

**REPORT ON EXAMINATION**

**OF THE**

**GREAT AMERICAN E&S INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

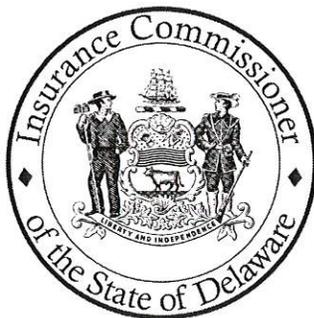
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**GREAT AMERICAN E & S INSURANCE COMPANY**

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

Attest By: Brandi Biddle

Date: May 15, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15<sup>th</sup> day of May, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
GREAT AMERICAN E & S INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2011

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

Consideration has been duly 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 "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 15<sup>th</sup> day of May, 2013

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## **SALUTATION**

March 6, 2013

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certification Number 12.013 dated the 22<sup>nd</sup> day of March, 2012, a financial examination has been made of the affairs, financial condition and management of the

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

hereinafter referred to as (Company or GAESIC) incorporated under the laws of the State of Delaware. The statutory home office was located at The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801. The main administrative office of the Company was 301 East. Fourth Street, Cincinnati, Ohio 45202. The examination of the Company was conducted concurrently with that of its Delaware domestic affiliates, American Empire Surplus Lines Insurance Company (AESLIC), Great American Fidelity Insurance Company (GAFIC), and Mid-Continent Excess and Surplus Insurance Company (MCESIC). Separate reports of examination were filed for each company. The report of this examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last financial condition examination of the Company covered the period from January 1, 2002 through December 31, 2006. This examination covered the period from January 1, 2007

through December 31, 2011, and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as management, and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

The financial examination of the Company was conducted concurrently with examinations of other subsidiaries of American Financial Group, Inc. (AFG), with the Ohio Department of Insurance (Ohio Department) as the domiciliary lead state. Other state regulators involved in the coordinated examination that conducted concurrent full scope financial examinations as of December 31, 2011, included: the California Department of Insurance (California Department), the Illinois Department of Insurance (Illinois Department), the New York Department of Financial Services (New York Department) and the Texas Department of Insurance (Texas Department).

AFG maintains control and oversight of all insurance operations in the group. The group specializes in niche property and casualty (P&C) markets, as well as life, annuity and health operations, managed through intercompany pooling arrangements or pools. There are a total of four (4) P&C pools overseen by AFG as follows: GAI Pool, American Empire Pool, Mid-Continent Pool and Republic Indemnity Pool. Operations of the GAI and American Empire pools are based in Cincinnati, Ohio with the Mid-Continent pool operations in Tulsa, Oklahoma and the Republic Indemnity pool operations in Los Angeles, California. The life, annuity and health operations are conducted in Cincinnati, Ohio and Austin, Texas. Included in the scope of this coordinated examination and identified below are the four (4) P&C pools, the companies within each pool, the domiciliary location of the companies and the business they produce. Review of all the companies below resided in the Ohio Department's examination project as the lead state. The work performed within the examination project supports this report.

<u>GAI Pool</u>	<u>Domiciliary Location</u>
Great American Alliance Insurance Company	OH
Great American Assurance Company	OH
Great American Casualty Insurance Company	OH
Great American Contemporary Insurance Company	OH
<b>Great American E&amp;S Insurance Company</b>	<b>DE</b>
<b>Great American Fidelity Insurance Company</b>	<b>DE</b>
Great American Insurance Company	OH
Great American Insurance Company of New York	NY
Great American Protection Insurance Company	OH
Great American Security Insurance Company	OH
Great American Spirit Insurance Company	OH

The GAI Pool, led by Great American Insurance Company, is AFG's largest property and casualty group. The group writes business in all 50 states, the District of Columbia, Puerto Rico and Canada, providing specialized commercial insurance products through approximately 12,000 independent agents and brokers. The group is one of the largest writers, based on premium volume, of multi-peril crop insurance, a business in which it has been engaged since 1925. Great American Insurance Company retains 100% of the pooled business.

<u>Republic Indemnity Pool</u>	<u>Domiciliary Location</u>
Republic Indemnity Company of America	CA
Republic Indemnity Company of California	CA

The Republic Indemnity Pool provides workers' compensation and excess workers' compensation coverages, with business in California accounting for approximately 75% of the pool's direct written premium. Effective July 1, 2007, as part of management's diversification efforts, excess workers' compensation business was initiated in several new states. Republic Indemnity's workers' compensation book is produced through approximately 1,200 brokerage firms, writing small and medium sized risks, with a focus on skilled classes and small retail operations, deemphasizing construction and other higher risk classes. Republic Indemnity

Great American E&S Insurance Company

Company of America retains 97% of the pooled business and Republic Indemnity Company of California retains 3%.

Mid-Continent Pool

Domiciliary Location

Mid-Continent Assurance Company	OH
Mid-Continent Casualty Company	OH
<b>Mid-Continent Excess and Surplus Insurance Company</b>	<b>DE</b>
Oklahoma Surety Company	OH

The Mid-Continent Pool's core product offerings are primarily comprised of general and product liability, surety and inland marine. Historically, the group specialized in serving the oil and gas industry, but shifted its focus to other programs in response to ongoing consolidation of that industry. Business is written through approximately 500 independent agents. Mid-Continent Casualty Company retains 94% of the pooled business while Mid-Continent Assurance Company and Oklahoma Surety Company retain 3% a piece.

American Empire Pool

Domiciliary Location

American Empire Insurance Company	OH
<b>American Empire Surplus Lines Insurance Company</b>	<b>DE</b>

The American Empire Pool is an excess and surplus lines operation dealing primarily with wholesale type licensed excess and surplus lines brokers. It entertains all types of commercial property and casualty business in the surplus lines market, opportunistically shifting the classes it writes in response to marketplace needs. Business is distributed through approximately 200 surplus lines brokers. AESLIC retains 90% of the pooled business and AEIC 10%.

As a coordinated effort and following the risk-focused surveillance financial examination format, examiners from both the Ohio Department and the Delaware Department of Insurance (Delaware) identified and assessed risks and evaluated controls with respect to the key functional

activities and processes of the GAI, American Empire and Mid-Continent pools. The GAI pool contains two Delaware domiciled insurance companies, GAESIC and GAFIC, which have 0% participation in the pool. In addition, the Delaware insurance company MCESIC has 0% participation in the Mid-Continent pool. AESLIC is a 90% participant in the American Empire pool, with American Empire Insurance Company (AEIC), an Ohio domiciled company, as a 10% participant. Based on the above participating percentages within the four pooling arrangements, and as part of the coordinated examination effort, it was determined that the Ohio Department would assume the lead on the examination of the GAI and Mid-Continent pool's identified key functional activities, while Delaware would assume the lead on the examination of the American Empire pool key functional activities and processes. The Delaware examination team coordinated and regularly communicated their review of Company management and operations with the Ohio Department to the fullest extent possible in order to avoid duplication of efforts and to leverage relevant work completed. All examinations were conducted in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (NAIC Handbook) and the respective states' statutes and regulations.

During the examination, consideration was given to work performed by the Company's independent accounting firm Ernst & Young, LLP (E&Y). Certain auditor work papers were incorporated into the work papers of the examiners where it was deemed appropriate. In addition, we reviewed, relied on and leveraged off certain Sarbanes Oxley (SOX) work, completed by Internal Audit at the direction of E&Y, related to operations of the Company. Based upon review of E&Y's work papers, specific account analysis, the assessment of management and the American Financial Group, Inc. organization (as a whole), the assessment of account specific and cycle controls, and the assessment of the internal control environment, an overall assessment for each of the Company's identified risks was determined. Where an overall assessment of a risk was

determined to be low, no substantive procedures were deemed necessary. For risks with a moderate overall assessment, limited or analytical examination procedures were performed. Detail testing was performed on risks with an overall assessment of high. In the remaining areas, we identified examination procedures to specifically address concerns or risk areas noted, based on professional judgment.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Conflict of Interest
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- All Asset and Liability Items not mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

### **SUBSEQUENT EVENTS**

There were no reportable subsequent events to this examination.

### **COMPANY 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 Certificate of Incorporation was amended on June 12, 2000, to change the name of the Company to Great

American E&S Insurance Company. The registered office of the Company is located at 1209 Orange Street, Wilmington, Delaware 19801.

The Company is a member of a holding company system and is wholly owned by Great American Insurance Company (GAIC). The ultimate parent, AFG, is a publicly traded company. Additional comments are included under the caption "Insurance Holding Company System."

#### Common Capital Stock

The Company's authorized capital was \$4,100,000, consisting of 10,000 issued and outstanding shares of common stock at no-par value. There was no change in Common Capital Stock during the period covered by this examination. The Company's Gross Paid-in and Contributed Surplus was \$22,550,000. The Capital Contribution of \$8,000,000 in 2011, as noted below, was the only change in Gross Paid-in and Contributed Surplus during the period covered by this examination.

#### Dividends

The Company did not pay any dividends to its parent during the period under examination.

#### Contributions

On July 18, 2011, the Company's parent, Great American Insurance Company, made a capital contribution to the Company of \$8.0 million in the form of cash.

### **CORPORATE RECORDS**

The recorded minutes of the shareholders, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented the approvals, ratifications, and transactions that occurred during the meetings.

**MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of the Company's Board.

**Board of Directors**

Article II, Section 8 of the corporate bylaws states that the Board shall consist of no fewer than four (4) and no more than twelve (12) members. As of the examination date the Board was comprised of eleven (11) members. Directors were elected for one-year terms at the annual meeting of the stockholder. Individuals elected and serving on the Board at December 31, 2011, were:

**Directors**

**Principal Business Affiliation**

Ronald James Brichler

Director & Executive Vice President  
Great American Insurance Company

Gary John Gruber

Director & Executive Vice President  
Great American Insurance Company

Karen Holley Horrell

Director, Senior Vice President, Executive  
Counsel & Secretary  
Great American Insurance Company

Donald Dumford Larson

Director, President & Chief Operating Officer  
Great American Insurance Company

Robert Eugene Maly

Director & Senior Vice President  
Great American Insurance Company

Vito Charles Peraino

Director, Senior Vice President & Assistant  
General Counsel  
Great American Insurance Company

Michael David Pierce

Director & Senior Vice President  
Great American Insurance Company

Eve Cutler Rosen	Director, Senior Vice President, General Counsel & Assistant Secretary Great American Insurance Company
Piyush Kumar Singh	Director, Senior Vice President & Chief Information Officer Great American Insurance Company
Michael Eugene Sullivan, Jr.	Director & Senior Vice President Great American Insurance Company
David John Witzgall	Director, Senior Vice President, Chief Financial Officer & Treasurer Great American Insurance Company

The Company's bylaws provide for the Board to designate one or more internal committees, each committee to consist of at least (3) directors of the Company. As of December 31, 2011, the Board had appointed the following committees.

Executive Committee

Ronald J. Brichler  
Gary J. Gruber  
Donald D. Larson

Finance Committee

Ronald J. Brichler  
Gary J. Gruber  
David J. Witzgall

Officers

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 as necessary or desirable. As of December 31, 2011, the Company's principal officers and their respective titles are as follows:

Name

Title

Donald Dumford Larson	Chairman & President
Ronald James Brichler	Executive Vice President
Gary John Gruber	Executive Vice President
Karen Holley Horrell	Senior Vice President, Executive Counsel & Secretary
Eve Cutler Rosen	Senior Vice President, General Counsel & Assistant Secretary

David John Witzgall	Senior Vice President, Chief Financial Officer & Treasurer
Allen Fredrick Eling	Vice President
John Linn Doellman	Vice President & Actuary
Annette Denise Gardner	Vice President & Assistant Treasurer
Robert James Schwartz	Vice President & Controller

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919 “Change in Officer and Director Notice.”

### **HOLDING COMPANY SYSTEM**

The Company is a member of the AFG holding company system, pursuant to 18 Del. C. §50 “Insurance Holding Company System”. AFG is a holding company that, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of traditional fixed and indexed annuities and a variety of supplemental insurance products. AFG's specialty property and casualty insurance operations consist of approximately 30 niche insurance businesses offering a wide range of commercial coverages. AFG's statutory combined ratio averaged 87.4% for the period 2009 to 2011 as compared to 102.7% for the property and casualty industry over the same period (Source: A.M. Best).

The following abbreviated organizational chart, that included the Company, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2011.

<u>Company</u>	<u>Domiciliary Location</u>
American Financial Group, Inc.	OH
APU Holding Company	OH
GAI Insurance Company, Ltd.	BM
<i>Republic Indemnity Company of America*</i>	CA
<i>Republic Indemnity Company of California*</i>	CA
GAI Holding Bermuda Ltd.	BM

GAI Indemnity, Ltd	GB
Marketform Group Limited	GB
Marketform Holdings Limited	GB
Lavenham Underwriting Limited	GB
Sampford Underwriting Limited	GB
Great American Financial Resources, Inc.	DE
AAG Holding Company, Inc.	OH
Great American Life Insurance Company	OH
Aerielle IP Holdings, LLC	OH
Annuity Investors Life Insurance Company	OH
GALIC – Stoneleigh, LLC	FL
GALIC Pointe, LLC	FL
Manhattan National Holding Corporation	OH
Manhattan National Life Insurance Company	IL
Loyal American Holding Corporation	OH
Loyal American Life Insurance Company	OH
American Retirement Life Insurance Company	OH
Great American Life Assurance Company	OH
United Teacher Associates Ltd.	TX
United Teacher Associates Insurance Company	TX
Ceres Group, Inc.	DE
Central Reserve Life Insurance Company	OH
Provident American Life & Health Insurance Company	OH
United Benefit Life Insurance Company	OH
Continental General Corporation	NE
Continental General Insurance Company	OH
Great American Holding, Inc.	OH
Agricultural Services, LLC	OH
<i>American Empire Surplus Lines Insurance Company*</i>	DE
<i>American Empire Insurance Company*</i>	OH
American Empire Underwriters	TX
<i>Mid-Continent Casualty Company*</i>	OH
<i>Mid-Continent Assurance Company*</i>	OH
<i>Mid-Continent Excess and Surplus Insurance Company*</i>	DE
<i>Mid-Continent Specialty Insurance Services, Inc.*</i>	OK
<i>Oklahoma Surety Company*</i>	OH
Great American International Insurance Limited	IE
Premier International Insurance Company	TC
Great American Insurance Company*	OH
FCIA Management Insurance Company, Inc.	NY
GAI Warranty Company of Canada, Inc.	CN

Global Premier Finance Company	OH
<i>Great American Alliance Insurance Company*</i>	<i>OH</i>
<i>Great American Assurance Company*</i>	<i>OH</i>
<i>Great American Casualty Insurance Company*</i>	<i>OH</i>
<i>Great American Contemporary Insurance Company*</i>	<i>OH</i>
<b><i>Great American E &amp; S Insurance Company*</i></b>	<b><i>DE</i></b>
<i>Great American Fidelity Insurance Company*</i>	<i>DE</i>
<i>Great American Insurance Company of New York*</i>	<i>NY</i>
<i>Great American Lloyd's Insurance Company*</i>	<i>TX</i>
<i>Great American Protection Insurance Company*</i>	<i>OH</i>
<i>Great American Security Insurance Company*</i>	<i>OH</i>
<i>Great American Spirit Insurance Company*</i>	<i>OH</i>
National Interstate Corporation	OH
Hudson Indemnity, Ltd.	KY
National Interstate Insurance Company	OH
National Interstate Insurance Company of Hawaii, Inc.	OH
Triumphe Casualty Company	OH
Vanliner Group, Inc.	DE
Vanliner Insurance Company	MO
Penn Central U.K. Limited	GB
Insurance (GB) Limited	GB
Pinecrest Place, LLC	FL
Professional Risk Brokers, Inc.	IL

\* *Companies included in and examined concurrently within the review of AFG*

### **AFFILIATED AGREEMENTS**

The Company entered into various agreements with members of its affiliated group, in an effort to obtain efficiencies in operations and limit cost, and therefore had the following intercompany agreements and arrangements in effect as of December 31, 2011.

#### **General Services Agreement**

The Company is a party to a General Services Agreement among certain affiliates of AFG, which states that any member of the holding company may provide administrative services to any other member. The original agreement was effective August 1, 1996. Services are based on cost.

### Investment Services Agreement

The Company is a party to an Investment Services Agreement with an affiliate, American Money Management Corporation (AMM) and states that AMM shall provide advice and management of the Company's investment portfolio. Such advice will be subject to the Company's approval and in accordance with its investment guidelines. Reimbursement of expenses incurred by AMM is to be paid quarterly and is prorated on the basis of the proportion of the Company's portfolio to the total portfolio value administered by AMM.

### Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement with AFG and subsidiaries dated December 31, 2005. Pursuant to the tax allocation agreement, the Company's tax expense will be determined based upon its inclusion in the consolidated tax return of American Financial Group, Inc. and its subsidiaries. Estimated payments are to be made quarterly during the year. Following year-end, additional settlements will be made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return.

