

CLIMATE RISK MANAGEMENT REPORT



CANADA
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2025

2025 Climate Risk Management Report

Executive Summary

OSFI's Guideline B-15 sets a robust framework for managing climate-related risks. Canada Guaranty recognizes the potential impacts of climate change on the country's economy and housing market over the short and longer term.

The purpose of Mortgage Insurance is to cover lenders for losses due to borrower default and not physical damage to mortgaged properties. While climate events may contribute to a borrower's inability to sustain mortgage payments in high-risk areas where there is persistent devastation from the physical externality or cause property values to depreciate resulting in greater claims losses (i.e., insurance risk), the claims themselves cannot be attributed to a physical event. Moreover, lenders are required to maintain standard all-risk insurance to protect against loss or damage by fire and other perils.

Despite a mortgage insurer's exposure to physical risk being indirect, as well as the insurance protection lenders are required to maintain, climate change could affect housing markets at a regional level, especially in areas vulnerable to extreme weather events. Operationally, climate-related disruptions to property values and the broader housing market could affect Canada Guaranty's business activities.

Governance

Effective governance is central to Canada Guaranty's Climate Risk Management. Oversight, assessment, management, and accountability for climate-related risks are integrated into our governance structure across the Board of Directors, Senior Management and the three lines of defence, ensuring alignment with OSFI Guideline B-15 – Climate Risk Management. The Executive Risk Committee (ERC) approves the Company's Climate Transition Plan on behalf of Senior Management.

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Board Oversight

The Board of Directors, through the Risk Committee and Audit Committee, provides ultimate oversight of climate-related risks and the integration of Climate Risk Management within the Company's business model and strategy.

Key responsibilities include ensuring:

- Climate-related risk considerations are embedded in the Company's Risk Appetite Framework, with ongoing monitoring to ensure alignment with corporate strategy and performance.
- The Board maintains a director competency matrix and undergoes an annual self-assessment to evaluate climate-related knowledge.
- Oversight of climate risk-related disclosures.

Senior Management

The CEO and Senior Management guide the strategic direction and activities of the Company. The Chief Risk Officer and Senior Vice President of Adjudication Strategy provide strategic oversight for climate risk management. Integration of climate risk is overseen by the Executive Risk Committee and the Capital Management Committee.

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Key responsibilities include:

- Integrating climate-related risks into operational, credit, underwriting, and investment decisions.
- Reviewing quarterly reporting on Environmental, Social, and Governance risk, including climate risk exposures and scenario analysis outcomes.
- Overseeing scenario analysis, stress testing, and mitigation actions to ensure the business plan remains feasible under varying climate scenarios.
- Providing direction, guidance, and approval of applicable financial disclosures.
- Monitoring and escalating climate-related risk exposures and milestones to the Board.
- Coordinating across Risk, Finance, Actuarial, and Operations to align climate risk management activities with capital and ORSA planning.

Business Strategy

Our longer-term strategy will integrate climate risks, ensuring the institution remains aligned with evolving climate policies and market conditions. As the physical impacts of climate change become more acute, including through more frequent floods and wildfires, the importance of continuous property insurance for mortgage holders will continue to increase. While this is ultimately the responsibility of mortgage lenders, Canada Guaranty aims to be an industry thought leader in this area and strives to be a value-added source of climate risk information for our lender partners.

To support Canadians in making their homes more resilient to climate impacts and purchasing energy-efficient homes, Canada Guaranty offers the Energy-Efficient Advantage Program. This product offers a 25% insurance premium refund for qualified buyers purchasing a newly constructed, energy-efficient home.

From a global perspective, the Canadian economy has the potential to be a net beneficiary from climate change. Warmer temperatures would cause Arctic ice to thaw, allowing Canadian firms to extract resources from the region at a lower cost. As other regions around the world are impacted by climate change, Canada would become a more attractive destination for immigration, which could have a net positive impact on Canada's housing market and overall economy.

Climate change continues to be an evolving issue. Canada Guaranty's climate risk management framework will continue to mature, adapt, and evolve as climate change impacts housing markets in Canada and across the world. Canada Guaranty is committed to training relevant employees on the impact of climate change and is also monitoring how other financial institutions in Canada are adapting to climate change.

In terms of managing climate risk, Canada Guaranty considers the short-term time horizon as the next 12 months, the medium-term as 1–5 years, and the long-term as beyond 5 years.

Adjudication Strategy

The most direct risk of climate change to Canada Guaranty is the potential impact on property values at both the loan and aggregate level, as well as the geographic mix of its portfolio through the evolution of where people may be able to live in Canada in the future. Also, there is the

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potential for property and casualty insurers to adjust the costs and types of coverage available for home insurance, thereby impacting the type of homes available for mortgage financing as well as the land value of homes.

The Company manages this risk to property valuation through its adjudication framework. As risk management practices with respect to assessing and quantifying climate change impact evolve, the Company will continue to apply best practices to mitigating this risk.

Data, Tools and Methodologies

Canada Guaranty continues to invest in enhancing its climate risk management expertise. Canada Guaranty geocodes every residential address at the time of adjudication, which has been embedded in the Company's automated adjudication strategy for more than a decade. Whenever there is a significant flood or wildfire event in Canada, the Risk team will leverage publicly available hazard maps, in conjunction with GIS tools, to assess the scope of the hazard and its impact on Canada Guaranty's insured loan portfolio.

Canada Guaranty works with third-party flood data to understand and quantify its exposure to insured properties in areas at high risk of flooding. Canada Guaranty's exposure to flood risks is calculated based on properties located in areas where probabilities of flooding are equal to or greater than 1 event in every 100 years. Climate Physical Risk is a Level 2 risk in the Company's Risk Appetite Framework, and the Risk Appetite metric is a percentage of the current portfolio located in an area with a significant chance of flooding. Flood exposure reporting is refreshed monthly and is reported on a quarterly basis to the Risk Committee of the Board. While the 1 in 100-year return period is currently an industry standard, we acknowledge that this definition could change as climate risk evolves.

We estimate our exposure as approximately 3%-4% of insured in-force balance. On a provincial level, our flood exposure is most significant in Manitoba and British Columbia. The higher concentration of flood risk in Manitoba is largely driven by properties in Winnipeg's floodplains of the Red and Assiniboine Rivers. While the city has taken significant steps to mitigate flood risk, certain areas remain more vulnerable.

Scenario Analysis and Stress Testing

Canada Guaranty has chosen to partner with a third-party provider to develop alternative macroeconomic scenarios for climate risk. These scenarios were generated according to the stress guidance provided by the Network for Greening the Financial System. We incorporated these scenarios into our annual Stress Testing and Own Risk Solvency Assessment (ORSA) processes to identify and assess potential physical and transition risk financial impacts.

Climate change transition risk refers to the potential financial and operational challenges businesses and economies face as the world shifts toward a more sustainable, low-carbon future. This risk arises from the uncertainty and changes associated with moving away from fossil fuels and adopting greener technologies and practices. In both the Net Zero and Below 2^o Scenarios, regions and cities that are heavily reliant on industries with high carbon emissions would be most at risk from an increased carbon tax. For instance, cities in Alberta, such as Calgary and Edmonton,

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significantly depend on the oil and gas industry. An increase in the carbon tax or an emissions cap would raise operational costs for these industries, leading to reduced investment, job losses, and economic downturns in these regions.

Climate change physical risk refers to the potential harm and financial losses that arise from the direct impacts of climate change on the environment and human activities. Chronic physical risks involve long-term changes in climate patterns, such as rising sea levels, increasing temperatures, and prolonged droughts, which can gradually degrade ecosystems, reduce agricultural productivity, and strain resources.

The Delayed Transition scenario (DT) features elements of both physical and transition risk and is the macroeconomic outlook most severe for Canada Guaranty. This scenario assumes global policymakers put off action to curtail climate change and abate carbon emissions until approximately six years out. Because the action necessary to curtail carbon emissions is delayed, it must be more substantial once taken. In this scenario, the world is playing catch-up to decarbonize. Once abatement policies begin, economic effects mount rapidly. The transition is quite disruptive to the global economy, causing a recession early next decade.

The disorderly transition in the DT scenario produces significant labour market stress and weaker housing markets. This scenario was incorporated in Canada Guaranty's 2025 ORSA process. Under this Delayed Transition scenario, Canada Guaranty expects its Loss Ratio to peak in approximately six years from now, relative to the baseline loss rate. The Company's MICAT ratio is expected to remain within the target operating range under this scenario.

Canada Guaranty is aware of the potential layering of climate risks, which could create more severe economic disruptions. For example, in Edmonton, high transition risk combined with high physical risk, together with out-migration, could pose more significant economic risks than the current scenarios contemplate.

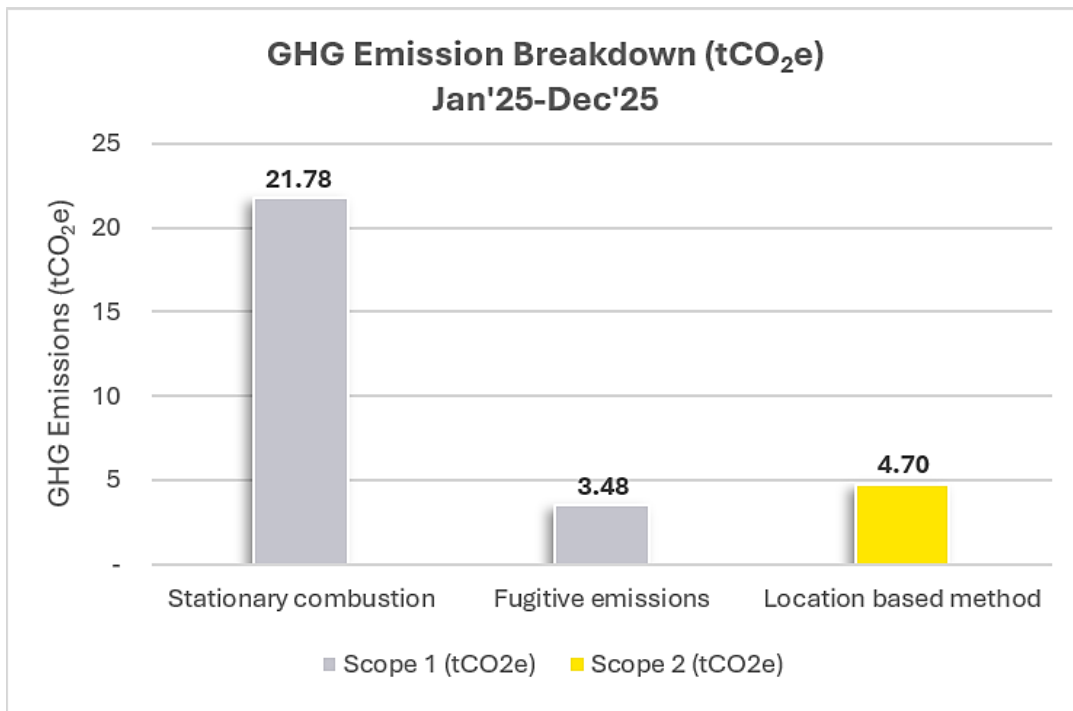
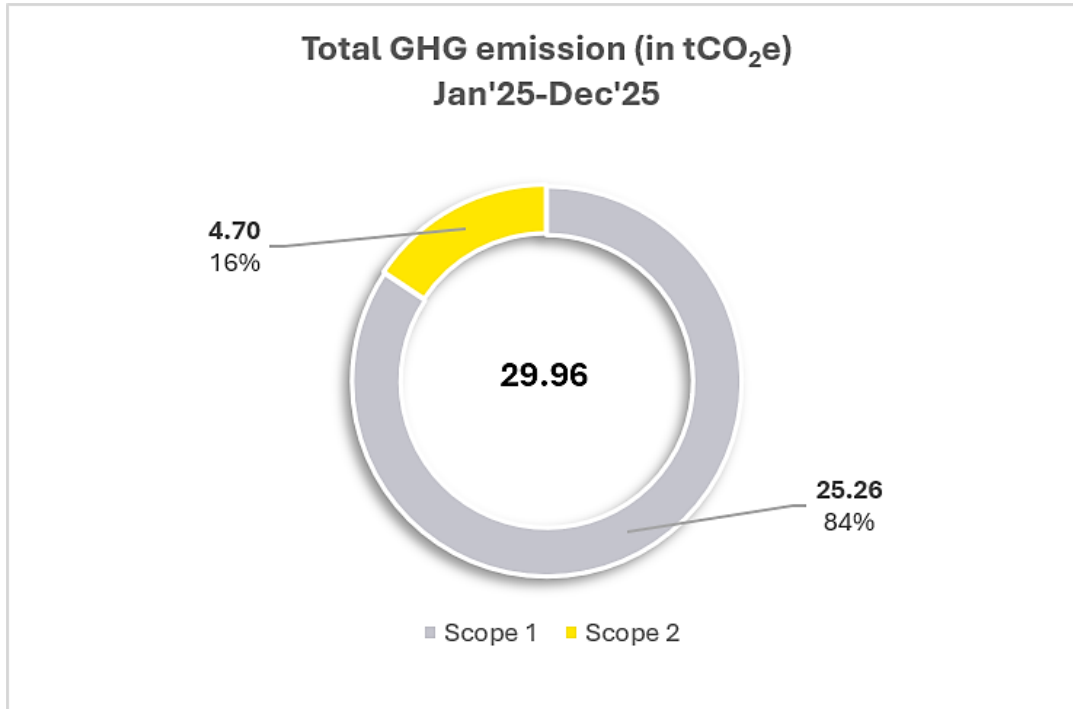
Disclosure and Reporting

In 2023, Canada Guaranty engaged a third-party consulting firm to identify the Company's Scope 1 and 2 emissions sources, available data sources, and relevant calculation methodologies based on the GHG Protocol.

Canada Guaranty's operational boundary includes one leased office in Toronto, Ontario. Scope 1 emissions include natural gas and fugitive emissions from refrigeration and air conditioning systems. Scope 2 emissions include electricity, heat, and cooling from the grid.

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The Scope 1 and 2 GHG emissions inventory report is updated on an annual basis. The following two charts provide the most recent summary of Canada Guaranty's GHG emissions.



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Emissions from Investment Portfolio (Financed Emissions)

Canada Guaranty's investment portfolio is managed with the objective of safeguarding the Company's financial strength and protecting policyholders. Investment decisions are guided by well-established processes that emphasize liquidity and credit quality. The portfolio is supported by a robust governance framework and managed by a reputable Canadian investment manager. Through its investment manager, Canada Guaranty follows a systematic approach to integrating environmental, social, and governance (ESG) considerations into its investment decision-making process. The assessment of material ESG risks is an important component of ensuring that issuer reviews are comprehensive and reflect a holistic view of each company. ESG factors are considered concurrently with traditional financial analysis, as the Company believes that material ESG considerations can be important indicators of long-term corporate health and risk.

ESG risk assessment is incorporated through the investment analysis, decision-making, engagement, and subsequent monitoring stages conducted by the investment manager. As fixed income investors, the primary ESG risk is the potential impact on a company's ability to repay its debt, including considerations around debt servicing and refinancing capabilities. The investment manager conducts thorough due diligence by assessing all relevant risks that may impact an issuer's credit profile, including ESG factors, recognizing that a prudent analysis cannot rely solely on traditional operational and financial metrics.

The Company calculates and reports emissions associated with its investment activities in accordance with guidance issued by the Partnership for Carbon Accounting Financials ("PCAF"). PCAF provides guidance on best practices for financed emissions calculations across asset classes. However, data availability continues to present challenges for certain asset categories, including securitized products, money market securities and derivative instruments. For asset classes where data constraints exist, we continue to monitor developments and improvements in data quality and availability.

The following table summarizes the emissions data for the investment portfolio.

Portfolio Carbon Footprint for the year ended December 31, 2025	Market Value (\$millions)	Absolute GHG emissions (tCO ₂ e) ¹	Weighted average data quality score ²
Corporate Debt	758	263	2.0
Provincial Debt	1,921	318,181	2.0

¹ For corporate debt, emissions are apportioned based on the market value of the portfolio's holdings and the associated enterprise value including cash (EVIC) of the Company; and reflects the Scope 1 and 2 emissions of underlying issuers. For provincial debt, emissions are apportioned based on the market value of the portfolio's holding and the Purchasing Power Parity (PPP)-adjusted gross domestic product (GDP) of the province; and reflects the Scope 1 greenhouse gas emissions for the region excluding land use, land-use change and forestry (LULUCF).

² Canada Guaranty reports average data quality score in alignment with the data quality scoring guidance in the PCAF Standard Part A: Financed Emissions. Each underlying emissions data point is assigned a data quality score, according to the scoring criteria for the respective asset class, ranging from 1 (highest data quality) to 5 (lowest data quality). The average data quality score for each asset class and scope is calculated by weighting each score by the respective asset's market value in Canadian dollars.

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Climate Change and Business Continuity Planning

Canada Guaranty maintains a business continuity plan (BCP) that includes protocols for natural disaster events. This plan outlines activation procedures, communication protocols, and transition to remote work (if deemed necessary). BCP training is conducted annually for all Canada Guaranty employees.

Canada Guaranty has designed its physical infrastructure to be resilient in the event of natural disasters. This includes ensuring that our data centres are not in flood zones, that none of our critical operations require our corporate office to be available, and that we have two data centres (in a hot-warm set-up) with full redundancy.

Concluding Comments

Climate change continues to be an evolving issue. Canada Guaranty has responded to OSFI's Guideline B-15 and the Company's climate risk management framework will continue to mature, adapt, and evolve as climate change impacts housing markets in Canada and throughout the globe.

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