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Registered Number 56357

Legal & General Reinsurance Company No.2 Limited
Report and Accounts 2023

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INDEPENDENT AUDITOR'S REPORT

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

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 December 31, 2023, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 scepticism 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
April 24, 2024

Statement of Comprehensive Income

For year ended 31 December 2023

	Notes	**2023 CA$m**	Restated 2022 CA$m
Insurance revenue	1E/13	**87**	48
Insurance service expenses	1G/13	**(96)**	(39)
Insurance service result		**(9)**	9
Investment return	1F/3	**124**	(45)
Finance (expense)/income from insurance contracts	3	**(87)**	52
Insurance and investment result		**28**	16
Other operational expenses	9	**(1)**	(2)
Other finance costs		**–**	(1)
Other expenses		**(12)**	(10)
Total other expenses		**(13)**	(13)
Profit before tax attributable to equity holders		**15**	3
Total tax credit	1J/5	**7**	–
Profit for the year		**22**	3
Total comprehensive income		**22**	3

Statement of Financial Position

As at 31 December 2023

	Notes	**2023 CA$m**	Restated 2022 CA$m	Restated 2021 CA$m
Assets				
Financial investments	1D/7	**1,589**	1,374	561
Deferred tax assets	1J/10	**7**	–	–
Cash and cash equivalents	1H/11	**168**	34	22
Total assets		**1,764**	1,408	583
Equity				
Share capital	12	**316**	316	111
Retained earnings		**6**	(16)	(19)
Attributable to owners of the parent		**322**	300	92
Total equity		**322**	300	92
Liabilities				
Insurance contract liabilities	1C/13(ii)	**1,424**	1,099	486
Payables and other financial liabilities	15	**18**	9	5
Total liabilities		**1,442**	1,108	491
Total equity and liabilities		**1,764**	1,408	583

The Notes on pages 8 to 38 are an integral part of these financial statements.

The financial statements on pages 4 to 7 were approved by the Board of Directors on 24 April 2024 and were signed on their behalf by:

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T Stedman
Chairperson

DocuSigned by:
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N Rajkumar
Director

DocuSigned by:
9DC16EB325D4406...
A Ellison
Director

Statement of Changes in Equity

For the year ended 31 December 2023	Notes	Share capital CA$m	Share premium CA$m	Retained earnings CA$m	Total equity CA$m
As at 1 January 2023		**316**	**–**	**(16)**	**300**
Profit for the year		**–**	**–**	**22**	**22**
Total comprehensive income for the year		**–**	**–**	**22**	**22**
As at 31 December 2023		**316**	**–**	**6**	**322**

For the year ended 31 December 2022	Notes	CA$m	CA$m	CA$m	CA$m
As at 1 January (as previously reported)		111	–	(47)	64
Impact of initial application of IFRS 17		–	–	28	28
As at 1 January 2022 (Restated)		111	–	(19)	92
Profit for the year		–	–	3	3
Total comprehensive income for the year		–	–	3	3
Shares Issued	12	205	–	–	205
Restated as at 31 December 2022 (Restated)		316	–	(16)	300

Statement of Cash Flows

As at 31 December 2023

	Notes	**2023 CA$m**	Restated 2022 CA$m
Cash flows from operating activities			
Profit for the year		**22**	3
Adjustments for non-cash movements in net profit for the year			
Net (gains)/losses on financial investments		**(62)**	73
Investment income		**(62)**	(29)
Interest expense		**–**	1
Tax credit	5	**(7)**	–
Other adjustments		**1**	–
Net (increase)/decrease in operational assets			
Investments mandatorily measured at fair value through profit or loss		**(152)**	(865)
Other assets		**(1)**	–
Net (decrease)/increase in operational liabilities			
Insurance contracts		**326**	613
Other liabilities		**9**	3
Cash (utilised in)/generated from operations		**74**	(201)
Interest received		**60**	8
Net cash flows from operations		**134**	(193)
Proceeds from borrowings		**–**	348
Repayment of borrowings		**–**	(348)
Proceeds from share sale		**–**	205
Net cash flows utilised in financing activities		**–**	205
Net (decrease)/increase in cash and cash equivalents		**134**	12
Cash and cash equivalents at 1 January		**34**	22
Total cash and cash equivalents at 31 December	1H/11	**168**	34

1. Summary of material accounting policies

A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') Accounting Standard as issued by the International Accounting Standards Board ('IASB'). The Company's financial statements have been prepared under the historical cost convention and certain assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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 Comprehensive Income unless required or permitted by any accounting standard or International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the group.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position in the current economic environment are set out in the Company's financial statements. The financial position of the Company, its cash flows, liquidity position are described in these financial statements. Principal risks and uncertainties are detailed in Note 20.

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 period of at least, but not limited to, 12 months from the date of approval of these financial statements, using the information available up to the date of issue of these financial statements.

The Company manages and monitors its capital and liquidity, and applies various stresses, including adverse inflation and interest rate scenarios, to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on the Company's capital position from a range of stresses are disclosed in Note 19. These stresses 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, as detailed in Note 19, 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.

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 period commencing 1 January 2023.

IFRS 17 - Insurance Contracts and IFRS9 – Financial Instruments

The Company has applied IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' for the first time from 1 January 2023. These standards have brought significant changes to the accounting for insurance contracts and financial instruments respectively and IFRS 17 has had a material impact on the Company's financial statements in the period of initial application.

IFRS 17, 'Insurance Contracts' was originally issued in May 2017 by the IASB, and subsequent amendments were issued in June 2020. The standard replaced IFRS 4, 'Insurance Contracts', and has been applied retrospectively, in line with the transitional options provided for in the standard. IFRS 17 provides a comprehensive approach for accounting for insurance contracts including their measurement, Statement of Comprehensive Income presentation and disclosure.

IFRS 9, 'Financial Instruments' was issued in July 2014 by the IASB, effective for annual periods beginning on or after 1 January 2018. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allowed entities that met 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 qualified for, and made use of this deferral option, and has therefore applied IFRS 9 for the first time on 1 January 2023. 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 previous model based on incurred losses) and new requirements on hedge accounting. IFRS 9 has been applied retrospectively.

Section C includes the new accounting policies adopted by the Company for IFRS 17.

