10	19,300
March	\$19.50	\$19.25	19,375
April	\$19.25	\$18.99	19,120
May	\$19.76	\$18.99	19,375
June	\$19.76	\$19.32	19,540
July	\$20.35	\$19.32	19,835
August	\$20.99	\$20.35	20,670
September	\$21.25	\$20.99	21,120
October	\$21.25	\$21.20	21,225
November	\$21.20	\$21.16	21,180
December	\$21.51	\$21.16	21,335

Source: Bloomberg

## Prior Sales

On December 10, 2024, as part of a corporate reorganization, the Company issued 5,704 Class A Common Shares in the amount of approximately \$21 million to Falcon Intermediate Holding Corporation, a Brookfield subsidiary. As at December 31, 2024, there were 1,021,332 Class A Common Shares outstanding.

## DIRECTORS AND OFFICERS

### Directors and Executive Officers

Sagen MI Canada's directors will hold office for a term expiring at the conclusion of the next annual meeting of shareholders of Sagen MI Canada or until their successors are elected or appointed and will be eligible for re-election. Sagen MI Canada's executive officers are appointed by and serve at the discretion of the Board.

All of the directors of Sagen MI Canada have statutory duties to Sagen MI Canada, which include the duty to act honestly and in good faith with a view to the best interests of the corporation, and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The business address of Sagen MI Canada's directors and executive officers is c/o Sagen MI Canada, 2060 Winston Park Drive, Suite 300, Oakville, Ontario L6H 5R7.

Other than as noted in the below chart, as a group, the directors and executive officers of Sagen MI Canada listed below beneficially own, or control or direct, directly or indirectly, no Class A Common Shares or Class A Preferred Shares. The below chart sets out details of Sagen MI Canada's director and senior officer securities ownership, including options, performance share units ("PSUs"), restricted share units ("RSUs"), deferred share units ("DSUs") and executive deferred share units ("EDSUs").

Name	Residence	Equity Ownership	Principal Occupation	Director of Sagen MI Canada Since
Erson Olivan <sup>(2)(3)</sup> Chairman of the Board	Ontario, Canada	None	Managing Partner, Brookfield Private Equity Group	June 2020
Dana Ades-Landy <sup>(1)</sup> Director	Québec, Canada	None	Corporate Director	June 2021
Sophia Chen <sup>(3)</sup> Director	Ontario, Canada	None	Vice President, Brookfield Private Equity Group	June 2023

<b>Name</b>	<b>Residence</b>	<b>Equity Ownership</b>	<b>Principal Occupation</b>	<b>Director of Sagen MI Canada Since</b>
Meggie Daoust <sup>(3)</sup> Director	Québec, Canada	None	Senior Director, Capital Solutions CDPQ	January 2024
Sharon Giffen <sup>(3)</sup> Director	Ontario, Canada	None	Corporate Director	June 2017
Stuart Levings Director, President, Chief Executive Officer	Ontario, Canada	Options 4,317 PSUs 349 RSUs 349	President and Chief Executive Officer, Sagen MI Canada and Sagen	June 2015
Philip Mayers Director	Ontario, Canada	EDSUs 818 Options 989 PSUs 41 RSUs 128	Corporate Director	June 2024
Neil Parkinson <sup>(1) (2)</sup> Lead Independent Director, Audit Committee Chair	Ontario, Canada	None	Corporate Director	February 2017
Michael Penner Director	London, United Kingdom	None	Corporate Director	December 2024
David Planques <sup>(1) (2)</sup> Director, Management Resources Committee Chair	Ontario, Canada	None	Corporate Director	June 2021
Rajinder Singh <sup>(3)</sup> Director, Risk and Investment Committee Chair	North Carolina, USA	None	Corporate Director	June 2021
Amit Chalam Senior Vice President and Chief Financial Officer	Ontario, Canada	Preferred Shares 100 Options 1,053 PSUs 168 RSUs 168	Senior Vice President and Chief Financial Officer, Sagen MI Canada and Sagen	-

<b>Name</b>	<b>Residence</b>	<b>Equity Ownership</b>	<b>Principal Occupation</b>	<b>Director of Sagen MI Canada Since</b>
Mary-Jo Hewat Senior Vice President, Human Resources	Ontario, Canada	EDSUs 37 Options 879 PSUs 55 RSUs 55	Senior Vice President, Human Resources, Sagen MI Canada and Sagen	-
Winsor Macdonell Senior Vice President, General Counsel and Secretary	Ontario, Canada	Options 765 PSUs 60 RSUs 60	Senior Vice President, General Counsel and Secretary, Sagen MI Canada and Sagen	-
Edward Orlik Senior Vice President, Chief Information Officer	Ontario, Canada	Options 655 PSUs 57 RSUs 58	Senior Vice President, Chief Information Officer, Sagen MI Canada and Sagen	
Jim Spitali Senior Vice President, Chief Operating Officer	Ontario, Canada	Options 1,558 PSUs 69 RSUs 69	Senior Vice President, Chief Operating Officer, Sagen MI Canada and Sagen	-
Craig Sweeney Senior Vice President, Chief Risk Officer	Ontario, Canada	Options 749 PSUs 56 RSUs 56	Senior Vice President and Chief Risk Officer, Sagen MI Canada and Sagen	-

- (1) Member of the Audit Committee.  
(2) Member of the Management Resources Committee.  
(3) Member of the Risk and Investment Committee.  
(4) Member of the Technology Committee.

