



## Independent auditor's report

To the Chief Agent of Hudson Insurance Company – Canadian Branch, the Superintendent of Financial Institutions Canada and the Provincial Superintendents of Financial Institutions/Insurance

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hudson Insurance Company – Canadian Branch (the Branch) as at December 31, 2025 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

### What we have audited

The Branch's financial statements included in the P&C Core Financial Statement Quarterly Return (PC 1) (the Return) comprise:

- the statement of financial position as at December 31, 2025;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income (loss) for the year then ended;
- the statement of head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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## **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

## **Independence**

We are independent of the Branch in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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## **Restriction on distribution and use**

Our report is intended solely for the Branch, the Superintendent of Financial Institutions Canada and the Provincial Superintendents of Financial Institutions/Insurance.

We neither assume nor accept any responsibility or liability to any other third party in respect of this report.

Our report should not be distributed to or used by parties other than the Branch, the Superintendent of Financial Institutions Canada or the Provincial Superintendents of Financial Institutions/Insurance.

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## **Other matter – unaudited information**

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the statement of reserves on page 20.45 of the Return and the accuracy or completeness of the information included in (1) the pages of the Return except for pages 20.10, 20.11, 20.22, 20.42, 20.45, 20.52 and 20.60 and (2) the referenced pages of the Return except for those that refer to pages 20.10, 20.11, 20.22, 20.42, 20.45, 20.52 and 20.60. Accordingly, this auditor's report and our opinion do not cover the schedules and exhibits on the other pages of the Return.

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## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

May 14, 2026

**CONSOLIDATED FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION**

**ASSETS**  
**(\$'000)**

Reference Page	FS Notes Reference		Current Period		Prior Period		Opening Prior Period Restated		
			Total	Vested in Trust*	Total	Vested in Trust*	Total	Vested in Trust*	
			(01)	(02)	(03)	(04)	(05)	(06)	
		<b>ASSETS:</b>							
		Cash and Cash Equivalents	01	10,971	8,008	9,977	7,922		
		Accrued Investment Income	11			0	0		
		Current Tax Assets	52			0			
		Assets Held for Sale	50			0	0		
		Asset for Insurance Acquisition Cash Flows	18			0			
40.08Q		Investments	14		0	0	0		
40.84Q		Equity Accounted Investees	15	0	0	0	0		
		Financial Instrument Derivative Assets	16			0	0		
20.12/20.14		Insurance Contract Assets	62	0		0			
20.16/20.18		Reinsurance Contract Held Assets	64	3,134		3,689			
		Investment Properties	17	0	0	0	0		
40.70A		Property and Equipment	41	0	0	0	0		
		Intangible Assets	56			0			
		Goodwill	54			0			
		Defined Benefit Pension Plan	58			0			
		Segregated Funds Net Assets	60						
		Deferred Tax Assets	44			0			
		Other Assets	88	4		1			
		<b>TOTAL ASSETS</b>	89	14,109	8,008	13,667	7,922	0	0

\* Foreign insurers: Excludes deposits of reinsurers held in special trust accounts.

**CONSOLIDATED FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION**  
**LIABILITIES AND EQUITY**  
**(\$'000)**

Reference Page	FS Notes Reference	(55)	Current Period (01)	Prior Period (03)	Opening Prior Period Restated (05)
		<b>LIABILITIES:</b>			
		Provisions, Accruals and Other Liabilities	94	158	
		Liabilities held for sale		0	
		Current Tax Liabilities		1	
		Encumbrances on Real Estate & Mortgage Loans		0	
		Financial Instrument Derivative Liabilities		0	
		Insurance Contract Liabilities			
20.12/20.14		Insurance Contract Liabilities – Excluding Segregated Funds	5,235	5,447	
20.12/20.14		Insurance Contract Liabilities – Segregated Fund Guarantees			
20.12/20.14		Insurance Contract Liabilities – Segregated Funds Net Liabilities			
		Total Insurance Contract Liabilities	5,235	5,447	0
		Reinsurance Contract Held Liabilities			
20.16/20.18		Reinsurance Contract Held Liabilities – Excluding Segregated Funds	0	0	
20.16/20.18		Reinsurance Contract Held Liabilities - Segregated Fund Guarantees			
20.16/20.18		Reinsurance Contract Held Liabilities – Segregated Funds Net Liabilities			
		Total Reinsurance Contract Held Liabilities	0	0	0
		Trust and Banking Deposits		0	
		Other Debt		0	
		Defined Benefit Pension Plan		0	
		Employment Benefits (not including amounts in line above)		0	
		Subordinated Debt			
		Preferred shares - Debt			
		Deferred Tax Liabilities		0	
		Investment Contract Liabilities			
		Investment Contract Liabilities – Excluding Segregated Funds Net Liabilities		0	
		Investment Contract Liabilities – Segregated Funds Net Liabilities			
		Total Investment Contract Liabilities	0	0	0
		<b>Liabilities before Policyholders' Liabilities</b>	5,329	5,606	0
		<b>Policyholders' Liabilities</b>			
20.41		Residual Interest (Non-Stock)		0	
		Participating Account			
		Non-Participating Account (Non-Stock)			
		Total Policyholders' Liabilities	0	0	0
		<b>TOTAL LIABILITIES</b>	5,329	5,606	0
		<b>EQUITY</b>			
		<b>CANADIAN INSURERS ONLY:</b>			
		<b>Policyholders' Equity</b>			
20.41		Residual Interest (Non-Stock)			
		Participating Account			
		Participating Account - Accumulated OCI (Loss)			
		Non-Participating Account			
		Non-Participating Account - Accumulated OCI (Loss)			
		Total Policyholders' Equity			
		<b>Shareholders' Equity</b>			
		Common Shares			
		Preferred Shares			
		Contributed Surplus			
		Other Capital			
20.45		Retained Earnings			
		Nuclear and Other Reserves			
		Accumulated Other Comprehensive Income (Loss)			
		Total Shareholders' Equity			
		Non-controlling Interests			
		Total Equity			
		<b>TOTAL LIABILITIES AND EQUITY</b>	5,329	5,606	0
		<b>FOREIGN INSURERS ONLY:</b>			
		<b>Head Office Account, Reserves &amp; AOCI</b>			
		Head Office Account	8,780	8,061	
		Reserves	0	0	
		(Specify)		0	
		Accumulated Other Comprehensive Income (Loss)	0	0	
		Total Head Office Account, Reserves & AOCI	8,780	8,061	0
		<b>TOTAL LIABILITIES, EQUITY, HEAD OFFICE ACCOUNT, RESERVES &amp; AOCI</b>	14,109	13,667	0

## CONSOLIDATED FINANCIAL STATEMENTS

## STATEMENT OF PROFIT OR LOSS

(\$'000)

Reference Page	FS Notes Reference		Current Period (01)	Prior Period (03)
		Revenue from PAA Contracts	2,745	3,468
		Revenue from GMM Contracts (excluding VFA contracts)	0	0
		Revenue from VFA Contracts		0
		<b>Total Insurance Revenue</b>	2,745	3,468
		<b>Insurance service expenses</b>	2,517	3,961
60.25Q		<b>Net expenses from reinsurance contracts held</b>	(493)	98
		<b>INSURANCE SERVICE RESULT</b>	(265)	(395)
40.72Q		Interest revenue on financial assets	113	209
40.74Q		Net investment income excluding segregated funds	0	0
		Net investment income - segregated funds		
40.88Q		Provision for Credit Losses	0	0
40.72 / 40.74		<b>Investment Return</b>	113	209
		<b>Net finance income (expenses) from insurance contracts excluding segregated funds</b>	(197)	(229)
		<b>Net finance income (expenses) from segregated funds</b>		
		<b>Net finance income (expenses) from reinsurance contracts held</b>	171	191
		<b>Movement in investment contract liabilities</b>		0
		<b>NET INVESTMENT RESULT</b>	87	171
80.35Q		Other Income	(57)	69
		Share of Net Income (Loss) of Equity Accounted Investees		0
80.25Q		General and Operating Expenses	0	0
		<b>OTHER INCOME AND EXPENSES</b>	(57)	69
		<b>PROFIT (LOSS) BEFORE TAXES</b>	(235)	(155)
		Current Taxes		1
		Deferred Taxes		0
		<b>Total Income Taxes</b>	0	1
		<b>PROFIT (LOSS) AFTER TAXES</b>	(235)	(156)
		Discontinued Operations (net of Income Taxes of \$ )		0
		<b>NET INCOME (LOSS) FOR THE YEAR</b>	(235)	(156)
		<b>ATTRIBUTABLE TO:</b>		
		Participating Policyholders/Certificateholders		
		Other Fund Account		
		Residual Interest Policyholders		
		Non-controlling Interests		
		Equity Holders		