1. Summary of material accounting policies (continued)

IFRS 17 and IFRS 9 have been applied retrospectively, and prior period comparative information has been restated. There is no impact to the Company from the adoption of IFRS 9. As at the transition date of 1 January 2022, the impacts on the key line items in the Company's Statement of Financial Position are set out below.

	31 December 2021 (as reported) CA$m	Impact of the adoption of IFRS17 CA$m	1 January 2022 (restated) CA$m
Financial investments	561	-	561
Cash and cash equivalents	23	-	23
Net insurance contract liabilities[1]	(514)	28	(486)
Payables and other financial liabilities	(6)	-	(6)
Total shareholder's equity	**64**	**28**	**92**

[1]Net of funds withheld (FWH)

The adoption of the new accounting standards does not change the total profit recognised over the life of the Company's insurance contracts, nor the underlying economics or cash generation of the Company's businesses. It does not change the Company's strategy, solvency position nor dividend paying capacity or appetite.

Transition to IFRS 17

On transition to IFRS 17, the Company has applied the full retrospective approach unless impracticable. The full retrospective approach requires the Company to:

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

The Company has applied the following transition approaches to its insurance contract portfolios on transition to IFRS 17, by year of issue:

Transition approach	Applied to
Full retrospective	All business

Full retrospective approach

For insurance contracts where the full retrospective approach has been adopted, the best estimate and risk adjustment components of fulfilment cash flows have been recognised and measured using the accounting policies set out in note (v) from the inception date of the contracts to the date of transition.

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 cash flows and discount rates required for determining the estimates of cash flows on initial recognition and their subsequent changes on a retrospective basis;
- information required to allocate fixed and variable overheads to groups of contracts, because the Company'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.

1. Summary of material accounting policies (continued)

Transition assumptions

The Company's material insurance contract fulfilment cash flow assumptions at the date of transition are set out below.

(i) Mortality and morbidity

The base mortality assumptions used in the Company are currently 'Club Vita' tables for Canadian business based on pre-pandemic data and makes no allowance for future mortality differing from pre-pandemic mortality.

Mortality tables	01/01/2022
Annuity business - Pension risk transfer	
UK Annuities in deferment[1]	Club Vita CV Curves
UK Vested annuities[1]	Club Vita CV Curves

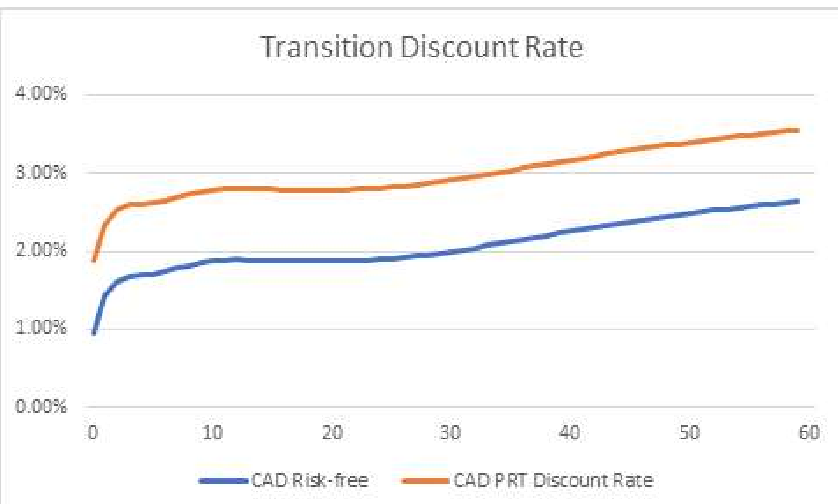
[1]For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long-Term Rate. The Long-Term Rate has been determined using a combination of L&Gs 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.
- Females (Canadian): Long-Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.

(ii) Valuation rates of interest and discount rates

The interest rates used to discount the cash flows for the purpose of valuing insurance contract liabilities should reflect the timing and liquidity characteristics of those insurance liability cash flows and current market conditions. The valuation interest rate assumptions are derived as interest rate curves with full term structure.

In deriving the valuation interest rate assumptions for annuity business, an explicit allowance for risk is deducted from the yield on the assets backing annuity liabilities. The allowance for risk comprises long-term assumptions about defaults and market risk premia for taking credit risk.

The discount rate curves used for the Canadian Pension Risk Transfer (PRT) business are shown in the graph below. The discount rate curves are used to discount the cashflows on the underlying contracts.



(iii) Persistency

The Company currently does not incorporate persistency assumptions, as it only reinsures Canadian PRT business. Given that immediate annuities carry no lapse risk, persistency assumptions are only relevant to deferred members. These members constitute less than 3% of our current portfolio. We anticipate that the commuted value for these deferred members will closely match the BEL we hold for each deferred member. Therefore, the impact of lapses on our portfolio is considered minimal.

(iv) Risk Adjustment

The risk adjustment for non-financial risk for a group of insurance contracts reflects, after diversification, the compensation that the company would require for bearing uncertainty about the amount and timing of the cash flows. We have calibrated the Company's risk adjustment using a Value at Risk (VAR) methodology. For the majority of risks, the Company's view on the compensation required for non-financial risks is determined with reference to an 85th percentile confidence level calculated using a one-year Value-at-Risk (VaR) measure. This VaR measure reflects the company's view on how non-financial risks behave (risk distributions and diversification of risks across the group (risk correlations).

1. Summary of material accounting policies (continued)

Adjustments are applied to best estimate non-financial risk assumptions to calculate the risk adjustment required over and above the best estimate liability for each contract. These adjustments (which vary by risk) are calibrated such that the total Company risk adjustment calculated aligns to the Company's view of compensation for non-financial risks and the risk adjustment at contract level is representative of the compensation required for that contract.

(v) Financial impact of transition

The decrease in insurance liabilities on adoption of IFRS 17 at 1 January 2022 can be attributed to the following:

	Impact on net insurance contract liabilities on transition to IFRS 17 CA$m
Remeasurement of liabilities: the IFRS 17 cash flows are best estimate and exclude all prudent margins included in the IFRS 4 liabilities. Removal of these margins coupled with other changes to the insurance contract measurement, including discount rates and the exclusion of non-attributable expenses, results in a lower best estimate liability	60
Creation of a risk adjustment: IFRS 17 incorporates a specific risk adjustment for non-financial risk	(6)
Creation of Contractual Service Margin (CSM): determined using the transition approaches described above and reflecting the unearned profit of these contracts	(26)
Total shareholder's equity	**28**

Transition to IFRS 9

There has been no impact to the Company upon transition to IFRS 9.

Other standards

The Company has also applied the following standards and amendments for the first time in the year commencing 1 January 2023, which did not give rise to a material impact on the Company's financial statements.

- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2).

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to IAS 1 – Presentation of Financial Statements: 'Classification of Liabilities 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.

Amendments to IAS 1 – Presentation of Financial Statements: 'Non-current Liabilities with Covenants'

These amendments, issued in October 2022, clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

Amendments to IFRS 16 – Leases: 'Lease Liability in a Sale and Leaseback'

These amendments, issued in September 2022, specify requirements for seller-lessees to measure the lease liability in a sale and leaseback transaction. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Disclosures: 'Supplier Finance Arrangements'

These amendments, issued in May 2023, address the disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

1. Summary of material accounting policies (continued)

B Critical accounting judgements and the 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 Statement of Comprehensive Income 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 the 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 material accounting policies.

The preparation of the financial statements has also considered the impact of climate change and, as at 31 December 2023, 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 these Financial Statements in the following sections:

- Financial Investments (Note 7)
- IFRS Sensitivity Analysis (Note 20)

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

Valuation of insurance contract liabilities (Note 14)

The key judgements around the valuation of insurance contract liabilities relate to the following assumptions:

- Determination of the longevity, mortality and morbidity assumptions used in the calculation of the insurance contract liabilities. The assumptions for the rate of future longevity, mortality and morbidity 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. The long-term assumptions are adjusted to reflect the Company's view on the effects of the Covid-19 pandemic on claims experience in the medium to long-term, informed by emerging experience and industry studies.
- Determination of the directly attributable expense assumptions used in the calculation of the insurance liabilities. These represent the expected future costs that relate directly to the fulfilment of the underlying insurance policies, and are based on management's best estimate of these future costs, and on an appropriate allocation between servicing new and existing business.
- Determination of valuation interest rates used to discount the insurance liabilities, which 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 the reference portfolio of assets chosen to back the liabilities.
- Determination of the compensation required for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risks as insurance contracts are fulfilled.
- Determination of the transition date contractual service margin under IFRS 17 incorporated judgement. In particular, the transition date CSM for business transitioned using the fair value methodology persist into the closing valuation of the CSM until those portfolios expire. These judgements are discussed in detail in the Basis of Preparation.

Note 20 includes a sensitivity analysis on post-tax Company profit and Company equity to reasonable alternative assumptions.

Material accounting policies

C 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.

At inception, the Company separates the following components from an insurance or reinsurance contract and accounts for them as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance or reinsurance contract as a stand-alone instrument; and
- distinct investment components, i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Company separates any promises to transfer to policyholders distinct goods or services other than insurance coverage and investment services and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Company provides a significant service of integrating the good or service with the insurance component.

1. Summary of material accounting policies (continued)

Recognition and level of aggregation
An insurance contract is recognised at the earliest of the following:
(a) the beginning of the coverage period;
(b) the date when the first payment from a policyholder becomes due; and
(c) for onerous contracts, when the contract becomes onerous.

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.

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; and
- a contractual service margin (CSM) representing the unearned profit the Company will recognise as it provides services under the insurance contract.

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 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 for future services;
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts; and
- 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); and
- 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.

Pre-recognition, insurance acquisition cash flow assets are recognised on the Statement of Financial Position prior to allocation to new insurance contracts and are considered for impairment at each reporting date.

Risk adjustment
The risk adjustment for non-financial risk for a group of insurance 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. The Company's risk adjustment is calibrated using a Value at Risk (VAR) methodology. In some cases, the compensation for risk on reinsured business is linked directly to the price paid for reinsurance.

Discounting
The insurance contract fulfilment cash flows are discounted at rates that reflect the characteristics of the insurance contract liabilities. These are determined by starting from an appropriate asset portfolio with deductions to remove risks in the assets that are not present in the insurance liabilities.

1. Summary of material accounting policies (continued)

Contractual service margin (CSM)
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 insurance contracts.

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, which represents the losses recognised.

Insurance finance income and expense
Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. 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. Finance income and expense has been included in profit or loss for all insurance products.

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 for:

- the effect of any new contracts added;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition;
- 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; and
- 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) in respect of current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted in 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 (which are instead recognised in the statement of profit or loss and other comprehensive income);
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period; and
- 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).

1. Summary of material accounting policies (continued)

Onerous contracts
Groups of contracts that were not onerous at initial recognition can subsequently become onerous if assumptions and experience extinguish the CSM. In this case, the Company establishes a loss component for the 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 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 Comprehensive Income for a group of insurance contracts reflects the insurance contract services provided. The proportion of the CSM earned is calculated as 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

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 so 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.

Investment components
The Company identifies 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. Investment components are not included in insurance revenue and insurance service expenses.

Insurance finance income and expense
Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. 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. Finance income and expense has been included in profit or loss for all insurance contracts within the company.

Changes in the risk adjustment for non-financial risk have been disaggregated between insurance service result and insurance finance income and expenses.

Derecognition and contract modification of insurance contracts
The Company derecognises a contract when it is extinguished, i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Company treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

D Financial Investments

Recognition and derecognition
Initial recognition of financial assets and liabilities is on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Company recognises the difference as follows:

- when the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss; and
- in all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realised through settlement.

1. Summary of material accounting policies (continued)

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when the Company transfers substantially all the risks and rewards of ownership to another entity.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Company derecognises a financial liability when its contractual obligations expire or are discharged or cancelled. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial asset or financial liability, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Modification
If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Classification and measurement of financial assets
The Company classifies all its financial assets on initial recognition as measured at fair value.

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, FVOCI or FVTPL. Assets are therefore typically characterised as follows:

- 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. They are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss;
- 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. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss;
- FVTPL: all other financial assets. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in cash flow or net investment hedges.

Receivables are accounted for at amortised cost.

Classification and measurement of financial liabilities
The Company classifies and subsequently measures financial liabilities at amortised cost or FVTPL.

