

Financial Statements

# **CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**

December 31, 2023  
and Independent auditor's report

CONFIDENTIAL

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**Company Information**

Directors: Gareth Dobson  
Brendan Kearney - appointed April 30, 2023  
Christine Peloghitis  
Colum Ward  
Colin Alexander  
Thomas O'Sullivan - retired April 30, 2023

Corporate Secretary: Lewis Fickett

Registered Office: Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

Attorneys at law: Conyers Dill & Pearman Limited  
Clarendon House  
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Hamilton HM 11  
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Bankers: The Bank of New York Mellon  
101 Barclay Street, 7E  
New York, NY 10286  
U.S.A.

The Bank of N.T. Butterfield & Son Limited  
65 Front Street  
Hamilton HM 12  
Bermuda

Auditors: Deloitte Ltd.  
Corner House  
20 Parliament Street  
P.O. Box HM 1556  
Hamilton HM FX  
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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 statement of financial position as at December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, 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.

### Emphasis of Matter- Adoption of IFRS 17

We draw attention to Notes 2 and 3 of the financial statements which describe the accounting policy changes and transitional effects respectively, of the Company's adoption of IFRS 17 effective 1 January 2023. This resulted in significant presentation and disclosure changes. The adoption of IFRS 17 was done on a retrospective basis which had an impact on the Company's 1 January 2022 opening equity balances. Our opinion is not modified in respect of this matter.

### 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 26, 2024

**CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**  
**STATEMENT OF EARNINGS (LOSS)**

*(in US \$ thousands)*

	<b>For the year ended December 31</b>	
	<b>2023</b>	<b>2022</b>
		(Restated)
<b>Insurance service result</b>		
Insurance revenue (note 8)	<b>\$437,407</b>	\$438,451
Insurance service expenses (note 9)	<b>(488,910)</b>	(383,876)
Net expense from reinsurance contracts	<b>(8,989)</b>	(7,866)
	<b>(60,492)</b>	46,709
<b>Net investment result (note 5)</b>		
Net investment income	<b>5,918</b>	4,109
Changes in fair value on fair value through profit or loss assets	<b>1,014</b>	(9,185)
	<b>6,932</b>	(5,076)
Net finance income (expenses) from insurance contracts	<b>24,789</b>	(27,475)
Net finance expenses from reinsurance contracts	<b>—</b>	(67)
	<b>31,721</b>	(32,618)
<b>Other income and expenses</b>		
Operating and administrative expenses (note 9)	<b>(2,497)</b>	(2,699)
Financing charges (note 12)	<b>(3,502)</b>	(3,262)
<b>(Loss) earnings before income taxes</b>	<b>(34,770)</b>	8,130
Income taxes (note 17)	<b>7,301</b>	(1,707)
<b>Net (loss) earnings</b>	<b>(\$27,469)</b>	\$6,423

**CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**  
**STATEMENT OF COMPREHENSIVE LOSS**

*(in US \$ thousands)*

For the year ended December 31

	2023	2022
		(Restated)
<b>Net earnings</b>	<b>(\$27,469)</b>	\$6,423
<b>Other comprehensive income (loss)</b>		
<b>Items that may be reclassified subsequently to Statements of Earnings</b>		
Unrealized foreign exchange losses on translation of foreign operations	—	(12)
Unrealized gains (losses) on bonds at fair value through other comprehensive income	<b>2,277</b>	(10,114)
Income tax (expense) benefit	<b>(464)</b>	2,096
Realized losses on bonds at fair value through other comprehensive income	<b>3,073</b>	246
Income tax benefit	<b>(645)</b>	(52)
<b>Total other comprehensive income (loss)</b>	<b>4,241</b>	(7,836)
<b>Comprehensive loss</b>	<b>(\$23,228)</b>	(\$1,413)

**CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**  
**BALANCE SHEET**

*(in US \$ thousands)*

	December 31 2023	December 31 2022 (Restated)	January 1 2022 (Restated)
<b>Assets</b>			
Cash and cash equivalents (note 4)	\$4,425	\$9,843	\$5,766
Bonds (note 5)	273,710	261,120	321,171
	<b>278,135</b>	270,963	326,937
Insurance contract assets (note 10)	103,503	145,134	117,995
Reinsurance contract held assets (note 11)	2	2	—
Other assets	1,562	6,560	1,078
Current income taxes (note 17)	—	2	2
<b>Total assets</b>	<b>\$383,202</b>	\$422,661	\$446,012
<b>Liabilities</b>			
Insurance contract liabilities (note 10)	\$24,108	\$24,256	\$32,485
Reinsurance contract held liabilities (note 11)	3,027	3,510	1,828
Other liabilities	1,464	6,101	1,155
Current income taxes (note 17)	2,769	—	—
Deferred tax liabilities (note 17)	22,499	31,462	31,799
<b>Total liabilities</b>	<b>53,867</b>	65,329	67,267
<b>Equity</b>			
Share capital (note 13)	\$297,863	\$297,863	\$297,863
Accumulated surplus	33,987	66,242	72,819
Accumulated other comprehensive income (note 15)	(3,515)	(7,773)	63
Contributed surplus	1,000	1,000	8,000
<b>Total equity</b>	<b>329,335</b>	357,332	378,745
<b>Total liabilities and equity</b>	<b>\$383,202</b>	\$422,661	\$446,012



**CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

*(in US \$ thousands)*

	December 31, 2023				
	Share capital	Accumulated surplus	Accumulated other comprehensive income (loss)	Contributed surplus	Total equity
<b>Balance, beginning of year (restated)</b>	<b>\$297,863</b>	<b>\$66,242</b>	<b>(\$7,773)</b>	<b>\$1,000</b>	<b>\$357,332</b>
Impact of application of IFRS 17	—	(36)	17	—	(19)
Revised balance, beginning of year	<b>297,863</b>	<b>66,206</b>	<b>(7,756)</b>	<b>1,000</b>	<b>357,313</b>
Net earnings	—	(27,469)	—	—	(27,469)
Other comprehensive income	—	—	4,241	—	4,241
	<b>297,863</b>	<b>38,737</b>	<b>(3,515)</b>	<b>1,000</b>	<b>334,085</b>
Dividends to shareholders (note 13)	—	(4,750)	—	—	(4,750)
<b>Balance, end of year</b>	<b>\$297,863</b>	<b>\$33,987</b>	<b>(\$3,515)</b>	<b>\$1,000</b>	<b>\$329,335</b>

  

	December 31, 2022 (Restated)				
	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
Impact of initial application of IFRS 17 (note 3)	—	70,023	—	—	70,023
Impact of initial application of IFRS 9 overlay (note 3)	—	320	—	—	320
Revised balance, beginning of year	<b>297,863</b>	<b>72,819</b>	<b>63</b>	<b>8,000</b>	<b>378,745</b>
Net earnings	—	6,423	—	—	6,423
Other comprehensive income (loss)	—	—	(7,836)	—	(7,836)
	<b>297,863</b>	<b>79,242</b>	<b>(7,773)</b>	<b>8,000</b>	<b>377,332</b>
Dividends to shareholders (note 13)	—	(13,000)	—	(7,000)	(20,000)
Balance, end of year	<b>\$297,863</b>	<b>\$66,242</b>	<b>(\$7,773)</b>	<b>\$1,000</b>	<b>\$357,332</b>

**CANADA LIFE INTERNATIONAL REINSURANCE CORPORATION LIMITED**  
**STATEMENT OF CASH FLOWS**

*(in US \$ thousands)*

	<b>For the year ended December 31</b>	
	<b>2023</b>	<b>2022</b>
		(Restated)
<b>Operations</b>		
Earnings before income taxes	<b>(\$34,770)</b>	\$8,130
Adjustments:		
Change in insurance contract liabilities	<b>(148)</b>	(8,229)
Change in reinsurance held contract liabilities	<b>(484)</b>	1,682
Change in insurance contract assets	<b>41,630</b>	(27,139)
Change in reinsurance contract held assets	<b>—</b>	2
Changes in fair value through profit or loss	<b>(1,014)</b>	9,185
Other	<b>(2,310)</b>	(509)
	<b>2,904</b>	(16,878)
<b>Financing Activities</b>		
Dividends paid on common shares	<b>(4,750)</b>	(20,000)
	<b>(4,750)</b>	(20,000)
<b>Investment Activities</b>		
Bond sales and maturities	<b>275,456</b>	226,675
Investment in bonds	<b>(279,028)</b>	(185,720)
	<b>(3,572)</b>	40,955
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(5,418)</b>	4,077
<b>Cash and cash equivalents, beginning of year</b>	<b>9,843</b>	5,766
<b>Cash and cash equivalents, end of year</b>	<b>\$4,425</b>	\$9,843
<b>Supplementary cash flow information</b>		
Interest income received	<b>\$4,627</b>	\$6,644

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)***1. CORPORATE INFORMATION**

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. 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 was 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"). The Company is licensed as a Class C insurer in Bermuda to write life and annuity reinsurance with Great-West Lifeco Inc. ("Lifeco") and/or its subsidiaries and/or branches of the subsidiaries. In February 2023, the Company submitted a request to terminate its Class 3A license which covers property and casualty reinsurance business, and the Bermuda Monetary Authority accepted the termination on February 28, 2023. 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 is a wholly-owned subsidiary of Canada Life Capital Corporation Inc. ("CLCC"). CLCC is a company incorporated in Canada and is a wholly-owned subsidiary of The Canada Life Assurance Company ("CL"). CL is wholly-owned by Lifeco. Lifeco is a member of the Power Corporation of Canada ("Power Corporation") group of companies.

The financial statements of the Company as at and for the year ended December 31, 2023 were authorized by the Board of Directors on April 25, 2024.

**2. BASIS OF PRESENTATION AND SUMMARY OF MATERIAL 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.

**Changes in Accounting Policies**

The Company adopted IFRS 17, *Insurance Contracts* (IFRS 17) and IFRS 9, *Financial Instruments* (IFRS 9) on their effective date of January 1, 2023 which replaced IFRS 4, *Insurance Contracts* (IFRS 4) and International Accounting Standard 39, *Financial Instruments* (IAS 39), respectively.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. Under IFRS 17, groups of contracts are measured as the estimate of the present value of fulfillment cash flows, adjusted for an explicit risk adjustment for non-financial risk and the contractual service margin (CSM).

IFRS 9 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; impairment based on an expected loss model; and hedge accounting that incorporates the risk management practices of an entity.

The accounting policies materially impacted by the adoption of IFRS 17 and IFRS 9 are included in sections (a) Portfolio Investments and (i) Insurance Contracts and Reinsurance Contracts Held below.

The Company adopted the amendments to IFRS for IAS 1, *Presentation of Financial Statements*, IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 12, *Income Taxes* effective January 1, 2023. The adoption of these amendments did not have a material impact on the Company's financial statements.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)*

The Company adopted the amendments to IFRS for IAS 12, *Income Taxes* effective May 2023 and has applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two model rules published by the Organization for Economic Co-operation and Development (OECD).

**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:

- Management applies judgment 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, are incremental and related to the issuance of the investment.
- Management applies judgment when evaluating the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- The actuarial assumptions, such as mortality, longevity, morbidity, expense and policyholder behaviour, used in the valuation of insurance contract liabilities require judgment and estimation.
- Management applies judgment in determining the coverage units which are based on an estimate of the quantity of coverage provided by the contracts in a group, considering the quantity of benefits provided and the expected coverage duration.
- The Company considers all terms of contracts it issues to determine whether there are amounts payable to the policyholder in all circumstances, regardless of contract cancellation, maturity, and the occurrence or non-occurrence of an insured event. Some amounts, once paid by the policyholder, are repayable to the policyholder in all circumstances. The Company considers such payments to meet the definition of an investment component, irrespective of whether the amount repayable varies over the term of the contract as the amount is repayable only after it has first been paid by the policyholder.
- In determining discount rates to apply to most insurance contract liability cash flows, the Company generally uses the top-down approach for cash flows of non-participating contracts that do not depend on underlying items. Applying this approach, the Company uses the yield curve implied in a reference portfolio of assets and adjusts it to exclude the effects of risks (e.g., credit risk) present in the cash flows from the financial instruments that are part of the reference portfolio, but not in the insurance cash flows. One of the key sources of estimation uncertainty is estimating the market risk premiums for credit risk of the underlying items that are only relevant to assets included in the reference portfolio, but not to the non-participating contracts. For some products, discount rates are set using a bottom-up approach, based on risk-free rates, plus an illiquidity premium, which also requires judgment. (note 10).
- When determining the risk adjustment for non-financial risk, the Company applies judgment in reflecting diversification and calculating the confidence level.
- The determination of whether a contract or a group of contracts is onerous is based on the expectations as at the date of initial recognition and subsequently, with fulfillment cash flow expectations determined on a probability-weighted basis. The Company determines the appropriate level at which reasonable and supportable information is available to make this assessment. The Company applies judgment in determining at what level of granularity the Company has sufficient information to conclude that all contracts within a set will be in the same group.
- For contracts issued more than several years prior to the IFRS 17 effective date, the Company applied judgment in determining that obtaining reasonable and supportable information to apply the full retrospective approach was impracticable without undue cost or effort.
- The Company used judgment in determining which insurance contracts to apply the fair value approach to upon transition to IFRS 17, and applied significant judgment in determining the critical assumptions and estimates in determining the fair value for these contracts.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)*

- The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgment, in particular for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk.
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections. (note 17).
- 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 applies judgment in evaluating the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date. (note 19).
- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The Company's practice is to use third-party independent credit ratings where available. Judgment is required when setting credit ratings for instruments that do not have a third-party rating.

The material accounting policies are as follows:

**(a) Portfolio Investments**

Portfolio investments include bonds.

Under IFRS 9, a financial asset is measured at fair value on initial recognition and is classified and subsequently measured as fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost based upon the Company's business model for managing its assets and the contractual cash flow characteristics of the asset.

The Company's business models are determined at the level that reflects how its groups of financial assets are managed together to achieve business objectives.

A financial asset is classified as FVOCI if it meets the following criteria and is not designated as FVTPL:

- It is held in a business model whose objective is to hold to collect contractual cash flows and sell financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is classified as amortized cost if it meets the following criteria and is not designated as FVTPL:

- It is held in a business model whose objective is to hold to collect contractual cash flows, and
- Its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

FVOCI investments are recognized at fair value on the Balance Sheet with unrealized gains and losses recorded in the Statement of Other Comprehensive Income. Realized gains and losses on FVOCI bonds are reclassified from other comprehensive income and recorded in the Statement of Earnings when the investment is sold.

Any financial asset that does not qualify for measurement at amortized cost or FVOCI is classified as FVTPL. For financial instruments that meet the amortized cost or FVOCI criteria, the Company may exercise the option to designate, at initial recognition, such financial instruments as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Investments measured as FVTPL are recognized at fair value on the Balance Sheet with realized and unrealized gains and losses recorded in the Statement of Earnings.

Interest income earned on bonds is calculated using the effective interest method and is recorded as net investment result in the Statement of Earnings.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)***Fair Value Measurement**

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

***Bonds - FVTPL and FVOCI***

Fair values for bonds measured as FVTPL or FVOCI 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 FVTPL and FVOCI 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 such factors 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.

**Net Investment Income Recognition**

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

**Expected Credit Losses**

Under IFRS 9, expected credit loss (ECL) allowances are recognized on all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI. The ECL model under IFRS 9 replaces the incurred loss model under IAS 39.

The Company measures loss allowances at either a 12-month ECL or lifetime ECL. A 12-month ECL results from any default events that could potentially occur within the 12 months following the reporting date. A 12-month ECL is calculated for financial assets that are determined to have low credit risk or the credit risk has not increased significantly since initial recognition. A lifetime ECL results from all possible default events over the expected life of the financial asset, which is the maximum contractual period over which the Company is exposed to the credit risk. A lifetime ECL is recognized for financial assets that have experienced a significant increase in credit risk since initial recognition or when there is objective evidence of impairment.

The Company monitors all financial assets that are subject to impairment for significant increases in credit risk. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

***Measurement of Expected Credit Losses***

The ECL allowance is based on a probability-weighted estimate of credit losses expected as a result of defaults over the relevant time period as prescribed under the ECL model. The measurement of ECL for a financial asset is based primarily on the exposure at default, the probability of default, and the loss given default. The measurement of ECL allowances requires the use of judgment and assumptions.

For performing financial assets, the ECL is calculated as the present value of all cash shortfalls which are the difference between cash flows due to the Company and the cash flows expected to be received. For financial assets that are impaired, the ECL is calculated as the difference between the carrying value of the asset and the present value of estimated future cash flows. Financial assets that are subject to ECL allowances are categorized into three stages:

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)***Stage 1**

Performing financial assets that have not experienced a significant increase in credit risk since initial recognition or have low credit risk are categorized into stage 1. A 12-month ECL allowance is calculated for stage 1 financial assets. To assess if credit risk has increased significantly, the Company compares the risk of default at initial recognition to the risk as at the current reporting date.

**Stage 2**

Performing financial assets that have experienced a significant increase in credit risk since initial recognition are categorized into stage 2. A lifetime ECL allowance is calculated for stage 2 financial assets. Financial assets are assessed for a significant increase in credit risk on an individual basis, utilizing the Company's internal credit risk rating system and the monitoring of timely payments on the assets. Financial assets that have contractual payments more than 30 days past due are generally presumed to have experienced a significant increase in credit risk and are included in stage 2. A financial asset in stage 2 can revert to stage 1 if the credit risk subsequently improves.

**Stage 3**

Impaired financial assets are categorized into stage 3 and require a lifetime ECL allowance. Financial assets 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. Financial assets 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 a financial asset 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.

**Presentation of Expected Credit Losses**

The ECL allowance for financial assets classified as FVOCI is recognized in the Statement of Other Comprehensive Income and does not reduce the carrying value of the asset. Financial assets classified as amortized cost are presented net of the ECL allowance in the Balance Sheet.

When there is no expectation of recovery, the Company will partially or fully write off a financial asset against the related allowance for credit loss. Financial assets that are written off could still be subject to enforcement activities. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses and are recognized as net investment result in the Statement of Earnings.

**Modified Financial Assets**

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the borrower. An existing financial asset whose terms have been modified may be derecognized and the renegotiated asset recognized as a new financial asset at fair value in accordance with the Company's accounting policies.

If modification does not result in derecognition, the financial asset continues to be subject to the assessment for significant increase in credit risk relative to initial recognition. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having lifetime ECLs, such loans can revert to having 12-month ECLs if the borrower's financial condition improves.

**Definition of Default**

The definition of default used in the measurement of ECL is consistent with the definition used for the Company's internal credit risk management purposes. A financial asset is considered to be in default when the issuer is

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unlikely to meet its credit obligations in full or when it is 90 days past due. The definition of default may differ across financial assets and considers qualitative factors, such as financial covenants and other indicators of financial distress, as well as quantitative factors, such as non-payment of other obligations by the same issuer. The Company uses data from internal and external sources when assessing whether an asset is in default.

**(b) Transaction Costs**

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. Transaction costs are capitalized for all other classifications of financial instruments at acquisition, and taken into net earnings using the effective interest method for fixed income instruments or when sold for equity instruments.

**(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 prepaid expenses, right-of-use assets and miscellaneous other assets, are measured at cost or amortized cost. Other liabilities, which include accrued expenses and scheduled reinsurance payments are measured at cost or 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 operates with multiple functional currencies. The Company's financial statements are presented in United States dollars as this presentation is most meaningful to financial statement users. Where the functional currency differs from the 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 result in the Statement of Earnings when realized.

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

**(i) Insurance Contracts and Reinsurance Contracts Held****Contract Classification*****Insurance Contracts***

Under IFRS 17, the Company identifies insurance contracts as arrangements where the Company accepts significant insurance risk from another party (the ceding insurer) by agreeing to compensate the ceding insurer or beneficiary of the contract for specified uncertain future events that adversely affect the ceding insurer and whose amount and timing is unknown.

The Company determines whether a contract contains significant insurance risk by assessing if an insured event could cause the Company to pay to the ceding insurer additional amounts that are significant in any single scenario with commercial substance even if the insured event is extremely unlikely or the expected present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from



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the insurance contract. In making this assessment, the Company considers all its substantive rights and obligations, whether they arise from contract, law or regulation.

When the Company issues insurance contracts to compensate another entity for claims arising from one or more insurance contracts issued by that other entity, the associated contracts are reinsurance contracts issued which is part of insurance contracts issued.

**Reinsurance Contracts Held**

The Company, in the normal course of business, is a provider of reinsurance. Assumed or issued reinsurance refers to the acceptance of certain insurance risks by the Company underwritten by another company. Ceded or held reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more retrocessionaire who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its ceding insurers for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible. Reinsurance issued and held contracts are insurance contracts and are classified and measured in accordance with IFRS 17 Insurance Contracts.

**Separating Components from Insurance and Reinsurance Contracts**

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

- Derivatives embedded in the contract which have economic characteristics and risks that are not closely related to those of the host contract, and which have terms that would not meet the definition of an insurance or reinsurance contract held as a stand-alone instrument; and
- Distinct investment components: 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 distinct goods or non-insurance services to ceding insurers and accounts for them as separate contracts with customers. A good or service is distinct if the ceding insurers can benefit from it either on its own or with other resources that are readily available to the ceding insurer. 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.

**Level of Aggregation**

The Company determines its level of aggregation for the insurance contracts issued by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. The Company has defined portfolios of insurance contracts issued based on its product lines. Portfolios are further disaggregated into groups of contracts that are issued within an annual period (typically a financial year) and are further divided into onerous contracts, contracts that have no significant possibility of becoming onerous subsequently, and all other profitable contracts. An insurance contract is onerous if, at the date of initial recognition, the estimated fulfillment cash flow expectations determined on a probability-weighted basis is a net outflow. The Company's evaluation of whether contracts are onerous is based on reasonable and supportable information. The Company has not identified any groups of insurance contracts that have no significant possibility of becoming onerous subsequently.

In determining groups of contracts, the Company has elected to include in the same group contracts where its ability to set prices or levels of benefits for ceding insurers with different characteristics is constrained by regulation. Contracts are aggregated into groups once they have been initially recognized.

The Company has defined portfolios of reinsurance contracts held based on the portfolios of the underlying insurance contracts issued. Groups of reinsurance contracts held that are entered into within an annual period

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(typically a financial year) are divided based on whether they are in a net gain or net loss position at initial recognition.

Some reinsurance contracts held provide cover for underlying contracts that are included in different groups. However, these contracts' legal form of a single contract reflects the substance of the Company's contractual rights and obligations, considering that the different remaining coverages lapse together and are not sold separately. As a result, the reinsurance contract held is not separated into multiple insurance components that relate to different underlying groups.

**Initial Recognition**

The Company recognizes a group of insurance contracts that it issues from the earliest of:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a ceding insurer in the group becomes due or when the first payment is received if there is no due date; and
- For a group of onerous contracts, when the group becomes onerous if facts and circumstances indicate there is such a group.

A group of reinsurance contracts held is recognized on the following date:

- Reinsurance contracts held initiated by the Company that provide proportionate coverage: the date on which any underlying insurance contract is initially recognized;
- Other reinsurance contracts held initiated by the Company: the beginning of the coverage period of the group of reinsurance contracts. However, if the Company recognizes an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract held was entered into before that earlier date, then the group of reinsurance contracts held is recognized on that earlier date; and
- Reinsurance contracts held that are acquired by the Company: the date of acquisition.

**Contract Boundaries**

The Company includes in the measurement of a group of insurance and reinsurance contracts held all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the ceding insurer to pay the premiums (or is compelled to pay amounts to a retrocessionaire), or in which the Company has a substantive obligation to provide the ceding insurer with services (or receive services from a retrocessionaire). A substantive obligation to provide services ends when:

- The Company has the practical ability to reassess the risks of the particular ceding insurer and, as a result, can set a price or level of benefits that fully reflects those risks, or
- Both the following criteria are satisfied:
  - The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
  - The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

For reinsurance contracts held, a substantive obligation to receive services ends when the retrocessionaire has the practical ability to reassess the risk transferred to it and, as a result, can set a price or level of benefits that fully reflects those risks, or the retrocessionaire has the substantive right to terminate the coverage.

For insurance contracts with renewal periods, the Company assesses whether premiums and related cash flows that arise from the renewed contract are within the contract boundary. The pricing of renewals is established by the Company after considering the risks and terms of coverage for the ceding insurer, with reference to the pricing of contracts with equivalent risks and terms on the renewal dates. The Company reassesses the contract boundary of each group at the end of each reporting period.

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Liabilities or assets relating to expected premiums or claims outside the boundary of the insurance contract are not recognized - such amounts relate to future insurance contracts.

**Measurement of Insurance Contracts**

There are three measurement models provided by IFRS 17 to measure insurance contracts:

- The General Measurement Model (GMM);
- The Variable Fee Approach (VFA); and
- The Premium Allocation Approach (PAA).

**The General Measurement Model**

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

***Initial Measurement***

On initial recognition, the Company measures a group of insurance contracts as the total of the fulfillment cash flows, and the CSM.

***Fulfillment Cash Flows***

Fulfillment cash flows comprise probability-weighted estimates of future cash flows, discounted to reflect the time value of money and the associated financial risks, plus a risk adjustment for non-financial risk.

The Company estimates future contractual cash flows within the contracts' boundary by considering evidence from current and past conditions, as well as possible future conditions to reflect market and non-market variables impacting the valuation of cash flows. The estimates of these cash flows are based on probability-weighted expected values that reflect the average of a full range of possible outcomes and includes an explicit risk adjustment for non-financial risk. The risk adjustment is the compensation the Company receives in fulfilling an insurance contract that arises from uncertainties surrounding the amount and timing of cash flows for non-financial risks. The non-financial risk assumptions are mortality, longevity, morbidity, lapse, and expense. Estimates and assumptions are reviewed periodically for appropriateness in reflecting current, past, and future conditions.

When estimating fulfillment cash flows, the Company includes all cash flows that are within the contract boundary including:

- Premiums and related cashflows;
- Claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims;
- Premium and other transaction-based taxes and cash flows from loans to policyholders;
- Insurance acquisition cash flows which are allocated to groups of contracts on a systematic and rational basis;
- Other fixed and variable expenses directly attributable to the fulfillment of insurance contracts;
- Investment expenses incurred in investment activities related to underlying items such as universal life funds and segregated fund account balances; and
- The impact of funds withheld for reinsurance contracts issued to manage credit risk.

***Contractual Service Margin***

The CSM of a group of insurance contracts represents the unearned profit that the Company expects to recognize in the future as it provides services under those contracts.

On initial recognition of a group of insurance contracts, if the total of the fulfillment cash flows, any derecognized assets for insurance acquisition cash flows, and any cash flows arising at that date is a net inflow, the group of

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contracts is non-onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no net income or expenses arising on initial recognition.

***Discount Rates***

The Company measures time value of money using discount rates that are consistent with observable market prices and reflect the liquidity characteristics of the insurance contracts. They exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts (e.g., credit risk).

The Company applies the top-down approach for insurance contract liabilities with backing assets. Under this approach, discount rates are estimated by starting from the yield curve implied in a reference portfolio of assets that closely reflects the duration, currency, and liquidity characteristics of the insurance cash flows, and then excluding the effects of risks (e.g., credit risk) present in the cash flows from the financial instruments that are part of the reference portfolio, but not in the insurance contracts cash flows. The allowance for credit risk in the discount rate varies depending on the credit rating, sector and term of the assets reflected in the discount rate. The allowance is estimated based on historic credit experience and prevailing marketing conditions. For example, if there is a significant widening of market credit spreads, an additional allowance for credit risk to reduce the discount rate may be required to reflect prevailing market conditions. The Company uses the fixed-income assets supporting the insurance contract liabilities as the reference portfolio to determine the discount rates, in the observable period, while the discount rates in the unobservable period are based on an ultimate investment rate. In situations where the fixed-income assets supporting the insurance contract liabilities do not appropriately reflect the illiquidity characteristics of the liability, an additional adjustment is made to the discount rate.

In cases where there are no backing assets, the Company applies the bottom-up approach to set the discount rate. This approach uses a risk-free rate, plus a spread to reflect the liquidity characteristics of the liability. Risk-free rates are determined by reference to highly liquid government securities in the currency of the insurance contract liability, and the spread is derived from an external benchmark.

***Risk Adjustment***

The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing uncertainty in the amount and timing of insurance contract cash flows due to non-financial risk. Non-financial risks are insurance risks such as life mortality, annuity mortality and morbidity, and other risks such as expense and lapse. The risk adjustment is calculated by applying a margin to non-financial assumptions and discounting the resulting margin cash flows at the same discount rates as the best estimate cash flows. The margins applied reflect diversification benefits across all non-financial risks. The risk adjustment for insurance contracts issued by the Company reflects the degree of diversification available across the Lifeco operations. Lifeco's target range for the confidence level of the risk adjustment is between the 85th and 90th percentile, and the risk adjustment is currently within the target range. The confidence level is determined on a net-of-reinsurance basis.

***Subsequent Measurement***

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims.

- The liability for remaining coverage comprises the fulfillment cash flows that relate to services that will be provided under the contracts in future periods and any remaining CSM at that date.
- The liability for incurred claims comprises the fulfillment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfillment cash flows for groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates, and current estimates of risk adjustment for non-financial risk.

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For a group of insurance contracts, the carrying amount of the CSM of the group at the end of the reporting period equals the carrying amount at the start of the reporting period, adjusted for:

- The CSM of any new contracts that are added to the group in the period;
- Interest accreted on the carrying amount of the CSM during the period, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;
- The changes in fulfillment cash flows that relate to future services (measured using initial recognition discount rates), except to the extent that:
  - Any increases in the fulfillment cash flows that exceed the carrying amount of the CSM, in which case the excess is recognized as a loss in the Statement of Earnings and creates a loss component; or
  - Any decreases in the fulfillment cash flows are allocated to the loss component, reversing losses previously recognized in the Statement of Earnings.
- The effect of any currency exchange differences on the CSM; and
- The amount recognized as insurance revenue because of the services provided in the period.

The changes in fulfillment cash flows that relate to future services that adjust the CSM comprise of:

- Experience adjustments arising from premium and premium related cash flows received in the period that relate to future services;
- Changes in both estimates of the present value of future cash flows and risk adjustment in the liability for remaining coverage, measured at the discount rates determined on initial recognition, except for those that relate to the effects of the time value of money and financial risk changes; and
- Differences between any investment components not separated from the contract expected to become payable in the period (after allowing for financial experience variance) and the actual investment component that becomes payable in the period, measured at the discount rates determined on initial recognition.

Changes in expected future discretionary cash flows are regarded as an assumption relating to future services and accordingly adjust the CSM.

Changes in fulfillment cash flows that relate to current or past service are recognized in the Statement of Earnings as part of the insurance service result. Changes that relate to the effects of the time value of money and financial risk are recognized in insurance finance income or expenses.

**The Variable Fee Approach**

The Variable Fee Approach (VFA) is a method used to value insurance contracts that create an obligation to pay to the policyholder an amount equal to the value of underlying items, less a variable fee for service. However, reinsurance contracts held or issued are not eligible for the variable fee approach, even if the underlying contracts are direct participating contracts. This is because reinsurance does not meet the criteria to be considered under VFA as there is no participation within the reinsurance contract. Therefore this method is not applicable for this reinsurance entity.

**Premium Allocation Approach**

The Company applies this model to its short-term insurance products, such as US Structured transactions.

**Recognition**Contracts with Coverage Periods of One Year or Less

The Company applies the PAA to measure the liability for remaining coverage of insurance contracts with coverage periods of one year or less.

Contracts with Coverage Periods of More than One Year

The Company applies the PAA to contracts with coverage periods longer than one year that are relatively stable and have low variability in fulfillment cash flows. The low variability in fulfillment cash flows indicates there is no

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material difference in the liability for remaining coverage measured under the PAA as compared to the GMM. Generally, this applies to products with rate guarantees between 2 and 5 years.

New groups of insurance contracts are assessed to determine whether they can be measured using the PAA at initial recognition.

The eligibility test for the PAA model will not be subsequently performed after initial recognition unless there are substantial changes to the terms of the groups of insurance contracts.

**Measurement**Initial Measurement of the Liability for Remaining Coverage

On initial recognition, the liability for remaining coverage is initially measured as the premiums received in the period minus any insurance acquisition cash flows not expensed, plus or minus any amount caused by the derecognition of an acquisition cash flow asset or liability which represents any acquisition costs that were paid before the contracts were recognized.

Insurance acquisition costs are included as fulfillment cash flows of the liability and are allocated over the contract boundary on a straight-line basis. For contracts with expected future renewals, a portion of the acquisition costs are capitalized as an asset and deferred until the future contract renewals are recognized.

The fulfillment cash flows of contracts with coverage periods of more than one year are discounted to reflect the impact of financial risk on the contract. The discount rates used reflect the characteristics of the contract cash flows. For contracts where premiums are received within one year of the coverage period, the Company has elected not to adjust the liability for the time value of money.

Subsequent Measurement

At the end of each reporting period, the Company measures the liability for remaining coverage for contracts under the PAA as the carrying amount of the liability for remaining coverage at the beginning of the period, adjusted for the following:

- Add the premiums received in the period;
- Less any insurance acquisition cash flows during the period not directly expensed;
- Add the amortization of acquisition cash flows, plus any adjustments to a financing component;
- Less the amount recognized as insurance revenue for the coverage provided in the period; and
- Less any investment components paid or transferred to the liability for incurred claims.

If circumstances indicate that a contract under the PAA model has become onerous, a loss is immediately recognized in the Statement of Earnings, and a separate component of the liability for remaining coverage is created to record this loss component. The loss is measured as the difference between the fulfillment cash flows that relate to the remaining coverage of the group and the current carrying amount of the liability for remaining coverage using the measurement described above.

The liability for incurred claims is measured under the same approach as the GMM, which is the fulfillment cash flows related to incurred claims. When claims are expected to be settled less than one year after being incurred, the Company has elected not to discount the liability for incurred claims.

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*(in US \$ thousands)***Measurement of Reinsurance Contracts Held*****The General Measurement Model***

The accounting policies used to measure a group of insurance contracts under the GMM apply to the measurement of a group of reinsurance contracts held, with the following modifications:

- The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the remaining coverage component and the incurred claims component. The remaining coverage component comprises:
  - The fulfillment cash flows that relate to services that will be received under the contracts in future periods; and
  - Any remaining CSM at that date.

The Company measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the retrocessionaire. The effect of the non-performance risk of the retrocessionaire is assessed at each reporting date and the effect of changes in the non-performance risk is recognized in the Statement of Earnings.

The risk adjustment for non-financial risk is the amount of the risk transferred by the Company to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts held represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of the fulfillment cash flows, any derecognized assets for cash flows occurring before the recognition of the group, any cash flows arising at that date and any income recognized in the Statement of Earnings because of onerous underlying contracts recognized at that date. However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the group, then the Company recognizes the cost immediately in the Statement of Earnings as an expense.

The Company adjusts the carrying amount of the CSM of a group of reinsurance contracts held at the end of a reporting period to reflect changes in the fulfillment cash flows applying the same approach as for insurance contracts issued, except when the underlying contract is onerous and the change in the fulfillment cash flows for underlying insurance contracts is recognized in profit or loss by adjusting the loss component. The respective changes in reinsurance contracts held is also recognized in profit and loss (adjusting the loss recovery component).

Funds withheld under reinsurance contracts held to manage credit risk are included in the carrying amount of the reinsurance contracts held asset.

***The Premium Allocation Approach***

The Company holds reinsurance contracts with the direct insurance contracts it issues. The reinsurance contracts held that are eligible for the PAA and have underlying direct contracts measured under the PAA are also classified and measured under the PAA.

***Onerous Underlying Insurance Contracts***

The Company adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognizes income when it recognizes a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognized. The adjustment to the CSM is determined by multiplying:

- The amount of the loss that relates to the underlying contracts; and
- The percentage of claims on the underlying contracts that the Company expects to recover from the reinsurance contracts held.

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For reinsurance contracts held that are acquired by the Company in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- The amount of the loss component that relates to the underlying contracts at the date of acquisition; and
- The percentage of claims on the underlying contracts that the Company expects at the date of acquisition to recover from the reinsurance contracts held.

A loss recovery component is created or adjusted for the group of reinsurance contracts held to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in the Statement of Earnings as reversals of recoveries of losses from the reinsurance contracts held and are excluded from the allocation of reinsurance premiums paid in the net expense from reinsurance contracts held.

**Coverage Units*****Amortization of the Contractual Service Margin***

The CSM is a component of the group of insurance contracts that represents the unearned profit the Company will recognize as it provides services in the future. An amount of the CSM for a group of insurance contracts is recognized in the Statement of Earnings as insurance revenue in each period to reflect the services provided under the group of insurance contracts in that period. The amount that is recognized in the Statement of Earnings for the current period is determined by identifying the coverage units in the group, allocating the CSM at the end of the period to each coverage unit provided in the current period and expected to be provided in the future periods.

The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, which is determined by considering the quantity of the benefits provided and the expected coverage duration.

For reinsurance contracts issued, the number of coverage units in a group reflects the expected pattern of underwriting of the underlying contracts because the level of service provided depends on the number of underlying contracts in-force.

For reinsurance contracts held, the CSM amortization is similar to the reinsurance contracts issued and reflects the expected pattern of underwriting of the underlying contracts because the level of service provided depends on the number of underlying contracts in-force.

**Insurance Revenue**

The Company's insurance revenue depicts the provision of services arising from a group of insurance contracts at an amount that reflects the consideration to which 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).

**Insurance Finance Income or Expenses**

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Company has elected to recognize insurance finance income or expenses in the Statement of Earnings.

**Net Income or Expense from Reinsurance Contracts Held**

The Company presents separately in the Statement of Earnings the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of



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reinsurance premiums presented in the Statement of Earnings. Amounts relating to the recovery of losses relating to reinsurance of onerous direct contracts are included as amounts recoverable from the reinsurer.

**Contract Modifications and Derecognition*****Contract Modifications***

When the terms of insurance contracts are modified, the Company assesses whether the modification is substantial enough to lead to the derecognition of the original contract and recognition of a new modified contract as if it was entered for the first time. If the contract modification does not lead to a re-recognition of the contract, then the effect of the modification is treated as a change in the estimates of fulfillment cash flows which is recorded as an experience adjustment to the existing contract.

***Derecognition of Contracts***

The Company derecognizes a contract when it is extinguished, which is when the specified obligations in the contract expire or are discharged or cancelled.

When an insurance contract not accounted for under the PAA is derecognized from within a group of insurance contracts:

- The fulfillment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognized;
- The CSM of the group is adjusted for the change in the fulfillment cash flows, except where such changes are allocated to a loss component; and
- The number of coverage units for the expected remaining coverage is adjusted to reflect the coverage units derecognized from the group.

If a contract is derecognized because it is transferred to a third party, then the CSM is also adjusted for the premium charged by the third party, unless the group is onerous.

When an insurance contract accounted for under the PAA is derecognized, adjustments to the fulfillment cash flows to remove related rights and obligations and account for the effect of the derecognition result in the following amounts being charged immediately to the Statement of Earnings:

- If the contract is extinguished, any net difference between the derecognized part of the liability for remaining coverage of the original contract and any other cash flows arising from extinguishment; and
- If the contract is transferred to the third party, any difference between the derecognized part of the liability for remaining coverage of the original contract and the premium charged by the third party.

**(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

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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 operations and the unrealized gains (losses) on FVOCI 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 and 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.

## NOTES TO FINANCIAL STATEMENTS

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Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company shall use the lessee's incremental borrowing rate. Generally, the Company uses the lessee's incremental borrowing rate as its discount rate. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within operating and administrative expenses.

The Company has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Balance Sheet. Income from these leases is recognized in the Statement of Earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the Balance Sheet. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the Statement of Earnings at a constant periodic rate of return on the Company's net investment in the finance lease.

## (m) Future Accounting Policies

New Standard	Summary of Future Changes
IFRS 16 - <i>Leases</i>	<p>In September 2022, the IASB published <b><i>Lease Liability in a Sale and Leaseback</i></b>, amendments to IFRS 16, <i>Leases</i>. The amendments clarify that in a sale and leaseback transaction, the seller-lessee cannot recognize a gain or loss on the subsequent measurement of the lease liability related to the right of use it retains.</p> <p>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.</p>
IAS 7 - <i>Statement of Cash Flows</i> and IFRS 7 - <i>Financial Instruments: Disclosures</i>	<p>In May 2023, the IASB published amendments to IAS 7, <b><i>Statement of Cash Flows</i></b> and IFRS 7, <b><i>Financial Instruments: Disclosure</i></b>. The amendments require an entity to provide additional disclosures about its supplier finance arrangements.</p> <p>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.</p>

**NOTES TO FINANCIAL STATEMENTS**

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*(in US \$ thousands)***3. TRANSITION TO IFRS 17 AND IFRS 9 - TRANSITION IMPACTS****IFRS 17**

IFRS 17 introduces significant changes to the presentation of the Company's financial statements. Portfolios of insurance contracts issued, and reinsurance contracts held that are assets and liabilities are respectively presented separately.

IFRS 17 also introduces significant measurement differences, including the following:

- Reclassification of contracts from insurance to investment contracts;
- Establishment of the CSM for in-force policies;
- Net impact of removing margin for adverse deviations (mfads) and establishing a risk adjustment for non-financial risk;
- Adjustment for difference in discount rates;
- Adjustment for non-attributable expenses; and
- Other measurement impacts.

Upon transition, IFRS 17 requires an entity to apply the standard retrospectively unless impracticable, in which case the entity shall use either the modified retrospective approach or the fair value approach.

The full retrospective approach requires the Company to apply the guidance of IFRS 17 as if IFRS 17 had always been applied. It would be considered impracticable in the following situations:

- The necessary level of detail for historical information could not be obtained using a reasonable amount of effort; or
- Estimates required for measurement at the appropriate level of detail could not be determined without the use of hindsight and/or professional judgment could not be applied to such estimates in accordance with the requirements of IFRS 17 or the Company's interpretations and established policies.

The Company has performed a cut-off date assessment (by region and product) to determine the contracts to which the full retrospective approach can be applied. The Company applies the full retrospective approach to all identified insurance contracts unless it is impracticable, where reasonable and supportable information necessary to complete the full retrospective approach is not available.

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 fulfillment cash flows measured at that date. The Company has applied the fair value approach to contracts where it was impracticable to apply the full retrospective approach.

The Company used an embedded value approach to determine the fair value within the fair value approach. Under the embedded value approach, the fair value is measured as the third party's present value of fulfillment cash flows, plus future costs of capital, less any future profits. The cost of capital was measured as the total required capital times a hurdle rate, and the future profits are driven by the release of risk adjustment and investment income on required capital. The development of the assumptions was based on a combination of publicly available industry data, historic economic data and the Company's own view of assumptions when the external data sources are not available.

**IFRS 9**

IFRS 9 introduces changes to the classification and measurement of financial instruments as well as the transition from an incurred loss model under IAS 39 to an ECL model for the determination of allowances for credit losses.

Upon adoption of IFRS 9, the Company elected to present comparative information for its financial assets as if the classification and measurement requirements of IFRS 9 had been applied in the comparative period (IFRS 9 overlay), as permitted by the amendment to IFRS 17 published by the IASB in December 2021.

## NOTES TO FINANCIAL STATEMENTS

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(in US \$ thousands)

The resulting changes in accounting policies from the adoption of these standards had an impact on the Company's opening equity balances.

The 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 Overlay Measurement	IFRS 17 Measurement	Income Tax	Restated IFRS 17 & 9 Balance Sheet Jan. 1, 2022
<b>Assets</b>						
Bonds	\$320,851	\$—	\$320	\$—	\$—	\$321,171
Other assets impacted by IFRS 17 & 9	4,267	(3,252)	—	118,013	—	119,028
Other assets not impacted by IFRS 17 & 9	5,811	2	—	—	—	5,813
<b>Total assets</b>	<b>\$330,929</b>	<b>(\$3,250)</b>	<b>\$320</b>	<b>\$118,013</b>	<b>\$—</b>	<b>\$446,012</b>
<b>Liabilities</b>						
Insurance contract liabilities	\$811	\$2,660	\$—	\$29,014	\$—	\$32,485
Reinsurance Held Contract Liabilities				1,828		\$1,828
Other liabilities impacted by IFRS 17 & 9	21,717	(5,911)	—	(1,551)	18,699	32,954
Other liabilities not impacted by IFRS 17 & 9	(1)	1	—	—	—	—
<b>Total liabilities</b>	<b>\$22,527</b>	<b>(\$3,250)</b>	<b>\$—</b>	<b>\$29,291</b>	<b>\$18,699</b>	<b>\$67,267</b>
<b>Total equity</b>	<b>308,402</b>	<b>—</b>	<b>320</b>	<b>88,722</b>	<b>(18,699)</b>	<b>378,745</b>
<b>Total liabilities and equity</b>	<b>\$330,929</b>	<b>(\$3,250)</b>	<b>\$320</b>	<b>\$118,013</b>	<b>\$—</b>	<b>\$446,012</b>

The adoption of IFRS 17 and IFRS 9 overlay resulted in an overall increase of total assets of \$115,083, total liabilities of \$44,740, and total equity of \$70,343 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.

IFRS 9 adjustments primarily relate to change in designation of certain loans and receivables held at amortized cost under IAS 39 to FVTPL under IFRS 9.

IFRS 17 adjustments mainly resulted in an increase to insurance contract liabilities of \$31,674, which is primarily the result of the removal of provisions no longer required under IFRS 17 and the establishment of CSM for in-force contracts of \$102,052.

**NOTES TO FINANCIAL STATEMENTS****December 31, 2023***(in US \$ thousands)***Reconciliation of Net Earnings from IFRS 4 and IAS 39 to IFRS 17 and IFRS 9 Overlay**

Net earnings changed from \$15,291 under IFRS 4 to \$6,423 under IFRS 17 mainly due to assumption changes and management actions and other differences in the measurement of insurance contract liabilities between IFRS 4 and IFRS 17.

**CSM Movement by Measurement Component Upon Transition****Insurance contracts****Insurance contracts under fair value approach**

CSM beginning balance, as at January 1, 2022	\$103,638
Change related to current service provided	
CSM recognized for services provided	(6,836)
Changes that relate to future service	
Changes in estimates that adjust the CSM	(79,302)
Total changes in insurance service result	<u>(86,138)</u>
Net finance expenses from insurance contracts	<u>884</u>
<b>Total change</b>	<b><u>(\$85,254)</u></b>

**Other insurance contracts**

CSM beginning balance, as at January 1, 2022	\$6,326
Change related to current service provided	
CSM recognized for services provided	(1,518)
Changes that relate to future service	
Contracts initially recognized in the year	19,998
Changes in estimates that adjust the CSM	(5,765)
Total changes in insurance service result	<u>12,715</u>
Net finance expenses from insurance contracts	<u>301</u>
<b>Total change</b>	<b><u>\$13,016</u></b>

**Net closing balance, as at December 31, 2022****\$37,726****For the year ended  
December 31, 2022****Insurance revenue**

Insurance revenue for contracts under fair value approach	\$408,576
Insurance revenue for contracts under other approaches	29,875
<b>Total insurance revenue</b>	<b><u>\$438,451</u></b>

**NOTES TO FINANCIAL STATEMENTS****December 31, 2023***(in US \$ thousands)***Reinsurance contracts held****Reinsurance contracts held under fair value approach**

CSM beginning balance, as at January 1, 2022	<b>\$1,484</b>
Change related to current service provided	
CSM recognized for services provided	<b>61</b>
Changes that relate to future service	
Changes in estimates that adjust the CSM	<b>(1,554)</b>
Total changes in insurance service result	<b>(1,493)</b>
Net finance expenses from reinsurance contracts	<b>9</b>
<b>Total change</b>	<b>(\$1,484)</b>
<b>Net closing balance, as at December 31, 2022</b>	<b>\$—</b>

## NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(in US \$ thousands)

**Transition to IFRS 9****Effect of Initial Application - IFRS 9 Assets**

The following table shows the reconciliation of each class of financial asset from the original measurement category under IAS 39 to the new measurement category under IFRS 9:

Financial Assets	Classification	
	IAS 39	IFRS 9
<b>Bonds</b>	FVTPL (designated) Available-for-Sale (AFS) AFS Loans & Receivables (L&R) L&R	FVTPL (designated) FVTPL (mandatory) FVOCI FVTPL (designated) FVOCI

**Reconciliation of Carrying Value of Assets from IAS 39 to IFRS 9**

The following table reconciles the carrying value of financial assets under IAS 39 to the carrying value under IFRS 9:

Bonds	IAS 39			IFRS 9
	December 31, 2021	Reclassification	Remeasurement	January 1, 2022
<b>FVTPL</b>				
Designated	\$39,491	\$—	\$—	\$39,491
Reclassified from loans and receivables	—	650	—	650
<b>Total - designated</b>	<b>39,491</b>	<b>650</b>	<b>—</b>	<b>40,141</b>
Mandatory				
Reclassified from available-for-sale	—	983	—	983
<b>Total - mandatory</b>	<b>—</b>	<b>983</b>	<b>—</b>	<b>983</b>
<b>Total FVTPL</b>	<b>\$39,491</b>	<b>\$1,633</b>	<b>\$—</b>	<b>\$41,124</b>
<b>FVOCI</b>				
Reclassified from available-for-sale	\$—	\$220,172	(\$983)	\$219,189
Reclassified from loans and receivables	—	752	27	779
<b>Total FVOCI</b>	<b>\$—</b>	<b>\$220,924</b>	<b>(\$956)</b>	<b>\$219,968</b>
<b>Available-for-sale</b>				
Brought forward	\$220,172	\$—	\$—	\$220,172
Reclassified to FVOCI	—	(220,172)	—	(220,172)
<b>Total available-for-sale</b>	<b>\$220,172</b>	<b>(\$220,172)</b>	<b>\$—</b>	<b>\$—</b>
<b>Amortized Cost</b>				
Brought forward: Loans and receivables	\$1,402	\$—	\$—	\$1,402
Reclassified to FVTPL	—	(650)	—	(650)
Reclassified to FVOCI	—	(752)	—	(752)
<b>Total amortized cost</b>	<b>\$1,402</b>	<b>(\$1,402)</b>	<b>\$—</b>	<b>\$—</b>



**NOTES TO FINANCIAL STATEMENTS****December 31, 2023***(in US \$ thousands)***Allowance for Credit Losses**

The ECL model only applies to FVOCI and amortized cost assets, and the value of ECL allowances upon adoption of IFRS 9 at January 1, 2023 of \$42 are not materially different from the allowances that were carried under IAS 39. The ECL allowance of \$42 at January 1, 2023 was Stage 1.

The ECL allowance of \$68 at December 31, 2023 was Stage 1.

**4. CASH AND CASH EQUIVALENTS**

	<u>2023</u>	<u>2022</u>
Cash	\$2,717	\$2,077
Short-term deposits	1,708	7,766
<b>Total</b>	<b>\$4,425</b>	<b>\$9,843</b>

As at December 31, 2023, the Company had \$2,565 restricted cash (2022: \$1,972).

**5. PORTFOLIO INVESTMENTS**

**(a) Carrying Values and Estimated Fair Values of Portfolio Investments are as follows:**

	<u>2023</u>		<u>2022<sup>1</sup></u>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Bonds</b>				
FVTPL - designated	\$38,317	\$38,317	\$40,168	\$40,168
FVTPL - mandatory	—	—	983	983
FVOCI	235,393	235,393	219,969	219,969

<sup>1.</sup> Represents application of IFRS 9 overlay.

**(b) Carrying Value of Bonds by Term to Maturity are as follows:**

	<u>Term to maturity</u>			<u>Total</u>
	<u>1 year or less</u>	<u>Over 1 year to 5 years</u>	<u>Over 5 years</u>	
<b>2023</b>	<b>\$136,783</b>	<b>\$100,989</b>	<b>\$35,938</b>	<b>\$273,710</b>
2022	\$113,458	\$91,247	\$56,415	\$261,120

## NOTES TO FINANCIAL STATEMENTS

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(in US \$ thousands)

## (c) Net Investment Income Comprises the following:

	2023		
	Bonds	Other	Total
Net investment income:			
Investment income earned	\$11,036	(\$1,488)	\$9,548
Net realized losses on derecognition of FVOCI assets	(3,073)	—	(3,073)
Losses on derecognition of amortized cost assets	(68)	—	(68)
Other expenses	—	(489)	(489)
	7,895	(1,977)	5,918
Changes in fair value on FVTPL assets:			
FVTPL (designated)	1,014	—	1,014
	1,014	—	1,014
<b>Total</b>	<b>\$8,909</b>	<b>(\$1,977)</b>	<b>\$6,932</b>
	2022		
	Bonds	Other	Total
Net investment income:			
Investment income earned	\$4,798	\$7	\$4,805
Net realized losses on derecognition of FVOCI assets	(246)	—	(246)
Other expenses	—	(450)	(450)
	4,552	(443)	4,109
Changes in fair value on FVTPL assets:			
FVTPL (designated)	(9,185)	—	(9,185)
	(9,185)	—	(9,185)
<b>Total</b>	<b>(\$4,633)</b>	<b>(\$443)</b>	<b>(\$5,076)</b>

Investment income from bonds includes interest income, and premium and discount amortization. Other investment income includes foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

**NOTES TO FINANCIAL STATEMENTS**

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*(in US \$ thousands)***(d) Net Investment Result**

	<u>2023</u>	<u>2022</u>
<b>Investment return</b>		
Net investment income	\$5,918	\$4,109
Changes in fair value on FVTPL loss assets	1,014	(9,185)
<b>Total investment return</b>	<u>\$6,932</u>	<u>(\$5,076)</u>
<b>Net finance income (expenses) from insurance contracts</b>		
Interest accreted	\$11,235	\$12,017
Effect of changes in discount rate and other financial assumptions	1,439	(53,667)
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	12,115	14,175
<b>Total net finance income (expenses) from insurance contracts</b>	<u>\$24,789</u>	<u>(\$27,475)</u>
<b>Net finance expenses from reinsurance contracts</b>		
Interest accreted	\$—	(\$14)
Other	—	(53)
<b>Net finance expenses from reinsurance contracts</b>	<u>—</u>	<u>(67)</u>
<b>Total net finance expenses from reinsurance contracts in the statement of earnings</b>	<u>\$—</u>	<u>(\$67)</u>
	<u>\$31,721</u>	<u>(\$32,618)</u>

**6. RISK MANAGEMENT**

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments and insurance contracts. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

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.
- Portfolios are monitored continuously, and reviewed regularly with the Risk Committee and the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. The Company manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating based obligor limits and through collateral arrangements where possible.

## NOTES TO FINANCIAL STATEMENTS

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(in US \$ thousands)

- Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk by setting rating based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

**(i) Maximum Exposure to Credit Risk**

The following summarizes the Company's maximum exposure to credit risk related to financial instruments as well as insurance contracts and reinsurance contracts. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2023	2022
Cash and cash equivalents	\$4,425	\$9,843
Bonds	273,710	261,120
Reinsurance contract held assets	2	2
Insurance contract assets	103,503	145,134
Interest due and accrued	1,506	1,182
Total receivables	16	17
<b>Total</b>	<b>\$383,162</b>	<b>\$417,298</b>

**(ii) Concentration of Credit Risk**

Concentrations of credit risk arise from exposures to a single obligors, 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:

	2023	2022
Bonds issued or guaranteed by:		
Treasuries	\$47,857	\$93,525
Agency securitized	1,735	1,754
Non-agency securitized	5,465	6,298
Financials	9,521	7,359
Communications	4,207	4,167
Consumer products	31,112	31,340
Energy	8,226	5,064
Industrials	20,153	8,541
Technology	10,827	10,944
Transportation	3,351	2,769
Utilities	14,181	8,984
Total long-term bonds	156,635	180,745
Short-term bonds	117,075	80,375
<b>Total</b>	<b>\$273,710</b>	<b>\$261,120</b>

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(in US \$ thousands)

## (iii) Expected Credit Losses

The following table reconciles the allowance for credit losses under the ECL model in IFRS 9 by asset classification and stage:

	2023			Total
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	
<b>Bonds at FVOCI</b>				
<b>Balance, beginning of year</b>	\$42	\$—	\$—	\$42
Provision for credit losses				
Originations	37	—	—	37
Maturities	(17)	—	—	(17)
Net re-measurement of loss allowance	6	—	—	6
<b>Balance, end of year</b>	<b>\$68</b>	<b>\$—</b>	<b>\$—</b>	<b>\$68</b>

## (iv) Credit Risk Exposure by Internal Risk Rating

The following table presents the fair value of bonds at FVOCI and carrying amounts of bonds at amortized cost. Risk ratings are based on internal ratings used in the measurement of ECLs as at the reporting date.

	2023			Total
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	
<b>Bonds at FVOCI</b>				
Investment grade	\$235,393	\$—	\$—	\$235,393
<b>Total</b>	<b>\$235,393</b>	<b>\$—</b>	<b>\$—</b>	<b>\$235,393</b>
<b>Bonds at amortized cost</b>				
Investment grade	\$—	\$—	\$—	\$—
Allowance for Credit Losses	(68)	—	—	(68)
<b>Total</b>	<b>(\$68)</b>	<b>\$—</b>	<b>\$—</b>	<b>(\$68)</b>
	2022			Total
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	
<b>Bonds at FVOCI</b>				
Investment grade	\$219,189	\$—	\$—	\$219,189
<b>Total</b>	<b>\$219,189</b>	<b>\$—</b>	<b>\$—</b>	<b>\$219,189</b>
<b>Bonds at amortized cost</b>				
Investment grade	\$1,457	\$—	\$—	\$1,457
Allowance for Credit Losses	1,457	—	—	1,457
<b>Total</b>	<b>\$1,457</b>	<b>\$—</b>	<b>\$—</b>	<b>\$1,457</b>

**NOTES TO FINANCIAL STATEMENTS**

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*(in US \$ thousands)***(v) Asset Quality**

Bond portfolio by credit rating

	2023	2022
Based on internal ratings:		
AAA	\$170,464	\$178,855
AA	19,721	19,140
A	46,085	37,438
BBB	37,440	25,687
<b>Total</b>	<b>\$273,710</b>	<b>\$261,120</b>

Reinsurance contract held assets

Reinsurance contract held assets of \$2 at December 31, 2023 (2022: \$2) are amounts with related parties and are rated AA.

**(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 Company's liquidity risk management framework and associated limits are designed to allow the Company to meet cash and collateral commitments as they fall due, both on an expected basis and under severe liquidity stress.

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. The Company maintains committed lines of credit with Canadian chartered banks.

**(c) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument and the value of insurance contract liabilities 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, but not limited to, changes in the Company's asset or liability profile, changes in business mix, effective income tax rates, other market factors, differences in the actual exposure relative to broad market indices, variation in exposures by geography, 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. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to the shareholders 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 Canadian dollar spot rate against any other currency impacts the Company's total equity.

**NOTES TO FINANCIAL STATEMENTS**

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*(in US \$ thousands)*

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 Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net earnings.

**(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 the value of assets and the value of liabilities. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- 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.
- For products with fixed and highly predictable benefit payments, investments are generally made in fixed income assets whose cash flows closely match the liability product cash flows.
- To the extent asset and liability 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 products 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, or equities and other non-fixed income assets.
- 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.

The impact to shareholders' net earnings from changes in the interest rates would be largely offset by changes in the value of financial assets supporting the liabilities. However, differences in the interest rate sensitivity in the value of assets and the value of insurance and investment contract liabilities leads to a sensitivity to interest rate movements in net earnings under IFRS 17 and IFRS 9.

The impact to net earnings from an immediate parallel 50 basis point increase or decrease in interest rates is illustrated in the table below:

***Change in Market Yield Curves***

	<b>2023</b>	
	<b>Increase 50 basis points interest rates</b>	<b>Decrease 50 basis points interest rates</b>
<b>Shareholders' net earnings</b>	(\$8,159)	\$8,717
<b>Shareholders' equity</b>	(9,549)	10,136

Actual impacts of interest rate changes will vary depending upon the geography where the changes occur. Net earnings are positively impacted by a parallel increase in interest rates in Canada, U.S. and the U.K., and are positively impacted by a parallel decrease in interest rates in the eurozone. Actual impacts of interest rate

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changes also vary by the level of change in interest rates by term. Therefore, actual impacts from interest rate changes may differ from the estimated impact of parallel movements in all geographies, which is presented above.

The impact to shareholders' net earnings and equity from an immediate 50 basis point increase or decrease in credit spreads is illustrated in the table below, with no change to the ultimate illiquidity premium. Actual impacts of credit spread changes will vary depending on the geographies where the changes occur, and the changes in credit spreads by term. A change in credit spreads may also lead to a change in the allowance for credit risk within the IFRS 17 discount rate, depending on prevailing market and credit conditions at the time; any potential earnings impacts that may arise from such a change are not reflected in the sensitivities below.

**Change in Credit Spreads**

	<b>2023<sup>1</sup></b>	
	<b>Increase 50 basis points credit spreads</b>	<b>Decrease 50 basis points credit spreads</b>
<b>Shareholders' net earnings</b>	(\$7,626)	\$8,085
<b>Shareholders' equity</b>	(8,357)	8,834

<sup>1.</sup> Exposures to credit spread sensitivities as at December 31, 2022 are expected to be substantially similar to the levels shown for December 31, 2023.

**(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 this risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

The Company has minimal exposure to equity risk.

**7. 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. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

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. Investment contracts that are measured at FVTPL are mostly included in the Level 2 category.



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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, 2023 and December 31, 2022, the Company did not have any Level 3 financial assets.

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

<b>Assets measured at fair value</b>	<b>2023</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$4,425	\$—	\$—	\$4,425
Bonds at FVTPL	—	38,317	—	38,317
Bonds at FVOCI	—	235,393	—	235,393
<b>Total assets measured at fair value</b>	<b>\$4,425</b>	<b>\$273,710</b>	<b>\$—</b>	<b>\$278,135</b>

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

<b>Assets measured at fair value</b>	<b>2022<sup>1</sup></b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$9,843	\$—	\$—	\$9,843
Bonds at FVTPL	—	41,151	—	41,151
Bonds at FVOCI	—	219,969	—	219,969
<b>Total assets measured at fair value</b>	<b>\$9,843</b>	<b>\$261,120</b>	<b>\$—</b>	<b>\$270,963</b>

<sup>1</sup> Represents application of IFRS 9 overlay.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

**8. INSURANCE REVENUE**

	<b>2023</b>	<b>2022</b>
<b>Contracts not measured under the PAA</b>		
Amounts relating to changes in liabilities for remaining coverage		
CSM recognized for services provided	\$3,132	\$8,354
Change in risk adjustment for non-financial risk for risk expired	46,299	51,775
Expected incurred claims and other insurance service expenses	374,453	367,138
	<b>\$423,884</b>	<b>\$427,267</b>
<b>Contracts measured under the PAA</b>		
<b>Total insurance revenue</b>	<b>\$437,407</b>	<b>\$438,451</b>

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## 9. INSURANCE SERVICE AND OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2023	2022
Claims and benefits incurred	<b>\$438,597</b>	\$380,335
Adjustments for liability for incurred claims	<b>3,842</b>	3,440
Losses and reversal of losses on onerous insurance contracts	<b>46,457</b>	87
Salaries and other employee benefits	<b>923</b>	1,312
General and administrative	<b>1,540</b>	1,354
Depreciation of fixed assets	<b>12</b>	11
Depreciation of right-of-use assets	<b>22</b>	22
Commissions	<b>14</b>	14
<b>Total expenses</b>	<b>\$491,407</b>	<b>\$386,575</b>
<b>Represented by:</b>		
Insurance service expenses	<b>\$488,910</b>	\$383,876
Other operating and administrative expenses	<b>2,497</b>	2,699
<b>Total expenses</b>	<b>\$491,407</b>	<b>\$386,575</b>

## NOTES TO FINANCIAL STATEMENTS

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## 10. INSURANCE CONTRACTS

## (a) Analysis by remaining coverage and incurred claims

## Insurance contracts

	2023				
	Liability for remaining coverage		Liability for incurred claims		
	Excluding loss component	Loss component	Contracts not under PAA	Contracts under PAA Estimates of present value of future cash flows	Total
Opening assets	(\$180,149)	\$307	\$38,766	(\$4,058)	(\$145,134)
Opening liabilities	24,091	—	165	—	24,256
<b>Net opening balance</b>	<b>(156,058)</b>	<b>307</b>	<b>38,931</b>	<b>(4,058)</b>	<b>(120,878)</b>
<b>Changes in the Statement of Earnings and Comprehensive Income</b>					
Insurance revenue					
Contracts under the modified retrospective approach	(18,424)	—	—	—	(18,424)
Contracts under the fair value method	(398,485)	—	—	—	(398,485)
All other contracts	(20,498)	—	—	—	(20,498)
	(437,407)	—	—	—	(437,407)
Insurance service expenses					
Incurred claims and other insurance service expenses	—	(696)	439,307	—	438,611
Losses and reversal of losses on onerous contracts	—	46,457	—	—	46,457
Adjustments to liabilities for incurred claims	—	—	2,376	1,466	3,842
	—	45,761	441,683	1,466	488,910
Investment components	(477)	—	477	—	—
Total changes in insurance service result	(437,884)	45,761	442,160	1,466	51,503
Net finance expenses from insurance contracts	(24,802)	(60)	73	—	(24,789)
<b>Total changes in the Statement of Earnings and Comprehensive Income</b>	<b>(462,686)</b>	<b>45,701</b>	<b>442,233</b>	<b>1,466</b>	<b>26,714</b>
<b>Cash flows</b>					
Premiums received	416,656	—	—	—	416,656
Incurred claims paid and other insurance service expenses paid	—	—	(429,936)	—	(429,936)
<b>Changes in FCB</b>					
Premiums to be settled via FCB	(402,693)	—	—	—	(402,693)
Claims to be settled via FCB	428,024	—	—	—	428,024
Net Settlement	2,718	—	—	—	2,718
<b>Total cash flows</b>	<b>444,705</b>	<b>—</b>	<b>(429,936)</b>	<b>—</b>	<b>14,769</b>
<b>Net closing balance</b>	<b>(\$174,039)</b>	<b>\$46,008</b>	<b>\$51,228</b>	<b>(\$2,592)</b>	<b>(\$79,395)</b>
Recorded in:					
Closing assets	(\$198,025)	\$46,008	\$51,106	(\$2,592)	(\$103,503)
Closing liabilities	23,986	—	122	—	24,108
<b>Net closing balance</b>	<b>(\$174,039)</b>	<b>\$46,008</b>	<b>\$51,228</b>	<b>(\$2,592)</b>	<b>(\$79,395)</b>

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(in US \$ thousands)

Insurance contracts

2022

	Liability for remaining coverage		Liability for incurred claims		
	Excluding loss component	Loss component	Contracts not under PAA	Contracts under PAA	
				Estimates of present value of future cash flows	Total
Opening assets	(\$149,467)	\$221	\$37,655	(\$6,404)	(\$117,995)
Opening liabilities	32,353	—	132	—	32,485
Net opening balance	(117,114)	221	37,787	(6,404)	(85,510)
Changes in the Statement of Earnings and Comprehensive Income					
Insurance revenue					
Contracts under the modified retrospective approach	(16,173)	—	—	—	(16,173)
Contracts under the fair value method	(408,576)	—	—	—	(408,576)
All other contracts	(13,702)	—	—	—	(13,702)
	(438,451)	—	—	—	(438,451)
Insurance service expenses					
Incurred claims and other insurance service expenses	—	(3)	380,352	—	380,349
Losses and reversal of losses on onerous contracts	—	87	—	—	87
Adjustments to liabilities for incurred claims	—	—	1,094	2,346	3,440
	—	84	381,446	2,346	383,876
Investment components	(216)	—	216	—	—
Total changes in insurance service result	(438,667)	84	381,662	2,346	(54,575)
Net finance expenses from insurance contracts	27,483	2	(10)	—	27,475
Total changes in the Statement of Earnings and Comprehensive Income	(411,184)	86	381,652	2,346	(27,100)
Cash flows					
Premiums received	386,292	—	1	—	386,293
Incurred claims paid and other insurance service expenses paid	—	—	(380,509)	—	(380,509)
Changes in FCB					
Premiums to be settled via FCB	(208,124)	—	—	—	(208,124)
Claims to be settled via FCB	185,717	—	—	—	185,717
Net Settlement	8,355	—	—	—	8,355
Total cash flows	372,240	—	(380,508)	—	(8,268)
Net closing balance	(\$156,058)	\$307	\$38,931	(\$4,058)	(\$120,878)
Recorded in:					
Closing assets	(\$180,149)	\$307	\$38,766	(\$4,058)	(\$145,134)
Closing liabilities	24,091	—	165	—	24,256
Net closing balance	(\$156,058)	\$307	\$38,931	(\$4,058)	(\$120,878)

## NOTES TO FINANCIAL STATEMENTS

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(in US \$ thousands)

## (b) Analysis by measurement component for insurance contracts not measured under the PAA

Insurance contracts	2023			
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Opening assets	(\$627,507)	\$453,561	\$35,642	(\$138,304)
Opening liabilities	22,738	978	2,084	25,800
<b>Net opening balance</b>	<b>(604,769)</b>	<b>454,539</b>	<b>37,726</b>	<b>(112,504)</b>
<b>Changes in the Statement of Earnings and Comprehensive Income</b>				
Changes that relate to current service				
CSM recognized for services provided	—	—	(3,132)	(3,132)
Change in risk adjustment for non-financial risk for risk expired	—	(46,299)	—	(46,299)
Experience adjustments	64,225	—	—	64,225
Changes that relate to future service				
Contracts initially recognized in the year	(50,664)	29,624	21,040	—
Changes in estimates that adjust the CSM	40,898	(6,628)	(34,270)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	47,621	(1,164)	—	46,457
Changes that relate to past service				
Adjustment to liabilities for incurred claims	1,824	553	—	2,377
Total changes in insurance service result	103,904	(23,914)	(16,362)	63,628
Net finance expenses from insurance contracts	(60,229)	34,528	924	(24,777)
<b>Total changes in the Statement of Earnings and Comprehensive Income</b>	<b>43,675</b>	<b>10,614</b>	<b>(15,438)</b>	<b>38,851</b>
<b>Cash flows</b>				
Premiums received	402,692	(68)	1	402,625
Incurred claims paid and other insurance service expenses paid	(429,936)	—	—	(429,936)
<b>Changes in FCB</b>				
Premiums to be settled via FCB	(402,693)	—	—	(402,693)
Claims to be settled via FCB	428,024	—	—	428,024
Net Settlement	2,718	—	—	2,718
<b>Total cash flows</b>	<b>805</b>	<b>(68)</b>	<b>1</b>	<b>738</b>
<b>Net closing balance</b>	<b>(\$560,289)</b>	<b>\$465,085</b>	<b>\$22,289</b>	<b>(\$72,915)</b>
Recorded in:				
Closing assets	(\$582,642)	\$464,112	\$21,506	(\$97,024)
Closing liabilities	22,353	973	783	24,109
<b>Net closing balance</b>	<b>(\$560,289)</b>	<b>\$465,085</b>	<b>\$22,289</b>	<b>(\$72,915)</b>

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(in US \$ thousands)

Insurance contracts	2022			
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Opening assets	(\$855,496)	\$637,027	\$109,634	(\$108,835)
Opening liabilities	30,585	1,570	330	32,485
Net opening balance	(824,911)	638,597	109,964	(76,350)
Changes in the Statement of Earnings and Comprehensive Income				
Changes that relate to current service				
CSM recognized for services provided	—	—	(8,354)	(8,354)
Change in risk adjustment for non-financial risk for risk expired	—	(51,775)	—	(51,775)
Experience adjustments	13,213	—	—	13,213
Changes that relate to future service				
Contracts initially recognized in the year	(61,138)	41,139	19,998	(1)
Changes in estimates that adjust the CSM	86,702	(1,635)	(85,067)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	(485)	572	—	87
Changes that relate to past service				
Adjustment to liabilities for incurred claims	(2,328)	3,422	—	1,094
Total changes in insurance service result	35,964	(8,277)	(73,423)	(45,736)
Net finance expenses from insurance contracts	182,625	(175,780)	1,185	8,030
Total changes in the Statement of Earnings and Comprehensive Income	218,589	(184,057)	(72,238)	(37,706)
Cash flows				
Premiums received	396,114	(1)	—	396,113
Incurred claims paid and other insurance service expenses paid	(380,509)	—	—	(380,509)
Changes in FCB				
Premiums to be settled via FCB	(208,124)	—	—	(208,124)
Claims to be settled via FCB	185,717	—	—	185,717
Net Settlement	8,355	—	—	8,355
Total cash flows	1,553	(1)	—	1,552
Net closing balance	(\$604,769)	\$454,539	\$37,726	(\$112,504)
Recorded in:				
Closing assets	(\$627,507)	\$453,561	\$35,642	(\$138,304)
Closing liabilities	22,738	978	2,084	25,800
Net closing balance	(\$604,769)	\$454,539	\$37,726	(\$112,504)

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## (c) Effect on measurement components of contracts initially recognized in the year

	2023	
	Profitable Contracts Issued	Total
Claims and other insurance service expenses payable	\$208,454	\$208,454
Estimates of present value of cash outflows	208,454	208,454
Estimates of present value of cash inflows	(259,118)	(259,118)
Risk adjustment for non-financial risk	29,624	29,624
CSM	21,040	21,040
<b>Total gains recognized on initial recognition</b>	<b>\$—</b>	<b>\$—</b>
	2022	
	Profitable Contracts Issued	Total
Claims and other insurance service expenses payable	\$283,887	\$283,887
Estimates of present value of cash outflows	283,887	283,887
Estimates of present value of cash inflows	(345,025)	(345,025)
Risk adjustment for non-financial risk	41,139	41,139
CSM	19,998	19,998
<b>Total gains recognized on initial recognition</b>	<b>(\$1)</b>	<b>(\$1)</b>

## (d) Expected remaining CSM recognition

## Insurance Contracts

	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	More than 10 years	Total
2023	\$2,344	\$2,130	\$1,936	\$1,775	\$1,623	\$6,026	\$6,455	\$22,289
2022	\$3,972	\$3,628	\$3,293	\$2,988	\$2,715	\$10,127	\$11,003	\$37,726

## (e) Insurance Risk

## 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 risk adjustment for non-financial risk. The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing uncertainty in the amount and timing of insurance contract cash flows. Risk adjustments for non-financial risk are reviewed periodically for continued appropriateness.

The Company measures the estimates of the present value of future cash flows for reinsurance held using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any non-performance by the reinsurer.

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Investment contract liabilities are measured at fair value determined using discount rates derived from a reference portfolio or stochastic modeling at end of the reporting period. The Company's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

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

***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.

***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.

***Expenses***

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

***Non-Financial Exposures and Sensitivities*****Insurance Risk**

	2023			
	Net Earnings		CSM <sup>1</sup>	
	Before Reinsurance	Net of Reinsurance Held	Before Reinsurance	Net of Reinsurance Held
2% Life mortality increase	(\$101,417)	(\$101,417)	\$12,938	\$12,938
2% Annuity mortality decrease	—	—	—	—
5% Morbidity adverse change	—	—	—	—
5% Expense increase	—	—	—	—
10% Adverse change in policy termination and renewal	(44,124)	(44,124)	(6,983)	(6,983)



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	2022			
	Net Earnings		CSM <sup>1</sup>	
	Before Reinsurance	Net of Reinsurance Held	Before Reinsurance	Net of Reinsurance Held
2% Life mortality increase	(\$105,521)	(\$105,521)	(\$32,702)	(\$32,702)
2% Annuity mortality decrease	—	—	—	—
5% Morbidity adverse change	—	—	—	—
5% Expense increase	—	—	—	—
10% Adverse change in policy termination and renewal	(37,899)	(37,899)	(27,029)	(27,029)

<sup>1</sup> The impacts to the CSM are pre-tax.

These sensitivities reflect the impact on net earnings and CSM of an immediate change in assumptions on the value of insurance contracts. The impact on equity is equal to the net earnings impact.

Under IFRS 17, assumption changes on insurance risk directly impact CSM, for contracts which have CSM. The impact of assumption changes on CSM are measured at locked-in discount rates, for contracts measured under the General Measurement Model. Net earnings impacts arise from any differences relative to the fair value impact of assumption changes impacting CSM, as well as assumption changes on contracts which do not have CSM (including short term insurance contracts). For assumption changes impacting CSM, there is a second-order impact to earnings which captures the present value difference between the impact of assumption changes measured at prevailing discount rates and lock-in discount rates. In general, prevailing discount rates are currently higher than locked-in rates for the Company's insurance contracts, as most locked-in rates for the calculation of CSM impacts were struck at January 1, 2022 for the in-force portfolio. Therefore, an unfavourable change in assumptions on insurance risks, leading to a liability strengthening offset by CSM reduction, also results in a positive earnings impact in the period due to the fair value impact.

**Discount rates**

The following table provides the lower and upper end of the range of the spot rates used by the Company to discount liability cash flows by major currency:

As at December 31, 2023		Year 1	Year 5	Year 10	Year 20	Year 30	Year 50
USD	Lower	5.6 %	4.7 %	4.8 %	5.3 %	4.9 %	4.7 %
	Upper	5.9 %	5.0 %	5.0 %	5.5 %	5.1 %	4.8 %

  

As at December 31, 2022		Year 1	Year 5	Year 10	Year 20	Year 30	Year 50
USD	Lower	5.8 %	5.1 %	5.0 %	5.4 %	5.0 %	4.8 %
	Upper	6.0 %	5.4 %	5.2 %	5.7 %	5.3 %	4.9 %

The spot rates in the table above are calculated based on prevailing interest rates observed in their respective markets. When interest rates are not observable, the yield curve to discount cash flows transitions to an ultimate rate composed of a risk-free rate and illiquidity premium. These amounts are set based on historical data.