(04)

(net of Income Taxes on Discontinued Operations) 520

CONSOLIDATED FINANCIAL STATEMENTS  
COMPREHENSIVE INCOME (LOSS) and  
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)  
(\$'000)

Reference Page	FS Notes Reference		Current Period (01)	Prior Period (03)
20.22		<b>Comprehensive Income (Loss)</b>		
		Net Income (Loss)	01	(235)
		Other Comprehensive Income (Loss):		
		<b>Items that may be reclassified subsequently to Net Income (Loss):</b>		
		<b>Fair Value through Other Comprehensive Income (FVOCI):</b>		
		Change in Unrealized Gains and Losses:		
		- Loans	02	0
		- Bonds and Debentures	03	0
		Reclassification of (Gains) Losses to Net Income (Loss)	05	0
		<b>Derivatives Designated as Cash Flow Hedges</b>		
		Change in Unrealized Gains and Losses	06	0
		Reclassification of (Gains) Losses to Net Income (Loss)	07	0
		<b>Foreign Currency Translation</b>		
		Change in Unrealized Gains and Losses	08	0
		Reclassification of (Gains) Losses to Net Income (Loss)	13	0
		Impact of Hedging	09	0
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees (may be reclassified)</b>	14	0
		<b>Insurance Finance Income (Expenses) Reserve from Insurance Contracts</b>	23	0
		<b>Insurance Finance Income (Expenses) Reserve from Reinsurance Contract Held</b>	24	0
		<b>Other</b>	18	0
		<b>Subtotal of items that may be reclassified subsequently to Net Income (Loss)</b>	19	0
		<b>Items that will not be reclassified subsequently to Net Income (Loss):</b>		
		<b>Fair Value through Other Comprehensive Income (FVOCI)</b>		
		Change in Unrealized Gains and Losses:		
		- Equities	25	0
		<b>Revaluation Surplus</b>	31	0
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees</b>	11	0
	<b>Remeasurements of Defined Benefit Pension Plans</b>	34	0	
	<b>Other</b>	12	0	
	<b>Subtotal of items that will not be reclassified subsequently to Net Income (Loss)</b>	29	0	
	<b>Total Other Comprehensive Income (Loss)</b>	21	0	
	<b>Total Comprehensive Income (Loss)</b>	39	(235)	
	<b>Attributable to:</b>			
	Participating Policyholders/Certificateholders	80		
	Other Fund Account	82		
	Residual Interest Policyholders	84		
	Non-controlling Interests	60		
	Equity Holders	62		

			Current Period (01)	Prior Period (03)
20.11		<b>Accumulated Other Comprehensive Income (Loss)</b>		
		Accumulated Gains (Losses), net of tax, on:		
		<b>Items that may be reclassified subsequently to Net Income (Loss):</b>		
		<b>Fair Value through Other Comprehensive Income (FVOCI)</b>	41	0
		<b>Derivatives Designated as Cash Flow Hedges</b>	45	0
		<b>Foreign Currency Translation (net of hedging activities)</b>	46	0
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees (may be reclassified)</b>	52	0
		<b>Insurance Finance Income (Expenses) Reserve from Insurance Contracts</b>	63	0
		<b>Insurance Finance Income (Expenses) Reserve from Reinsurance Contracts Held</b>	64	0
		<b>Other</b>	68	0
		<b>Subtotal of items that may be reclassified subsequently to Net Income (Loss)</b>	69	0
		<b>Items that will not be reclassified subsequently to Net Income (Loss):</b>		
		<b>Fair Value through Other Comprehensive Income (FVOCI)</b>	70	0
		<b>Revaluation Surplus</b>	71	0
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees</b>	51	0
		<b>Remeasurements of Defined Benefit Pension Plans</b>	74	0
		<b>Other</b>	49	0
		<b>Subtotal of items that will not be reclassified subsequently to Net Income (Loss)</b>	79	0
		<b>Balance at end of Period</b>	59	0
		<b>Attributable to:</b>		
	Participating Policyholders/Certificateholders	90		
	Other Fund Account	92		
	Residual Interest Policyholders	94		
	Non-controlling Interests	96		
	Equity Holders	98		

**HEAD OFFICE ACCOUNT (Foreign Insurers)**  
**(\$'000)**

Reference Page	FS Notes Reference		Current Period	Prior Period
			(01)	(02)
20.22		<b>Opening Balance as Previously Reported</b>	8,061	5,125
		Adjustments:		0
		(Specify)		0
		Net Income (loss) for the year	(235)	(156)
		Transfers from (to) Head Office		
		Advances (Returns)	300	2,500
		Expenses	121	128
		Insurance Related Cash Flows	82	0
		Other	451	464
		Subtotal	954	3,092
		Decrease (increase) in Reserves	0	0
		Net increase (decrease) in Head Office Account	719	2,936
		<b>Balance at end of period</b>	8,780	8,061

*CONSOLIDATED FINANCIAL STATEMENTS*

**RESERVES**  
**(\$'000)**

Reference Page	FS Notes Reference		Current Period	Prior Period
			(01)	(02)
		Earthquake Reserves		
		Reserve Component		0
		Premium Reserve		0
		Mortgage Reserve		0
		Nuclear Reserve		0
		General Contingency Reserves		
		<b>Total Reserves</b>	0	0

**Hudson Insurance Company**  
Canadian/Foreign Insurer

12/31/2025  
Date

**STATEMENT OF CASH FLOWS**

(\$'000)

2025

2024

		Current Year	Prior Year
<b>Cash flows from (used in) operating activities:</b>			
Net Income (loss) for the year	01	(235)	(156)
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) decrease in current assets:			
Reinsurance Contract Held Assets		555	(2,572)
Other Assets		(3)	4
Increase (decrease) in current liabilities:			
Provisions, Accruals and Other Liabilities		(64)	83
Insurance Contract Liabilities-Excluding Segregated Funds		(212)	2,595
Current Tax Liabilities		(1)	(1)
<b>Cash flows from (used in ) operating activities</b>	29	40	(47)
<b>Cash flows from (used in) financing activities:</b>			
Transfers From (to) Head Office	65	954	3,092
<b>Cash flows from (used in) financing activities</b>	69	954	3,092
<b>Increase (decrease) in cash and cash equivalents (lines 29 + 59 + 69)</b>	79	994	3,045
<b>Cash and cash equivalents at beginning of year</b>	80	9,977	6,932
<b>Cash and cash equivalents at end of year (line 79 + 80)</b>	89	10,971	9,977
<b>Cash and cash equivalents at end of year consist of:</b>			
Cash	90	10,971	9,977
Cash equivalents	91	0	0
(Overdrafts)	92	0	0

## Notes to the Financial Statements

for the years ended December 31, 2025 and December 31, 2024  
(in thousands of Canadian Dollars except as stated otherwise)

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## **Notes to the Financial Statements**

*for the years ended December 31, 2025 and 2024  
(in thousands of Canadian Dollars)*

### **1. Business Operations**

The Canadian Branch (The “Branch”) of Hudson Insurance Company (the “Company”) is registered under the Canadian Insurance Companies Act (Canada) (“the Act”) to transact the business of property and casualty insurance in Canada. The Company’s Home Office is located in New York, N.Y., U.S.A. The Company is a wholly owned subsidiary Odyssey Reinsurance Company which is a subsidiary of Fairfax Financial Holdings Limited (“Fairfax”), the ultimate parent company.

The address of the Branch’s registered office is 55 University Avenue, Suite 1600, Toronto, Ontario.

The Regulatory Returns including the financial statements as at and for the year ended December 31, 2024, were approved and filed with the regulator on February 26, 2026.