Other financial liabilities
Other financial liabilities include derivative liabilities, repurchase agreements and trail commission, which are measured at FVTPL, while other payable balances are measured at amortised cost.

Derivatives
Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into. The Company's derivatives, other than those designated as hedging instruments in cash flow or net investment hedges, are instruments held for trading and are therefore accounted for at FVTPL.

Derivatives may be embedded in another contractual arrangement. If such a hybrid contract contains a host that is a financial asset, the Company assesses the entire contract for classification and measurement purposes. Otherwise, the Company accounts for an embedded derivative separately from the host contract when:

- its economic characteristics and risks are not closely related to those of the host contract;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the hybrid contract is not measured at FVTPL.

These embedded derivatives are separately accounted for at FVTPL, unless the Company chooses to designate the entire hybrid contract at FVTPL.

A derivative embedded in a host insurance contract is not accounted for separately from the host contract if the embedded derivative itself meets the definition of an insurance or reinsurance contract.

1. Summary of material accounting policies (continued)

Fair value measurement
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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. In certain circumstances, the fair value at initial recognition differs from the transaction price. If the fair value is evidenced by comparison by a quoted price in an active market for an identical instrument, or is based on a valuation technique that uses only data from observable markets, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the Statement of Comprehensive Income. In all other cases, the difference between the fair value at initial recognition and the transaction price is deferred and recognised in the Statement of Comprehensive Income over the life of the instrument to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the instrument.

Revenue

E Insurance revenue

The Company's insurance revenue depicts the provision of services arising from a group of insurance contracts, reflecting the consideration the Company expects to be entitled in exchange for those services. Insurance revenue from a group of insurance contracts is therefore the relevant portion for the period of the total consideration for the contracts, (i.e. the amount of premiums paid to the Company adjusted for financing effect (the time value of money) and excluding any investment components).

The total consideration for a group of contracts covers amounts related to the provision of services and is comprised of:

- the release of the CSM;
- changes in the risk adjustment for non-financial risk relating to current service;
- claims and other insurance service expenses expected at the beginning of the period;
- experience adjustments arising from premiums received in the period other than those that relate to future service;
- insurance acquisition cost recovery determined by allocating the portion of premiums related to the recovery of those costs on the basis of insurance coverage provided; and
- other amounts, including any other pre-recognition cash flow assets derecognised at the date of initial recognition.

F Investment return

Investment return includes unrealised fair value gains and losses on financial investments and investment property at fair value through profit or loss, realised gains and losses, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

G Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. They exclude repayments of investment components and comprise the following items:

- adjustment to liabilities for incurred claims and benefits, excluding investment components reduced by loss component allocations;
- incurred directly attributable expenses,;
- insurance acquisition cost amortisation; and
- insurance acquisition cost asset impairment.

H Cash and cash equivalents

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

I Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

1. Summary of material accounting policies (continued)

J Tax

Current tax
Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Statement of Comprehensive Income unless it relates to items which are recognised in the Statement of Comprehensive Income or directly in equity.

Deferred tax
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Statement of Comprehensive Income.

Use of estimates
Tax balances include the use of estimates and assumptions which affect items reported in the Statement of Financial Position and Statement of Comprehensive Income. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates.

For tax this includes the determination of assets and liabilities recognised in respect of uncertain tax positions and the estimation of future taxable income supporting deferred tax asset recognition.

K Foreign exchange and exchange rates

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Income and expenses are translated at average exchange rates.

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

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 25 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 return for the year was:

For the year ended 31 December 2023	**Annuities CA$m**	**Other Assets CA$m**	**Total CA$m**
Financial investment return			
Interest income on financial investments at fair value through profit or loss	**51**	**11**	**62**
(Losses)/gains on financial investments mandatorily measured at fair value through profit or loss	**61**	**(1)**	**60**
(Losses)/gains on derivative instruments mandatorily measured as held for trading	**–**	**2**	**2**
Total investment return	**112**	**12**	**124**
Finance income from insurance contracts issued recognised in profit or loss[1]	**(87)**	**–**	**(87)**

[1]includes CA$1m returns from funds withheld

For the year ended 31 December 2022	Annuities CA$m	Other Assets CA$m	Total CA$m
Financial investment return			
Interest income on financial investments at fair value through profit or loss	26	3	29
(Losses)/gains on financial investments mandatorily measured at fair value through profit or loss	(78)	5	(73)
Total investment return	(52)	7	(45)
Finance income from insurance contracts issued recognised in profit or loss[1]	52	–	52

[1]includes CA$1m returns from funds withheld

4. Foreign exchange and exchange rates

Other operating income for the year includes a foreign exchange loss of CA$1m (2022: gain of CA$3m). During the year foreign exchange losses arising on the conversion of foreign currency financial investments to functional currency amount to CA$1m (2022: CA$nil) and on monetary assets and liabilities to functional currency of CA$nil (2022: CA$3m gain).

Principal rates of exchange used for translation are:

	2023 Average	**2023 Year-End**	2022 Average	2022 Year-End
United States Dollar	**1.350**	**1.325**	1.300	1.355
Sterling	**1.678**	**1.686**	1.605	1.639
Euro	**1.460**	**1.462**	1.368	1.451

5. Income Tax credit

	2023 CA$m	2022 CA$m
Current tax	**-**	-
Deferred tax		
- Origination and reversal of temporary differences	**7**	-
Total deferred tax	**7**	-
Tax credit	**7**	-

	Total 2023 CA$m	Total 2022 CA$m
Profit before income tax	**15**	3
Tax expense calculated at 23.5% (2022: 19%)	**(3)**	(1)
Adjusting for the effects of:		
Recurring reconciling items:		
Different rate of tax on profits and losses taxed overseas	**3**	1
Non-recurring reconciling items:		
Impact of law changes on deferred tax balances	**7**	**–**
Tax credit	**7**	**–**
Effective tax rate[1]	**46.7%**	0.0%

[1] The effective tax rate is calculated by dividing the tax credit over profit before income tax.

Legal & General Reinsurance Company No.2 Limited is a tax resident in the UK and therefore subject to UK income tax at 23.5%. Tax affected profits of the Bermuda branch are then adjusted as a reconciling item for the effective tax rate of 0% in Bermuda.

