

REPORT ON EXAMINATION
OF
AMERICAN EMPIRE SURPLUS LINES INSURANCE COMPANY
AS OF
DECEMBER 31, 2016

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF
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AS OF
DECEMBER 31, 2016

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 blue ink that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 13th day of June, 2018

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of

AMERICAN EMPIRE SURPLUS LINES INSURANCE COMPANY

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

Attest By: Raymond Brown

Date: June 1, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13 day of June, 2018.

Trinidad Navarro
Trinidad Navarro
Insurance Commissioner

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January 31, 2018

Honorable Trinidad Navarro
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Exam Authority No. 17.001, dated April 3, 2017, an examination has been made of the affairs, financial condition and management of

AMERICAN EMPIRE SURPLUS LINES INSURANCE COMPANY

hereinafter referred to as (Company or AESLIC), incorporated under the laws of the State of Delaware, with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 301 East Fourth Street, Cincinnati, Ohio 45202.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) has performed a full-scope risk-focused surveillance examination of the Company. The last examination of the Company was conducted as of December 31, 2011. This examination covered the period of January 1, 2012 through December 31, 2016, 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 as of

December 31, 2016. Transactions after the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of a multi-state coordinated examination of companies within the American Financial Group, Inc. (AFG) holding company system and specifically within the Great American Insurance Group (GAIG) Property and Casualty operations. The examination was conducted concurrently with that of its Delaware domiciled affiliate companies, Great American E & S Insurance Company (GAES), Great American Fidelity Insurance Company (GAFI), and Mid-Continent Excess & Surplus Insurance Company (MCES).

Delaware was a fully participating state on the coordinated examination, with the State of Ohio Department of Insurance (ODI) as the lead state regulator. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted the examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates

made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the examination, consideration was given to work performed by the Company's external independent accounting firm, Ernst & Young LLC (E&Y). Certain auditor work papers were incorporated into the work papers of the examiners and were utilized in determining the examination scope, areas of emphasis in conducting the examination, and in areas of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

AESLIC was originally incorporated under the laws of the State of Delaware on July 15, 1977 under the name, Great American Surplus Lines Insurance Company. The name of the Company was changed to its current name as the result of an amended Certificate of Incorporation filed on December 10, 1986.

Effective December 31, 2004, 100% of the common stock of AESLIC was conveyed to AFG as a dividend from GAIC. AFG then wholly contributed 100% of the common stock of AESLIC to Great American Holding, Inc. (GAHI). As of the examination date, GAHI remained the Company's direct parent within the AFG insurance holding company system.

AESLIC was formed and still operates as an excess and surplus lines carrier utilizing licensed excess and surplus lines brokers to write most types of commercial property and casualty business. As of December 31, 2016, the Company's underwriting responsibilities were divided among the following four (4) profit centers: 1) Casualty Special Risk Brokerage (CSR); 2) Binding Authority; 3) Property Brokerage; and 4) American Empire Underwriter's.

Common Capital Stock

As of December 31, 2016, the Company had authorized common capital stock of \$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.

Dividends

The Company paid its direct parent, GAHI, dividends during the examination period that were approved by the Department. In addition, the Company received dividends from its wholly owned subsidiary, American Empire Insurance Company (AEIC). Refer below to the dividends paid and received during the period under examination.

<u>Dividends Paid to GAHI</u>		<u>Dividends Received from AEIC</u>	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
12/26/2012	\$ 10,000,000	12/31/2012	\$ 3,000,000
12/26/2013	\$ 10,000,000	12/31/2013	\$ 2,200,000
12/29/2014	\$ 10,000,000	12/31/2014	\$ 1,700,000

Gross Paid-In and Contributed Surplus

The Company had the following surplus adjustments paid-in and contributed during the period under examination:

At December 31, 2011	<u>\$ 55,458,225</u>
2012	35,087
2013	55,698
2014	78,219
2015	10,070,027
2016	<u>30,085,944</u>
At December 31, 2016	<u>\$ 95,783,200</u>

Surplus adjustments during the examination period were related to operating results of the Company offset by approved dividend payments.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Company's Board of Directors (Board). The Company's bylaws provide that the Company's business and affairs shall be under the control of its Board.