## Biographies

**Erson Olivan, Chairman of the Board of Directors.** Mr. Olivan joined the Board in June 2020. Mr. Olivan is a Managing Partner in Brookfield's Private Equity Group, where his responsibilities include the origination, evaluation, execution, and monitoring of investments for Brookfield. Prior to joining Brookfield in 2010, Mr. Olivan was most recently with CIBC World Markets' Investment Banking Group, where he was involved in a number of private and public financings and M&A advisory mandates. Mr. Olivan holds a Bachelor of Commerce (Honors) in Finance and Accounting from the University of British Columbia and is a CFA Charterholder.

**Dana Ades-Landy, Director.** Ms. Ades-Landy joined the Board in June 2021. She works in the Special Loan Group of the National Bank of Canada. Prior to this, Ms. Ades-Landy was the Chief Executive Officer of the Heart & Stroke Foundation of Canada (Quebec). Ms. Ades-Landy has more than 25 years of experience as an executive in the banking industry, including executive leadership positions at Scotiabank, Laurentian Bank and the National Bank of Canada. Ms. Ades-Landy holds a Bachelor of Science degree in Microbiology & Immunology from McGill University and a Master of Business Administration in Finance/Accounting from Concordia University. Ms. Ades-Landy was awarded the Top 100 Women in Canada in both 2007 and 2009. Ms. Ades-Landy is an experienced board director and graduate of the Institute of Corporate Directors ICD program. She currently serves on the boards of First Lion Holdings, Alithya Group Inc, Peak Fintech Group and Innovaderm. She was the Chair of the Audit Committee at Canada Mortgage and Housing Corporation until August 2020.

**Sophia Chen, Director.** Ms. Chen has been a director of Sagen since June 2023. Ms. Chen is a Vice President in Brookfield's Private Equity Group, where her responsibilities include evaluating and executing investment opportunities, and monitoring portfolio companies for Brookfield. Prior to joining Brookfield in 2020, Ms. Chen was most recently with Scotiabank Global Banking and Markets' Investment Banking Group, where she was involved in a number of M&A advisory mandates. Ms. Chen holds a Bachelor of Accounting and Financial Management degree and a Master of Accounting degree from the University of Waterloo. She also holds a Chartered Professional Accountant designation.

**Meggie Daoust, Director.** Ms. Daoust has been a director of Sagen since January 2024. Ms. Daoust is a Senior Director on the Capital Solutions team and sits on the Equity Markets investment committee at Caisse de dépôt et placement du Québec. In this role, she is responsible for originating, structuring, executing and monitoring quasi-equity and opportunistic credit transactions, across various industries. Before joining CDPQ in 2013, she worked for some of the largest pension plan managers in Canada, including CPPIB and OMERS. Ms. Daoust holds a Master's in Business Administration from Concordia University, a Bachelor's in Finance and Economics from HEC Montréal and is a CFA charterholder. She also holds a Sustainable Investment Professional certification from Concordia University.

**Sharon Giffen, Director.** Ms. Giffen has been a director of Sagen since July 2015. Ms. Giffen has spent her professional career in the life insurance business, holding several executive positions at The Independent Order of Foresters, including Chief Actuary, Chief Financial Officer, President of the Canadian Division and Chief Risk Officer. She also serves on the board of directors of Blumont Annuity Company, Group Medical Services, Serenia Life Financial and the

Worker's Compensation Board of British Columbia (operating as WorkSafeBC). Ms. Giffen is a past president of the Canadian Institute of Actuaries and previously served on the board of directors of the Society of Actuaries, RSA Canada and was the Chair of the board of Opera Atelier. Ms. Giffen is a graduate of the University of Waterloo, a Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries and holds the ICD.D designation.

