REPORT OF EXAMINATION

OF THE

REPUBLIC INDEMNITY COMPANY OF AMERICA

AS OF

DECEMBER 31, 2011

Filed January 8, 2013

TABLE OF CONTENTS

Los Angeles, California
November 2, 2012

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

REPUBLIC INDEMNITY COMPANY OF AMERICA

(hereinafter also referred to as the Company) at its home office located at 15821 Ventura Boulevard, Encino, California 91436.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This examination was conducted concurrently with the examinations of other insurance entities in the holding company group, including the Company's subsidiary, Republic Indemnity Company of California. Participating in this multi-state coordinated examination were the following states: Delaware, New York, Ohio, and Texas, with the state of Ohio serving as the lead state.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; and sales and advertising.

SUBSEQUENT EVENTS

On August 28, 2012, the Company received a Certificate of Authority from the state of Virginia authorizing the Company to transact property and casualty insurance in the Commonwealth of Virginia. The Company plans to transact workers' compensation business in the Commonwealth of Virginia. Its projections forecast that the Company's direct written business will be $200,000 in the first year, and increase to $1 million of direct written premium by the third year.

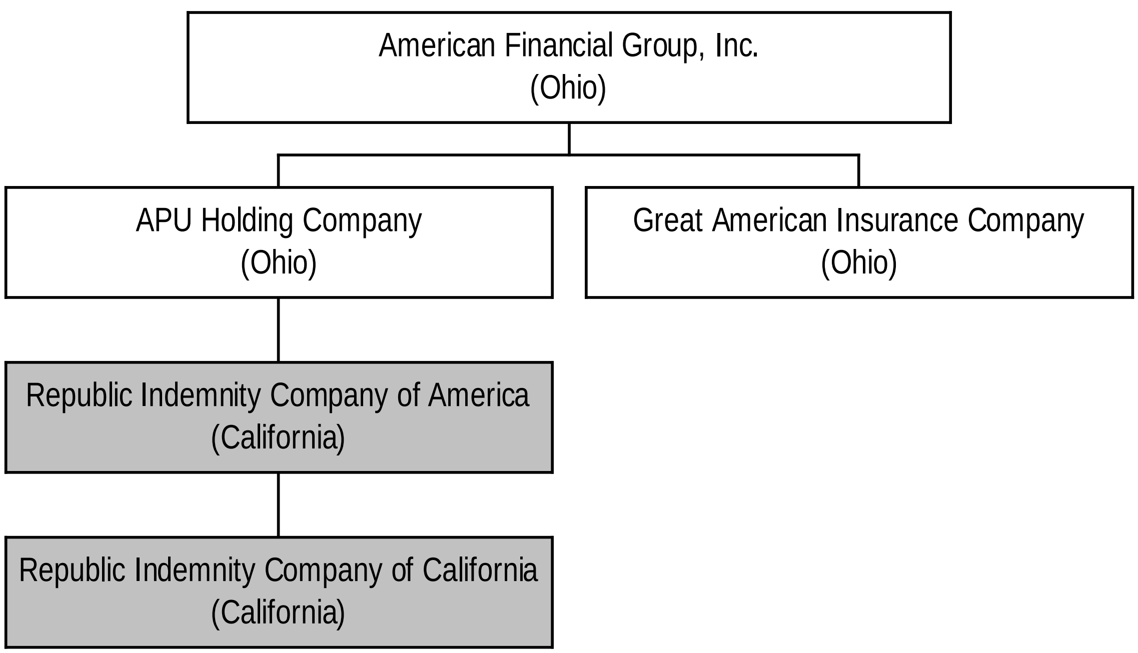
COMPANY HISTORY

The Company received non-cash contributions from its ultimate parent, American Financial Group, Inc. (AFG) totaling $144,954, $156,521, and $138,049 for the years 2009, 2010, and 2011, respectively. The non-cash contributions were made to the Company in relation to an AFG stock incentive plan and were recorded as increases in its gross paid-in and contributed surplus. Under the AFG stock incentive plan, employees of AFG and its subsidiaries are eligible to receive equity awards in the form of stock options, stock appreciation rights, restricted stock awards, restricted stock units, and/or stock awards. The Company booked the non-cash contributions as offsets to salary expenses, federal income taxes payable, and deferred tax assets.

With respect to the three-year period under review, dividend distributions to the Company's sole stockholder, APU Holding Company were $40 million, $10 million, and $28 million for 2009, 2010, and 2011, respectively. Prior approval for a $10 million extraordinary dividend distribution (2010) was granted by the California Department of Insurance on March 18, 2010. The other distributions were ordinary dividends and required no prior approval.

MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by American Financial Group, Inc. The following abridged organization chart depicts the Company's relationship within the holding company system (all ownership is 100%):



The ten members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2011:

Directors

Name and Residence	Principal Business Affiliation
Ronald J. Brichler Wyoming, Ohio	Executive Vice President Great American Insurance Company Property & Casualty Group
Gary J. Gruber Cincinnati, Ohio	Executive Vice President Great American Insurance Company Property & Casualty Group
David Harkins Westlake Village, California	Senior Vice President Republic Indemnity Company of America Republic Indemnity Company of California
Karen H. Horrell Cincinnati, Ohio	Senior Vice President Great American Insurance Company Corporate Services & Financial Group
Keith A. Jensen Cincinnati, Ohio	Executive Vice President Great American Insurance Company Corporate Services & Financial Group
Donald D. Larson Cincinnati, Ohio	President & Chief Operating Officer Great American Insurance Company Property & Casualty Group
Dwayne T. Marioni Novato, California	President & Chief Executive Officer Republic Indemnity Company of America Republic Indemnity Company of California
David P. Mitchell Agoura Hills, California	Senior Vice President Republic Indemnity Company of America Republic Indemnity Company of California
Michael E. Sullivan, Jr. West Chester, Ohio	Senior Vice President Great American Insurance Company Property & Casualty Group

Name and Residence	Principal Business Affiliation
David J. Witzgall Villa Hills, Kentucky	Senior Vice President, Chief Financial Officer & Treasurer Great American Insurance Company Corporate Services & Financial Group

Principal Officers

Name	Title
Dwayne T. Marioni	President and Chief Executive Officer
Marion S. Chappel	Senior Vice President, Chief Financial Officer, and Treasurer
DeAllen L. Goodwin	Senior Vice President
David Harkins	Senior Vice President
David P. Mitchell	Senior Vice President
Rao V. Tadepalli	Senior Vice President and Chief Information Officer

Management Agreements

Investment Services Agreement: The Company, its subsidiary Republic Indemnity Company of California (RICC), and other affiliates, are parties to an Investment Services Agreement with American Money Management Corporation (AMMC), as amended effective January 1, 1996. Under the terms of the agreement, AMMC provides management and accounting services related to the Company's and its affiliates investment portfolios. Expenses incurred by AMMC for services under this agreement are charged and paid quarterly and pro-rated on the basis of the proportion of each Company's portfolio value to the total portfolio value administered by AMMC. For 2009, 2010, and 2011, the Company paid AMMC $754,079, $162,673, and $411,305, respectively, under the terms of this agreement.

Service Agreement: Effective December 31, 2009, the Company and its subsidiary, RICC, entered into a Service Agreement. Under the terms of the agreement, the Company provides RICC with the following services: claims, accounting, underwriting, actuarial, telecommunication, data processing, legal, payroll, purchasing, and employee relations services. Expenses incurred in connection with the service agreement are allocated between the parties in proportion with each party's respective participation in the Intercompany Pooling Agreement as discussed in the reinsurance section of this report. The agreement was approved by the California Department of Insurance (CDI) on December 23, 2009. For 2009, 2010, and 2011, RICC paid the Company $1,200,477, $1,724,202, and $934,263, respectively, under the terms of this agreement.