Article II, Section 8 of the bylaws, states that the number of directors constituting the Board shall be fixed from time to time by resolution adopted by the vote of a majority of the entire Board or by the shareholders, but that at no time will the number of directors be fewer than four (4) or more than twelve (12). As of December 31, 2016, the members of the Board together with their principal business affiliations were as follows:

<u>Director's Name</u>	<u>Principal Business Affiliation</u>
Ronald J. Brichler	Director and Executive Vice President, GAIC
Gary J. Gruber	Director and Executive Vice President, GAIC

Donald D. Larson	Director, President and Chief Operating Officer, GAIC
Michael D. Pierce	Director and Senior Vice President, GAIC
Eve Cutler Rosen	Director, Senior Vice President, Executive Counsel and Secretary, GAIC
David J. Witzgall	Director, Senior Vice President, Chief Financial Officer and Treasurer, GAIC
Frederick J. Woebse	Director, President and Chief Operations Officer, AESLIC

Board Committees

The Company's bylaws state that the Board may designate one or more committees, including an Executive Committee and Finance Committee. Article III, Section 1 and Article IV, Section 1 of the Company's bylaws authorizes an Executive Committee and Finance Committee, respectively, which shall consist of not less than three (3) or more than five (5) directors of the Company. The Executive Committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Company. As of December 31, 2016, the Board had the following designated committees:

<u>Executive Committee</u>	<u>Finance Committee</u>
Ronald J. Brichler	Ronald J. Brichler
Gary J. Gruber	Gary J. Gruber
Donald D. Larson	David J. Witzgall
Frederick J. Woebse	Frederick J. Woebse

Officers

Article V, Section 1 of the Company's bylaws states that the Company's officers shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, one or more Secretaries, and other such Assistant Vice Presidents, Assistant Treasurers, or other officers as the Board deems necessary or desirable in order to conduct affairs of the Company.

As of December 31, 2016, the Company's principal officers and their respective titles were as follows:

<u>Officer's Name</u>	<u>Principal Occupation</u>
Ronald J. Brichler	Chairman of the Board
Frederick J. Woebse	President and Chief Operating Officer
Leonard J. Mikulski	Senior Vice President
Kenneth R. Nieberding	Senior Vice President
David L. Blumberg	Senior Vice President
Thomas Matthew Held	Senior Vice President and Treasurer
Kathleen U. Kuczaj	Vice President
David A. Prell	Vice President
Eve Cutler Rosen	Secretary
David J. Witzgall	Assistant Treasurer

Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001(6) "Insurance Holding Company System." The Company's Insurance Holding Company Registration Statement (Annual Form B) was filed timely with the Department for each year under examination.

The Company is wholly owned subsidiary of GAHI, an insurance holding company incorporated in the State of Ohio. AFG is the ultimate parent within the holding company system and is also incorporated in the State of Ohio. Through its subsidiary insurance companies, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, along with the sale of fixed and fixed-indexed annuities.

The abbreviated organizational chart below reflects the identities and interrelationships between the Company, affiliated insurers and other members within the AFG holding company system as of December 31, 2016. The companies identified in italics were examined as part of the multi-state coordinated examination.

<u>AFG and Subsidiaries</u>	<u>Domiciliary State</u>
American Financial Group, Inc.	OH
American Money Management Corporation	OH
Great American Financial Resources, Inc.	DE
<i>Great American Life Insurance Company*</i>	<i>OH</i>
<i>Annuity Investors Life Insurance Company*</i>	<i>OH</i>
Manhattan National Holding Corporation	OH
<i>Manhattan National Life Insurance Company*</i>	<i>OH</i>
Great American Holding, Inc.	OH
Agricultural Services, LLC	OH
<i>American Empire Surplus Lines Insurance Company*</i>	<i>DE</i>
<i>American Empire Insurance Company*</i>	<i>OH</i>
American Empire Underwriters, Inc.	TX
<i>Mid-Continent Casualty Company*</i>	<i>OH</i>
<i>Mid-Continent Assurance Company*</i>	<i>OH</i>
<i>Mid-Continent Excess and Surplus Insurance Company*</i>	<i>DE</i>
<i>Oklahoma Surety Company*</i>	<i>OH</i>
<i>Republic Indemnity Company of America*</i>	<i>CA</i>
<i>Republic Indemnity Company of California*</i>	<i>CA</i>
Summit Holding Southeast, Inc.	FL
<i>Bridgefield Employers Insurance Company*</i>	<i>FL</i>
<i>Bridgefield Casualty Insurance Company*</i>	<i>FL</i>
<i>Great American Insurance Company*</i>	<i>OH</i>
American Signature Underwriters, Inc.	OH
FCIA Management Company, Inc.	NY
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>
<i>Great American E & S Insurance Company*</i>	<i>DE</i>
<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
National Interstate Insurance Agency, Inc.	OH
<i>National Interstate Insurance Company*</i>	<i>OH</i>
<i>National Interstate Insurance Company of Hawaii, Inc.*</i>	<i>OH</i>
<i>Triumphe Casualty Company*</i>	<i>OH</i>
<i>Vanliner Insurance Company*</i>	<i>MO</i>

Affiliated Management and Service Agreements

The Company was a participant to several affiliated agreements, as disclosed in its annual Form B filings with the Department. As of December 31, 2016, the Company was party to the following affiliated agreements:

Custodial and Management Agreement

Effective January 1, 1984, the Company entered into a Custodial and Management Agreement with American Money Management Corporation (AMM), whereby AMM provides trading, investment, management and accounting services related to the Company's investment portfolios. The fees charged by AMM for their services under the agreement are based on cost.

General Services Agreement

Effective August 1, 1996, the Company entered into a General Services Agreement with certain affiliated companies of AFG, whereby each affiliated participating member agrees to provide administrative services as requested by any of the other parties. Fees payable for services furnished are based on cost.

Managing General Agency Agreement

Effective January 1, 2001, the Company entered into a Managing General Agency Agreement with American Empire Underwriters, Inc. (AEU), whereby AEU acts as a managing general agent for the Company. As compensation, the Company agrees to pay AEU an amount

equal to commissions paid to sub-producers, along with administrative expenses.

Tax Allocation Agreement

Effective December 31, 2005, the Company entered into a Tax Allocation Agreement with AFG and various affiliated companies. In accordance with the terms of the agreement, AFG will prepare and file a consolidated federal tax return on behalf of the subsidiary companies. The purpose of the agreement is to provide the methodology and procedures for allocating AFG's consolidated federal tax liability (or benefit) to and amongst each participating subsidiary company.

Intercompany Pooling Arrangement

As of December 31, 2016, the Company was party to an intercompany reinsurance pooling arrangement with its wholly owned subsidiary, AEIC. Refer to the Reinsurance section of this report for the terms of the intercompany pooling arrangement.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2016, the Company was licensed to transact business solely in the State of Delaware and was eligible to write surplus lines in all 50 states, including the District of Columbia. Specifically, the Company was authorized to transact the business of property, surety, casualty, and marine and transportation insurance, as defined in 18 *Del. C.* § 904 "Property insurance", 18 *Del. C.* § 905 "Surety insurance", 18 *Del. C.* § 906 "Casualty insurance" and 18 *Del. C.* § 907 "Marine and transportation, 'wet marine' insurance".

Plan of Operation

In 2016, the Company had approximately 89.0% of its direct premiums written in seven (7) states. The geographical breakdown of the Company's 2016 direct premiums written is reflected below.

State	Direct Premiums Written	Percentage
New York	\$ 88,626,945	61.9%
New Jersey	11,278,040	7.9%
Texas	10,181,417	7.1%
Florida	6,636,305	4.6%
Louisiana	3,804,088	2.7%
California	3,783,246	2.6%
Connecticut	3,039,069	2.1%
Other States	15,743,793	11.0%
Total	\$143,092,903	100.0%

The Company provides commercial property and casualty insurance within the surplus lines market. Underwriting responsibilities of the Company are divided among the following four (4) profit centers: 1) Casualty Special Risk Brokerage (CSRB); 2) Binding Authority; 3) Property Brokerage; and 4) American Empire Underwriter's. Insurance premiums are generated nationwide through approximately 300 surplus lines brokers, with the Company acting as a safety valve for the insurance industry. The Company continues to write business when hard markets exist and it does not compete with standard lines companies during soft markets. Accordingly, the Company writes most of its business while standard industry companies are adhering to strict underwriting practices and pricing. However, when standard industry companies' underwriting practices and pricing are not as strict, the Company will not compete for the business.

REINSURANCE

For the year ended December 31, 2016, the Company reported the following components of net premiums written:

Direct	\$ 143,092,903
Reinsurance assumed	-
Total direct and assumed	<u>\$ 143,092,903</u>
Reinsurance ceded (to affiliates)	20,650,155
Reinsurance ceded (to non-affiliates)	<u>39,322,244</u>
Net premiums written	<u><u>\$ 83,120,504</u></u>

Intercompany Pooling Agreement

The Company is the majority participant in an intercompany reinsurance pooling agreement with its wholly owned subsidiary, AEIC. Under terms of the pooling agreement, AESLIC assumes 100% of AEIC's written business, net of AEIC cessions to third party reinsurers. The assumed business and related expenses from AEIC is then pooled with business produced by the Company, with AESLIC assuming 90% of the pooled business and AEIC assuming 10% of the pooled business.

During 2016, AEIC did not write any premiums and therefore, AESLIC did not assume any premiums from AEIC in 2016. AEIC was most recently utilized by management to write assumed casualty facultative reinsurance through reinsurance intermediaries from 1989 to 2003. AEIC ceased writing assumed reinsurance in 2003 as a result of management's decision to not collateralize reinsurance obligations.

Assumed Reinsurance

The Company did not assume any business during the examination period, other than from AEIC under the intercompany pooling arrangement mentioned above.

Ceded Reinsurance

Property Reinsurance

Two (2) property treaties supplement the Company's basic property reinsurance program, which includes property catastrophe treaties in force providing a limit of \$4,750,000 in excess of \$2,750,000, net. Additional corporate catastrophe coverage protecting GAIG companies, to include the Company and other property and casualty affiliates, provides limits of 95% of \$85,000,000 in excess of \$15,000,000 for the first layer and 95% of \$200,000,000 in excess of \$100,000,000 for the second layer, covering all perils. Each participating company's retention under the corporate catastrophe program varies depending on their contribution the total loss. Refer below to the terms of the two (2) property treaties supplementing the Company's property reinsurance program.

Property Per Risk Excess of Loss

The property per risk excess of loss treaty has two (2) layers, whereby the Company retains \$200,000 per risk, with a limit of \$1,000,000 on the first layer and retains \$0.00 on the second layer. For 2016, the Company ceded a small portion of the loss liability to affiliate GAIG and the rest to the following external reinsurers: Munich Reinsurance America Inc. (Munich), Hannover Rück SE (Hannover), Lloyds' Syndicate No. 444 and Everest Reinsurance Company (Everest), with Munich assuming 42.5% of the of the loss liability.

First Property Surplus Share

Under the first property surplus share treaty, the Company's maximum cession to the reinsurer, with respect to each insured or reinsured on any one risk, is the lesser of the Company's net retention and amounts, if any, ceded by the Company to its excess treaties, or \$2,500,000 for each insured or reinsured, per risk. Per the contract, the reinsurer's limit of

liability is \$12,500,000 per occurrence, other than the peril of earthquake or acts of terrorism. The peril of earthquake has a limit of liability not to exceed \$20,000,000 per occurrence. Acts of terrorism (excluding nuclear, biological, chemical or radioactive terrorist activity) has a limit of liability not to exceed \$2,500,000 per calendar year. In addition, the reinsurers' total limit of liability will not exceed \$37,500,000 per occurrence. For 2016, the Company retained \$0.00 and ceded 100.0% of the liabilities as follows: 7.50% to affiliate GAIC and the remaining 92.50% to the following four (4) external reinsurers: Hannover, Munich, Everest and Swiss Reinsurance Company Limited.

Casualty Reinsurance

Casualty reinsurance of the Company is comprised of two (2) treaties, a primary quota share treaty and an excess of loss treaty. In addition, individual facultative cessions may be placed to augment treaty capacity. The facultative cessions limit the retention on primary casualty policies to not more than \$2,023,000, with the exception of hospital malpractice (limit \$5,000,000) and products liability on manufacturers of ethical drugs (limit \$20,000,000).

Casualty Quota Share

The casualty quota share treaty covers loss liabilities as defined in the contract shall be \$500,000 for each occurrence, each risk, or any combination of coverages under the contract. Per the contract, the Company retains 79.0% of all interests and liabilities and is permitted to carry contingency reinsurance, which does not negate its retention obligation. For 2016, the remaining 21.0% of liabilities were ceded as follows: 8.875% to Hannover, 6.375% to Berkley Insurance Company (Berkley) and 5.75% to affiliate GAIC.

