

Report of Examination of

Continental General 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

Continental General Insurance Company

an Ohio domiciled, stock, life 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 (“AFG”), an affiliate, 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
Christopher P. Miliano	Executive Vice President and Chief Financial Officer, Great American Financial Resources, Inc.
Mark F. Muething	Executive Vice President, General Counsel and Secretary, Great American Financial Resources, Inc.
Michael J. Prager	Executive Vice President, Chief Actuary and Chief Risk Officer, Great American Financial Resources, Inc.
Paul A. Severt	Executive Vice President and Chief Financial Officer, Great American Supplemental Benefits Group
Bradley A. Wolfram	President, Great American Supplemental Benefits Group

Officers

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

Name	Title
Bradley A. Wolfram	President
Paul A. Severt	Executive Vice President and Chief Financial Officer
Tracy E. Maples	Senior Vice President and Chief Actuary
David L. Chambers	Vice President, Sales and Marketing
James W Garvin, III	Vice President
Christopher P. Miliano	Vice President and Assistant Treasurer
Mark F. Muething	Vice President and Assistant Secretary
Byron K. Buescher	Chief Accounting Officer and Treasurer
Brenda W. Hardison	Secretary

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 Continental General Corporation, domiciled in Nebraska, and an indirect 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 a member of Great American Supplemental Benefits Group (“GASBG”), a family of companies located in Austin, Texas. The Company is licensed to transact business in the District of Columbia and all states except New York. The Company is principally engaged in writing individual life and Medicare supplement insurance policies. In addition, the Company’s business in-force includes closed blocks of long-term care, limited benefit health and annuity policies.

Reinsurance

Ceded

The Company cedes business to various unaffiliated reinsurers pursuant to the terms of various agreements. The maximum amount of exposure retained on any one life is \$125,000 on ordinary life risks.

Assumed

The Company assumes business from various affiliated and unaffiliated reinsurers pursuant to the terms of various agreements. Most of the assumed business consists of ordinary life risks assumed from non-affiliates.

All contracts examined contained the necessary clauses to meet the guidelines prescribed by the NAIC.

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
- Summary of Operations
- Statement of Changes in the Capital and Surplus Account

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

Assets

Bonds	\$ 205,291,571
Mortgage loans	3,747,390
Cash and short-term investments	4,825,671
Contract loans	3,339,205
Other invested assets	<u>3,614,571</u>
Subtotal, cash and invested assets	220,818,408
Investment income due and accrued	2,511,758
Uncollected premiums and agents' balances in course of collection	(14,975,302)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,587,148
Amounts recoverable from reinsurers	11,235,028
Other amounts receivable under reinsurance contracts	3,484,155
Net deferred tax asset	6,796,000
Guaranty funds receivable or on deposit	2,607,148
Receivables from parent, subsidiaries and affiliates	<u>71,799</u>
Total assets	<u>\$ 234,136,142</u>

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

Liabilities

Aggregate reserve for life contracts	\$ 76,690,102
Aggregate reserve for accident and health contracts	117,715,403
Liability for deposit-type contracts	223,731
Life contract claims	765,664
Accident and health contract claims	4,242,288
Premiums and annuity considerations for life and accident and health contracts received in advance	819,403
Other amounts payable on reinsurance	22,032
Interest Maintenance Reserve	294,322
Commissions to agents due or accrued	691,320
Commissions and expense allowances payable on reinsurance assumed	857
General expenses due or accrued	370,945
Taxes, licenses and fees due or accrued	3,104,840
Current federal income taxes	995,980
Unearned investment income	120,927
Amounts withheld or retained by company as agent or trustee	927
Remittances and items not allocated	336,645
Asset valuation reserve	599,491
Payable to parent, subsidiaries and affiliates	26,658
Aggregate write-ins for liabilities	<u>749,146</u>
Total liabilities	<u>207,770,681</u>

Capital and Surplus

Common capital stock	4,196,559
Gross paid in and contributed surplus	7,638,870
Aggregate write-ins for other than special surplus funds	868,000
Unassigned funds	<u>13,662,032</u>
Total capital and surplus	<u>26,365,461</u>
Total liabilities, capital and surplus	<u>\$ 234,136,142</u>