General Services Agreement: Effective August 1, 1996, the Company and its subsidiary, RICC, are parties to a General Services Agreement with Great American Insurance Company (GAIC) and certain affiliated companies. Under the terms of the agreement, each of the parties has agreed to provide printing, office duplicating, telecommunications, purchasing, personnel, data processing, administrative, consultative, and other services as requested by any of the other parties. Fees payable for services furnished are to be based on actual cost. For 2009, 2010, and 2011, the Company paid GAIC $3,992,520, $2,913,949, and $3,008,505, respectively, under the terms of this agreement.

Claims Services Agreement: Effective August 30, 2006, the Company and its subsidiary, RICC, have been parties to a Workers Compensation Claims Services Agreement with an affiliate, GAIC. Under the terms of the agreement, GAIC provides certain claims handling services for the Company and RICC, and compensation is based on actual costs incurred. For 2009, 2010, and 2011, the Company paid GAIC $49,900, $56,827, and $36,040, respectively, under the terms of this agreement.

Tax Allocation Agreement: Effective December 31, 2005, a Tax Allocation Agreement was implemented between American Financial Group, Inc. (AFG) and certain specified subsidiaries, including the Company. This agreement superseded the previous tax allocation agreement which had been in effect since 1974. Under the terms of the agreement, federal income tax returns are filed on a consolidated basis on behalf of AFG and the specified subsidiaries. The entity's tax liability or refund is determined as if the entity was filing on a separate basis. This Tax Allocation Agreement was approved by the CDI on November 29, 2005. The Company paid (recovered) the following taxes during the examination period:

Year	Amount
2009	$ (1,964,232)
2010	(4,574,716)
2011	1,449,828
Total	$ (5,089,120)

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to write various property and casualty coverages in the District of Columbia and the following 38 states:

Alabama	Illinois	Missouri	South Carolina
Alaska	Indiana	Montana	South Dakota
Arizona	Iowa	Nebraska	Tennessee
Arkansas	Kansas	Nevada	Texas
California	Kentucky	New Mexico	Utah
Colorado	Louisiana	North Carolina	Washington
Delaware	Maine	Ohio	West Virginia
Georgia	Maryland	Oklahoma	Wisconsin
Hawaii	Michigan	Oregon	
Idaho	Mississippi	Rhode Island	

During 2011, the Company wrote $68.1 million of direct premiums; 99.5% pertained to the workers' compensation line of business, and the remaining portion consisted of excess liability workers' compensation coverage. All business written under the excess liability workers' compensation program was discontinued in 2010, and is in run-off. The following table reflects the two largest premium producing states:

State	Direct Premium Written	Percentage of Total
California	$49,549,593	73%
Alaska	$12,149,692	18%

The Company's workers' compensation book of business is produced through 1,200 brokerage firms which target all workers' compensation risk classes except petroleum and mining. In recent years, the Company has focused on skilled classes and small retail operations, de-emphasizing construction and other high risk classes.

REINSURANCE

Intercompany Pooling Agreement

The Company and its wholly-owned subsidiary, Republic Indemnity Company of California (RICC), are parties to an Intercompany Pooling Agreement, effective January 1, 1991 and amended on December 31, 2009. Under the terms of this agreement, substantially all direct and assumed business written by the two companies is pooled. Premiums, losses, and expenses incurred are then reapportioned and shared by the Company and RICC in the proportions of 97% and 3%, respectively. This agreement was approved by the California Department of Insurance on December 23, 2009.

Assumed

The Company has two fronting arrangements with its affiliate, Great American Insurance Company (GAIC), covering (1) out of state incidental workers' compensation and (2) excess liability workers' compensation risks; 100% of the business written by GAIC is ceded to the Company. Effective December 2010, the Company terminated the fronting arrangement which covered assuming the excess liability workers' compensation business.

Ceded

The following is a summary of the Company's principal reinsurance agreements in-force as of December 31, 2011:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Worker's compensation Excess of Loss:			
Excess of Loss First Layer	Swiss Reinsurance America Corporation (50%) – Authorized Reinsurer Republic Indemnity Group (50%)	$1 million, plus 50% of the participation of $1 million or $500,000	$1 million (As a result of the Group's 50% participation interest in the agreement, the reinsurer's maximum liability is limited to 50% of $1 million or $500,000)
Second Layer	Swiss Reinsurance America Corporation (60%) – Authorized Reinsurer Great American Insurance Company (20%) – Authorized and Affiliated Reinsurer Republic Indemnity Group (20%)	$2 million	$3 million (As a result of the Group's 20% participation interest in the agreement, the reinsurer's maximum liability is limited to 80% of $3 million or $2.4 million)
Third Layer	Swiss Reinsurance America Corporation (65%) – Authorized Aspen Insurance UK Limited (12.5%) – Authorized Reinsurer Lloyd's Syndicate No. 1084 (10%) – Authorized Reinsurer Lloyd's Syndicate No. 2987 (12.5%) –Authorized Reinsurer	$5 million	$5 million
Workers' Compensation Catastrophe Excess of Loss::			
Coverage A:			
First layer	Various Authorized Reinsurer (92.5%) / Various Unauthorized Reinsurer (7.5%)	$10 million	$10 million
Second Layer	Various Authorized Reinsurer (80%) / Various Unauthorized Reinsurer (20%)	$20 million	$30 million

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer	Various Authorized Reinsurer (65.5%) / Various Unauthorized Reinsurer (34.5%)	$50 million	$50 million
Fourth Layer	Various Authorized Reinsurer (74%) / Various Unauthorized Reinsurer (26%)	$100 million	$50 million
Coverage B:			
First layer	Various Authorized Reinsurer (87%) / Various Unauthorized Reinsurer (13%)	$10 million	$10 million
Second Layer	Various Authorized Reinsurer (87%) / Various Unauthorized Reinsurer (13%)	$20 million	$30 million
Third Layer	Various Authorized Reinsurer (88%) / Various Unauthorized Reinsurer (12%)	$50 million	$50 million

As of December 31, 2011, ceded reinsurance recoverables totaled $130.5 million or 46.8% of surplus as regards policyholders. Approximately $34.4 million of the ceded reinsurance recoverables were from affiliated admitted reinsurers with the remaining $96.1 million from nonaffiliated admitted and non-admitted reinsurers.

ACCOUNTS AND RECORDS

Effective July 1, 2009, the Company adopted Statement of Statutory Accounting Principles (SSAP) No. 43R which requires loan-backed and structured securities in an unrealized loss position which the Company intends to sell or does not have the intent and ability to hold until recovery to be written down to fair value as a realized loss. SSAP No. 43R also requires a one-time cumulative effect adjustment to change the amortized cost of loan-backed and structured securities to the present value of expected future cash flows at July 1, 2009 for securities still held where an other-than-temporary impairment to fair value was previous recognized under SSAP 43. As a result, the Company recorded an increase of cumulative effect adjustment in bonds of $520,000 and a decrease in net deferred tax assets of $182,000.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 704,691,082	$	$ 704,691,082	
Preferred stocks	6,382,541		6,382,541	
Common stocks	29,505,371		29,505,371	
Cash and short-term investments	42,864,184		42,864,184	
Receivable for securities	37,314		37,314	
Investment income due and accrued	8,478,698		8,478,698	
Premiums and agents' balances in course of collection	7,570,388	300,342	7,270,046	
Premiums, agents' balances and installments booked but deferred and not yet due (including $(3,400,509) earned but unbilled premiums)	(3,400,509)		(3,400,509)	
Amount recoverable from reinsurers	10,511,651		10,511,651	
Funds held by or deposited with reinsured companies	17,673		17,673	
Current federal and foreign income tax recoverable and interest thereon	562,268		562,268	
Net deferred tax asset	31,726,169	11,121,290	20,604,879	
Electronic data processing equipment and software	6,038,224	6,038,224	0	
Furniture and equipment, including health care delivery assets	134,619	134,619	0	
Aggregate write-ins for other than invested assets	3,603,319	329,850	3,273,469	
Total assets	$ 848,722,992	$ 17,924,325	$ 830,798,667	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 441,287,454	(1)
Reinsurance payable on paid loss and loss adjustment expenses		72,546,899	
Commissions payable, contingent commissions and other similar charges		948,177	
Other expenses		4,637,655	
Taxes, licenses and fees		304,780	
Unearned premiums		11,775,773	
Ceded reinsurance premiums payable		2,126,709	
Funds held by company under reinsurance treaties		12,824,353	
Amounts withheld or retained by company for account of others		531	
Provision for reinsurance		2,594,252	
Payable to parent, subsidiaries and affiliates		1,732,383	
Aggregate write-ins for liabilities		1,176,446	
Total liabilities		551,955,412	
Aggregate write-ins for special surplus funds	$ 8,542,545		
Common capital stock	3,500,000		
Gross paid-in and contributed surplus	179,537,492		
Unassigned funds (surplus)	87,263,218		
Surplus as regards policyholders		278,843,255	
Total liabilities, surplus and other funds		$ 830,798,667	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 142,440,422
Deductions:		
Losses and loss expenses incurred	$ 107,348,766	
Other underwriting expenses incurred	46,159,080	
Total underwriting deductions		153,507,846
Net underwriting loss		(11,067,424)
Investment Income		
Net investment income earned	$ 32,393,526	
Net realized capital gain	920,782	
Net investment gain		33,314,308
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $33,074 amount charged off $152,801)	$ (119,727)	
Aggregate write-ins for miscellaneous income	141	
Total other loss		(119,586)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		22,127,298
Dividends to policyholders		622,088
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		21,505,210
Federal and foreign income taxes incurred		518,722
Net income		$ 20,986,488

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 282,087,600
Net income	$ 20,986,488	
Change in net unrealized capital gains	610,759	
Change in net deferred income tax	(3,860,351)	
Change in nonadmitted assets	5,258,646	
Change in provision for reinsurance	(204,371)	
Surplus adjustments: Paid-in	138,049	
Dividends to stockholders	(28,000,000)	
Aggregate write-ins for gains in surplus	1,826,435	
Change in surplus as regards policyholders for the year		(3,244,345)
Surplus as regards policyholders, December 31, 2011		$ 278,843,255

Reconciliation of Surplus as Regards Policyholders
from December 31, 2008 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 292,871,148
Net income	$ 55,804,066	$	
Net unrealized capital gains	4,092,462		
Change in net deferred income tax		14,790,072	
Change in nonadmitted assets	7,999,318		
Change in provision for reinsurance	1,097,263		
Cumulative effect of changes in accounting principles	520,001		
Surplus adjustments: Paid-in	439,524		
Dividends to stockholders		78,000,000	
Aggregate write-ins for gains in surplus	8,809,545		
Total gains and losses	$ 78,762,179	$ 92,790,072	
Net decrease in surplus as regards policyholders			(14,027,893)
Surplus as regards policyholders, December 31, 2011, per Examination			$ 278,843,255

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2011 were found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Management Agreements (Page 5): The Company was hereby reminded that it must observe the requirements stipulated in California Insurance Code Section 1215.5(b)(4). The Company has complied with the recommendation.

Accounts and Records – Information System Controls (Page 11): It was recommended that the Company formally document the annual review and update of its business continuity/disaster recovery plan. The Company has complied with the recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company’s officers and employees during the course of this examination.

Respectfully submitted,

______/S/___________________
Vivien Fan, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California