Casualty Excess of Loss

The casualty excess of loss treaty covers loss liabilities as defined in the contract in excess of \$500,000 for each occurrence, each risk. The reinsurers are liable for their proportionate share above \$500,000, not to exceed \$5,500,000 for each occurrence, each risk. For 2016, the Company retained 29.60% of the loss liabilities and ceded the remaining 70.40% as follows: 27.325% to Hannover, 26.625% to Berkley and 16.45% to affiliate GAIC.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ended December 31, 2016:

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

Refer to the section “Comments on Financial Statements” to explain significant annual statement balances and examination adjustments, if applicable. The amounts reported in the filed annual statements with the Department should be considered an integral part of the Company’s financial statements.

American Empire Surplus Lines Insurance Company

Assets
December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$ 258,826,213	\$ -	\$ 258,826,213	1
Stocks:				
Preferred stocks	27,303,440		27,303,440	
Common stocks	32,899,496		32,899,496	
Cash, cash equivalents and short-term investments	60,276,945		60,276,945	
Investment income due and accrued	1,886,542		1,886,542	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	16,324,025	181,310	16,142,715	
Deferred premiums, agents' balances and installments booked but deferred	1,847,916		1,847,916	
Reinsurance:				
Amounts recoverable from reinsurers	7,664,643		7,664,643	
Other amounts receivable under reinsurance	120,874		120,874	
Current federal and foreign income tax recoverable and interest thereon	2,892,391		2,892,391	
Net deferred tax asset	12,213,932	4,774,127	7,439,805	
Electronic data processing equipment and software	475,725	475,725		
Receivable from parent, subsidiaries and affiliates	101,201		101,201	
Aggregate write-ins for other than invested assets	478,923	34,914	444,010	
Total Assets	\$ 423,312,267	\$5,466,076	\$ 417,846,191	

Liabilities, Surplus and Other Funds
December 31, 2016

		Notes
Losses	\$ 172,840,195	2
Reinsurance payable on paid losses and loss adjustment expenses	4,789	
Loss adjustment expenses	52,862,070	2
Commissions payable, contingent commissions and other similar charges	3,571,988	
Other expenses	4,875,901	
Taxes, licenses and fees	440,779	
Unearned premiums	32,619,359	
Ceded reinsurance premiums payable	6,974,239	
Funds held by company under reinsurance treaties	2,044	
Provision for reinsurance	197,064	
Payable to parent, subsidiaries and affiliates	30,502	
Aggregate write-ins for liabilities	33,695	
Total Liabilities	\$ 274,452,624	
Common capital stock	4,100,000	
Gross paid-in and contributed surplus	95,783,200	
Unassigned funds	43,510,366	
Surplus as regards policyholders	\$ 143,393,566	
Total Liabilities, Capital and Surplus	\$ 417,846,191	

Statement of Income
December 31, 2016

UNDERWRITING INCOME	
Premiums earned	\$ 89,388,509
DEDUCTIONS	
Losses incurred	\$ 82,365,790
Loss adjustment expenses incurred	25,087,719
Other underwriting expenses incurred	<u>12,835,639</u>
Total Underwriting Deductions	<u>120,289,149</u>
Net Underwriting Gain or (Loss)	<u>\$ (30,900,640)</u>
INVESTMENT INCOME	
Net investment income earned	\$ 12,289,420
Net realized capital gains (losses) less capital gains tax	<u>572,975</u>
Net Investment Gain or (Loss)	<u>\$ 12,862,395</u>
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	\$ 7,835
Aggregate write-ins for miscellaneous income	<u>858</u>
Total Other Income	<u>\$ 8,694</u>
Net income after dividends to policyholders and before federal income taxes	\$ (18,029,551)
Federal and foreign income taxes incurred	<u>(7,209,990)</u>
Net Income (Loss)	<u><u>\$ (10,819,561)</u></u>

Reconciliation of Capital and Surplus
December 31, 2011 to December 31, 2016

	Common Capital Stock	Gross Paid-In and Contributed Surplus	Unassigned Surplus	Total
December 31, 2011	\$ 4,100,000	\$ 55,458,225	\$ 48,659,620	\$ 108,217,845
Operations 2012 (1)			12,553,106	12,553,106
Paid-in Surplus (2)		35,087		35,087
Dividends (3)			(10,000,000)	(10,000,000)
Operations 2013 (1)			6,751,473	6,751,473
Paid-in Surplus (2)		55,698		55,698
Dividends (3)			(10,000,000)	(10,000,000)
Operations 2014 (1)			10,722,419	10,722,419
Paid-in Surplus (2)		78,219		78,219
Dividends (3)			(10,000,000)	(10,000,000)
Operations 2015 (1)			6,885,576	6,885,576
Paid-in Surplus (2)		10,070,027		10,070,027
Operations 2016 (1)			(12,061,828)	(12,061,828)
Paid-in Surplus (2)		30,085,944		30,085,944
December 31, 2016	<u>\$ 4,100,000</u>	<u>\$ 95,783,200</u>	<u>\$ 43,510,366</u>	<u>\$ 143,393,566</u>

