

**REPORT ON EXAMINATION**

**OF THE**

**GREAT AMERICAN E&S  
INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2006**

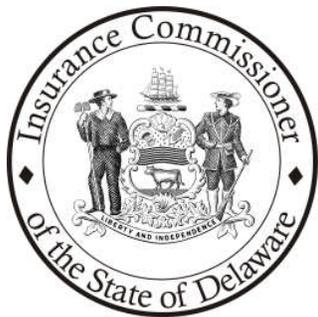
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**GREAT AMERICAN E & S INSURANCE C OMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008



*In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE 2008.*

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
OF THE  
**GREAT AMERICAN E & S INSURANCE COMPANY**  
AS OF  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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## **SALUTATION**

April 24, 2008

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
National Association of Insurance Commissioners (“NAIC”)  
State Corporation Commission  
Bureau of Insurance  
Post Office Box 1157  
Richmond, Virginia 23218

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioners:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority 07.033, dated May 2, 2007, an examination has been made of the affairs, financial condition and management of the

### **GREAT AMERICAN E & S INSURANCE COMPANY**

Hereinafter referred to as the “Company” or “GAE&SIC”. The examination was conducted at the administrative office of the Company located at 580 Walnut Street, Cincinnati, Ohio 45202.

## **SCOPE OF EXAMINATION**

Representatives of the Delaware Department of Insurance conducted the previous examination as of December 31, 2001. The current examination was conducted utilizing the National Association of Insurance Commissioners (NAIC) Risk Surveillance Methodology and covers the intervening period January 1, 2002 to December 31, 2006.

The “Risk Surveillance” approach, as outlined by the NAIC, seeks to identify residual risk relating to specific operational areas that are determined in part by the evaluation of design effectiveness and operating effectiveness of operating controls. Upon the determination of medium to high residual risk, additional examination procedures are performed to determine the monetary effect upon the Company’s financial statements. Having performed the examination under the “Risk Surveillance” approach, the Delaware examiner utilized the work performed by others with primary reliance on work performed by the Company’s external auditors, Ernst & Young LLP, and the Ohio Department of Insurance examination team relating to Investments and Treasury operation, Underwriting, Actuarial loss reserve review, Taxes and Information Technology review.

The examination also consisted of a general survey of the Company’s business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities as of December 31, 2006. Transactions subsequent to December 31, 2006 were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such matters, these issues were thoroughly discussed with responsible officials during the course of the examination.

The general procedure of the examination followed the rules established by the Committee of Financial Examiners Handbook, NAIC. Statements of Statutory Accounting Principles contained in the NAIC Accounting Practices and Procedures Manual as of March 2007 guided the conclusions reached.

In addition to the items included as part of this written report, the following items were reviewed but not commented upon.

- Corporate Records
- Fidelity Bond and Other Insurance
- Statutory Deposits
- Employees Welfare
- Legal Actions Pending Settlement
- Business in-Force by State
- All Asset and Liability Items Not Commented Upon

The Company is a member of the Great American Insurance Company Pool. Members of the pool that were examined concurrently are as follows:

Great American Alliance Insurance Company	Ohio
Great American Assurance Company	Ohio
Great American Contemporary Insurance Company	Ohio
Great American E & S Insurance Company	Delaware
Great American Fidelity Insurance Company	Delaware
Great American Insurance Company	Ohio
Great American Insurance Company of New York	New York
Great American Protection Insurance Company	Ohio
Great American Security Insurance Company	Ohio
Great American Spirit Insurance Company	Ohio
Worldwide Casualty Insurance Company	Ohio

### **HISTORY**

The Company was originally incorporated under the laws of the State of Delaware on February 28, 1979, as the Agricultural Excess and Surplus Insurance Company. The current name was adopted effective June 12, 2000. The registered office of the Company is located at 1209 Orange Street, Wilmington, Delaware 19801. The registered agent is located at the same

address. The Company appointed the Insurance Commissioner of Delaware as its agent upon whom process may be served.

The Company is a member of a holding company system and is wholly owned by Great American Insurance Company (GAIC). The ultimate parent is American Financial Group, Inc. (AFG or the Group) a publicly traded company controlled by the Lindner family. Additional comments are included under the caption “Insurance Holding Company System”.

