
AMENDED FILING EXPLANATION

The Five-Year Historical Data pages have been amended as a result of an amendment to the Risk-Based Capital filing for Great American Insurance Company.

The electronic filing version of the Notes to the Financial Statements has been changed to reflect the appropriate amount for Note 10e.



ANNUAL STATEMENT

For the Year Ended December 31, 2002
of the Condition and Affairs of the

GREAT AMERICAN INSURANCE COMPANY

NAIC Group Code..... 0084, 0084 NAIC Company Code..... 16691 Employer's ID Number..... 31-0501234
(Current Period) (Prior Period)

Organized under the Laws of OHIO State of Domicile or Port of Entry OHIO
Country of Domicile USA
Incorporated..... March 7, 1872 Commenced Business..... March 7, 1872

| | | |
|---------------------------------------|---|--|
| Statutory Home Office | 580 Walnut Street Cincinnati OH 45202 <i>(Street and Number) (City or Town, State and Zip Code)</i> | |
| Main Administrative Office | 580 Walnut Street Cincinnati OH 45202 <i>(Street and Number) (City or Town, State and Zip Code)</i> | 513-369-5000 <i>(Area Code) (Telephone Number)</i> |
| Mail Address | 580 Walnut Street Cincinnati OH 45202 <i>(Street and Number or P. O. Box) (City or Town, State and Zip Code)</i> | |
| Primary Location of Books and Records | 580 Walnut Street Cincinnati OH 45202 <i>(Street and Number) (City or Town, State and Zip Code)</i> | 513-369-5000 <i>(Area Code) (Telephone Number)</i> |
| Internet Website Address | www.GreatAmericanInsurance.com | |
| Statement Contact | Robert James Schwartz <i>(Name)</i> BSchwartz@GAIC.com <i>(E-Mail Address)</i> | 513-369-5092 <i>(Area Code) (Telephone Number) (Extension)</i> 513-369-3873 <i>(Fax Number)</i> |
| Policyowner Relations Contact | 580 Walnut Street Cincinnati OH 45202 <i>(Street and Number) (City or Town, State and Zip Code)</i> | 800-972-3008 <i>(Area Code) (Telephone Number) (Extension)</i> |

OFFICERS

President Carl Henry Lindner III Treasurer Keith Alan Jensen Secretary Karen Holley Horrell

| | | | |
|-----------------------|-----------------------|------------------------|----------------------|
| Donald Dumford Larson | Ronald James Brichler | Gary John Gruber | Robert Eugene Maly |
| John Raymond Miner | Vito Charles Peraino | Robert Earl Dobbs | John Linn Doellman |
| Allen Fredrick Eling | Sandra Woeste Heimann | Eve Cutler Rosen | John Adalbert Rowney |
| Roger Smith | Anne Nichols Watson | David John Witzgall | Kathleen Joan Brown |
| Paul George Friedmann | Ronald Charles Hayes | Daniel McGregor Keefe | Lisa Ann Pennekamp |
| Robert James Schwartz | Mary Olsen Stearns | Thomas Edward Mischell | Fred Joseph Runk |

DIRECTORS OR TRUSTEES

| | | | |
|--------------------|------------------------|-----------------------|-----------------------|
| Gary John Gruber | Karen Holley Horrell | Keith Alan Jensen | Donald Dumford Larson |
| Carl Henry Lindner | Carl Henry Lindner III | Stephen Craig Lindner | John Raymond Miner |

State of..... Ohio
County of..... Hamilton

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

| | | |
|---|---|---|
| _____ (Signature) Carl Henry Lindner III (Printed Name) President | _____ (Signature) Karen Holley Horrell (Printed Name) Secretary | _____ (Signature) David John Witzgall (Printed Name) Controller |
|---|---|---|

Subscribed and sworn to before me this
10th day of February, 2003

- a. Is this an original filing? Yes [X] No [X]
- b. If no:
1. State the amendment number 1
 2. Date filed..... 03/07/2003
 3. Number of pages attached..... 2

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

1.) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Great American Insurance Company ("the Company") are presented on the basis of accounting practices prescribed or permitted by the Ohio Department of Insurance.

The Ohio Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Ohio for determining and reporting the financial condition and results of operations of an insurance company, for purposes of determining its solvency under the Ohio Insurance Law. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* has been adopted as a component of prescribed or permitted practices by the state of Ohio.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policies

Investments – Invested asset values are generally stated as follows:

Bonds, including issuer obligations, mortgage-backed securities and asset-backed securities rated 1 and 2 are stated at amortized cost using the interest method; all others are stated at the lower of amortized cost or market. For mortgage-backed and asset-backed securities, dealer modeled prepayment assumptions are used at the date of purchase to determine effective yields; significant changes in estimated cash flows from the original purchase assumptions are accounted for on a prospective basis.

Preferred stocks with mandatory sinking funds rated RP1 and RP2 are stated at amortized cost; perpetual preferred stocks rated P1 and P2 are stated at market; all others are stated at the lower of cost, amortized cost, or market.

Common stocks are stated at market except investment in subsidiaries.

Investments in insurance subsidiaries are stated at the statutory equity in net assets plus any applicable remaining goodwill. Goodwill is amortized on a straight-line basis over ten years. Investments in non-insurance subsidiaries are stated at NAIC specific values.

Mortgage loans on real estate are stated at the aggregate unpaid balance, net of unamortized discount.

Real estate or property acquired in satisfaction of debt are stated at the lower of depreciated cost or market.

Short-term investments are stated at cost.

Other invested assets are stated at the lower of cost or market.

Unpaid Losses and Loss Adjustment Expense Reserves - The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on the direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses and development on reported losses based on past experience; and (d) estimates based on experience of expenses for investigating and adjusting claims. The total of these factors is reduced for portions ceded to other reinsurers. All such estimates are based on the current state of the law and coverage litigation, which could change substantially by the time claims are settled. These liabilities are subject to the impact of changes in claim amounts and frequency and other factors. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the statement of income in the period in which determined.

Premium Deficiency Reserve – The Company uses anticipated investment income as a factor in premium deficiency calculations.

Premium Recognition - Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Generally, for direct business, such reserves are computed by pro rata methods. For certain collateral protection products, earned premium and unearned premium reserves are computed consistent with the proportion of the total exposure provided throughout the term of the contract. For assumed business, unearned premium reserves are based on reports received from ceding companies for reinsurance.

Underwriting Expense Recognition – Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

2.) ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

A. The Company did not have any material changes in accounting principles and/or corrections of errors, other than the items disclosed in Note 2B.

B. The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the state of Ohio. Effective January 1, 2001, the state of Ohio required that insurance companies domiciled in the state of Ohio prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedure Manual* subject to any deviation prescribed by the State of Ohio insurance commissioner.

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

Accounting changes adopted to conform to the provisions of the NAIC *Accounting Practices and Procedure Manual* are reported as changes in accounting principles. The cumulative effect of the changes in principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in the accounting principle. As a result of these changes, the Company reported a change of accounting principles, an adjustment that decreased unassigned funds (surplus), of \$(17,089,783) as of January 1, 2001. The components of the adjustment are as follows:

| | |
|--------------------------------------|-----------------------|
| Deferred tax assets (net) | \$64,944,152 |
| Guaranty fund accrual | (2,299,200) |
| Investment in subsidiaries | 33,012,683 |
| Non-tabular loss reserve discounting | (11,343,091) |
| Investment in affiliates | (96,135,327) |
| Post-employment benefits | (5,269,000) |
| Total | <u>\$(17,089,783)</u> |

3.) BUSINESS COMBINATIONS AND GOODWILL

A. Statutory Purchase Method

The Company purchased 100% of the stock of Worldwide Insurance Company ("Worldwide") on April 9, 1999. Worldwide is licensed in 41 states and sells private passenger automobile insurance. The cost was \$157,250,000, resulting in goodwill in the amount of \$66,653,767. Goodwill amortization relating to the purchase of Worldwide was \$6,855,600 for 2002 and 2001.

The Company purchased 100% of the stock of Great American Fidelity Insurance Company ("Great American Fidelity") on December 30, 1994. Great American Fidelity is a surplus lines insurance company domiciled in Delaware and authorized as a surplus lines company in 46 other states. The cost was \$20,262,449, resulting in goodwill in the amount of \$1,092,500. Goodwill amortization relating to the purchase of Great American Fidelity was \$109,250 for 2002 and 2001.

B. Merger – The Company was not a party to any merger transactions during 2002.

C. Impairment Loss – Not applicable.

4.) DISCONTINUED OPERATIONS

The Company did not discontinue any operations during 2002.

5.) INVESTMENTS

A. Mortgage Loans – The Company invested in two new mortgage loans in 2002 with interest rates of 3.5% and 4.5%. The Company did not reduce any interest rates of outstanding mortgage loans during the year. The maximum percentage of any one mortgage loan to the value of the security is 79.6%. As of year end, the Company has one mortgage loan with a statement value of \$3,450,314 with interest more than 180 days overdue of \$2,278,075. There were no taxes, assessments or amounts advanced and not included in the mortgage loan total. The 2002 statement value of impaired loans with a related allowance for credit losses is \$3,450,314 with an allowance for credit loss of \$1,430,000. The average recorded investment in impaired loans was \$3,450,314. There was no interest income recognized on an accrual basis or cash basis on the impaired loan during 2002. All proceeds received on the impaired loan are recorded as a recovery of principal before any interest income is recognized.

B. Debt Restructuring

| | |
|---|-------------|
| 1. The total recorded investment in restructured loans, as of year end | \$3,486,356 |
| 2. The realized capital losses related to these loans | \$8,323,000 |
| 3. Total contractual commitments to extend credit to debtors owning receivables whose terms have been modified in troubled debt restructurings | \$0 |
| 4. The Company accrues interest income on impaired loans to the extent it is deemed collectible (delinquent less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis. | |
| 5. The Company has not recorded any allowance for credit losses for restructured debt. | |

C. The Company does not invest in reverse mortgages.

D. Loan-Backed Securities

The Company uses dealer-modeled prepayment assumptions for mortgage-backed and asset-backed securities at the date of purchase to determine effective yields; significant changes in estimated cash flows from the original purchase assumptions are accounted for on a prospective basis. In determining the market value of its loan-backed securities, the Company obtains the majority of its pricing from dealer quotes. When dealer quotes are unavailable, the Company uses EJV Partners, L.P. pricing service or management estimates.