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## 11. REINSURANCE CONTRACTS HELD

## (a) Analysis by remaining coverage and incurred claims

## Reinsurance Contracts Held

	2023		Total
	Asset for remaining coverage	Asset for incurred claims	
	Excluding loss recovery component	Estimates of present value of future cash flows	
Opening assets	\$2	\$—	\$2
Opening liabilities	(3,503)	(7)	(3,510)
<b>Net opening balance</b>	<b>(\$3,501)</b>	<b>(\$7)</b>	<b>(\$3,508)</b>
<b>Changes in the Statement of Earnings and Comprehensive Income</b>			
Net expenses from reinsurance contracts	(8,989)	—	(8,989)
<b>Total changes in the Statement of Earnings and Comprehensive Income</b>	<b>(8,989)</b>	<b>—</b>	<b>(8,989)</b>
<b>Cash flows</b>			
Premiums paid	9,472	—	9,472
<b>Total cash flows</b>	<b>9,472</b>	<b>—</b>	<b>9,472</b>
<b>Net closing balance</b>	<b>(\$3,018)</b>	<b>(\$7)</b>	<b>(\$3,025)</b>
Recorded in:			
Closing assets	\$2	\$—	\$2
Closing liabilities	(3,020)	(7)	(3,027)
<b>Net closing balance</b>	<b>(\$3,018)</b>	<b>(\$7)</b>	<b>(\$3,025)</b>

## NOTES TO FINANCIAL STATEMENTS

December 31, 2023

*(in US \$ thousands)*

## Reinsurance Contracts Held

	2022		Total
	Asset for remaining coverage	Asset for incurred claims	
	Excluding loss recovery component	Estimates of present value of future cash flows	
Opening assets	\$—	\$—	\$—
Opening liabilities	(1,828)	—	(1,828)
Net opening balance	(\$1,828)	\$—	(\$1,828)
Changes in the Statement of Earnings and Comprehensive Income			
Net expenses from reinsurance contracts	(7,866)	—	(7,866)
Net finance income from reinsurance contracts, excluding the effect of changes in non-performance risk of reinsurers	(67)	—	(67)
Total changes in the Statement of Earnings and Comprehensive Income	(7,933)	—	(7,933)
Cash flows			
Premiums paid	6,260	(7)	6,253
Total cash flows	6,260	(7)	6,253
Net closing balance	(\$3,501)	(\$7)	(\$3,508)
Recorded in:			
Closing assets	\$2	\$—	\$2
Closing liabilities	(3,503)	(7)	(3,510)
Net closing balance	(\$3,501)	(\$7)	(\$3,508)

## NOTES TO FINANCIAL STATEMENTS

December 31, 2023

*(in US \$ thousands)***(b) Analysis by measurement component for reinsurance contracts held not measured under the PAA**

## Reinsurance Contracts Held

	2023		
	Estimates of present value of future cash flows	CSM	Total
Opening assets	\$2	\$—	\$2
Opening liabilities	—	—	—
<b>Net opening balance</b>	<b>2</b>	<b>—</b>	<b>2</b>
<b>Changes in the Statement of Earnings and Comprehensive Income</b>			
Changes that relate to future service			
Changes in estimates that adjust the CSM	—	—	—
Net expenses from reinsurance contracts	—	—	—
Net finance income from reinsurance contracts, excluding the effect of changes in non-performance risk of reinsurers	—	—	—
<b>Total changes in the Statement of Earnings and Comprehensive Income</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net closing balance</b>	<b>\$2</b>	<b>\$—</b>	<b>\$2</b>
Recorded in:			
Closing assets	\$2	\$—	\$2
Closing liabilities	—	—	—
<b>Net closing balance</b>	<b>\$2</b>	<b>\$—</b>	<b>\$2</b>

**NOTES TO FINANCIAL STATEMENTS****December 31, 2023***(in US \$ thousands)*

## Reinsurance Contracts Held

	2022		
	Estimates of present value of future cash flows	CSM	Total
Opening assets	\$—	\$—	\$—
Opening liabilities	(1,499)	1,484	(15)
Net opening balance	(1,499)	1,484	(15)
Changes in the Statement of Earnings and Comprehensive Income			
Changes that relate to current service			
CSM recognized for services received	—	61	61
Experience adjustments	23	—	23
Changes that relate to future service			
Changes in estimates that adjust the CSM	1,554	(1,554)	—
Net expenses from reinsurance contracts	1,577	(1,493)	84
Net finance income from reinsurance contracts, excluding the effect of changes in non-performance risk of reinsurers	(76)	9	(67)
Total changes in the Statement of Earnings and Comprehensive Income	1,501	(1,484)	17
Net closing balance	\$2	\$—	\$2
Recorded in:			
Closing assets	\$2	\$—	\$2
Closing liabilities	—	—	—
Net closing balance	\$2	\$—	\$2

**12. FINANCING CHARGES**

Financing charges consist of the following:

	2023	2022
Letters of credit facilities (note 11 and 20)	<b>\$3,502</b>	\$3,262

**13. 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

	2023		2022	
	Number	Carrying value	Number	Carrying value
Classified as equity				
Class A Common Shares	<b>3,904,627</b>	<b>\$297.863</b>	3,904,627	\$297.863

During 2023, the Company paid dividends/distributions of \$4,750 (2022: \$20,000). Dividends/distributions paid on a per share basis were \$1.22 (2022: \$5.12).

## NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(in US \$ thousands)

## 14. 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, 2023 and December 31, 2022, 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.

## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	December 31, 2023			Total
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Realized gains (losses) on available-for-sale assets	
Balance, beginning of year	(\$16)	(\$7,370)	(\$387)	(\$7,773)
Impact of application of IFRS 17	17	—	—	17
Other comprehensive income	—	2,277	3,073	5,350
Income tax	—	(464)	(645)	(1,109)
	17	1,813	2,428	4,258
<b>Balance, end of year</b>	<b>\$1</b>	<b>(\$5,557)</b>	<b>\$2,041</b>	<b>(\$3,515)</b>
	December 31, 2022			Total
	Unrealized foreign exchange losses on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Realized gains (losses) on available-for-sale assets	
Balance, beginning of year	(\$4)	\$648	(\$581)	\$63
Other comprehensive income (loss)	(12)	(10,114)	246	(9,880)
Income tax	—	2,096	(52)	2,044
	(12)	(8,018)	194	(7,836)
<b>Balance, end of year</b>	<b>(\$16)</b>	<b>(\$7,370)</b>	<b>(\$387)</b>	<b>(\$7,773)</b>

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)***16. 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:

	<u>2023</u>	<u>2022</u>
Insurance revenue	<b>\$437,407</b>	\$438,451
Insurance expenses	<b>488,910</b>	383,876
Net expenses - reinsurance held contracts	<b>8,989</b>	7,866
Operating and administrative expenses	<b>1,557</b>	1,484
Financing charges	<b>3,502</b>	3,262

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

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

	<u>2023</u>	<u>2022</u>
Insurance contract assets	<b>\$103,503</b>	\$145,134
Reinsurance held contract assets	<b>\$2</b>	\$2
Insurance contract liabilities	<b>\$24,108</b>	\$24,256
Reinsurance held contract liabilities	<b>\$3,027</b>	\$3,510
Other liabilities	<b>\$1,081</b>	\$2,803

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

**17. INCOME TAXES**

No corporate income taxes are levied in Bermuda in 2023 and 2022.

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 payable (receivable)**

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	<b>(\$2)</b>	(\$2)
Current income tax expense (recovery)	<b>2,771</b>	—
Balance, end of year	<b>\$2,769</b>	(\$2)

## NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(in US \$ thousands)

**(b) Deferred income taxes**

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

	<u>2023</u>	<u>2022</u>
Insurance contract liabilities	(\$169,752)	(\$178,856)
Loss carried forward	145,528	183,404
Portfolio assets	1,302	2,610
Other	423	(38,620)
Net deferred income tax liability	<u>(\$22,499)</u>	<u>(\$31,462)</u>
<b>Balance, beginning of year</b>	<b>(\$31,462)</b>	<b>(\$31,799)</b>
Amounts recorded in:		
Statement of net earnings (loss)	10,072	(1,707)
Statement of changes in other comprehensive income (loss)	(1,109)	2,044
<b>Balance, end of year</b>	<u>(\$22,499)</u>	<u>(\$31,462)</u>
Record in:		
Deferred tax liability	<u>(\$22,499)</u>	<u>(\$31,462)</u>

At December 31, 2023, the Company had non-expiring tax loss carryforwards, totaling \$692,993 (2022: \$873,353). 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 current income tax and deferred tax:****(i) Current income tax**

	<u>2023</u>	<u>2022</u>
Current income tax expense	\$2,771	\$—
Total income tax expense (recovery)	<u>\$2,771</u>	<u>\$—</u>

**(ii) Deferred income tax**

	<u>2023</u>	<u>2022</u>
Origination and reversal of temporary difference	(\$10,072)	\$1,707
Total deferred income tax expense (recovery)	<u>(\$10,072)</u>	<u>\$1,707</u>
Total income and deferred income tax expense (recovery)	<u>(\$7,301)</u>	<u>\$1,707</u>

**(iii) Income tax recorded in other comprehensive income**

	<u>2023</u>	<u>2022</u>
Deferred income tax expense (recovery)	<u>\$1,109</u>	<u>(\$2,044)</u>

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.



**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023

*(in US \$ thousands)*

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.

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

	<u>2023</u>	<u>2022</u>
Profit (loss) before income tax	<b>(\$34,770)</b>	\$8,130
Statutory tax rate	<b>21%</b>	21%
	<u><b>(7,301)</b></u>	<u>1,707</u>
Effective income tax rate	<u><b>21%</b></u>	<u>21%</u>

**18. STATUTORY REQUIREMENTS**

The Company is a Class C long-term insurer. As a Class C insurer, the Company is required to maintain a solvency margin and an enhanced capital requirement in accordance with the provisions the Bermuda Insurance Act 1978. The enhanced capital requirement ("ECR") is calculated using the Bermuda Solvency Capital Requirement ("BSCR") model, a standardised model used to measure the risk associated with an insurer's assets, liabilities and insurance related risk exposure. The Company is required to maintain a minimum statutory capital and surplus equal to the higher of the capital requirements as measured by the BSCR and the minimum solvency margin ("MSM"). As a Class C long-term insurer, the Company's MSM is defined as the greater of 1.5% of assets; \$500,000; and 25% of the ECR. As at December 31, 2023, the Company's statutory capital and surplus exceeded all calculated minimum regulatory requirements.

**19. 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.

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2023**

*(in US \$ thousands)*

**20. 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.

CL and certain affiliates have entered into reimbursement agreements whereby these affiliates can use CL's LC facilities. As at December 31, 2023, the total amount of LC facilities is \$1,650,000 (2022: \$1,250,000) of which \$498,000 (2022: \$507,000) were issued on behalf of the Company. During 2023, the Company paid \$4,000 (2022: \$3,000) in financing charges to CL (note 12) in connection with these LC facilities.

As at December 31, 2023, the Company and certain affiliates have other bilateral LC facilities totaling \$18,000 (2022: \$18,000) of which \$Nil (2022: \$Nil) were issued.