

Report of Examination of

Great American Insurance Company
Cincinnati, Ohio

As of December 31, 2011

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Columbus, Ohio
October 26, 2012

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Great American Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

The Department, as the coordinating state regulator of the insurance company subsidiaries of American Financial Group, Inc. (“AFG”), led the multi-state coordinated examination that included representatives from the states of California, Delaware, Illinois, New York, Ohio and Texas.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Ronald J. Brichler	Executive Vice President, Great American Insurance Company
Gary J. Gruber	Executive Vice President, Great American Insurance Company
Karen Holley Horrell	Senior Vice President, Executive Counsel and Secretary, Great American Insurance Company
Keith A. Jensen	Senior Vice President, American Financial Group, Inc.
Donald D. Larson	President, Great American Insurance Company
Carl H. Lindner III	Co-Chief Executive Officer, American Financial Group, Inc.
Robert E. Maly	Senior Vice President, Great American Insurance Company
Vito C. Peraino	Senior Vice President and Assistant General Counsel, Great American Insurance Company
Michael D. Pierce	Senior Vice President, Great American Insurance Company
Eve Cutler Rosen	Senior Vice President, General Counsel and Assistant Secretary, Great American Insurance Company

Name	Principal Occupation
Piyush K. Singh	Senior Vice President and Chief Information Officer, Great American Insurance Company
Michael E. Sullivan, Jr.	Senior Vice President, Great American Insurance Company
David J. Witzgall	Senior Vice President, Chief Financial Officer and Treasurer, Great American Insurance Company

Officers

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

Name	Title
Carl H. Lindner III	Chairman and Chief Executive Officer
Donald D. Larson	President and Chief Operating Officer
Ronald J. Brichler	Executive Vice President
Gary J. Gruber	Executive Vice President
Karen Holley Horrell	Senior Vice President, Executive Counsel and Secretary
Dale E. Kelley	Senior Vice President
Robert E. Maly	Senior Vice President
Vito C. Peraino	Senior Vice President and Assistant General Counsel
Michael D. Pierce	Senior Vice President
Eve Cutler Rosen	Senior Vice President, General Counsel and Assistant Secretary
Piyush K. Singh	Senior Vice President and Chief Information Officer
Michael E. Sullivan, Jr.	Senior Vice President
David J. Witzgall	Senior Vice President, Chief Financial Officer and Treasurer
Scott H. Beeken	Vice President
John L. Doellman	Vice President and Actuary
Allen F. Eling	Vice President
David P. Faeth	Vice President
Annette D. Gardner	Vice President and Assistant Treasurer
Robert J. Schwartz	Vice President and Controller

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of AFG, the ultimate controlling person in the holding company system. Through its insurance company subsidiaries, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and the sale of traditional fixed and indexed annuities and a variety of supplemental insurance products. The common stock of AFG is traded on the New York Stock Exchange.

Territory and Plan of Operations

The Company is licensed in all fifty states, the District of Columbia, Puerto Rico and Canada. The Company leads a reinsurance pooling agreement with certain subsidiaries noted below. The effect of the pooling agreement is to transfer all direct insurance liabilities of the subsidiaries to the Company. The Company retains 100% of the pooled business. The following companies are included in the pooling agreement:

Company	Domicile	Participation
Great American Insurance Company	OH	100%
Great American Alliance Insurance Company	OH	0%
Great American Assurance Company	OH	0%
Great American Casualty Insurance Company	OH	0%
Great American Contemporary Insurance Company	OH	0%
Great American E&S Insurance Company	DE	0%
Great American Fidelity Insurance Company	DE	0%
Great American Insurance Company of New York	NY	0%
Great American Protection Insurance Company	OH	0%
Great American Security Insurance Company	OH	0%
Great American Spirit Insurance Company	OH	<u>0%</u>
Total		<u>100%</u>

The Company and its affiliates focus on specialized commercial insurance products from well diversified business lines. These business lines primarily consist of agricultural-related coverages, collateral protection, commercial auto, executive liability, excess and surplus coverages, excess property, fidelity and surety bonds, ocean marine, property and inland marine, umbrella and workers' compensation.

During 2011, the largest states in terms of direct premium written were as follows: Illinois, \$222 million (11.8%); Kansas, \$132 million (7.0%); Iowa, \$128 million (6.8%); California, \$104 million (5.5%); and South Dakota, \$98 million (5.2%).

The table below illustrates the Company's 2011 direct and net premiums written, in millions, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Percent
Allied lines	\$ 1,104	\$ (11)	\$ 743	\$ 350	19.6%
Credit	109	236	78	267	15.0%
Other liability - claims-made	176	74	61	189	10.6%
Inland marine	40	156	19	177	9.9%
Commercial multiple peril	46	144	28	162	9.1%
Other liability – occurrence	144	219	207	156	8.7%
Surety	88	21	8	101	5.7%
Ocean marine	5	72	9	68	3.8%
Workers' compensation	1	77	13	65	3.6%
Fidelity	83	6	28	61	3.4%
All other lines	<u>88</u>	<u>108</u>	<u>6</u>	<u>190</u>	<u>10.6%</u>
Total	<u>\$ 1,884</u>	<u>\$ 1,102</u>	<u>\$ 1,200</u>	<u>\$ 1,786</u>	<u>100.0%</u>

The Company reported the following operating results during the examination period:

	2011	2010	2009	2008	2007
Loss and loss adj. expense ratio	61.2%	51.8%	44.8%	62.6%	60.3%
Expense ratio	32.3%	34.2%	36.8%	32.9%	32.4%
Policyholder dividends	<u>0.1%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Combined ratio	<u>93.6%</u>	<u>86.0%</u>	<u>81.6%</u>	<u>95.5%</u>	<u>92.7%</u>

Reinsurance

The Company reinsures a portion of its business with other insurance companies and assumes a relatively small amount of business from other insurers. The Company has entered into reinsurance agreements to limit its exposure on policies with large limits in several lines of business, including certain executive and professional liability, umbrella and excess liability, and fidelity and surety coverages.

The Company reinsures a portion of its crop insurance business through the Federal Crop Insurance Corporation (“FCIC”) on a quota share basis. In addition, during 2011, the Company reinsured 52.5% of premiums not reinsured by the FCIC in the private market and purchased stop loss protection coverage for the remaining portion of its business.

Catastrophe reinsurance is in place to limit the Company's exposure to property risks including wind and earthquake losses. In addition, the Company purchased catastrophe reinsurance for its workers' compensation businesses.

Financial Statements

The financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2011

Assets

Bonds	\$ 2,451,329,881
Preferred stocks	70,438,032
Common stocks	1,065,595,443
Mortgage loans on real estate	112,036,413
Real estate occupied by the Company	1,075,636
Real estate held for the production of income	49,480,991
Cash, cash equivalents and short term investments	240,268,671
Derivatives	76,225
Other invested assets	23,722,486
Receivable for securities	<u>1,117,850</u>
Subtotal, cash and invested assets	4,015,141,628
Investment income due and accrued	28,453,058
Uncollected premiums in course of collection	216,669,704
Deferred premiums and installments booked but deferred	99,406,469
Amounts recoverable from reinsurers	39,301,799
Net deferred tax asset	93,918,720
Electronic data processing equipment	1,162,159
Receivable from affiliates	7,209,584
Receivable from Federal Crop Insurance Corporation	524,198,640
Company owned life insurance	130,136,542
Funds held as collateral	105,148,035
Miscellaneous assets and receivables	<u>12,875,494</u>
Total assets	<u>\$ 5,273,621,832</u>

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2011

Liabilities

Losses	\$ 2,162,836,984
Reinsurance payable on paid losses and loss adjustment expenses	815,174
Loss adjustment expenses	332,841,401
Commissions payable	50,612,111
Other expenses	97,708,424
Taxes, licenses and fees	13,188,428
Current federal income taxes	26,981,918
Unearned premiums	743,763,641
Ceded reinsurance premiums payable	39,264,421
Funds held by Company under reinsurance treaties	352,041,660
Amounts withheld or retained by Company of others	140,359,337
Remittances and items not allocated	2,275,328
Provision for reinsurance	21,059,752
Net adjustments due to foreign exchange rates	2,917,760
Payable to affiliates	5,237,423
Retrospective premium payable	59,343
Retroactive reinsurance ceded	(156,706,593)
Accounts payable and other liabilities	<u>27,072,201</u>
Total liabilities	<u>3,862,328,713</u>

