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## Independent Auditor's Report

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To the Chief Agent and Board of Directors of Protective Insurance Company, Canadian Branch

### Opinion

We have audited the financial statements of Protective Insurance Company, Canadian Branch (the "Branch"), which comprise the statement of financial position as at December 31, 2025, and the statements of profit or loss, comprehensive income (loss) and accumulated other comprehensive income (loss), head office account, reserves and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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

### 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 are independent of the Branch in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Unaudited Information

We have not audited the schedules or exhibits referenced on pages 20.10 through 20.60. Accordingly, this auditor's report and our opinion do not cover the schedules and exhibits on the other pages of the Branch's P&C Quarterly Return.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.



### 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.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Oakville, Ontario  
May 28, 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>						
	3	Cash and Cash Equivalents 01	2,759		1,407			
		Accrued Investment Income 11	78	78	78	78		
		Current Tax Assets 52			117			
		Assets Held for Sale 50						
		Asset for Insurance Acquisition Cash Flows 18						
40.08Q	3	Investments 14	22,800	22,800	22,304	22,304		
40.84Q		Equity Accounted Investees 15						
		Financial Instrument Derivative Assets 16						
20.12/20.14		Insurance Contract Assets 62	0		0			
20.16/20.18		Reinsurance Contract Held Assets 64	0		0			
		Investment Properties 17						
40.70A		Property and Equipment 41						
		Intangible Assets 56						
		Goodwill 54						
		Defined Benefit Pension Plan 58						
		Segregated Funds Net Assets 60						
	6	Deferred Tax Assets 44	58		83			
		Other Assets 88	195		113			
		<b>TOTAL ASSETS 89</b>	<b>25,890</b>	<b>22,878</b>	<b>24,102</b>	<b>22,382</b>	<b>0</b>	<b>0</b>

\* 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		Current Period	Prior Period	Opening Prior Period Restated
		(55)	(01)	(03)	(05)
		<b>LIABILITIES:</b>			
		Provisions, Accruals and Other Liabilities	030	0	0
		Liabilities held for sale	040		
	6	Current Tax Liabilities	050	111	
		Encumbrances on Real Estate & Mortgage Loans	060		
		Financial Instrument Derivative Liabilities	070		
		Insurance Contract Liabilities			
20.12/20.14	4	Insurance Contract Liabilities – Excluding Segregated Funds	150	5,886	7,308
20.12/20.14		Insurance Contract Liabilities – Segregated Fund Guarantees	155		
20.12/20.14		Insurance Contract Liabilities – Segregated Funds Net Liabilities	160		
		Total Insurance Contract Liabilities	169	5,886	7,308
		Reinsurance Contract Held Liabilities			
20.16/20.18		Reinsurance Contract Held Liabilities – Excluding Segregated Funds	170	0	0
20.16/20.18		Reinsurance Contract Held Liabilities - Segregated Fund Guarantees	175		
20.16/20.18		Reinsurance Contract Held Liabilities – Segregated Funds Net Liabilities	180		
		Total Reinsurance Contract Held Liabilities	189	0	0
		Trust and Banking Deposits	080		
		Other Debt	090		
		Defined Benefit Pension Plan	110		
		Employment Benefits (not including amounts in line above)	120		
		Subordinated Debt	130		
		Preferred shares – Debt	140		
		Deferred Tax Liabilities	100		
		Investment Contract Liabilities			
		Investment Contract Liabilities – Excluding Segregated Funds Net Liabilities	190		
		Investment Contract Liabilities – Segregated Funds Net Liabilities	195		
		Total Investment Contract Liabilities	199	0	0
		<b>Liabilities before Policyholders' Liabilities</b>	299	5,997	7,308
		<b>Policyholders' Liabilities</b>			
20.41		Residual Interest (Non-Stock)	310		
		Participating Account	320		
		Non-Participating Account (Non-Stock)	330		
		Total Policyholders' Liabilities	359	0	0
		<b>TOTAL LIABILITIES</b>	399	5,997	7,308
		<b>EQUITY</b>			
		<b>CANADIAN INSURERS ONLY:</b>			
		<b>Policyholders' Equity</b>			
20.41		Residual Interest (Non-Stock)	410		
		Participating Account	420		
		Participating Account - Accumulated OCI (Loss)	430		
		Non-Participating Account	440		
		Non-Participating Account - Accumulated OCI (Loss)	450		
		Total Policyholders' Equity	499		
		<b>Shareholders' Equity</b>			
		Common Shares	510		
		Preferred Shares	520		
		Contributed Surplus	530		
		Other Capital	540		
		Retained Earnings	550		
20.45		Nuclear and Other Reserves	560		
		Accumulated Other Comprehensive Income (Loss)	570		
		Total Shareholders' Equity	599		
		<b>Non-controlling Interests</b>	620		
		Total Equity	699		
		<b>TOTAL LIABILITIES AND EQUITY</b>	799	5,997	7,308
		<b>FOREIGN INSURERS ONLY:</b>			
		<b>Head Office Account, Reserves &amp; AOCI</b>			
		Head Office Account	810	19,893	16,794
		Reserves	820	0	0
			830		
		Accumulated Other Comprehensive Income (Loss)	840	0	0
		Total Head Office Account, Reserves & AOCI	899	19,893	16,794
		<b>TOTAL LIABILITIES, EQUITY, HEAD OFFICE ACCOUNT, RESERVES &amp; AOCI</b>	999	25,890	24,102