### **2. Basis of Presentation**

The financial statements of the Branch for the year ended December 31, 2025, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The accounting policies used to prepare the financial statements of the Branch comply with IFRS Accounting Standards effective as at December 31, 2025.

The preparation of financial statements in accordance with IFRS Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods covered by the financial statements. Critical accounting estimates and judgments are described in note 4.

As a financial services Branch, the statement of financial position is presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Branch’s normal operating cycle of one year would typically be considered as current, including the following balances: cash and cash equivalents, investment income due and accrued, income taxes payable, income taxes refundable, accounts payable, and accrued liabilities.

The following balances are generally considered as non-current: deferred tax assets, deferred tax liabilities.

The following balances are generally comprised of current and non-current amounts: other assets, insurance contract liabilities and provisions and other liabilities.

The current and non-current portions of such balances are disclosed, where applicable, throughout the notes to the financial statements.

### **3. Summary of Material Accounting Policies**

The principal accounting policies applied to the presentation of these financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

#### **Foreign currency translation**

##### ***Functional and presentation currency***

The financial statements are presented in Canadian dollars which is the Branch’s functional currency and the presentation currency of the Branch.

##### ***Transactions and items in the statement of financial position in foreign currencies***

Foreign currency transactions are translated into the functional currency of the Branch using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated at the date the fair value is determined.

## **Comprehensive income (loss)**

Comprehensive income (loss) consists of net earnings and other comprehensive income (loss) and includes all changes in head office account during a period, except for those resulting from investments by the Company and distributions to the Company. Accumulated other comprehensive income (net of income taxes) is included on the statement of financial position as a component of the Head Office account.

## **Statements of cash flows**

The Branch's statements of cash flows are prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities.

## **Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term highly liquid investments that are readily convertible into cash and have maturities of three months or less when purchased and exclude cash and short-term highly liquid investments that are restricted. Cash and cash equivalents includes cash on hand, demand deposits with banks and other short-term highly liquid investments with maturities of three months or less when purchased. Cash and cash equivalents are classified as fair value through profit and loss. Cash and cash equivalents are initially recorded at fair value and subsequently measured at amortized cost which approximates fair value.

## **Investments**

Investments may include short-term investments, common shares, preferred shares and bonds and debentures.

### ***Classification***

At initial recognition, the Branch classifies its financial instruments in the following categories:

Financial assets and liabilities at fair value through profit or loss ("FVTPL"): The Branch manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statement of income within Net Investment Income in the period in which they arise.

Financial assets at amortized cost: Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Branch's receivables comprise miscellaneous receivables. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the receivables to fair value. Subsequently, miscellaneous receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

### ***Recognition and measurement of financial assets***

The Branch recognizes purchases and sales of financial assets on the trade date, which is the date on which the Branch commits to purchase or sell the asset. Transactions pending settlement are reflected in the statement of financial position in other assets or in accounts payable and accrued liabilities.

Transaction costs related to financial assets classified or designated as FVTPL are expensed as incurred.

A financial asset is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the Branch has transferred substantially all the risks and rewards of ownership of the asset.

### ***Determination of fair value***

Fair values for substantially all of the Branch's financial instruments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these financial statements. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The fair values of financial instruments are based on bid prices for financial assets and offer prices for financial liabilities. The Branch categorizes its fair value measurements according to a three level hierarchy described below:

- Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs), such as quoted prices for similar financial instruments exchanged in active markets and other market observable inputs. The fair value of the majority of the Branch’s investments in government securities (including federal and provincial bonds), corporate securities and infrequently traded securities are priced using publicly traded over-the-counter prices or broker-dealer quotes. Market observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments.
- Level 3 – Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date.

The Branch’s investment portfolio may consist of fixed income investments, common shares, and preferred shares. The unit prices for these securities are received from third party broker dealers which in the opinion of the Branch reflects fair value. The fair value of these fixed income securities and common shares are valued at bid prices.

### **Receivables and Payables**

Receivable and payables are recognized initially at fair value and subsequently measured at amortized cost. Due to their short-term nature, carrying value is considered to approximate fair value.

### **Insurance contracts/Reinsurance contracts held**

#### ***Definition and classification:***

Insurance contracts – Insurance contracts are those contracts that have significant insurance risk at the inception of the contract. Insurance risk arises when the Branch agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder, with the possibility of paying, including variability in the timing of payments, significantly more in a scenario where the insured event occurs than when it does not occur. Contracts not meeting the definition of an insurance contract are classified as investment contracts, derivative contracts or service contracts, as appropriate. Insurance contracts include both written and ceded (reinsurance contracts held) contracts issued by the Branch.

Reinsurance contract assets/liabilities held – Ceded reinsurance contracts do not relieve the Company of its liability associated with underlying assumed reinsurance contracts. Reinsurance contract assets held are presented separately on the statement of financial position to indicate the extent of credit risk and the obligations of the Branch to its policyholders.

Unit of account and recognition – Insurance contracts and reinsurance contract assets held are required to be aggregated into portfolios of insurance contracts, based on underlying risk and the management of those risks, then further aggregated into groups based on the underlying expected profitability and date of issuance, with groups not containing contracts issued more than one year apart.

Insurance contracts are recognized from the earliest of: the beginning of the insurance contract’s coverage period; when payment from the policyholder becomes due or, if there is no contractual due date, when it is received; and when a contract is onerous.

Reinsurance contract assets held that provide proportionate reinsurance coverage are recognized from the later of: the beginning of the reinsurance contract’s coverage period; and when underlying insurance contracts are initially recognized.

Other reinsurance contract assets held are recognized at the beginning of the coverage period for the reinsurance contract unless the Branch recognizes onerous insurance contracts on an earlier date which are reinsured and the related reinsurance contract was entered into prior to the onerous contract being recognized, in which case the reinsurance contract assets held are recognized at the date the onerous groups of underlying insurance contracts are recognized.

When insurance and reinsurance contract assets held are recognized, they are added to an existing group of contracts where possible. If the insurance contract cannot be added to an existing group based on the criteria set out above, a new group is formed. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

For insurance contracts acquired with incurred claims and remaining coverage, the Branch is considered to have issued a new, separate insurance contract with two coverages: coverage for claims events that have yet to occur and coverage for the development of claims events that have already occurred.

#### ***Measurement:***

The Branch measures its insurance contracts and reinsurance contract assets held using the Premium Allocation Approach (“PAA”). Insurance and reinsurance contract assets held are eligible for the PAA approach when the coverage period of each contract in the group is one year or less or the Branch reasonably expects that the resulting measurement of the liability for remaining coverage (“LRC”) would not differ materially from that of applying the General Measurement Model (“GMM”). When comparing the different possible measurements, the Branch considers the impact of different release patterns of the LRC to the statement of profit or loss, the impact of discounting and financial risks, and whether significant variability in the cash flows exists.

The measurement components are:

*Contract boundary* – The contract boundary determines the cash flows that are included in the measurement of a group of insurance contracts and reinsurance contract assets held. For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch can compel the policyholder to pay premiums or has a substantive obligation to provide services including insurance coverage. For reinsurance contract assets held, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

*Fulfillment cash flows within the contract boundary* – Fulfillment cash flows are current estimates of cash flows within the contract boundary of a group of contracts which include premiums, claims, acquisition costs and other expenses that the Branch expects, adjusted to reflect the timing and uncertainty of those amounts with an explicit risk adjustment for non-financial risk.

There are two types of directly attributable costs that are included in the contract boundary:

*Acquisition costs* – Certain costs of acquiring insurance contracts, consisting of broker commissions, underwriting costs and related overhead are deferred and amortized into earnings as the related premiums are earned. Insurance acquisition cash flows are allocated to groups of insurance contracts based on the contracts that generated the expenses. Insurance acquisition cash flows paid before the recognition of the related group of contracts are recognized as an asset and subsequently derecognized and included within the group of insurance contracts when the related contracts are recognized. At each reporting date, the Branch assesses for impairment and will recognize impairment losses when the carrying amount of the asset exceeds the expected net cash inflows for the related group of insurance contracts. The Branch reverses any impairment losses and increases the carrying amount of the asset to the extent that the impairment conditions have reversed.