Capital and Surplus

Retroactive reinsurance gain	156,706,593
Common capital stock	15,440,600
Gross paid in and contributed surplus	302,508,415
Unassigned funds	<u>936,637,511</u>
Total capital and surplus	<u>1,411,293,119</u>
Total liabilities, capital and surplus	<u>\$ 5,273,621,832</u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 1,785,620,880</u>
Losses incurred	903,766,272
Loss adjustment expenses incurred	189,492,992
Other underwriting expenses incurred	<u>577,264,246</u>
Total underwriting deductions	<u>1,670,523,510</u>
Net underwriting gain	<u>115,097,370</u>
Net investment income earned	193,041,614
Net realized capital gains	<u>45,841,651</u>
Net investment gain	<u>238,883,265</u>
Net gain (loss) from premium balances charged off	(2,791,838)
Finance and service charges not included in premiums	698,293
Miscellaneous income (expense)	<u>(2,131,240)</u>
Total other income (loss)	<u>(4,224,785)</u>
Net income before federal income taxes and dividends to policyholders	349,755,850
Dividends to policyholders	<u>971,005</u>
Net income before federal income taxes	348,784,845
Federal income taxes incurred	<u>71,957,666</u>
Net income	<u>\$ 276,827,179</u>

Statement of Changes in the Capital and Surplus Account
(In millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus, prior year end	\$ 1,476	\$ 1,433	\$ 1,286	\$ 1,360	\$ 1,603
Net income	277	499	458	35	149
Change in net unrealized capital gains (losses)	(21)	58	104	(94)	(152)
Change in non-admitted assets	(1)	(3)	77	(70)	(22)
Change in provision for reinsurance	11	(7)	(6)	0	0
Surplus adjustments	5	4	4	54	3
Dividends to stockholders	(340)	(450)	(479)	(60)	(267)
All other changes in surplus	<u>4</u>	<u>(58)</u>	<u>(11)</u>	<u>61</u>	<u>46</u>
Net change in capital and surplus	<u>(65)</u>	<u>43</u>	<u>147</u>	<u>(74)</u>	<u>(243)</u>
Capital and surplus, current year end	<u>\$ 1,411</u>	<u>\$ 1,476</u>	<u>\$ 1,433</u>	<u>\$ 1,286</u>	<u>\$ 1,360</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed John L. Doellman, FCAS, MAAA, Vice President and Actuary, to render a Statement of Actuarial Opinion ("Opinion") on the pooled reserves. Mr. Doellman prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the pooled reserves. On the basis of his analysis, Mr. Botsko concluded the pooled reserves fall within a reasonable range of reserve estimates at December 31, 2011.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

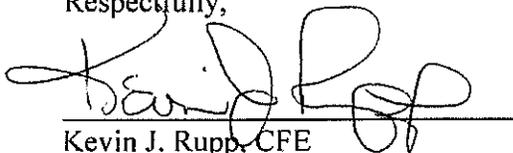
Total Admitted Assets	<u>\$5,273,621,832</u>
Liabilities	\$3,862,328,713
Capital and Surplus	<u>1,411,293,119</u>
Total Liabilities, Capital and Surplus	<u>\$5,273,621,832</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; James H. Luke, CFE, CPA; Larry G. Rice, AES, CFE, CISA, CPA; and Zachary L. Wheatley, CPA.

Respectfully,



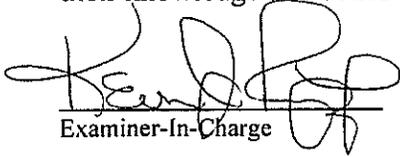
Kevin J. Rupp, CFE
Examiner-in-Charge
Ohio Department of Insurance



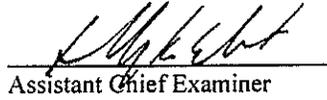
Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.


Examiner-In-Charge

11/20/12
Date

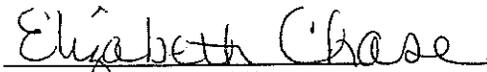

Assistant Chief Examiner

11/20/12
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20 day of November, 2012.



(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20 day of November, 2012.



(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires