

Report of Independent Auditors

The Board of Directors
GAI Insurance Company, Ltd.

Opinions

We have audited the accompanying condensed financial statements of GAI Insurance Company, Ltd. (the “Company”), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2022 and 2021, and the related condensed statements of income for the years then ended, including the related notes (collectively referred to as the “condensed financial statements”).

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations for the years then ended 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”).

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* section of our report, the accompanying condensed financial statements 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, 2022 and 2021, or the results of its operations for the years then ended.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors’ responsibilities for the audit of the condensed financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Reference: Report of Independent Auditors on the condensed financial statements of GAI Insurance Company, Ltd. as at December 31, 2022 and 2021, and for the years then ended.

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

As described in Note 3 to 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, to meet the requirements of the Bermuda Monetary Authority.

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 and pervasive.

Responsibilities of Management 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 Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the condensed financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Condensed Financial Statements

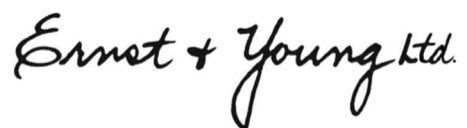
Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the condensed financial statements.

Reference: Report of Independent Auditors on the condensed financial statements of GAI Insurance Company, Ltd. as at December 31, 2022 and 2021, and for the years then ended.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the condensed financial statements.
- Obtain an understanding of internal controls 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the condensed financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



May 25, 2023

Chartered Professional Accountants

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

LINE No.		2022	2021
1.	CASH AND CASH EQUIVALENTS	15,276	15,298
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
(h)	Total investments in and advances to affiliates	-	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	731	894
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	731	894
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		

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

LINE No.		2022	2021
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	13,639	10,702
(e)	Deposit assets		
(f)	Deferred acquisition costs	378	388
(g)	Net receivables for investments sold		
(h)	Prepaid Expenses	7	9
(i)	Deferred Tax Asset	212	215
(j)	Amounts due from Affiliate for Federal Income Taxes	246	402
(k)	Total sundry assets	14,482	11,716
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	30,489	27,911
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	3,350	3,587
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers	1,954	2,133
(c)	Total ceded unearned premium reserve	1,954	2,133
(d)	Net unearned premium reserve	1,396	1,454
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	4,896	4,954
	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		

CONDENSED CONSOLIDATED BALANCE SHEET

GAI Insurance Company, Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

LINE No.		2022	2021
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	680	827
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	377	290
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies	13,639	10,702
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Deferred Ceding Commissions	621	659
(f)	Preference Share Capital		
(g)	Other sundry liabilities - Due to Segregated Cells	-	513
(h)	Total sundry liabilities	14,260	11,874
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, 2022expressed in ['000s] United States Dollars

LINE No.		2022	2021
38.	TOTAL OTHER LIABILITIES	15,317	12,991
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	20,213	17,945
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	10,276	9,966
41.	TOTAL	30,489	27,911
		TRUE	TRUE
		-	-

CONDENSED CONSOLIDATED STATEMENT OF INCOME

GAI Insurance Company, Ltd.
 As at **December 31, 2022**
 expressed in ['000s] **United States Dollars**

LINE No.	2022	2021
GENERAL BUSINESS UNDERWRITING INCOME		
1. GROSS PREMIUMS WRITTEN		
(a) Direct gross premiums written	7,124	7,081
(b) Assumed gross premiums written	147	147
(c) Total gross premiums written	7,271	7,228
2. REINSURANCE PREMIUMS CEDED	4,274	4,358
3. NET PREMIUMS WRITTEN	2,997	2,870
4. INCREASE (DECREASE) IN UNEARNED PREMIUMS	59	(200)
5. NET PREMIUMS EARNED	3,056	2,670
6. OTHER INSURANCE INCOME	-	-
7. TOTAL GENERAL BUSINESS UNDERWRITING INCOME	3,056	2,670
GENERAL BUSINESS UNDERWRITING EXPENSES		
8. NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	-	-
9. COMMISSIONS AND BROKERAGE	(575)	(458)
10. TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	(575)	(458)
11. NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	3,631	3,128
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		
(c) Accident and health		
(d) Total increase (decrease) in policy reserves	-	-

CONDENSED CONSOLIDATED STATEMENT OF INCOME

GAI Insurance Company, Ltd.
 As at **December 31, 2022**
 expressed in ['000s] **United States Dollars**

LINE No.	2022	2021
27. TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28. NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	<u>-</u>	<u>-</u>
29. COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	<u>3,631</u>	<u>3,128</u>
UNDERNOTED ITEMS		
30. COMBINED OPERATING EXPENSE		
(a) General and administration	422	335
(b) Personnel cost		
(c) Other		
(d) Total combined operating expenses	<u>422</u>	<u>335</u>
31. COMBINED INVESTMENT INCOME - NET	<u>(202)</u>	<u>(48)</u>
32. COMBINED OTHER INCOME (DEDUCTIONS)	<u>165</u>	<u>152</u>
33. COMBINED INCOME BEFORE TAXES	<u>3,172</u>	<u>2,897</u>
34. COMBINED INCOME TAXES (IF APPLICABLE):		
(a) Current	661	637
(b) Deferred	1	(27)
(c) Total	<u>662</u>	<u>610</u>
35. COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	2,510	2,287
36. COMBINED REALIZED GAINS (LOSSES)	<u>-</u>	<u>-</u>
37. COMBINED INTEREST CHARGES		
38. NET INCOME	<u>2,510</u>	<u>2,287</u>

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

GAI Insurance Company, Ltd.

As at **December 31, 2022**
expressed in ['000s] **United States Dollars**

LINE No.		2022	2021
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares	200	200
	authorized	200,000	
	value	\$ 1,000	
	fully paid	200,000	
		shares of par	
		each issued and	
		shares	
	(ii)		
	(A) Preferred shares:		
	authorized		
	value		
	fully paid		
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2022		
	2021		
	(B) Preferred shares issued by a subsidiary:		
	authorized		
	value		
	fully paid		
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2022		
	2021		
	(iii) Treasury Shares		
	repurchased		
	value		
		shares of par	
		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	9,766	7,479
(b)	Add: Income for the year	2,510	2,287
(c)	Less: Dividends paid and payable	(2,200)	
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments		
(e)	Add (Deduct) change in any other surplus		
(f)	Surplus - End of Year	10,076	9,766
3.	MINORITY INTEREST		
4.	TOTAL CAPITAL AND SURPLUS	10,276	9,966

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022
(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, 2022
(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 and during 2022, Separate Account J known as Cowan and Separate Account K known as Bay & Bay were established.

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, 2022
(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.

Taxation

The Company has made an election under section 953(d) of the Internal Revenue Code to be treated as a U.S. domestic insurance company for U.S. federal income tax purposes.

The Company will be taxed as a corporation for U.S. income tax purposes and will file its own standalone tax return. The taxable items resulting from the Company are included in the tax provision computation. The Company accounts for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that included the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversal of existing taxable temporary differences, tax planning strategies, projected future taxable income, and recent financial operations.

The Company recognizes tax benefits in accordance with the provisions of the standard for accounting for uncertainty in income taxes. Penalties and interest on the Company's tax positions are classified as a component of the Company's income tax provision.

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.

6-14. N/A

15. Related party transactions

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022
(expressed in U.S. dollars)

Included in amounts due from affiliates for federal income taxes is a balance of \$306,521 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 \$20,000 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. N/A

17. Other information

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia and Belarus. Management has assessed the requirements under the Insurance Act including laws related to compliance and sanction exposure. Management has performed an assessment and noted that:

- The Company has no asset/liability exposure located in Russia/Ukraine or any sanctioned countries;
- The Company has no underwriting exposure located in Russia/Ukraine or any sanctioned countries;
- There will be no impact to income or expenses as a result of the ongoing conflict in Russia/Ukraine

The ongoing conflict in Ukraine/Russia is not expected to have any impact the Company's operations or financial position.

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, 2019 and 2020 the Company issued a further 100, 100, 20,500, 5,000 and 300 preference shares respectively pursuant to the establishment of further separate accounts. During 2021 and 2022 the Company issued a further 100 preference shares for new members under Separate Account D. During 2022 the Company issued 5,000 preference shares each for new Separate Accounts J and K.

As of December 31, 2022 there were 36,600 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

GAI INSURANCE COMPANY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022
(expressed in U.S. dollars)

(c) Dividends in the amount \$2,200,000 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 \$162,560 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 \$552,616 established to reflect the tax due to the separate account business only.

14. N/A

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:

	2022
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	-

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022
(expressed in U.S. dollars)

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.

20-31. N/A

32. N/A

33. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities includes amounts due to its separate accounts of \$20,000, amounts due for administrative fees payable on the punitive damages program of \$90,250, and amounts due for management fees payable of \$266,551

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)

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(expressed in U.S. dollars)

For the year ended December 31, 2022, the Company earned \$165,165 from its segregated accounts for initial set-up and ongoing cell management fees.

36. N/A