

# **Toronto Police Widows and Orphans Fund**

**Financial Statements**

**For the Years Ended December 31, 2025 and  
2024**

## Independent Auditor's Report

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To the members of Toronto Police Widows and Orphans Fund

### **Opinion**

We have audited the financial statements of Toronto Police Widows and Orphans Fund (the "Fund"), which comprise the statements of financial position as at December 31, 2025 and 2024, statements of profit or loss and comprehensive income, statements of fund balance, and statements of cash flows, for the years 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 Fund as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **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 Fund 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.

### **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 International Financial Reporting 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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.

*RSM Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
February 26, 2026  
Toronto, Ontario

Appointed Actuary's Report

To the policyholders of Toronto Police Widows and Orphans Fund:

I have valued the policy liabilities of the Fund for its financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2025.

In my opinion, the amount of policy liabilities is appropriate for this purpose. The valuation conforms to accepted actuarial practice in Canada and the financial statements fairly present the results of the valuation.



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Clayton Zaluski  
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba  
February 26, 2026

**AFFIDAVIT VERIFYING ANNUAL RETURN**

**WE**, Charles Hamilton, of the City of Ottawa, in the Province of Ontario, and Sylvi Karr, of the City of Keswick, in the Province of Ontario, being Board Chair and President & CEO respectively of TORONTO POLICE WIDOWS AND ORPHANS FUND, (hereinafter called the "Insurer/Society")

DO SEVERALLY MAKE OATH AND SAY AS FOLLOWS:

1. That we are the above - described officers of the Insurer/Society.
2. That the attached Annual Return of the condition and affairs of the Insurer/Society, together with the related exhibits, schedules and explanations filed or to be filed as part thereof, is a full and correct statement of all of the assets and liabilities as of 31/12/2025 and the income and expenditures for the year ended on that day, as respects the business of the Insurer/Society.
3. That all the assets reported in the said Annual Return and schedules were, as of 31/12/2025, the absolute property of the Insurer/Society, free and clear from any liens and claims except as therein stated.
4. That the Insurer/Society is in compliance with all financial reporting requirements applicable under its governing insurance legislation in Canada (i.e. federal, provincial or territorial, as the case may be) and under any regulations made pursuant to it.

SWORN remotely by Charles Hamilton stated as being )  
 located in the City of Ottawa, in the Province of Ontario )  
 on February 27, 2026, in accordance with O. Reg )  
 431/20, Administering Oath or Declaration Remotely. )

Signed by:  
  
 \_\_\_\_\_  
 Charles Hamilton

SWORN remotely by Sylvi Karr stated as being located )  
 in the City of Toronto, in the Province of Ontario on )  
 February 27, 2026, in accordance with O. Reg 431/20, )  
 Administering Oath or Declaration Remotely. )

Signed by:  
  
 \_\_\_\_\_  
 Sylvi Karr

**SEVERALLY SWORN TO REMOTELY BEFORE ME** in the City of Toronto, in the Province of Ontario on this 27<sup>th</sup> day of February, 2026.

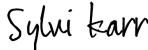


DocuSigned by:  
  
 \_\_\_\_\_  
 Commissioner for Taking Affidavits/ Notary Public  
 Roisin Hutchinson

**Toronto Police Widows and Orphans Fund**  
**Statement of Financial Positions**  
**As at December 31, 2025 and 2024**

	2025	2024
<b>Assets</b>		
Cash and cash equivalents (Note 5)	\$ 1,298,025	\$ 1,238,063
Income tax receivable (Note 19)	-	724,817
Investments (Note 11)	92,917,898	94,117,718
Accrued investment Income and prepaid expenses (Note 15)	821,102	717,064
Reinsurance assets	-	12,574
Furniture and equipment	5,607	6,670
Right-of-use assets (Notes 5 and 13)	2,171	21,710
Intangible asset (Note 12)	241,933	294,159
Deferred tax asset (Note 19)	431,834	-
<b>Total Assets</b>	<b>\$ 95,718,570</b>	<b>\$ 97,132,775</b>
<b>Liabilities and Fund Balance</b>		
Current tax liability (Note 19)	\$ 191,418	\$ -
Accounts payable and Accrued charges	335,253	264,494
Lease liability (Notes 5 and 13)	2,967	28,268
Insurance contracts liabilities (Note 10)	76,217,747	77,847,324
Deferred tax liability (Note 19)	-	521,952
<b>Total Liabilities</b>	<b>76,747,385</b>	<b>78,662,038</b>
<b>Fund Balance</b>	<b>18,971,185</b>	<b>18,470,737</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 95,718,570</b>	<b>\$ 97,132,775</b>

Approved by the Board

Signed by:  
  
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Officer

Signed by:  
  
483F1944352949D...

Officer

**Toronto Police Widows and Orphans Fund**  
**Statement of Fund Balance**  
**For the Year Ended December 31, 2025**

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	<b>Fund Balance</b>
Balance at January 1, 2024	<b>\$ 18,300,780</b>
Profit for the year	<b>169,957</b>
Balance at December 31, 2024	<b>18,470,737</b>
Profit for the year	<b>500,448</b>
<b>Balance at December 31, 2025</b>	<b>\$ 18,971,185</b>

**Toronto Police Widows and Orphans Fund**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**Years Ended December 31, 2025 and 2024**

	2025	2024
Insurance revenue (Note 8)	\$ 4,610,870	\$ 4,413,038
Insurance service expense (Note 8)	(3,442,233)	(3,558,042)
Net expenses from reinsurance contracts held (Note 8)	(12,574)	(11,861)
<b>Insurance service result</b>	<b>1,156,063</b>	<b>843,135</b>
Net gains on FVTPL investments (Note 14)	1,497,476	3,391,708
Investment income (Note 14)	371,032	403,552
Investment expense	(207,139)	(206,786)
<b>Net investment income</b>	<b>1,661,369</b>	<b>3,588,474</b>
Finance expense from insurance contracts (Note 9)	1,177,200	3,207,816
<b>Net insurance and investment result</b>	<b>1,640,232</b>	<b>1,223,793</b>
Donations and other income	78,726	21,053
Expenses	(1,101,654)	(845,790)
<b>Other income (expenses)</b>	<b>(1,022,928)</b>	<b>(824,737)</b>
<b>Income before income taxes</b>	<b>617,304</b>	<b>399,056</b>
<b>Income taxes (recovered)</b> (Note 19)		
Current	1,070,642	790,198
Deferred	(953,786)	(561,099)
	116,856	229,099
<b>Total net profit and comprehensive income</b>	<b>\$ 500,448</b>	<b>\$ 169,957</b>

**Toronto Police Widows and Orphans Fund**  
**Statement of Cash Flows**  
**Years Ended December 31, 2025 and 2024**

	2025	2024
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net income for the year	\$ 500,448	\$ 169,957
Items not affecting cash		
Unrealized (gains) losses on fair value through profit or loss assets	1,314,507	(3,215,744)
Reinvested distributions	(3,392,553)	(1,526,484)
Realized losses on investments	580,571	2,249,989
Amortization of furniture, equipment, and right-of-use asset	56,239	68,397
Repayment of lease	(6,891)	(14,766)
Interest on lease liability	693	2,111
	<b>(946,986)</b>	<b>(2,266,540)</b>
Change in working capital		
Accrued investment income and prepaid expenses	(104,038)	(230,358)
Reinsurance assets	12,574	(712)
Change in actuarial liabilities for insurance contracts	(1,629,577)	462,467
Accounts payable and accrued charges	70,759	(35,203)
Income taxes payable (recoverable)	916,235	(1,841,276)
Deferred tax liability	(953,786)	(561,099)
<b>Cash outflow from operating activities</b>	<b>(2,634,819)</b>	<b>(4,472,721)</b>
<b>Investing</b>		
Purchase of investments	(3,623,484)	(3,907,988)
Proceeds on sale and redemption of investments	6,320,779	9,053,271
Purchase of furniture and equipment	(2,514)	(19,386)
<b>Cash inflow from investing activities</b>	<b>2,694,781</b>	<b>5,125,897</b>
<b>Net change in cash and cash equivalents</b>	<b>59,962</b>	<b>653,176</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,238,063</b>	<b>584,887</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,298,025</b>	<b>\$ 1,238,063</b>
<b>Represented by:</b>		
Cash in bank	\$ 238,456	\$ 33,587
Cash equivalents	1,059,569	1,204,476
	<b>\$ 1,298,025</b>	<b>\$ 1,238,063</b>

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 1. DESCRIPTION OF THE BUSINESS

The Toronto Police Widows and Orphans Fund (the "Fund" or "TPWOF") was incorporated under the Companies Act of Ontario as a fraternal society without share capital on May 19, 1952 and is domiciled in Canada. The Fund is regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Fund is maintained exclusively for the purpose of providing future benefits to its members. These benefits include providing insurance on the lives of its members, financial assistance with legal costs pertaining to the establishment of wills or powers of attorney for its members, and the maintenance and disbursements of endowment entitlements to its members upon retirement from employment with the Toronto Police Service. The Fund's registered address is 2075 Kennedy Road, Suite 200, Toronto, Ontario M1T 3V3.

### 2. ROLE OF THE APPOINTED ACTUARY

The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives.

The Appointed Actuary is required to provide an opinion on the appropriateness of the policy liabilities as presented in the Statement of Financial Position at the fiscal year-end. Examination of sufficiency and reliability of policy data are important elements of the work required to form this opinion.

The Appointed Actuary, in his verification of the underlying data used in the valuation, also considers the work of the external auditor. The Appointed Actuary's report outlines the scope of his work and opinion.

The Appointed Actuary is also required each year to analyze the current and future financial condition of the Fund and prepare a report to the Board. The analysis tests the capital adequacy of the Fund.

### 3. BASIS OF PREPARATION

#### Statement of Compliance

The financial statements are prepared on a going-concern basis as an independent financial entity. The accounting policies used to prepare the financial statements are in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

Details of the Fund's material accounting policies are included in Note 5.

The financial statements were authorized for issue by the Board of Directors on February 26, 2026.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 3. BASIS OF PREPARATION (Cont'd)

#### Basis of Measurement

The financial statements have been prepared on a historical cost basis except for certain assets that have been measured at fair value, and insurance and reinsurance contract liabilities which are measured in accordance with IFRS 17.

### 4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. If the underlying estimates and assumptions change in future periods, actual amounts may differ from those included in the accompanying financial statements.

#### Fulfilment Cash Flows and Estimates of Cash Flows

Fulfilment cash flows comprise of estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows and a risk adjustment for non-financial risk.

The estimates of future cash flows are based on a probability-weighted mean of the full range of possible outcomes, and are determined from the perspective of the Fund, provided that the estimates are consistent with observable market prices for market variables and reflect conditions existing at the measurement date.

#### Discount Rates

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent they are not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency, and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgment and estimation.

**4. USE OF JUDGEMENTS AND ESTIMATES (Cont'd)**

**Contract Boundaries**

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Fund's substantive rights and obligations under the contract. Moreover, specific to insurance and reinsurance contracts there is an assessment of whether the contract transfers significant insurance risk, identification of portfolios of contracts, determination of groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently and applying techniques for estimating risk adjustments for non-financial risk.

**Risk Adjustments for Non-Financial Risk**

The risk adjustment ("RA") compensates the Fund for non-financial risk relating to the uncertainty about the amount and timing of fulfilment cash flows. The RA is estimated separately from other estimates and is included in both the Liability for Remaining Coverage ("LRC") and the Liability for Incurred Claims ("LIC").

**5. MATERIAL ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on account, demand deposits and short-term liquid investments with original maturities of less than three months.

**Right of Use Asset and Lease Liability**

The Fund recognizes the leased property as a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at the present value of the future cash flows associated with the lease contract plus any initial direct costs and payments at or before the lease commencement date and less any lease incentives. Depreciation is recognized in the Statement of Profit or Loss and Other Comprehensive Income over the contractual terms set out in the lease agreement.

The lease liability is measured at the present value of future lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, decreased by lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in discount or index rate, change in estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised or not.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 5. MATERIAL ACCOUNTING POLICIES (Cont'd)

#### Financial Instruments

##### Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Pooled funds are designated as FVTPL. Investments in pooled funds designated as FVTPL are recorded at fair value, with changes in fair value recorded to income from investments. The Fund also holds investments in money market funds and guaranteed investment certificates designated at FVTPL.

#### Impairment

Since Pooled funds are designated as FVTPL with changes in fair value recorded to income, any reduction in the value of the assets due to impairment is already reflected in investment income.

#### Fair Values

The Fund's investments in fixed income and equity pooled funds ("Investee Funds") are subject to the terms and conditions of the respective Investee Fund's prospectus or offering memorandum. The investments in Investee Funds are valued based on the latest available redemption price of such units for each Investee Fund, as determined by the Investee Funds' administrators.

The Fund reviews the details of the reported information obtained from the Investee Funds and considers:

- The liquidity of the Investee Fund or its underlying investments;
- The value date of the net asset value (NAV) provided;
- Any restrictions on redemptions; and
- The basis of accounting and, in instances where the basis of accounting is other than fair value, fair value information provided by the Investee Fund's advisors or fund managers.

If necessary, the Fund makes adjustments to the NAV of various Investee Funds to obtain the best estimate of fair value.

#### Intangible Assets

The intangible assets generated through the capitalization of software developments costs are carried on the Statement of Financial Position on a cost basis. These costs have been capitalized in accordance with IAS 38 Intangible Assets International Accounting Standard. Management has estimated that the assets have a finite useful life of 3 years. They are amortized on a straight-line basis, in accordance with the amortization of the Fund's other asset classes. Amortization commenced once the assets were brought into use in 2023. Amortization is recognized within administrative expenses in the Statement of Profit or Loss and Other Comprehensive Income. Management assesses the intangible asset for impairment annually and has concluded there is no indication of impairment in the period.

#### Other

All investment transactions are recorded on the trade date. Transaction costs related to financial assets and liabilities classified as other than FVTPL are capitalized upon initial recognition.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Donations**

Donations included in other income are recognized as income when received.

**Income from Investments**

Income and capital gains distributions from fixed income and equity pooled funds held within the FVTPL portfolio are recorded in investment income on the date the distribution is declared.

**Fair Value of Assets and Liabilities**

The carrying amount of all financial assets and financial liabilities that are not carried at fair value approximate to fair value.

**Income Taxes**

The tax expense includes both an expense for current income tax balance and an expense for deferred income tax. Current tax expense represents the expected tax payable resulting from the current year's taxable profits.

Deferred tax expense represents the movement during the year in the cumulative temporary differences between the carrying value of the Fund's asset and liabilities on the Statement of Financial Position and their values for tax purposes. Deferred tax is measured using enacted and substantively enacted tax rates. Deferred tax is charged or credited to the Statement of Income.

In determining the impact of taxes, the Fund is required to comply with the standards of both the Canadian Institute of Actuaries ("CIA") and those of the IASB. Actuarial standards require that the projected timing of all cash flows associated with policy liabilities, including income taxes, be included in the determination of policy liabilities.

The insurance contract liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences which have already occurred. Deferred tax assets and/or liabilities arising from temporary differences which have already occurred are computed without discounting. These amounts are reclassified from the policy liabilities to deferred tax balances to show them separately on an undiscounted basis on the Statement of Financial Position. The net result of this reclassification is to leave the discounting effect of the deferred tax balances in the insurance contract liabilities.

Insurance Contract Liabilities have been determined using accepted actuarial practice, according to standards established by the CIA. Insurance contract liabilities represent the present value estimate of future cash flows that are expected to arise as the Fund fulfils its insurance contracts coupled with a contract service margin and risk adjustment component.

Except for the changes below relating specifically to the date of transition to IFRS 9 and IFRS 17 adoption, the Fund has consistently applied the accounting policies as set out in Note 5 and 6 to all periods presented in these financial statements.

The nature and effects of the key changes in the Fund accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarized below.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**IFRS 17 Insurance Contracts**

Recognition, Measurement and Presentation of Insurance Contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. It introduces a model (general measurement model or “GMM”) that measures groups of contracts based on the Fund's estimates of the present value of future cash flows that are expected to arise as the Fund fulfills the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin (“CSM”). The Fund applies GMM for its Individual Insurance Portfolio.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage (“LRC”) that relate to services for which the Fund expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows.

For insurance contracts measured under the GMM, insurance revenue includes claims and other insurance service expenses as expected at the beginning of the reporting period.