The deferred tax asset of CA$7m is included within the deferred tax disclosure in Note 10 and is within the line item for the difference between tax and accounting value of insurance contracts.

Further guidance on the implementation of these new rules is expected in due course. This and the interaction with the UK rules will be kept under review as guidance emerges for any impact.

6. Dividends

The Company did not declare or pay a dividend to Re Holdings during the year (2022: CA$nil).

7. Financial investments

(i) Financial investments at fair value

	Notes	Total 2023 CA$m	Restated Total 2022 CA$m
Financial investments at fair value classified as:			
Fair value through profit or loss[1]		**1,587**	1,374
Fair value through profit or loss - derivatives[1]		**2**	–
Total financial investments	7 (ii)	**1,589**	1,374
Expected to be received within 12 months		**183**	402
Expected to be received after 12 months		**1,406**	972

[1]Mandatorily measured at fair value through profit or loss

The risks associated with financial investments are outlined in Note 20.

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 include CA$1,370m (2022: CA$1,076m) 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 (2022: AAA, AA, A, and BBB) and have a residual maturity of up to 59 years (2022: 40 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

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.

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:

For the year ended 31 December 2023	**Total CA$m**	**Level 1 CA$m**	**Level 2 CA$m**	**Level 3 CA$m**
Equity securities	**33**	**–**	**–**	**33**
Debt securities	**1,554**	**315**	**1,177**	**62**
Derivative assets	**2**	**–**	**2**	**–**
Total financial investments at fair value	**1,589**	**315**	**1,179**	**95**

7. Financial investments (continued)

For the year ended 31 December 2022	Restated Total CA$m	Restated Level 1 CA$m	Restated Level 2 CA$m	Restated Level 3 CA$m
Debt securities	1,374	192	1,182	–
Total financial investments at fair value	1,374	192	1,182	–

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. Refer to Level 3 assets section below for methodology.

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.

Climate change impact on asset valuation at 31 December 2023
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 in the direct investment portfolios is minimal, 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 2023; therefore, the Company has elected not to report its energy and carbon information.

(a) Level 3 assets at fair value

	Equity securities 2023 CA$m	**Debt securities 2023 CA$m**	**Total 2023 CA$m**
As at 1 January	**–**	**–**	**–**
Purchases / additions	**33**	**63**	**96**
Total gains or losses for the period:			
- unrealised gains in profit and loss	**–**	**(1)**	**(1)**
As at 31 December	**33**	**62**	**95**

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

Level 3 assets
Level 3 assets, where modelling techniques are used, comprise, unquoted securities, untraded debt securities and securities where unquoted prices are provided by a single broker. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different Levels of the fair value hierarchy. In these situations, the Company determines the Level in which the fair value falls based upon the lowest Level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, and liquidity and risk margins on unobservable inputs.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker.

7. Financial investments (continued)

Equity securities

Level 3 equity securities amount to CA$33m (2022: CA$nil), of which the majority is made up of holdings of investment vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles.

Other financial investments

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker.

The Company’s policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between Levels at that point in time.

(b) Effect of changes in significant unobservable inputs (Level 3) to reasonable possible alternative assumptions

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where material, the Company assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impacts of applying these sensitivities on the fair value of Level 3 assets as at 31 December 2023:

		Sensitivities	
	Fair value 2023 CA$m	Positive Impact CA$m	Negative Impact CA$m
Equity securities	**33**	**3**	**(3)**
Debt securities	**62**	**3**	**(3)**
Total Level 3 investments	**95**	**6**	**(6)**

The sensitivity for all level 3 assets has been executed by calculating the present value of the anticipated future cash flows, using the stressed discount rates. The base Internal Rate of Return is adjusted to incorporate each stress scenarios, leading to a stressed MV and from which the impact of the stress scenarios on the portfolio can be derived.

8. Derivative assets and liabilities

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile:

	Maturity profile of undiscounted cash flows		
As at 31 December 2023	Fair values CA$m	Within 1 year CA$m	Total CA$m
Cash inflows			
Derivative assets	**2**	**130**	**130**
Derivative liabilities	**-**	**-**	**-**
Total	**2**	**130**	**130**
Cash outflows			
Derivative assets	**2**	**(128)**	**(128)**
Derivative liabilities	**-**	**-**	**-**
Total	**2**	**(128)**	**(128)**
Net derivative cash flows		**2**	**2**

The Company held CA$nil derivatives as at 31 December 2022

The Company uses derivatives to reduce short term currency risk. The most widely used derivatives are over the counter and exchange-traded swaps. It is the Company's policy that all derivative transactions are on a covered basis against underlying holdings of assets. Derivative counterparty risk is managed by the posting of collateral on a daily basis. Derivatives are presented on a net basis as the Company has the right to offset due to settlement of the derivatives being on a net basis.

9. Other operational expenses

	2023 CA$m	2022 CA$m
Net foreign exchange losses (not related to insurance contracts)	**(1)**	–
Other	**–**	(2)
Total other operational expenses	**(1)**	(2)

10. Deferred tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity or other comprehensive income.

During 2023 the Bermudian Government consulted on introducing a local corporate income tax (CIT) with effect from 1 January 2025, which would apply to Legal & General Reinsurance Company No. 2 Limited. This has been substantively enacted as at 31 December 2023 and deferred tax on temporary differences and unused tax losses have been re-valued from a tax rate of 0% to 15%.

This has resulted in a deferred tax asset of £7m as at 31 December 2023. The deferred tax asset is recognised in respect of tax reliefs permitted under the Bermuda CIT regime which give rise to deductible temporary differences. The majority of these reliefs are expected to unwind from 2025 over 10 years on a straight line basis. The Company expects to have sufficient future taxable profits to offset the unwind of these deductible temporary differences.

The deferred tax balances are as follows:	**As at 31 December 2023 CA$m**	As at 31 December 2022 CA$m
Deferred tax assets	**7**	-
As at 31 December	**7**	-

Deferred tax assets and liabilities have been recognised / provided for the following types of temporary differences and unused tax losses. The movement in these balances during the year is as follows:

	Net tax asset as at 1 January 2023 CA$m	**Tax (charged)/ credited to the income statement CA$m**	**Tax (charged)/ credited to OCI or equity CA$m**	**Net tax asset as at 31 December 2023 CA$m**
Difference between the tax and accounting value of insurance contracts	**-**	**7**	**-**	**7**
Net deferred tax assets	**-**	**7**	**-**	**7**

The Company had CA$nil deferred tax assets as at 31 December 2022.