**CONSOLIDATED FINANCIAL STATEMENTS**  
**STATEMENT OF PROFIT OR LOSS**  
**(\$'000)**

Reference Page	FS Notes Reference		Current Period (01)	Prior Period (03)	
	4	Revenue from PAA Contracts	010	4,342	7,195
		Revenue from GMM Contracts (excluding VFA contracts)	020		
		Revenue from VFA Contracts	030		
		<b>Total Insurance Revenue</b>	099	4,342	7,195
60.25Q	7	<b>Insurance service expenses</b>	110	2,333	6,189
		<b>Net expenses from reinsurance contracts held</b>	120		
		<b>INSURANCE SERVICE RESULT</b>	199	2,009	1,006
40.72Q	5	Interest revenue on financial assets	220	261	286
40.74Q	5	Net investment income excluding segregated funds	230	444	689
		Net investment income - segregated funds	240		
40.88Q		Provision for Credit Losses	250	0	0
40.72 / 40.74		<b>Investment Return</b>	300	705	975
	4	<b>Net finance income (expenses) from insurance contracts excluding segregated funds</b>	310	(267)	(410)
		<b>Net finance income (expenses) from segregated funds</b>	315		
		<b>Net finance income (expenses) from reinsurance contracts held</b>	320		
		<b>Movement in investment contract liabilities</b>	330		
		<b>NET INVESTMENT RESULT</b>	399	438	565
80.35Q		Other Income	410	0	0
		Share of Net Income (Loss) of Equity Accounted Investees	415		
80.25Q	7	General and Operating Expenses	420	591	756
		<b>OTHER INCOME AND EXPENSES</b>	430	(591)	(756)
		<b>PROFIT (LOSS) BEFORE TAXES</b>	440	1,856	815
		Current Taxes	450	414	(842)
		Deferred Taxes	460	25	(37)
		<b>Total Income Taxes</b>	499	439	(879)
		<b>PROFIT (LOSS) AFTER TAXES</b>	510	1,417	1,694
		Discontinued Operations (net of Income Taxes of \$ _____)	520		
		<b>NET INCOME (LOSS) FOR THE YEAR</b>	999	1,417	1,694
		<b>ATTRIBUTABLE TO:</b>			
		Participating Policyholders/Certificateholders	610		
		Other Fund Account	620		
		Residual Interest Policyholders	630		
		Non-controlling Interests	640		
		Equity Holders	650		

(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	1,417	1,694
		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		
		- Bonds and Debentures 03		
		Reclassification of (Gains) Losses to Net Income (Loss) 05		
		<b>Derivatives Designated as Cash Flow Hedges</b>		
		Change in Unrealized Gains and Losses 06		
		Reclassification of (Gains) Losses to Net Income (Loss) 07		
		<b>Foreign Currency Translation</b>		
		Change in Unrealized Gains and Losses 08		
		Reclassification of (Gains) Losses to Net Income (Loss) 13		
		Impact of Hedging 09		
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees (may be reclassified)</b> 14		
		<b>Insurance Finance Income (Expenses) Reserve from Insurance Contracts</b> 23		
		<b>Insurance Finance Income (Expenses) Reserve from Reinsurance Contract Held</b> 24		
		<b>Other</b> 18		
		<b>Subtotal of items that may be reclassified subsequently to Net Income (Loss)</b> 19	0	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		
		<b>Revaluation Surplus</b> 31		
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees</b> 11		
	<b>Remeasurements of Defined Benefit Pension Plans</b> 34			
	<b>Other</b> 12			
	<b>Subtotal of items that will not be reclassified subsequently to Net Income (Loss)</b> 29	0	0	
	<b>Total Other Comprehensive Income (Loss)</b> 21	0	0	
	<b>Total Comprehensive Income (Loss)</b> 39	1,417	1,694	
	<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		
		<b>Derivatives Designated as Cash Flow Hedges</b> 45		
		<b>Foreign Currency Translation (net of hedging activities)</b> 46		
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees (may be reclassified)</b> 52		
		<b>Insurance Finance Income (Expenses) Reserve from Insurance Contracts</b> 63		
		<b>Insurance Finance Income (Expenses) Reserve from Reinsurance Contracts Held</b> 64		
		<b>Other</b> 68		
		<b>Subtotal of items that may be reclassified subsequently to Net Income (Loss)</b> 69	0	0
		<b>Items that will not be reclassified subsequently to Net Income (Loss):</b>		
		<b>Fair Value through Other Comprehensive Income (FVOCI)</b> 70		
		<b>Revaluation Surplus</b> 71		
		<b>Share of Other Comprehensive Income (Loss) of Equity Accounted Investees</b> 51		
		<b>Remeasurements of Defined Benefit Pension Plans</b> 74		
		<b>Other</b> 49		
		<b>Subtotal of items that will not be reclassified subsequently to Net Income (Loss)</b> 79	0	0
		<b>Balance at end of Period</b> 59	0	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>	16,794	15,835
		Adjustments:		
		Net Income (loss) for the year	1,417	1,694
		Transfers from (to) Head Office		
		Advances (Returns)	1,348	
		Expenses		
		Insurance Related Cash Flows	225	
		Other	109	(735)
		Subtotal	1,682	(735)
		Decrease (increase) in Reserves		
		Net increase (decrease) in Head Office Account	3,099	959
	<b>Balance at end of period</b>	19,893	16,794	

*CONSOLIDATED FINANCIAL STATEMENTS***RESERVES**  
**(\$'000)**

Reference Page	FS Notes Reference		Current Period	Prior Period
			(01)	(02)
		Earthquake Reserves		
		Reserve Component	90	
		Premium Reserve	91	
		Mortgage Reserve	95	
		Nuclear Reserve	96	
		General Contingency Reserves	98	
		<b>Total Reserves</b>	99	0