Under IFRS 17, insurance acquisition cash flows are allocated to existing contracts on a systematic and rational basis. For insurance contracts measured under the GMM, on initial recognition of a group of contracts, the allocated insurance acquisition cash flows decrease the CSM and are thus implicitly deferred within the CSM, leading to a lower amount of CSM amortization recognized in revenue in future reporting periods as services are rendered. However, for presentation purposes, directly attributable acquisition costs allocated to a group of contracts are amortized as an insurance service expense in a systematic way on the basis of the passage of time, with an equal amount recognized as insurance revenue.

The risk adjustment in the insurance liability reflects the compensation that an insurer requires for bearing the uncertainty arising from non-financial risk. For insurance contracts issued, a portion of the risk adjustment for non-financial risk relating to the LRC is recognized in insurance revenue as the risk is released, while a portion relating to the LIC is recognized in insurance service expenses.

Measurement of the LIC is similar regarding the measurement of the Incurred but Not Reported (“IBNR”) as applied previously.

Finance income and expenses from insurance and reinsurance contracts held are presented separately from insurance revenue and insurance service expenses.

Income and expenses from reinsurance contracts other than finance income from reinsurance contracts held are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 5. MATERIAL ACCOUNTING POLICIES (Cont'd)

#### IFRS 9 Financial Instruments

##### Classification of Financial Assets

IFRS 9 – Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 was deferred to align with the effective date of IFRS 17 of January 1, 2023.

##### **Application**

For IFRS 9 application, the Fund elected certain financial assets to be classified as FVTPL. Other financial assets will be classified as amortized cost and financial liabilities are carried at amortized cost.

For invested assets that are held by the Fund in pooled funds, the fund has determined that such pooled funds are equity investments. For certain pooled funds (i.e. equity investments held by the Fund that were classified as available for sale in applying IAS 39), the Fund has elected to retrospectively redesignate and reclassify them to be FVTPL to eliminate the accounting mismatch between measurement of financial assets and insurance liabilities.

The Fund has determined, as a result of its choice of accounting policy, that key financial assets will be out of scope for impairment under IFRS 9. For those financial instruments measured at FVTPL, any effect of impairment is duly recognized in the financial statements at the time of accounting recognition and subsequent measurement.

For the Fund, insurance income and expenses will be recognized entirely through the Statement of Profit or Loss and Other Comprehensive Income under insurance service results so as to align to the IFRS presentation standards.

##### **Insurance Contracts**

An insurance contract is a contract under which the Fund accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiaries if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiaries. Insurance risk is the risk other than financial risk, transferred from the holder of the contract to the issuer.

Financial risk is the risk of a possible future change in one or more of the following: a specified interest rate, a security price, a commodity price, a foreign exchange rate, an index of prices or rates, or a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if and only if an insured event could cause the Fund to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Insurance Contracts (Cont'd)**

The Fund's products are stand-alone insurance contracts with a single insurance component. Insurance contracts issued by the Fund do not contain any components that require separation by IFRS 17. Insurance contracts issued and reinsurance contracts held do not include any non-distinct investment components.

**Insurance Contracts Measurement and Associated Cash Flows**

The fund applied the GMM measurement approach for its individual insurance contracts.

(a) Fulfillment Cash Flows ("FCF")

The FCF are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Fund expects to collect from premiums and pay out for claims, benefits, and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows are based on a probability-weighted mean of the full range of possible outcomes, are determined from the perspective of the Fund, provided that the estimates are consistent with observable market prices for market variables and reflect conditions existing at the measurement date. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency, and liquidity of cash flows. The determination of the discount rate that significant judgment and estimation.

The Fund updates the FCF for current assumptions at the end of every reporting period, using the current estimates of the amount, timing, and uncertainty of future cash flows and of discount rates. The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

- Changes that relate to current or past service are recognized in profit or loss; and
- Changes that relate to future service are recognized by adjusting the CSM or the loss component within the LRC as per the policy below.

The following adjustments relate to future service and thus adjust the CSM and are measured using discount rates determined on initial recognition (the locked-in discount rates):

- Experience adjustments – arising from premiums received in the period related to future service and related cash flows such as insurance acquisition cash flows and premium-based taxes.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Insurance Contracts Measurement and Associated Cash Flows (Cont'd)**

(a) Fulfillment Cash Flows ("FCF") (Cont'd)

- Changes in estimates of the present value of future cash flows in the LRC, except the following:
  - ◆ changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereof;
  - ◆ changes in the FCF relating to the LIC;
  - ◆ experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows); and
  - ◆ changes in the risk adjustment for non-financial risk that relate to future service.

Subsequently for groups of contracts measured under the GMM, the carrying amount at the end of each reporting period of a group of insurance contracts issued is the sum of:

- The liability for remaining coverage LRC, comprising of the FCF related to future service allocated to the group at that date and the CSM of the group at that date.
- The LIC, comprising the FCF related to past service allocated to the group at the reporting date.

(b) Contract Boundary Cash Flows

The measurement of a group of contracts includes all the future cash flows within the boundary of each contract in the group.

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Fund can compel the policyholder to pay premiums or has a substantive obligation to provide services.

A substantive obligation to provide services ends when:

- The Fund has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- The Fund has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Fund, such as insurance risk and financial risk, are considered.

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognized when those contracts meet the recognition criteria.

Cash flows that are not directly attributable to a portfolio of insurance contracts are recognized in other operating expenses as incurred.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Insurance Contracts Measurement and Associated Cash Flows (Cont'd)**

(c) Insurance Acquisition Cash Flows

Acquisition cash flows are cash flows that arise from costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated to existing groups of contracts.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

(d) Risk Adjustment for Non Financial Risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and it reflects the compensation that the Fund requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Fund fulfills insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Fund to the reinsurer.

**Contractual Service Margin Measurement**

Included in the GMM measurement model is the CSM. The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts issued representing the unearned profit that the Fund will recognize as it provides insurance contract services in the future.

At initial recognition, the CSM is an amount that results in no income or expenses arising from:

- The initial recognition of the FCF; and
- Cash flows arising from the contracts in the group at that date.

Subsequently at the end of each reporting period the Fund adjusts the carrying amount of the CSM to reflect the effect of the following changes:

- Any new contracts added to the group;
- Interest accreted on the carrying amount of the CSM;

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Contractual Service Margin Measurement (Cont'd)**

- Changes in the FCF relating to future service are recognized by adjusting the CSM. Changes in the FCF are recognized in the CSM to the extent that the CSM is available. When an increase in the FCF exceeds the carrying amount of the CSM, the CSM is reduced to zero, the excess is recognized in insurance service expenses and a loss component is recognized within the LRC. When the CSM is zero, changes in the FCF adjust the loss component within the LRC with a corresponding impact to insurance service expenses. The excess of any decrease in the FCF over the loss component reduces the loss component to zero and reinstates the CSM; and
- The amount recognized as insurance revenue for insurance contract services provided during the period, determined after all other adjustments above.

**Contractual Service Margin Interest Accretion**

Under the GMM, interest is accreted on the CSM using discount rates determined at initial recognition that are applied to nominal cash flows that do not vary based on the returns of underlying items.

**Contractual Service Margin Release**

The amount of the CSM recognized in profit or loss for insurance contract services in the period is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts based on coverage units.

The coverage period is defined as a period during which the Fund provides insurance contract services for an insured event (insurance coverage).

The total number of coverage units in a group is the quantity of service provided by the contracts in the group over the expected coverage period. The coverage units are determined at each reporting period-end prospectively by considering:

- The quantity of benefits provided by contracts in the group;
- The expected coverage period of contracts in the group; and
- The likelihood of insured events occurring, only to the extent that they affect the expected coverage period of contracts in the group.

The Fund uses the current face amount as the basis for the quantity of services and does not reflect the time value of money in the allocation of the CSM to coverage units for the determination of the services provided in the period.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Insurance Service Results Presentation**

Insurance Revenue

As the Fund provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognizes insurance revenue. The amount of insurance revenue recognized in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Fund expects to be entitled to in exchange for those services.

For contracts measured under the GMM, insurance revenue comprises the following:

- Amounts relating to the changes in the LRC:
  - ◆ claims and other directly attributable expenses incurred in the period measured at the amounts expected at the beginning of the period, excluding;
  - ◆ amounts allocated to the loss component;
  - ◆ amounts of transaction-based taxes collected in a fiduciary capacity;
  - ◆ insurance acquisition expenses; and
  - ◆ amounts related to the risk adjustment for non-financial risk.
- Changes in the risk adjustment for non-financial risk, excluding:
  - ◆ changes included in insurance finance income (expenses);
  - ◆ changes that relate to future coverage (which adjust the CSM); and
  - ◆ amounts allocated to the loss component.
- Amounts of the CSM recognized for the services provided in the period; and
- Experience adjustments – arising from premiums received in the period other than those that relate to future service.

The Fund allocates a portion of premiums that relate to recovering insurance acquisition cash flows to each period in a systematic way based on the passage of time over the expected coverage of a group of contracts without adjustments for the time value of money. The Fund recognizes the allocated amount as insurance revenue and an equal amount as insurance service expenses.

Insurance Service Expense

Insurance service expenses include the following:

- Incurred claims and benefits reduced by loss component allocations;
- Other incurred directly attributable expenses;
- Insurance acquisition cash flows amortization;

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Insurance Service Results Presentation (Cont'd)**

Insurance Service Expense (Cont'd)

- Changes that relate to past service – changes in the FCF relating to the LIC; and
- Changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

Other expenses not meeting the above categories are included in other operating expenses in the consolidated statement of operations.

Insurance Service Result From Reinsurance

The Fund uses reinsurance in the normal course of business for the purpose of limiting its net loss exposure through the transfer of its risks along with the respective premiums. Reinsurance arrangements do not relieve the Fund from its direct obligations to its policyholders.

**Transition to IFRS 17**

Upon transition to IFRS 17, the Fund utilized the Fair Value Approach for any insurance contracts issued on or before December 31, 2021. The Fair Value Approach is a prescribed method under IFRS 17 in determining the CSM using the fair value of the insurance contracts less fulfillment cashflows to service the insurance contract at the transition date. The CSM represents the unearned profit that the Fund expects to earn as it provides insurance services to its members.

Management judged that the CIA reference curve was an appropriate discount rate for the Fair Value measurement because it comprises a risk-free curve and then adds an illiquidity premium (“ILP”) to the risk-free rates that represents the liquidity characteristics of the liability cash flows. Moreover, use of the CIA reference curve is in line with industry practices.

Upon transition Management identified one portfolio of insurance contracts whereby the Fund has deemed the Fair Value Approach to be a more economical approach in terms of effort, time and cost to implement for any insurance contracts issued on or before December 31, 2021. For insurance contracts issued on or after January 1, 2022, the general measurement model of IFRS 17 was applied.

**IFRS 17 Discount Rate**

Under IFRS 17, the Fund is required to apply a discount rate to reflect the characteristics of the insurance cashflows, including cashflows within the LRC and LIC. In determination of the discount rate the Fund has elected to utilize a bottom-up approach to build the discount rate curve as the sum of the risk-free rate and an ILP. This approach differs from IFRS 4 whereby the discount rate was calculated based on the investment returns of the assets supporting the liabilities, including, unlike for IFRS 17, making assumptions for yields on future asset sales and purchases. The Fund has elected to use the CIA reference curve.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

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#### 5. MATERIAL ACCOUNTING POLICIES (Cont'd)

##### Estimates of Future Cash Flows

Included in the measurement of each group of contracts within the scope of IFRS 17 are all of the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows. The Fund estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Fund uses information about past events, current conditions and forecasts of future conditions. The Fund's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

Estimated timing of the remaining contractual undiscounted cash flows is presented below:

##### *UNDISCOUNTED*

Number of Years Until Expected Undiscounted Insurance

Contract Cashflows	2025	2024
1	\$ 3,277,403	\$ 3,262,153
2	2,518,044	2,566,501
3	2,720,747	2,774,401
4	2,943,475	2,957,757
5	3,133,722	3,151,981
6 to 10 years	18,400,809	18,233,636
Greater than 10 years	162,194,247	161,231,851
	<b>\$195,188,447</b>	<b>\$194,178,280</b>

Estimated timing of the remaining contractual discounted cash flows is presented below:

##### *DISCOUNTED*

Number of Years Until Expected Discounted Insurance

Contract Cashflows	2025	2024
1	\$ 1,279,770	\$ 1,307,818
2	983,253	1,028,927
3	1,062,405	1,112,275
4	1,149,377	1,185,784
5	1,223,665	1,263,650
6 to 10 years	7,185,201	7,309,982
Greater than 10 years	63,334,076	64,638,889
	<b>\$ 76,217,747</b>	<b>\$ 77,847,325</b>

##### Mortality Assumptions

The Appointed Actuary performs an annual mortality study. The limited exposure does not justify using the Fund's experience directly. Mortality rates are credibility blended with industry mortality experience. Recent experience has been within assumed levels.

**5. MATERIAL ACCOUNTING POLICIES (Cont'd)**

**Resignation and Retirement**

Resignation from service rates are derived from actual experience obtained in prior years. For retirement, the probability of a member retiring at each attained age is derived from actual experience in prior years. The incidence of retirement has varied recently based principally on external factors. Disability is addressed within the retirement assumption. The Fund can withstand such year-to-year variations and differing incidences of retirement may impact cash flow.

**Future Expenses**

The Fund projects estimates of future expenses relating to fulfillment of insurance contracts within the scope of IFRS 17 using current expense levels adjusted for inflation. Expenses comprise expenses directly attributable to the groups of insurance contracts, including an allocation of fixed and variable overheads.

The Fund has not changed its methods or assumptions used to project expenses in 2025. Possible increases in expense assumptions increase estimates of future cash outflows and thus decrease the CSM within the LRC for contracts measured under the GMM.

**Risk Adjustment Non-Financial Risk**

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. Because the risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favourable and unfavourable outcomes in a way that reflects the Fund's degree of risk aversion. The Fund estimates an adjustment for non-financial risk separately from all other estimates.

The risk adjustments for non-financial risk are determined using the margin technique, with comparison to the cost of capital technique. The confidence level of the resulting risk adjustment is then determined. If the resulting confidence level is within the target range, no further adjustments are made. If the resulting confidence level is outside the target range, then the margin approach is adjusted such that the risk adjustment confidence level post adjustment is within the target range. The target range of the confidence level of the risk adjustment is between 85.0% and 95.0%.

The risk adjustments for non-financial risk for insurance contracts correspond to the confidence levels of 90.0% (2024 - 90.3%).

**6. NEW AND FUTURE MATERIAL ACCOUNTING POLICIES**

The Fund has adopted all the relevant Accounting Standards and Interpretations issued by the IASB that are mandatory for the current reporting period.

The Fund has not opted for early adoption on any new or amended Accounting Standards or Interpretations that are not yet mandatory.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

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#### 6. NEW AND FUTURE MATERIAL ACCOUNTING POLICIES (Cont'd)

##### **IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18")**

Effective January 1, 2027, under IFRS 18 entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly defined operating profit subtotal. Entities' net profit will not change.

Management-defined performance measures are disclosed in a single note in the financial statements.

Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method. The Fund is currently evaluating the impact of IFRS 18 to the financial statements.

#### 7. RISK MANAGEMENT

Insurance products offered by TPWOF expose the Fund to financial risk from insurance pricing and underwriting, as well as operational risk. Moreover, financial risks include market risk, credit risk, and liquidity risk. Presented below is information about the Fund's enterprise risk management framework, risk exposure and its objectives, policies and processes for measuring and managing risks, as well as its capital management framework.

The following highlight some of the risks that are significant to the Fund's business.

##### **Enterprise Risk Management Overview**

Management has developed policies and procedures to enable it to respond to various business risks of the Fund. The Risk Committee reviews the Fund's overall enterprise risk management policies and recommends the approval of these policies to the Board. The Audit Committee reviews overall internal controls and recommends the approval of the financial statements to the Board.

TPWOF's Enterprise Risk Management (ERM) Policy is the central document and instrument of the Board of Directors that articulates the structures, processes, and other key control elements through which the Fund manages its overall risk. The policy applies to all operations of TPWOF, including internal, outsourced and external operations, and inter-dependent stakeholder relationships.

The Fund's ERM framework provides a common approach to continuously and systematically identify, assess, mitigate, and monitor its risks. The framework is designed to ensure that the Fund's financial and other risks are managed with the objectives of preserving capital and ensuring its ability to meet benefit obligations to its members, in alignment with its risk appetite and in compliance with regulatory requirements.