**Stuart Levings, Director, President and Chief Executive Officer.** Mr. Levings joined the Board in June 2015. He assumed his current role as President and Chief Executive Officer in January 2015. Prior to that, Mr. Levings served in the roles of Senior Vice President, Chief Operating Officer, as well as Senior Vice President, Chief Operations Officer and Senior Vice President, Chief Risk Officer. Mr. Levings joined Sagen MI Canada in July 2000 as the Financial Controller, and has also held positions in finance and product development, including five years as Chief Financial Officer. Before that, Mr. Levings spent seven years with Deloitte & Touche. Mr. Levings holds a CPA, CA professional designation with over 20 years of professional experience in a variety of industry sectors. Mr. Levings holds a Bachelor of Accounting Science degree from the University of South Africa and is a member of the Canadian Institute of Chartered Accountants.

**Philip Mayers, Director.** Mr. Mayers joined the Board in June 2024. Mr. Mayers was the Chief Financial Officer of the Company from 2009 until 2023. He has over 30 years of finance and general management experience in financial services. Mr. Mayers sits on the Board of Directors of Canadian Investment Regulatory Organization and chairs its Finance, Audit and Risk committee. Prior to his retirement from the Company at the end of 2023, Mr. Mayers held several senior positions, including Vice President, Finance, Vice President, Operations, and Senior Vice President, Business Development. Prior to joining the Company, he held finance positions with Mortgage Insurance Company of Canada, Esso Petroleum Canada and Deloitte & Touche. He holds CPA, CA and CMA professional designations and has a Master of Accounting degree from the University of Waterloo.

**Neil Parkinson, Lead Independent Director.** Mr. Parkinson joined the Board in February 2017 and has been Chair of the Audit Committee since June 2017. Mr. Parkinson is a professional accountant and consultant with over 40 years of experience in the insurance and financial services field. He was a partner in KPMG from 1988 until his retirement in 2016 and was national leader of the firm's Canadian insurance practice from 2004 to 2015. He was deputy chair of KPMG's global insurance contracts accounting technical committee, chair of the Insurance Auditors Advisory Committee for the Superintendent of Financial Institutions Canada from 2009 to 2016, and a member of the Canadian Accounting Standards Board's Insurance Accounting Task Force from 2006 to 2016. He is a graduate of the University of Waterloo, a Fellow of CPA Ontario (FCPA) and holds the ICD.D designation from the Institute of Corporate Directors. He is also a member of the boards of directors of Equitable Life Insurance Company of Canada and Gore Mutual Insurance Company, and of the Actuarial Profession Oversight Board.

**Michael Penner, Director.** Mr. Penner joined the Board in December 2024. He is a corporate director and an Advisory Partner of Partners Group AG, a Swiss-based global private equity firm. In this capacity, he serves as the Non-Executive Chairman of Partners Group (Canada) Inc., as well as Chair of Partners Group portfolio companies United States Infrastructure Corporation and Enfragen Renewable Energy. Mr. Penner was Chair of the Board of Directors of



Hydro-Quebec from 2014 to 2018. He was previously the President and Chief Executive Officer of Peds Legwear Inc. prior to its acquisition by Gildan Activewear Inc. in August 2016. Mr. Penner was instrumental in establishing the “Michael D. Penner Institute on ESG”, a multidisciplinary program supporting in-depth research into environmental, social, and governance issues at L’Université de Montréal. He has also served on the Board of Directors of ICD Quebec, Les Grands Ballets Canadiens de Montréal, and Selwyn House School. Mr. Penner holds a B.A. from McGill University and a J.D. from Hofstra University in New York.

**David Planques, Director.** Mr. Planques joined the Board in June 2021. He was a Vice Chairman at PwC Canada until retiring June 30, 2021. He was the Canadian Leader of both PwC One Analytics and PwC Deals and served on Canadian Firm’s Leadership Team. His focus areas included using data analytics to solve complex business issues, mergers and acquisitions, managing crisis situations, and business value creation. Mr. Planques has been providing financial services expertise for over 35 years in multiple industries and countries. Currently he is a Managing Director at Revival Capital Partners, a special situations advisory firm. Mr. Planques graduated from University of Western Ontario and holds a Chartered Accountant (CA) and a Chartered Professional Accountant (CPA) designation.

**Rajinder Singh, Director.** Mr. Singh joined the Board in June 2021. He is a seasoned leader in global financial services with a deep background in enterprise risk management, advanced analytics, and machine learning. He is the Chief Risk Officer at Pagaya Technologies, a global technology company delivering AI-driven product solutions to the financial ecosystem. He has held senior executive roles during his more than twenty-five years in the industry, including Chief Risk Officer at NewRez/Caliber, Genworth’s Global Mortgage Insurance, CitiMortgage, and GE Capital Americas. Mr. Singh also serves as director on the board of India Mortgage Guarantee Corporation and of Appalachian Trail Conservancy. He has previously served as director on the board of Genworth Australia and of Seguros de Credito a la Vivienda, Mexico. Mr. Singh has a Master of Business Administration in Finance from the University of Rochester’s Simon Business School, a Master of Science in Mechanical and Aerospace Engineering from Rutgers University, and a Bachelor of Technology in Mechanical Engineering from the Indian Institute of Technology Kanpur.