*CONSOLIDATED FINANCIAL STATEMENTS*  
**STATEMENT OF CASH FLOWS \***  
**(\$'000)**

	Current Year	Prior Year
<b>Cash flows from (used in) operating activities:</b>		
Net Income (loss) for the year	1417	1,694
Adjustments for:		
Increase (decrease) in Insurance Contract Assets/Liabilities	(1,422)	113
Decrease (increase) in Investment Income due and accrued	-	(1)
Decrease (increase) in Fair value adjustment to Investments	(496)	(740)
Decrease (increase) in Working capital balances	146	182
Increase (decrease) in Other adjustments for non-cash items	25	(37)
<b>Cash flows from (used in ) operating activities</b>	<b>(330)</b>	<b>1,211</b>
<b>Cash flows from (used in) investing activities:</b>		
Bonds and Debentures		
-(purchases)		
-proceeds on maturity/sales		
Amortization on Investments		
Amortization of premium on Investments		
Amortization of discount on Investments		
<b>Cash flows from (used in) investing activities</b>	<b>-</b>	<b>0</b>
<b>Cash flows from (used in) financing activities:</b>		
Transfers from (to) Head Office	1,682	(735)
<b>Cash flows from (used in) financing activities</b>	<b>1,682</b>	<b>(735)</b>
Increase (decrease) in cash and cash equivalents	1,352	476
Cash and cash equivalents at beginning of year	1,407	931
Cash and cash equivalents at end of year	2,759	1,407
Cash and cash equivalents at end of year consist of:		
Cash	2,759	1,407
Cash equivalents		
(Overdrafts)		

# Protective Insurance Company, Canadian Branch

Notes to Financial Statements

December 31, 2025

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(in thousands of Canadian dollars)

## 1. The Canadian Branch – Nature of Operations

The Canadian Branch (the "Branch") of Protective Insurance Company (the "Company") is registered under the Insurance Companies Act (the "Act"). The Company is a wholly-owned subsidiary of Protective Insurance Corporation ("PICorp"). The Branch is licensed in Canada for property, accident and sickness, automobile, and liability lines of business. The Company is incorporated under the laws of Indiana, U.S.A. and its head office is located in Carmel, Indiana, U.S.A. The Branch's Canadian office is at 330 Eagle Street, Newmarket, Ontario, Canada L3Y 1K1.

The Branch is not a separate legal entity, and these financial statements do not contain all of the assets, liabilities, revenues and expenses of the Company.

On June 1, 2021, The Progressive Corporation ("TPC"), the Parent Company, through an indirect subsidiary, acquired all of the Class A and Class B common shares of PICorp. PICorp is now a member of the Progressive Insurance Group (the "Group") and is a wholly-owned subsidiary of Progressive Commercial Holdings, Inc. ("PCH"), a holding company incorporated in Delaware. PCH is a wholly-owned subsidiary of TPC, a publicly traded holding company incorporated in Ohio.

The Branch reports information about operating segments that meet a quantitative threshold or where disclosure results in useful information. There was one reportable segment as at 31 December 2025 and 2024, and the respective product and service offerings are as follows:

National Commercial Auto – Offers standard automobile coverage, including Accident Benefits, Third Party Liability, and Physical Damages coverage, to independent contractors who deliver for various FedEx companies. The Branch participates in Facility Association (FA) where all policies are issued by the servicing carriers of the Facility Association Residual Market on behalf of FA's members. Coverages are for private passenger vehicles and non-private passenger vehicles. All auto contracts do in theory contain sufficiently similar risks to be permitted to be within the same portfolio.

### Policy Non-Renewal

On December 1, 2025, the Branch implemented a decision to not renew all active policies. This decision is part of a strategic realignment of the Company's operations. The branch will focus on managing existing claims and fulfilling all obligations to policyholders. Management has assessed that adequate reserves are in place to meet these obligations, and no material uncertainties are anticipated during the runoff period.

The Branch's financial statements for the year ended December 31, 2025, were approved and authorized for issue by the Chief Agent on May 28, 2026.

## 2. Summary of material accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historic cost basis except for those financial assets and liabilities that have been measured at fair value, and insurance contract liabilities which are presented on a discounted basis.

# Protective Insurance Company, Canadian Branch

Notes to Financial Statements

December 31, 2025

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(in thousands of Canadian dollars)

The financial statements have been prepared in Canadian dollars (\$) rounded to the nearest thousand (\$000), unless otherwise indicated.

## 2.1 New Standards, Amendments and Interpretations not yet Effective

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

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” (“IFRS 7”)) were issued in May 2024. The amendments clarify the classification of certain financial assets as well as the derecognition of a financial liability and introduce an accounting policy option for the derecognition of financial liabilities settled through electronic transfer if certain conditions are met. The amendments also add disclosure requirements for certain financial instruments.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted, and will apply retrospectively.

The Branch is assessing the impact of these amendments on the Branch’s financial statements.

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

In April 2024, the IASB issued IFRS 18 – Presentation and Disclosure in Financial Statements (“IFRS 18”) to improve reporting of financial performance. IFRS 18 replaces IAS 1, however, it carries forward many requirements from IAS 1 unchanged. IFRS 18 will be effective for annual reporting periods beginning on or after January 1, 2027, with retrospective application with earlier application permitted. IFRS 18 introduces three sets of new requirements for presentation of financial statements and disclosures within financial statements:

- Introduction of five defined categories of income and expenses: operating, investing, financing, income taxes and discontinued operations, with defined subtotals and totals.
- Disclosure within a note to financial statements of Management-Defined Performance Measures (MPM) with a reconciliation between MPMs and IFRS performance measures.
- Enhanced guidance and additional requirements for aggregation and disaggregation of information.

The Branch is currently assessing the impact of this new standard on the presentation and disclosure of its financial statements.

## 2.2 Summary of material accounting policies in effect

The material accounting policies used in the preparation of these financial statements are summarized below.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and highly liquid investments with an original maturity of 90 days or less.

### Financial instrument contracts – recognition and measurement

Financial assets held by the Branch include government debt securities and receivables.

Financial assets classified or designated as government debt securities are valued at fair value with any changes flowing through profit or loss because the Branch manages the debt securities and evaluates their performance on

# Protective Insurance Company, Canadian Branch

Notes to Financial Statements

December 31, 2025

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(in thousands of Canadian dollars)

a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The debt securities are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in comprehensive income.

The Branch considers its investments in Government debt securities to be financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

The Branch has classified all of its financial liabilities at amortized cost.