The risk universe and taxonomy identify and define the key categories of risk that the Fund is exposed to. The risk environment is assessed for potential impacts on TPWOF's strategy, business plan, operational performance, reputation, and financial condition.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 7. RISK MANAGEMENT (Cont'd)

#### Enterprise Risk Management Overview (Cont'd)

The Fund conducts its Own Risk and Solvency Assessment (ORSA) annually to enhance its understanding of the interrelationships between its risk profile and capital needs. The ORSA aspires to consider all reasonably foreseeable and relevant material risks, be forward-looking, and be congruent with TPWOF's strategy and business plan. It provides the Board, senior management, and key stakeholders with assurance that the Fund can weather the risks it has undertaken both in terms of processes that have been established around the management of risks and in terms of the capital required to support those risks. As an output of the assessment, the Fund determines the level of capital needed to cover its risks, including those risks captured in the regulatory capital guidelines.

#### Risk Management Structure

##### Board of Directors

The full Board of Directors is accountable for oversight of the Fund's enterprise risk management. It maintains responsibility for approving TPWOF's ERM Policy and other risk-specific policies at least annually. The Board also reviews and approves the results of ORSA at least annually, including the minimum internal capital target. Collectively, the Board provides input into material changes in the Fund's strategy and risk appetite.

##### Risk Committee (RC) of the Board

The RC of the Board ensures that appropriate risk management policies are in place and that risk management processes are effective. The RC receives timely and accurate reports on significant risks of the Fund and ensures exposure to risk is being managed within the limitations articulated in the ERM Policy.

The RC is supported by the Audit Committee (AC), Human Resources and Benefits Committee (HRBC), Governance Committee (GC), and New Membership Committee (NMC) in the areas of investment risks and financial reporting risks, human resources and non-insurance benefit risks, governance risks, and membership expansion risks respectively.

##### Business Risk Management

The President and Chief Executive Officer (CEO) and employees within the business function (e.g. Finance team), are together responsible for providing products and services, and for the execution of activities including the establishment of risk controls and the management of the associated risks.

##### Oversight Functions

The Chief Risk Officer (CRO) is accountable for the independent oversight of risk and recommending risk policies, limits, and statements to the Board for approval. This includes monitoring to ensure that risks are appropriately and effectively mitigated. The CRO independently oversees and constructively challenges the business' identification, analysis, and management of its risks. The CRO is not actively involved in the management of the business.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 7. RISK MANAGEMENT (Cont'd)

#### Risk Management Structure (Cont'd)

##### Audit Services

Audit Services provide independent assurance to the Board and senior management that the Fund's risk controls are in place and are operating effectively.

##### **Risk Universe**

TPWOF's risk universe and taxonomy identify and define the key categories of risk that the Fund is exposed to.

- **Financial Risk**

The risk of a monetary loss associated with insurance and/or investments, including loss of capital. It includes capital management, investment market, credit, liquidity, insurance product, and climate risk.

- **Operational Risk**

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, and/or from external events.

- **Hazard Risk**

The risk stemming from the use of insurance and/or reinsurance policies used by the Fund to mitigate the financial and operational impacts of threats to life, health, property, and/or the environment.

- **Strategic Risk**

The risk of loss arising from an inability to set, adopt, execute and/or achieve effective business plans and tactics, to allocate resources appropriately, and/or to adapt to changes in the business environment. It includes business planning and execution, competitive, member relations, and business landscape risk.

The following highlight some of the risks that are significant to the Fund's business.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 7. RISK MANAGEMENT (Cont'd)

#### Financial Risks

##### Capital Management Risk

The risk that ineffective management of capital resources threatens the capacity to execute the business strategy and/or generates concern from our stakeholders.

TPWOF's Capital Management Policy establishes the Fund's approach to determining and maintaining the quantity and quality of capital appropriate to support its existing risk profile and business plan objectives.

The Board reviews and approves all capital transactions undertaken by Management. The Fund's surplus consists of the Fund balance of \$18,971,185 (2024 - \$18,470,737) and is structured to meet or exceed the Fund's regulatory capital requirements.

OSFI has established a capital adequacy requirement for life insurers known as Life Insurance Capital Adequacy Test (LICAT). For Canadian regulatory reporting purposes, capital is defined by OSFI in its LICAT guideline. The Fund's LICAT ratio as at December 31, 2025 of 252.7% (2024 - 260.1%) exceeded the minimum levels that would require any regulatory or corrective action by OSFI.

##### **Investment Market Risk**

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market variables. It includes interest rate risk, equity price risk, credit spread risk, and foreign exchange (i.e. currency) risk. Market risk can impact assets and liabilities differently, thereby resulting in a mismatch between them (i.e., assets may be insufficient to fund the liabilities).

TPWOF's Investment Policy outlines the Fund's objectives and risk philosophy for its investments. It is designed to control and direct the investment of the corporate funds of TPWOF in a manner that fits the nature and needs of the Fund and meets the requirements of the Insurance Companies Act (ICA) and any other applicable legislation, regulations, and standards.

The investment portfolio is split between the asset-liability management (ALM) portfolio, the contractual service margin (CSM) portfolio and the Surplus portfolio, each having its own set of rules and expectations, as documented in TPWOF's Investment Policy Statement (IPS).

As of December 31, 2025, the distribution of the Fund's invested asset portfolio is:

ALM portfolio	\$ 68,867,254
CSM portfolio	\$ 7,208,555
Surplus portfolio	\$ 16,842,089

The ALM portfolio is the largest of the three and consists of assets that support the insurance contract liabilities, including the risk adjustments for non-financial risk and excluding the CSM. TPWOF's IPS for the ALM portfolio was chosen to minimize the difference between the changes in market value of the ALM portfolio and the value of the insurance contract liabilities, net of the CSM. This strategy protects the Fund from adverse movements in interest rates, whether that is an adverse movement in risk-free rates, spreads, or credit default risk. The ALM matching strategy is analyzed annually as part of the IPS review.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

### 7. RISK MANAGEMENT (Cont'd)

#### Investment Market Risk (Cont'd)

The CSM is related to insurance contract liabilities and is held in laddered guaranteed investments to affect an expected average annual return greater than the prescribed CSM Locked-in Yield curve. The majority of the Fund's financial risk exposure is related to the Surplus portfolio assets, which consist of fixed income pooled funds (i.e. bonds, debentures, and mortgages) combined with a limited proportion of equity pooled funds. These assets are fully exposed to rising interest rates, higher asset defaults and to falling equity markets. The Fund carefully monitors investment performance and can reduce its exposure to adverse market conditions. We continue to monitor and evaluate market risk under the new IFRS 9 / 17 standards.

There were no major changes to the IPS during the year. The Fund does not utilize intersegment notes or hedging strategies as part of its IPS. Through pooled funds, TPWOF may have a very small amount of exposure to derivatives.

#### Interest Rate Risk

The overall impact of interest rate changes on the LICAT ratio is somewhat mitigated by well-matched asset and liability durations.

Below are insurance sensitivities to interest rate risk for the reporting period:

Scenario	2025 Increase (Decrease)		
	Insurance Contract Liabilities	Profit or Loss	Surplus
Interest Rates +100 bps	\$ (9,092,381)	\$ 9,092,381	\$ 6,682,900
Interest Rates - 100 bps	11,675,238	(11,675,238)	(8,581,300)

Scenario	2024 Increase (Decrease)		
	Insurance Contract Liabilities	Profit or Loss	Surplus
Interest Rates +100 bps	\$ (9,700,041)	\$ 9,700,041	\$ 7,129,530
Interest Rates - 100 bps	12,515,180	(12,515,180)	(9,198,657)

Below are investment sensitivities to interest rate risk for the reporting period:

Scenario	2025 Increase (Decrease)			
	Portfolio Investments Subject to Interest Rate Risk	Insurance Contract Liabilities	Profit or Loss	Surplus
Interest Rates +100 bps	\$ (9,871,964)	\$ (9,092,381)	\$ (779,583)	\$ (572,994)
Interest Rates - 100 bps	12,393,290	11,675,238	718,051	527,768

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

#### 7. RISK MANAGEMENT (Cont'd)

Scenario	Portfolio Investments Subject to Interest Rate Risk	2024 Increase (Decrease)		
		Insurance Contract Liabilities	Profit or Loss	Surplus
Interest Rates +100 bps	\$ (10,305,634)	\$ (9,700,041)	\$ (605,593)	\$ (445,111)
Interest Rates - 100 bps	13,005,909	12,515,180	490,729	360,686

#### Equity Price Risk

A 10% decline in equity prices would reduce the Fund's equity investments by \$515,000 (2024: \$493,300).

Equities are held only in the Surplus portfolio. The Fund invests in equity pooled funds, which in turn generally invest in listed equity investments. While the underlying investments in the equity pooled funds are susceptible to equity price risk, the risk to the Fund is indirect in nature.

#### Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

There is an overall restriction on foreign currency holdings of 10% of the total investment portfolio. Substantially all the investment portfolio's currency exposure is in Canadian dollars.

#### Credit Risk

The risk that a counterparty/debtor fails to honour its obligation to the Fund. It includes reinsurance counterparty, mortgage default, warranty, and other asset impairment risk.

The Fund is exposed to credit risk primarily through its investment portfolio which includes government bonds, corporate bonds, and other fixed income securities. Through pooled funds, TPWOF may have a very small amount of exposure to mortgages.

To mitigate this risk, TPWOF invests in high-quality securities and regularly monitors its investment credit quality and receivables. The Fund's Investment Policy requires all fixed income investments, including the underlying fixed income investments held within the fixed income pooled funds, to be rated "BBB" or higher at time of purchase and not more than 20% of those investments may be in "BBB" or lower rate securities.

The Fund has not made explicit provision in its Statement of Financial Position for credit losses on any assets which are used to support the policy liabilities.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

#### 7. RISK MANAGEMENT (Cont'd)

##### Maximum Exposure to Credit Risk

The Fund's maximum credit exposure related to financial instruments is summarized in the following table. Maximum credit exposure is the carrying value of the asset net of any allowance for losses.

	2025	2024
Cash and cash equivalents	<b>\$ 1,298,025</b>	\$ 1,238,063
Reinsurance contract	-	12,574
Accrued Investment income and prepaid expenses	<b>821,102</b>	717,064
	<b>\$ 2,119,127</b>	\$ 1,967,701

##### Concentration of Credit Risk

Concentration of credit risk arises from exposure to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. The financial instrument issuers have similar economic characteristics so that their ability to meet contractual obligations may be impacted similarly by changes in the economic or political conditions. The Fund mitigates this risk through setting exposure limits and diversification requirements via its Investment Policy. Management uses credit quality per instrument type as an indication of the relative concentration of credit risk. The Fund is also exposed to credit risk from bonds held within the pooled funds. The Fund's concentration of credit risk is set out in the following table.

	2025		2024	
FVTPL fixed income pooled funds				
AAA	<b>\$ 2,626,219</b>	<b>3 %</b>	\$ 2,321,907	2 %
AA	<b>19,395,340</b>	<b>21 %</b>	20,681,416	22 %
A	<b>31,137,670</b>	<b>33 %</b>	31,842,537	34 %
BBB	<b>19,754,573</b>	<b>21 %</b>	20,589,726	22 %
BB	<b>11,877</b>	<b>0 %</b>	19,979	0 %
B	<b>5,776</b>	<b>0 %</b>	-	0 %
Cash and cash equivalents	<b>10,499,320</b>	<b>11 %</b>	9,317,427	10 %
Unrated	<b>4,336,831</b>	<b>5 %</b>	4,412,046	5 %
Dividend Fund	<b>5,150,292</b>	<b>6 %</b>	4,932,680	5 %
	<b>\$ 92,917,898</b>	<b>100 %</b>	\$ 94,117,718	100 %

\* 2024 has been restated to include \$445,907 of money market investments and \$7,100,555 of GIC investments in Cash. 2024 has also been restated to include \$4,932,680 of Dividend fund investments.

##### Liquidity Risk

The risk from holding inadequate liquid assets to meet the Fund's obligations (associated with financial liabilities) as they come due.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2025 and 2024

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### 7. RISK MANAGEMENT (Cont'd)

#### Liquidity Risk (Cont'd)

The Fund maintains a significant portion of its investments in liquid assets, including short-term government bonds and cash equivalents (e.g. Guaranteed Investment Certificates [GICs], and money market instruments).

Investment portfolio asset duration profile:

1. Less than one year: \$5,078,659
2. One to five years: \$10,816,601
3. Greater than five years: \$77,022,638

Equity investments have been included in term-to-maturities greater than 5 years as they do not have scheduled cashflows.

TPWOF benefit payments are funded by current revenue cash flow, and the CSM. The Fund does not have other material liabilities that can be called unexpectedly at the demand of a lender or member, nor does it have any material commitments for capital expenditures. All of the Fund's financial liabilities, other than insurance contract liabilities, are due within one year. Liquidity needs are measured under both normal and stressed conditions and continuously monitored to ensure that TPWOF always has a sufficient level of liquid invested assets. It is expected that the Fund will be able to meet all its contractual requirements as its liabilities fall due, including, if necessary, by selling its fixed income pooled funds prior to their maturity.

#### Insurance Product Risk

The risk of loss that may arise where the amount, timing and/or frequency of benefit and/or premium payments under insurance contracts provided is different than what was expected at the time of designing, pricing, underwriting and/or reserving for the insurance contract.

TPWOF's Product Design and Pricing Policy sets out the general framework for the Fund's benefit schedule, including target customers, policy design guidelines, and the considerations related to pricing, risk retention, and approval processes. Pricing and benefits are subject to annual review. Death benefits and endowment benefits are fully adjustable at the discretion of the Board and informed by considerations such as capital adequacy.

The Fund aims to maintain a simplified product design and stream-lined plan administration. An actuarial study of the overall profitability of the product is conducted at least every three years or as prompted by significant events such as material accounting or regulatory changes. Pricing reviews examine the premium margin, embedded value, and internal rate of return of the product, as well as key underlying assumptions such as mortality, expenses, withdrawals, retirements, interest rates, underwriting risk, and other relevant factors.

	2025	2024
Number of active insureds	5,668	5,530
Number of retired insured	4,963	4,958
Total number of insureds	10,631	10,488
Membership dues	2,138,772	1,963,134

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

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#### 7. RISK MANAGEMENT (Cont'd)

##### Insurance Product Risk (Cont'd)

Annually, TPWOF's Appointed Actuary (AA) conducts an evaluation of its liabilities in accordance with accepted actuarial practice. The Appointed Actuary's Report is a key component of OSFI's review of the Fund's financial position and includes the AA's signed expression of opinion concerning the appropriateness of the actuarial and other policy liabilities included in TPWOF's financial statements. Key assumptions are monitored, particularly those related to the investment environment given its volatility and the uncertainty it brings to our estimated valuations. In addition, a mortality study is updated annually. The Fund maintains appropriate provisions for its liabilities.

The table below shows the sensitivity of profit, CSM, and Surplus to changes in key assumptions.

Scenario	Profit or Loss	2025 CSM	Surplus
Mortality +10%	\$ (112,224)	\$ (2,244,487)	\$ (82,485)
Resignation rates -10%	(2,765)	(55,306)	(2,032)
Retirement rates +10%	(13,188)	(263,759)	(9,693)
Expenses +10%	(33,595)	(671,904)	(24,692)

Scenario	Profit or Loss	2024 CSM	Surplus
Mortality +10%	\$ (107,804)	\$ (2,156,077)	\$ (79,236)
Resignation rates -10%	(4,438)	(88,768)	(3,262)
Retirement rates +10%	(10,089)	(201,773)	(7,415)
Expenses +10%	(32,240)	(644,803)	(23,697)

##### Climate Risk

The risk of failing to mitigate the physical and/or transition risks associated with climate change and the global response to the threat it poses. Includes associated liability risks.

Climate change creates risk for the long-term financial security and health of our members. The Fund does not have significant exposure to physical climate-related risk, due to the nature of its insurance exposure and the location of its head office. The more relevant risk relates to transition climate-related risk in the form of adverse investment returns. The Fund's investments are actively monitored, and holdings are adjusted to account for emerging developments, including any permanent shifts in expected investment performance due to the transition towards a lower carbon footprint economy.

Climate risk management is integrated within our overall ERM framework. Climate-related scenario analysis and stress testing are used to assess the resilience of our strategy and business model. We continue to monitor this emerging threat and support regulatory efforts related to data collection and risk disclosure to ensure that the Fund remains resilient and sustainable over the long term.

**7. RISK MANAGEMENT (Cont'd)**

**Operational Risk**

Operational risks are a necessary and inherent element of all the Fund's systems, processes, and activities. The Fund seeks to mitigate its operational risks by maintaining both a control framework to limit failures, and a preparedness plan to minimize the exposure.

TPWOF's Internal Control Policy describes its approach to ensuring an appropriate and effective internal control environment to mitigate its operational risks, namely those associated with financial reporting, operations, and fraudulent activities. TPWOF's Disaster Recovery and Business Continuity Plan assists the Board and employees in the event of an emergency. Should an incident occur, it will assist the Fund to be prepared to act promptly on essential business processes so that it may mitigate risk to the organization. TPWOF's Privacy Policy identifies the Fund's handling of information concerning its operations, members, and employees to mitigate the potential loss of control over personal information.

**Claims Management Risk**

The risk of making inappropriate claims payments resulting from inadequate adjudication, settlement, and/or payment of claims in line with the management of contractual and non-contractual product options.

TPWOF's Claims Management Policy establishes the requirements to pay benefits in a timely and accurate manner in accordance with the Benefit Schedule, and that risks inherent with underwritten applications are managed for misrepresentation. It also provides for oversight of the Fair Treatment of Customers per the requirements of the Canadian Council of Insurance Regulators.

**Information Technology Risk**

The risk that the Fund cannot secure, develop, adopt, operate and support the technology required to meet current and future business objectives and client expectations. It includes access security, computer operations, resolution management, and IT system changes.

TPWOF's Information Security Policy affects an operating environment that is stable, reliable, scalable, and resilient to technology and cyber risks. It sets out the Fund's guidance on the protection of information from risks that may impact or have the potential to impact the confidentiality, integrity, and/or availability of systems, information, and operations.

The people aspect of Information Technology risk is further addressed in TPWOF's Staff Email, Internet, Equipment, Security and Use Policy. It defines what is and what is not acceptable relative to the use of the Fund's information, assets, and services.

**Third-Party and Outsourcing Risk**

The risk due to a third party failing to provide goods, business activities, functions and services, protect data or systems, or otherwise exposing the Fund to negative outcomes.

TPWOF's Third-Party Risk Management Policy outlines the approach the Fund uses to manage the risks in utilizing business and strategic arrangements by means of external parties, entities or individuals, to perform business activities, functions, and services in support of Fund operations and/or business strategy.

**7. RISK MANAGEMENT (Cont'd)**

**Third-Party and Outsourcing Risk (Cont'd)**

TPWOF leverages several third-party arrangements to obtain cost-effective access to independent advice from experts and to support the Fund's operational needs (notably its Chief Risk Officer, Appointed Actuary, investment manager, audit, and information technology services).

**Reinsurance Risk**

The risk that the Fund's reinsurance program is inadequate and/or does not operate as intended. It includes the risk to earnings and capital arising from purchasing insufficient or inadequate reinsurance coverage.

TPWOF's Reinsurance Risk Management Policy outlines the philosophy and practices followed in managing and placing reinsurance. It forms an integral part of the Fund's risk management plan and reflects the scale, nature, and complexity of the business. TPWOF ensures that its ceded reinsurance complies with regulatory guidelines and that the placement of reinsurance is diversified to avoid excessive concentration in a specific reinsurance counterparty. The Fund is selective with respect to its choice of reinsurers, placing reinsurance with only those reinsurers having a strong financial condition.

TPWOF's objectives related to ceded reinsurance are capital protection. The placement of ceded reinsurance is mainly done on an excess-of-loss basis. The risk of non-performance by the reinsurer is negligible and would be immaterial to the valuation of the reinsurance contract held assets. Annually, the reinsurance coverage is reviewed and adjusted (if necessary) to reflect the Fund's risk profile and risk appetite, including but not limited to, its current exposures, capital base, and growth projections. TPWOF's reinsurance protection is at a level that the Fund considers prudent and in line with its risk appetite.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**8. INSURANCE REVENUE AND INSURANCE SERVICE RESULT**

The following schedule presents the insurance revenue and insurance service results for the Fund:

	2025	2024
Insurance Revenue		
CSM recognized for services provided	\$ 393,497	\$ 388,601
Change in risk adjustment for non-financial risk for risk expired	162,411	162,315
Expected insurance service expenses incurred:		
Claims	3,355,188	3,195,102
Expenses	699,774	667,020
<b>Total Insurance Revenue</b>	<b>4,610,870</b>	<b>4,413,038</b>
Insurance Service Expenses		
Incurred insurance service expenses:		
Claims	(2,633,321)	(2,788,840)
Expenses	(861,232)	(753,842)
Experience adjustments in claims and other insurance service expenses in LIC	52,320	(15,360)
<b>Total Insurance Service Expenses</b>	<b>(3,442,233)</b>	<b>(3,558,042)</b>
Net Expenses from Reinsurance Contracts		
Allocation of the premiums paid	(12,574)	(11,861)
Amounts recovered from reinsurance:		
<b>Total Net Expenses from Reinsurance Contracts</b>	<b>(12,574)</b>	<b>(11,861)</b>
<b>Total Insurance Service Result</b>	<b>\$ 1,156,063</b>	<b>\$ 843,135</b>

The following table sets out the expected recognition of the contractual service margin for insurance contracts.

Number of Years Until Expected CSM Recognition	2025	2024
1	\$ 405,697	\$ 371,972
2	390,548	357,581
3	375,871	343,624
4	361,392	330,059
5	347,100	316,694
6 to 10 years	1,531,972	1,392,793
Greater than 10 years	4,680,588	4,176,562
	<b>\$ 8,093,168</b>	<b>\$ 7,289,285</b>

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

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#### 9. FINANCE INCOME FROM INSURANCE CONTRACTS

The following schedule presents the net finance income from insurance contracts.

	2025	2024
Insurance Finance Income (Expense) from Insurance Contracts		
The effect of time value of money and changes in the time value of money, based on the locked-in interest rates:		
Interest accreted on the carrying amount of the CSM	\$ (221,225)	\$ (200,611)
Interest accreted on present value cash flows	(2,293,123)	(1,937,850)
Interest accreted on risk adjustment	(107,880)	(88,379)
The effect of financial risk and changes in financial risk	1,499,434	(980,976)
The effect of measuring changes in estimates at current rates	(54,406)	-
<b>Total Insurance Finance Income from Insurance Contracts</b>	<b>\$(1,177,200)</b>	<b>\$(3,207,816)</b>

#### 10. INSURANCE CONTRACT LIABILITIES

The Fund provides benefits to members in accordance with its By-laws and as determined by the Board of Directors. The following sets forth December 31, 2025 benefit levels:

- (a) The regular amount of insurance for active members is \$50,000 (2024 - \$50,000); the insurance amount doubles for "in line of duty" deaths.
- (b) The regular amount of insurance for retired members is \$18,800 (2024 - \$18,800).
- (c) The regular amount of insurance for active members of \$50,000 decreases to \$18,800 upon retirement for 2025 (2024 - \$18,800).
- (d) The endowment benefit is \$3,150 (2024 - \$3,150).
- (e) The discretionary bonus amount is 20.0% (2024 - 20.0%) for deaths.

Furthermore, under the Bylaws of the Fund, an actuarial valuation of insurance contract liabilities must be performed annually by the Appointed Actuary. The most recent actuarial valuation of the Fund was made as of December 31, 2025 by Clayton Zaluski, Fellow, Canadian Institute of Actuaries, who submitted their report dated February 26, 2026.

Insurance contract liabilities are comprised of the following:

- Best Estimate Liability ("BEL"), which represents the present value of best estimate cashflows to fulfill the contract as it relates to the LRC and LIC.
- Contract Service Margin ("CSM"), which represents the present value of unearned profit that a group of insurance contracts will recognize at it provides services under those contracts.
- Risk Adjustment ("RA"), which compensates the Fund for the risk relating to the uncertainty about the amount and timing of the cash flows that arises from non-financial risks. The risk adjustment is applicable to the LRC and the LIC.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

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**10. INSURANCE CONTRACT LIABILITIES (Cont'd)**

The following schedule presents a reconciliation of insurance contract liabilities:

	2025	2024
BEL Roll Forward		
Opening Best Estimate Liability (BEL)	\$ 67,483,510	\$ 66,136,503
New business	(504,316)	(348,086)
Experience adjustment	(1,164,280)	755,982
Changes in discount rates and interest accretion	855,499	2,829,465
Actual cash flows:		
Premiums received	2,096,973	1,926,774
Claims and insurance expenses	(3,735,112)	(3,817,128)
<b>Ending Best Estimate Liability (BEL)</b>	<b>65,032,274</b>	<b>67,483,510</b>
CSM Roll Forward		
Opening Contract Service Margin (CSM)	7,289,285	8,187,773
New business	422,873	276,955
Experience adjustment	553,283	(987,453)
Interest accretion	221,225	200,611
CSM recognized	(393,497)	(388,601)
<b>Ending Contract Service Margin (CSM)</b>	<b>8,093,169</b>	<b>7,289,285</b>
RA Roll Forward		
Opening Risk Adjustment (RA)	3,074,529	3,060,582
New business	81,443	71,132
Experience adjustment	(14,734)	(84,609)
Risk adjustment released	(149,411)	(150,315)
Changes in discount rates and interest accretion	100,477	177,739
<b>Ending Risk Adjustment (RA)</b>	<b>3,092,304</b>	<b>3,074,529</b>
<b>Total Insurance Contract Liabilities</b>	<b>\$ 76,217,747</b>	<b>\$ 77,847,324</b>

For insurance contracts measured under GMM, an analysis of insurance revenue for insurance contracts issued and the CSM by transition method is included in the following table.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**10. INSURANCE CONTRACT LIABILITIES (Cont'd)**

	Insurance Contracts Measured Under the Fair Value Approach at Transition	New Insurance Contracts and Insurance Contracts Measured under the Full Retrospective Approach at Transition	Total
<b>2025</b>			
Insurance revenue	\$ 4,456,627	\$ 154,243	\$ 4,610,870
CSM as at January 1	\$ 6,427,731	\$ 861,554	\$ 7,289,285
Changes in the statement of profit or loss and OCI			
Contractual service margin recognized for service provided	(341,047)	(52,449)	(393,496)
Contracts initially recognised in the period	-	422,873	422,873
Changes in estimates that adjust the CSM	129,489	423,794	553,283
Net finance (income) expenses from insurance contracts	174,705	46,520	221,225
CSM as at December 31	\$ 6,390,878	\$ 1,702,292	\$ 8,093,169
<b>2024</b>			
Insurance revenue	\$ 4,317,775	\$ 95,263	\$ 4,413,038
CSM as at January 1	\$ 7,569,915	\$ 617,858	\$ 8,187,773
Changes in the statement of profit or loss and OCI			
Contractual service margin recognized for service provided	(360,935)	(27,666)	(388,601)
Contracts initially recognised in the period	-	276,955	276,955
Changes in estimates that adjust the CSM	(955,086)	(32,368)	(987,454)
Net finance (income) expenses from insurance contracts	173,837	26,775	200,612
CSM as at December 31	\$ 6,427,731	\$ 861,554	\$ 7,289,285

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**11. INVESTMENTS**

	2025		2024	
	Fair Value	%	Fair Value	%
Guaranteed Income Certificates	\$ 7,208,555	8 %	\$ 7,100,555	8 %
Fixed income pooled funds				
PH&N Prism Long Corporate Bond Trust	48,088,089	52 %	50,066,222	53 %
PH&N PRisM - Long	13,302,059	14 %	13,612,962	14 %
PH&N PRisM - Medium	3,252,612	4 %	3,321,437	4 %
PH&N PRisM - Short	3,292,865	4 %	3,442,910	4 %
PH&N Money Market Funds	430,845	0 %	445,909	0 %
PH&N Bond	6,684,761	7 %	6,346,760	7 %
PH&N Mortgage Pension	4,922,627	5 %	4,848,283	5 %
PH&N Long Corporate Bond Trust	585,193	1 %	-	- %
PH&N Dividend Income Fund	5,150,292	5 %	4,932,680	5 %
	<b>\$ 92,917,898</b>	<b>100 %</b>	<b>\$ 94,117,718</b>	<b>100 %</b>

**Fair Value Hierarchy**

The following table outlines the financial instruments measured at fair value based on the following three-level fair value hierarchy:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value is determined in whole or in part using a valuation technique using inputs for the asset or liability that are not based on observable market data.

	Level 1	2025 Level 2	Level 3	Level 1	2024 Level 2	Level 3
Financial assets at fair value through profit or loss	\$ 7,639,400	\$ 85,278,498	\$ -	\$ 7,546,463	\$ 86,571,254	\$ -

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused their transfer. There are no transfers between Level 1 and Level 2 for the years ended December 31, 2025 and 2024. The investments were reclassified from level 2 to level 1. No Level 3 investments exist as at December 31, 2025 and 2024.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**12. INTANGIBLE ASSETS**

The following is a schedule of software development costs:

	2025	2024
Balance at January 1	\$ 294,159	\$ 333,551
Additions	-	12,833
Amortization	(52,226)	(52,225)
Balance at December 31	\$ 241,933	\$ 294,159

**13. RIGHT OF USE ASSET AND LEASE OBLIGATION**

The following table presents the resulting right of use asset and the associated lease obligation:

	2025		2024	
	Right of Use Asset	Lease Liability	Right of Use Asset	Lease Liability
Balance at January 1	\$ 21,710	\$ 28,268	\$ 32,566	\$ 40,923
Amortization	(436)	-	(10,856)	-
Interest	-	693	-	2,111
Lease repayments	-	(6,891)	-	(14,766)
Write down	(19,103)	(19,103)	-	-
Balance at December 31	\$ 2,171	\$ 2,967	\$ 21,710	\$ 28,268

**14. GAIN (LOSS) FROM INVESTMENTS**

	2025	2024
Net gains (losses) on FVTPL investments		
Income distributions from investee funds	\$ 3,189,514	\$ 1,410,701
Capital gain distributions from investee funds	203,040	115,783
Realized gains (losses) on investments	(580,571)	(2,249,989)
<b>Total realized loss</b>	<b>2,811,983</b>	<b>(723,505)</b>
Change in unrealized gains on investments	(1,314,507)	4,115,213
<b>Total gain from investments</b>	<b>1,497,476</b>	<b>3,391,708</b>
Interest income from money market funds	12,704	14,718
Interest income accrued on GIC investments	358,328	388,834
<b>Total interest income from investments</b>	<b>371,032</b>	<b>403,552</b>
	<b>\$ 1,868,508</b>	<b>\$ 3,795,260</b>

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

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#### 15. ACCRUED INVESTMENT INCOME AND PREPAID EXPENSES

	2025		2024
Accrued investment income	\$ 753,619	\$	646,393
Prepaid expenses	67,483		70,671
	\$ 821,102	\$	717,064

#### 16. EMPLOYEE BENEFITS

Employee payroll expense for the year was \$504,404 (2024 - \$501,257) and is included in administration expenses in the Statement of Income.

#### 17. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2025		2024
Trade accounts payable and accrued charges due within one year	\$ 335,253	\$	264,494

#### 18. REMUNERATION

Remuneration of key management personnel for the year was \$248,016 (2024 - \$241,709). Remuneration of the Board of Directors, which includes retainer fees and meeting attendance fees, for the year was \$137,134 (2024 - \$133,505).

#### 19. INCOME AND OTHER TAXES

The Fund is subject to income taxes under Part I and Part XII.3 of the Federal Income Tax Act and under the Ontario Corporations Tax Act. A provision for investment income tax of \$141,872 (2024 - \$131,197) is required under Part XII.3. This tax is 15% of the taxable Canadian life investment income of a life insurer which is determined by a formula prescribed in the Income Tax Act.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

December 31, 2025 and 2024

#### 19. INCOME AND OTHER TAXES (Cont'd)

The following table reconciles the difference between income taxes that would result solely by applying statutory rates to pre-tax income and the income taxes actually provided in the financial statements:

	2025	2024
Income before income taxes	\$ 617,304	\$ 399,056
Statutory rate	26.5 %	26.5 %
Expected income tax expense	\$ 163,586	\$ 105,750
Increase (decrease) resulting from:		
Net non-taxable income	(41,836)	(32,399)
IFRS 17 transition adjustments	(4,894)	-
True-up	-	155,748
<b>Income tax expense (benefit)</b>	<b>\$ 116,856</b>	<b>\$ 229,099</b>

The current and deferred tax (assets) liabilities are comprised of the following components:

	2025	2024
Income taxes (payable) recoverable	\$ (191,418)	\$ 724,817
Deferred tax assets (liability):		
Actuarial liabilities for insurance contracts	\$ 456,109	\$ (475,735)
Investments and other	(24,486)	(47,954)
Lease liability	211	1,737
	<b>\$ 431,834</b>	<b>\$ (521,952)</b>

The Fund is subject to numerous taxes in the period, the most significant of which are reflected below:

	2025	2024
Current income taxes (recovery)	\$ 1,070,642	\$ 790,198
Deferred income taxes (recovery)	(953,786)	(561,099)
	<b>\$ 116,856</b>	<b>\$ 229,099</b>

#### 20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with current year presentation.