Financial Statements

Canada Life International Reinsurance Corporation Limited

December 31, 2022
and Independent auditor's report

CONTENTS

December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Canada Life International Reinsurance Corporation Limited

Opinion

We have audited the financial statements of Canada Life International Reinsurance Corporation Limited (the Company), which comprise the balance sheet as at December 31, 2022, and the statement of earnings and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with the 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 the ethical requirements of the Chartered Professional Accountants of Bermuda 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management's for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, 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.

Auditor's Responsibility 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 achieved 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.

Deloitte Ltd.

April 19, 2023

Canada Life International Reinsurance Corporation Limited
STATEMENT OF EARNINGS
(in US $ thousands)

	For the year ended December 31	
	2022	2021
Income		
Premium income		
Gross written premiums	**$1,367,948**	$635,819
Ceded premiums	**(1,162,812)**	(10,572)
Total net premiums	**205,136**	625,247
Net investment income (note 4)		
Regular net investment income	**3,788**	16,278
Change in fair value through profit or loss	**(9,052)**	(6,667)
Total net investment income (loss)	**(5,264)**	9,611
Fee and other income	**34**	47
	199,906	634,905
Benefits and expenses		
Claims incurred under insurance contracts		
Gross	**1,066,517**	1,121,469
Ceded	**(875,900)**	(11)
	190,617	1,121,458
Experience refunds	**(19)**	(1,436)
Change in insurance contract liabilities		
Gross	**254,025**	(514,716)
Ceded	**(270,155)**	—
Total net changes in insurance contract liabilities	**(16,130)**	(514,716)
Total paid or credited to policyholders	**174,468**	605,306
Operating and administrative expenses (note 15)	**2,623**	2,908
Premium taxes	**197**	302
Financing charges (note 8)	**3,262**	2,726
Earnings before income taxes	**19,356**	23,663
Income tax expense (note 13)	**(4,065)**	(4,969)
Net earnings	**$15,291**	$18,694

Canada Life International Reinsurance Corporation Limited

STATEMENT OF COMPREHENSIVE INCOME

(in US $ thousands)

	For the year ended December 31	
	2022	2021
Net earnings	**$15,291**	$18,694
Other comprehensive income		
Items that may be reclassified subsequently to Statement of Earnings		
Unrealized foreign exchange losses	**(1)**	(1)
Unrealized losses on available-for-sale assets	**(9,981)**	(2,367)
Income tax recovery	**2,096**	497
Realized losses on available-for-sale assets	**246**	57
Income tax expense	**(52)**	(12)
Total other comprehensive (loss)	**(7,692)**	(1,826)
Comprehensive income	**$7,599**	$16,868

Canada Life International Reinsurance Corporation Limited
BALANCE SHEET
(in US $ thousands)

	December 31 2022	December 31 2021
Assets		
Cash and cash equivalents (note 3)	**$9,843**	$5,766
Bonds (note 4)	**261,065**	320,851
Funds held by ceding insurers	**295,502**	—
Reinsurance assets (note 7)	**270,155**	—
Premiums in course of collection, accounts and interest receivable	**1,573**	1,386
Current income taxes (note 13)	**2**	2
Other assets	**74**	2,925
Total assets	**$838,214**	$330,930
Liabilities		
Insurance contract liabilities (note 7)	**$256,277**	$811
Funds held under reinsurance contracts	**270,154**	—
Accounts payable	**511**	426
Other liabilities	**149**	8,190
Deferred tax liabilities (note 13)	**15,122**	13,101
Total liabilities	**542,213**	22,528
Equity		
Share capital (note 9)	**297,863**	297,863
Accumulated surplus	**4,767**	2,476
Accumulated other comprehensive income (note 11)	**(7,629)**	63
Contributed surplus	**1,000**	8,000
Total equity	**296,001**	308,402
Total liabilities and equity	**$838,214**	$330,930

Approved by the Board of Directors:

Thomas O'Sullivan
President

Gareth Dobson
Director

Canada Life International Reinsurance Corporation Limited
STATEMENT OF CHANGES IN EQUITY
(in US $ thousands)

	December 31, 2022				
	Share capital	**Accumulated surplus**	**Accumulated other comprehensive income (loss)**	**Contributed surplus**	**Total equity**
Balance, beginning of year	**$297,863**	**$2,476**	**$63**	**$8,000**	**$308,402**
Net earnings	**—**	**15,291**	**—**	**—**	**15,291**
Other comprehensive loss	**—**	**—**	**(7,692)**	**—**	**(7,692)**
	297,863	**17,767**	**(7,629)**	**8,000**	**316,001**
Dividends to shareholder (note 9)	**—**	**(13,000)**	**—**	**(7,000)**	**(20,000)**
Balance, end of year	**$297,863**	**$4,767**	**($7,629)**	**$1,000**	**$296,001**

	December 31, 2021				
	Share capital	Accumulated surplus (deficit)	Accumulated other comprehensive income	Contributed surplus	Total equity
Balance, beginning of year	$297,863	($16,218)	$1,889	$8,000	$291,534
Net income	—	18,694	—	—	18,694
Other comprehensive loss	—	—	(1,826)	—	(1,826)
Balance, end of year	$297,863	$2,476	$63	$8,000	$308,402

Canada Life International Reinsurance Corporation Limited
STATEMENT OF CASH FLOWS
(in US $ thousands)

	For the year ended December 31	
	2022	2021
Operations		
Earnings (loss) before income taxes	**$19,356**	$23,663
Adjustments:		
Change in insurance contract liabilities	**255,465**	(515,860)
Change in funds held by ceding insurers	**(295,503)**	480,617
Change in other liabilities	**(7,956)**	(10,771)
Change in fair value through profit and loss	**9,052**	6,667
Other	**2,708**	6,789
	(16,878)	(8,895)
Financing Activities		
Dividends paid on common shares	**(20,000)**	—
	(20,000)	—
Investment Activities		
Bond sales and maturities	**226,675**	222,565
Investment in bonds	**(185,720)**	(229,148)
	40,955	(6,583)
Increase (decrease) in cash and cash equivalents	**4,077**	(15,478)
Cash and cash equivalents, beginning of year	**5,766**	21,244
Cash and cash equivalents, end of year	**$9,843**	$5,766
Supplementary cash flow information		
Interest income received	**$4,781**	$5,387

1. CORPORATE INFORMATION

On August 14, 2020, London Life International Reinsurance Corporation was discontinued under the laws of Barbados and continued as an exempted company under the laws of Bermuda. The Company is licensed by the Bermuda Monetary Authority as a Class C and Class 3A reinsurer under the Insurance Act 1978. Subsequent to continuance in Bermuda the Company changed its name to Canada Life International Reinsurance Corporation Limited ("the Company").

London Life International Reinsurance Corporation was incorporated on September 6, 1989 under the laws of Barbados and was initially registered under the Exempt Insurance Act, Cap. 308 (the "Exempt Insurance Act") as an Exempt Insurance Company on December 29, 1989. Effective January 1, 2019, the Exempt Insurance Act was repealed and the Company, under the Insurance (Amendment) Act, was reclassified as a Class 1 Insurer. The Company is a wholly-owned subsidiary of LRG (US) Inc., a company incorporated under the laws of the state of Delaware of the United States of America. LRG (US) Inc. is a wholly-owned subsidiary of London Reinsurance Group Inc. (LRG), a company incorporated in Canada. LRG was a wholly-owned subsidiary of The Canada Life Assurance Company ("CL"), a company incorporated in Canada. Effective January 1, 2021, London Life Financial Corporation, LRG, Canada Life Capital Corporation Inc. and GWLC Holdings Inc. amalgamated into one company: Canada Life Capital Corporation Inc. ("CLCC"). CLCC is a company incorporated in Canada and is a wholly-owned subsidiary of CL. CL is wholly-owned by Great-West Lifeco Inc. ("Lifeco"). Lifeco is a member of the Power Corporation of Canada ("Power Corporation") group of companies.

The Company is a composite reinsurer licensed to write life reinsurance, annuity reinsurance and property and casualty reinsurance business. In February 2023, the Company submitted a request to terminate its Class 3A license which covers property and casualty reinsurance business, and the BMA accepted this termination on February 28, 2023.

The financial statements of the Company as at and for the year ended December 31, 2022 were authorized by the Board of Directors on April 19, 2023.

2. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Consistent accounting policies were applied in the preparation of the financial statements of the Company.

<u>Changes in Accounting Policies</u>
The Company adopted the amendments to IFRS for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020 Cycle* for the amendment to IFRS 16, *Leases* effective January 1, 2022. The adoption of these amendments did not have a significant impact on the Company's financial statements.

<u>Impact of COVID-19 and the Conflict Between Russia and Ukraine on Significant Judgments, Estimates and Assumptions</u>
The COVID-19 pandemic has continued to result in uncertainty in global financial markets and the economic environment in which the Company operates. The duration and impact of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the associated fiscal and monetary interventions by governments and central banks.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

Global financial markets continued to be volatile during 2022, in part due to Russia's military invasion of Ukraine and the related sanctions and economic fallout. The Company continues to monitor potential impacts of the conflict, including financial impacts, heightened cyber risks, and risks related to the global supply chain.

The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties, foreign exchange and inflation, as well as prevailing health and mortality experience.

The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. In addition to its own credit assessments, the Company's practice is to use third party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third party credit rating. Given rapid market changes, third party credit rating changes may lag developments in the current environment.

The fair value of portfolio investments (note 4), the valuation of insurance contract liabilities (note 7) and the recoverability of deferred tax asset carrying values (note 13) reflect management's judgment.

Given the uncertainty surrounding the current environment, the actual financial results could differ from the estimates made in preparation of these financial statements.

Use of Significant Judgments, Estimates and Assumptions
In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these financial statements including:

- Judgments are used by management in determining whether deferred acquisition costs can be recognized on the Balance Sheet. Deferred acquisition costs are recognized if management determines the costs meet the definition of an asset and are incremental and related to the issuance of the insurance contract.
- Management uses judgment to evaluate the classification of reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- The actuarial assumptions, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities under the Canadian Asset Liability Method require significant judgment and estimation (note 7).
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections (note 13).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management, has resulted in a probable outflow of economic resources which would be passed to a third-party to settle the obligation. Management uses judgment to evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (note 16).
- Within the Statement of Cash Flows, purchases and sales of portfolio investments are recorded within investment activities due to management's judgment that these investing activities are long-term in nature.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party rating.

The significant accounting policies are as follows:

(a) Portfolio Investments

Portfolio investments include bonds. Portfolio investments are classified as fair value through profit or loss, available-for-sale, held-to-maturity, or loans and receivables based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company has not classified any investments as held-to-maturity.

Investments in bonds normally actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as available-for-sale on a trade date basis. A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities. A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income. Fair value through profit or loss investments are recognized at fair value on the Balance Sheet with realized and unrealized gains and losses reported in the Statement of Earnings. Available-for-sale investments are recognized at fair value on the Balance Sheet with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses on available-for-sale investments are reclassified from other comprehensive income and recorded in the Statement of Earnings when the investment is sold. Interest income earned on both fair value through profit or loss and available-for-sale bonds is calculated using the effective interest method and is recorded as net investment income in the Statement of Earnings.

Investments in bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Statement of Earnings and included in net investment income.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods that the Company relies upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance and investment contract liabilities are largely offset by corresponding changes in the fair value of liabilities except when the bond has been deemed impaired.

The following is a description of the methodologies used to value instruments carried at fair value:

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

Bonds - Fair Value Through Profit or Loss and Available-for-Sale

Fair values for bonds classified and designated as fair value through profit or loss or available-for-sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. Where prices are not quoted in an active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios.

The Company estimates the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers factors such as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Bonds - Loans and Receivables

For disclosure purposes only, fair values for bonds classified as loans and receivables are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

Impairment
Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is objective evidence that timely collection of future cash flows can no longer be reliably estimated. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

For impaired bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are recorded in net investment income, therefore, in the event of an impairment, the reduction will be recorded in net investment income.

(b) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as fair value through profit or loss. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are included in the value of the instrument issued and taken into net earnings using the effective interest method.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with maturities of three months or less held for the purpose of meeting short-term cash requirements. Net payments in transit and overdraft bank balances are included in other liabilities.

(d) Other Assets and Other Liabilities

Other assets, which include miscellaneous other assets are measured at amortized cost. Other liabilities, which include deferred income reserves are measured at amortized cost.

Provisions are recognized within other liabilities when the Company has a present obligation, either legal or constructive, resulting from a past event, and in management's judgment, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. The amount recognized for provisions are management's best estimate at the balance sheet date.

(e) Foreign Currency Translation

The Company's financial statements are prepared in United States dollars, which is the functional and presentation currency of the Company. For transactions which differ from the functional and presentation currency, exchange rate differences arising from the translation of monetary items are recorded in unrealized foreign exchange gains (losses) on translation in other comprehensive income.

For the purpose of presenting financial statements, assets and liabilities are translated into United States dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized gains and losses will be recognized proportionately in net investment income in the Statement of Earnings when realized.

Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income.

(f) Reinsurance Contracts

The Company, in the normal course of business, is a provider of reinsurance and a user of reinsurance in order to limit the potential for losses arising from certain exposures. Assumed reinsurance refers to the acceptance of certain insurance risks by the Company underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. The Company considers various factors in the impairment evaluation process, including but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the Statement of Earnings.

Any gains or losses on buying reinsurance are recognized in the Statement of Earnings immediately at the date of purchase in accordance with the Canadian Asset Liability Method.

Assets and liabilities related to reinsurance are reported on a gross basis on the Balance Sheet. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

(g) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

On the asset side, funds held by ceding insurers are assets that would normally be paid to the Company but are withheld by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds withheld basis supporting the insurance or investment contract liabilities ceded. For the funds withheld assets where the underlying asset portfolio is managed by the Company, the credit risk is retained by the Company. The funds withheld balance where the Company assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income.

Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants.

Funds withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by the Company from ceded business written on a funds withheld basis. The Company withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

(h) Revenue Recognition

Premiums for life and annuity reinsurance business with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured.

Interest income on bonds is recognized and accrued using the effective interest method.

Fee and other income primarily include fees earned from contracts that are not recognized as insurance contracts. Fee and other income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

(i) Insurance and Investment Contract Liabilities

Contract Classification

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when the Company agrees to compensate ceding insurers or beneficiaries of the contract for specified uncertain future events that adversely affect the ceding insurer or beneficiary and whose amount and timing is unknown. Refer to note 7 for a discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement* (IAS 39). The Company has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 5 for a discussion of Financial Instruments Risk Management.

Measurement
Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, experience refunds, commission and contract administrative expenses for all reinsurance contracts in force with the Company. The valuation actuary in the Company under the guidance of the Chief Actuary of the Company is responsible for determining the amount of liabilities to make appropriate provisions for the Company's obligations to ceding insurers and beneficiaries. These actuaries determine the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Included in insurance contract liabilities are deferred acquisition costs relating to insurance contracts. These are recognized as assets if the costs are incremental and incurred due to the contract being issued.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

(j) Income Taxes

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax
Current income tax is based on taxable income for the year. Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date. Current income tax assets and

current income tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax treatment uncertainties which meet the probable threshold for recognition is measured using either the most likely amount or the expected value, depending upon which method provides the better prediction of the resolution of the uncertainty. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date.

Deferred Income Tax
Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards can be utilized.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

(k) Equity

Financial instruments issued by the Company are classified as share capital if they represent a residual interest in the assets of the Company. Incremental costs that are directly attributable to the issue of share capital are recognized as a deduction from equity, net of income tax.

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of monetary items and the unrealized gains (losses) on available-for-sale assets.

(l) Leases

Where the Company is the lessee, a right-of-use asset and a lease liability are recognized on the Balance Sheet as at the lease commencement date.

Right-of-use assets are initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within other assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties are subject to the Company's associated accounting policy. Right-of-use assets presented within other assets are depreciated to the earlier of the useful life of the right-of-use asset or the lease term using the straight-line method. Depreciation expense on right-of-use assets is included within operating and administrative expenses.

(m) Future Accounting Policies

IFRS 17 - *Insurance Contracts*, and IFRS 9 - *Financial Instruments*

The Company actively monitors changes in IFRS, both proposed and released, by the IASB for potential impact on the Company. The following sets out significant standards that will be adopted on January 1, 2023:

IFRS 17, *Insurance Contracts* (IFRS 17), will replace IFRS 4, effective January 1, 2023.

IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and retrocession contracts it holds. Under IFRS 17, the Company will:

- Identify insurance contracts as arrangements where the Company accepts significant insurance risk from another party (the cedant) by agreeing to compensate the cedant of the contract for specified uncertain future events that adversely affect the cedant and whose amount and timing is unknown.
- Separately account for specified embedded derivatives, distinct investment components, and distinct non-insurance goods and services from insurance contracts.
- Identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Portfolios are further divided based on expected profitability at inception. At a minimum, each portfolio of insurance contracts issued shall by divided into the following:
    - Contracts that are onerous at initial recognition;
    - Contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
    - Any of the remaining contracts in the portfolio.
- Apply the three measurement models introduced by IFRS 17 as further described below:

    General Measurement Model (GMM)

    The Company applies this model to its medium to long-term insurance products, such as individual protection, payout annuities and longevity swaps.

    Under this model, the Company will measure insurance contract liabilities on the balance sheet as the total of:

    a. The fulfilment cash flows (FCF) - the current estimates of amounts that a company expects to collect (e.g. premiums) and pay out (e.g. claims, benefits, expenses), including adjustments for the timing and the financial and non-financial risks of those amounts; and

b. The contractual service margin (CSM) - unearned profit of providing insurance coverage, which is subsequently recognized into profit or loss over time as the insurance services are provided.

At the end of each period, the Company will calculate the FCF and CSM, with the CSM subject to adjustments for interest accretion and certain changes to FCF relating to future service.

Premium Allocation Approach (PAA)

The Company applies this model to its short-term insurance products, such as group life and health.

This simplified model can be used when the contract boundary is less than one year or the approach is expected to produce a similar liability amount as under the GMM. Under the PAA, the Company is exempted from calculating and explicitly accounting for the CSM. Instead the liability is set as the premiums received less acquisition expenses, premium revenue recognized, and amounts transferred to fund incurred claims.

Variable Fee Approach (VFA)

This measurement model cannot be applied to reinsurance contracts.

A group of insurance contracts issued is considered onerous when the measurement leads to a negative CSM either at issue or when subsequently measured. In this case, the CSM is not allowed to decrease below zero and a loss component is tracked.

The measurement of reinsurance contracts held is similar to insurance contracts issued with the following key differences: the CSM can be positive or negative, and the Variable Fee Approach measurement model cannot be used.

On transition to IFRS 17, the Company will apply the full retrospective approach to all identified insurance contracts unless it is impracticable to do so. When impracticable, the fair value approach will be applied.

The fair value approach calculates the CSM or loss component of the liability for remaining coverage as the difference between the fair value of a group of insurance contracts at the date of transition and the FCF measured at that date.

In addition, IFRS 9, *Financial Instruments* (IFRS 9) will replace IAS 39, effective January 1, 2023. The standard provides changes to financial instruments accounting for the following:

- Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset. All financial assets are measured as Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVOCI), or amortized cost;
- Allowances for credit losses (ACL) are based on an Expected Credit Loss (ECL) model for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI. Under the ECL model, a loss allowance is recognized and maintained equal to 12 months of expected credit losses upon initial recognition. If credit risk subsequently increases significantly, or an asset becomes credit-impaired, the loss allowance is increased to cover full, lifetime expected credit losses. Changes in the required loss allowance will be recorded in net investment income in the Statement of Earnings; and
- Hedge accounting that incorporates the risk management practices of an entity, which will not have a material impact to the Company.

The current disclosure for the measurement and classification of the Company's portfolio investments (note 4) provides most of the information required by IFRS 9.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

The Company's date of initial application of IFRS 9 is January 1, 2023; and the Company anticipates electing the option of presenting comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period, as permitted by the amendment to IFRS 17 published by the IASB in December 2021. IFRS 9 includes an accounting policy choice to retain the IAS 39 requirements for hedge accounting, which the Company is currently evaluating.

The expected quantitative impact of transitioning to IFRS 17 and IFRS 9 is illustrated in the opening balance sheet reconciliation table below.

Balance Sheet Condensed View	As Reported IFRS 4 IAS 39 Dec. 31, 2021	Asset / Liability Reclassification	IFRS 9	IFRS 17	Income Tax	Restated IFRS 17 & 9 Balance Sheet Jan. 1, 2022
Assets						
Bonds	$320,851	$—	$320	$—	$—	$321,171
Other assets impacted by	4,267	(3,252)	—	226,233	—	227,248
Other assets not impacted	5,811	—	—	—	—	5,811
Total assets	**$330,929**	**($3,252)**	**$320**	**$226,233**	**$—**	**$554,230**
Liabilities						
Insurance contract	$811	$2,660	$—	$137,267	$—	$140,738
Other liabilities impacted	21,717	(5,912)	—	(1,567)	18,699	32,937
Other liabilities not	(1)	—	—	—	—	(1)
Total liabilities	**$22,527**	**($3,252)**	**$—**	**$137,513**	**$18,699**	**$175,487**
Total equity	**308,402**	**—**	**320**	**88,720**	**(18,699)**	**378,743**
Total liabilities and	**$330,929**	**($3,252)**	**$320**	**$226,233**	**$—**	**$554,230**

The adoption of IFRS 17 and IFRS 9 is expected to result in an overall increase of total assets of approximately $223,301, total liabilities of $152,960, and total equity of approximately $70,341 to the transition balance sheet as at January 1, 2022.

