

Report of Examination of

Oklahoma Surety 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

Oklahoma Surety 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, 2008. The Department’s current examination covers the period of January 1, 2009 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
H. Michael Coon	President and Chief Operating Officer, Mid-Continent Casualty 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
Donald D. Larson	President, Great American Insurance Company
Eve Cutler Rosen	Senior Vice President, General Counsel and Assistant Secretary, 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
Donald D. Larson	Chairman
Ronald J. Brichler	Vice Chairman
H. Michael Coon	President and Chief Operating Officer
James S. Davis	Senior Vice President
Gregory P. Jones	Senior Vice President, Chief Financial Officer and Treasurer
S. Kirby Pancoast	Senior Vice President
Robert B. Batson	Vice President and Chief Information Officer
Todd A. Bazata	Vice President
David B. Dyke	Vice President
Melanie K. Pancoast	Vice President
Richard L. Simpson	Vice President
Nora Anne Webb	Vice President
L. Fay Jessee	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 Mid-Continent Casualty Company ("MCCC"), domiciled in Ohio, 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 licensed to transact business in six states. MCCC leads a reinsurance pooling agreement with its wholly-owned subsidiaries. The effect of the pooling agreement is to transfer all direct insurance liabilities of the subsidiaries to MCCC and to cede specified percentages of the net underwriting results of MCCC to its subsidiaries. The following companies are included in the pooling agreement with their participation percentages:

Company	Domicile	Participation
Mid-Continent Casualty Company	OH	94%
Mid-Continent Assurance Company	OH	3%
Oklahoma Surety Company	OH	3%
Mid-Continent Excess and Surplus Ins. Company	DE	<u>0%</u>
Total		<u>100%</u>

MCCC and its subsidiaries focus on niche focused programs targeting risk classes well understood by management. These business lines primarily consist of general liability, product liability, and homebuilders' liability products with contractors, commercial automobile, inland marine and surety.

During 2011, the largest states in terms of direct premium written were as follows: Oklahoma, \$4.8 million (50.0%); Texas, \$3.2 million (32.9%); and Kansas, \$1.3 million (13.8%).

The following table illustrates the Company's direct and net premiums written by line of business, in thousands, for the year 2011:

Line of Business	Direct	Percent	Net	Percent
Other liability – occurrence	\$ 4,205	43.5%	\$1,962	51.4%
Products liability	1,910	19.7%	666	17.4%
Commercial auto liability	1,328	13.7%	360	9.4%
Inland marine	0	0.0%	281	7.4%
Surety	1,649	17.0%	203	5.3%
Other liability – claims made	0	0.0%	180	4.7%
Auto physical damage	582	6.1%	148	3.9%
All other lines	<u>1</u>	<u>0.0%</u>	<u>20</u>	<u>0.5%</u>
Total	<u>\$9,675</u>	<u>100.0%</u>	<u>\$3,820</u>	<u>100.0%</u>

Reinsurance

The Company does not cede any business other than through the inter-company pooling agreement and it does not assume a material amount of business.

Financial Statements

The financial condition and the results of its operations for the three-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, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2011**

Assets

Bonds	\$ 24,464,670
Cash and short-term investments	<u>3,055,156</u>
Subtotal, cash and invested assets	27,519,826
Investment income due and accrued	305,081
Current federal income tax recoverable	73,971
Net deferred tax asset	<u>484,578</u>
Total assets	<u><u>\$ 28,383,456</u></u>

Liabilities

Losses	\$ 6,667,764
Loss adjustment expenses	3,004,855
Other expenses	167,834
Taxes, licenses and fees	34,118
Unearned premiums	1,706,626
Payable to affiliates	<u>54,793</u>
Total liabilities	<u>11,635,990</u>

Capital and Surplus

Additional admitted deferred tax asset	212,751
Common capital stock	2,500,000
Gross paid in and contributed surplus	1,400,000
Unassigned funds	<u>12,634,715</u>
Total capital and surplus	<u>16,747,466</u>
Total liabilities, capital and surplus	<u><u>\$ 28,383,456</u></u>

Statement of Income
For the Year Ended December 31, 2011

Premiums earned	<u>\$ 3,893,241</u>
Losses incurred	1,032,380
Loss adjustment expenses incurred	687,557
Other underwriting expenses incurred	<u>1,337,278</u>
Total underwriting deductions	<u>3,057,215</u>
Net underwriting gain	<u>836,026</u>
Net investment income earned	1,011,473
Net realized capital gains	<u>1,486</u>
Net investment gain	<u>1,012,959</u>
Miscellaneous income (expense)	<u>(394)</u>
Total other income (loss)	<u>(394)</u>
Net income before federal income taxes	1,848,591
Federal income taxes incurred	<u>431,204</u>
Net income	<u>\$ 1,417,387</u>

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

	2007	2008	2009	2010	2011
Capital and surplus, beginning of year	<u>\$10,775</u>	<u>\$12,311</u>	<u>\$12,692</u>	<u>\$13,755</u>	<u>\$15,339</u>
Net income	3,631	2,588	2,490	1,815	1,417
Net unrealized capital gains (losses)	(200)	(292)	400	(46)	(4)
Change in net deferred income tax	(79)	27	(146)	(194)	(90)
Change in nonadmitted assets	(16)	58	94	39	66
Paid in surplus	-	-	-	1,500	-
Dividends to stockholders	(1,800)	(2,000)	(2,000)	-	-
Aggregate write-ins	<u>-</u>	<u>-</u>	<u>225</u>	<u>(1,530)</u>	<u>19</u>
Net change in capital and surplus	<u>1,536</u>	<u>381</u>	<u>1,063</u>	<u>1,584</u>	<u>1,408</u>
Capital and surplus, end of year	<u>\$12,311</u>	<u>\$12,692</u>	<u>\$13,755</u>	<u>\$15,339</u>	<u>\$16,747</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, Great American Insurance Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Doellman prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Botsko concluded the Company's carried 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:

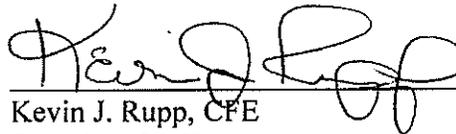
Total Admitted Assets	<u>\$28,383,456</u>
Liabilities	\$11,635,990
Capital and Surplus	<u>16,747,466</u>
Total Liabilities, Capital and Surplus	<u>\$28,383,456</u>

Acknowledgement

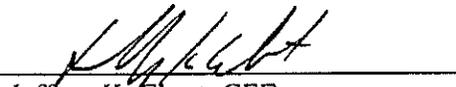
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and the 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,



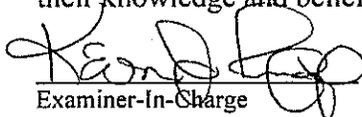
Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



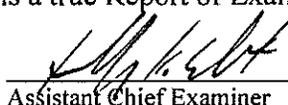
Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

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

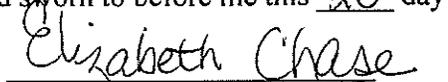

Assistant Chief Examiner

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.

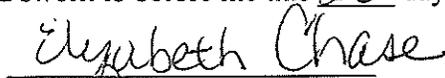
Subscribed and sworn to before me this 20 day of November, 2012.


~~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.


~~ELIZABETH CHASE~~
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires