Registered Number 56357

Legal & General Reinsurance Company No.2 Limited
Report and Accounts 2022

Contents

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Legal & General Reinsurance Company No.2 Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Legal & General Reinsurance Company No.2 Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2022, the statements of loss and total comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA's). 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 Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 ISAs 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 ISAs, 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 Company’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 Company’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 Company 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
27 April 2023

Statement of Loss and Total Comprehensive Loss

For year ended 31 December 2022 and the period ended 31 December 2021

	Notes	**2022 CA$m**	2021 CA$m
Revenue			
Gross written premiums	1E	**718**	494
Net premiums earned		**718**	494
Investment (loss) / return	1J/1K/3	**(47)**	1
Total revenue		**671**	495
Expenses			
Claims and change in non-participating insurance contract liabilities	1E/4	**724**	536
Finance costs	16(iii)	**1**	1
Other expenses	1L/16(ii)	**18**	5
Total expenses		**743**	542
Loss for the year attributable to equity holder of the Company before tax		**(72)**	(47)
Income tax expense attributable to equity holder	1D	**–**	–
Loss and total comprehensive loss for the year attributable to equity holder of the Company		**(72)**	(47)

Statement of Financial Position

As at 31 December

	Notes	**2022 CA$m**	2021 CA$m
Assets			
Funds withheld	1F/7	**14**	15
Financial investments	1G/8	**1,374**	561
Cash and cash equivalents	1H	**34**	23
Total assets		**1,422**	**599**
Equity			
Share capital	10	**316**	111
Retained losses		**(119)**	(47)
Total shareholder's equity		**197**	**64**
Liabilities			
Non-participating insurance contracts liabilities	1E/11/12	**1,215**	529
Payables and other financial liabilities	1I/13	**10**	6
Total liabilities		**1,225**	**535**
Total equity and liabilities		**1,422**	**599**

The Notes on pages 9 to 28 are an integral part of these financial statements.

The financial statements on pages 5 to 8 were approved by the Board of Directors on 27 April 2023 and were signed on their behalf by:

DocuSigned by:
Tim Stedman
BE9AB8CA1DCC401...
T Stedman
Chairperson

DocuSigned by:
Carl Moxley
DF35383126D64E5...
C Moxley
Director

DocuSigned by:
Amy Ellison
9DC16EB325D4406...
A Ellison
Director

Statement of Changes in Equity

For the year ended 31 December 2022	Notes	**Share capital CA$m**	**Contributed surplus CA$m**	**Retained losses CA$m**	**Total equity CA$m**
As at 1 January		**111**	**–**	**(47)**	**64**
Issue of share capital	10	**205**	**–**	**–**	**205**
Loss and total comprehensive loss for the year		**–**	**–**	**(72)**	**(72)**
As at 31 December 2022		**316**	**–**	**(119)**	**197**
For the period ended 31 December 2021					
As at incorporation		–	–	–	–
Issue of share capital	10	111	–	–	111
Loss and total comprehensive loss for the period		–	–	(47)	(47)
As at 31 December 2021		111	–	(47)	64

Statement of Cash Flows

For year ended 31 December 2022 and for the period ended 31 December 2021

	Notes	**2022 CA$m**	2021[1] CA$m
Cash flows from operating activities			
Loss for the year / period		**(72)**	(47)
Adjustments for non-cash movements in loss for the year / period			
Net losses / (gains) on financial investments		**47**	(3)
Investment income		**(7)**	(4)
Net (increase) / decrease in operating assets			
Funds withheld		**1**	(15)
Investments designated as fair value through profit or loss[2]		**(696)**	(448)
Net increase / (decrease) in operating liabilities			
Non-participating insurance contract liabilities		**686**	529
Payables and other financial liabilities		**4**	6
Cash (used in) / generated from operating activities		**(37)**	18
Interest received		**27**	5
Net cash flows (used in) / from operating activities		**(10)**	23
Cash flows from investing activities			
Interest received		**3**	–
Purchases of financial investments		**(359)**	(111)
Proceeds from sales and maturities of financial investments		**173**	–
Net cash flows (used in) investing activities		**(183)**	(111)
Cash flows from financing activities			
Proceeds from issue of share capital	10	**205**	111
Proceeds from borrowings	16(iii)	**348**	251
Repayment of borrowings	16(iii)	**(348)**	(251)
Repayment of interest		**(1)**	–
Net cash flows from financing activities		**204**	111
Net increase in cash and cash equivalents		**11**	23
Cash and cash equivalents at the beginning of the year / period		**23**	**–**
Cash and cash equivalents at 31 December	1H	**34**	23

[1] Reclassified. 2021 netted the proceeds and repayments of borrowings which totalled to CA$Nil. This has been reclassified and shown gross as CA$251m proceeds from borrowings and (CA$251m) repayment of borrowings.
[2] Includes an increase in non-cash movements of CA$374m (2021: CA$Nil).

1. Accounting policies

A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'). The Company's financial statements also comply with International Financial Reporting Interpretations Committee ('IFRIC') interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets (including funds withheld and financial investments), which are reported at fair value through profit or loss ('FVTPL').

These financial statements contain information about Legal & General Reinsurance Company No.2 Limited as an individual company and do not contain consolidated financial information. The Company is included in the consolidated Group accounts of Legal & General Group Plc ('Group'), a United Kingdom ('UK') domiciled publicly traded company.

The Company presents its Statement of Financial Position in order of increasing liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Company's core business. However, for each significant asset and liability line item, which combines amounts expected to be recovered or settled before and after 12 months from the Statement of Financial Position date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement Loss and Total Comprehensive Loss unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Company, except for investment management fees which are deducted from investment return.

(i) Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Company's financial statements. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in these financial statements. Principal risks and uncertainties are detailed in Note 18.

The Directors have made an assessment of the Company's going concern status, considering both the Company's current performance and the Company's outlook for a year of at least, but not limited to, 12 months from the date of approval of these financial statements.

The Company manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. The key sensitivities and the impacts on the Company's capital position from a range of stresses are disclosed in Note 18. These stresses, including high inflationary scenarios, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the Directors consider that the Company has the plans and resources to manage its business risks successfully.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of the current economic environment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

(ii) New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied the following standards and amendments for the first time in its annual reporting year commencing 1 January 2022, which did not give rise to a material impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2018-2020
These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'.

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets
These amendments, issued in May 2020, specify which costs a company includes when assessing whether a contract will be loss-making.

(iii) Standards, amendments and interpretations to published standards which are not yet effective

The Company will apply IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' for the first time on 1 January 2023. IFRS 17 will bring changes to the accounting for insurance and reinsurance contracts and are expected to have a material impact on the Company's financial statements in the period of initial application. The Company does not expect a significant impact from the adoption of IFRS 9.

(a) Introduction

IFRS 17, 'Insurance Contracts'
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 by the IASB, and subsequent amendments were issued in June 2020. The standard is effective for annual periods beginning on or after 1 January 2023. The standard, which replaces IFRS 4, will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their measurement, Statement of Loss and Total Comprehensive Loss presentation and disclosure.