11. Cash and cash equivalents

	Total 2023 CA$m	Total 2022 CA$m
Cash at bank and in hand	11	3
Cash equivalents	157	31
Total cash and cash equivalents	**168**	34

12. Share capital

	2023 Number of shares	**2023 CA$**	2022 Number of shares	2022 CA$
Authorised share capital:				
Ordinary shares of US$1 each	**500,000,000**	**643,128,271**	500,000,000	643,128,271
Issued share capital:				
Fully paid ordinary shares of US$1 each	**240,036,000**	**315,582,800**	240,036,000	315,582,800

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.

13. Insurance contract liabilities

(i) Insurance contract revenue and expenses

For the year ended 31 December 2023	**Annuities CA$m**	**Total CA$m**
Insurance revenue		
Amounts relating to changes in liabilities for remaining coverage:		
- CSM recognised for services provided	**4**	**4**
- Expected incurred claims and other insurance service expenses	**82**	**82**
- Change in the risk adjustment for non-financial risk for the risk expired	**1**	**1**
Total insurance revenue	**87**	**87**
Total insurance service expenses	**(96)**	**(96)**
Total insurance service result	**(9)**	**(9)**

For the year ended 31 December 2022	Annuities CA$m	Total CA$m
Insurance revenue		
Amounts relating to changes in liabilities for remaining coverage:		
- CSM recognised for services provided	1	1
- Expected incurred claims and other insurance service expenses	39	39
- Change in the risk adjustment for non-financial risk for the risk expired	8	8
Total insurance revenue	48	48
Total insurance service expenses	(39)	(39)
Total insurance service result	9	9

(ii) Insurance contracts

	Assets 2023 CA$m	**Liabilities 2023 CA$m**	Assets 2022 CA$m	Liabilities 2022 CA$m
Insurance contracts issued				
Annuities				
Insurance contract balances	**-**	**1,424**	-	1,104
Assets for insurance contract acquisition cash flows[1]	**-**	**-**	-	(5)
Total insurance contracts issued[2]	**–**	**1,424**	–	1,099

[1]In accordance with IFRS17, assets for insurance acquisition cash flows are presented within the carrying amount of the related insurance contract liabilities
[2]CA$31.1m (2022: CA$21.4m) of the net insurance balance of CA$1,424m (2022: CA$1,099m) is expected to run off within 12 months.

13. Insurance contract liabilities (continued)

(iii) Annuities – Insurance contracts issued

(a) Reconciliation of the liability for remaining coverage and the liability for incurred claims

	Liability for remaining coverage				Liability for remaining coverage			
	Excluding loss component 2023 CA$m	**Loss component 2023 CA$m**	**Liability for incurred claims 2023 CA$m**	**Total 2023 CA$m**	Excluding loss component 2022 CA$m	Loss component 2022 CA$m	Liability for incurred claims 2022 CA$m	Total 2022 CA$m
Opening insurance contract liabilities	**1,104**	**–**	**–**	**1,104**	486	–	–	486
Opening insurance contract assets	**–**	**–**	**–**	**–**	–	–	–	–
Net balance as at 1 January	1,104	–	–	1,104	486	–	–	486
Insurance Revenue	**(87)**	**–**	**–**	**(87)**	(48)	–	–	(48)
Incurred claims and other insurance service expenses	**–**	**–**	**83**	**83**	–	–	39	39
Insurance service expenses	–	–	83	83	–	–	39	39
Insurance service result	(87)	–	83	(4)	(48)	–	39	(9)
Finance expenses/(income) from insurance contracts	**87**	**–**	**–**	**87**	(52)	–	–	(52)
Total amount recognised in comprehensive income	**–**	**–**	**83**	**83**	(100)	–	39	(61)
Investment components	**(3)**	**–**	**3**	**–**	–	–	–	–
Cash flows								
Premiums received	**344**	**–**	**–**	**344**	719	–	–	719
Claims and other directly attributable expenses	**(19)**	**–**	**(86)**	**(105)**	–	–	(39)	(39)
Insurance acquisition cash flows	**(2)**	**–**	**–**	**(2)**	(1)	–	–	(1)
Total cash flows	323	–	(86)	237	718	–	(39)	679
Closing insurance contract liabilities	**1,424**	**–**	**–**	**1,424**	1,104	–	–	1,104
Closing insurance contract assets	**–**	**–**	**–**	**–**	–	–	–	–
Net balance as at 31 December	1,424	–	–	1,424	1,104	–	–	1,104

This table does not include assets for insurance acquisition cashflows which are presented separately in Note 13 (vi)

13. Insurance contract liabilities (continued)

(b) Reconciliation of the measurement components of insurance contract liabilities

	Present value of future cash flows 2023 CA$m	**Risk adjustment for non-financial risk 2023 CA$m**	**CSM 2023 CA$m**	**Total 2023 CA$m**	Present value of future cash flows 2022 CA$m	Risk adjustment for non-financial risk 2022 CA$m	CSM 2022 CA$m	Total 2022 CA$m
Opening insurance contract liabilities	**1,050**	**17**	**37**	**1,104**	454	6	26	486
Opening insurance contract assets	**–**	**–**	**–**	**–**	–	–	–	–
Net balance as at 1 January	1,050	17	37	1,104	454	6	26	486
Changes that relate to current service								
CSM recognised for services provided	**–**	**–**	**(4)**	**(4)**	–	–	(1)	(1)
Change in the risk adjustment for non-financial risk for risk expired	**–**	**(1)**	**–**	**(1)**	–	(8)	–	(8)
Experience adjustments	**1**	**–**	**–**	**1**	–	–	–	–
Total changes that relate to current service	1	(1)	(4)	(4)	–	(8)	(1)	(9)
Changes that relate to future service								
Changes in estimates which adjust the CSM	**12**	**(7)**	**(5)**	**–**	(3)	5	(2)	–
Contracts initially recognised in the period	**(20)**	**4**	**16**	**–**	(24)	11	13	–
Total changes that relate to future service	(8)	(3)	11	–	(27)	16	11	–
Changes that relate to past service	–	–	–	–	–	–	–	–
Insurance service result	(7)	(4)	7	(4)	(27)	8	10	(9)
Finance expenses/(income) from insurance contracts	**84**	**2**	**1**	**87**	(56)	3	1	(52)
Total amount recognised in comprehensive income	77	(2)	8	83	(83)	11	11	(61)
Cash flows								
Premiums received	**344**	**–**	**–**	**344**	719	–	–	719
Claims and other directly attributable expenses	**(105)**	**–**	**–**	**(105)**	(39)	–	–	(39)
Insurance acquisition cash flows	**(2)**	**–**	**–**	**(2)**	(1)	–	–	(1)
Total cash flows	237	–	–	237	679	–	–	679
Closing insurance contract liabilities	**1,364**	**15**	**45**	**1,424**	1,050	17	37	1,104
Closing insurance contract assets	**–**	**–**	**–**	**–**	–	–	–	–
Net balance as at 31 December	1,364	15	45	1,424	1,050	17	37	1,104

This table does not include assets for insurance acquisition cashflows which are presented separately in Note 13 (vi)

13. Insurance contract liabilities (continued)

(c) Impact of contracts recognised in the year

	Total impact of contracts recognised in the year 2023 CA$m	Of which relates to: Transfers or business acquisitions 2023 CA$m	Of which relates to: Contracts initiated with loss recovery component 2023 CA$m	Total impact of contracts recognised in the year 2022 CA$m	Of which relates to: Transfers or business acquisitions 2022 CA$m	Of which relates to: Contracts initiated with loss recovery component 2022 CA$m
Estimates of present value of cash outflows	-	-	-	-	-	-
Insurance acquisition cash flows	2	-	-	1	-	-
Claims and other insurance service expenses payable	327	-	-	697	-	-
Estimates of present value of cash outflows	329	-	-	698	-	-
Estimates of present value of cash inflows	(349)	-	-	(722)	-	-
Risk adjustment for non-financial risk	4	-	-	11	-	-
CSM	16	-	-	13	-	-
Increase in insurance contract liabilities from contracts recognised in the year	-	-	-	-	-	-

(iv) Maturity of contractual undiscounted cashflows

For the year ended 31 December 2023	Insurance contracts issued: Annuities CA$m	Total CA$m
Contractual undiscounted cashflows		
1 year or less	110	110
1 - 2 years	126	126
2 - 3 years	123	123
3 - 4 years	120	120
4 - 5 years	116	116
5 - 10 years	529	529
10 - 20 years	765	765
Over 20 years	445	445
Total	2,334	2,334

For the year ended 31 December 2022	Insurance contracts issued: Annuities CA$m	Total CA$m
Contractual undiscounted cashflows		
1 year or less	84	84
1 - 2 years	96	96
2 - 3 years	94	94
3 - 4 years	92	92
4 - 5 years	89	89
5 - 10 years	407	407
10 - 20 years	601	601
Over 20 years	369	369
Total	1,832	1,832

13. Insurance contract liabilities (continued)

(v) CSM maturity profile

	Insurance contracts issued	
	Annuities	**Total**
For the year ended 31 December 2023	**CA$m**	**CA$m**
Number of years until expected to be recognised		
1 year or less	**3**	**3**
1 - 2 years	**3**	**3**
2 - 3 years	**3**	**3**
3 - 4 years	**2**	**2**
4 - 5 years	**2**	**2**
5 - 10 years	**10**	**10**
10 - 20 years	**14**	**14**
Over 20 years	**8**	**8**
Total	**45**	**45**

	Insurance contracts issued	
	Annuities	Total
For the year ended 31 December 2022	CA$m	CA$m
Number of years until expected to be recognised		
1 year or less	3	3
1 - 2 years	3	3
2 - 3 years	3	3
3 - 4 years	2	2
4 - 5 years	1	1
5 - 10 years	9	9
10 - 20 years	11	11
Over 20 years	4	4
Total	37	37

The amounts presented above reflect the net amount of CSM amortisation and interest accretion expected to be recognised in Insurance service result in future periods. Actual CSM amortisation in future periods will differ from that presented due to the impacts of future new business, recalibrations of the CSM, changes in the future coverage units as well as interest accretion, which will be presented in Finance income and expense.

(vi) Assets for insurance acquisition cashflows

	Annuities 2023 CA$m	**Total 2023 CA$m**	Annuities 2022 CA$m	Total 2022 CA$m
Opening balance	**5**	**5**		
Amounts incurred during the year	**10**	**10**	6	6
Amounts derecognised and included in the measurement of insurance contracts	**(2)**	**(2)**	(1)	(1)
Impairment losses and reversals	**(13)**	**(13)**	-	-
Closing balance	**-**	**-**	5	5
Presented in insurance contract liabilities	**-**	**-**	5	5
Total	**-**	**-**	5	5

(vii) Reserving 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.

14. 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 reflect our best estimate view based on recent experience and expert judgment.

14. Long term insurance valuation assumptions (continued)

IFRS discount rates
For the year-end 2023, the IFRS discount rate applied to the underlying Canadian annuity business is 5.07%. This rate is based on a reference asset portfolio designed to align with the Company's at-scale operations.

For discount rate assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company applies a prudent c46 bps (2022: c42 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 CA$58m (2022: CA$42m).

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

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.

Expenses
IFRS 17 expense reserves are intended to include directly attributable maintenance costs only, which for the Company consist of the costs incurred in paying claims on external business which is immaterial.

The principal assumptions are:

2023	**Canada**
(i) Rate of interest / discount rate	
Annuities in deferment	**5.07% pa**
Vested annuities	**5.07% pa**
(ii) Mortality tables	
Annuities in deferment[1]	
- Bulk purchase annuities	**Vita Curves Mortality**
Vested annuities[1]	
- Bulk purchase annuities	**Vita Curves Mortality**

[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.
- Females (Canadian): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.

2022	Canada
(i) Rate of interest / discount rate	
Annuities in deferment	5.39% pa
Vested annuities	5.39% 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.
- Females (Canadian): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.

