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Report of Independent Auditors

The Board of Directors
GAI Insurance Company, Ltd.

We have audited the accompanying condensed financial statements of GAI Insurance Company, Ltd., which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed statements of income for the years then ended, and the related notes to the condensed financial statements.

Management's Responsibility for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the condensed financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed financial statements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the condensed financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reference: Report of Independent Auditors on the condensed financial statements of GAI Insurance Company, Ltd. as at December 31, 2020 and 2019 and for the years then ended.



Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 3 of the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for adverse opinion on U.S. generally accepted accounting principles” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of GAI Insurance Company, Ltd. as of December 31, 2020 and 2019, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.

Ernst & Young Ltd.

May 21, 2021

Chartered Professional Accountants

Reference: Report of Independent Auditors on the condensed financial statements of GAI Insurance Company, Ltd. as at December 31, 2020 and 2019 and for the years then ended.

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at **December 31, 2020**

expressed in ('000s) **United States Dollars**

| LINE No. | | 2020 | 2019 |
|----------|--|--------|--------|
| 1. | CASH AND CASH EQUIVALENTS | 12,668 | 12,723 |
| 2. | QUOTED INVESTMENTS: | | |
| (a) | Bonds and Debentures | | |
| | i. Held to maturity | | |
| | ii. Other | | |
| (b) | Total Bonds and Debentures | - | - |
| (c) | Equities | | |
| | i. Common stocks | | |
| | ii. Preferred stocks | | |
| | iii. Mutual funds | | |
| (d) | Total equities | - | - |
| (e) | Other quoted investments | | |
| (f) | Total quoted investments | - | - |
| 3. | UNQUOTED INVESTMENTS: | | |
| (a) | Bonds and Debentures | | |
| | i. Held to maturity | | |
| | ii. Other | | |
| (b) | Total Bonds and Debentures | - | - |
| (c) | Equities | | |
| | i. Common stocks | | |
| | ii. Preferred stocks | | |
| | iii. Mutual funds | | |
| (d) | Total equities | - | - |
| (e) | Other unquoted investments | | |
| (f) | Total unquoted investments | - | - |
| 4. | INVESTMENTS IN AND ADVANCES TO AFFILIATES | | |
| (a) | Unregulated entities that conduct ancillary services | | |
| (b) | Unregulated non-financial operating entities | | |
| (c) | Unregulated financial operating entities | | |
| (d) | Regulated non-insurance financial operating entities | | |
| (e) | Regulated insurance financial operating entities | | |
| (f) | Total investments in affiliates | - | - |
| (g) | Advances to affiliates | 3 | 3 |
| (h) | Total investments in and advances to affiliates | 3 | 3 |
| 5. | INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE: | | |
| (a) | First liens | | |
| (b) | Other than first liens | | |
| (c) | Total investments in mortgage loans on real estate | - | - |
| 6. | POLICY LOANS | | |
| 7. | REAL ESTATE: | | |
| (a) | Occupied by the company (less encumbrances) | | |
| (b) | Other properties (less encumbrances) | | |
| (c) | Total real estate | - | - |
| 8. | COLLATERAL LOANS | | |
| 9. | INVESTMENT INCOME DUE AND ACCRUED | | |
| 10. | ACCOUNTS AND PREMIUMS RECEIVABLE: | | |
| (a) | In course of collection | 708 | 230 |
| (b) | Deferred - not yet due | | |
| (c) | Receivables from retrocessional contracts | | |
| (d) | Total accounts and premiums receivable | 708 | 230 |
| 11. | REINSURANCE BALANCES RECEIVABLE: | | |
| (a) | Foreign affiliates | | |
| (b) | Domestic affiliates | | |
| (c) | Pools & associations | | |
| (d) | All other insurers | | |
| (e) | Total reinsurance balance receivable | - | - |
| 12. | FUNDS HELD BY CEDING REINSURERS | - | 283 |

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at December 31, 2020

expressed in ('000s) United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|--|---------------|---------------|
| 13. | SUNDRY ASSETS: | | |
| (a) | Derivative instruments | | |
| (b) | Segregated accounts companies - long-term business - variable annuities | | |
| (c) | Segregated accounts companies - long-term business - other | | |
| (d) | Segregated accounts companies - general business | 9,226 | 8,272 |
| (e) | Deposit assets | | |
| (f) | Deferred acquisition costs | 394 | 247 |
| (g) | Net receivables for investments sold | | |
| (h) | Prepaid Expenses | 7 | 5 |
| (i) | Deferred Tax Asset | 176 | 99 |
| (j) | Amounts due from Affiliate for Federal Income Taxes | 217 | 201 |
| (k) | Total sundry assets | 10,020 | 8,824 |
| 14. | LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS | | |
| (a) | Letters of credit | | |
| (b) | Guarantees | | |
| (c) | Other instruments | | |
| (e) | Total letters of credit, guarantees and other instruments | - | - |
| 15. | TOTAL | 23,399 | 22,063 |
| | TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS | | |
| 16. | UNEARNED PREMIUM RESERVE | | |
| (a) | Gross unearned premium reserves | 3,314 | 1,715 |
| (b) | Less: Ceded unearned premium reserve | | |
| | i. Foreign affiliates | 32 | 288 |
| | ii. Domestic affiliates | | |
| | iii. Pools & associations | | |
| | iv. All other insurers | 2,028 | 1,007 |
| (c) | Total ceded unearned premium reserve | 2,060 | 1,295 |
| (d) | Net unearned premium reserve | 1,254 | 420 |
| 17. | LOSS AND LOSS EXPENSE PROVISIONS: | | |
| (a) | Gross loss and loss expense provisions | 12,500 | 12,500 |
| (b) | Less : Reinsurance recoverable balance | | |
| | i. Foreign affiliates | | |
| | ii. Domestic affiliates | | |
| | iii. Pools & associations | | |
| | iv. All other reinsurers | 9,000 | 9,000 |
| (c) | Total reinsurance recoverable balance | 9,000 | 9,000 |
| (d) | Net loss and loss expense provisions | 3,500 | 3,500 |
| 18. | OTHER GENERAL BUSINESS INSURANCE RESERVES | | |
| 19. | TOTAL GENERAL BUSINESS INSURANCE RESERVES | 4,754 | 3,920 |
| | LONG-TERM BUSINESS INSURANCE RESERVES | | |
| 20. | RESERVE FOR REPORTED CLAIMS | | |
| 21. | RESERVE FOR UNREPORTED CLAIMS | | |
| 22. | POLICY RESERVES - LIFE | | |
| 23. | POLICY RESERVES - ACCIDENT AND HEALTH | | |
| 24. | POLICYHOLDERS' FUNDS ON DEPOSIT | | |
| 25. | LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS | | |
| 26. | OTHER LONG-TERM BUSINESS INSURANCE RESERVES | | |
| 27. | TOTAL LONG-TERM BUSINESS INSURANCE RESERVES | | |
| (a) | Total Gross Long-Term Business Insurance Reserves | - | - |
| (b) | Less: Reinsurance recoverable balance on long-term business | | |
| | (i) Foreign Affiliates | | |
| | (ii) Domestic Affiliates | | |
| | (iii) Pools and Associations | | |
| | (iv) All Other Insurers | | |
| (c) | Total Reinsurance Recoverable Balance | - | - |

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at December 31, 2020

expressed in ['000s] United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|---|-------|-------|
| (d) | Total Net Long-Term Business Insurance Reserves | - | - |
| | OTHER LIABILITIES | | |
| 28. | INSURANCE AND REINSURANCE BALANCES PAYABLE | 943 | 1,004 |
| 29. | COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE | | |
| 30. | LOANS AND NOTES PAYABLE | | |
| 31. | (a) INCOME TAXES PAYABLE | | |
| | (b) DEFERRED INCOME TAXES | | |
| 32. | AMOUNTS DUE TO AFFILIATES | - | - |
| 33. | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | 193 | 176 |
| 34. | FUNDS HELD UNDER REINSURANCE CONTRACTS: | | |
| 35. | DIVIDENDS PAYABLE | | |
| 36. | SUNDRY LIABILITIES: | | |
| (a) | Derivative instruments | | |
| (b) | Segregated accounts companies | 9,226 | 8,272 |
| (c) | Deposit liabilities | | |
| (d) | Net payable for investments purchased | | |
| (e) | Deferred Ceding Commissions | 604 | 227 |
| (f) | Preference Share Capital | | |
| (g) | Other sundry liabilities - Due to Segregated Cells | | |
| (h) | Total sundry liabilities | 9,830 | 8,499 |
| 37. | LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS: | | |
| (a) | Letters of credit | | |
| (b) | Guarantees | | |
| (c) | Other instruments | | |
| (d) | Total letters of credit, guarantees and other instruments | - | - |

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at December 31, 2020

expressed in [000s] United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|--|--------|--------|
| 38. | TOTAL OTHER LIABILITIES | 10,966 | 9,679 |
| 39. | TOTAL INSURANCE RESERVES AND OTHER LIABILITIES | 15,720 | 13,599 |
| | CAPITAL AND SURPLUS | | |
| 40. | TOTAL CAPITAL AND SURPLUS | 7,679 | 8,464 |
| 41. | TOTAL | 23,399 | 22,063 |
| | | TRUE | TRUE |

CONDENSED CONSOLIDATED STATEMENT OF INCOME

GAI Insurance Company, Ltd.
 As at December 31, 2020
 expressed in ['000s] United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|---|-------|-------|
| | GENERAL BUSINESS UNDERWRITING INCOME | | |
| 1. | GROSS PREMIUMS WRITTEN | | |
| | (a) Direct gross premiums written | 6,959 | 3,418 |
| | (b) Assumed gross premiums written | 146 | 143 |
| | (c) Total gross premiums written | 7,105 | 3,561 |
| 2. | REINSURANCE PREMIUMS CEDED | 4,981 | 2,500 |
| 3. | NET PREMIUMS WRITTEN | 2,124 | 1,061 |
| 4. | INCREASE (DECREASE) IN UNEARNED PREMIUMS | (834) | 261 |
| 5. | NET PREMIUMS EARNED | 1,290 | 1,322 |
| 6. | OTHER INSURANCE INCOME | - | - |
| 7. | TOTAL GENERAL BUSINESS UNDERWRITING INCOME | 1,290 | 1,322 |
| | GENERAL BUSINESS UNDERWRITING EXPENSES | | |
| 8. | NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED | - | - |
| 9. | COMMISSIONS AND BROKERAGE | (244) | (71) |
| 10. | TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES | (244) | (71) |
| 11. | NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS | 1,534 | 1,393 |
| | LONG-TERM BUSINESS INCOME | | |
| 12. | GROSS PREMIUMS AND OTHER CONSIDERATIONS: | | |
| | (a) Direct gross premiums and other considerations | | |
| | (b) Assumed gross premiums and other considerations | | |
| | (c) Total gross premiums and other considerations | - | - |
| 13. | PREMIUMS CEDED | | |
| 14. | NET PREMIUMS AND OTHER CONSIDERATIONS: | | |
| | (a) Life | | |
| | (b) Annuities | | |
| | (c) Accident and health | | |
| | (d) Total net premiums and other considerations | - | - |
| 15. | OTHER INSURANCE INCOME | | |
| 16. | TOTAL LONG-TERM BUSINESS INCOME | - | - |
| | LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES | | |
| 17. | CLAIMS - LIFE | | |
| 18. | POLICYHOLDERS' DIVIDENDS | | |
| 19. | SURRENDERS | | |
| 20. | MATURITIES | | |
| 21. | ANNUITIES | | |
| 22. | ACCIDENT AND HEALTH BENEFITS | | |
| 23. | COMMISSIONS | | |
| 24. | OTHER | | |
| 25. | TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES | - | - |
| 26. | INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES): | | |
| | (a) Life | | |
| | (b) Annuities | | |

CONDENSED CONSOLIDATED STATEMENT OF INCOME

GAI Insurance Company, Ltd.

As at December 31, 2020
expressed in ['000s] United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|--|-------|-------|
| | (c) Accident and health | | |
| | (d) Total increase (decrease) in policy reserves | - | - |
| 27. | TOTAL LONG-TERM BUSINESS EXPENSES | - | - |
| 28. | NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS | - | - |
| 29. | COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS | 1,534 | 1,393 |
| | UNDERNOTED ITEMS | | |
| 30. | COMBINED OPERATING EXPENSE | | |
| | (a) General and administration | 321 | 348 |
| | (b) Personnel cost | | |
| | (c) Other | | |
| | (d) Total combined operating expenses | 321 | 348 |
| 31. | COMBINED INVESTMENT INCOME - NET | 183 | 267 |
| 32. | COMBINED OTHER INCOME (DEDUCTIONS) | 142 | 175 |
| 33. | COMBINED INCOME BEFORE TAXES | 1,538 | 1,487 |
| 34. | COMBINED INCOME TAXES (IF APPLICABLE): | | |
| | (a) Current | 410 | 297 |
| | (b) Deferred | (87) | 14 |
| | (c) Total | 323 | 311 |
| 35. | COMBINED INCOME BEFORE REALIZED GAINS (LOSSES) | 1,215 | 1,176 |
| 36. | COMBINED REALIZED GAINS (LOSSES) | - | - |
| 37. | COMBINED INTEREST CHARGES | | |
| 38. | NET INCOME | 1,215 | 1,176 |

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

GAI Insurance Company, Ltd.

As at December 31, 2020
expressed in ['000s] United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|--|---------|---------|
| 1. | CAPITAL: | | |
| (a) | Capital Stock | | |
| | (i) Common Shares | | |
| | authorized 200,000 shares of par | 200 | 200 |
| | value \$ 1,000 each issued and | | |
| | fully paid 200,000 shares | | |
| | (ii) | | |
| | (A) Preferred shares: | | |
| | authorized _____ shares of par | - | - |
| | value _____ each issued and | | |
| | fully paid _____ shares | | |
| | aggregate liquidation value for – | | |
| | 2020 _____ | | |
| | 2019 _____ | | |
| | (B) Preferred shares issued by a subsidiary: | | |
| | authorized _____ shares of par | | |
| | value _____ each issued and | | |
| | fully paid _____ shares | | |
| | aggregate liquidation value for – | | |
| | 2020 _____ | | |
| | 2019 _____ | | |
| | (iii) Treasury Shares | | |
| | repurchased _____ shares of par | | |
| | value _____ each issued | | |
| (b) | Contributed surplus | | |
| (c) | Any other fixed capital | | |
| | (i) Hybrid capital instruments | | |
| | (ii) Guarantees and others | | |
| | (iii) Total any other fixed capital | - | - |
| (d) | Total Capital | 200 | 200 |
| 2. | SURPLUS: | | |
| (a) | Surplus - Beginning of Year | 8,264 | 10,233 |
| (b) | Add: Income for the year | 1,215 | 1,176 |
| (c) | Less: Dividends paid and payable | (2,000) | (3,145) |
| (d) | Add (Deduct) change in unrealized appreciation (depreciation) of investments | | |
| (e) | Add (Deduct) change in any other surplus | | |
| (f) | Surplus - End of Year | 7,479 | 8,264 |
| 3. | MINORITY INTEREST | | |
| 4. | TOTAL CAPITAL AND SURPLUS | 7,679 | 8,464 |

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020
(expressed in U.S. dollars)

General Note to the Financial Statements

1. Organization

GAI Insurance Company, Ltd. (“the Company”) is incorporated under the laws of Bermuda and is a wholly owned subsidiary of APU Holding Company (“APUHC”). The Company was previously owned by GAI (Bermuda) Ltd. until it was transferred to APUHC on March 28, 2006. The ultimate holding company is American Financial Group, Inc. a company incorporated in the United States of America.

The Company is an exempted Bermuda company with limited liability and has been incorporated pursuant to the Bermuda Companies Act of 1981 and is subject to the GAI Insurance Company, Ltd, Act 1998, which authorizes the Company to establish segregated Separate Accounts (“cells”).

2. Description of business

The Company writes liability insurance as a direct insurer and provides reinsurance to a third party covering certain liability business. The policies are written as companion policies to commercial liability policies issued by an affiliate. In addition, the Company reinsures property business relating to leased equipment under quota share treaties with non-related entities. Furthermore, the Company has nine separate accounts that reinsure Great American and certain affiliates, pursuant to Property and Casualty Quota Share Reinsurance Agreements.

During 2001, the Company began to provide reinsurance to a third party covering punitive damages liability in relation to commercial general liability programs offered by an affiliate. Limits of such punitive damages coverage provided by the Company are \$50 million for each insured, gross of reinsurance.

During 2002, in accordance with two segregated cell agreements, the Company agreed to write insurance for the cell participants and keep separate books of account for each program. Of the two cells set up under the GAI Insurance Company, Ltd. (Separate Accounts) Act, 1998, the Cobbs Allen segregated cell was commuted on July 1, 2003 and the Innkeepers segregated cell was commuted on February 12th, 2013.

During 2010, the Company began to write punitive damage insurance business as a direct insurer. Limits of such punitive damages coverage provided by the Company are up to \$50 million for each insured, gross of reinsurance. The Company has various reinsurers covering limits under this Policy. These policies were in place as at December 31, 2020. The Company also entered into a reinsurance agreement with Neon Underwriting Limited, an affiliated company, effective October 1, 2019 to September 1, 2020. During the first quarter of 2020, the Company received notice of termination of this reinsurance agreement from Neon Underwriting Limited.

During 2013, the Company established three new separate accounts by virtue of the GAI Insurance Company, Ltd. (Separate Accounts) Act, 1998. The purpose of the separate accounts is to reinsure Great American Insurance Company and certain affiliates, pursuant to a Property and Casualty Quota Share Reinsurance Agreement. Each separate account is established by way of a preferred shareholder agreement. A further separate account was established in 2014 for similar purposes.

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(expressed in U.S. dollars)

During 2017, four further separate accounts were established. Runoff Corp Separate Account E was established to enter into a novation agreement with Insurance Solutions Ltd., to assume all interest, right, duties, obligations, and liabilities under the Casualty Quota Share Reinsurance Agreements subject to the novation. The program is in run-off. Phoenix Separate Account F, Cardinal Separate Account G and J&GK Separate Account H were established to enter into Property and Casualty Quota Share Reinsurance Agreements to accept a quota share of losses pertaining to trucking physical damage, non-trucking liability, occupational accident, contingent liability and workers compensation. Each separate account is established by way of a preferred shareholder agreement. During 2019, Separate Account I known as Long Iron Services Account was established for similar purposes.

3. Basis of preparation

The accompanying condensed financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). The condensed general purpose financial statements are based upon accounting principles generally accepted in the United States of America ("US GAAP") but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP. The significant variances are as follows:

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under US GAAP; and
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under US GAAP.

4. Accounting policies

Premiums

Insurance and reinsurance premiums are recorded on the accruals basis and are included in income on a pro-rata basis over the terms of the related treaties, with the unearned portion deferred in the balance sheet. Unearned premiums represent the amounts of premiums applicable to the unexpired terms of the contract.

Investment income

Investment income consists of interest on cash; funds withheld balances which are accrued to the balance sheet date. Investment income is also earned on shares held in short duration fixed income funds.

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(expressed in U.S. dollars)

Cash and cash equivalents

Cash and time deposits include cash and time deposits with maturities of 90 days or less from the date of purchase.

Loss and Loss expenses

The liability for losses and loss expenses includes an amount determined from loss reports and individual cases and an amount, based on past experiences, for losses incurred but not reported. These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be materially in excess of, or less than, the amounts provided and any adjustment will be reflected in the periods in which they become known.

5. Recognition of income

The basis for recognition of premium income is as noted in 4 above. The basis for recognition of commission income is pro-rata over the policy periods. The basis for recognition of investment income is noted in 4 above.

6. Translation of foreign currencies

Assets and liabilities originating in other currencies are translated into U.S. dollars at the rate in effect at the balance sheet date. Revenue and expense items are translated into U.S. dollars at average rates of exchange for the year. The resulting exchange loss of \$2,195 for the year ended December 31, 2020 is included in other income on the income statement.

7-14. N/A

15. Related party transactions

Included in investments in and advances to affiliates is a balance of \$2,946 at December 31, 2020 due from parties related through common ownership. Included in amounts due from affiliates for federal income taxes is a balance of \$135,467 due to AFG in respect of federal U.S. income tax payments made in the year. Also included in amounts due from affiliates for federal income taxes is an inter-cell tax reserve established to reflect the tax recoverable from / due to the separate account business only. The Company pays tax calculated on entity level results, including separate account income, and therefore the reserve establishes the portion due to / from the separate accounts. Also, included in accounts payable and accrued liabilities is \$30,100 due to segregated cells in respect of cash received in consideration of the issuance of preference share capital. This balance is due on demand, at face value, and is non-interest bearing.

16. Subsequent Events

N/A

17. N/A

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(expressed in U.S. dollars)

Notes to the Statement of Capital and Surplus

1. (a) Capital Stock

During 2013 the Company increased its authorised share capital to 1,200,000 shares of \$1.00 par value each, via the creation of 1,000,000 preference shares of \$1 par value each to rank pari passu in all respects with the existing shares of the Company.

During 2013 the Company issued 900 preference shares pursuant to the establishment of its separate accounts. The issuance of these preference shares is in connection to the creation of the separate accounts and therefore the rights and obligations of such shares are limited to the cell's assets and liabilities. During 2014, 2015, 2017 and 2019 the Company issued a further 100, 100, 20,500 and 5,000 preference shares respectively pursuant to the establishment of further separate accounts. During 2020 the Company issued a further 300 preference shares for new members under Separate Account D.

As of December 31, 2020 there were 26,900 preference shares issued pertaining to the separate accounts, and as such are excluded from the total capital in the Condensed Consolidated Statement of Capital and Surplus.

(b) N/A

(c) Dividends in the amount \$2,000,000 were declared and paid during the year.

Notes to the Balance Sheet

1-3. N/A

4. Investments in and advances to affiliates

See General Note to the Financial Statements - 15

5-9. N/A

10. Accounts and Premiums Receivable

Included in accounts receivable is \$32,643 due from the segregated cells in relation to management fees.

11-12. N/A

13. Sundry assets

The total assets of the separate accounts are included within sundry assets. Sundry assets also includes, deferred acquisition costs, prepaid expenses, deferred tax assets and net amounts due from affiliates in respect of federal U.S. income tax payments made in the year and an inter-cell tax reserve of \$215,646 established to reflect the tax due to the separate account business only.

14. N/A

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(expressed in U.S. dollars)

16. Unearned premium reserve

Unearned premiums represent the amounts of premiums applicable to the unexpired terms of the contract. Unearned premium is calculated based on a straight-line allocation over the term of the policy.

17. Loss and loss expense provision

See General Note to the Financial Statements – 4. Loss and Loss Expenses.

Activity in the liability for loss and loss expense is summarized as follows:

| | 2020 |
|--|--------------------------|
| Gross loss and loss expense provisions at beginning of year | 12,500,000 |
| Less: Reinsurance recoverable at beginning of year | <u>9,000,000</u> |
| Net loss and loss expense provisions at beginning of year | <u>3,500,000</u> |
| Add: Net loss and loss expenses reserve movement related to: | |
| Current year | - |
| Prior years | <u>-</u> |
| Total net incurred losses and loss expenses | <u>-</u> |
| Less: Net losses and loss expenses paid related to: | |
| Current year | - |
| Prior years | <u>-</u> |
| Total losses and loss expenses paid or payable | <u>-</u> |
| Foreign exchange and other | - |
| Net loss and loss expense provisions at end of year | 3,500,000 |
| Add: Reinsurance recoverable at end of year | <u>9,000,000</u> |
| Gross loss and loss expense provisions at end of year | <u><u>12,500,000</u></u> |

There has been no change in net losses incurred and net loss expenses incurred related to prior years. No additional premiums or return premiums have been accrued as a result of the prior year.

22-31. N/A

32. N/A

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(expressed in U.S. dollars)

33. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities includes amounts due to its separate accounts of \$30,100, amounts due for administrative fees payable on the punitive damages programme of \$64,750, and amounts due for management fees payable of \$97,896.

34-35. N/A

36. Sundry liabilities

The total separate account liabilities & equity of its separate accounts is included within sundry liabilities, including the preference share capital issued by the Company in respect of the separate accounts.

37. N/A

Notes to the Statement of Income

6-15. N/A

32. Combined other income (deductions)

Other income / (deductions) includes a loss of (\$2,195) for the year ended December 31, 2020 relating to gains (losses) on translation of foreign currencies. For the year ended December 31, 2020, the Company earned \$144,046 from its segregated accounts for initial set-up and ongoing cell management fees.

36. N/A