*Other costs that are incurred in fulfilling insurance contracts* – These comprise all remaining directly attributable costs that are not categorized as acquisition costs and include losses on claims, together with both allocated and unallocated loss adjustment expenses, and related overhead.

#### ***Insurance contracts***

*Initial measurement* – On initial recognition of each group of insurance contracts, the carrying amount of the LRC is measured as the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group, adjusted for any amounts previously recognized for cash flows related to the group (including assets for insurance acquisition cash flows). The Branch defers and amortizes insurance acquisition cash flows for all groups of contracts. Unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the liability for incurred claims (“LIC”).

If there are indications that a group of insurance contracts is onerous, then the Branch recognizes a loss in insurance service expense in the statement of profit or loss and increases the LRC if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the LRC. This excess is recognized as a loss component within the LRC, which is reported in insurance contract liabilities on the statement of financial position.

*Subsequent measurement* – The carrying amount of a group of insurance contracts at each reporting date is the sum of the LRC and the LIC. On subsequent measurement, the carrying amount of the LRC is increased by any premiums received and the amortization of insurance acquisition cash flows recognized as expenses and decreased by the amount recognized as insurance revenue for services provided and any additional insurance acquisition cash flows allocated after initial recognition.

The LIC included the fulfillment cash flows for losses on claims and expenses that have been incurred. It reflects both a risk adjustment for non-financial risk and the time value of money.

In each reporting period, the Branch remeasures the loss component using the same calculation as on initial recognition and reflects any changes by adjusting the loss component as required until the loss component is reduced to zero, with such adjustments recognized in insurance service expenses. If a loss component did not exist on initial recognition but there are indications that a group of contracts is onerous on subsequent measurement, then the Branch establishes the loss component using the same methodology as on initial recognition.

#### ***Reinsurance contract assets/liabilities held***

*Initial measurement* – On initial recognition of each group of reinsurance contracts, the carrying amount of the asset for remaining coverage (“ARC”) is measured as the premiums paid (i.e. premiums ceded) on initial recognition, adjusted for ceding commissions that are not contingent on claims and any amounts previously recognized for cash flows related to the group. The Branch does not recognize any insurance acquisition cash flows for reinsurance contract assets held. For contracts measured under the PAA, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the asset for incurred claims (“AIC”).

When there is an onerous group of underlying contracts, a loss-recovery component is created for the group of reinsurance contract assets held which adjusts the ARC and determines the amounts that are subsequently presented in the statement of profit or loss within net reinsurance result as reversals of recoveries of losses and removed from the cost of reinsurance.

Subsequent measurement – The carrying amount of a group of reinsurance contract assets held at each reporting date is the sum of the ARC and the AIC. On subsequent measurement, the carrying amount of the ARC is increased by any premiums paid and reduced by the amount recognized as cost of reinsurance for services received.

For contracts measured under the PAA, the asset for incurred claims reflects a risk adjustment for non-financial risk and the time value of money as most of the Branch's reinsurance contract assets held and measured under the PAA typically have a settlement period of over one year.

If a loss-recovery component exists, it is adjusted on subsequent measurement to reflect changes in the loss component of the onerous group of underlying contracts to the extent that it impacts reinsured cash flows, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Branch expects to recover from the reinsurance contract assets held.

#### ***Derecognition and contract modification***

An insurance contract is derecognized when it is extinguished, i.e. when the specified obligations in the contract expire or are discharged or cancelled. An insurance contract is also derecognized if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed, in which case a new contract based on the modified terms is recognized. If an insurance contract modification does not result in derecognition, then the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

#### ***Presentation***

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contract assets held that are assets and those that are liabilities, are presented on the statement of financial position. Any assets or liabilities recognized for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) are included in the carrying amount of the related portfolios of contracts.

Amounts recognized in the statement of profit or loss for insurance contracts are disaggregated into (i) an insurance service result, comprised of insurance revenue and insurance service expenses ("net insurance result"), (ii) cost of reinsurance and recoveries of insurance service expense ("net expenses from reinsurance contracts held"), and (iii) net finance income or expenses from insurance contracts and/or reinsurance contracts held.

Changes in the risk adjustment for non-financial risk are not disaggregated between the insurance service result and net finance income or expenses from insurance contracts. All changes in the risk adjustment for non-financial risk are included in the insurance service result in the statement of profit or loss.

#### ***Statement of Profit or loss***

The Branch recognizes insurance revenue based on the expected premium receipts and the passage of time over the coverage period of a group of contracts unless the release of risk differs significantly from the passage of time, in which case insurance revenue is recognized based on the release of risk.

Insurance service expenses arising from insurance contracts are recognized in the statement of profit or loss as they are incurred and include losses on claims, other insurance service expenses, amortization of insurance acquisition costs, losses and reversals of losses on onerous contracts, and impairment losses and reversals of those impairment losses on insurance acquisition cash flow assets.

Net expenses from reinsurance contracts held comprises the cost of reinsurance less recoveries of insurance service expenses from reinsurers. The cost of reinsurance is recognized in the statement of profit or loss as services are received from the reinsurer over the coverage period. Recoveries of insurance service expenses from reinsurers are recognized in the statement of profit or loss as claims and other insurance service expenses are recovered, including any changes in expectations for these amounts, and recoveries and reversals of recoveries of the loss-recovery component. The establishment of the loss-recovery component and subsequent increases or decreases in the loss-recovery component related to future service are presented in net expenses from reinsurance contracts held.

Net finance income or expense from insurance contracts and reinsurance contract assets held as presented in the statement of profit or loss are comprised of changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of the time value of money. The sources of the insurance finance income and expense arise from the effects of discounting the fulfillment cash flows within the AIC and LIC; and discounting the ARC and LRC under the PAA where a significant financing component exists. The Branch does not expect to have a significant financing component. Other financial risks include the effect of foreign exchange movements within a group of contracts where there are cash flows being converted into the functional currency at each reporting date to reflect insurance and reinsurance contract assets and liabilities being treated as monetary items.

Foreign currency transactions are translated using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of foreign currency denominated monetary assets and liabilities related to insurance contract liabilities and reinsurance contract assets held are recognized in the statement of profit or loss.

### *Estimation techniques*

The Branch is required by applicable insurance laws, regulations and Canadian accepted actuarial practice to establish reserves for payment of losses and loss adjustment expenses that arise from the Branch's general insurance products. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the statement of financial position date. The Branch establishes its reserves by product line of business. Loss reserves fall into two categories; reserves for reported losses and reserves for incurred but not yet reported ("IBNR") losses. Additionally, reserves are held for loss adjustment expenses, which include the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses. Losses and loss adjustment expenses are charged to income as incurred.

The Branch's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims. The Branch bases such estimates (case reserves) on the facts available at the time the reserves are established. The Branch establishes these reserves on an undiscounted basis to recognize the estimated cost of bringing pending claims to financial settlement, taking into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Branch considers historical trends and patterns of the loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Branch's estimation of reserves. Between the reporting and final settlement of a claim, circumstances may change, which would result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and building repair materials and labour rates can substantially impact ultimate settlement costs. Accordingly, the Branch reviews and re-evaluates claims and reserves on a regular basis. Any resulting adjustments are included in the statement of income in the period the adjustment is made. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set or currently recorded.

The Branch also establishes reserves for IBNR claims on undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring claims for these not yet reported losses to final settlement. As these losses have not yet been reported, the Branch relies upon historical information and statistical models, based on product line of business, to estimate its IBNR liability. The Branch also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. The Branch revises these reserves as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Branch's reserves. Short-tail claims, such as for property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information concerning the event, such as the required medical treatments and the measures and costs required to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims. Risk adjustment is required to be calculated at the contract group level as with the present value of future cash flows and the contractual service margin that form the liability for remaining coverage. Risk adjustment is the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Since the Branch does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

Claims provisions are determined based upon previous claims experience, knowledge or events and the terms and conditions of the relevant contracts and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic and political conditions.

Where possible the Branch applies multiple techniques in estimating required provisions. This gives greater understanding of the trends inherent in the data being projected. The Branch's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year,
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years, and;
- expected loss ratios.

In selecting its best estimate, the Branch considers the appropriateness of the methods based on the product line of business and policy year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business line are generally assessed separately, being measured either at the face value of the ceding company loss adjusters' estimates or projected separately in order to allow for the future development of large claims. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The Branch includes in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

The claims provisions are estimated by the Branch's Appointed Actuary and are subject to review by the Company's Group Chief Actuary, the Branch's Chief Agent, and a Peer Reviewer Actuary.

### ***Uncertainties***

The uncertainty arising under insurance contracts may be characterized under a number of specific headings, such as uncertainty relating to:

- whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- the extent of policy coverage and limits applicable;
- the amount of insured loss suffered by a policyholder as a result of the event occurring; and,
- the timing of a settlement to a policyholder for a loss suffered.
- the discount rate used

The degree of uncertainty will vary by business lines according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss incurred by the insured, subject to insurance contract conditions.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported to the Branch. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty; such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates in the short-term, particularly for the Branch's long tail lines of business. The Branch seeks to provide appropriate levels of claims provisions and provision for unexpired risks taking the known facts and experience into account.

The Branch has exposures to risks in each line of business that may develop and that could have a material impact upon the Branch's financial position. The insurance risk diversity within the Branch's portfolio of issued policies makes it impossible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each insurance contract and the particular type of insurance risk covered. The diversity of the insurance risks results in it being difficult to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance liabilities.

### **Income taxes**

The provision for income taxes for the period comprises current and deferred income tax. Income taxes are recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income. In those cases, the related taxes are also recognized in other comprehensive income.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Deferred income tax is calculated under the liability method whereby deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases at the current substantively enacted tax rates. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized during the period that the change occurs.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

### **Contingencies and commitments**

A provision is recognized for a contingent liability or commitment when the Branch has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are discounted when the effect of the time value of money is considered significant.

### **New accounting standards adopted in 2025**

The Branch did not adopt any amendments, effective January 1, 2025.

### **Accounting standards and amendments issued but not yet effective**

The following new standards have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2025. The Branch does not expect to adopt any of them in advance of their respective effective dates.

#### *Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)*

On May 30, 2024 the IASB issued targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures which included clarifying the date of recognition and derecognition of some financial assets and liabilities, with an exception relating to the derecognition of financial liabilities that are settled using an electronic payment system, and additional required disclosures for financial assets and liabilities with contractual terms that reference a contingent event (including environmental, social and governance linked features). The amendments are applied retrospectively on or after January 1, 2026 with early application permitted. An entity is not required to restate comparative information when it first applies these amendments, however, is permitted to do so only if possible without the use of hindsight. If an entity does not restate prior periods, the cumulative effect of initially applying the amendments is recognized as an adjustment to opening equity. The amendments are not expected to have a significant impact on the Branch's financial statements.

#### *IFRS 18 Presentation and Disclosure in Financial Statements*

On April 9, 2024 the IASB issued IFRS 18 which replaces IAS 1 Presentation of Financial Statements while carrying forward many of the requirements in IAS 1. IFRS 18 introduces new requirements to present specified categories and defined subtotals in the statement of earnings and to provide disclosures on management-defined performance measures in the notes to the financial statements, and also makes certain amendments to IAS 7 Statement of Cash Flows and IAS 33 Earnings per Share. The standard is to be applied retrospectively, with specific transition provisions, for annual reporting periods beginning on or after January 1, 2027 with earlier application permitted. The Branch is currently evaluating the expected impact of the standard on its financial statements.

## **4. Critical Accounting Estimates and Judgments**

In the preparation of the Branch's financial statements, management has made a number of estimates and judgments, the more critical of which are discussed below.

### ***Insurance contracts and reinsurance contract assets held***

#### **Fulfillment cash flows**

Fulfillment cash flows comprise estimates of future cash flows, adjusted to reflect the time value of money for both financial and non-financial risk. These estimates reflect a range of possible scenarios and outcomes, where the cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. The estimates of future cash flows reflect the Branch's view of current conditions at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events that might affect those cash flows.

The model to value the fulfillment cash flows may also include certain qualitative adjustments using professional judgment in circumstances where, in the Branch's view, the existing inputs, assumptions, or modelling techniques do not capture all relevant risk factors. Where, through model development, the Branch identifies that the existing models do not capture all relevant risk factors or have other input or data limitations, post-model adjustments are used to address temporary shortcomings. Such adjustments may require significant judgment and may affect the amounts recognized.

The most significant judgments within the estimates of fulfillment cash flows are for property and casualty insurance provision for losses and loss adjustment expenses, which include estimates of future cash flows from losses on claims which have not yet been paid and that are included within the LIC. These balances are estimated based on Canadian accepted actuarial practices, which are designed to ensure the Branch establishes an appropriate reserve on the statement of financial position to cover insured losses and related claims expenses for both reported claims and IBNR claims as at each statement of financial position date. The assumptions underlying the estimation of provision for losses and loss adjustment expenses are regularly reviewed and updated by the Branch to reflect recent and emerging trends in experience and changes in the risk profile of the business.

### Contract boundaries

The assessment of the contract boundary, which defines which cash flows are included in the measurement of a contract, requires judgment and consideration of the Branch's substantive rights and obligations under the contract. In specific circumstances, judgment is required in identifying how particular clauses shorten or lengthen the contract boundary. Further, significant judgment is required in determining expense allocations: the Branch generally allocates acquisition costs to groups of contracts based on total premiums, claims handling costs based on the number of claims, and maintenance and administration costs based on the number of in-force contracts. Other costs are recognized in the statement of profit or loss as they are incurred.

### Discount rates

Cash flows are discounted using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts and reinsurance contract assets held. The Branch determines the yield curves using commercially available currency-specific rates and illiquidity premiums

The tables below set out the primary yield curves that were used to discount the cash flows of insurance contracts and reinsurance contract assets held.

Currency	December 31, 2025				December 31, 2024			
	1 year	5 years	10 years	15 years	1 year	5 years	10 years	15 years
CAD	2.70%	4.58%	5.42%	5.16%	3.36%	4.50%	5.16%	4.75%
USD	3.82%	4.54%	5.64%	6.05%	4.64%	5.14%	5.70%	5.75%

### Risk adjustment for non-financial risk

The risk adjustment for non-financial risk represents the compensation that the Branch requires for bearing uncertainty with respect to both the amount and the timing of cash flows that arise from non-financial risk from the insurance contracts and reinsurance contract assets held. The risk adjustment reflects the estimates of uncertainty, diversification benefits and expected favourable and unfavourable outcomes. For reinsurance contract assets held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Branch to the reinsurer. The Branch generally uses stochastic bootstrapping for claims loss reserves and combines the resulting loss distributions with distributions for premiums, expenses, catastrophe losses and other risks provided using an appropriate dependency structure such as correlation matrices and copula. When determining their risk adjustments two quantile techniques are primarily used: value-at-risk and conditional tail expectation. The aggregate risk adjustment is compared to the consolidated distribution to determine the confidence interval using a value-at-risk quantile technique.

	December 31, 2025	December 31, 2024
The resulting amount of the calculated risk adjustment corresponds to a confidence level of:	75%	75%

## 5. Investments

### Fair value disclosures

The Branch's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities by type of issuer as follows:

	2025				2024			
	Total fair value assets	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total fair value assets	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
<b>As at December 31</b>								
Cash and cash equivalents	10,971	10,971	-	-	9,977	9,977	-	-
	<b>10,971</b>	<b>10,971</b>	<b>-</b>	<b>-</b>	<b>9,977</b>	<b>9,977</b>	<b>-</b>	<b>-</b>
	100%	100%	0%	0%	100%	100%	0%	0%

### Investment income

An analysis of investment income for the year ended December 31 follows:

	2025	2024
Income:		
Cash and short term investments	113	209
Gains (Losses) from FVO or FVTPL:		
Cash and short term investments	-	-
Gross investment income	113	209
Investment expenses	-	-
Net investment income	<b>113</b>	<b>209</b>

## 6. Insurance Contracts

	December 31, 2025		December 31, 2024	
	PAA	Total	PAA	Total
Insurance contracts written	5,235	5,235	5,447	5,447
Assets for insurance acquisition cash flows	-	-	-	-
Insurance contract liabilities	<b>5,235</b>	<b>5,235</b>	<b>5,447</b>	<b>5,447</b>

Insurance contracts written, measured under the PAA, broken down by portfolio, were as follows:

	December 31, 2025			December 31, 2024		
	LRC	LIC	Total	LRC	LIC	Total
Property	-	-	-	-	-	-
Casualty	233	5,197	5,430	164	5,283	5,447
Specialty Casualty	(305)	110	(195)	-	-	-
Specialty Property	-	-	-	-	-	-
Total	<b>(72)</b>	<b>5,307</b>	<b>5,235</b>	<b>164</b>	<b>5,283</b>	<b>5,447</b>

### *Movement in Insurance Contracts written*

An analysis of the liability for remaining coverage and the liability for incurred claims for insurance contracts written, measured under the PAA, as at December 31:

	LRC		LIC		Total
	Excluding Loss Component	Loss Component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
<b>Balance - January 1, 2025</b>	164	-	4,915	368	5,447
<b>Changes in the statement of earnings:</b>					
Insurance revenue (1)	(2,745)	-	-	-	(2,745)
Incurred claims and other insurance service expenses (2)	-	-	2,274	109	2,383
Amortization of acquisition costs and other (3)	747	-	-	-	747
Losses and reversal of losses on onerous contracts	-	77	-	-	77
Prior year reserve development and release of risk adjustment on prior year claims (4)	-	-	(586)	(104)	(690)
<b>Insurance service expenses</b>	<b>747</b>	<b>77</b>	<b>1,688</b>	<b>5</b>	<b>2,517</b>
Investment components	-	-	-	-	-
<b>Insurance service result</b>	<b>(1,998)</b>	<b>77</b>	<b>1,688</b>	<b>5</b>	<b>(228)</b>
Net finance expenses from insurance contracts (5)	-	-	183	14	197
Foreign exchange effects and other	1	-	(51)	(4)	(54)
<b>Total changes in the statement of earnings</b>	<b>(1,997)</b>	<b>77</b>	<b>1,820</b>	<b>15</b>	<b>(85)</b>
<b>Cash flows:</b>					
Premiums received (6)	2,270	-	-	-	2,270
Claims and other insurance service expenses paid, including investment components (7)	-	-	(1,608)	-	(1,608)
Insurance acquisition cash flows (8)	(586)	-	-	-	(586)
<b>Total Cash Flows</b>	<b>1,684</b>	<b>-</b>	<b>(1,608)</b>	<b>-</b>	<b>76</b>
Other changes in the net carrying amount of the insurance contract (9)	-	-	(203)	-	(203)
<b>Balance - December 31, 2025</b>	<b>(149)</b>	<b>77</b>	<b>4,924</b>	<b>383</b>	<b>5,235</b>

(1) Insurance revenue comprised Casualty (\$2,440) and Specialty Casualty (\$305) portfolios.

(2) Incurred claims and other insurance expenses included within estimates of the present value of future cash flows comprised Casualty (\$2,176) and Specialty Casualty (\$98) portfolios. Incurred claims and other insurance service expenses included within risk adjustment for non-financial risk comprised Casualty (\$102) and Specialty Casualty (\$7) portfolios.

(3) Amortization of acquisition costs and other comprised Casualty (\$747) portfolio.

(4) Prior year reserve development included within estimates of present value of future cash flows comprised favourable prior year reserve development in the Casualty portfolio (\$586). The release of risk adjustment on prior year claims included Casualty (\$104) portfolio.

(5) Net finance expense from insurance contracts included within the estimates of present value of future cash flows comprised Casualty (\$182) and Specialty Casualty (\$1) portfolios.

(6) Premiums received comprised Casualty (\$2,270) portfolio.

(7) Claims and other insurance service expenses paid, including investment components comprised Casualty (\$1,608) portfolio.

(8) Insurance acquisition cash flows comprised Casualty (\$586) portfolio.

(9) Other changes in the net carrying amount of the insurance contract comprised Casualty (\$203) portfolio.

	LRC		LIC		Total
	Excluding Loss Component	Loss Component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
<b>Balance - January 1, 2024</b>	296	-	2,378	178	2,852
<b>Changes in the statement of earnings:</b>					
Insurance revenue (1)	(3,468)	-	-	-	(3,468)
Incurred claims and other insurance service expenses (2)	-	-	2,751	168	2,919
Amortization of acquisition costs and other (3)	1,042	-	-	-	1,042
Losses and reversal of losses on onerous contracts	-	-	-	-	-
Prior year reserve development and release of risk adjustment on prior year claims (4)	-	-	-	-	-
<b>Insurance service expenses</b>	1,042	-	2,751	168	3,961
Investment components	-	-	-	-	-
<b>Insurance service result</b>	(2,426)	-	2,751	168	493
Net finance expenses from insurance contracts (5)	-	-	214	16	230
Foreign exchange effects and other	(9)	-	79	6	76
<b>Total changes in the statement of earnings</b>	(2,435)	-	3,044	190	799
<b>Cash flows:</b>					
Premiums received (6)	3,277	-	-	-	3,277
Claims and other insurance service expenses paid, including investment components (7)	-	-	(507)	-	(507)
Insurance acquisition cash flows (8)	(974)	-	-	-	(974)
<b>Total Cash Flows</b>	2,303	-	(507)	-	1,796
Other changes in the net carrying amount of the insurance contract (9)	-	-	-	-	-
<b>Balance - December 31, 2024</b>	164	-	4,915	368	5,447

*All transactions are in the Casualty portfolio.*

*Assumptions*

The basic assumptions made in establishing actuarial liabilities are best estimates of possible outcomes. During the year there were not any significant changes in the Branch's method and assumptions used in determining actuarial liabilities.

Development of undiscounted cumulative claims, gross:

	Accident Year				
	2022	2023	2024	2025	Total
Estimate of ultimate claims:					
At end of fiscal year	904	1,086	1,032	949	
One year later	1,716	2,254	1,836		
Two years later	1,898	2,127			
Three years later	1,479				
Four years later					
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
Ten years later					
Redundancy/(deficiency) recognized in 2025	419	127	(804)		(258)

Development of undiscounted cumulative claims, net of reinsurance ceded:

	Accident Year				
	2022	2023	2024	2025	Total
Estimate of ultimate claims:					
At end of fiscal year	235	185	255	114	
One year later	440	399	432		
Two years later	492	397			
Three years later	381				
Four years later					
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
Ten years later					
Redundancy/(deficiency) recognized in 2025	110	3	(177)		(64)

Reconciliation to the statement of financial position:

Estimate of ultimate claims	381	397	432	114	1,324
Cumulative claims paid	2	90	93	-	185
Unpaid claims before discounting	379	306	339	114	1,139
Impact of discounting and risk adjustment	-	-	-	-	28
Other adjustments to the net liability for incurred claims					(281)
Net liability for incurred claims included in the statement of financial position					885

## 7. Reinsurance

The Branch follows the policy of underwriting and issuing contracts of insurance which, depending on the type of contract, generally limits the liability to a maximum amount on any one loss. Reinsurance decisions are made to reduce and spread the risk of loss on insurance written and to preserve capital. The amount of reinsurance purchased can vary depending on the lines of business written and prevailing or expected market conditions. The Branch generally purchases reinsurance on a quota share basis, the purpose of which is to allow the Branch to retain some risk and premium while sharing some of the risk and premium with the reinsurer up to a predetermined maximum amount. The Branch's reinsurance does not, however, relieve the Branch of its primary obligation to the insureds.

The majority of reinsurance contracts purchased by the Branch provide coverage for a one year term and are negotiated annually. The ability of the Branch to obtain reinsurance on terms and prices consistent with historical results reflects, among other factors, recent loss experience of the Branch and of the industry in general.

The Branch has guidelines and a review process in place to assess the creditworthiness of the reinsurers to which it cedes. Note 13 discuss the Branch's management of credit risk associated with reinsurance recoverables.

	December 31, 2025		December 31, 2024	
	PAA	Total	PAA	Total
Reinsurance contract assets held	3,134	3,134	3,689	3,689
Reinsurance contract assets	<b>3,134</b>	<b>3,134</b>	<b>3,689</b>	<b>3,689</b>

Reinsurance contract assets held, measured under the PAA, broken down by portfolio, were as follows:

	December 31, 2025			December 31, 2024		
	ARC	AIC	Total	ARC	AIC	Total
Property	-	-	-	-	-	-
Casualty	(1,106)	4,318	3,212	(423)	4,112	3,689
Specialty Property	(181)	103	(78)	-	-	-
Specialty Casualty	-	-	-	-	-	-
Total	<b>(1,287)</b>	<b>4,421</b>	<b>3,134</b>	<b>(423)</b>	<b>4,112</b>	<b>3,689</b>

***Movements in reinsurance contract assets held***

An analysis of the asset for remaining coverage and the asset for incurred claims for reinsurance contracts held, measured under the PAA, as at December 31:

	ARC		AIC		Total
	Excluding Loss Component	Loss Component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
<b>Balance - January 1, 2025</b>	(423)	-	3,825	287	3,689
<b>Changes in the statement of earnings:</b>					
Cost of reinsurance (1)	(1,388)	-	-	-	(1,388)
Recoveries of incurred claims and other insurance service expenses (2)	-	-	1,358	90	1,448
Prior year reserve development and release of risk adjustment on prior year claims (3)	-	62	(524)	(91)	(553)
<b>Amounts recoverable from reinsurers</b>	-	62	834	(1)	895
<b>Net expenses from reinsurance held contracts</b>	(1,388)	62	834	(1)	(493)
Net finance income from reinsurance contracts	-	-	158	12	170
Foreign exchange effects and other	35	-	(37)	(3)	(5)
<b>Total changes in the statement of earnings</b>	(1,353)	62	955	8	(328)
<b>Cash flows:</b>					
Premiums paid (4)	427	-	-	-	427
Amounts received (5)	-	-	(827)	-	(827)
<b>Total Cash Flows</b>	427	-	(827)	-	(400)
Other changes in the net carrying amount of the reinsurance contracts held (6)	-	-	173	-	173
<b>Balance - December 31, 2025</b>	(1,349)	62	4,126	295	3,134

(1) Cost of reinsurance comprised Casualty (\$1,143) and Specialty Casualty (\$245) portfolios.

(2) Recoveries of incurred claims and other insurance expenses included within estimates of the present value of future cash flows comprised Casualty (\$1,275) and Specialty Casualty (\$83) portfolios.

(3) Prior year reserve development included within estimates of present value of future cash flows comprised unfavourable prior year development in the Casualty portfolio (\$524).

(4) Premiums paid comprised Casualty (\$363) and Specialty Casualty (\$64) portfolios.

(5) Amounts received comprised Casualty (\$827) portfolio.

(6) Other changes in the net carrying amount of the insurance contract comprised Casualty (\$173) portfolio.

	ARC		AIC		
	Excluding Loss Component	Loss Component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
<b>Balance - January 1, 2024</b>	(864)	-	1,843	138	1,117
<b>Changes in the statement of earnings:</b>					
Cost of reinsurance (1)	(1,783)	-	-	-	(1,783)
Recoveries of incurred claims and other insurance service expenses (2)	-	-	1,750	131	1,881
Prior year reserve development and release of risk adjustment on prior year claims (3)	-	-	-	-	-
<b>Amounts recoverable from reinsurers</b>	-	-	1,750	131	1,881
<b>Net expenses from reinsurance held contracts</b>	(1,783)	-	1,750	131	98
Net finance income from reinsurance contracts	-	-	178	13	191
Foreign exchange effects and other	(49)	-	60	5	16
<b>Total changes in the statement of earnings</b>	(1,832)	-	1,988	149	305
<b>Cash flows:</b>					
Premiums paid (4)	2,273	-	-	-	2,273
Amounts received (5)	-	-	(6)	-	(6)
<b>Total Cash Flows</b>	2,273	-	(6)	-	2,267
Other changes in the net carrying amount of the reinsurance contracts held (6)	-	-	-	-	-
<b>Balance - December 31, 2024</b>	(423)	-	3,825	287	3,689

*All transactions are in the Casualty portfolio*

## 8. Net Finance Income or Expense from Insurance Contracts Written and Reinsurance Contracts Held

As at December 31:

	<u>2025</u>	<u>2024</u>
<b>Net finance income (expense) from insurance contracts written</b>		
Interest accreted to insurance contracts	(179)	(182)
Effects of changes in interest rates and other financial assumptions	(18)	(47)
	<u>(197)</u>	<u>(229)</u>
<b>Net finance income (expense) from reinsurance contract assets held</b>		
Interest accreted to reinsurance contracts held	105	148
Effects of changes in interest rates and other financial assumptions	66	43
	<u>171</u>	<u>191</u>
<b>Net finance income (expense)</b>	<u>(26)</u>	<u>(38)</u>
<b>Investment income</b>		
Interest and dividends	113	209
Net gains (losses) on investments	-	-
	<u>113</u>	<u>209</u>
<b>Net financial result</b>	<u><u>87</u></u>	<u><u>171</u></u>

Certain of the Branch's investments, principally within the fixed income portfolio, are subject to interest rate risk and the net gains or losses on those investments which may result from changes in market interest rates, may not correspond directly with changes in the Branch's net finance income (expense) from insurance contracts and reinsurance contract assets held. While net insurance finance income or expense reflects the effects and changes in time value of money and financial risk related to these net liabilities, investment returns are based on the Branch's overall investment strategy.

## 9. Capital and Regulatory Requirements

The Branch's capital consists of amounts related to the Head Office Account, as well as Accumulated Other Comprehensive Income (Loss). The Branch's objectives when managing capital are first to protect its policyholders and to maximize returns to the Branch. Effective capital management includes measures designed to maintain capital above minimum regulatory levels, above levels required to satisfy issuer credit and financial strength ratings requirements, and above internally determined and calculated risk management levels.

In Canada, property and casualty companies and foreign branches are regulated by the Office of the Superintendent of Financial Institutions (OSFI) and are required to maintain a level of capital sufficient to achieve a minimum supervisory target of 150% of a minimum branch adequacy of assets test (BAAT) formula.

As at and throughout the periods to, December 31, 2025 and 2024, the Branch exceeded the minimum regulatory requirements and internal target.

## 10. Income Taxes

The Branch's provision for income taxes for the periods ended December 31 is as follows:

	2025	2024
Current income tax:		
Current year expense	-	1
Deferred income tax:		
Origination (reversal) of temporary differences	-	-
Change in tax rates or bases	-	-
	-	1
Provision for income taxes	-	1

A reconciliation of the Branch's income tax calculated at the statutory tax rate to the income tax provision at the effective tax rate in the financial statements for the year ended December 31 is summarized in the following table:

	2025	2024
Provision for income taxes at the statutory income tax rate	(62)	(41)
Non-taxable investment income	(23)	(40)
(Recognition) derecognition of deferred tax asset	85	81
Provision for income taxes	-	-
Statutory tax rate	26.5%	26.5%
Effective tax rate	0%	0%

The following changes have occurred in net income tax receivable (payable) during the year ended December 31:

	2025	2024
Balance – January 1	(1)	-
Amounts recorded in the statement of income	-	(1)
Amounts recorded in the head office account	-	-
Payments made (refunds received) during the year	-	-
Other	1	-
Balance – December 31	0	(1)

Deferred income tax assets (liabilities) of the Branch are comprised as follows:

	2025	2024
Balance – January 1	0	-
Unpaid claims reserves	14	20
Commissions	-	-
Non-capital loss carryforward	293	207
Other	-	-
Deferred taxes before valuation allowance	307	227
Valuation allowance	(307)	(227)
Balance December 31	-	-

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization.

## **11. Contingencies and Commitments**

In common with the insurance industry in general, the Branch is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the liability for incurred claims.

## **12. Financial Risk Management**

### **Overview**

The primary goals of the Branch's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Branch's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Branch's statement of financial position from events that have the potential to materially impair its financial strength. The Branch's exposure to potential loss from its insurance operations and investment activities primarily relates to underwriting risk, credit risk, liquidity risk and various market risks. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to a related third party. There were no significant changes in the types of the Branch's risk exposures and processes for managing those risks during 2025 compared to those identified in 2024.