The key general principles of IFRS 17 are that an entity:

- identifies insurance contracts as those under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;

1. Accounting policies (Continued)

- separates specified embedded derivatives, distinct investment components and distinct non-insurance goods or services from insurance contracts and accounts for them in accordance with other accounting standards;
- aggregates the insurance contracts into groups it will recognise and measure (by portfolio, year of inception and profitability);
- recognises and measures groups of insurance contracts at:
  - a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows; and
  - an amount representing the unearned profit in the group of contracts (the contractual service margin or CSM);
- recognises profit from a group of insurance contracts over the period the group provides insurance coverage. If a group of contracts is expected to be onerous (i.e loss making) over the remaining coverage period, a loss is recognised immediately; and
- presents insurance service results (including insurance revenue) separately from insurance finance income or expenses with an accounting policy choice to disaggregate insurance income and expense for the period between profit or loss and other comprehensive income.

IFRS 9, 'Financial Instruments'
In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which was effective for annual periods beginning on or after 1 January 2018. The standard replaced IAS 39, 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allowed entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17, 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020, the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The Company has qualified for, and has made use of this deferral option, and will therefore apply IFRS 9 for the first time on 1 January 2023, with a restatement of 2022 comparatives.

IFRS 9 classifies financial assets into the following three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets is based on the entity's business model for managing them, as well as their contractual cash flow characteristics. With the exception of financial assets measured under FVTPL, an expected credit loss impairment model applies to all financial assets in scope (including lease receivables and contract assets). The new impairment model requires utilising not only past events and current conditions but also reasonable and supportable forward-looking information, in order to assess the credit risk profiles of those financial assets in scope.

Most requirements around financial liabilities in IAS 39 have been retained by IFRS 9, and hedge accounting requirements have been revised by replacing some of the prescriptive rules in IAS 39 with more principle-based requirements, to be better aligned with the risk management activities of an entity and reflected accordingly in the financial statements.

(b) Estimated impacts of the adoption of IFRS 17 and IFRS 9

The Company has assessed the estimated impact that the initial application of IFRS 17 and IFRS 9 will have on its financial statements at the transition date of 1 January 2022. The total adjustment to the Company's shareholder's equity is estimated to be an increase of CA$28m. The estimated impacts on the key line items in the Company's balance sheet are set out below.

	31 December 2021 (as reported) CA$m	Adjustments due to adoption of IFRS17 CA$m	Adjustments due to adoption of IFRS9 CA$m	1 January 2022 (restated) CA$m
Total shareholder's equity	**64**	**28**	**-**	**92**

While the adoption of these accounting standards will have an impact on the timing and profile of profit recognition, the underlying economics and cash generation of the Company's business do not change.

The financial impacts noted above will be reflected in the Company's Accounts for the year ending 31 December 2023. The financial impacts relating to the year ending 31 December 2022 have not yet been finalised and cannot be reasonably estimated for the purpose of inclusion in these financial statements.

(i) Adjustments due to the adoption of IFRS 17

The different timing of profit recognition will result in a decrease in liabilities, and therefore increase in shareholder's equity on adoption of IFRS 17. This reflects that a portion of profits previously recognised and accumulated in equity under IFRS 4 will be included in the measurement of the liabilities under IFRS 17.

(c) Significant accounting policies – IFRS 17, 'Insurance Contracts'

Long term insurance contracts – initial measurement

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS 17 are classified as investment contracts and are measured under IFRS 9. The scope of IFRS 17 is very closely aligned to IFRS 4.

1. Accounting policies (Continued)

All of the Company's in scope insurance contracts are accounted for under the general measurement model which measures a group of insurance contracts as the total of:

- fulfilment cash flows
- a CSM representing the unearned profit the Company will recognise as it provides service under the insurance contracts in the Company

Fulfilment cash flows
Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk. The Company's objective in estimating future cash flows is to determine the expected value, or the probability weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. The Company estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary. The contract boundary for the Company's contracts is very closely aligned with that applied under IFRS 4. The cash flows include:

- premiums and related cash flows
- claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims
- investment management costs incurred in the provision of an investment return service or to enhance the benefits of an insurance contract
- payments to policyholders resulting from embedded surrender value options
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs
- claims handling costs
- policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- transaction-based taxes

The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- information about claims already reported by policyholders
- other information about the known or estimated characteristics of the insurance contracts
- historical data about the Company's own experience, supplemented when necessary with data from other sources. Historical data is adjusted to reflect current conditions
- current pricing information, when available

The measurement of fulfilment cash flows-includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract.

Risk adjustment
The risk adjustment for non-financial risk for a group of contracts reflects the compensation that the Company would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk after diversification. We have calibrated the Company's risk adjustment using a Value at Risk ('VAR') methodology. The total Company risk adjustment at transition was CA$6m.

Discounting
The insurance contract fulfilment cash flows are discounted at rates that reflect the characteristics of the insurance contract liabilities. These have been determined using the top down approach, starting from an appropriate asset portfolio with deductions to remove risks in the assets that are not present in the insurance liabilities. As is the case under IFRS 4, the discount rate is a key determinant of the measurement of the insurance liability, particularly for annuity business. At transition, the average credit default deduction was c69 bps compared with c36 bps under IFRS 4.

Contractual service margin
The Company's CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the company will recognise as it provides services in the future. The Company measures the CSM on initial recognition at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- initial recognition of the fulfilment cash flows
- any cash flows arising from the contracts in the group at that date
- the derecognition at the date of initial recognition of:
  - any asset for insurance acquisition cash flows; and
  - any other asset or liability previously recognised related to the group of contracts.

Aggregation
The level of aggregation determines the unit of account at which IFRS 17 calculations are performed. This is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of subsequently becoming onerous, and the remainder. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

Onerous contracts
For groups of contracts assessed as onerous, the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the CSM of the group being zero. A loss component is established by the Company for the liability for remaining coverage for an onerous group depicting the losses recognised.

1. Accounting policies (Continued)

Long term insurance contracts – subsequent measurement

The Company measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of: (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the liability for incurred claims for the group reflecting the fulfilment cash flows related to past service allocated to the group at that date.

Contractual service margin - measurement
The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts the carrying amount of the CSM of that group at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

- the effect of any new contracts added to the group
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition
- the changes in fulfilment cash flows relating to future service, except to the extent that:
  - such increases in the fulfilment cash flows exceed the current carrying amount of the CSM, giving rise to a loss; or
  - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage
- the amount recognised as insurance revenue because of the transfer of services in the period, determined by allocation of the contractual service margin at the end of the period over the current and remaining coverage period.
- the effect of any currency exchange differences on the CSM

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- experience adjustments that arise from the difference between the premium receipts (net of refunds) and any related cash flows such as insurance acquisition cash flows and insurance premium taxes and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) related to current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (recognised in the Statement of Loss and Total Comprehensive Loss rather than adjusting the CSM)
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period
- changes in the risk adjustment for non-financial risk that relate to future service

Adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition (i.e. the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group over a 12-month period).

Onerous contracts
Groups of contracts that were not onerous at initial recognition can also subsequently become onerous if assumptions and experience changes. The Company establishes a loss component for any onerous group depicting the future losses recognised. The loss component is released based on a systematic allocation of the subsequent changes in the fulfilment cash flows to: (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The loss component is also updated for subsequent changes in estimates of the fulfilment cash flows related to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have been materialised in the form of incurred claims). The loss component ensures that over the duration of the contract, the correct amounts are recognised as insurance revenue and insurance service expenses.

Contractual service margin – recognition
The amount of contractual service margin recognised in the Statement of Loss and Total Comprehensive Loss for a group of insurance contracts reflects the insurance contract services provided. The proportion of the CSM earned is calculated from the amount of coverage units provided in the period divided by the sum of all the future and current period coverage units. The Company has elected to discount the future coverage units in this calculation. The table below indicates the main insurance contracts services provided under the company's insurance contracts and selected "coverage unit(s)" used to measure those services.

Insurance contract	Insurance service	Coverage unit(s)
Immediate annuity	Payment of insurance claims	Expected annual claims payments
Deferred annuity	Payment of insurance claims (payment phase)	Expected annual claims payments
	Investment return service (deferral phase)	Expected investment return on backing assets
	Lump sum death benefits (deferral phase)	Sum assured

1. Accounting policies (Continued)

Where a specific unit of account contains a mixture of services, and therefore coverage units, it is necessary to weight the coverage units so that the resulting profile of CSM release reflects the overall package of benefits provided. This is particularly pertinent to units of account incorporating a combination of immediate and deferred annuities. Under IFRS 17, deferred annuities usually provide multiple services, split between the two phases of benefit provision (the deferral phase and the payment phase). Significant judgement is therefore required to combine the different coverage units so that they fairly reflect the services provided. The weighting between the deferral phase and the payment phase coverage units is calculated so that the services provided in the deferral phase reflect the investment return provided and the probability weighted delivery of any lump sum death benefits, both adjusted to target that all of the CSM is earned in the deferral phase for all contracts which do not enter the payment phase either through transfer out, withdrawal of funds or death.

Earning the CSM over the coverage period will slow down profit recognition for annuities in comparison to IFRS 4 which allowed the recognition of profit on inception and more closely linked revenue recognition to risk release rather than the provision of service.

Investment components
Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17. As a result, revenue from some annuity and universal life contracts will be reduced in comparison with the premium recognised under IFRS 4. The Company will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance.

Insurance finance income and expense
IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in profit or loss, or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. The Company has elected to include all finance income and expense in profit or loss.

Transition

On transition to IFRS 17, the Company is required to apply the full retrospective approach unless impracticable. The full retrospective approach requires the Company to:

- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always applied.
- derecognise any existing balances that would not exist had IFRS 17 always applied.
- recognise any resulting net difference in equity.

If it was impracticable to apply a full retrospective approach to a group of contracts then the Company has chosen between the modified retrospective approach and the fair value approach. However, if the Company could not obtain reasonable and supportable information necessary to apply the modified retrospective approach, then the fair value approach has been chosen.

The Company has applied the full retrospective approach to all business in force at the date of transition.

Full retrospective approach
The full retrospective approach has been determined to be impracticable where the effects of retrospective application are not determinable because information required has not been collected (or not with sufficient granularity), application would require the application of hindsight, or information is unavailable because of system migrations, data retention requirements or other reasons. Specific examples include:

- historic calibration of IFRS 17 specific judgements, such as the scale of the risk adjustment,
- expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts,
- information about historical cashflows and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis,
- information required to allocate fixed and variable overheads to groups of contracts, because the group's current accounting policies do not require such information; and
- information about certain changes in assumptions and estimates because they were not documented on an ongoing basis.

(d) Significant accounting policies – IFRS 9, 'Financial Instruments'

Financial assets – classification and measurement

The classification and measurement of financial assets depends on their contractual cash flow characteristics and how they are managed (the entity's business model). The contractual cash flow characteristics test aims to identify those assets with cash flows consistent with a basic lending arrangement, i.e. which are 'solely payments of principal and interest' ('SPPI'). The business model test refers to how an entity manages its financial assets with the objectives of generating cash flows. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. In particular:

- amortised cost: financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is to hold the assets to collect their cash flows;
- fair value through other comprehensive income ('FVOCI'): financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is achieved by holding the assets to collect their cash flows and selling them;
- fair value through profit or loss ('FVTPL'): all other financial assets.

Notwithstanding the above, on initial recognition the Company may irrevocably designate to FVTPL a financial asset that would otherwise be measured at amortised cost or FVOCI if doing so eliminates or greatly reduces an accounting mismatch. Additionally, on initial recognition of an equity investment not held for trading the Company may irrevocably elect to present its subsequent changes in fair value in OCI.

1. Accounting policies (Continued)

Based on the new requirements, IFRS 9 will affect the classification and measurement of financial assets as follows:

- financial assets continuing to be measured at FVTPL including:
  - equity investments, measured at FVTPL under IAS 39, will continue to be measured at FVTPL under IFRS 9;
  - derivative assets are held-for-trading instruments under both IAS 39 and IFRS 9, and will therefore continue to be measured at FVTPL, unless designated as hedging items as part of a hedge accounting relationship;
  - debt instruments backing Annuities, including surplus assets, are currently accounted for at FVTPL as they are managed on a fair value basis. These will retain the same measurement under IFRS 9 as their business model does not naturally fit a 'held to collect' or 'held to collect and sell' business model, irrespective of their contractual cash flows characteristics;
  - other debt securities backing investment contract liabilities and surplus shareholder assets will continue to be accounted for at FVTPL as they are managed on a fair value basis, consistent with their IAS 39 measurement.
- receivable balances are accounted for at amortised cost under both IAS 39 and IFRS 9.

Financial liabilities

IFRS 9 largely retains the requirements of IAS 39 for the classification and measurement of financial liabilities, which can be at either amortised cost or FVTPL. In contrast with IAS 39, under IFRS 9 the amount of fair value changes for financial liabilities at FVTPL attributable to changes in the credit risk of the liability is presented in OCI. However, if this treatment creates, or enlarges, an accounting mismatch in profit or loss, the group must present all gains or losses for that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

The new requirements for financial liabilities did not affect the Company's classification and measurement of its instruments.

Transition

On transition, changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

For the Company, IFRS 9 has a date of initial application of 1 January 2023, which coincides with the implementation with IFRS 17. Despite this, on initial application, while IFRS 17 requires the presentation of at least one restated comparative period, IFRS 9 permits, but does not require, restatement of comparative periods. In line with IFRS 17 the Company has chosen to restate comparative periods under IFRS 9. The standard does not apply to financial assets already derecognised by 1 January 2023, however the Company has applied a 'classification overlay' introduced by the IASB per an amendment to IFRS 17 titled 'Initial Application of IFRS 9 and IFRS 17 – Comparative Information'. This allows an entity applying IFRS 17 and IFRS 9 at the same time to present comparative information as if the classification and measurement and impairment requirements of IFRS 9 had been applied to them, irrespective of derecognition date.

Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 – Making Materiality Judgements: Disclosure of Accounting Policies
These amendments, issued in February 2021, intend to help preparers in deciding which accounting policies to disclose in their financial statements, by applying materiality judgements. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company is currently revisiting its accounting policy disclosures to ensure compliance and consistency with the new requirements.

Amendments to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors
These amendments, issued in February 2021, aim to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company does not expect the impact to be significant.

Amendments to IAS 12 – Income Tax
These amendments, issued in May 2021, clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The impact is not significant to the Company.

Amendments to IAS 1 – Presentation of Financial Statements: 'Classification of labilities as Current or Non-current'
These amendments, issued in January 2020, clarify the existing requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

B Critical accounting policies and use of estimates
The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Financial Position and the Statement of Loss and Total Comprehensive Loss and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, material adjustments could be made to carrying amounts of assets and liabilities within the next financial year. The Audit Committee reviews the reasonableness of judgements associated with and the application of significant accounting policies.

The preparation of the financial statements has also considered the impact of climate change and, as at 31 December 2022, management does not consider this to be a significant area of accounting judgement or source of estimation uncertainty. Specific considerations around climate change have been presented in the Company's financial statements in the following sections:

- Financial investments (Note 8)
- IFRS sensitivity analysis (Note 18)

The major areas of critical accounting judgement on policy application are considered below:

1. Accounting policies (Continued)

Non-participating insurance contract liabilities (Notes 1E, 1F, 11, 12) and associated balances
This relates to the assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance or investment contract. Contracts which transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the Company but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the Company to make significant additional payments, i.e. does the occurrence of the event cause significantly higher cash outflow for the Company than its non-occurrence.

Insurance contracts are accounted for under IFRS 4, while investment contracts are accounted for as financial instruments under IAS 39.

The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity and mortality are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs. The main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 12.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data. The valuation interest rate is also sensitive to the selection of assets chosen to back the liabilities.

Determination of the target long-term asset portfolio at certain period ends, depending on the quantum and timing of pension risk transfer (PRT) volumes; this assumption is used to present the retirement new business metrics.

The Company has selected accounting policies which state fairly its financial position and financial performance for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

The determination of fair values of unquoted and illiquid financial investments (Notes 1F, 1G, 7, 8)
Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instrument.

C Summary of significant accounting policies
The Company has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting year. The accounting policies have been consistently applied to all years presented unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Loss and Total Comprehensive Loss unless required or permitted by any accounting standard, as detailed in the applicable accounting policies of the Company.

The principal accounting policies adopted in preparing these financial statements are set out below.

D Tax balances
Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

The Company is subject to tax in the UK on the profits that arise by reference to central management and control being undertaken by the Board of Directors in the UK.

The Organisation for Economic Co-operation and Development ('OECD') released a framework in December 2021 to address concerns at a global level about tax contributions of large multinational corporations, with subsequent guidance issued in 2022 and early 2023. This reflects agreement from over 135 jurisdictions to introduce a global minimum tax rate of 15%. The UK has published draft legislation to implement the OECD framework and apply a top-up tax to profits that are otherwise taxed at less than 15%. As at 31 December 2022 this legislation has not yet been substantively enacted.

1. Accounting policies (Continued)

E Non-participating insurance contract liabilities
Non-participating insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using the requirements under former UK Generally Accepted Accounting Principles ('GAAP'), as permitted by IFRS 4, 'Insurance contracts'.

The liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits.

Gross written premiums represent the total premiums written by the Company before deductions for reinsurance. Premiums are recognised as revenue when due for payment.

Claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. These costs are charged to the Statement of Loss and Total Comprehensive Loss when incurred.

F Funds withheld
Funds withheld include assets contractually withheld by ceding companies in accordance with each respective reinsurance agreement. The value of the assets withheld and interest income are recorded in accordance with each specific treaty terms.

The funds withheld back the Company's non-participating policyholder liabilities and on initial recognition are designated at FVTPL. The funds withheld are measured at a value equal to the fair value of the underlying assets held by the withholding companies, with fair value gains and losses reflected in the Statement of Loss and Total Comprehensive Loss. The funds withheld are measured on the basis of current information relating to the assets withheld and are designated as FVTPL to avoid an accounting mismatch in the Statement of Loss and Total Comprehensive Loss.

G Financial investments
The Company classifies its financial investments on initial recognition as held for trading ('HFT') or, designated at FVTPL. Initial recognition of financial investments is on the trade date. The Company's policy is to measure financial investments at FVTPL. All derivatives are classified as HFT.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Statement of Loss and Total Comprehensive Loss. Transaction costs are expensed as incurred.

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Company's Investment Committee and the Company's investment strategy. Assets designated as FVTPL include debt securities. Assets backing non-participating policyholder liabilities are designated as FVTPL. The Company's investments backing non-participating insurance contract liabilities are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Statement of Loss and Total Comprehensive Loss.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

Receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

Financial investments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the Company transfers substantially all the risks and rewards of ownership to another entity.

H Cash and cash equivalents
Cash and cash equivalents include deposits held at call with banks, treasury bills and other short term highly liquid investments with original maturities of three months or less from the date of acquisition.

I Payables and other financial liabilities
Payables and other financial liabilities comprise of management fees payable and are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

J Foreign currency transactions
Foreign currency transactions are translated into the functional currency ('Canadian Dollar' or 'CA$') using the exchange rate prevailing at the date of the transactions. The functional currency of the Company's foreign operations is the currency of the primary economic environment in which the entity operates. The monetary assets and liabilities of all of the Company's foreign operations are translated into Canadian dollar, the Company's presentation currency, at the closing rate at the date of the Statement of Financial Position. The income and expenses for each Statement of Loss and Total Comprehensive Loss line are translated at average or spot exchange rates, when feasible. Non-monetary assets and liabilities are translated at historical rates.

1. Accounting policies (Continued)

Foreign exchange gains and losses are recognised in the Statement of Loss and Total Comprehensive Loss.

K Investment return

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL, and realised gains and losses from all financial assets and liabilities.

Investment income includes dividends and interest. Dividends are accrued on an ex-dividend basis. Interest is included on an accrual basis. Interest income for financial assets which is not classified as FVTPL is recognised using the effective interest method. Investment income is presented net of investment management fees.

L Other expenses

Other expenses comprise administrative expenses, management fees, corporate expenses and other charges. Other costs are accounted for as they arise. The Company does not have direct employees since they are employed by Legal & General Resources Bermuda Limited ('LGRB').

M Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses a variety of exchange traded and over-the-counter derivative financial instruments, including, futures, options, forward currency contracts and swaps, such as interest rate swaps and cross currency basis swaps measured at fair value to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the Statement of Loss and Total Comprehensive Loss.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

2. Company information

The Company is a long-term Class E reinsurer under Bermuda's Insurance Act of 1978. The principal activity of the Company is the provision of life reinsurance solutions globally, focussing on pensions risk transfer ('PRT') in selected international markets. The Company currently has long-term PRT business in Canada.

The Company was capitalised in 2021 with CA$111m. Legal & General Re Holdings Limited ('Re Holdings') is the direct parent and Legal & General Group Plc is the ultimate parent. During 2022, on 28 September and 24 November the Company issued additional CA$60m and CA$145m of share capital respectively.

The Company is incorporated and domiciled in Bermuda and its registered office and principal place of business is 19 Par-la-Ville Road, Hamilton, HM 11, Bermuda.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Canadian Dollars ('CA$'), which is the Company's functional currency.

3. Investment return

Total investment loss for the year/period was:

	2022 CA$m	2021 CA$m
Gross (loss) (including interest and dividend income) on the funds withheld (Note 7)	**(1)**	–
Net (loss) / gain on financial investments designated as FVTPL	**(48)**	2
Net gain / (loss) from foreign exchange revaluation	**2**	(1)
Total investment (loss) / profit	**(47)**	1

4. Claims and change in non-participating insurance contract liabilities

From non-participating insurance contract continuing operations	**2022 CA$m**	2021 CA$m
Claims paid	**39**	7
Change in non-participating insurance contract liabilities	**685**	529
Total claims and change in non-participating insurance contract liabilities	**724**	536

5. Foreign exchange and exchange rates

Investment return for the year includes a foreign exchange gain of CA$2m (2021: loss of CA$1m) arising on conversion of foreign currency monetary assets and liabilities to functional currency. During the year, investment return arising from foreign currency financial investments amount to CA$Nil (2021: CA$Nil).

Principal rates of exchange used for translation are:

	2022 Average	**2022 Year-End**	2021 Average	2021 Year-End
United States Dollar	**1.300**	**1.355**	1.279	1.265
Sterling	**1.605**	**1.639**	1.704	1.711
Euro	**1.368**	**1.451**	1.447	1.439

6. Dividends

The Company did not declare or pay a dividend to Re Holdings during the year (2021: CA$Nil).

7. Funds withheld

Total funds withheld balances as at 31 December 2022 amount to CA$14m (2021: CA$15m).

On 24 August 2021, the Company entered into a Business Transfer Agreement with Legal & General Reinsurance Company Limited ('L&G Re'). L&G Re transferred to the Company its rights and obligations, including the associated investment and collateral arrangements, related to its Canadian PRT business.

The Company's funds withheld ('FWH') includes balances associated with the reinsurance of non-participating insurance contracts.

Income accrued and return on the withheld assets, according to the terms defined in each reinsurance treaties, was a loss of CA$1m (2021: CA$Nil) for the year ended 31 December 2022. The ratings of the assets underlying the funds withheld are shown in Note 18 Table 1.

8. Financial investments

(i) Financial investments at fair value

	Notes	**2022 CA$m**	2021 CA$m
Financial investments at fair value designated as:			
Fair value through profit or loss		**1,374**	561
Total financial investments	8(ii)	**1,374**	561
Expected to be received within 12 months		**395**	39
Expected to be received after 12 months		**979**	522

The financial investments are comprised of shareholder fund and long-term fund (which represent assets backing insurance liabilities). The risks associated with financial investments are outlined in Note 18.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities.

Financial investments within the shareholder fund include CA$4m (2021: CA$4m) of debt securities pledged as collateral with rating AAA (2021: AAA). The assets have a residual maturity of less than a year (2021: less than a year).

Financial investments within the long-term fund include CA$1,093m (2021: CA$463m) of debt securities pledged as collateral in the course of writing treaties with the Company's counterparties. The assets used as collateral are AAA, AA, A, and BBB (2021: AAA, AA, A, and BBB) and have a residual maturity of up to 40 years (2021: 41 years).

The Company is entitled to receive all of the cash flows from the assets during the year when they are pledged as collateral and has the economic benefit on assets. The Company can decide to substitute an asset, which is designated as collateral at any time, provided the relevant terms and conditions of the security deed between the cedant and the Company are met.

(ii) Fair value hierarchy of financial investments and funds withheld

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

8. Financial investments (Continued)

The levels of fair value measurement basis are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement 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).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Company's assets by IFRS 13 hierarchy levels:

As at 31 December 2022	**Total CA$m**	**Level 1 CA$m**	**Level 2 CA$m**	**Level 3 CA$m**
Debt securities	**1,362**	191	1,171	–
Accrued interest	**12**	1	11	–
Total financial investments	**1,374**	**192**	**1,182**	**–**
Funds withheld financial investments[1]	**7**	5	2	–

[1] Funds withheld includes cash and cash equivalents of CA$7m not shown above.

As at 31 December 2021	Total CA$m	Level 1 CA$m	Level 2 CA$m	Level 3 CA$m
Debt securities[2]	557	130	427	–
Accrued interest[2]	4	1	3	–
Total financial investments	561	131	430	–
Funds withheld financial investments[1]	11	–	11	–

[1] Reclassified. 2021 included CA$4m as level 1 which represented cash and cash equivalents held at amortised cost within the funds withheld balance.
[2] Reclassified. 2021 classified CA$130m of debt securities and CA$1m of accrued interest as level 2 which have been reclassified to level 1.

The Company's financial assets are valued, where possible, using standard market pricing sources, such as Bloomberg or index providers such as FTSE. Each uses mathematical modelling and multiple source validation in order to determine consensus prices. In normal market conditions, the Company would consider these market prices to be observable and therefore classify them as level 1. Where inputs to the valuation have been sourced from a market that is not suitably active, the prices have been classified as level 2.

The Company's policy is to re-assess categorisation of financial assets at the end of each reporting year and to recognise transfers between levels at that point in time.

The Company holds regular discussion with pricing providers to determine whether transfers or classifications between levels of the fair value hierarchy have occurred.

Asset valuation approach at 31 December 2022
The Company's asset portfolio can be exposed to climate change through both:
- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Exposure to the physical risks of climate change is minimal in the direct investment portfolios with low susceptibility to extreme weather events. The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2022; therefore the Company has elected not to report its energy and carbon information.

9. IFRS 9 'Financial Instruments' deferral

Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding (i.e. passing the 'SPPI' test):

9. IFRS 9 'Financial Instruments' deferral (Continued)

	Financial assets passing the SPPI test[1,2] 2022 CA$m	**All other financial assets[3,4] 2022 CA$m**	Financial assets passing the SPPI test[1,2] 2021 CA$m	All other financial assets[3,4] 2021 CA$m
Debt securities	–	1,362	–	557
Accrued interest	–	12	–	4
Funds withheld[5]	–	7	–	11
Total financial investments at fair value	–	**1,381**	–	572
Total financial assets (excluding cash and cash equivalents)	–	**1,381**	–	572

[1] Financial assets classified as FVTPL or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'All other financial assets'.
[2] For financial assets which pass the SPPI test held at 31 December 2022, there was no change in the fair value (2021: CA$Nil).
[3] For all other financial assets held, there was a net unrealised loss of CA$76m (2021: a net unrealised loss of CA$2m).
[4] Cash and cash equivalents, held at amortised cost, of CA$7m (2021: CA$4m) within funds withheld is excluded from the above.
[5] Reclassified. 2021 included CA$4m of cash and cash equivalents held at amortised cost within the funds withheld balance.

10. Share capital

	2022 Number of shares	**2022 CA$**	2021 Number of shares	2021 CA$
Authorised share capital:				
Ordinary shares of US$1 each	**500,000,000**	**643,128,271**	99,000,000	127,963,571
Issued share capital:				
Fully paid ordinary shares of US$1 each	**240,036,000**	**315,582,800**	88,732,000	111,434,800

In 2021, 88,732,000 authorised and issued ordinary shares of US$1.00 were subscribed to by Re Holdings. On 14 June 2022, the Company increased its authorised shares to 500,000,000, of which a further 151,304,000 were subscribed to by the same company at US$1.00 each (42,980,000 on 28 September 2022 and 108,324,000 on 25 November 2022, respectively). There is one class of ordinary shares. All shares issued carry equal voting rights.

The holder of the Company's ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at shareholder meetings of the Company.

11. Non-participating insurance contract liabilities

(i) Analysis of non-participating insurance contract liabilities

	Note	**Gross 2022 CA$m**	**Reinsurance 2022 CA$m**	Gross 2021 CA$m	Reinsurance 2021 CA$m
Non-participating insurance contracts liabilities	11(iii)	**1,215**	–	529	–
Total non-participating insurance contract liabilities		**1,215**	–	529	–

(ii) Expected non-participating insurance contract liability cash flows

As at 31 December 2022	**0-5 years CA$m**	**5-15 years CA$m**	**15-25 years CA$m**	**Over 25 years CA$m**	**Total CA$m**	**Carrying Value CA$m**
Non-participating insurance contracts liabilities	489	772	481	232	1,974	1,215
Non-participating insurance contract liabilities	489	772	481	232	1,974	1,215

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 4.53%.

11. Non-participating insurance contract liabilities (Continued)

As at 31 December 2021	0-5 years CA$m	5-15 years CA$m	15-25 years CA$m	Over 25 years CA$m	Total CA$m	Carrying Value CA$m
Non-participating insurance contracts	196	270	154	71	691	529
Non-participating insurance contract liabilities	196	270	154	71	691	529

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 2.49%.

(iii) Movement in non-participating insurance contract liabilities

	Note	**Gross 2022 CA$m**	Gross 2021 CA$m
As at 1 January		**529**	–
New liabilities in the period		**721**	509
Liabilities discharged in the year		**(35)**	(21)
Unwinding of discount rates		**23**	5
Effect of change in non-economic assumptions	12	**1**	(5)
Effect of change in economic assumptions	12	**(28)**	16
Other		**4**	25
As at 31 December		**1,215**	**529**
Expected to be settled within 12 months		**93**	48
Expected to be settled after 12 months		**1,122**	481

12. Long term insurance valuation assumptions

Non-participating business
The Company writes only non-participating business and it seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The assumptions incorporate prudent margins in excess of our best estimate assumptions to minimise the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates
The valuation interest rate (‘VIR’) for the underlying annuity business is based on the internal rate of return on the portfolio of assets backing the liabilities.

For the valuation interest rate assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company applies a prudent c37 bps (2021: c36 bps) per annum reduction to asset yield to allow for the risk of default for all business, overall this leads to a total default provision including additional default provision of cCA$45m (2021: cCA$19m).

The Company believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

In addition, a fixed/flat basis point deduction of 6.18bps (2021: 6.18bps) is applied to the VIR at the final stage of its derivation to introduce prudence to the credit spreads used within the VIR calculation.

Annuitant Mortality
Base mortality assumptions are set with reference to standard Canadian mortality tables drawn up by Club Vita. These tables are based on industry wide mortality experience. Mortality improvement rates, which reflect expected improvements in longevity in the future, were derived internally and are based on published Canadian population data.

The Company conducts statistical investigations of its mortality and morbidity experience, the majority of which are carried out at least annually. Investigations determine the extent to which the Company’s experience differs from that underpinning the standard tables, and suggest appropriate adjustments which need to be made to the valuation assumptions.

12. Long term insurance valuation assumptions (Continued)

Expenses

The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

The principal assumptions are:

2022	**Canada**
(i) Rate of interest / discount rate	
Annuities in deferment	**4.53% pa**
Vested annuities	**4.53% pa**
(ii) Mortality tables	
Annuities in deferment[1]	
- Bulk purchase annuities	**Vita Curves Mortality model**
Vested annuities[1]	
- Bulk purchase annuities	**Vita Curves Mortality model**

[1] For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long-Term Rate has been determined using a combination of Group's internal Cause of Death model and expert judgment. With the following parameters:
- Males (Canadian): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.30%.
- Females (Canadian): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.30%.

2021	Canada
(i) Rate of interest / discount rate	
Annuities in deferment	2.49% pa
Vested annuities	2.49% pa
(ii) Mortality tables	
Annuities in deferment[1]	
- Bulk purchase annuities	Vita Curves Mortality model
Vested annuities[1]	
- Bulk purchase annuities	Vita Curves Mortality model

[1] For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long-Term Rate has been determined using a combination of Group's internal Cause of Death model and expert judgment. With the following parameters:
- Males (Canadian): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.30%.
- Females (Canadian): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.30%.

13. Payables and other financial liabilities

	Notes	**2022 CA$m Total**	2021 CA$m Total
Other balances due	16	**10**	6
Payables and other financial liabilities		**10**	6
Settled within 12 months		**9**	6
Settled after 12 months		**1**	–

Fair value hierarchy

As at 31 December 2022	**Total CA$m**	**Level 1 CA$m**	**Level 2 CA$m**	**Level 3 CA$m**	**Amortised cost CA$m**
Other balances due [1]	10	–	–	–	**10**
Payables and other financial liabilities	**10**	–	–	–	**10**

[1] See Note 16(i) Related party transactions.

13. Payables and other financial liabilities (Continued)

As at 31 December 2021	Total CA$m	Level 1 CA$m	Level 2 CA$m	Level 3 CA$m	Amortised cost CA$m
Other balances due [1]	6	–	–	–	6
Payables and other financial liabilities	6	–	–	–	6

[1] See Note 16(i) Related party transactions.

There have been no significant transfers between levels.

14. Contingent liabilities, guarantees and indemnities

(i) Reserves Assumptions
Provisions for the liabilities arising under contracts with policyholders are based on certain assumptions. The variance between actual experiences from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the regulators.