Summary of Operations
For the Year Ended December 31, 2011

Premiums and annuity considerations	\$ 56,588,610
Net investment income	11,550,699
Amortization of interest maintenance reserve	(155,727)
Commissions and expense allowances on reinsurance ceded	12,748,510
Aggregate write-ins for miscellaneous income	<u>90,154</u>
Total	<u>80,822,246</u>
Death benefits	4,407,819
Matured endowments	6,325
Annuity benefits	1,311,656
Disability benefits and benefits under accident and health contracts	35,176,428
Surrender benefits and other fund withdrawals for life contracts	4,962,947
Interest and adjustments on contract or deposit-type contract funds	9,171
Payments on supplementary contracts with life contingencies	102,677
Increase in aggregate reserves	<u>7,692,246</u>
Total	53,669,269
Commissions on premiums, annuity considerations and deposit-type contract funds	7,399,456
Commissions and expense allowances on reinsurance assumed	56,509
General insurance expenses	8,288,645
Insurance taxes, licenses and fees	2,626,938
Increase in loading on deferred and uncollected premiums	(60,037)
Aggregate write-ins for deductions	<u>3,892</u>
Total	<u>71,984,672</u>
Net gain from operations before dividends to policyholders and federal income taxes and realized capital gains	8,837,574
Dividends to policyholders	<u>2,299</u>
Net gain from operations after dividends to policyholders but before federal income taxes and realized capital gains	8,835,275
Federal income taxes	<u>1,912,093</u>
Net gain from operations after federal income taxes and before realized capital gains	6,923,182
Net realized capital gains	<u>683,924</u>
Net income	<u>\$ 7,607,106</u>

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

	2007	2008	2009	2010	2011
Capital and surplus, beginning of year	<u>\$63,578</u>	<u>\$51,310</u>	<u>\$44,577</u>	<u>\$32,144</u>	<u>\$36,521</u>
Net income (loss)	11,770	3,853	(2,015)	12,476	7,607
Net unrealized capital gains (losses)	409	391	318	(386)	58
Change in net deferred income tax	708	(7,450)	1,746	(2,055)	5,563
Change in nonadmitted assets	(1,395)	4,593	163	2,902	(5,537)
Change in reserve on account of change in valuation basis	-	-	-	-	(18,040)
Change in asset valuation reserve	(1,117)	619	1,855	(289)	(285)
Cumulative effect of changes in accounting principles	-	-	(565)	-	-
Surplus paid in	-	-	-	-	5,000
Change in surplus from reinsurance	(5,821)	(4,827)	(4,263)	(3,855)	(3,189)
Dividends to stockholders	(15,500)	(11,700)	(5,300)	(3,200)	-
Aggregate write-ins	<u>(1,322)</u>	<u>7,788</u>	<u>(4,372)</u>	<u>(1,216)</u>	<u>(1,333)</u>
Net change in capital and surplus	<u>(12,268)</u>	<u>(6,733)</u>	<u>(12,433)</u>	<u>4,377</u>	<u>(10,156)</u>
Capital and surplus, end of year	<u>\$51,310</u>	<u>\$44,577</u>	<u>\$32,144</u>	<u>\$36,521</u>	<u>\$26,365</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserves

The Company's Board of Directors appointed Mark E. Alberts, FSA, MAAA, Consulting Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Alberts prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011, Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined that the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

Subsequent Events

On May 10, 2012, AFG entered into a definitive agreement with Cigna Corporation ("Cigna") to sell certain lines of business and certain entities maintained by GASBG. The Department approved the transaction on August 30, 2012. Five of the GASBG companies were acquired by an affiliate of Cigna and the Company and an affiliate, United Teacher Associates Insurance Company, a Texas domiciled insurer, now comprise GASBG. Simultaneous with this transaction, various reinsurance transactions took effect so that the only business retained by the two remaining GASBG companies will consist of closed blocks of long-term care insurance, annuities and life insurance.

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:

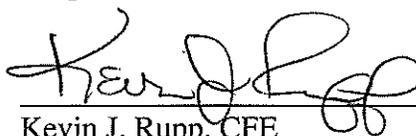
Total Admitted Assets	<u>\$234,136,142</u>
Liabilities	\$207,770,681
Surplus as Regards Policyholders	<u>26,365,461</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$234,136,142</u>

Acknowledgement

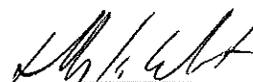
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

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.

Kevin J. Rupp 12/21/12 Jeffrey K. Ebert 12/21/12
Examiner-In-Charge Date Assistant Chief Examiner 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 21 day of December, 2012.

Elizabeth Chase
(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 21 day of December, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires