Falcon Insurance Company (Hong Kong) Limited

Disclosure Statement

31 December 2025

A FAIRFAX Company

Version: Jul 2026

Disclosure Statement at 31 December 2025

This disclosure statement is prepared in accordance with the requirements under the Insurance (Valuation and Capital) Rules and the Insurance (Public Disclosure) Rules.

1 Company profile

(a) Authorized insurer's name

Falcon Insurance Company (Hong Kong) Limited

(b) Nature of the business, and places of business operations

Falcon Insurance Company (Hong Kong) Limited (the "Company" or "Falcon") is a general insurer authorised under the Insurance Ordinance (Cap. 41) of Hong Kong. The Company conducts general insurance business and provides a broad range of insurance products and services to corporate, commercial, and individual customers in Hong Kong.

The Company's principal lines of business include Property, Casualty, Accident & Health, Employees' Compensation, Motor, Marine, Liability and other specialty insurance classes. In addition to direct insurance business, the Company also participates selectively in reinsurance business within its approved underwriting appetite.

The Company's principal place of business is Hong Kong, where underwriting, claims management, finance, risk management, compliance and corporate support functions are conducted. Business is sourced primarily through (re)insurance brokers, agents, direct client and cedants.

(c) Description of corporate structure

Falcon Insurance Company (Hong Kong) Limited is incorporated in Hong Kong as a private limited liability company and is authorised to carry on general insurance business in Hong Kong. The Company is a member of the Fairfax group. The ultimate holding company is Fairfax Financial Holdings Limited, a publicly listed financial services holding company incorporated in Canada and listed on the Toronto Stock Exchange. Fairfax Financial Holdings Limited, through its subsidiaries, engages primarily in property and casualty insurance, reinsurance and investment management operations across North America, Europe, Asia and other international markets. Falcon is ultimately controlled by Fairfax Financial Holdings Limited through its intermediate holding companies within the Fairfax group structure. The Company benefits from the strategic oversight, capital strength and risk management capabilities of the wider Fairfax organisation while maintaining local underwriting autonomy and governance appropriate for the Hong Kong market and operating under the regulatory supervision of the Hong Kong Insurance Authority.

2 Corporate governance framework

The Company has established and maintains a corporate governance framework that is designed to ensure sound and prudent management, effective oversight, and robust internal control, having regard to the requirements of the Hong Kong Insurance Authority, including the Guideline on Corporate Governance of Authorized Insurers (GL10). The Board of Directors has ultimate responsibility for ensuring that the Company maintains an appropriate, effective and proportionate system of governance for the conduct of its business and operations.

The governance framework comprises a clear organisational structure, defined lines of responsibility, appropriate segregation of duties, and effective reporting and escalation mechanisms to support transparency, accountability and timely decision-making across the Company. The framework is supported by Board-approved policies, committee mandates and control standards which collectively set out the governance architecture of the Company and the allocation of responsibilities across the Board, Board committees, senior management and control functions.

In accordance with its governance framework, the Company has established key control functions, including actuarial, financial control, internal audit, compliance, risk management and intermediary management. These functions are structured to operate with appropriate authority, organisational standing, resources and access to relevant information, and are required to discharge their responsibilities in an objective, impartial and independent manner. The relevant control functions report to the Board, whether directly or through appropriate governance channels, on the adequacy and effectiveness of the Company's system of governance and internal control.

The Company's governance framework is further underpinned by a suite of formal policies and governance documents. These documents are subject to review and approval by the Board and are re-affirmed periodically to ensure continued relevance, adequacy and consistency with the Company's business profile and regulatory obligations.

Board Committees
The Board has established the Audit Committee and Risk Committee, each with clearly defined written terms of reference. The terms of reference of each Board Committee are reviewed at least annually and any amendments are submitted to the Board for approval.

Audit Committee
The Audit Committee assists the Board in discharging its oversight responsibilities in relation to the integrity of financial reporting, the effectiveness of internal controls, and the performance of the internal and external audit functions. It reviews significant accounting matters, audit findings, and issues relating to financial governance and control.

Risk Committee
The Risk Committee provides oversight of the organization's risk management framework by reviewing and challenging key risk policies, risk appetite and tolerance limits, and ensuring risks are managed within Board-approved parameters. It also monitors risk performance, emerging risks, control weaknesses, outstanding risk actions, and significant risk events, providing advice and recommendations to the Board on risk-related matters.

3 Financial position

(a) Balance sheet determined under the Insurance (Valuation and Capital) Rules

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2024
	Total	**Total**
Total assets	**3,464,902**	**3,089,844**
Cash and deposits	252,701	545,927
Debt securities	1,867,744	1,312,307
Equities (including portfolio investments)	503,569	402,243
Derivative financial instruments	-	11,255
Properties	6,000	7,800
Loans and advances	-	-
Reverse repurchase agreement	-	-
Other financial assets	347,040	373,654
Policyholder's account assets in respect of unit linked products or retirement scheme	-	-
Reinsurance assets	435,095	402,749
Tax assets	-	-
Other assets	52,753	33,909
Total liabilities	**2,103,717**	**1,920,328**
Insurance liabilities	1,876,457	1,682,727
Reinsurance liabilities	-	-
Repurchase agreement	-	-
Derivative financial instruments	-	-
Other financial liabilities	93,467	129,271
Tax liabilities	8,178	-
Other liabilities	125,615	108,330
Net assets	**1,361,185**	**1,169,516**

(b) Material change or other commentary on balance sheet items

- **Total assets** increased primarily driven by growth in debt securities investments.
- **Total liabilities** rose primarily due to higher insurance liabilities, consistent with the growth in underwriting activity.

4 Investments

(a) Assumptions and methods used for valuation of investments

- The Company measures its investments at its fair value. Fair values of its investments are determined with reference to external quoted market prices or counterparty quotations when unable to obtain the open market quotation. While the quoted market prices in active markets for equity securities were not readily available, the fair value was determined based on the net asset values of the underlying portfolios. The Company measures fair values using the following hierarchy of methods:
- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and unit trusts.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the debt instruments and structured debt.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt instruments with significant unobservable components.

5 Insurance liabilities

(a) Total insurance liabilities determined under the Insurance (Valuation and Capital) Rules

Insurance Liabilities of General Business

(Unit: in HKD thousands)	As at 31 December 2025									
	Direct insurance							Reinsurance		Total general business
	Accident and health	Motor vehicle	Marine, aviation, and transport	Property damage	Employees' compensation	General liability	Pecuniary loss	Proportional	Non-proportional	
Total general insurance liabilities (gross of reinsurance)	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	***1,876,457***
Total general insurance liabilities excluding other general insurance liabilities (gross of reinsurance)	***16,623***	***110,537***	***107,244***	***116,613***	***219,145***	***25,926***	***2,198***	***1,225,614***	***52,556***	***1,876,457***
Outstanding claims liabilities	*5,003*	*87,299*	*93,251*	*101,904*	*185,469*	*22,838*	*1,255*	*1,120,180*	*49,866*	*1,667,066*
Premium liabilities	*10,921*	*18,007*	*11,840*	*13,970*	*21,726*	*2,488*	*914*	*54,335*	*2,427*	*136,628*
Margin over current estimate for outstanding claims liabilities	*179*	*4,133*	*1,917*	*608*	*10,281*	*533*	*23*	*37,264*	*243*	*55,181*
Margin over current estimate for premium liabilities	*520*	*1,098*	*236*	*131*	*1,669*	*67*	*6*	*13,835*	*20*	*17,582*
Total general insurance liabilities excluding other general insurance liabilities (net of reinsurance)	***16,598***	***110,039***	***60,807***	***20,523***	***205,759***	***12,829***	***807***	***1,006,531***	***7,472***	***1,441,365***