(ii) Letters of Credit Contracts ('LOC')
The Company has entered into two credit facility agreements totaling CA$133m (2021: CA$83m). These credit facilities expire in August 2026 and October 2025.

(iii) Investment commitments
On 21 November 2022, the Company participated in a feeder fund. The commitment is up to $25m and it is expected to be funded in 2023.

The Company does not have any other contingent liabilities, guarantees or indemnities (2021: CA$ Nil) arising as part of its normal course of business.

15. Parent companies

The immediate parent company of Legal & General Reinsurance Company No.2 Limited is Legal & General Re Holdings Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. These accounts provide information about Legal & General Reinsurance Company No.2 Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available on the Legal & General Group Plc website at https://group.legalandgeneral.com/en/investors/results-reports-and-presentations.

16. Related party transactions

(i) Payables and other financial liabilities

As at 31 December	**2022 CA$m**	2021 CA$m
- Resources management charges due[1]	**8**	6
Total	**8**	6

[1] The management charges due relate to expenses owed by the Company to affiliates within the group. These charges have accrued over the year and relate to the operation costs including employee benefits. Legal & General Resources Limited which employs all UK staff, charges all of its costs pertaining to secondees to Legal & General Resources Bermuda Limited ('LGRB') from the UK offices. LGRB employs Bermuda based staff and incurs all costs of operation, which is recharged to the Company.

(ii) Other expenses

For the year ended 31 December	**2022 CA$m**	2021[1] CA$m
Management charges[2]	**15**	5
Total	**15**	**5**

[1] Reclassified. 2021 disclosed finance costs CA$1m within other charges (Note 16(iii)) which has now been reclassified as a separate line item on the Statement of Loss and Total Comprehensive Loss as required by the IFRS standards.
[2] See Note 16(i); CA$12m (2021: CA$4m) of management charges are staff related costs.

(iii) Finance costs
The Company entered into two loan agreements with the related party Legal & General Finance Plc amounting to CA$348m (2021: CA$250m). The Company incurred CA$1m (2021: CA$1m) of interest for the loans and the loans balance at the end of the year was CA$Nil (2021: CA$Nil).

16. Related party transactions (Continued)

(iv) Novation agreement

On 24 August 2021, the Company entered into a Business Transfer Agreement with L&G Re, a related party. L&G Re transferred to the Company its rights and obligations, including the associated investment and collateral arrangements, related to its Canadian PRT business. At the inception of the agreement, the Company recognised CA$244m of premiums and CA$241m of non-participating insurance liability in 2021. During the year ended 31 December 2022 the Company paid a true-up premium amount of CA$3.5m to L&G Re (2021: CA$Nil), which is recorded under gross written premiums.

17. Management of capital resources

Capital management policies and objectives

The Company aims to manage its capital resources to maintain financial strength, ensure policyholder security, meet local capital requirements and maintain the Company's strong financial strength rating which provides a competitive advantage.

Capital measures

The Company measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Company operates, and those which the Directors consider most appropriate for managing the business. The measures used by the Company include Bermuda Economic Balance Sheet ('EBS') regulatory capital and a bespoke economic capital model used in the Company's annual CISSA (Commercial Insurer's Solvency Self-Assessment) exercise.

Accounting bases

Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend-paying capacity.

Bermuda statutory requirements

The Company is licensed as a long-term Class E reinsurer under the Bermuda's Insurance Act 1978. Under the Act, the Company is required to maintain a minimum capital and surplus. There are no statutory restrictions on the payment of dividends from retained earnings of the Company as the minimum statutory capital and surplus requirements are satisfied by the share capital. However, approval from the Bermuda Monetary Authority must be obtained before the statutory capital is reduced by more than 25% of the previous year's statutory filing. In all cases, the Approved Actuary needs to provide support for any proposed dividends.

Capital resources

The financial strength of the Company is measured by reference to its Bermudian statutory accounts, which are a requirement of all Class E reinsurers. The Company's total capital resources of CA$197m (2021: CA$64m) comprise CA$316m (2021: CA$111m) of issued share capital to the ultimate parent and CA$119m (2021: CA$47m) in respect of a retained loss.

These resources are in excess of the required minimum capital and solvency requirements.

Available regulatory capital resource risks

The Company's capital resources are sensitive to changes in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to longevity, new business strain and, to a lesser extent, expenses.

The most significant risks arise from:

- Credit risk: this materialises if the default and downgrade experience of the assets backing the liabilities exceed the reserving assumptions, and
- Longevity risk: losses occur if the mortality of annuitants is lower than the assumptions used for reserving.

18. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach that applies to all risks and includes a detailed review of risks within the Company's business.

Insurance risk

Exposure to loss arising from claims experience being different to that anticipated.

Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk is managed with policies for underwriting, pricing and reinsurance. The Company's insurance risk policy sets out the overall framework for the management of insurance risk. Areas where the Company is primarily exposed to insurance risk are longevity, rates of longevity improvement and mortality. Insurance risk also arises from incomplete scheme demographic data.

Pricing is based on a fixed set of assumptions, such as mortality, which consider past experience, recent trends, and expert opinion. Actual experience may vary from the pricing assumptions, leading to profits or losses. Overall, the Company seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits.

Operational risk

Exposure to loss arising from inadequate or failed internal processes, people, systems or external events.

Potential for exposure to operational risk extends to all aspects of the business. The Company has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action or reputational damage.

18. Risk management and control (Continued)

Concentration risk
Exposure to loss arising from a specific geographic location or type of loss event.

As part of the ongoing risk assessment processes the Company considers the concentration of risk. The Company seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limit set includes financial instruments. Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company.

Market risk
Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

The Company's exposure to market risk is influenced by one or more external factors, including changes to interest rates, inflation, financial instrument prices, foreign exchange rates and indices of prices or rates.

Significant areas where the Company is exposed to these risks are:
- assets backing insurance contracts;
- assets and liabilities denominated in foreign currencies; and
- other financial assets and liabilities.

The Company's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

The Company is ultimately responsible for the management of market risk. The Company manages market risk using the following methods:

Asset liability matching
The Company manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has on the Company's Statement of Financial Position.

For business such as immediate annuities, which is sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and any early redemption options contained in the assets.

Derivatives
The Company uses derivatives to reduce the market risk arising in the funds. The most widely used derivatives are over the counter and exchange-traded swaps. The Company may also use futures and other derivatives to facilitate efficient asset allocation within the long-term funds. In addition, derivatives within the long-term fund are used to improve asset liability matching and to manage interest rate and foreign exchange risks. It is the Company's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised as appropriate to reduce counterparty risk. Derivatives may be either held directly on the balance sheet or in funds withheld or similar structures.

The most significant risks arise from:
Interest rate risk
Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its insurance contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, the Company purchases financial instruments, which broadly match the expected policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance liabilities, the expected risk-adjusted rate of return and the expected impact on the capital requirement.

Asset liability matching significantly reduces the Company's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 2 of Note 18.

Currency risk
The Company operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The Company has exposure to currency risk from financial instruments held in currencies other than their functional currency. The exchange risks inherent in these exposures are mitigated through the use of derivatives, for example forward currency contracts, cross currency basis swaps and futures.

The Company aims to maintain sufficient assets in local currency to meet local currency liabilities however movements may impact the value of the Company's shareholder's equity, which is expressed in CA$. This aspect of foreign exchange risk is monitored and managed, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Company's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

As at 31 December 2022, the Company held a net liability of CA$37m (2021: CA$30m) in US dollars. The Company mitigates exchange rate risk through the use of derivatives such as forward currency contracts.

18. Risk management and control (Continued)

The Company's management of currency risk reduces the shareholder's exposure to exchange rate fluctuations. The Company's exposure to a 10% exchange movement in the US dollar on an IFRS basis, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts are:

	A 10% increase in USD:CAD exchange rate		A 10% decrease in USD:CAD exchange rate	
	2022 CA$m	2021 CA$m	**2022 CA$m**	2021 CA$m
Net assets attributable to USD exposures	**3**	4	**(2)**	(3)

Other price risk
Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

The Company controls its exposure to geographical price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments.

The Company does not hold any equity securities as of 31 December 2022.

Credit risk
Exposure to loss if another party fails to perform its financial obligations to the Company.

The Company's credit risk policy defines the overall framework for the management of credit risk. Credit risk exposures primarily arise in relation to corporate bonds held by the Company and those in relation to the funds withheld.

The Company holds fixed and variable rate securities within the financial investments and funds withheld to back part of its insurance liabilities. Significant exposures are managed by the application and regular review of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults.

The credit profile of the Company's financial investments and funds withheld exposed to credit risk is shown in Table 1. The credit rating bands are provided by independent rating agencies. Credit risk bands are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies Standard & Poor's, Moody's, and Fitch. For unrated assets, such as cash and derivatives, not exposed to credit risk, the Company maintains internal ratings, which are used to manage exposure to these counterparties.

The carrying amount of assets included in the Statement of Financial Position represents the maximum credit exposure. No impairment provisions have been made.

Table 1 – Exposure to credit risk including funds withheld

As at 31 December 2022	**AAA CA$m**	**AA CA$m**	**A CA$m**	**BBB CA$m**	**BB and below CA$m**	**Unrated Other[2] CA$m**	**Total CA$m**
Government securities	305	163	4	–	–	–	**472**
Other fixed rate securities	–	23	502	373	–	–	**898**
Total debt securities	**305**	**186**	**506**	**373**	**–**	**–**	**1,370**
Accrued interest	1	1	5	4	–	–	**11**
Derivative assets	–	–	(1)	–	–	–	**(1)**
Cash and cash equivalents	33	6	3	–	–	–	**42**
Total[1]	**339**	**193**	**513**	**377**	**–**	**–**	**1,422**

[1] Total includes the underlying assets within the funds withheld balance.
[2] There are no internally rated assets.

18. Risk management and control (Continued)

As at 31 December 2021	AAA CA$m	AA CA$m	A CA$m	BBB[3] CA$m	BB and below CA$m	Unrated Other[2] CA$m	Total CA$m
Government securities	122	35	–	–	–	–	157
Other fixed rate securities[3]	–	31	200	179	–	–	410
Total debt securities	122	66	200	179	–	–	567
Accrued interest	–	–	2	2	–	–	4
Cash and cash equivalents	19	–	9	–	–	–	28
Total[1]	141	66	211	181	–	–	599

[1] Total includes the underlying assets within the funds withheld balance.
[2] There are no internally rated assets.
[3] Reclassified. 2021 disclosed CA$3m of BBB other fixed rate securities as BB or below, which have now been reclassified as BBB other fixed rate securities.

There are no impaired or past due financial assets within the portfolios in 2022 and 2021.

Liquidity risk
The risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company's liquidity risk policy defines the overall framework for the management of liquidity risk. The Company does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The liquidity risks, to which the Company's business may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Company's insurance business seeks to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets are maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets. The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmark.

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques are as follows:

Annuities: Potential for liquidity risk arises within two specific aspects of the Company's annuity business (i) changes in future pension commitments and (ii) collateral requirements risk for hedging strategies.

(**i) Changes in future pension commitments** - once business has been written, cash outflows for pensions in payment are generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long-term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

(ii) Collateral requirements for risk hedging strategies - as part of the investment asset management strategy for the Company's annuity business, financial instruments are utilised to manage exposure to fluctuations in interest rates and foreign currency, which may otherwise result in long term liabilities being unmatched. The use of such financial instruments can require the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.

The Company manages its banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends, with support from its ultimate holding company, Legal & General Group Plc's treasury function. The Company seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Company maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Company has access to the funds necessary.

18. Risk management and control (Continued)

Table 2 – Sensitivity analysis including funds withheld

Table 2 shows the impact on pre-tax loss and equity, net of reinsurance, under each sensitivity scenario for the business.

	Impact on pre-tax loss net of reinsurance 2022 CA$m	**Impact on equity net of reinsurance 2022 CA$m**	Impact on pre-tax loss net of reinsurance 2021 CA$m	Impact on equity net of reinsurance 2021 CA$m
Sensitivity test				
100 bps increase in interest rates	**6**	**6**	3	3
50 bps decrease in interest rates	**(3)**	**(3)**	(2)	(2)
Credit spread widens by 100 bps with no change in expected defaults	**5**	**5**	2	2
10 bps increase in credit default assumption	**(9)**	**(9)**	(4)	(4)
10 bps decrease in credit default assumption	**9**	**9**	4	4
1% increase in annuitant mortality	**3**	**3**	1	1
1% decrease in annuitant mortality	**(3)**	**(3)**	(1)	(1)
10% increase in maintenance expenses	**(4)**	**(4)**	(2)	(2)

- In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Company's experience may be correlated.
- The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure, which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position.
- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100/-50 basis point change in the gross redemption yield on fixed interest securities together with a 100/-50 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields.
- In the sensitivity for credit spreads, corporate bond yields have increased by 100 basis points and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 0.5% pa increase in inflation resulting in a 0.5% pa reduction in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased by 0.5% pa.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates (so for example, a rate that was 95% would become 94.05% (95% * 99%) under this stress).
- The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts.

The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts. The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

Climate change

As mentioned in Note 8, the Company is exposed to climate change.

Climate change impacts will emerge through risks that we are already exposed to, with the key existing risk exposures covered by the economic and non-economic sensitivities shown in this section. In addition, given the uncertain nature of the risks from climate change, and the lack of historical data to support decision making, a specific scenario testing approach over a longer term time horizon has been developed by the Group to manage the risks from climate change.

19. Subsequent events

There were no adjusting or non-adjusting subsequent events between 31 December 2022 and the approval of the report and accounts of the Company that require disclosure.