Financial liabilities classified at amortized cost are initially recorded at cost on the statement of financial position from the issuance date and are subsequently recorded at amortized cost using the effective interest rate method.

Information about the credit risk exposure for the Branch's SPPI investments in Government debt securities is disclosed in Note 10.

## **Insurance contracts - Scope, Level of Aggregation and Onerosity under IFRS 17**

Insurance contracts are those contracts where the Branch (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk by comparing expected benefits payable if the insured event occurs, with expected benefits payable if the insured event does not occur. Insurance contracts can also transfer financial risk.

The IFRS 17 standard requires the Branch to assess the following for its insurance contracts:

- Whether they fall under the scope of IFRS 17;
- Grouping them into portfolios by considering the criteria that each portfolio must contain contracts of similar risks and that are managed together;
- Identifying onerous groups of contracts, if any.

The Branch applies IFRS 17 to the following contracts:

- The FedEx Auto contracts fall within the scope of IFRS 17 as they all contain significant insurance risks.
- The Facility Association contracts fall within the scope of IFRS 17 as they all contain significant insurance risks.

## **Insurance contracts – IFRS 17 Measurement model**

The IFRS 17 standard requires each insurer to select a measurement approach, for each of their portfolios (group of contracts), based on certain criteria, there are three approaches for measuring the insurance liabilities:

- General measurement model ("GMM"): this is the default model for all insurance contracts;
- Premium allocation approach ("PAA"): a simplified optional measurement for short term contracts that can be adopted if the contract or group of contracts has a coverage period of 1 year or less or meets other qualifying criteria;
- Variable fee approach ("VFA"): Model for insurance contracts with direct participation features. This approach is not applicable to the Branch as it sells P&C insurance policies with no participating features.

The Branch's management concludes that since all its contracts have a duration of 1 year or less, they are PAA eligible.

# Protective Insurance Company, Canadian Branch

Notes to Financial Statements

December 31, 2025

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(in thousands of Canadian dollars)

The PAA simplifies the estimation method for arriving at Liability for Remaining Coverage (LRC) by taking the premiums received and deducting directly attributable acquisition costs and earning out the premiums written on a time basis (or any pattern which is more commensurate to the risk). Under PAA, there are the following key components:

- **Premium Received:** LRC measurement is determined using premiums received instead of receivable. For all policies following the PAA method, the premiums received will be sourced on a portfolio basis, as currently there are no further groups. Where insurance revenue recognised during the year has not yet been received at year end, the unpaid premiums are deducted from the LRC.
- **Acquisition Costs:** For contracts one year or less, directly attributable acquisition costs can optionally be expensed as incurred or allocated to groups of contracts and deferred as part of the LRC measurement and amortized over the coverage period.
- **Insurance revenue:** The revenue recognition pattern is based on the timing of service provided; either the passage of time or the timing of expected incurred losses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time. For each group of contracts, the revenue will be earned out based on passage of time. The insurance coverages offered by the Branch do not have a specific risk profile during which the revenue should be earned. The passage of time, being straight line till the end of the coverage period is therefore deemed the appropriate measure.
- **Financing component:** There are no significant financing components that need to be included within the LRC calculation for the Branch.
- **Investment component:** The allocation of revenue excludes any investment component, defined as the amount the insurer would have to return to the policyholder if the insured event did not occur. There is no investment component in the policies issued by the Branch.
- **Onerous contracts:** Where a group of insurance contracts is onerous, measurement of the liability of onerous contracts is measured by projecting estimated future cashflows of premiums and claims to be incurred, discounting and adding a risk adjustment.

## Insurance contracts – Liability for Incurred Claims and Insurance Expenses

The liability for incurred claims includes insurance expenses and represents the estimated amount required to settle all reported claims incurred to the year end. In addition, provision is made for claims incurred but not reported based on the type of business written. These estimates are reviewed and updated periodically, with any resulting adjustments included in incurred claims and related insurance service expenses recognized in insurance service expense and any changes in discounting are recognized in insurance finance income and expenses in the statement of profit or loss. The expected future fulfillment cash flows are determined applying methods of actuarial standards of practice of the Canadian Institute of Actuaries (CIA), involving paid claims, reported claims, the Bornhuetter-Ferguson method and the expected loss method, based on initial expected accident year loss ratios and earned premiums.

The process of determining the provision for contract liabilities necessarily involves risks that the actual results may deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates the Branch has selected the Cost of Capital approach which is directly linked to the notion of compensation for bearing the risk.

## Insurance contracts – Cash Flows and Expenses under IFRS 17

Expenses need to be assessed whether they fall under directly attributable costs. Below is a summary:

- Commissions, Sales costs and Premium taxes are included as insurance acquisition expenses;
- The Branch has chosen to expense directly attributable acquisition cash flows given all contracts are PAA eligible and less than 12 months coverage period;

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- General administration costs, third-party claim service fee and maintenance expenses are captured as part of the claim costs, however, any other general insurance policy admin costs and policy maintenance costs, that are not part of the claims handling costs are not included in costs of claims, are included in insurance service expenses as insurance related expenses;
- Other costs such as professional fees and information technology costs are overheads and not considered as directly attributable.

## Insurance contracts – Determination of Discount Rate

The computation of unpaid claims takes into account the time value of money using the bottom-up approach applying rates determined by Fiera Capital Corporation (FIERA) to calculate the liquid and illiquid curves. More specifically, the illiquid curves will be applied to the discounting to Liability for Incurred Claims (LIC) and the illiquid curve will be applied to Liability for Remaining Coverage (LRC) where needed (if a group of contracts ever becomes onerous).

The discount rate can be somewhat different to the actual investment return on assets in any given year. The finance expenses to be captured in Insurance Finance Income and Expenses in the Statement of Profit or Loss (P&L) are those arising from the unwinding of the discount from opening LIC to the end of period as well as those stemming from the update of the discount curve at the end of the period.