(Unit: in HKD thousands)	As at 31 December 2024									
	Direct insurance							Reinsurance		Total general business
	Accident and health	Motor vehicle	Marine, aviation, and transport	Property damage	Employees' compensation	General liability	Pecuniary loss	Proportional	Non-proportional	
Total general insurance liabilities (gross of reinsurance)	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	*Not applicable*	**1,682,727**
Total general insurance liabilities excluding other general insurance liabilities (gross of reinsurance)	**14,409**	**99,444**	**98,262**	**91,431**	**212,069**	**22,345**	**3,104**	**1,091,147**	**50,516**	**1,682,727**
Outstanding claims liabilities	4,043	80,388	88,221	80,044	180,074	19,997	1,770	1,001,812	46,110	1,502,459
Premium liabilities	9,867	14,457	8,268	10,713	20,596	1,960	1,304	42,421	4,111	113,697
Margin over current estimate for outstanding claims liabilities	144	3,812	1,591	605	10,007	358	26	32,138	278	48,958
Margin over current estimate for premium liabilities	355	787	182	69	1,392	30	4	14,776	17	17,613
Total general insurance liabilities excluding other general insurance liabilities (net of reinsurance)	**14,373**	**99,109**	**49,837**	**19,138**	**199,666**	**11,121**	**883**	**877,364**	**8,490**	**1,279,981**

(b) Assumptions and method used to derive the assumptions for determining insurance liabilities

Outstanding Claims Liabilities:
Ultimate claims ratio assumption is determined by standard Actuarial Reserving methods, such as Chain Ladder Method, BF Method and Expected Loss Ratio Method.

Premium Liabilities:
Expected Loss Ratio assumption is based on the observed loss ratios in recent accident year by lines of business. Expense assumption is based on recent expense studies.

Margin Over Current Estimate ("MOCE"):
The risk adjustment factors are determined using the Chain Ladder Bootstrapping method by lines of business.

Discount Rate:
For consistency, the discount rate is based on HKRBC risk-free yield curves at the reporting date.

(c) Material change in assumptions and methods used to derive the assumptions, or other commentary on insurance liabilities

- The maintenance expense assumption for calculating premium liabilities is based on actual expense ratio from the latest financial year. In comparison to the prior year's assumption of a fixed ratio, this change makes an improvement to better align with actual experience.

- Provision for Adverse Deviation (PAD) factors for calculating MOCE of premium liabilities increase by 20% to reflect greater uncertainty from unexpired risk reserves.

6 Financial performance

(a) Financial performance in total and at a segmented level, including premiums, investment returns and claims

Performance Analysis on Premiums and Claims

(Unit: in HKD thousands)	For the financial year ended 31 December 2025
	Total
Gross premiums[1]	*991,976*
Regular premiums	*Not applicable*
Single premiums	*Not applicable*
Net premiums	*765,543*
Regular premiums	*Not applicable*
Single premiums	*Not applicable*
Gross claims paid	*516,530*
Net claims paid	*367,973*

Performance Analysis on Investment Returns

(Unit: in HKD thousands)	For the financial year ended 31 December 2025
	Total
Investment returns	*224,294*

[1] For general business, it refers to written premiums.

(b) Underwriting Results for general business (for pricing adequacy disclosure purposes)

Underwriting Results of General Business

(Unit: in HKD thousands)	For the financial year ended 31 December 2025									
	Direct insurance							Reinsurance		Total general business
	Accident and health	Motor vehicle	Marine, aviation, and transport	Property damage	Employees' compensation	General liability	Pecuniary loss	Proportional	Non-proportional	
Gross premium	*38,517*	*42,086*	*41,958*	*72,570*	*98,984*	*13,256*	*5,538*	*661,799*	*17,268*	*991,976*
Net premium	*38,426*	*40,198*	*19,509*	*12,698*	*94,592*	*6,628*	*816*	*549,456*	*3,220*	*765,543*
Net undiscounted best estimate combined business results, relating to current year	*1,491*	*(16,363)*	*(8,600)*	*(5,992)*	*(11,196)*	*(333)*	*(288)*	*(22,027)*	*(2,477)*	*(65,785)*
Net undiscounted best estimate combined business results, relating to prior year	*(326)*	*12,253*	*(5,249)*	*5,462*	*19,965*	*617*	*397*	*33,451*	*1,326*	*67,896*
Undiscounted underwriting results - profit / (loss)	***1,131***	***(4,431)***	***(14,176)***	***(532)***	***8,496***	***109***	***113***	***7,499***	***(1,117)***	***(2,908)***

7 Capital adequacy

(a) Prescribed capital amount at total level and risk capital amount ("RCA") by sub-risk, determined in accordance with the Insurance (Valuation and Capital) Rules (without applying the transitional arrangement under Part 7 of the Insurance (Valuation and Capital) Rules)

Prescribed Capital Amount

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2004
Market risk (diversified RCA)	***264,317***	**198,251**
Interest rate risk RCA	*29,305*	*29,542*
Credit spread risk RCA	*231*	-
Equity risk RCA	*248,890*	*175,465*
Property risk RCA	*3,043*	*1,950*
Currency risk RCA	*35,257*	*48,130*
Diversification benefits within market risk	*(52,409)*	*(56,836)*
General Insurance Risk (diversified RCA)	***409,983***	**337,538**
Reserve and premium risk RCA	*345,016*	*310,922*
Natural catastrophe risk RCA	*139,865*	*22,596*
Man-made non-systemic catastrophe risk RCA	*58,023*	*71,429*
Man-made systemic catastrophe risk RCA	-	-
Mortgage insurance risk RCA	-	-
Diversification benefits within general insurance risk	*(132,920)*	*(67,409)*
Counterparty default and other risk RCA	***11,986***	**18,561**
Diversification benefits among risk modules	*(141,936)*	*(116,159)*
Operational risk RCA	***46,163***	**44,444**
Adjustment for loss absorbing capacity cap	-	-
Adjustment for tax effect	*(52,116)*	*(58,875)*
Any other items which the IA may specify to adjust	-	-
Prescribed capital amount	***538,398***	**423,759**

(b) Composition of capital base determined in accordance with the Insurance (Valuation and Capital) Rules

Capital Base

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2004
Unlimited Tier 1 capital	*1,361,185*	*1,169,516*
Limited Tier 1 capital	-	-
Tier 2 capital	-	-
Capital base	***1,361,185***	***1,169,516***

(c) Ratio of capital base to prescribed capital amount

	As at 31 December 2025	As at 31 December 2004
Ratio of capital base to prescribed capital amount	***252.8%***	***276.0%***

(d) Material change or other commentary on prescribed capital amount, capital base, and ratio of capital base to prescribed capital amount

- As at 31 December 2025, the main composition of the prescribed capital amount (“PCA”) were the Equity risk RCA and Reserve and premium risk RCA.)

- Compared with prior financial year end, the PCA increased by $114.6M (27.1%), mainly contributed by the rise in the General Insurance Risk RCA of $72.4M and the Market Risk RCA of $66.1M. The increase in General Insurance Risk RCA was mainly due to a higher Natural Catastrophe Risk RCA following changes in the reinsurance arrangement. The increase in Market Risk RCA was principally attributable to a higher Equity Risk RCA, as a result of the increases in both fair value of equity investment and Countercyclical Adjustment ("CCA") Levels.

- Capital base increased by $191.7M since the prior financial year end, primarily due to higher investment income generated during the year.

- Therefore, the ratio of Capital Base to PCA decreased by 23.2% in comparison to the prior financial year end.

8 Risk Management

(a) Risk appetite and risk governance framework

Falcon Insurance Company (Hong Kong) Limited (the "Company" or "Falcon") has an Enterprise Risk Management ("ERM") framework that supports regulatory compliance and risk-based decision making.

Falcon's Board-approved Risk Appetite Statement sets out the risks the Company is willing to take, accept or tolerate in pursuing its objectives. It uses qualitative statements, quantitative limits, watch triggers and targets for material risks. Falcon has a very low appetite for solvency risk and manages it through controls, limits and parameters across its insurance, reinsurance, credit, liquidity, market and operational risk policies. The Board reviews risk appetite at least annually, and senior management assesses material interim changes for Board approval.

Falcon's risk tolerance limits and watch triggers align with its business strategy. Business decisions consider their impact on risk appetite and capital, and Falcon has ascertained its capital level would be sufficient to pursuit its current business strategy.

Falcon uses the Three Lines of Defence model: management controls the first line, risk and compliance oversight the second, and independent assurance the third. Each line has a distinct role within the governance framework.

During the reporting period, there were no material changes to the Company's risk appetite or governance framework. The Board oversees risk governance and approves the ERM framework, Risk Appetite Statement and key risk policies. The Risk Committee monitors material exposures, breaches and emerging risks, and oversees escalation and remediation. Senior management implements the framework, maintains controls and ensures activities remain within approved appetite and limits.