### **Underwriting risk**

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors, including pricing risk and reserving risk. There were no significant changes to the Branch's exposure to underwriting risk or the framework used to monitor, evaluate and manage underwriting risk at December 31, 2025 compared to December 31, 2024.

Pricing risk arises because actual claims experience can differ adversely from the assumptions included in pricing calculations. Historically the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclical nature of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and competition on rates and terms of coverage. The Branch focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools.

Reserving risk arises because actual claims experience can differ adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrence of a loss, the reporting of the loss and the ultimate resolution of the claim. As a result of the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment for the loss, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. To the extent reserves prove to be insufficient to cover actual losses and adjustment expenses after taking into account available reinsurance coverage, the Branch would recognize such reserve shortfalls and incur a charge to earnings, which could potentially be material in the period such recognition takes place.

Variables in the reserve estimation process can be affected by both internal and external factors, such as trends relating to jury awards, economic inflation, medical inflation, worldwide economic conditions, tort reforms, court interpretations of coverage, the regulatory environment, underlying policy pricing, claims handling procedures, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of losses relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment for the loss, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. The Branch's liability for incurred claims is reviewed by, and must be acceptable to, internal actuaries.

To manage its exposure to underwriting risk, and the pricing and reserving risks contained therein, the Branch has established limits for underwriting authority and the requirement for specific approvals for transactions involving new products or for transactions involving existing products which exceed certain limits of size or complexity.

The following summarizes the Branch's principal lines of business and the significant insurance risks inherent therein:

- Property, which insures against losses to property from (among other things) fire, explosion, natural perils (for example earthquake, windstorm and flood) and engineering problems (for example construction defects).
- Casualty, which insures against losses to third parties, including employers' liability, automobile, products liability, premises and operations liability, and umbrella coverage.

- Other, which insures against other miscellaneous risks and liabilities that are not identified above (for example, aircraft, boiler and machinery, fidelity, hail, surety, accident and health and marine).

### Credit risk

Credit risk is the risk of loss resulting from the failure of counterparty to honor its financial obligations to the Branch. Credit risk arises predominantly with respect to reinsurance contract held assets and cash and cash equivalents. There were no significant changes to the Branch's exposure to credit risk or the framework used to monitor, evaluate and manage credit risk at December 31, 2025 compared to December 31, 2024. The aggregate gross credit risk exposure at December 31, 2025 was \$14,105 (December 31, 2024: \$13,666) and was comprised as follows:

	2025	2024
Reinsurance Contract Held Assets	3,134	3,689
Cash and cash equivalents	10,971	9,977
<b>Total gross credit risk exposure</b>	<b>14,105</b>	<b>13,666</b>

### Reinsurance contracts

Credit exposure on the Branch's reinsurance contracts existed at December 31, 2025 to the extent that any reinsurer may not be able or willing to reimburse the Branch under the terms of the relevant reinsurance arrangements. The Branch has policies which limit its exposure to individual reinsurers and a process to regularly assess the creditworthiness of reinsurers with whom it transacts business. The Branch places certain business with unregistered reinsurers. Where contractually provided for, the Branch holds collateral in excess of its credit exposure with respect to all of its material reinsurers.

### Liquidity risk

Liquidity risk is the potential for loss if the Branch is unable to meet financial commitments in a timely manner at reasonable costs as they fall due. It is the Branch's policy to ensure that sufficient liquid assets are available to meet financial commitments.

The liquidity requirements of the Branch principally relate to the liabilities associated with underwriting, operating costs and expenses, and income taxes. Liabilities associated with underwriting include the payment of claims. The principal cash inflows from operating activities are derived from premiums, commissions, and investment income. The Branch holds all of its investments in cash and cash equivalents which are highly liquid.

The following table provides a maturity profile of the Branch's financial liabilities based on the expected undiscounted cash flows from the end of the year to the contractual maturity date or the settlement date:

December 31, 2025	Less than	1 - 3 years	3 - 5 years	More	Total
	1 Year			than 5 years	
Payables	4,053	1,516	-	-	5,569
Expenses due and accrued	94	-	-	-	94
	<b>4,147</b>	<b>1,516</b>	<b>-</b>	<b>-</b>	<b>5,663</b>

  

December 31, 2024	Less than	1 - 3 years	3 - 5 years	More	Total
	1 Year			than 5 years	
Payables	638	-	-	-	638
Expenses due and accrued	159	-	-	-	159
	<b>797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>797</b>

The following table sets out the maturity profile of the branch's insurance contract liabilities based on the expected undiscounted future cash flows, excluding the risk adjustment:

Maturity profile of insurance contract liabilities (1)							
	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
December 31, 2025	2,346	1,616	862	351	104	90	5,369
December 31, 2024	2,254	1,768	823	244	58	25	5,172

(1) Excludes the liability for remaining coverage

The timing of loss payments is not fixed and represents the Branch's best estimate.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. The branch is exposed to market risk principally in its investing activities but as the Branch currently holds its investments all in the form of cash, there is limited market risk. The following is a discussion of the Branch's primary market risk exposures and how those exposures are currently managed.

### Interest rate risk

The liability for incurred claims is affected by the discount rate used. The rate used is an estimate and may differ from the actual return on investment portfolio assets. The sensitivity of actuarial liabilities to changes in discount rates is dependent on the duration of the liability. A reduction in the discount rate would normally produce a higher insurance liability and an equal and opposite impact on earnings before taxes. The tables that follow show the sensitivity of the provision to a 100 basis point shift in interest rates.

	2025		2024	
	Liability for incurred claims on insurance contracts issued	Asset for incurred claims on reinsurance contract assets held	Liability for incurred claims on insurance contracts issued	Asset for incurred claims on reinsurance contract assets held
<b>As at December 31</b>				
100 basis point increase	(80)	(64)	(72)	(56)
100 basis point decrease	83	67	74	58

### Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and could produce an adverse effect on income and capital when measured in a Branch's functional currency.

A portion of the Branch's premiums are written in U.S. dollars and a portion of the Branch's loss reserves are denominated in U.S. dollars. The Branch's net exposure to foreign currency risk at December 31, 2025 was \$1,491 (2024: \$1,174). If the value of the U.S. dollar was to decrease or increase by 1% then the value of the foreign currency exposure would increase or decrease by \$15 accordingly (2024: \$12).

### Regulatory risk

The Branch monitors its compliance with all relevant regulations and actively participates in discussions with regulators, governments and industry groups to ensure that it is well-informed of contemplated changes and that its concerns are understood. The Branch considers the implications of potential changes to its regulatory and political environment in its strategic planning process to understand the impacts and adjusts its plans if necessary.

### 13. Related Party Transactions

During the periods ended December 31, 2025 and 2024, the following related party transactions occurred with companies under common control or common significant influence in the normal course of business:

- a) Management fees of \$100 (2024: \$100) were charged by Odyssey Reinsurance Company (Canada Branch).
- b) In the ordinary course of business, the Branch ceded premiums of \$2,048 (2024: \$1,664) to Odyssey Reinsurance (Canada Branch). Ceded incurred losses are \$594 (2024: \$5) and the provision for unpaid claims is \$2,544 (2024: \$2,375).

### 14. General Expenses

Insurance service and other expenses for the periods ended December 31 are comprised of the following:

	<u>2025</u>	<u>2024</u>
Claims	1,770	2,919
Brokerage and commissions	940	1,076
Salaries and benefit expenses	-	-
Losses on onerous contracts	-	-
Audit, legal and tax professional fees	153	152
Depreciation, amortization, and impairment charges	-	-
Operating lease cost	-	-
Other	445	355
<b>Operating expenses</b>	<u>3,308</u>	<u>4,502</u>
Amounts attributable to insurance acquisition cash flows incurred in the year	(1,538)	(1,583)
Amortization of insurance acquisition cash flow	747	1,042
	<u>2,517</u>	<u>3,961</u>
<b>Represented by:</b>		
Insurance service expenses	2,517	3,961
Other operating expenses	-	-
<b>Total</b>	<u><u>2,517</u></u>	<u><u>3,961</u></u>