Asset and liability reclassifications were primarily driven by changes to the groupings of certain assets and liabilities, and reclassifications of certain insurance contract liabilities to investment contract liabilities. IFRS 9 adjustments primarily relate to change in designation of certain loans and receivables held at amortized cost under IAS 39 to

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

FVTPL under IFRS 9. IFRS 17 adjustments relate to changes in insurance contract liabilities and reinsurance assets, which are primarily the result of the establishment of CSM for in-force contracts of $101,301 partially offset by the removal of provisions no longer required under IFRS 17.

These impacts are based on the assessments undertaken to date. The exact financial impacts of the accounting changes of adopting IFRS 17 and IFRS 9 may be revised as further analysis is completed prior to presentation of financial information for periods including the date of initial application.

These impacts are based on the assessments undertaken to date. The exact financial impacts of the accounting changes of adopting IFRS 17 and IFRS 9 on January 1, 2023 may be revised as further analysis is completed prior to presentation of financial information for periods including the date of initial application.

Standard	**Summary of Future Changes**
IAS 1 - *Presentation of Financial Statements*	In February 2021, the IASB published *Disclosure of Accounting Policies*, amendments to IAS 1, *Presentation of Financial Statements*. The amendments clarify how an entity determines whether accounting policy information is material. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its financial statements as a result of these amendments.
IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*	In February 2021, the IASB published *Definition of Accounting Estimates*, amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify the difference between an accounting policy and an accounting estimate. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its financial statements as a result of these amendments.
IAS 12 - *Income Taxes*	In May 2021, the IASB published *Deferred Tax Related to Assets and Liabilities from a Single Transaction*, amendments to IAS 12, *Income Taxes*. The amendments clarify that for transactions in which both deductible and taxable temporary differences arise on initial recognition that result in deferred tax assets and liabilities of the same amount, [illegible] These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its financial statements as a result of these amendments.
IFRS 16 - *Leases*	In September 2022, the IASB published Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), amendments to IFRS 16, *Leases*. The amendments clarify that in a sale and leaseback transaction, the seller-lessee subsequent measurement of the lease liability arising from a leaseback does not recognize any amount of gain or loss related to the [illegible] These amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Company does not anticipate a significant impact on its financial statements as a result of these amendments.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

3. CASH AND CASH EQUIVALENTS

	2022	2021
Cash	**$2,077**	$1,421
Short-term deposits	**7,766**	4,345
Total	**$9,843**	$5,766

As at December 31, 2022, the Company had $1,972 of restricted cash (2021: $1,378).

4. PORTFOLIO INVESTMENTS

(a) Carrying values and estimated fair values of portfolio investments are as follows:

	2022		2021	
	Carrying value	**Fair value**	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss	**$39,491**	**$39,491**	$51,930	$51,930
Available-for-sale	**220,172**	**220,172**	267,271	267,271
Loans and receivables	**1,402**	**1,457**	1,650	1,970
Total	**$261,065**	**$261,120**	$320,851	$321,171

(b) Carrying value of bonds by term to maturity are as follows:

	Term to maturity			
	1 year or less	**1-5 years**	**Over 5 years**	**Total**
2022	**$113,458**	**$91,247**	**$56,360**	**$261,065**
2021	$175,624	$81,194	$64,033	$320,851

The above excludes the carrying value of impaired bonds, as the ultimate timing of collectability is uncertain.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

(c) Net investment income comprises the following:

	2022		
	Bonds	**Funds held by ceding insurers**	**Total**
Regular net investment income:			
Investment income earned	**$4,525**	**$—**	**$4,525**
Net realized gain			
Available-for-sale	**(246)**	**—**	**(246)**
Other expenses	**(491)**	**—**	**(491)**
	3,788	**—**	**3,788**
Changes in fair value on fair value through profit or loss assets:			
Net realized/unrealized loss	**(9,052)**	**—**	**(9,052)**
Total	**($5,264)**	**$—**	**($5,264)**

	2021		
	Bonds	Funds held by ceding insurers	Total
Regular net investment income:			
Investment income earned	$3,665	$13,275	$16,940
Net realized gain			
Available-for-sale	(57)	—	(57)
Other expenses	(605)	—	(605)
	3,003	13,275	16,278
Changes in fair value on fair value through profit or loss assets:			
Net realized/unrealized gain	(6,667)	—	(6,667)
Total	($3,664)	$13,275	$9,611

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds includes interest income and premium and discount amortization.

(d) Trust and escrow accounts

At December 31, 2022, included in bonds are $28,022 (2021: $36,441) of assets which are held in trust and escrow accounts. The assets have been placed in these accounts pursuant to the requirements of United States insurance laws or based on the terms of underlying reinsurance treaties, to support liabilities assumed under certain reinsurance contracts.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

5. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity).

The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations.

The following policies and procedures are in place to manage this risk:

- Investment and risk policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment and risk limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- The Company is exposed to credit risk relating to premiums due from cedants. Management continually monitors and performs an assessment of the creditworthiness of cedants.

(i) Maximum Exposure to Credit Risk

The following summarizes the Company’s maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2022	2021
Cash and cash equivalents	**$9,843**	$5,766
Bonds		
Fair value through profit or loss	**39,491**	51,930
Available-for-sale	**220,172**	267,271
Loans and receivables	**1,402**	1,650
Funds held by ceding insurers	**295,502**	—
Premium in course of collection	**—**	362
Accounts receivable	**—**	28
Interest receivable	**—**	996
Other financial assets	**—**	2,861
Total	**$566,410**	$330,864

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following provides details of the carrying value of bonds by industry sector:

	2022	2021
Bonds issued or guaranteed by:		
Treasuries	**$93,525**	$143,154
Agency securitized	**1,753**	2,096
Non agency securitized	**6,298**	8,599
Financials	**7,359**	7,399
Communications	**4,167**	—
Consumer products	**31,286**	36,220
Energy	**5,064**	5,278
Industrials	**8,541**	6,866
Technology	**10,944**	14,105
Transportation	**2,769**	7,409
Utilities	**8,984**	9,597
Total long-term bonds	**180,690**	240,723
Short-term bonds	**80,375**	80,128
Total	**$261,065**	$320,851

(iii) Asset Quality

Bond Portfolio Quality by Credit Rating	**2022**	2021
AAA	**$178,855**	$222,962
AA	**19,140**	21,922
A	**37,438**	34,798
BBB	**25,632**	37,586
BB and lower	**—**	3,583
Total	**$261,065**	$320,851

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between insurance contract liabilities and the yield of assets.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

- Management closely monitors the solvency and capital positions in the light of the Company's liquidity requirements.

(c) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- Changes in actuarial, investment return and future investment activity assumptions;
- Actual experience differing from the assumptions;
- Changes in business mix, effective income tax rates and other market factors;
- Interactions among these factors and assumptions when more than one changes; and
- The general limitations of the Company's internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to the shareholder will be as indicated.

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. Strengthening or weakening of the US dollar spot rate against any other currency impacts the Company's total share capital and surplus.

The following policies and procedures are in place to mitigate the Company’s exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.
- For assets backing liabilities not matched by currency, the Company would normally convert the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the US dollar against foreign currencies would be expected to increase insurance contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the US dollar against foreign currencies would be expected to decrease insurance contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the reinsurance contracts written.
- For reinsurance contracts with fixed and highly predictable benefit payments, investments are made in fixed income assets whose cash flows closely match the liability product cash flows. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For reinsurance contracts with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.36% in 2022 (0.36% in 2021). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk because the Company's sensitivity to interest rate movements varies at different times.

The range of interest rates covered by these provisions is set after consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries prescribed scenarios:

- At December 31, 2022 and December 31, 2021, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

- At December 31, 2022 and December 31, 2021, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholder's earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions.

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by $2,284 causing an increase in net earnings of $1,804.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by $9,466 causing a decrease in net earnings of $7,478.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some insurance contract liabilities are supported by equities, for example the reinsurance of segregated fund products. Generally these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate. A 10% increase in equity markets would be expected to have an immaterial change in insurance contract liabilities and net earnings. A 10% decrease in equity markets would be expected to have an immaterial change in insurance contract liabilities and net earnings.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to have an immaterial change in insurance contract liabilities and net earnings. A 1% decrease in the best estimate assumption would be expected to have an immaterial change in insurance contract liabilities and net earnings.

6. FAIR VALUE MEASUREMENT

The Company’s assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. As at December 31, 2022, the Company's Level 1 financial assets were held in cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and investment funds, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. As at December 31, 2022 bonds that are measured at fair value are included in the Level 2 category.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. As at December 31, 2022 and December 31, 2021, the Company did not have any Level 3 financial assets.

The following presents the Company's financial assets measured at fair value on a recurring basis by hierarchy level:

	2022			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$9,843**	**$—**	**$—**	**$9,843**
Financial assets at fair value through profit or loss				
Bonds	**—**	**39,491**	**—**	**39,491**
Available-for-sale financial assets				
Bonds	**—**	**220,172**	**—**	**220,172**
Total assets measured at fair value	**$9,843**	**$259,663**	**$—**	**$269,506**

	2021			
Assets measured at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$5,766	$—	$—	$5,766
Financial assets at fair value through profit or loss				
Bonds	—	51,930	—	51,930
Available-for-sale financial assets				
Bonds	—	267,271	—	267,271
Total assets measured at fair value	$5,766	$319,201	$—	$324,967

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

There were no transfers of the Company's assets between any levels in 2022 and 2021.

The following presents the Company's assets disclosed at fair value on a recurring basis by hierarchy level:

	2022			
Assets disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Total loans and receivables financial assets	**$—**	**$1,457**	**$—**	**$1,457**

	2021			
Assets disclosed at fair value	Level 1	Level 2	Level 3	Total
Total loans and receivables financial assets	$—	$1,970	$—	$1,970

Short term financial assets and liabilities

The carrying value of the short term financial assets and liabilities approximates fair value due to the short term nature of these financial instruments.

7. INSURANCE CONTRACT LIABILITIES

(a) Insurance contract liabilities

	Gross liability	Reinsurance assets	Net
2022	**$256,277**	**$270,155**	**($13,878)**
2021	$811	$—	$811

(b) Composition of insurance contract liabilities and related supporting assets

The composition of the assets supporting insurance contract liabilities and surplus is as follows:

	2022		
	Bonds	**Other**	**Total**
Carrying value			
Insurance contract liabilities	**$13,179**	**$243,098**	**$256,277**
Other	**14,843**	**273,783**	**288,626**
Total equity	**233,043**	**62,958**	**296,001**
Total carrying value	**$261,065**	**$579,839**	**$840,904**
Fair value	**$261,120**	**$579,839**	**$840,959**

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

	2021		
	Bonds	Other	Total
Carrying value			
Insurance contract liabilities	$1,313	($502)	$811
Other	35,129	(13,412)	21,717
Total equity	284,409	23,993	308,402
Total carrying value	$320,851	$10,079	$330,930
Fair value	$321,171	$10,079	$331,250

Cash flows of assets supporting insurance contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(c) Change in insurance contract liabilities

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	2022		
	Gross liability	**Reinsurance assets**	**Net**
Balance, beginning of year	**$811**	**$—**	**$811**
Normal change in force	**—**	**—**	**—**
Management action and changes in assumptions	**(37,025)**	**—**	**(37,025)**
Business movement from/to affiliates	**292,491**	**270,155**	**22,336**
Balance, end of year	**$256,277**	**$270,155**	**($13,878)**

	2021		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$516,671	$—	$516,671
Normal change in force	(76,931)	—	(76,931)
Management action and changes in assumptions	(20,110)	—	(20,110)
Business movement from/to affiliates	(418,819)	—	(418,819)
Balance, end of year	$811	$—	$811

Under IFRS, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

(d) Actuarial Assumptions

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

(i) Mortality / Morbidity / Claims Development and Policy Termination

The Company analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience. In certain instances, the Company adjusts claims experience for possible loss mitigation activities. As additional experience and other data become available, the estimates would be revised as appropriate. Any future changes in estimates would be reflected in the financial statements in the period when they are identified.

(ii) Investment Returns

The Company segregates the assets backing each major reinsurance contract. Certain reinsurance contracts are structured on a basis where the assets are held by the cedant and a guaranteed interest rate is credited to the funds backing the Company's insurance contract liabilities. In these cases, the insurance contract liability reflects this interest rate. The investment returns are recognized in investment income.

For other reinsurance contracts, the assets are directly invested by the Company. In these cases, the Company matches the cash flow of the assets and that of the liabilities. The valuation interest rate would reflect the yield on the assets backing that reinsurance contract less a provision for asset default and asset-liability mismatch. The Company uses interest rate scenario testing on the actual assets backing such liabilities to determine the interest rate risk in accordance with the Canadian Asset Liability Method. The investment returns are recognized in investment income.

(iii) Expenses

Expenses specific to a contract and investment expenses are reflected in the valuation.

(e) Risk Management

(i) Insurance Risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

The Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company’s underwriting strategy guidelines, and through the use of retrocession arrangements.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

The following provides information about the Company's insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

	Increase (decrease) in net earnings	
	2022	2021
Mortality - 2% increase	**($87,690)**	($104,750)
Annuitant mortality - 2% decrease	**(83)**	(10)
Morbidity - 5% adverse change	**—**	—
Investment returns		
Parallel shift in yield curve		
1% increase	**51**	—
1% decrease	**(5,327)**	—
Change in range of interest rates		
1% increase	**1,804**	777
1% decrease	**(7,478)**	(1,075)
Change in best estimate returns for equities		
1% increase	**—**	—
1% decrease	**—**	—
Expenses - 5% increase	**(280)**	(2,370)
Policy termination and renewal - 10% adverse change	**(43,213)**	(58,220)

(ii) Reinsurance Risk

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to cedants. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from retrocessionaire insolvency on those contracts.

8 FINANCING CHARGES

Financing charges consist of the following:

	2022	2021
Letters of credit facilities (note 12 and 17)	**$3,262**	$2,726

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

9. SHARE CAPITAL

Authorized

Unlimited Class A Common Shares of no par value
Unlimited Class B Common Shares of no par value
Issued and outstanding and fully paid: 3,904,627 Class A Common Shares of no par value

	2022		2021	
	Number	**Carrying value**	Number	Carrying value
Classified as equity				
Class A Common Shares	**3,904,627**	**$297,863**	3,904,627	$297,863

During 2022, the Company paid dividends of $13,000 (2021: $Nil) and a distribution of contributed surplus of $7,000 (2021: $Nil). During 2022, dividends/distributions paid on a per share basis were $5.12 (2021: $Nil).

10. CAPITAL MANAGEMENT

The Company monitors the amount of capital available, and the amounts deployed in its various operations. Capital comprises the Company's total equity on the balance sheet. The amount of capital deployed is dependent upon regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company's practice is to maintain capitalization at a level that will exceed the relevant minimum regulatory capital requirements. As of December 31, 2022 and December 31, 2021, the Company maintained capital levels above the minimum local regulatory requirements.