(b) Insurance risk management

Falcon manages insurance risk under its Board-approved ERM framework and assesses material insurance risks at both overall and line-of-business levels. Key insurance risks include underwriting, pricing, reserving and catastrophe risks, which are monitored through key risk indicators (KRI) such as loss ratio trends, rate movements, adverse claims development, catastrophe exposures and significant claims.

The Company's insurance risk is predominantly concentrated in Hong Kong. This concentration risk is mitigated through location accumulation limits and product diversification across a range of business classes, supported by underwriting expertise and experienced staff managing both core and specialty products.

Material insurance risks are controlled through documented underwriting guidelines, pricing and reserving controls, claims handling procedures and regular risk reporting. Catastrophe and large loss exposures are transferred or mitigated through the Company's outward reinsurance programme.

Insurance risk governance is overseen by the Board and Risk Committee, with senior management implementation, monitoring and escalation under the ERM framework.

(c) Investment risk management

Falcon manages investment risk under its market risk management policy. Its objectives are to invest in line with regulatory guidelines, to support policy holder protection, capital preservation and liquidity needs, in accordance with the Company's investment policy, risk appetite and regulatory.

Investment risk arises from adverse asset value movements, including interest rate, bond, equity and foreign exchange risks. Falcon has a high appetite for well-diversified bond and interest rate risk, and a low to moderate appetite for equity and foreign exchange risk.

Investment exposures are monitored against approved appetite limits through regular reporting, key risk indicators and stress testing. Material issues or breaches are escalated to the Board. The Board retains ultimate responsibility for investment decisions and delegates the implementation and monitoring of the investment strategy to Hamblin Watsa Investment Counsel Ltd ("HWICL"), a fellow subsidiary of the Company, and management, supported by regular reporting and oversight.

(d) Other risk management

In addition to insurance and investment risk, the Company manages liquidity risk, credit risk, reinsurance risk, operational risk. These risks are reviewed through the risk management framework and escalated where necessary.

- Liquidity risk is the risk of losses due to inability to meet payment obligations when they become due without incurring unacceptable costs of losses. Falcon has a very low appetite on liquidity. The liquid assets held in short-term money market securities and the Company maintains cash held for working capital requirements.
- Credit risk is the risk that a counterparty fails to pay amounts in full when due. The Company manages credit risk by placing limits on its exposure to a single counterparty, or groups of counterparty, which management reviews and approves regularly. Reinsurer exposure is monitored by a fellow subsidiary, and reinsurer creditworthiness is assessed using rating agency grades and other public financial information. Reinsurance is ceded across all geographic regions, with no significant concentration of credit risk with any single reinsurer.
- Reinsurance risk is managed through appropriate treaty or facultative reinsurance, governed by the reinsurance management strategy. Arrangements are regularly reassessed for effectiveness against current exposures, historical losses and potential future losses.
- Operational risk is managed with a low overall appetite and includes risks arising from processes, people, systems, technology, legal and regulatory compliance, and reputational factors.

The Company also identified and monitored strategic risk, legal, compliance and regulatory risk, conduct risk, group risk and emerging risks and emerging risks, including pandemic risk, political risk, climate change risk, cyber risk, artificial intelligence risk and geopolitical risk.

9 Statement of Compliance

(i) I am satisfied with the completeness, accuracy and consistency of the information disclosed in this disclosure statement in respect of Falcon Insurance Company (Hong Kong) Limited;

(ii) I am satisfied that the information in this disclosure statement is prepared in accordance with the Insurance (Public Disclosure) Rules and the Insurance (Valuation and Capital) Rules (subject to any variation or relaxation applied thereto);

(iii) I am satisfied that the information in this disclosure statement can be reconciled with the relevant specified annual forms, on each of which an auditor's report is provided, of Falcon Insurance Company (Hong Kong) Limited's annual returns for the financial year to which this disclosure statement relates, as submitted under rule 4(1) of the Insurance (Submission of Statements, Reports and Information) Rules; and

(iv) I am satisfied that Falcon Insurance Company (Hong Kong) Limited has complied with all capital requirements that apply to it under the Insurance (Valuation and Capital) Rules (as relaxed or varied, if applicable), during the financial year to which this disclosure statement relates.

Name:	SUNG Sing Fai
Position:	Controller
Company Name:	Falcon Insurance Company (Hong Kong) Limited