### **CAPITALIZATION**

The Certificate of Incorporation authorizes 10,000 shares of common stock with no par value. On March 22, 1979, the Great American Insurance Company purchased all 10,000 shares for \$4,000,000. There were no contributions to the common capital stock and gross paid in and contributed surplus during the periods under examination. The amounts of Common Capital stock and Gross Paid in and Contributed Surplus remained unchanged, therefore, at \$4,100,000 and \$14,550,000 respectively.

### **DIVIDENDS**

The Company has paid the following amounts in dividends for the period under review.

<u>Year</u>	<u>Dividends</u>
2002	1,000,000

### **MANAGEMENT AND CONTROL**

The Company’s Certificate of Incorporation provides for the Company to be managed by a Board of Directors. Article II, Section 8 of the bylaws states that the Board of Directors shall consist of not fewer than four (4) members nor more than twelve (12). All directors shall be elected annually.

Directors elected at the Consent of the Sole Shareholder on May 1, 2006 are as follows:

<u>Director</u>	<u>Principal Occupation</u>
Gary J. Gruber	Senior Vice President Great American Insurance Company
Karen Holley Horrell	Senior Vice President Executive Counsel & Secretary Great American Insurance Company
Donald D. Larson	Executive Vice President Great American Insurance Company
Robert E. Maly	Senior Vice President Great American Insurance Company
Ronald J. Brichler	Senior Vice President Great American Insurance Company
Eve Cutler Rosen	Senior Vice President General Counsel & Assistant Secretary Great American Insurance Company
David J. Witzgall	Senior Vice President Chief Financial Officer Great American Insurance Company

In accordance with Article V, Section 1 of the Company's bylaws, the officers of the Company shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, one or more Secretaries, and such other Assistant Vice Presidents, Assistant Treasurers, or other officers as from time to time, may appear to the Board of Directors necessary or desirable for the conduct of the affairs of the corporation. The same person may hold any two offices, except that any person holding office as Secretary shall not hold the office of Chairman of the Board or President.

As of the examination date, the following officers were elected and serving in accordance with the Company's bylaws:

<u>Name</u>	<u>Title</u>
Donald D. Larson	Chairman and President
Karen Holley Horrell	Senior Vice President, Executive Counsel and Secretary
Gary J. Gruber	Vice Chairman and Senior Vice President
Eve Cutler Rosen	Senior Vice President, General Counsel and Assistant Secretary
Robert J. Schwartz	Vice President and Controller
John L. Doellman	Vice President and Actuary
David J. Witzgall	Senior Vice President, Chief Financial Officer and Treasurer
Allen F. Eling	Vice President
Kathleen J. Brown	Assistant Vice President
Annette D. Gardner	Assistant Vice President and Assistant Treasurer
Ronald C. Hayes	Assistant Vice President and Assistant Secretary
Thomas E. Mischell	Assistant Treasurer

### Committees

The Company's bylaws provide for a Finance Committee and an Executive Committee whose members are to be appointed by the Board of Directors. The following members were duly appointed and serving as of December 31, 2006:

#### Executive Committee

Karen Holley Horrell  
Ronald J. Brichler  
Donald D. Larson

#### Finance Committee

Gary J. Gruber  
David J. Witzgall  
Donald D. Larson

The Group has an established procedure for disclosure of any conflict of interest on the part of its directors and officers. A sample of the statements filed by directors and officers were reviewed to determine compliance with the procedure. No discrepancies were noted.

## **AGREEMENTS**

Bonds and stocks of the Company are held under an agreement with the Bank of New York.

The Company maintains a reinsurance pooling agreement with certain affiliates. The effect of the pooling agreement is to transfer all direct insurance liabilities of the company and the other affiliates to Great American Insurance Company. The Great American Insurance Company retains 100% of the pooled business.

The Company is also a party to an agreement with American Money Management Corporation of Cincinnati, Ohio, an affiliate, which (subject to the direction and approval of the Finance Committee) provides management and accounting services related to investments on an incurred cost and expense basis.

Services also are provided between the Company and affiliates through a General Services Agreement with both insurance and non-insurance affiliates for which costs are allocated on the basis of usage.

The Company also participates in an inter-company tax allocation agreement with American Financial Group, Inc. effective December 31, 2005.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact business only in the State of Delaware in accordance with Certificate of Authority No. 3913-P dated July 27, 2000. In all other states, the Company has complied with the applicable requirements for eligibility to write coverage on an excess or surplus lines basis as a non-admitted insurer. Excess and surplus lines coverages are offered to surplus lines brokers known as “wholesalers” who must be licensed in their own states if doing

business with a non-admitted company. Agents who are appropriately licensed are the primary marketing source for these “wholesalers”.

The Company, along with other subsidiaries of its parent company GAIC, participates in an inter-company reinsurance pooling agreement with GAIC. The effect of the pooling agreement is to transfer all direct liabilities of these subsidiaries to GAIC. In prior years each pool member received a certain percentage in a retrocession. In 2000, the pooling agreement was amended and eliminated any retrocession to the pool members.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of a holding company system and is currently wholly owned by Great American Insurance Company. The ultimate parent of the holding company system is American Financial Group, Inc., a diversified financial holding company. An organizational chart identifying the ultimate controlling person and key affiliated companies is displayed below.

American Financial Group, Inc.

American Money Management Corporation

APU Holding Company

American Premier Underwriters, Inc.

GAI Insurance Company, Ltd. (Bermuda)

Premier Lease & Loan Services Insurance Agency, Inc.

Republic Indemnity Company of America

Republic Indemnity Company of California

Great American Holding, Inc.

American Empire Surplus Lines Insurance Company

American Empire Insurance Company

Great American International Insurance Limited (Ireland)

Mid-Continent Casualty Company

Mid-Continent Insurance Company

Oklahoma Surety Company

Great American Insurance Company

Brothers Property Corporation

Crescent Centre Apartments

Eden Park Insurance Brokers, Inc.

El Aguila Compania de Seguros, S.A. de C.V. (Mexico)

FCIA Management Company, Inc.

GAI Warranty Company

GAI Warranty Company of Florida  
Global Premier Finance Company  
Great American Alliance Insurance Company  
Great American Assurance Company  
Great American Contemporary Insurance Company  
Great American Custom Insurance Services Massachusetts, Inc.  
**Great American E&S Insurance Company**  
Great American Fidelity Insurance Company  
Great American Insurance Company of New York  
Great American Lloyd's Insurance Company  
Great American Management Services, Inc.  
Great American Protection Insurance Company  
Great American Security Insurance Company  
Great American Spirit Insurance Company  
National Interstate Corporation  
    Hudson Indemnity, Ltd. (Cayman Islands)  
    National Interstate Insurance Company  
        National Interstate Insurance Company of Hawaii, Inc.  
        Triumphe Casualty Company  
PennCentral U.K. Limited (United Kingdom)  
    Insurance (GB) Limited (United Kingdom)  
PLLS Canada Insurance Brokers, Inc.  
Professional Risk Brokers, Inc.  
Professional Risk Brokers of Connecticut, Inc.  
Worldwide Casualty Insurance Company  
Great American Financial Resources, Inc.  
    AAG Holding Company, Inc.  
        Great American Life Insurance Company  
            Annuity Investors Life Insurance Company  
            Consolidated Financial Corporation  
            Great American Life Insurance Company of New York  
            Loyal American Holding Corporation  
                Loyal American Life Insurance Company  
                    American Retirement Life Insurance Co.  
                    Great American Life Assurance Company  
            Manhattan National Life Insurance Company  
            Old West Annuity & Life Insurance Company  
            United Teachers Associates, Ltd.  
                United Teachers Associates Insurance Company  
Ceres Group, Inc.  
    Central Reserve Life Insurance Company  
        Provident American Life & Health Insurance Company  
        United Benefit Life Insurance Company  
Continental General Corporation  
Great American Advisors, Inc.  
One East Fourth, Inc.

**REINSURANCE**

The Company maintains a reinsurance pooling agreement with certain affiliates. The effect of the pooling agreement is to transfer all direct insurance liabilities of the company and the other affiliates to Great American Insurance Company. The Great American Insurance Company retains 100% of the pooled business. The Company (GAE&SIC) has no other outside reinsurance agreements.