**Mary-Jo Hewat, Senior Vice President, Human Resources.** Ms. Hewat brings over 20 years of human resources expertise spanning numerous industries and geographies. Ms. Hewat assumed her current role in May 2016. Prior to joining Sagen MI Canada, she was Senior Vice President, HR Business Partnerships at Ontario Municipal Employees Retirement System. Ms. Hewat has a Bachelor of Commerce from Ryerson University and a Masters in Business Administration from the Schulich School of Business, York University. She also holds the Chartered Director (C. Dir.) designation and is a Certified Human Resource Executive (CHRE).

**Winsor Macdonell, Senior Vice President, General Counsel and Secretary.** Mr. Macdonell is responsible for all of Sagen MI Canada’s legal and compliance matters, as well as government relations. Mr. Macdonell joined the Company in 1999. He was called to the bar of Ontario in 1994. Prior to joining the Company, he spent three years in the life and property and casualty industry, and prior to that, was in private practice. Mr. Macdonell received an honours Bachelor of Commerce degree from Queens University in 1988, an LL.B. from Dalhousie University in 1992 and an ICD.D in 2014.

**Amit Chalam, Senior Vice President and Chief Financial Officer.** Mr. Chalam became Chief Financial Officer of Sagen MI Canada in November 2023. Prior to joining Sagen, Mr. Chalam held the role of Risk Consulting Partner in the financial services practice at KPMG. He has worked with a wide variety of insurance companies including general insurers, life insurers, financial guaranty insurers and reinsurers. While at KPMG, he also held the position of National Service Line Leader for Governance, Risk and Compliance Services. He has spent over 20 years in Toronto, New York and India performing a combination of operational process and controls advisory services, internal audits as well as financial statement audits. Mr. Chalam is a member of the board of directors of the Canadian Insurance Accountants Association, and is also a director at CANES Community Care, which is a not-for-profit organization based in Toronto.

**Edward Orlik, Senior Vice President, Chief Information Officer.** Mr. Orlik became the Chief Information Officer of Sagen in April 2022. He has over 23 years of software, data and technology experience across a number of different industries. Prior to joining Sagen, he was the Chief Information Officer at Altus Group Limited and EVP Technology and Development for 8 years. His career also included a senior technology position at Katz Group Canada Ltd. and progressive technology roles at Nortel Networks. Mr. Orlik has a Masters in Business Administration from McMaster's DeGroote School of Business with a specialization in the Management of Innovation and Technology and received a Honours Bachelor of Mathematics degree specializing in Information Systems Management from the University of Waterloo.

**Jim Spitali, Senior Vice President, Chief Operating Officer.** Mr. Spitali became Senior Vice President & Chief Operating Officer in November of 2023. Prior to this role he served as Senior Vice President, Sales and Marketing since January 2023. Prior to that he held the role of Senior Vice President, Operations, with responsibility over the Company's Loss Mitigation and Underwriting teams. Mr. Spitali has more than 18 years of experience in the financial services sector. Prior to joining the Company in 2015, Mr. Spitali held a variety of positions in retail banking, wealth management and sales strategy within CIBC and Meridian Credit Union. Mr. Spitali received an honours Bachelors of Business Administration from Brock University and an MBA from Dalhousie University.

**Craig Sweeney, Senior Vice President, Chief Risk Officer.** Mr. Sweeney has more than 25 years of professional experience in the mortgage and banking industry. Since joining the Company in 1998, Mr. Sweeney has held senior positions in Operations and Business Development, including Director of Risk Operations and Director of Product Development. Mr. Sweeney received an honours Bachelor of Arts degree in Economics from Carleton University in 1994.

### **Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is, or within the 10 years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company that (i) was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation, in each case in effect for a period of more than 30 consecutive days, that was issued while that person was acting in the capacity of a director, chief executive officer or chief financial officer of that company, or (ii) was subject to such an order that

was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the person was acting in that capacity.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company is, or within the 10 years prior to the date hereof has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has, within the 10 years prior to the date hereof become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has (i) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

### **Conflicts of Interest**

Certain conflicts of interest could arise as a result of the Company's relationship with Brookfield or CDPQ. Certain executive officers of Brookfield and CDPQ serve as directors of the Company. See "*Risk Factors - Risks related to the Ownership of the Company - Conflicts of Interest*".

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Management of the Company is not aware of any existing or contemplated legal proceedings material to the Company to which it is or was a party to or to which its property is or was the subject of, during the financial year ended December 31, 2024. The Company has not had any material penalties or sanctions imposed against it by any legal or regulatory authorities.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer or principal holder of securities, or any associate or affiliate of the foregoing has, or has had, any material interest in any transaction prior to the date hereof or any proposed transaction that has materially affected or will materially affect the Company or any of its affiliates.