15. Payables and other financial liabilities

	Notes	**2023 CA$m**	2022 CA$m
Other financial liabilities		**4**	-
Other balances due	18	**14**	9
Payables and other financial liabilities		**18**	9
Settled within 12 months		**16**	8
Settled after 12 months		**2**	1

There have been no significant transfers between levels (2022: No significant transfers).

16. Contingent liabilities, guarantees and indemnities

(i) Letters of Credit Contracts ('LOC')
The Company has entered into two credit facility agreements totalling CA$163m (2022: CA$133m). These credit facilities expire in December 2025 and August 2026.

The Company does not have any other contingent liabilities, guarantees or indemnities (2022: CA$ nil) arising as part of its normal course of business.

17. 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.

18. Related party transactions

(i) Payables and other financial liabilities

As at 31 December	**2023 CA$m**	2022 CA$m
- Management charges due to L&G Resources Bermuda[1]	**12**	8
Total	**12**	8

[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	**2023 CA$m**	2022 CA$m
Management charges[1]	**21**	15
Finance costs	**–**	1
Total	**21**	16

[1] See Note 18 (i); Management charges relate to the recharge of costs from LGRB.

19. 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. Changes have been introduced to the Bermuda EBS regulatory regime, coming into effect 31 March 2024, following a consultation by the Bermuda Monetary Authority.

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$310m (2022: CA$300m) comprise CA$316m (2022: CA$316m) of issued share capital to the ultimate parent and retained loss of CA$1m (2022: loss of CA$16m). The Deferred tax asset upon transition to the Bermuda CIT is not admissible for Bermuda statutory purposes.

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.

20. 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.

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:

<u>Asset liability matching</u>
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.

<u>Derivatives</u>
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. Derivatives may be either held directly on the Statement of Financial Position or in funds withheld or similar structures.

20. Risk management and control (continued)

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 19.

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 2023, the Company held net assets of CA$11m (2022: net liabilities CA$(19)m restated) in US dollars. The Company mitigates exchange rate risk through the use of derivatives such as forward currency contracts.

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

	A 10% increase in USD:CAD exchange rate		A 10% decrease in USD:CAD exchange rate	
		Restated		Restated
	2023	2022	**2023**	2022
	CA$m	CA$m	**CA$m**	CA$m
Movement in net assets / (liabilities) attributable to USD exposures	**(2)**	(1)	**2**	1

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.

Table 1 indicates the Company's exposure to different equity markets around the world.

Table 1 – Exposure to worldwide equity markets

	2023
	CA$m
Holdings in unit trusts	**33**
Total equities	**33**

The Company held CA$nil equity securities as at 31 December 2022.

20. Risk management and control (continued)

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 2. 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 2 – Exposure to credit risk including funds withheld

As at 31 December 2023	**AAA CA$m**	**AA CA$m**	**A CA$m**	**BBB CA$m**	**BB and below CA$m**	**Unrated Other CA$m**	**Total CA$m**
Government securities	**195**	**187**	**–**	**–**	**–**	**–**	**382**
Other fixed rate securities	**75**	**81**	**479**	**545**	**–**	**–**	**1,180**
Variable rate securities	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Total debt securities	**270**	**268**	**479**	**549**	**–**	**–**	**1,566**
Accrued interest	**2**	**1**	**5**	**6**	**–**	**–**	**14**
Derivative assets	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Cash and cash equivalents	**158**	**16**	**3**	**–**	**–**	**–**	**177**
Total	**430**	**286**	**487**	**555**	**–**	**–**	**1,758**

[1]Excludes equity securities (holdings in unit trusts) which are included in Note 19 Table 1.

As at 31 December 2022	AAA CA$m	AA CA$m	A CA$m	BBB CA$m	BB and below CA$m	Unrated Other CA$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	339	193	513	377	-	-	1,422

There are no impaired or past due financial assets within the portfolios in 2023 and 2022.

20. Risk management and control (continued)

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 management framework 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.

20. Risk management and control (continued)

Table 3 – Sensitivity analysis

Table 3 shows the impact on post-tax loss and equity, net of reinsurance, under each sensitivity scenario for the business.

	Impact on post-tax profit from assets 2023 CA$m	**Impact on equity from financial assets 2023 CA$m**	**Impact on post-tax profit from insurance contracts 2023 CA$m**	**Impact on equity from insurance contracts 2023 CA$m**	**Net impact on post tax profits 2023 CA$m**	**Net impact on equity 2023 CA$m**
Sensitivity test						
100 bps increase in interest rates	**(135)**	**(135)**	**129**	**129**	**(6)**	**(6)**
100 bps decrease in interest rates	**158**	**158**	**(151)**	**(151)**	**7**	**7**
Credit spread widens by 100 bps with no change in expected defaults	**(117)**	**(117)**	**114**	**114**	**(4)**	**(4)**
25% rise in equities	**8**	**8**	**-**	**-**	**8**	**8**
25% fall in equities	**(8)**	**(8)**	**-**	**-**	**(8)**	**(8)**
10 bps increase in credit default assumption	**–**	**–**	**(13)**	**(13)**	**(13)**	**(13)**
10 bps decrease in credit default assumption	**–**	**–**	**12**	**12**	**12**	**12**

	Impact on post-tax profit from assets 2022 CA$m	Impact on equity from financial assets 2022 CA$m	Impact on post-tax profit from insurance contracts 2022 CA$m	Impact on equity from insurance contracts 2022 CA$m	Net impact on post tax profits 2022 CA$m	Net impact on equity 2022 CA$m
Sensitivity test						
100 bps increase in interest rates	(102)	(102)	93	93	(9)	(9)
100 bps decrease in interest rates	119	119	(108)	(108)	11	11
Credit spread widens by 100 bps with no change in expected defaults	(87)	(87)	88	88	1	1
25% rise in equities	–	–	–	–	–	–
25% fall in equities	–	–	–	–	–	–
10 bps increase in credit default assumption	–	–	(13)	(13)	(13)	(13)
10 bps decrease in credit default assumption	–	–	12	12	12	12

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

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.

Modern slavery

Legal & General Group plc and it's global subsidiaries ("Legal & General") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free. Legal & General's full modern slavery statement can be found at www.legalandgeneralgroup.com/en/sustainability.

21. Subsequent events

There were no adjusting or non-adjusting subsequent events between 31 December 2023 and the approval of the report and accounts of the Company that require disclosure.