### **FIDELITY BOND AND OTHER INSURANCE**

As of the examination date, the Company was covered by a Financial Institution Bond (Fidelity Bond) provided to American Financial Group, Inc. (AFG) and its named subsidiaries. The coverage was provided by Travelers, with a single loss limit of liability of \$25,000,000, which exceeded the suggested minimum limits of insurance per the NAIC Handbook.

In addition to the fidelity coverage, AFG provided general insurance coverage for itself and its subsidiary companies including the Company.

**TERRITORY AND PLAN OF OPERATION**

The Company, as of the examination date, was approved to write surplus lines in 49 states, as well as the District of Columbia, Guam, and the U.S. Virgin Islands. It was licensed as an admitted carrier in the State of Delaware. For the year ending 2011, the Company wrote 57.1% of its surplus lines business in the following states: California (21.7%), Texas (10.7%), Illinois (6.6%), New York (5.9%), Arkansas (4.5%), Florida (4.2%), and North Carolina (3.5%).

The primary source utilized by the Company for obtaining business is through surplus lines brokers known as “wholesalers”. The wholesalers obtain their business from individual agents or agencies that are licensed to write surplus and excess lines coverage’s in their applicable state.

**GROWTH OF THE COMPANY**

The Financial growth of the Company since the prior examination (2006) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2011	35,880,373	35,876,848	0	675,819
2010	27,291,136	27,275,194	0	728,007
2009	26,602,314	26,598,563	0	910,259
2008	25,412,911	25,410,256	0	761,276
2007	24,874,190	24,864,570	0	777,497

Net admitted assets and surplus as regards policyholders increased primarily as a result of an \$8.0 million contribution of cash from its parent, Great American Insurance Company in 2011, and investment income during the examination period.

**LOSS EXPERIENCE**

The Company participates in an inter-company reinsurance pooling agreement. The effect of the pooling is to transfer all direct insurance liabilities of the Company to Great American Insurance Company and not to assume back any business from the Pool. Therefore, the company's Schedule P represents 0% of the Pool experience and no net losses are recorded on the Company's financial statements.

As taken from the Company's Annual Statement 2011 Five-Year Historical Exhibit, Gross Losses Paid was \$62,656,437 in 2011 and \$85,274,474 in 2010.

**REINSURANCE**

**Pooling Agreement**

The Company is party to an inter-company reinsurance pooling agreement. The effect of the pooling agreement is to transfer all direct insurance liabilities of the Company and the other affiliates to the parent company, Great American Insurance Company. Great American Insurance Company retains 100% of the pooled business with no retrocessions back to the Company.

A schedule of the Company's 2011 net premiums written is as follows:

Direct		\$ 177,954,316
Assumed		-
Ceded:		
Affiliates	\$177,954,316	
Non-Affiliates	<u>                  -</u>	
Total ceded		<u>177,954,316</u>
Total net premiums		<u><u>\$                  -</u></u>

Ceded

The Company maintains a reinsurance pooling agreement with certain affiliates as described above.

**ACCOUNTS AND RECORDS**

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure and the processing structure.

The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

Ernst & Young, LLP audited the statutory financial statements of the Company for the years under examination and issued an unqualified opinion in each year. Ernst & Young, LLP reviewed the internal control structure of the Company in order to establish necessary audit procedures required to express an opinion on the December 31, 2011, financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of the Company.

During the course of the examination, the Company's books and records were reviewed and compared to reported items in the annual statements. No material discrepancies were noted during the review. Based on the examination review of the Company's accounts and records related to its filed annual statements, observations, discussions with management, and the review of financial reporting processes and controls, the Company's accounting systems, processes, and procedures were found to conform to required insurance accounting practices.

**STATUTORY DEPOSITS**

The Company's state statutory deposits were on file with the following states:

<u>STATE</u>	<u>Deposits for the Benefit of All Policyholders</u>		<u>All Other Special Deposits</u>	
	<u>Book Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Book Adjusted Carrying Value</u>	<u>Fair Value</u>
Arkansas	\$	\$	\$ 119,704	\$ 122,962
Delaware	2,750,840	2,836,509	134,904	138,581
Louisiana			160,511	164,901
Massachusetts			115,622	118,791
Michigan			115,622	118,791
New Hampshire			1,521,118	1,563,845
New Jersey			120,649	123,956
New Mexico			120,649	123,956
New York			2,756,642	2,831,874
South Carolina			303,389	312,328
<b>TOTAL DEPOSITS</b>	<b>\$ 2,750,840</b>	<b>\$ 2,836,509</b>	<b>\$ 5,468,810</b>	<b>\$ 5,619,985</b>

**FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

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

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

**Assets**  
**December 31, 2011**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 32,678,105	\$ -	\$ 32,678,105	(1)
Preferred stocks	367,750	-	367,750	
Common stocks	383	-	383	
Cash, cash equivalents & short-term investments	<u>2,458,696</u>	<u>-</u>	<u>2,458,696</u>	
Subtotals, cash & invested assets	<u>\$ 35,504,933</u>	<u>\$ -</u>	<u>\$ 35,504,933</u>	
Investment income due & accrued	250,582	-	250,582	
Current federal and foreign income tax recoverable and interest thereon	2,246	-	2,246	
Net deferred tax asset	<u>122,612</u>	<u>-</u>	<u>122,612</u>	
Totals	<u><u>\$ 35,880,373</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 35,880,373</u></u>	

**Liabilities, Surplus and Other Funds**  
**December 31, 2011**

		<u>Notes</u>
Other expenses	\$ 3,525	
Total liabilities	<u>\$ 3,525</u>	
Common capital stock	\$ 4,100,000	
Gross paid in & contributed surplus	22,550,000	(2)
Unassigned funds (surplus)	9,226,848	
Surplus as regards policyholders	<u>\$ 35,876,848</u>	
Totals	<u><u>\$ 35,880,373</u></u>	

**Statement of Income  
December 31, 2011**

INVESTMENT INCOME

Net investment income earned	\$ 835,944
Net realized capital gains (losses) less capital gains tax	(4,066)
Net investment gain (loss)	<u>\$ 831,878</u>

Net income after dividends to policyholders, after capital gains & before all other federal & foreign income taxes	831,878
Federal & foreign income taxes incurred	156,060
Net income	<u>\$ 675,819</u>

**Reconciliation of Capital and Surplus  
December 31, 2011**

CAPITAL & SURPLUS ACCOUNT

		<u>Notes</u>
Capital and Surplus, December 31, 2006	<u>\$ 24,149,876</u>	
Net Income	\$ 3,852,858	
Change in net unrealized capital gains or losses less capital gains tax	(166,347)	
Change in net deferred income tax	40,461	
Surplus adjustments: Paid in	<u>8,000,000</u>	(2)
Change in surplus as regards policyholders for the years 2007-2011	<u>\$ 11,726,972</u>	
Surplus as regards policyholders, December 31, 2011	<u>\$ 35,876,848</u>	

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial statement adjustments made as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS**

Assets:

(1) Bonds \$32,678,105

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company as of December 31, 2011, are as follows:

	<u>Statement Value</u>
US Governments	\$ 16,137,138
US States, Territories & Possessions	549,483
US Political Subdivisions of States	3,373,006
US Special Revenue & Special Assessment	9,096,993
Industrial & Miscellaneous	<u>3,521,485</u>
Total	<u>\$ 32,678,105</u>

Of the Company's bond holdings, 99.2% were categorized as Class 1 or 2 with respect to NAIC creditquality standards. Bonds comprised 92.0% of the Company's total cash and invested assets and 91.1% of the Company's total net admitted assets.

(2) Surplus:

On July 18, 2011, the Company received an \$8.0 million capital contribution in the form of cash from its parent, Great American Insurance Company.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations or changes made in the December 31, 2006, Report on Examination.

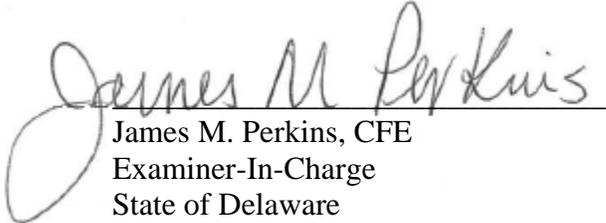
**SUMMARY OF RECOMMENDATIONS**

No recommendations were made as a result of this examination.

**CONCLUSION**

Appreciation is extended to each examination team member of the Ohio Department of Insurance whose examination work was relied upon for specific Company operational areas reviewed in this coordinated examination. In addition, the assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm Ernst & Young, LLP, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

  
James M. Perkins, CFE  
Examiner-In-Charge  
State of Delaware