## **TRANSFER AGENT AND REGISTRARS**

The transfer agent and registrar for the Class A Common Shares and Series 1 Class A Preferred Shares is TSX Trust Company at its principal offices in Toronto, Ontario. The indenture trustee of the Company's debentures and notes is BNY Trust Company of Canada at its principal offices in Toronto, Ontario.

## **MATERIAL CONTRACTS**

The Registration Rights Agreement is the only material contract, other than those contracts entered into in the ordinary course of business, which Sagen MI Canada has entered into since the beginning of the last financial year before the date of this AIF, or entered into prior to such date but which contract is still in effect. A copy of the Registration Rights Agreement and any amendments thereto may be viewed on SEDAR+ at [www.sedarplus.com](http://www.sedarplus.com). Details of the material terms of the Registration Rights Agreement are outlined below.

### **Registration Rights Agreement**

The Registration Rights Agreement dated July 7, 2009, among Sagen MI Canada, Genworth Financial was assigned to Brookfield Business Partners at the time of the Brookfield Transaction closing, and provides Brookfield Business Partners, through its subsidiary that holds the Class A Common Shares and is party to the agreement (or its assignees), with the right to require Sagen MI Canada to qualify by prospectus the Class A Common Shares beneficially owned by the Brookfield Business Partners subsidiary for distribution to the public in Canada.

During such time that the Brookfield Business Partners subsidiary (or its assignee) is unable to sell all or any of the Class A Common Shares it beneficially owns without such sale being considered a "control distribution", requiring that Sagen MI Canada, absent an exemption from such requirement, file a prospectus and obtain a receipt therefor, the Brookfield Business Partners subsidiary (or its assignee) may demand twice during each 12-month period that Sagen MI Canada file a prospectus and obtain a receipt therefor provided such demand relates to all of the Class A Common Shares that it beneficially owns or, alternatively, such demand will result in a minimum offering size of \$50 million. Sagen MI Canada is entitled to defer any such demand in certain circumstances for a limited period.

In addition to the foregoing, during such time as Sagen MI Canada is a reporting issuer in Canada and until such time that the Brookfield Business Partners subsidiary (or its assignee) is able to sell all or any of the Class A Common Shares it beneficially owns without such sale being considered a "control distribution", the Brookfield Business Partners subsidiary (or its assignee) will be entitled to participate in any future prospectus offering of the Class A Common Shares that Sagen MI Canada initiates, unless Sagen MI Canada determines, acting reasonably, that including such the Class A Common Shares in the distribution would materially adversely affect Sagen MI Canada's distribution.

In any completed offering in which the Brookfield Business Partners subsidiary (or its assignee) participates, the parties will bear their expenses in an equitable manner having regard to the proportion of the number of Class A Common Shares sold by each relative to the total number of Class A Common Shares sold pursuant to the offering.

## INTERESTS OF EXPERTS

Ernst & Young LLP (“EY”) are the auditors of the Company and have confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

## ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR+ at [www.sedarplus.com](http://www.sedarplus.com). Additional information, including directors’ and officers’ remuneration and indebtedness and principal holders of the Company’s securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company’s Management Information Circular filed in connection with the Company’s annual general meeting of shareholders. Additional financial information is provided in the Consolidated Financial Statements and MD&A.

## NON-GAAP AND OTHER FINANCIAL MEASURES GLOSSARY

The Company’s consolidated financial statements are prepared in accordance with GAAP, which in Canada are defined as the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. Terms and abbreviations used but not defined in this annual information form will have the meaning given to them in the MD&A. The following additional terms and abbreviations used in this AIF are defined below.

“**combined ratio**”, means the ratio (expressed as a percentage) of the sum of total amount of insurance service expenses and other operating expenses and the total amount of losses (recoveries) on claims to net insurance revenue for a specified period. The combined ratio measures the proportion of the Company’s total cost to its net insurance revenue and is used to assess the profitability of the Company’s insurance underwriting activities.

“**contractual service margin ratio**” or “**CSM ratio**” means the ratio (expressed as a percentage) of the contractual service margin to liability for remaining coverage as at specified reporting date. The CSM ratio measures the long run expected profitability of the insurance in force.

“**expense ratio**” means the ratio (expressed as a percentage) of insurance service expenses and other operating expenses to net insurance revenue 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.

“**financial leverage 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.

“**interest and dividend income, net of investment expenses**” means the total net investment income, including income from associate and the change in allowance for expected credit loss, and excluding net gains (losses) from investments, financial assets at FVTPL, derivatives and foreign exchange. This measure is an indicator of the core operating performance of the investment portfolio.

**“investment yield”** means the annualized pre-tax equivalent investment income 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 pre-tax equivalent investment income divided by the average of beginning and ending investments book value, for such quarter. For year-to-date and annual results, the investment yield is the annualized pre-tax equivalent investment income divided by the average of the investments book value of each quarter (5-point average for the annual). This measure is an indicator of the core operating performance of the investment portfolio reflective of the interest rate environment.

**“loss ratio”** means the ratio (expressed as a percentage) of the total amount of losses (recoveries) on claims associated with insurance policies incurred during a specified period to net insurance revenue 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.

**“net insurance revenue”** means insurance revenue net of insurance finance expense. Net insurance revenue estimates the net revenue from underwriting for a specific period.

**“net insurance service result”** means insurance service result net of insurance finance expense and other operating expenses. Net insurance service result measures the underwriting profitability for a specific period.

**“net operating income”** means net income excluding the following after-tax amounts,

- 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
- Gain or loss on debt repurchases

and including the following after-tax amounts,

- realized income (expense) from the interest rate hedging program, and
- income tax benefits realized from an internal corporate reorganization related to the utilization of accumulated income tax losses acquired from the Company’s sole Class A Common shareholder net of the related purchase price. These income tax recoveries, net of the purchase price, have been recognized as an increase in the share capital in the financial statements.

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 investments, financial assets at FVTPL, 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.

**“pre-tax equivalent operating investment income”** means the interest and dividend income of the investment portfolio inclusive of the gross up for tax exempt treatment of Canadian inter-

corporate dividends. This measure is an indicator of the operating performance of the investment portfolio inclusive of the favourable tax benefit of dividend income.

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

## OTHER GLOSSARY

**“90% Guarantee”** means the guarantee of the Canadian government of the benefits payable under eligible mortgage insurance policies issued by the Company, less 10% of the original principal amount of each insured loan, in the event that Sagen fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. Currently the 90% Guarantee is provided under the terms of PRMHIA.

**“compound annual growth rate”** or **“CAGR”** means the annualized year-over-year growth rate of the applicable measure over a specified period of time.

**“Falcon Holding LP”** means the limited partnership governed by the laws of the Province of Ontario and the direct shareholder and assignee of Brookfield BBP Canada Holdings Inc.’s acquisition interest of the Company from Genworth Financial.

**“Government Guarantee Agreement”** means the agreement Sagen had with the Canadian government pursuant to which the Canadian government guaranteed that lenders would receive the benefits payable under eligible mortgage insurance policies issued by Sagen, less 10% of the original principal amount of an insured loan, in the event that Sagen failed to make claim payments with respect to that loan due to its bankruptcy or insolvency. This agreement was terminated effective January 1, 2013 and was replaced by PRMHIA.

**“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 Sagen.

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

**“multi-family”** means dwellings with five or more units, including apartment buildings and long-term care facilities, but excluding individual condominium units.

**“new insurance written”** or **“NIW”** means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period. 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.

**“NHA”** means the *National Housing Act* (Canada).

**“original amortization period”** means the number of years at inception that it takes to repay in full the original mortgage balance based on the regularly scheduled payment of principal and interest.

**“OSFI”** means the Office of the Superintendent of Financial Institutions.

**“Registration Rights Agreement”** means the registration rights agreement among Falcon Holding LP and Sagen MI Canada, as modified, amended, supplemented or assigned.

**“remaining amortization period”** means the estimated number of years that it takes to repay the outstanding mortgage balance as of the reporting date based on the regularly scheduled payments of principal and interest.

**“residential mortgage insurance market”** means the mortgage insurance market for residential properties, including one to four unit residential properties and individual condominium units, but excluding multi-family units.

**“shortfall sale”** means a sale of a property by the owner for less than the amount owing on the mortgage.



## APPENDIX “A”

### AUDIT COMMITTEE INFORMATION

#### 1. Audit Committee Mandate

See Schedule 1 attached hereto.

#### 2. Composition of the Audit Committee

The Audit Committee of the Company is currently comprised of Neil Parkinson, Dana Ades-Landy and David Planques. Each member of the Audit Committee is independent and financially literate within the meaning of National Instrument 52-110 - *Audit Committees*.

#### 3. Relevant Education and Experience

All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. Please see the “*Directors and Officers - Biographies*” section for the education and experience of each member of the Audit Committee relevant to the performance of their responsibilities as an audit committee member.

#### 4. Pre-Approval Policy

As part of its mandate, the Audit Committee has adopted a policy regarding the engagement of audit and non-audit services (the “**Pre-Approval Policy**”) for the purpose of identifying, mitigating or eliminating potential threats to the independence of the external auditor. The Pre-Approval Policy is reviewed and approved by the Audit Committee on an annual basis.

The Pre-Approval Policy prohibits the Company from engaging the external auditor to provide certain specified non-audit services. Pursuant to the Pre-Approval Policy, all non-audit services that are not specifically prohibited may be provided to the Company or any of its subsidiary entities by the external auditor if such services have been pre-approved by the Audit Committee.

#### 5. External Auditor Service Fees

##### Audit Fees

In 2023 and 2024, EY charged the Company \$1,637,600 and \$1,335,338 respectively, for audit services in connection with the audit of the annual financial statements of the Company and its subsidiaries and services provided in connection with the statutory and regulatory filings or engagements. The audit fees incurred in 2023 include fees for audit services performed in connection with IFRS 17 and IFRS 9 transition.

##### Audit Related Fees

No audit related services were performed in 2023 or 2024.

#### Tax Fees

In 2023 and 2024, EY charged the Company \$57,325 and \$277,100 respectively for tax consulting services.

#### All Other Fees

No services other than the above were performed in 2023 or 2024.

## **SCHEDULE 1**

### **SAGEN MI CANADA INC.**

#### **AUDIT COMMITTEE MANDATE**

##### **1. Introduction**

The Audit Committee (the “**Committee**” or the “**Audit Committee**”) of Sagen MI Canada Inc. (the “**Company**”) is a committee of the Board of Directors (the “**Board**”). The Committee shall oversee the accounting and financial reporting practices of the Company and the audits of the Company’s financial statements and exercise the responsibilities and duties set out in this Mandate.

##### **2. Membership**

###### ***Number of Members***

The Committee shall be composed of three or more members of the Board.

###### ***Independence of Members***

Each member of the Committee must be independent. “Independent” shall have the meaning, as the context requires, given to it in Multilateral Instrument 52-110 – Audit Committees, as may be amended from time to time.

###### ***Chair***

At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a chair of the Audit Committee (the “**Chair**”). The Chair shall be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee’s compliance with this Mandate, work with management to develop the Audit Committee’s meeting agendas and provide reports of the Audit Committee to the Board.

###### ***Financial Literacy of Members***

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

###### ***Term of Members***

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board. Unless a Chair is elected by the Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

##### **3. Meetings**

###### ***Number of Meetings***

The Committee may meet as many times per year as necessary to carry out its responsibilities.

###### ***Quorum***

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum.

### ***Calling of Meetings***

The Chair, any member of the Audit Committee, the external auditors, the Chair of the Board, the President & Chief Executive Officer or the Chief Financial Officer may call a meeting of the Audit Committee by notifying the Company's Secretary, who will notify the members of the Audit Committee. The Chair shall chair all Audit Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit Committee present may appoint a chair from their number for a meeting.

### ***Minutes; Reporting to the Board***

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

### ***Attendance of Non-Members***

The external auditors are entitled to attend and be heard at each Audit Committee meeting. In addition, the Committee may invite to a meeting any directors, officers or employees of the Company, legal counsel, the Company's actuary advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the internal auditor and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

The Audit Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisors without consulting or obtaining the approval of the Board or any Company officer. The Company shall provide appropriate funding, as determined by the Audit Committee, for the services of these advisors.

### ***Meetings without Management***

The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present.

### ***Procedure***

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board.

### ***Access to Management***

The Committee shall have unrestricted access to the Company's management and employees and the books and records of the Company.

## **4. Duties and Responsibilities**

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any exchange upon which securities of the Company are traded, or any governmental or regulatory body exercising authority over the Company, as are in effect from time to time (collectively, the "**Applicable Requirements**").

## ***Financial Reports***

### **(a) General**

The Audit Committee is responsible for overseeing the Company's financial statements and financial disclosures, including but not limited to, the Company's Annual Information Form, Management Information Circular, Management's Discussion and Analysis, quarterly supplement and financial press releases. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company. The external auditors ("external auditors" or "auditors", not including the "internal auditor") are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

### **(b) Review of Annual Financial Reports**

The Audit Committee shall review the annual consolidated audited financial statements of the Company, the auditors' report thereon, the related management's discussion & analysis of the Company's financial condition and results of operation ("MD&A"), related financial press release and the Company's management information circular. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval such documents.

### **(c) Review of Interim Financial Reports**

The Audit Committee shall review the interim consolidated financial statements of the Company, the auditors' review report thereon, the related MD&A, quarterly supplement and financial press release. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.

### **(d) Review Considerations**

In conducting its review of the annual financial statements or the interim financial statements, the Audit Committee shall:

- (i) meet with management and the external auditors to discuss the financial statements and MD&A;
- (ii) review the disclosures in the financial statements;
- (iii) review the audit report or review report prepared by the external auditors;
- (iv) discuss with management, the auditors, the actuary and internal legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;
- (v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;
- (vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under Canadian GAAP;
- (vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;

- (viii) review management's report on the effectiveness of internal controls over financial reporting;
- (ix) review the factors identified by management as factors that may affect future financial results;
- (x) review results of the Company's Audit Committee whistleblower hotline program; and
- (xi) review any other matters, related to the financial statements, that are brought forward by the internal auditor, external auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.

(e) Approval of Other Financial Disclosures

The Audit Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure, including the Annual Information Form and any financial guidance provided to analysts or otherwise publicly disseminated.

***External Auditors***

(a) General

The Audit Committee shall be responsible for oversight of the work of the external auditors, including the auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.

(b) Appointment and Compensation

The Audit Committee shall review and, if advisable, select and recommend for shareholder approval the appointment of, the external auditors. The Audit Committee shall have authority to approve all audit engagement terms and fees, including the auditors' audit plan.

(c) Resolution of Disagreements

The Audit Committee shall resolve any disagreements between management and the external auditors as to financial reporting matters brought to its attention.

(d) Discussions with External Auditors

At least annually, the Audit Committee shall discuss with the external auditors such matters as are required by applicable auditing standards to be discussed by the auditors with the Audit Committee.

(e) Audit Plan

At least annually, the Audit Committee shall review a summary of the external auditors' annual audit plan. The Audit Committee shall consider and review with the auditors any material changes to the scope of the plan.

(f) Quarterly Review Report

The Audit Committee shall review any report prepared by the external auditors in respect of each of the interim financial statements of the Company.

(g) Independence of External Auditors

At least annually, and before the auditors issue their report on the annual financial statements, the Audit Committee shall obtain from the external auditors a formal written statement describing all relationships between the auditors and the Company; discuss with the auditors any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the auditors belong and other Applicable Requirements. The Audit Committee shall take appropriate action to oversee the independence of the external auditors.

(h) Evaluation and Rotation of Lead Partner

At least annually, the Audit Committee shall review the qualifications and performance of the lead partner(s) of the external auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors.

(i) Requirement for Pre-Approval of Non-Audit Services

The Audit Committee shall approve in advance any retainer of the external auditors to perform any non-audit service to the Company that it deems advisable in accordance with Applicable Requirements and Board approved policies and procedures. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

(j) Approval of Hiring Policies

The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.

***Internal Controls***

(a) General

The Audit Committee shall, with the assistance of management, review the adequacy of the internal control over financial reporting adopted by the Company. The Audit Committee shall, with the assistance of management, review the effectiveness of the controls and procedures that have been adopted to ensure the disclosure of all material information about the Company and its subsidiaries as required by applicable law or security exchange rules. The Audit Committee shall receive regular reports from the Company's Disclosure Committee with respect to the Company's disclosure and its controls and procedures. The Audit Committee shall also regularly review the Company's Disclosure Policy.

(b) Establishment, Review and Approval

The Audit Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures. The Audit Committee shall approve the internal audit plan. At least annually, the Audit Committee shall consider and review with management, internal audit and the external auditors:

- (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information technology system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over

financial reporting), non-financial controls, legal and regulatory controls, controls and standards relating to data security, and the impact of any identified weaknesses in internal controls on management's conclusions;

- (ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;
- (iii) any material issues raised by any inquiry or investigation by the Company's regulators;
- (iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting;
- (v) any related significant issues and recommendations of the internal and external auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls; and
- (vi) the effectiveness of, or weaknesses or deficiencies in, the design or operation of the Company's accounting and financial management systems' information technology controls and controls and standards relating to data security.

(c) Financial Executives

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

***Compliance with Legal and Regulatory Requirements***

The Audit Committee shall review reports from the Company's Secretary and other management members on: legal or compliance matters that may have a material impact on the Company; monitoring adherence to and the effectiveness of the Company's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

***Audit Committee Hotline Whistleblower Procedures***

The Audit Committee has adopted whistleblower procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Audit Committee determines that the matter requires further investigation, it will direct the Chair of the Audit Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the general counsel to reach a satisfactory conclusion.

***Audit Committee Disclosure***

The Audit Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Company's disclosure documents.



### ***Delegation***

The Audit Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this mandate as the Audit Committee deems appropriate.

#### **5. Access to Management and Outside Advisors**

The Committee shall have unrestricted access to management and employees of the Company. The Committee shall have the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors without consulting or obtaining the approval of any officer of the Company. The Company shall provide appropriate funding, as determined by the Committee, for the services of these advisors.

#### **6. No Rights Created**

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Audit Committee functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's articles and by-laws, it is not intended to establish any legally binding obligations.

#### **7. Mandate Review**

The Committee shall review and assess the adequacy of this Mandate at least annually to ensure compliance with any rules or regulations promulgated by any regulatory body and recommend to the Board for its approval any modifications to this Mandate as considered.