- (1) Operations defined as: Net income (loss), change in unrealized capital gains (loss), change in net deferred income tax, change in non-admitted assets and change in provision for reinsurance.
(2) Surplus adjustments Paid-in.
(3) Dividends to stockholders.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS FROM EXAMINATION

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

(1) Bonds \$ 258,826,213

Long-term bonds constitute the largest category of cash and invested assets as of December 31, 2016 comprising 68.2% of total cash and invested assets. With respect to credit

quality standards, approximately \$238.9 million or 92.3% of the Company's total bond holdings were categorized as NAIC Class 1 investment grade bonds. Investment grade NAIC Class 2 bonds totaled approximately \$17.9 million or 6.9% of total bond holdings. The remaining 0.8% or approximately \$2.0 million of total bond holdings were non-investment grade NAIC Class 3 bonds.

(2) Losses	\$ 172,840,195
Loss adjustments expenses	\$ 52,862,070

The Department contracted INS Consultants, Inc. (INS Actuary), to conduct an independent review of the Company's claims unpaid reserve and unpaid claims adjustment expenses reserve amounts reported by the Company as of December 31, 2016. The INS Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The INS Actuary determined that the Company's reserve amounts, as reported in the Company's Annual Statements, were reasonably stated. The Company's Statement of Actuarial Opinion and Actuarial Memorandum as of December 31, 2016 were signed by Lisa A. Hays, FSAS, MAAA, Vice President and Actuary, GAIC.

SUBSEQUENT EVENTS

Effective January 1, 2017, AESLIC and AEIC entered into an Amended and Restated Pooling Agreement, whereby AESLIC became liable for 100% of the insurance liability and related expenses of AEIC. During the examination period, AESLIC was liable for 90% of the pooled liabilities and retroceded 10% of pooled liabilities and related expenses back to AEIC.

In 2017, the Company strengthened the American Empire Surplus Lines Pool's net loss and loss adjustment expense reserves on accident years 2016 and prior by approximately \$8,070,000, which was 3.2% of net pooled reserves and 4.9% of policyholder surplus, as of December 31, 2016.

Effective December 31, 2017, GAHI paid a dividend in the form of 100% of the stock of AESLIC, including its subsidiaries, to AFG. Contemporaneous with the dividend transaction, AFG contributed 100% of the stock of AESLIC, including its subsidiaries, to GAIC. The effect was a transfer of ownership of AESLIC from GAHI to GAIC.

Effective January 1, 2018, AESLIC and AEIC became parties to a pooling agreement with GAIC and certain of its subsidiaries. In addition, AESLIC and AEIC entered into reinsurance agreements with GAIC. The effect of these agreements was for AESLIC and AEIC to transfer all of their direct and assumed insurance liabilities to GAIC. GAIC retains 100% of the pooled business.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

There were no recommendations in the prior report of examination.

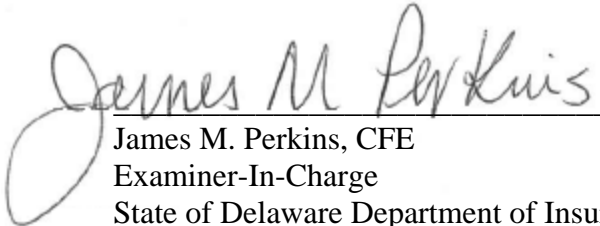
SUMMARY OF RECOMMENDATIONS

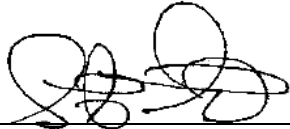
No examination report recommendations were noted as a result of this examination.

CONCLUSION

The assistance and cooperation of examiners representing the ODI, as well as examiners from the other state departments on the coordinated examination, is acknowledged. In addition, the assistance of INS Consultants, the Company's outside audit firm, E&Y, the AFG Internal Audit Department and the Company's management and staff was appreciated and is also acknowledged.

Respectfully submitted,


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


Steve Guest, CFE, CPA, ACI
Supervising Examiner
State of Delaware Department of Insurance