## Insurance contracts – Risk Adjustments under IFRS 17

To recognize the uncertainty in establishing these best estimates the Branch has selected the Cost of Capital approach which is directly linked to the notion of compensation for bearing the risk and for the purpose of calculating its required Risk Adjustments (RA).

## Foreign currency translation

Foreign currency transactions are translated at the rate in effect on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at the year-end rate of exchange. Any resulting gains and losses are included in net income.

## Income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities, using the tax rates and laws that have been enacted or substantively enacted as at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forwards of unused tax credits, and carry forwards of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forwards of unused tax credits, or carry forwards of unused tax losses can be utilized. The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be realized.

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets or liabilities are measured at the tax rates that are expected to apply to the year when the asset or liability is settled, using tax rates and laws that have been enacted or substantively enacted as at the reporting date.

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Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Branch's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the liability affected in future periods.

The key judgements, estimates and assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of liabilities within the next financial year are discussed below.

### Valuation of insurance contract liabilities

For insurance contract liabilities, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant amount of time before the ultimate claims cost can be established with certainty and for some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of unpaid claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. These techniques extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Large claims are usually separately addressed either by being reserved at the value of loss adjuster estimates or are separately projected in order to estimate their future development. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future in order to arrive at the estimated ultimate cost of claims.

### Level of Aggregation

In management's view, all of the Branch's insurance contracts have a similar risk profile and are managed together. Therefore, a single product line National Commercial Auto is the appropriate level for aggregating insurance contracts issued into portfolios.

Regarding potential onerous contracts, after applying the necessary analysis in accordance with IFRS 17, management does not expect any of its group of contracts to be onerous at initial recognition. Currently, all contracts have been identified as others (possibly onerous).

## 3. Financial assets and liabilities

### Categories of financial assets and liabilities

Investments consist of a government bond that earns interest at 1% (2024 - 1%) that matures in September 2026 (2024 – September 2026).

The Branch's financial assets are summarized by categories as follows as at December 31:

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	2025	2024
	\$	\$
Cash and cash equivalents	<u>2,759</u>	<u>1,407</u>
Government debt securities at fair value	22,800	22,304
Total assets at fair value through profit and loss	<u>22,800</u>	<u>22,304</u>
Investment income due and accrued	78	78
Other assets	195	113
Total financial assets at amortized cost	<u>273</u>	<u>191</u>
Total financial assets	<u>25,832</u>	<u>23,902</u>

## Financial assets and liabilities carried at fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are categorized into three levels of a fair value hierarchy. This categorization is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices that are observable for the asset or liability
- Level 3 – inputs for the asset or liability that are not based on observable data.

All of the Branch's government debt securities have been classified as level 2 for fair value measurement purposes. During 2025 and 2024, the Branch has not reclassified any of its financial assets between fair value measurement categories.

## Financial assets and liabilities not carried at fair value

The Branch's financial assets not carried at fair value, including cash and cash equivalents, investment income due and accrued, and other assets have a short term to maturity (less than six months). The carrying amounts approximate their fair value due to the short term to maturity.

The Branch's financial liabilities not carried at fair value, including payables and accruals have a short term to maturity (less than six months). The Branch assumes that the carrying amounts approximate their fair value due to the short term to maturity.

## 4. Insurance contract liabilities

The establishment of insurance contract liabilities is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Branch's experience with similar cases; and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters, accidents, or work-related injuries.

The fulfilment cash flows are the current estimates of future cash flows within the contract boundary for a group of contracts that the Branch expects to collect from premiums and pay out for claims, benefits and expenses, adjusted

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to reflect the timing and uncertainty of those amounts. Expenses considered to be included within the contract boundary for the Branch are payments to the policyholder and claim handling costs. The Branch's claim adjudication and related expense are outsourced to a third party service provider. The service provider charges fees on a per claim opened and handled basis, so all claims related expenses are allocated at the claim level and included in the claims costs.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Branch's claims departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the liability determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the insurance contract liabilities relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the liability necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made. As discussed in Note 2.2 the methods used follow the standards of practice established by the CIA.

The carrying value of insurance contract liabilities at the reporting date is \$5,886 (2024 - \$7,308).

## Categories of insurance contract liabilities

The Branch's insurance contract liabilities and assets are summarized by categories as follows as at December 31:

	2025	2024
	\$	\$
Liabilities for remaining coverage	(110)	(147)
Liabilities for incurred claims	5,670	7,024
Risk adjustment on liability for incurred claims	326	431
Total insurance contract liabilities	<b>5,886</b>	<b>7,308</b>

## Liability for incurred claims (LIC) and Liability for remaining coverage (LRC)

Uncertainty exists on incurred claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Branch immediately; therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the line of business, the historical pattern of payments, the amount of data available and any other pertinent factors. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

LRC is the Branch's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred. Uncertainty exists as these are claims that have yet to occur, therefore, the LRC is the difference between the premium that has been recognized and the premium that has been received at that point in time. Factoring in the amortization of insurance acquisition costs only comes into affect for the Facility Association component as the directly written insurance contracts by the Branch expensed all insurance acquisition costs at inception of the insurance contract.

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The Branch believes that its overall practices of establishing the provision for unpaid claims for incurred claims as well as claims that will be incurred during the remaining coverage of the insurance contracts have been consistently applied over many years, and that its provisions have resulted in reasonable approximations of the ultimate cost of claims that will be incurred.

The movement in LIC and LRC during the year is summarized as follows:

	2025				2024			
	LRC	LIC for contracts under the PAA		TOTAL	LRC	LIC for contracts under the PAA		TOTAL
	Excluding Loss Comp.	Present Value of Future Cash Flows	Risk Adj. for non-fin. risk		Excluding Loss Comp.	Present Value of Future Cash Flows	Risk Adj. for non-fin. risk	
Property and Casualty - Insurance contracts issued								
Opening insurance contract liabilities	(147)	7,024	431	7,308	184	6,607	404	7,195
<b>Net balance as at 1 January</b>	<b>(147)</b>	<b>7,024</b>	<b>431</b>	<b>7,308</b>	<b>184</b>	<b>6,607</b>	<b>404</b>	<b>7,195</b>
<b>Insurance Revenue</b>	<b>(4,342)</b>	-	-	<b>(4,342)</b>	<b>(7,195)</b>	-	-	<b>(7,195)</b>
Incurred claims and other directly attributable expenses	-	4	-	4	-	4,916	187	5,103
Amortization of insurance acquisition cash flows	891	-	-	891	1,471	-	-	1,471
Adjustments to liabilities for incurred claims	-	1,526	(88)	1,438	-	(200)	(185)	(385)
<b>Insurance Service Expenses</b>	<b>891</b>	<b>1,530</b>	<b>(88)</b>	<b>2,333</b>	<b>1,471</b>	<b>4,716</b>	<b>2</b>	<b>6,189</b>
<b>Insurance service result</b>	<b>(3,451)</b>	<b>1,530</b>	<b>(88)</b>	<b>(2,009)</b>	<b>(5,724)</b>	<b>4,716</b>	<b>2</b>	<b>(1,006)</b>
Net finance (income) expenses from insurance contracts issued	-	283	(16)	267	-	386	24	410
<b>Total amounts recognised in comprehensive income</b>	<b>(3,451)</b>	<b>1,813</b>	<b>(104)</b>	<b>(1,742)</b>	<b>(5,724)</b>	<b>5,102</b>	<b>26</b>	<b>(596)</b>
<b>Cash Flows</b>				-				-
Premiums received	4,414	-	-	4,414	7,144	-	-	7,144
Claims, benefits and other directly attributable expenses paid	-	(3,168)	-	(3,168)	-	(4,687)	-	(4,687)
Insurance acquisition cash flows	(926)	-	-	(926)	(1,494)	-	-	(1,494)
<b>Total Cash Flows</b>	<b>3,488</b>	<b>(3,168)</b>	<b>-</b>	<b>320</b>	<b>5,650</b>	<b>(4,687)</b>	<b>-</b>	<b>963</b>
Other changes in the net carrying amount of the insurance contract	-	1	(1)	-	(257)	2	1	(254)
<b>Net balance as at 31 December</b>	<b>(110)</b>	<b>5,670</b>	<b>326</b>	<b>5,886</b>	<b>(147)</b>	<b>7,024</b>	<b>431</b>	<b>7,308</b>
Closing insurance contract liabilities	(110)	5,670	326	5,886	(147)	7,024	431	7,308
<b>Net Balance as at 31 December</b>	<b>(110)</b>	<b>5,670</b>	<b>326</b>	<b>5,886</b>	<b>(147)</b>	<b>7,024</b>	<b>431</b>	<b>7,308</b>

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(in thousands of Canadian dollars)

## Effects of discounting

The Branch has discounted its best estimate of unpaid claims using the Fiera Curve. As of December 31, 2025, the average rate is 3.78% (2024 – 4.02%). The Branch chose to utilize the bottom-up approach to calculate its insurance contract liabilities.

The LIC is recognized as the amount of fulfilment cash flows relating to incurred claims. These fulfilment cash flows are adjusted for the time value of money and a risk adjustment for non-financial risk, using methodologies under IFRS 17. The Branch uses the Fiera Curve discount yield curves to reflect the appropriate illiquidity characteristics of the applicable insurance contracts. The LIC is considered illiquid given the Branch cannot easily exit these positions when needed.

The risk free rates are determined by reference to the yields of highly liquid AA sovereign and Corporate A securities. Discount rates applied for discounting of future cash flows are listed below:

### Discount rates

	1 year	3 years	5 years	10 years
2025	3.30%	3.81%	4.13%	4.84%
2024	3.82%	3.97%	4.20%	4.73%

In accordance with IFRS 17, the Branch includes RA calibrated from the Cost-of Capital approach.

The RA for non-financial risk is the compensation that the Branch requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The RA reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. By applying the Cost of Capital approach, the Branch has estimated the RA of 5.50% using a Cost of Capital approach at the 70th percentile. That is, the Branch has assessed that in order to be indifferent to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) they require an additional amount equal to 5.50% of the central estimate of liabilities, which is equivalent to the 70th percentile level of liability distribution less the mean of an estimated probability distribution of the future cash flows. The Branch has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

# Protective Insurance Company, Canadian Branch

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The effects of discounting and RA on LIC as at December 31 are as follows:

Provision for unpaid claims	2025			
	Undiscounted \$	Effect of discounting \$	Effect of RA \$	Discounted \$
Insurance contract liabilities	5,484	186	326	5,996

  

Provision for unpaid claims	2024			
	Undiscounted \$	Effect of discounting \$	Effect of RA \$	Discounted \$
Insurance contract liabilities	7,008	16	431	7,455

## 5. Investment income (expense)

The sources of the Branch's investment income (expense) as at December 31 were:

	2025 \$	2024 \$
Interest income on cash and short-term investments	31	55
Interest income on FVTPL investments	230	231
Unrealized fair value gains on investments	495	740
	756	1,026
Investment expenses	(51)	(51)
Net investment income	705	975

Under IFRS 17, the finance income (expenses) represents the sum of:

- the unwinding of discount from the opening LIC to the end of period;
- the impact of the discount curve update for LIC at the end of the period.

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Finance income (expenses) from insurance contracts issued as at December 31 are as follows:

	<b>2025</b>	<b>2024</b>
	<b>\$</b>	<b>\$</b>
Effect of changes in interest rates and other financial assumptions	(267)	(410)
<b>Finance income (expenses) from insurance contracts issued</b>	<b>(267)</b>	<b>(410)</b>

## 6. Income tax expense

For Canadian income tax purposes, the Branch takes the position that it is not subject to income taxes in Canada. The Company is subject to USA taxation on its operations in Canada and files a USA income tax return. The following disclosures relate to the USA income taxes on the results of operations disclosed in these financial statements.

The Branch's income tax expense (recovery) as at December 31 is comprised of:

	<b>2025</b>	<b>2024</b>
	<b>\$</b>	<b>\$</b>
Current income tax expense (recovery)	414	(842)
Deferred income tax expense (recovery)	25	(37)
<b>Total income tax expense (recovery)</b>	<b>439</b>	<b>(879)</b>

The difference between income tax expense calculated at the US statutory rate and the income tax expense recorded is attributable to investment income, foreign exchange and reserve differences.

The deferred income tax expense (recovery) is attributable to timing differences in relation to reserves, unearned premiums and investment income.

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## 7. Expense by nature

The Branch's expenses broken down by nature as at December 31 are as follows:

	2025 \$	2024 \$
Claims and adjustment expenses (a)	1,442	4,718
Professional fees (other than legal) (b)	424	505
Commissions (a)	748	1,223
Information technology (b)	3	51
Assessments (b)	157	196
Premium taxes and levies (a)	143	248
Other finance costs (b)	5	4
Other miscellaneous expenses (b)	2	-
Total	<u>2,924</u>	<u>6,945</u>
Represented by:		
Insurance service expenses (sum of a)	2,333	6,189
General and operating expenses (sum of b)	<u>591</u>	<u>756</u>
Total	<u>2,924</u>	<u>6,945</u>

## 9. Capital management

Capital is comprised of the Branch's Head Office account. The Branch's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns for shareholders of the Company over the long term. The Branch's Head Office develops the capital strategy and oversees the capital management processes of the Branch. Capital is managed using both regulatory capital measures and internal metrics.

The Branch is a Canadian property and casualty insurance Branch that is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). OSFI has established Branch Adequacy of Assets Test (BAAT) guidelines. The BAAT calculates capital requirements based on the risk profile of the assets and liabilities of the Branch. OSFI has set out expectations of a 100% BAAT as the minimum and have also set out 150% as the supervisory target for Branches.

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The capital requirements of the Branch under the BAAT are as follows:

	2025	2024
	\$	\$
Total net assets available	16,881	15,074
Margin required	<u>775</u>	<u>1,165</u>
Excess of net assets available over margin required	<u>16,106</u>	<u>13,909</u>
BAAT ratio – net assets available/margin required	<u>2,178%</u>	<u>1,294%</u>

Total net assets available is comprised of assets vested in trust, plus receivables from agents and policyholders, less all Branch liabilities. Margin required is calculated by classifying assets and liabilities into categories and applying prescribed factors to each category. During the year, the Branch was in compliance with OSFI requirements, including its internal BAAT target ratio of 420% (2024 – 420%) as at year-end.

The Company maintains an Own Risk and Solvency Assessment (“ORSA”) framework in accordance with OSFI Guideline E-19. The ORSA is an integral part of the Company’s capital management and enterprise risk management processes. The ORSA is used to assess the adequacy of the Company’s capital in relation to its risk profile, business strategy, and risk appetite over the planning horizon.

The ORSA is performed at least annually, or more frequently if there are material changes in the Company’s risk profile or operating environment. The results of the ORSA are reviewed by senior management and approved by the Board of Directors. The ORSA supports decision-making with respect to capital adequacy, risk management, and business planning, including setting internal capital targets and identifying potential management actions under stress scenarios.

## 10. Insurance and financial risk

### Insurance Risk

The Branch issues insurance contracts under the automobile lines of business. Under these insurance contracts, the Branch is exposed to certain risks defined in the insurance contracts, for durations of one to twelve months.

The principal risk the Branch faces is that the actual claims and benefit payments, or the timing thereof, differs from the expectations used to price the general insurance contracts. This is influenced by the frequency of claims, severity of claims, emergence of unknown claims, actual benefits paid and subsequent development of long-term claims. For long tail claims that take some years to settle, the Branch is also exposed to inflation risk. The objective of the Branch is to ensure that sufficient reserves are available to cover these liabilities.

Risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

Risk exposure is also mitigated through the use of various claim review strategies and guidelines to reduce the risk exposure for the Branch.

# Protective Insurance Company, Canadian Branch

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The table below sets out the concentration of insurance contract liabilities as at December 31:

	2025 \$	2024 \$
<b>National Commercial Auto</b>		
Insurance liability	5,886	7,308

Key assumptions underlying the valuation of the insurance claim liabilities were that the Branch's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors, and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future. Judgement is further used to assess the extent to which external factors such as court decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, claim settlement delays, and changes in foreign exchange rates.

For many of the key assumptions and qualitative judgements, it is not possible to quantify the sensitivity to various factors due to their nature.

A 5% increase in the insurance contract liabilities on December 31, 2025, would have resulted in a decrease to income of \$294 (2024 - \$365).

A 5% decrease in the insurance contract liabilities on December 31, 2025, would have resulted in an increase to income of \$294 (2024 - \$365).

The table below sets out the estimates of gross cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date:

Gross	2014 & Prior	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
End of accident year	14,177	2,156	2,603	4,979	2,928	2,536	2,525	3,577	4,210	5,539	4,916	2,367	
One year later	14,010	1,911	2,550	4,436	2,801	2,481	2,342	3,100	4,943	5,392	4,204		
Two years later	14,420	1,634	2,280	4,190	2,674	2,255	3,077	3,355	4,620	5,141			
Three years later	13,353	1,280	2,068	3,849	2,139	2,452	3,155	3,179	4,643				
Four years later	13,108	1,100	1,966	3,226	2,095	3,098	3,056	3,164					
Five years later	12,048	1,010	1,642	3,323	2,390	3,097	2,994						
Six years later	10,792	680	1,605	3,454	2,382	3,077							
Seven years later	10,770	676	1,594	3,948	2,371								
Eight years later	10,771	676	1,594	3,737									
Nine years later	10,672	676	1,594										
Ten years later	10,672	926											
Current Estimate	10,672	926	1,594	3,737	2,371	3,077	2,994	3,164	4,643	5,141	4,204	2,367	44,890
Cumulative payments to date	(10,672)	(676)	(1,591)	(3,737)	(2,370)	(3,049)	(2,953)	(2,941)	(3,571)	(4,069)	(2,887)	(891)	(39,407)
Undiscounted	-	250	3	-	1	28	41	223	1,072	1,072	1,317	1,476	5,483
Effect of discounting & RA													512
Current Reserve													5,995

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## Credit Risk

Credit risk is the risk of financial losses resulting from the failure of debtors to make payments when due. The Branch is exposed to credit risk principally through its investments in debt securities, and balances receivable from policyholders. The Branch has policies to limit and monitor its exposure to individual issuers and classes of issuers of debt securities which do not carry the guarantee of a national or Canadian provincial government. The Branch's credit exposure to any one individual policyholder is not material; however, the Branch's policies are distributed by brokers and agents who manage cash collection on its behalf. The Branch monitors its exposure to brokers and agents.

The following tables show the exposure to credit risk for the Branch's financial assets and insurance contract assets, shown gross of any collateral arrangements, by credit rating according to Dominion Bond Rating Service for financial assets:

	AAA \$	AA \$	A \$	Not rated \$	2025 Total \$
Government debt securities	22,800	-	-	-	22,800
Investment income due and accrued	78	-	-	-	78
Other receivables	-	-	-	195	195
Total	22,878	-	-	195	23,073

	AAA \$	AA \$	A \$	Not rated \$	2024 Total \$
Government debt securities	22,304	-	-	-	22,304
Investment income due and accrued	78	-	-	-	78
Other receivables	-	-	-	230	230
Total	22,382	-	-	230	22,612

As at December 31, 2025 and 2024, the financial assets of the Branch are neither past due nor impaired.

## Liquidity Risk

Liquidity risk is the risk that the Branch will not be able to meet its cash outflow obligations as they come due. The Branch is exposed to liquidity risk to the extent that the sale of a fixed income security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. To mitigate this risk, the Branch has policies to ensure that assets and liabilities are broadly matched in terms of their duration.

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The following table summarizes the maturity profile of the Branch's financial assets, financial liabilities, and insurance contract liabilities. For insurance contract liabilities, maturity profiles are based on estimated timing of cash outflows.

	Up to 1 year \$	1 – 3 years \$	3 – 5 years \$	5 – 10 years \$	10 – 15 years \$	2025 Total \$
<b>Assets</b>						
Cash and cash equivalents	2,759	-	-	-	-	2,759
Financial assets:						
Government debt securities	22,800	-	-	-	-	22,800
Investment income due and accrued	78	-	-	-	-	78
Other receivables	195	-	-	-	-	195
<b>Total</b>	<b>25,832</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,832</b>

<b>Liabilities</b>						
Payables and accruals	-	-	-	-	-	-
Insurance contract liabilities	2,836	1,943	546	159	-	5,484
<b>Total</b>	<b>2,836</b>	<b>1,943</b>	<b>546</b>	<b>159</b>	<b>-</b>	<b>5,484</b>

	Up to 1 year \$	1 – 3 years \$	3 – 5 years \$	5 – 10 years \$	10 – 15 years \$	2024 Total \$
<b>Assets</b>						
Cash and cash equivalents	1,407	-	-	-	-	1,407
Financial assets:						
Government debt securities	-	22,304	-	-	-	22,304
Investment income due and accrued	78	-	-	-	-	78
Other receivables	230	-	-	-	-	230
<b>Total</b>	<b>1,715</b>	<b>22,304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,019</b>

<b>Liabilities</b>						
Payables and accruals	-	-	-	-	-	-
Insurance contract liabilities	3,387	2,629	761	232	-	7,009
<b>Total</b>	<b>3,387</b>	<b>2,629</b>	<b>761</b>	<b>232</b>	<b>-</b>	<b>7,009</b>

# Protective Insurance Company, Canadian Branch

Notes to Financial Statements

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(in thousands of Canadian dollars)

## Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors, including currency risk, interest rate risk, and equity risk.

### (a) *Currency Risk*

The Branch is exposed to currency risk to the extent that non-Canadian dollar denominated amounts are paid or received when adverse changes to foreign exchange rates occur. To mitigate this risk, the Branch has policies to ensure that assets and liabilities are broadly matched in terms of their currency. An increase or decrease of 10% in foreign currency rates on December 31, 2025, or December 31, 2024, would have resulted in an immaterial impact on the Branch.

### (b) *Interest Rate Risk*

The Branch is exposed to interest rate risk to the extent that cash flows from assets are not closely matched. To mitigate this risk, the Branch has policies to ensure that assets are broadly matched in terms of their duration.

The sensitivity analysis for interest rate risk set out below illustrates the impact of a 0.5% change in interest rates on the carrying value of investments as at the reporting date.

An increase of 50 basis points in interest yields on December 31, 2025, would have resulted in a decrease in the carrying value of the Branch's investments of \$186 (2024 - \$289).

A decrease of 50 basis points in interest yields on December 31, 2025, would have resulted in an increase in the carrying value of the Branch's investments of \$188 (2024 - \$293).

### (c) *Equity Risk*

The Branch is not exposed to equity risk as it has not invested in any equity securities.

## 11. Commitments and contingencies

In the normal course of operations, various claims and legal proceedings are instituted against the Branch. Legal proceedings are often subject to numerous uncertainties, and it is not possible to predict the outcome of individual cases. In management's opinion, the Branch has made adequate provision for or has adequate insurance to cover all claims and legal proceedings. Consequently, a settlement reached should not have a material effect on the Branch's financial position.