**GROWTH OF THE COMPANY**

The following information was extracted from office copies of the Company's filed annual statements for each year indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2002	\$21,225,594	\$21,175,991	\$-0-	\$763,038
2003	22,004,267	21,965,109	-0-	921,785
2004	22,975,488	22,936,920	-0-	1,063,270
2005	23,574,765	23,432,596	-0-	633,428
2006	24,180,395	24,149,876	-0-	726,902

**ACCOUNTS AND RECORDS**

All necessary accounting records of the Company are maintained on electronic data processing equipment. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for General Accepted Accounting Principles.

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006.

Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

	<b>Assets</b>		
	<b>December 31, 2006</b>		
	<u>Assets</u>	Nonadmitted	Net Admitted
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$20,651,034	\$ -0-	\$20,651,034
Stocks			
Preferred	633,750	-0-	633,750
Common			
Cash	2,639,939	-0-	2,639,939
Interest, dividends and real estate income due and accrued	255,672	-0-	255,672
<b>TOTALS</b>	<u>\$24,180,395</u>	<u>\$ -0-</u>	<u>\$24,180,395</u>

**Liabilities, Surplus and Other Funds**  
**December 31, 2006**

Losses	\$ -0-
Other expenses (excluding taxes, licenses and fees)	2,610
Taxes licenses and fees (excluding federal and foreign income taxes)	-0-
Current federal and foreign income taxes	20,207
Net deferred tax liability	7,422
Aggregate write-ins for liabilities	280
Total Liabilities	<u>\$ 30,519</u>
Common capital stock	\$ 4,100,000
Gross paid in and contributed surplus	14,550,000
Unassigned funds	<u>5,499,876</u>
Surplus as regards policyholders	<u>\$24,149,876</u>
TOTALS	<u>\$24,180,395</u>

**Underwriting and Investment Exhibit**  
**Statement of Income**  
**2006**

Underwriting income	\$ <u>-0-</u>
Premiums earned	\$ <u>-0-</u>
DEDUCTIONS	
Losses incurred	\$ -0-
Loss expenses incurred	-0-
Other underwriting expenses incurred	-0-
Total underwriting deductions	\$ <u>-0-</u>
Net underwriting gain	\$ <u>-0-</u>
Investment income	
Net investment income earned	\$1,063,489
Net realized capital gains (Losses)	<u>1,617</u>
Net investment gain (loss)	<u>\$1,065,106</u>
Other income	
Net gain (loss) from agents balances charged off	\$ -0-
Aggregate write-ins for miscellaneous income	<u>3</u>
Total other income	\$ <u>3</u>
Net income before dividends to policyholders and federal income taxes	\$1,065,109
Dividends to policyholders	<u>-0-</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	\$1,065,109
Federal and foreign income taxes	<u>338,207</u>
Net income	<u>\$ 726,902</u>

**Capital and Surplus Account**  
**2006**

Surplus as regards policyholders, December 31, prior year	<u>\$23,432,596</u>
Net income	\$ 726,902
Net unrealized capital gains or (losses)	28,365
Change in deferred income taxes	<u>(37,987)</u>
Change in surplus regards policyholders for the year	<u>\$ 717,280</u>
Surplus as regards policyholders, December 31, current year	<u>\$24,149,876</u>

**Schedule of Examination Changes**

There were no changes made as a result of this examination.

**CONCLUSION**

As a result of this examination, the financial condition as of December 31, 2006 is as follows:

	2001	2006	Difference
Admitted Assets	<u>\$23,246,161</u>	<u>\$24,180,395</u>	<u>\$ 934,234</u>
Liabilities	\$ 2,480,808	\$ 30,519	(\$2,450,289)
Surplus as regards policyholders	<u>20,765,352</u>	<u>24,149,876</u>	<u>3,384,524</u>
Totals	<u>\$23,246,161</u>	<u>\$24,180,395</u>	<u>\$ 934,234</u>

**ACKNOWLEDGMENT**

Appreciation is extended for the assistance extended by the Company's officers and employees during the course of this examination. Appreciation is also extended to the examination team members of the Ohio Department of Insurance whose examination work was relied upon for specific Company operational areas reviewed.

*Paul Ellis, CPA*

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Paul E. Ellis, CFE  
Examiner In Charge  
State of Delaware