The capitalization of the Company will also take into account the views expressed by a credit rating agency that provides financial strength ratings.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2022			
	Unrealized foreign exchange losses	**Unrealized gains (losses) on available-for-sale assets**	**Realized gains (losses) on available-for-sale assets**	**Total**
Balance, beginning of year	**($4)**	**$648**	**($581)**	**$63**
Other comprehensive income (loss)	**(1)**	**(9,981)**	**246**	**(9,736)**
Income taxes expense (recovery)	**—**	**2,096**	**(52)**	**2,044**
Balance, end of year	**($5)**	**($7,237)**	**($387)**	**($7,629)**

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

	2021			
	Unrealized foreign exchange losses	Unrealized gains (losses) on available-for-sale assets	Realized gains (losses) on available-for-sale assets	Total
Balance, beginning of year	($3)	$2,518	($626)	$1,889
Other comprehensive income (loss)	(1)	(2,367)	57	(2,311)
Income tax expense (recovery)	—	497	(12)	485
Balance, end of year	($4)	$648	($581)	$63

12. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In the normal course of business, the Company enters into various transactions with related companies, which include ceding reinsurance to other companies within the Great-West Lifeco group of companies. In all cases, transactions were at market terms and conditions.

The following summarizes transactions with related parties:

	2022	2021
Gross written premiums	**$1,367,948**	$631,815
Ceded premiums	**1,162,812**	10,572
Fee and other income	**34**	47
Net investment income	**—**	8,740
Operating and administrative expenses	**1,484**	1,885
Gross claims incurred under insurance contracts	**1,066,518**	1,116,259
Financing charges	**3,262**	2,726

(b) Amounts due (to) / from related parties

At the end of the year, the amounts due (to) / from related parties are as follows:

	2022	2021
Insurance contract liabilities	**$39,461**	($6,354)

These balances are settled on the same basis as those with unrelated parties and have arisen from the reinsurance transactions referred to above.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

13. INCOME TAXES

The Company has received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until March 31, 2035. At the present time no such taxes are levied in Bermuda.

As the Company has made an election under section 953(d) of the Internal Revenue Code of the United States of America, it is subject to tax as a United States corporation.

(a) Current income taxes

	2022	2021
Balance, beginning and end of year	**$2**	$2

(b) Deferred income taxes

Deferred income taxes consist of the following losses carried forward and taxable temporary differences:

	2022	2021
Insurance contract liabilities	**($178,856)**	($249,400)
Loss carried forward	**183,404**	261,565
Portfolio assets	**2,610**	(1,242)
Other	**(22,280)**	(24,024)
Net deferred income tax liability	**($15,122)**	($13,101)
Balance, beginning of year	**($13,101)**	($8,617)
Amounts recorded in:		
Statement of net earnings (loss)	**(4,065)**	(4,969)
Statement of changes in other comprehensive income (loss)	**2,044**	485
Balance, end of year	**($15,122)**	($13,101)
Record in:		
Deferred tax liability	**($15,122)**	($13,101)

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

Management assesses the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as of December 31, 2022 are recoverable.

At December 31, 2022, the Company had tax loss carryforwards, totaling $873.353 (2021: $1,245,551). Of this amount $863,253 are non-expiring losses, the remaining $10,100 expires in 2032. The Company will realize this benefit in future years through a reduction in current income taxes payable.

(c) Income tax expense for the year comprises deferred tax:

(i) Deferred income tax

	2022	2021
Origination and reversal of temporary difference	**$4,065**	$4,969
Total deferred income tax	**4,065**	4,969
Total income tax expense (recovery)	**$4,065**	$4,969

(ii) Income tax recorded in other comprehensive income

	2022	2021
Deferred income tax (recovery) expense	**($2,044)**	($485)

(d) The Company's effective income tax rate is derived as follows:

	2022	2021
Profit (loss) before income taxes	**$19,356**	$23,663
Statutory tax rate	**21%**	21%
	4,065	$4,969
Effective income tax rate	**21.0%**	21.0%

14. STATUTORY REQUIREMENTS

The Company is registered under the Bermuda Insurance Act 1978, and Related Regulations (the Act), and is obligated to comply with various provisions of the Act regarding solvency, and liquidity. Statutory capital and surplus as at December 31, 2022 and December 31, 2021 was greater than the amount required to be maintained by the Act. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. As at December 31, 2022 and December 31, 2021 the liquidity ratio was met.

NOTES TO FINANCIAL STATEMENTS
December 31. 2022
(in U.S. $ thousands)

15. OPERATING AND ADMINISTRATIVE EXPENSES

	2022	2021
Salaries and other employee benefits	**$1,312**	$1,365
General and administrative	**1,311**	1,543
Total	**$2,623**	$2,908

Key management personnel constitute those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers. The Company's key management personnel are included in the amounts disclosed above.

16. LEGAL PROVISIONS AND CONTINGENT LIABILITIES

The Company is from time-to-time subject to legal actions, including arbitrations and class actions. Provisions are established if, in management's judgment, it is probable a payment will be required and the amount of the payment can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the financial position of the Company. Actual results could differ from management's best estimates.

17. COMMITMENTS

Clients residing in the United States are required pursuant to their insurance laws, to obtain Letters of Credit (LC) issued on the Company's behalf from approved banks, in order to further secure the Company's obligations under certain reinsurance contracts.

The Canada Life Assurance Company (CL) and certain affiliates have entered into reimbursement agreements whereby these affiliates can use the Canada Life Assurance Company's LC facilities. As at December 31, 2022, the total amount of LC facilities is $1,250,000 (2021: $1,250,000) of which $507,000 (2021: $542,000) were issued on behalf of the Company. During 2022, the Company paid $3,000 (2021: $3,000) in financing charges to CL (note 8) in connection with these LC facilities.

As at December 31, 2022, the Company and certain affiliates have other bilateral LC facilities totaling $18,000 (2021: $18,000) of which $Nil (2021: $Nil) were issued.