E. The Company does not invest in repurchase agreements.

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

6.) JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

- A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.
- B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

7.) INVESTMENT INCOME

- A. Due and accrued income was excluded from surplus on the following basis:
1. All investment income due and accrued with amounts that are over 90 days past due.
 2. The total amount excluded from surplus was \$76,750.

8.) DERIVATIVE INSTRUMENTS

The Company's investment objectives do not include holding or issuing derivative financial instruments.

9.) INCOME TAXES

- A. The components of the net deferred tax assets/liabilities at December 31 are as follows:

| | <u>2002</u> | <u>2001</u> |
|---|----------------------|----------------------|
| Gross deferred tax assets | \$287,360,683 | \$285,936,148 |
| Gross deferred tax liabilities | (66,131,019) | (78,005,124) |
| Net deferred tax assets | 221,229,664 | 207,931,024 |
| Deferred tax assets non-admitted | (137,225,643) | (131,749,045) |
| Admitted deferred tax assets | <u>\$ 84,004,021</u> | <u>\$ 76,181,979</u> |
| | | |
| Increase (decrease) in non-admitted deferred tax assets | <u>\$ 5,476,598</u> | <u>\$ 16,092,864</u> |

- B. The Company has recognized all deferred tax liabilities.

- C. The components of current income tax incurred are as follows:

| | <u>2002</u> | <u>2001</u> |
|-----------------------------|-----------------------|----------------------|
| Current year income tax | \$(10,968,000) | \$(2,640,000) |
| Prior period tax adjustment | (7,791,537) | (3,358,008) |
| Foreign income tax | 3,948,838 | (805,000) |
| Current income tax incurred | <u>\$(14,810,699)</u> | <u>\$(6,803,008)</u> |

The changes in main components of deferred tax assets and deferred tax liabilities are as follows:

| <u>Deferred Tax Assets resulting from</u> <u>book/tax differences in:</u> | <u>2002</u> | <u>2001</u> | <u>Difference</u> |
|---|----------------------|----------------------|-----------------------|
| Amortization of intangibles | \$779,506 | \$869,912 | \$(90,406) |
| Non-admitted assets | 20,265,829 | 23,117,778 | (2,851,949) |
| Investments | 96,163,200 | 99,311,800 | (3,148,600) |
| Unrealized losses | 9,381,741 | 9,780,068 | (398,327) |
| Loss reserves | 78,862,818 | 81,583,349 | (2,720,531) |
| Unearned premiums | 52,931,347 | 54,011,557 | (1,080,210) |
| Loss carryforwards | 8,057,350 | - | 8,057,350 |
| Underwriting expenses | 12,023,625 | 10,019,494 | 2,004,131 |
| Accruals | 8,848,317 | 7,207,866 | 1,640,451 |
| Other | 46,950 | 34,324 | 12,626 |
| Total deferred tax assets | <u>\$287,360,683</u> | <u>\$285,936,148</u> | <u>\$1,424,535</u> |
| Deferred tax assets non-admitted | <u>\$137,225,643</u> | <u>\$131,749,045</u> | <u>\$(5,476,598)</u> |
| | | | |
| <u>Deferred tax liabilities resulting from</u> <u>book/tax differences in:</u> | <u>2002</u> | <u>2001</u> | <u>Difference</u> |
| Salvage and subrogation | \$697,369 | \$1,005,070 | \$(307,701) |
| Investments | 1,489,821 | 1,974,506 | (484,685) |
| Software development | 408,371 | 3,756,617 | (3,348,246) |
| Depreciation | 1,090,360 | 287,529 | 802,831 |
| Underwriting expenses | 2,124,455 | - | 2,124,455 |
| Unrealized gains | 59,912,650 | 70,697,900 | (10,785,250) |
| Other | 407,993 | 283,502 | 124,491 |
| Total deferred tax liabilities | <u>66,131,019</u> | <u>\$78,005,124</u> | <u>\$(11,874,105)</u> |
| Net deferred tax assets | <u>\$221,229,664</u> | <u>\$207,931,024</u> | <u>\$13,298,640</u> |

GREAT AMERICAN INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

The changes in net deferred income taxes is comprised of the following (this analysis excludes non-admitted assets; the change in non-admitted assets is reported separately from the change in net deferred income taxes in the Underwriting and Investment Exhibit):

| | 2002 | 2001 | Change |
|---|----------------------|----------------------|--------------------|
| Total deferred tax assets | \$287,360,683 | \$285,936,148 | \$1,424,535 |
| Total deferred tax liabilities | 66,131,019 | 78,005,124 | (11,874,105) |
| Net deferred tax assets | <u>\$221,229,664</u> | <u>\$207,931,024</u> | \$13,298,640 |
| Tax effect of unrealized gains (losses) | | | 10,386,923 |
| Change in net deferred income tax | | | <u>\$2,911,717</u> |

- D. The Company's income tax expense and change in deferred taxes differs from the amount obtained by applying the federal statutory rate of 35% to net income after dividends to policyholders for the following reasons:

| | 2002 | 2001 |
|--|-----------------------|-----------------------|
| Income taxes at the statutory rate | \$(11,684,955) | \$(16,980,267) |
| Foreign taxes | 3,948,838 | (805,000) |
| Prior period tax adjustment | (7,791,537) | 2,692,054 |
| Non-admitted assets | 2,851,950 | (23,117,778) |
| Tax exempt interest deduction | (758,450) | (703,850) |
| Dividend received deduction | (4,921,700) | (11,397,400) |
| Other items | 633,438 | 571,230 |
| Total | <u>\$(17,722,416)</u> | <u>\$(49,741,011)</u> |
| Federal and foreign income taxes incurred | \$(14,810,699) | \$(6,803,008) |
| Change in net deferred income taxes excluding unrealized | (2,911,717) | (42,938,003) |
| Total statutory income taxes | <u>\$(17,722,416)</u> | <u>\$(49,741,011)</u> |

- E. Operating Loss Carryforwards and Income Taxes Available for Recoupment:

At December 31, 2002, the Company had \$8,057,350 of net loss carryforward originating in 2002 which expire, if unused, in 2007.

The amount of federal income taxes incurred and available for recoupment in the event of future net losses: Current year \$0; first preceding year \$0; second preceding year \$0.

- F. The Company's federal income tax return is consolidated.

1. The Company's federal income tax return is consolidated with the following entities:

| | |
|--|---|
| AAG Holding Company, Inc. | AAG Insurance Agency, Inc. |
| AAG Insurance Agency of Alabama, Inc. | AAG Insurance Agency of Massachusetts, Inc. |
| AAG Insurance Agency of Texas, Inc. | ADL Financial Services, Inc. |
| AFC Coal Properties, Inc. | American Commonwealth Development Company |
| American DataSolutions International, Inc. | American Deposit Insurance Company |
| American Empire Insurance Company | American Empire Surplus Lines Insurance Company |
| American Empire Underwriters, Inc. | American Financial Corporation |
| American Financial Corporation (Inactive) | American Financial Enterprises, Inc. |
| American Insurance Agency, Inc. | American Memorial Marketing Services, Inc. |
| American Money Management Corporation | American Payroll Services, Inc. |
| American Premier Insurance Company | American Premier Underwriters, Inc. |
| American Retirement Life Insurance Company | American Signature Underwriters, Inc. |
| American Special Risk, Inc. | Ann Arbor Railroad Company (The) |
| Annuity Investors Life Insurance Company | Associates of the Jersey Company (The) |
| Atlanta Casualty Company | Atlanta Casualty General Agency, Inc. |
| Atlanta Casualty Group, Inc. | Atlanta Insurance Brokers, Inc. |
| Atlanta Reserve Insurance Company | Atlanta Specialty Insurance Company |
| Aviation Specialty Managers, Inc. | Brothers Pennsylvanian Corporation |
| Brothers Port Richey Corporation | Brothers Property Corporation |
| Brothers Property Management Corporation | Brothers Railyard Corporation |
| Budget Insurance Premiums, Inc. | Cal Coal, Inc. |
| Charleston Harbor Marina, Inc. | CHATBAR, Inc. |
| Chatham Enterprises, Inc. | Consolidated Financial Corporation |
| Coventry Insurance Company | Crop Managers Insurance Agency, Inc. |
| CSW Management Services, Inc. | Delbay Corporation |
| Dempsey & Siders Agency, Inc. | Detroit Manufacturers Railroad Company |
| Dixie Terminal Corporation | Driskill Holdings, Inc. |
| Dudley L. Moore Insurance, Inc. | Eden Park Insurance Brokers, Inc. |
| ESC, Inc. | Fairmont Holdings, Inc. |
| FCIA Management Company, Inc. | Fidelity Excess and Surplus Insurance Company |
| FlexTech Holding Co., Inc. | FWC Corporation |
| GAI Warranty Company | GAI Warranty Company of Florida |
| Gains Group, Inc. (The) | GALIC Brothers, Inc. |
| GALIC Disbursing Company | Global Premier Finance Company |
| Granite Finance Co., Inc. | Great American Advisors, Inc. |
| Great American Agency of Texas, Inc. | Great American Alliance Insurance Company |
| Great American Assurance Company | Great American Claims Services, Inc. |

NOTES TO FINANCIAL STATEMENTS

| | |
|--|---|
| Great American Contemporary Insurance Company | Great American Custom Insurance Services California, Inc. |
| Great American Custom Insurance Services Illinois, Inc. | Great American Custom Insurance Services, Inc. |
| Great American Custom Insurance Services Massachusetts, Inc. | Great American Custom Solutions, Inc. |
| Great American E & S Insurance Company | Great American Fidelity Insurance Company |
| Great American Financial Resources, Inc. | Great American Holding, Inc. |
| Great American Insurance Agency, Inc. | Great American Insurance Company |
| Great American Insurance Company of New York | Great American Life Assurance Company |
| Great American Life Insurance Company | Great American Lloyd's, Inc. |
| Great American Lloyd's Insurance Company | Great American Management Services, Inc. |
| Great American Protection Insurance Company | Great American Re Inc. |
| Great American Security Insurance Company | Great American Spirit Insurance Company |
| Great Southwest Corporation | Grizzly Golf Center, Inc. |
| Hangar Acquisition Corp. | Indianapolis Union Railway Company (The) |
| Infinity Agency of Texas, Inc. | Infinity Group, Inc. (The) |
| Infinity Insurance Company | Infinity National Insurance Company |
| Infinity Property and Casualty Corporation | Infinity Select Insurance Company |
| Instech Corporation | Integrated Display Systems, Inc. |
| Key Largo Group, Inc. | Keyes-Graham Insurance Agency, Inc. |
| Laurentian Credit Services Corporation | Laurentian Marketing Services, Inc. |
| Laurentian Securities Corporation | Leader Group, Inc. |
| Leader Insurance Company | Leader Managing General Agency, Inc. |
| Leader National Agency, Inc. | Leader Preferred Insurance Company |
| Leader Specialty Insurance Company | Lehigh Valley Railroad Company |
| Lifestyle Financial Investments, Inc. | Lifestyle Financial Investments Agency of Ohio, Inc. |
| Lifestyle Financial Investments of Indiana, Inc. | Lifestyle Financial Investments of the Northwest, Inc. |
| Loyal American Life Insurance Company | Loyal Marketing Services, Inc. |
| Marathon Manufacturing Companies, Inc. | Marathon Manufacturing Company |
| Mid-Continent Casualty Company | Mid-Continent Insurance Company |
| Money-Plan International, Inc. | Moore Group Inc. |
| New York and Harlem Railroad Company (The) | Oklahoma Surety Company |
| One East Fourth, Inc. | Owasco River Railway, Inc. (The) |
| PCC 38 Corp. | PCC Chicago Realty Corp. |
| PCC Gun Hill Realty Corp. | PCC Maryland Realty Corp. |
| PCC Michigan Realty, Inc. | PCC Real Estate, Inc. |
| PCC Scarsdale Realty Corp. | PCC Technical Industries, Inc. |
| Penn Camarillo Realty Corp. | Penn Central Energy Management Company |
| Penn Towers, Inc. | Pennsylvania Company |
| Pioneer Carpet Mills, Inc. | Pittsburgh and Cross Creek Railroad Company |
| PLLS, Ltd. | Pointe Apartments, Inc. |
| Premier Dealer Services, Inc. | Premier Lease & Loan Services Insurance Agency, Inc. |
| Premier Lease & Loan Services of Canada, Inc. | Professional Risk Brokers of Connecticut, Inc. |
| Professional Risk Brokers, Inc. | Professional Risk Brokers of Ohio, Inc. |
| Purity Financial Corporation | Regal Insurance Company |
| Republic Indemnity Company of America | Republic Indemnity Company of California |
| Republic Indemnity Medical Management, Inc. | Risico Management Corporation |
| Skipjack Marina Corp. | Solid State Scientific Hi-Rel, Inc. |
| Solid State Scientific International, Inc. | Stone Mountain Professional Liability Agency, Inc. |
| Superior NWWN of Ohio, Inc. | SWTC, Inc. |
| TEJ Holdings, Inc. | Terminal Realty Penn Co. |
| Texas Windsor Group, Inc. | Three East Fourth, Inc. |
| TICO Insurance Company | Transport Insurance Company |
| Treaty House, Ltd. (d/b/a Mr. Budget) | United Railroad Corp. |
| United Teacher Associates, Ltd. | Waynesburg Southern Railroad Company |
| Windsor Group, Inc. | Windsor Insurance Company |
| World Houston, Inc. | Worldwide Casualty Insurance Company |
| Worldwide Direct Auto Insurance Company | Worldwide Insurance Company |

2. Tax payments and the recoupment (in the event of future losses) of tax paid pursuant to the tax allocation agreement are computed on a separate company basis as determined in accordance with generally accepted accounting principles, based upon the rules provided by the Internal Revenue Code of 1986 as amended.

10.) INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

- A. The Company is an indirect 100% owned subsidiary of American Financial Group, Inc.; 100% of the outstanding common stock of the Company is directly owned by American Financial Corporation. See Schedule Y, Part 1, Organizational Chart.

- B. Detail of Transactions Greater than 1/2% of Admitted Assets

The Company received a return of capital distribution from American Empire Surplus Lines Insurance Company of \$20,000,000 on December 26, 2002. The Company paid a return of capital distribution to American Financial Corporation of \$75,000,000 on September 3, 2002; included in that amount was the common stock of Great American Security Insurance Company and Great American Spirit Insurance Company. The Company received capital contributions from American Financial Corporation as follows: November 13, 2002, \$90,000,000; December 20, 2002, \$60,000,000; December 26, 2002, \$40,000,000; and December 30, 2002, \$45,000,000. The Company made a capital contribution to Mid-Continent Casualty Company of \$20,000,000 on December 27, 2002.

- C. Change in terms of Intercompany Arrangements - None

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

D. Amounts Due to or from Related Parties

The Company has the following receivables due from affiliated companies:

| | Receivable |
|---|---------------------|
| American Financial Group, Inc. | \$5,618,842 |
| Moore Group, Inc. | 1,591,154 |
| Infinity Group, Inc. | 727,750 |
| Republic Indemnity Insurance Company of America | 400,721 |
| American Empire Surplus Lines Insurance Company | 353,229 |
| American Money Management Corporation | 350,774 |
| Brothers Property Corporation | 291,909 |
| Mid-Continent Casualty Company | 241,154 |
| GAI Warranty | 201,581 |
| Balances less than \$100,000 | 467,357 |
| Total | <u>\$10,244,471</u> |

The Company has the following amounts payable to affiliated companies:

| | Payable |
|-----------------------------------|--------------------|
| Aviation Specialty Managers, Inc. | \$103,619 |
| American Special Risk, Inc. | 190,583 |
| Dempsey and Siders Agency, Inc. | 288,770 |
| American Financial Group, Inc. | 584,449 |
| GAI Warranty Company | 1,067,612 |
| FCIA Management Company, Inc. | 4,238,323 |
| Balances less than \$100,000 | 95,062 |
| Total | <u>\$6,568,418</u> |

E. Guarantees or Contingencies for Related Parties

1. The Company has issued guarantees of facultative reinsurance certificates issued by its indirectly wholly-owned subsidiary, American Empire Insurance Company. As of December 31, 2002, the total amount of limits on the facultative reinsurance certificates in force guaranteed by the Company was approximately \$246 million on a gross basis and approximately \$98 million on a net basis.
2. The Company has also issued cut-through endorsements for the benefit of certain pooled subsidiaries and affiliates.

F. Management or service contracts and all cost sharing arrangements involving the Company or any affiliated insurer

1. The Company and affiliated insurance companies have contracts with American Money Management Corporation (an affiliate) which, subject to the direction of the Finance Committees of the companies, provide for management and accounting services related to the investment portfolios.
2. Certain administrative, consultative, printing, office duplicating, telecommunications, purchasing, personnel, data processing and other services are provided under General Services Agreements between the Company and insurance and non-insurance affiliates for which actual costs are allocated on the basis of usage.
3. Certain administrative, management, accounting, data processing, underwriting, claim, collection and investment services are provided under agreements between the Company and affiliates at charges not unfavorable to the Company or insurance affiliates.

G. The Company is an indirect 100% owned subsidiary of American Financial Group, Inc.; 100% of the outstanding common stock of the Company is directly owned by American Financial Corporation. See Schedule Y, Part 1, Organizational Chart.

H. The Company owns shares in an affiliate, American Financial Enterprises, Inc., which owns 9,953,392 shares of the Company's ultimate parent, American Financial Group, Inc. In accordance with NAIC Securities Valuation Office guidelines, the asset value of American Financial Enterprises, Inc. has been reduced by approximately \$315 million.

I. Investments in Affiliates Greater than 10% of Admitted Assets - The Company owns 83% of the outstanding common stock of Great American Financial Resources, Inc. ("GAFRI") whose carrying value exceeds 10% of the admitted assets of the Company. The Company uses the market valuation approach to determine its carrying value of \$422,122,340 for GAFRI, in accordance with SSAP no. 46. At 12/31/2002, the Company's interest in GAFRI per the New York Stock Exchange quoted price was valued at \$603,031,914 which was \$180,909,574 in excess of carrying value.

J. The Company did not recognize any impairment write down for its investments in Subsidiary, Controlled or Affiliated Companies during the statement period.

11.) DEBT

- A. The Company does not have any capital note obligations.
- B. The Company does not have any outstanding liability for borrowed money.

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

12.) RETIREMENT PLAN, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

A. Defined Benefit Plans

The Company does not have any defined benefit plans.

B. Defined Contribution Plans

The Company does not have any defined contribution plans.

C. Multiemployer Plans

The Company does not have any multiemployer plans.

D. Consolidated/Holding Company Plans

Employee Retirement Plan

American Financial Group, Inc. has established the American Financial Group Retirement and Savings Plan for the benefit of employees of American Financial Group, Inc. and its participating subsidiaries. All employees meeting minimum requirements regarding service are eligible to participate in this Plan. The Plan is a defined contribution plan in which participating employees are entitled to share in contributions made by the Company on their behalf. The Plan has three types of contributions, including (1) Retirement Contributions made by the Company, (2) 401(k) Contributions made by participating employees, and (3) Matching Contributions made by the Company. The benefits for the Retirement Contributions Account are based on eligible compensation for each year of participation. Funding is determined annually. Each Company contributes an amount for the Retirement Contributions Account based upon the relationship of its total eligible compensation to total eligible compensation under the Plan. In addition, participating employees are permitted to make 401(k) Contributions to the Plan. Matching Contributions may be made by the Company based on the amount of 401(k) Contributions made by the participating employees. Plan costs are funded as they accrue and vested benefits are fully funded. Both Retirement Contributions and Matching Contributions to the Plan are subject to the discretion of the Board of Directors of the Company, and the Company has no liability for future contributions to the Plan. At December 31, 2002, the fair market value of the Plan's Retirement Contributions Account assets was \$243,364,068 and the fair market value of the Plan's Matching Contributions Account assets was \$12,764,826. The Company's share of the expense for the plan during 2002 was \$7,242,289.

Postretirement Benefit Plan

The Company provides postretirement health care and life insurance benefits to employees meeting age and service requirements through plans sponsored by American Financial Group, Inc. The retiree medical care plan is a contributory plan covering all eligible employees hired prior to 1993; employees hired after 1992 pay the full cost of retiree medical coverage. The Company currently pays the full cost of life insurance coverage for eligible retirees. The medical plan is funded by monthly payments to a trust. Life insurance benefits are provided by insurance contracts. American Financial Group, Inc. has the right to modify or terminate either of these plans in the future. The Company has the right to terminate its participation at any time in the future.

The Company accrues its postretirement benefits over the period the employees qualify for such benefits. At December 31, 2002, the Company's accumulated postretirement benefit obligation was \$18,626,591 using a discount rate of 6.75% of which \$11,530,000 is currently accrued. Net postretirement benefits costs for the year ended December 31, 2002, were \$1,564,242 which includes service cost, interest cost and amortization of the transition obligation.

The weighted average annual assumed rate of increase in the health care cost trend rate is 10% for 2003 and is assumed to decrease gradually to 5% over 5 years and to remain at that level thereafter. The effect of a 1% increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation at December 31, 2002 by \$895,842.

E. Postemployment Benefits and Compensated Absences

The Company has accrued for postemployment benefits in accordance with SSAP No. 11.

13.) CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

A. The Company has 100,000 shares of common stock authorized, issued and outstanding with a par value of \$154.406.

B. The Company has no preferred stock outstanding.

C. The maximum amount of dividends or distributions which may be paid to stockholders by property/casualty insurance companies domiciled in the State of Ohio without (i) prior approval or (ii) expiration of a 30 day waiting period without disapproval of the Director of Insurance is the greater of net income or 10% of policyholders' surplus as of the preceding December 31, but only to the extent of earned surplus as of the preceding December 31. The maximum amount of ordinary dividends or distributions which may be paid in 2003 based on earned surplus is \$0.

D. Within the limitations of (C) above, there are no specific restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.

E. There were no restrictions placed on the Company's unassigned funds.

F. Mutual Surplus Advances - Not applicable.

G. No stock of the Company or its affiliates is held by it for special purposes.

H. Changes in balances of special surplus funds from the prior year are due to retroactive reinsurance agreements. See Note 22F(d).

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

I. The portion of unassigned funds represented or reduced by each item below is as follows:

| <u>Description</u> | <u>Cumulative Increase (Decrease) in Surplus</u> | <u>Current Year Increase (Decrease) in Surplus</u> |
|------------------------------|--|--|
| 1. Unrealized gain or loss | \$(51,490,155) | \$(1,585,117) |
| 2. Nonadmitted assets | (195,128,011) | 2,566,367 |
| 3. Provision for reinsurance | (35,881,092) | (5,547,939) |

J. The Company does not have any surplus debentures or similar obligations.

K. Quasi Reorganizations - Not applicable.

14.) CONTINGENCIES

A. Contingent Commitments

At December 31, 2002, the Company had outstanding loan commitments to third parties of \$11,265,684. Private placement loans to these companies at that date were \$52,702,708. At December 31, 2002, the Company had outstanding loan commitments to affiliates of \$92,153,600; loans outstanding to these affiliates were \$18,346,400 at that date.

B. Assessments

The Company has received notifications of insolvency of a number of insurance companies. It is expected that these insolvencies will result in guaranty fund assessments against the Company at some future date. The Company has accrued for these assessments.

C. Gain Contingencies

The Company does not have any gain contingencies.

D. All Other Contingencies

Various lawsuits against the Company have arisen in the ordinary course of the Company's business. The Company's management believes that contingent liabilities arising from such litigation and other matters will not have a material effect on the financial position or results of operations of the Company.

15.) LEASES

A. Lessee Operating Lease

1. The Company leases office facilities, automobiles, computer equipment, and furniture and office equipment under various noncancelable operating lease agreements. Rental expense for 2002 and 2001 was approximately \$24,652,435 and \$23,676,785, respectively.

2. Basic rental commitments as of December 31, 2002 are:

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008-2012</u> |
|-------------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| Field Offices | \$18,030,267 | \$12,137,541 | \$9,030,366 | \$6,955,197 | \$6,100,777 | \$13,755,925 |
| Home Office facilities | 4,787,010 | 4,278,702 | 4,273,942 | 4,271,341 | 1,767,805 | 0 |
| Automobiles | 1,372,584 | 1,063,440 | 501,289 | 215,497 | 21,460 | 0 |
| Computer equipment | 2,838,229 | 1,941,223 | 157,573 | 126,360 | 21,060 | 0 |
| Furniture and equipment | 2,486,446 | 1,930,891 | 746,088 | 392,404 | 984 | 0 |
| Total long-term leases | <u>\$29,514,536</u> | <u>\$21,351,797</u> | <u>\$14,709,258</u> | <u>\$11,960,799</u> | <u>\$7,912,086</u> | <u>\$13,755,925</u> |

3. In December 2001, the Company entered into a sale-leaseback transaction with General Electric Capital Corporation involving certain fixed assets (furniture, fixtures and equipment) of the Company in the amount of \$3,211,725. The financing included a three-year maturity and a five-year maturity structure, depending on the asset sold.

B. Lessor Leases - The Company's income generated from leasing activities is less than 2% of gross investment income.

C. Leveraged Leases - The Company does not invest in leveraged leases.

16.) INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Company does not have any financial instruments with off-balance sheet risk or financial instruments with concentrations of credit risk.

17.) SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

A. The Company did not sell any receivable balances during 2002.

B. Transfer and Servicing of Financial Assets – Not applicable.

C. The Company was not involved in any wash sale transactions during 2002.

NOTES TO FINANCIAL STATEMENTS**18.) GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A & H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

The Company does not serve as an administrator for uninsured accident and health plans or uninsured portions of partially insured plans.

19.) DIRECT PREMIUM WRITTEN PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS

The Company did not have any direct premium written by a managing general agent or third party administrator.

20.) OTHER ITEMS

A. Extraordinary Items – Not applicable.

B. Troubled Debt Restructuring for Debtors – Not applicable.

C. Other Disclosures

1. The Company has an agreement with the Cincinnati Reds LLC for the naming rights of the new baseball stadium (The Great American Ball Park) in exchange for which the Company has agreed to pay \$72.7 million to the Cincinnati Reds LLC over a thirty year period expiring in 2030. As of December 31, 2002, the outstanding commitment is \$68.7 million.
2. The Company may be deemed for purposes of applicable securities laws to be a controlling person with respect to certain securities of Great American Financial Resources, Inc. and Marsh Supermarkets, Inc. As a controlling person, sales of such securities may be limited to some degree and in some instances may be effected only in connection with a current registration statement.
3. The Company and certain pooled affiliates have an Agreement with The Ohio Casualty Insurance Company to provide facultative reinsurance in excess of loss of \$10 million on a specific account, and to release Ohio Casualty as reinsurer on individual extracontractual losses that exceed \$10 million. (See General Interrogatories Part 2, number 7).

4. Securities Loaned to Others:

| | |
|---|--|
| 1. Dates of transaction - securities delivered | a.) July 4, 2002 b.) September 16, 2002 c.) October 10, 2002 |
| - securities returned on | Open transaction |
| 2. Complete description of securities involved | Conseco, Inc. Senior Note 8.125% due 2/15/2003 |
| 3. Number of shares or amount of bond or other security | a.) \$832,000; b.) \$329,000; c.) \$718,000 |
| 4. Market value on date securities were delivered | a.) \$532,480; b.) \$52,640; c.) \$157,960 |
| Market value on 12/31/2002 | \$638,860 |
| 5. Market value on date securities were returned | N/A |
| 6. Collateral value held | \$676,444 |
| 7. Form of collateral | Cash |
| 8. Collateral held by | The Bank of New York, New York, NY |
| 9. Other entity involved in transaction | Bank of America Corporation, Charlotte, NC |

5. Additional Schedule P Disclosures:

Unpaid Loss and LAE Reserves - 1992 & Prior

| Accident Year | Homeowners/ Farmowners | Private Passenger Auto Liability | Commercial Auto Liability | Workers' Compensation | Commercial Multiple Peril | Special Liability |
|---------------|---------------------------|--|---------------------------------|--------------------------|------------------------------|----------------------|
| Prior | \$309,463 | \$1,564,191 | 1,301,953 | \$81,222,013 | \$22,273,785 | \$1,945,170 |
| 1988 | 1,000 | 7,531 | 217,738 | 6,083,030 | 4,692,192 | 87,313 |
| 1989 | (3,613) | 34,257 | 26,000 | 7,699,723 | 355,269 | 71,892 |
| 1990 | 36,076 | 5,576 | 103,092 | 9,550,591 | 1,524,762 | 109,360 |
| 1991 | 9,805 | 1,553 | 15,944 | 8,048,829 | 547,755 | 197,972 |
| 1992 | 107,912 | 22,973 | 36,697 | 6,573,496 | 3,251,505 | 37,252 |
| 1992 & Prior | \$460,643 | \$1,636,081 | \$1,701,424 | \$119,177,682 | \$32,645,268 | \$2,448,959 |

| Accident Year | Medical Malpractice Occurrence | Medical Malpractice Claims Made | Other Liability Occurrence | Other Liability Claims Made | Products Liability Occurrence | Products Liability Claims Made |
|---------------|--------------------------------------|---------------------------------------|-------------------------------|--------------------------------|-------------------------------------|--------------------------------------|
| Prior | \$2,046,125 | \$0 | \$401,262,186 | \$0 | \$6,941,207 | \$0 |
| 1988 | 0 | 0 | 63,572 | 0 | 222,383 | 0 |
| 1989 | 0 | 0 | 514,802 | 37,334 | 44,519 | 0 |
| 1990 | 0 | 0 | 1,417,204 | 273,457 | (861) | 0 |
| 1991 | 0 | 0 | 1,953,202 | 406,970 | (926) | 0 |
| 1992 | 0 | 0 | 1,444,149 | 177,796 | (1,795) | 0 |
| 1992 & Prior | \$2,046,125 | \$0 | \$401,655,115 | \$895,557 | \$7,204,527 | \$0 |

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

6. The following is an explanation of the Company's basis of allocation of premiums by states, etc. per Schedule T - Exhibit of Premiums Written page 108:

| <u>Lines of Business</u> | <u>Basis of Allocation</u> |
|---|---|
| Fire, Allied lines, Multiple peril crop, Farmowners multiple peril, Homeowners multiple peril, Commercial multiple peril, Earthquake, Glass, Burglary and theft, and Boiler and Machinery | Location of property insured |
| Ocean marine | Location where contract of insurance is negotiated; except for builders' risk which are allocated on location of risk |
| Inland marine | Address of insured or state of principal exposure; bridges and tunnels by location of property |
| Group accident and health, Other accident and health and Credit | Location of assured |
| Workers' compensation | Location of assured's plant or premises |
| Liability other than auto | Location of plant or premises of insured |
| Auto liability and Auto physical damage | Location of principal garage of insured |
| Aircraft (all perils) | Location of airport from which insured aircraft principally operates |
| Fidelity | |
| Check forgery bonds | Location of assured |
| United States Government employee bonds | Location of employee |
| All Other | Location of employer |
| Surety | |
| Judicial bonds | Location of court |
| License bonds | Location of obligee |
| All contracts | Location of work |
| Supply bonds | Location of contractor |
| All other | Location of principal |

- D. At December 31, 2002 and 2001, the Company had premium receivables of \$357,502,904 and \$312,502,566, respectively. Based on Company experience, any uncollectible premiums receivable are not expected to exceed the nonadmitted amounts and therefore, no additional provision has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

- E. Reinsurance Accounted for as a Deposit – Not applicable.

- F. Multiple Peril Crop Insurance

The Company computes the unearned premium reserve associated with the Multiple Peril Crop Insurance Program on a formula basis consistent with the proportion of the exposure over the term of the policy.

The Company reduced its loss expenses for expense payments associated with catastrophe coverage by \$1,372,786 in 2002. The Company reduced its other underwriting expenses for expense payments associates with buy-up coverage by \$34,611,992 in 2002.

- G. Mezzanine Real Estate Loans

The Company does not have any investment in mezzanine real estate loans.

- H. Health Care Receivables – Not applicable.

- I. September 11 Events

The table below shows the gross and net exposures related to the events of September 11, 2001:

| | <u>Gross</u> | <u>Net</u> |
|-----------------------|----------------------|---------------------|
| Liability | \$91,000,000 | \$12,000,000 |
| Workers' compensation | 21,600,000 | 400,000 |
| Property and other | 15,200,000 | 5,600,000 |
| Assumed reinsurance | 5,500,000 | 5,500,000 |
| Total | <u>\$133,300,000</u> | <u>\$23,500,000</u> |

GREAT AMERICAN INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

The amounts ceded to reinsurers are primarily with highly rated reinsurers as shown in the table below:

| S & P Rating | Amount |
|-----------------|---------------|
| AA+ | \$25,400,000 |
| AA | 26,700,000 |
| AA- | 28,900,000 |
| A+ | 8,000,000 |
| A- | 17,000,000 |
| BBB | 1,100,000 |
| NR | 2,700,000 |
| | \$109,800,000 |

The Company does not have any significant contingencies resulting from the events of September 11 that have not been recognized in the financial statements.

J. Real Estate

1. The Company did not recognize any impairment write down for real estate during 2002.
2. The Company does not engage in retail land sale operations.

K. Participating Policies - Not applicable

L. Premium Deficiency Reserves

The Company does not have any premium deficiency reserves.

M. Noncash Transactions

The Company reported the following noncash investing and financing activities:

| | 2002 |
|--|--------------|
| 1. Exchange of debt securities | \$21,874,619 |
| 2. Exchange of equity securities | 11,833,035 |
| 3. Exchange of debt to equity securities | 3,736,447 |
| 4. Securities acquired from capital contributions | 78,205,382 |
| 5. Securities transferred as dividends/return of capital distribution | 26,550,070 |
| 6. Securities acquired in satisfaction of intercompany receivable balances | 69,696,939 |
| 7. Mortgage acquired in sale of real estate proceeds | 21,850,000 |

21.) EVENTS SUBSEQUENT

1. Effective January 1, 2003, Great American entered into a reinsurance agreement with Windsor Insurance Company ("Windsor") to transfer Great American's personal insurance business written through independent agents to Windsor. The personal insurance business transferred to Windsor consists primarily of auto insurance for standard and preferred drivers. Under the agreement, Great American transferred certain insurance liabilities totaling approximately \$180 million and related assets and investments to Windsor. Included in the investments, Great American transferred the ownership of Great American Contemporary Insurance Company and the management rights of Great Texas County Mutual Insurance Company. Also in connection with this transaction, Great American acquired Penn Central U.K. Limited and its subsidiary, Insurance (GB) Limited ("IGB") from Atlanta Casualty Company and entered into a novation agreement with Windsor to assume all liabilities related to Windsor's reinsurance agreement with IGB, and IGB released Windsor from any obligations under the reinsurance agreement.
2. On January 24, 2003, Great American reached an agreement to sell, subject to receipt of certain regulatory approvals and other closing conditions, Worldwide Insurance Company and Worldwide Direct Auto Insurance Company to members of the Response Insurance Group, which are subsidiaries of Direct Response Corporation. In addition to the acquisition of the two companies, Response will acquire Great American's right to renew certain of its personal automobile insurance business written on a direct basis in selected markets.
3. In February 2003, Great American Insurance Company ("GAIC") entered into an agreement for the settlement of asbestos related coverage litigation under insurance policies issued during the 1970's and 1980's. The Company believes that the settlement with parties related to and known as A.P. Green Industries, Inc. ("A.P. Green") will provide financial certainty and a resolution to litigation that represents GAIC's largest known asbestos-related claim and the only such claim that GAIC believes to be material.

The settlement is for \$123.5 million (before tax), all but \$30.0 million of which will be covered by previously established reserves and anticipated reinsurance recoverables for this matter. As a result, GAIC has recorded a pre-tax charge of \$30 million for the fourth quarter of 2002.

The settlement is subject to a number of contingencies, including approval of the bankruptcy court supervising the reorganization of A.P. Green and subsequent confirmation of a plan of reorganization that includes an injunction prohibiting the assertion against Great American of any present or future asbestos personal injury claims under policies issued to A.P. Green and related companies. This process could take a year or more and no payments are required until its completion.

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

22.) REINSURANCE

A. Unsecured Reinsurance Recoverable

The Company's unsecured reinsurance recoverables from those companies that individually exceed 3% of its policyholders' surplus are:

| COMPANY | NAIC GROUP CODE | FEDERAL EMPLOYERS OR ISI IDENTIFICATION # | AMOUNT |
|---|--------------------|--|--------------------|
| American Re-Insurance Company | | 13-4924125 | 143,853,712 |
| General Reinsurance Corporation | | 13-2673100 | 48,260,465 |
| Republic Insurance Company | | 75-1670124 | 174,881 |
| Total Berkshire Hathaway Insurance Group | 31 | | <u>48,435,346</u> |
| Converium Insurance (North America) Inc. | | 06-1182357 | 24,052 |
| Converium Reinsurance North America Inc. | | 06-1325038 | 62,955,998 |
| Total Converium Group | 3018 | | <u>62,980,050</u> |
| Continental Casualty Company | | 36-2114545 | 49,912,281 |
| Continental Insurance Company | | 13-5010440 | 18,983 |
| Continental Reinsurance Corporation | | 13-1941984 | 3,527 |
| Total CNA Insurance Companies | 218 | | <u>49,934,791</u> |
| Everest Reinsurance Company | | 22-2005057 | 46,052,320 |
| Folksamerica Reinsurance Company | | 13-2997499 | 37,144,210 |
| Employers Reinsurance Corporation | | 48-0921045 | 59,111,881 |
| GE Reinsurance Corporation | | 36-2667627 | 13,119,568 |
| Westport Insurance Corporation | | 13-1941868 | 90,713 |
| Total GE Global Insurance Group | 0350 | | <u>72,322,162</u> |
| Hartford Fire Insurance Company | | 06-0383750 | 39,762,177 |
| Mitsui Fire and Marine Insurance Co. of America | | 13-3467153 | 242,050,927 |
| Ohio Casualty Corporation | | 31-0396250 | 289,732,004 |
| North American Specialty Insurance Co. | | 02-0311919 | (20,541) |
| Swiss Reinsurance America Corporation | | 13-1675535 | 139,192,610 |
| Swiss Re Life & Health America Inc. | | 06-0839705 | 110,221 |
| Total Swiss Re Group | 181 | | <u>139,282,290</u> |
| Transatlantic Reinsurance Company | | 13-5616275 | 42,905,001 |
| XL Insurance Company of New York | | 13-3787296 | 427,463 |
| XL Reinsurance America Inc. | | 13-1290712 | 89,939,079 |
| XL Re, Ltd. | | AA-3190757 | 3,187 |
| Total XL Capital Group | 1285 | | <u>90,369,729</u> |

B. Reinsurance Recoverable in Dispute

The Company does not have any reinsurance recoverables on losses in dispute that individually exceed 5% or in the aggregate exceed 10% of its policyholders' surplus.

C. Reinsurance Assumed and Ceded

1. The Company's maximum amount of return commission due as a result of cancellation as of December 31, 2002, of all reinsurance agreements would be:

| | ASSUMED REINSURANCE | | CEDED REINSURANCE | | NET | |
|--------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|
| | Premium Reserve | Commission Equity | Premium Reserve | Commission Equity | Premium Reserve | Commission Equity |
| Affiliates - Pooling | \$841,988,609 | \$0 | \$0 | \$0 | \$841,988,609 | \$0 |
| Affiliates - Non-Pooling | 28,737,418 | 5,750,771 | 26,104,571 | 5,084,613 | 2,632,847 | 666,159 |
| All Other | 39,951,479 | 9,987,870 | 512,494,925 | 117,873,833 | (472,543,446) | (107,885,963) |
| | <u>\$910,677,506</u> | <u>\$15,738,641</u> | <u>\$538,599,496</u> | <u>\$122,958,445</u> | <u>\$372,078,010</u> | <u>\$(107,219,804)</u> |

Direct Unearned Premium Reserve \$375,528,905

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

2. Additional or return commission resulting from existing contractual arrangements are accrued as follows:

| | DIRECT | REINSURANCE | | NET |
|--------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | | Assumed | Ceded | |
| Contingent Commission | \$7,578,694 | \$12,664,548 | \$7,381,399 | \$12,861,843 |
| Sliding Scale Adjustments | - | - | - | - |
| Other Profit Commission Arrangements | - | - | - | - |
| TOTAL | \$7,578,694 | \$12,664,548 | \$7,381,399 | \$12,861,843 |

3. The Company does not have any protected cells.

D. Uncollectible Reinsurance

The Company wrote-off \$21,568 in reinsurance balances due from the companies listed below which are reflected in the 2002 Statement of Income as \$9,297 in losses incurred and \$12,271 in loss adjustment expenses incurred.

| Company | Amount |
|--|-----------------|
| Delta America Re Insurance Company | \$1,594 |
| Dominion Insurance Company of America | 957 |
| English & American Insurance Company, Ltd. | 21,090 |
| Integrity Insurance Company | (4,464) |
| Mentor Insurance, Ltd. | 2,391 |
| Total | \$21,568 |

E. Commutation of Reinsurance Ceded

The Company did not book any commutations of ceded reinsurance in 2002.

F. Retroactive Reinsurance

| | Assumed | Ceded |
|---|------------|----------------------|
| a. Reserves Transferred | | |
| 1. Initial Reserves | \$0 | \$618,742,611 |
| 2. Adjustments – Prior Years | - | (365,508,210) |
| 3. Adjustments – Current Year | - | (72,051,650) |
| 4. Current Total | <u>\$0</u> | <u>\$181,182,751</u> |
| b. Consideration Paid or Received | | |
| 1. Initial Reserves | \$0 | \$494,503,120 |
| 2. Adjustments – Prior Years | - | - |
| 3. Adjustments – Current Year | - | - |
| 4. Current Total | <u>\$0</u> | <u>\$494,503,120</u> |
| c. Paid Losses Reimbursed or Recovered: | | |
| 1. Prior Years | \$0 | \$365,508,210 |
| 2. Current Year | - | 72,051,650 |
| 3. Current Total | <u>\$0</u> | <u>\$437,559,860</u> |
| d. Special Surplus from Retroactive Reinsurance: | | |
| 1. Initial Surplus Gain or Loss | \$0 | \$124,239,491 |
| 2. Adjustments – Prior Years | - | - |
| 3. Adjustments – Current Year | - | - |
| 4. Current Year Restricted Surplus | - | \$124,239,491 |
| 5. Cumulative Total Transferred to Unassigned Funds | <u>\$0</u> | <u>\$0</u> |

- e. All cedents and reinsurers involved in all transactions included in the summary totals above:

| Assumed: | |
|----------|------------|
| Company | Amount |
| | <u>\$0</u> |

| Ceded: | |
|---|----------------------|
| Company | Amount |
| Mitsui Marine & Fire Insurance Co. of America (NAIC Company Code 22551) | \$60,439,724 |
| Ohio Casualty Insurance Company (NAIC Company Code 24074) | 120,743,027 |
| | <u>\$181,182,751</u> |

- f. List total Paid Loss/LAE amounts recoverable and the amounts more than 90 days overdue, and collateral held with respect to amounts recoverable from unauthorized reinsurers:

| Company | Total Paid Loss & LAE Recoverable | Amount Over 90 Days Overdue |
|---|-----------------------------------|-----------------------------|
| Mitsui Marine & Fire Insurance Co. of America (NAIC Company Code 22551) | \$1,937,703 | \$0 |
| Ohio Casualty Insurance Company (NAIC Company Code 24074) | (691,259) | - |
| | | <u>\$0</u> |

GREAT AMERICAN INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

2. Unauthorized Reinsurers

| Company | Total Paid Loss & LAE Recoverable | Amount Over 90 Days Overdue | Collateral Held |
|---------|--------------------------------------|--------------------------------|-----------------|
| | \$0 | \$0 | \$0 |

g. Unpaid Loss and LAE Reserves

| Accident Year | Homeowners/ Farmowners | Commercial Auto Liability | Workers' Compensation | Commercial Multiple Peril | Special Liability | Private Passenger Auto Liability | Other Liability Occurrence |
|---------------|---------------------------|------------------------------|--------------------------|------------------------------|----------------------|--|----------------------------------|
| Prior | 0 | 139,000 | 33,475,996 | 499,000 | 0 | 0 | 4,501,334 |
| 1988 | 0 | 208,670 | 3,163,000 | 971,000 | 0 | 0 | 23,796 |
| 1989 | 0 | 0 | 5,159,583 | 178,162 | 0 | 0 | 0 |
| 1990 | 0 | 112,570 | 4,850,041 | 906,575 | 0 | 0 | 840,544 |
| 1991 | 0 | 15,000 | 4,317,589 | 226,652 | 0 | 0 | 840,052 |
| 1992 | 0 | 58,804 | 4,637,452 | 1,657,011 | 0 | 73 | 1,454,470 |
| 1993 | 0 | 26,320 | 5,685,054 | 731,375 | 50,000 | 24 | 1,302,025 |
| 1994 | 0 | 14,694 | 6,291,490 | 1,080,500 | 0 | 7 | 1,861,615 |
| 1995 | 0 | 38,849 | 8,274,212 | 1,764,255 | 44,000 | 80 | 2,844,225 |
| 1996 | 0 | 364,180 | 7,165,298 | 2,727,250 | 22,000 | (11,957) | 2,734,865 |
| 1997 | 0 | 621,015 | 10,949,627 | 2,646,432 | 31,000 | 51,085 | 3,017,079 |
| 1998 | 35 | 1,440,284 | 11,249,458 | 5,343,614 | 86,000 | 66,340 | 5,998,540 |
| 1999 | (338) | 760,906 | 3,290,465 | 2,626,371 | 0 | 189,973 | 2,080,025 |
| 2000 | 1,059 | 1,397,857 | 7,541,914 | 950,975 | 0 | 258,645 | 2,909,320 |
| 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>\$756</u> | <u>\$5,198,149</u> | <u>\$116,051,179</u> | <u>\$22,309,172</u> | <u>\$233,000</u> | <u>\$554,270</u> | <u>\$30,407,890</u> |

| Accident Year | Other Liability Claims Made | Special Property | Auto Physical Damage | Fidelity & Surety | Products Liability Occurrence | Products Liability Claims Made | Total |
|---------------|-----------------------------------|---------------------|-------------------------|----------------------|-------------------------------------|--------------------------------------|----------------------|
| Prior | 0 | 0 | 0 | 0 | 0 | 0 | 38,615,330 |
| 1988 | 0 | 0 | 0 | 0 | 0 | 0 | 4,366,466 |
| 1989 | 0 | 82,011 | 0 | (3,844) | 192,443 | 0 | 5,608,355 |
| 1990 | 0 | 0 | 0 | 0 | 21,000 | 0 | 6,730,730 |
| 1991 | 0 | 0 | 0 | 0 | 31,000 | 0 | 5,430,293 |
| 1992 | 0 | 0 | 0 | 0 | 12,000 | 0 | 7,819,810 |
| 1993 | 0 | 1,238 | 0 | 44,000 | 4,000 | 0 | 7,844,036 |
| 1994 | 0 | 384 | 0 | 10,000 | 13,000 | 0 | 9,271,690 |
| 1995 | 0 | 2,031 | 0 | 6,000 | 151,000 | 0 | 13,124,652 |
| 1996 | 193,000 | 16,030 | 26,007 | 83,000 | 63,000 | 0 | 13,382,673 |
| 1997 | 329,000 | 70,206 | 92,107 | 29,000 | 521,000 | 0 | 18,357,551 |
| 1998 | 363,292 | 204,300 | 696,775 | 44,000 | 621,000 | 53,000 | 26,166,638 |
| 1999 | 605,924 | 177 | 27,895 | 0 | 367,625 | 61,000 | 10,010,023 |
| 2000 | 429,000 | 113,574 | 259,460 | 0 | 315,700 | 277,000 | 14,454,504 |
| 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>\$1,920,216</u> | <u>\$489,951</u> | <u>\$1,102,244</u> | <u>\$212,156</u> | <u>\$2,312,768</u> | <u>\$391,000</u> | <u>\$181,182,751</u> |

h. Anticipated Salvage and Subrogation (included in Unpaid Loss and LAE Reserves above)

| Accident Year | Homeowners/ Farmowners | Commercial Auto Liability | Workers' Compensation | Commercial Multiple Peril | Special Liability | Private Passenger Auto Liability | Other Liability Occurrence |
|---------------|---------------------------|------------------------------|--------------------------|------------------------------|----------------------|--|----------------------------------|
| Prior | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1988 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1989 | 0 | 24,000 | 84,000 | 23,000 | 0 | 0 | 218,000 |
| 1990 | 0 | 0 | 21,000 | 19,000 | 0 | 0 | 50,000 |
| 1991 | 0 | 0 | 172,000 | 13,000 | 0 | 0 | 97,000 |
| 1992 | 0 | 0 | 106,000 | 16,000 | 0 | 0 | 97,000 |
| 1993 | 0 | 0 | 146,000 | 12,000 | 4,000 | 0 | 91,000 |
| 1994 | 0 | 1,000 | 176,000 | 48,000 | 0 | 0 | 111,000 |
| 1995 | 0 | 2,000 | 105,000 | 37,000 | 3,000 | 0 | 123,000 |
| 1996 | 0 | 4,000 | 59,000 | 60,000 | 2,000 | 0 | 119,000 |
| 1997 | 0 | 12,000 | 55,000 | 32,000 | 1,000 | 0 | 93,000 |
| 1998 | 0 | 26,000 | 39,000 | 22,000 | 6,000 | 0 | 105,000 |
| 1999 | 0 | 19,000 | 18,000 | 26,000 | 0 | 0 | 123,000 |
| 2000 | 0 | 19,000 | 30,000 | 36,000 | 0 | 0 | 100,000 |
| 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>\$0</u> | <u>\$107,000</u> | <u>\$1,011,000</u> | <u>\$344,000</u> | <u>\$16,000</u> | <u>\$0</u> | <u>\$1,327,000</u> |

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

| Accident Year | Other Liability Claims Made | Special Property | Auto Physical Damage | Fidelity & Surety | Products Liability Occurrence | Products Liability Claims Made | Total |
|---------------|-----------------------------|------------------|----------------------|-------------------|-------------------------------|--------------------------------|--------------------|
| Prior | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1988 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1989 | 0 | 5,000 | 0 | 0 | 9,000 | 0 | 358,000 |
| 1990 | 0 | 0 | 0 | 0 | 2,000 | 0 | 92,000 |
| 1991 | 0 | 0 | 0 | 0 | 1,000 | 0 | 283,000 |
| 1992 | 0 | 0 | 0 | 0 | 1,000 | 0 | 220,000 |
| 1993 | 0 | 0 | 0 | 3,000 | 0 | 0 | 256,000 |
| 1994 | 0 | 0 | 0 | 1,000 | 1,000 | 0 | 338,000 |
| 1995 | 0 | 0 | 0 | 0 | 10,000 | 0 | 280,000 |
| 1996 | 14,000 | 1,000 | 2,000 | 6,000 | 4,000 | 0 | 271,000 |
| 1997 | 22,000 | 5,000 | 6,000 | 2,000 | 31,000 | 0 | 259,000 |
| 1998 | 25,000 | 14,000 | 51,000 | 3,000 | 44,000 | 0 | 335,000 |
| 1999 | 26,000 | 0 | 1,000 | 0 | 19,000 | 0 | 232,000 |
| 2000 | 28,000 | 7,000 | 18,000 | 0 | 18,000 | 0 | 256,000 |
| 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>\$115,000</u> | <u>\$32,000</u> | <u>\$78,000</u> | <u>\$15,000</u> | <u>\$140,000</u> | <u>\$0</u> | <u>\$3,185,000</u> |

23.) RETROSPECTIVELY RATED CONTRACTS

- A. Accrued retrospective premiums reported as admitted assets in Page 2, Line 10.3, have been determined based upon loss experience on business subject to such experience rating adjustment. Accrued retrospectively rated premiums, including all of those relating to bulk IBNR, have been determined by or allocated to individual policyholder accounts.
- B. The Company records accrued retrospective premium as an adjustment to earned premiums.
- C. See Schedule P – Part 7A.
- D. Ten percent of the amount not offset by retrospective return premiums, other liabilities to the same party (other than loss and loss expense reserves), or collateral as permitted by SSAP No. 66, Retrospectively Rated Contracts, has been non-admitted.

| | |
|--------------------------------------|--------------------|
| Total accrued retrospective premium | \$5,243,613 |
| Total unsecured amount | 5,243,613 |
| Non-admitted amount (10%) | 524,361 |
| Total admitted retrospective premium | <u>\$4,719,252</u> |

24.) CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides an analysis of the change in loss and loss expense reserves net of reinsurance recoverables (in thousands):

| | 2002 | 2001 |
|--|--------------------|--------------------|
| Balance at beginning of period | <u>\$2,074,982</u> | <u>\$1,990,803</u> |
| Loss and loss expense incurred: | | |
| Current accident year | 728,168 | 779,574 |
| Prior accident years | 141,958 | 103,208 |
| | <u>870,126</u> | <u>882,782</u> |
| Loss and loss expense payments made for: | | |
| Current accident year | (245,837) | (288,093) |
| Prior accident years | (602,697) | (510,510) |
| | <u>(848,534)</u> | <u>(798,603)</u> |
| Balance at end of period | <u>\$2,096,574</u> | <u>\$2,074,982</u> |

The provision for incurred losses and loss adjustment expenses for claims arising in prior years increased by \$141.9 million and \$103.2 million in 2002 and 2001, respectively. In 2002, the increase is primarily due to (i) increasing asbestos reserves \$48 million relating to the settlement of a large asbestos claim (see Note 21), (ii) \$43 million of adverse development in ongoing operations relating to economic conditions and adverse case settlement trends affecting the other liability-claims made, private passenger auto liability, workers' compensation and fidelity and surety lines of business and (iii) \$34 million of adverse claims development in run-off businesses. In 2001, the increase is primarily due to the strengthening of asbestos and environmental reserves of \$85 million based on a study from an outside actuarial firm.

GREAT AMERICAN INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

25.) INTERCOMPANY POOLING ARRANGEMENTS

The Company maintains an inter-company reinsurance pooling agreement with certain affiliates. The effect of the pooling agreement is to transfer all direct insurance liabilities of these affiliates to the Company. The Company retains 100% of the pooled business.

The following table shows participation of each company:

| Company | NAIC Company Code Number | Participation Percentage |
|---|--------------------------------|-----------------------------|
| Great American Insurance Company | 16691 | 100.0% |
| Great American Insurance Company of New York | 22136 | 0.0% |
| Great American Alliance Insurance Company | 26832 | 0.0% |
| Great American Assurance Company | 26344 | 0.0% |
| Great American Contemporary Insurance Company | 10646 | 0.0% |
| Great American E & S Insurance Company | 37532 | 0.0% |
| Great American Fidelity Insurance Company | 41858 | 0.0% |
| Great American Protection Insurance Company | 38580 | 0.0% |
| Great American Security Insurance Company | 31135 | 0.0% |
| Great American Spirit Insurance Company | 33723 | 0.0% |
| Worldwide Insurance Company | 26050 | 0.0% |
| Worldwide Direct Auto Insurance Company | 20133 | 0.0% |
| Worldwide Casualty Insurance Company | 39896 | 0.0% |
| | | 100.0% |

The Company's net underwriting results are determined after making cessions to various other affiliated and non-affiliated reinsurers under terms of other reinsurance agreements. These cessions are made subsequent to the pooling of business from the affiliated pool members to the Company. There are no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Company and the corresponding entries on the assumed and ceded reinsurance schedules of other pool participants. The Provision for Reinsurance (Schedule F, Part 7) is recorded by the Company and is not shared with the other pool participants. Uncollectible reinsurance balances which are written off are subject to the terms of the pooling agreement.

26.) STRUCTURED SETTLEMENTS

- A. The Company has not purchased any annuities under which it is owner and payee to fund future payments that are fixed.
- B. The Company has not purchased any annuities due from any life insurer exceeding 1% of the Company's policyholders' surplus.

27.) HIGH DEDUCTIBLES

As of December 31, 2002, the amount of reserve credit recorded for high deductibles on unpaid claims was \$7,317,190 and the amount billed and recoverable on paid claims was \$27,479,268.

28.) DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES

Tabular Discount - The Company discounts its liabilities for unpaid losses for certain workers' compensation claims, but does not discount unpaid loss adjustment expenses. Most of the discounted Workers' Compensation claims are calculated on a tabular basis using tables promulgated by the appropriate bureaus; the interest rate is 3.5% for most claims, with a maximum interest rate of 5%. The liability for unpaid losses as of December 31, 2002, includes stated case reserves of \$14,629,045 which have been discounted \$8,106,137. This discount is distributed as follows over the years in which the losses were incurred:

| Year Losses were Incurred | Amount of Discount | Year Losses were Incurred | Amount of Discount |
|---------------------------------|-----------------------|---------------------------------|-----------------------|
| Prior to 1988 | \$1,277,048 | 1995 | \$ 1,114,769 |
| 1988 | 40,176 | 1996 | 1,343,126 |
| 1989 | 267,280 | 1997 | 621,557 |
| 1990 | 372,994 | 1998 | 739,191 |
| 1991 | 697,509 | 1999 | 512,914 |
| 1992 | 0 | 2000 | 52,488 |
| 1993 | 334,996 | 2001 | 125,381 |
| 1994 | 170,902 | 2002 | 435,806 |

There has been no change in the interest rates used to discount prior accident years' liabilities from the previous annual statement.

29.) ASBESTOS/ENVIRONMENTAL RESERVES

The Company, through its participation in an inter-company reinsurance pooling arrangement with its affiliates, has exposure to environmental and asbestos claims arising from general liability and commercial multi-peril policies written on a direct and assumed basis.

For claims arising on direct written business, case reserves are established by claim using estimated settlement values and the relative merits of each case. For claims arising from reinsurance assumed, reserves are booked as reported by the ceding company. IBNR reserves are established to supplement case reserves and to establish allocated loss adjustment expense reserves.

GREAT AMERICAN INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

The Company's asbestos and environmental related losses for each of the five most recent calendar years are as follows:

Asbestos Reserves

| | Gross of Reinsurance | | | | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Beginning Reserves | \$122,952,000 | \$192,781,000 | \$194,459,000 | \$173,659,000 | \$302,052,000 |
| Incurred Losses and LAE | 84,107,000 | 15,216,000 | (12,946,000) | 141,444,000 | 51,039,000 |
| Paid Losses and LAE | 14,278,000 | 13,538,000 | 7,854,000 | 13,051,000 | 18,083,000 |
| Ending Reserves | <u>\$192,781,000</u> | <u>\$194,459,000</u> | <u>\$173,659,000</u> | <u>\$302,052,000</u> | <u>\$335,008,000</u> |
| | Net of Reinsurance | | | | |
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Beginning Reserves | \$111,790,000 | \$167,409,000 | \$163,138,000 | \$141,665,000 | \$256,752,000 |
| Incurred Losses and LAE | 70,486,000 | 5,603,000 | (14,496,000) | 127,500,000 | 49,001,000 |
| Paid Losses and LAE | 14,867,000 | 9,874,000 | 6,977,000 | 12,413,000 | 17,315,000 |
| Ending Reserves | <u>\$167,409,000</u> | <u>\$163,138,000</u> | <u>\$141,665,000</u> | <u>\$256,752,000</u> | <u>\$288,438,000</u> |

The Company's asbestos related IBNR and loss adjustment expense reserves held at December 31, 2002 were as follows:

| | <u>IBNR Reserves</u> | <u>LAE Reserves</u> |
|----------------------|----------------------|---------------------|
| Gross of Reinsurance | \$268,328,000 | \$29,513,000 |
| Net of Reinsurance | 233,999,000 | 20,529,000 |

Environmental Reserves

| | Gross of Reinsurance | | | | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Beginning Reserves | \$178,348,000 | \$321,513,000 | \$302,551,000 | \$247,508,000 | \$159,200,000 |
| Incurred Losses and LAE | 167,583,000 | 905,000 | (15,692,000) | (71,354,000) | 7,730,000 |
| Paid Losses and LAE | 24,418,000 | 19,867,000 | 39,351,000 | 16,954,000 | 15,258,000 |
| Ending Reserves | <u>\$321,513,000</u> | <u>\$302,551,000</u> | <u>\$247,508,000</u> | <u>\$159,200,000</u> | <u>\$151,672,000</u> |
| | Net of Reinsurance | | | | |
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Beginning Reserves | \$150,395,000 | \$259,514,000 | \$226,096,000 | \$180,432,000 | \$125,002,000 |
| Incurred Losses and LAE | 135,144,000 | (14,995,000) | (7,733,000) | (42,501,000) | (500,000) |
| Paid Losses and LAE | 26,025,000 | 18,423,000 | 37,931,000 | 12,929,000 | 10,163,000 |
| Ending Reserves | <u>\$259,514,00</u> | <u>\$226,096,000</u> | <u>\$180,432,000</u> | <u>\$125,002,000</u> | <u>\$114,339,000</u> |

The Company's environmental related IBNR and loss adjustment expense reserves held at December 31, 2002 were as follows:

| | <u>IBNR Reserves</u> | <u>LAE Reserves</u> |
|----------------------|----------------------|---------------------|
| Gross of Reinsurance | \$87,425,000 | \$20,973,000 |
| Net of Reinsurance | 61,302,000 | 14,611,000 |

30.) SUBSCRIBER SAVINGS ACCOUNTS

The Company is not a reciprocal exchange and, accordingly, has nothing to report.

31.) FINANCIAL GUARANTY INSURANCE EXPOSURES

The Company does not have any financial guaranty insurance exposures.

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.

| | 1 2002 | 2 2001 | 3 2000 | 4 1999 | 5 1998 |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3) | | | | | |
| 1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)..... | 1,010,916,530 | 812,112,034 | 799,257,768 | 862,097,792 | 806,935,264 |
| 2. Property lines (Lines 1, 2, 9, 12, 21 & 26)..... | 769,091,962 | 684,198,156 | 557,512,185 | 510,888,205 | 420,517,854 |
| 3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)..... | 359,446,518 | 279,082,619 | 319,672,491 | 370,483,024 | 382,332,849 |
| 4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)..... | 264,301,675 | 291,803,291 | 197,798,106 | 123,625,241 | 108,665,294 |
| 5. Non-proportional reinsurance lines (Lines 30, 31 & 32)..... | 0 | 0 | 0 | 0 | 0 |
| 6. Total (Line 34)..... | 2,403,756,685 | 2,067,196,101 | 1,874,240,550 | 1,867,094,262 | 1,718,451,260 |
| Net Premiums Written (Page 8, Part 1B, Col. 6) | | | | | |
| 7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)..... | 499,658,183 | 427,887,342 | 405,770,424 | 405,583,001 | 409,534,362 |
| 8. Property lines (Lines 1, 2, 9, 12, 21 & 26)..... | 226,830,477 | 426,336,191 | 330,565,973 | 311,876,088 | 242,623,238 |
| 9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)..... | 203,909,070 | 167,527,091 | 172,434,914 | 182,902,356 | 204,747,703 |
| 10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)..... | 188,465,972 | 188,810,487 | 135,247,952 | 86,083,407 | 74,143,699 |
| 11. Non-proportional reinsurance lines (Lines 30, 31 & 32)..... | 0 | 0 | 0 | 0 | 0 |
| 12. Total (Line 34)..... | 1,118,863,702 | 1,210,561,111 | 1,044,019,263 | 986,444,852 | 931,049,003 |
| Statement of Income (Page 4) | | | | | |
| 13. Net underwriting gain (Loss) (Line 8)..... | (130,338,172) | (204,703,250) | (62,654,718) | (66,849,698) | (169,519,679) |
| 14. Net investment gain (loss) (Line 11)..... | 112,681,516 | 138,624,848 | 149,454,617 | 144,814,066 | 337,903,763 |
| 15. Total other income (Line 15)..... | (13,990,638) | 18,713,039 | 2,768,151 | (5,333,183) | 94,697,795 |
| 16. Dividends to policyholders (Line 17)..... | 1,738,291 | 1,149,685 | 1,475,796 | 866,979 | 8,953,935 |
| 17. Federal and foreign income taxes incurred (Line 19)..... | (14,810,699) | (6,803,008) | 11,466,000 | 4,540,000 | 43,341,000 |
| 18. Net income (Line 20)..... | (18,574,886) | (41,712,040) | 76,626,254 | 67,224,206 | 210,786,944 |
| Balance Sheet Lines (Pages 2 and 3) | | | | | |
| 19. Total admitted assets excluding Protected Cell (Page 2, Line 26, Col. 3)..... | 4,514,994,485 | 4,045,041,500 | 3,755,671,126 | 3,754,457,348 | 3,711,115,810 |
| 20. Agents' balances or uncollected premiums (Page 2, Col. 3): | | | | | |
| 20.1 In course of collection (Line 10.1)..... | 287,168,516 | 236,929,710 | 102,663,391 | 70,438,263 | 45,074,614 |
| 20.2 Deferred and not yet due (Line 10.2)..... | 49,875,025 | 49,720,369 | 48,650,780 | 81,120,299 | 84,447,391 |
| 20.3 Accrued retrospective premiums (Line 10.3)..... | 4,719,252 | 9,546,653 | 15,896,895 | 0 | 0 |
| 21. Total liabilities excluding Protected Cell (Page 3, Line 24)..... | 3,313,748,256 | 2,984,382,704 | 2,573,979,201 | 2,585,864,007 | 2,448,276,450 |
| 22. Losses (Page 3, Lines 1 & 2)..... | 1,747,070,939 | 1,731,803,417 | 1,668,074,496 | 1,838,166,969 | 1,893,211,996 |
| 23. Loss adjustment expenses (Page 3, Line 3)..... | 353,329,648 | 351,323,670 | 329,789,260 | 356,123,355 | 352,422,664 |
| 24. Unearned premiums (Page 3, Line 9)..... | 752,849,528 | 770,908,317 | 585,442,328 | 512,935,987 | 428,486,940 |
| 25. Capital paid up (Page 3, Lines 28 & 29)..... | 15,440,600 | 15,440,600 | 15,440,600 | 15,440,600 | 15,440,600 |
| 26. Surplus as regards policyholders (Page 3, Line 35)..... | 1,201,246,230 | 1,060,658,796 | 1,181,691,925 | 1,168,593,342 | 1,262,839,360 |
| Risk-Based Capital Analysis | | | | | |
| 27. Total adjusted capital..... | 1,244,455,323 | 1,117,626,381 | 1,229,413,060 | 1,216,308,299 | 1,302,727,761 |
| 28. Authorized control level risk-based capital..... | 371,153,049 | 308,076,407 | 330,993,873 | 351,488,789 | 333,871,101 |
| Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 9, Col. 3) x 100.0 | | | | | |
| 29. Bonds (Line 1)..... | 58.3 | 55.4 | 53.5 | 48.2 | 49.7 |
| 30. Stocks (Lines 2.1 & 2.2)..... | 32.7 | 36.6 | 41.4 | 44.1 | 45.9 |
| 31. Mortgage loans on real estate (Lines 3.1 & 3.2)..... | 2.0 | 1.9 | 1.9 | 1.9 | 1.7 |
| 32. Real estate (Lines 4.1, 4.2 & 4.3)..... | 1.3 | 1.5 | 1.5 | 1.7 | 1.6 |
| 33. Cash and short-term investments (Line 5)..... | 4.2 | 3.4 | 0.7 | 2.5 | 0.0 |
| 34. Other invested assets (Line 6)..... | 1.3 | 1.2 | 1.1 | 1.6 | 1.0 |
| 35. Receivable for securities (Line 7)..... | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| 36. Aggregate write-ins for invested assets (Line 8)..... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 37. Cash and invested assets (Line 9)..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Investments in Parent, Subsidiaries and Affiliates | | | | | |
| 38. Affiliated bonds (Sch. D, Summary, Line 25, Col. 1)..... | 0 | 0 | 0 | 0 | 0 |
| 39. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)..... | 0 | 0 | 0 | 0 | 0 |
| 40. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)..... | 984,030,682 | 1,006,903,021 | 1,101,806,712 | 1,231,777,637 | 1,258,152,209 |
| 41. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)..... | 0 | 0 | 0 | 0 | 0 |
| 42. Affiliated mortgage loans on real estate..... | 34,300,916 | 36,100,342 | 37,422,827 | 48,114,941 | 49,861,024 |
| 43. All other affiliated..... | 28,387,603 | 20,346,400 | 19,584,410 | 22,265,808 | 2,787,500 |
| 44. Total of above lines 38 to 43..... | 1,046,719,201 | 1,063,349,763 | 1,158,813,949 | 1,302,158,386 | 1,310,800,733 |
| 45. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 44 above divided by Page 3, Col. 1, Line 35 x 100.0)..... | 87.1 | 100.3 | 98.1 | 111.4 | 103.8 |

FIVE-YEAR HISTORICAL DATA

(Continued)

| | 1 | 2 | 3 | 4 | 5 |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Capital and Surplus Accounts (Page 4) | | | | | |
| 46. Net unrealized capital gains (losses) (Line 23)..... | 1,684,631 | (99,592,496) | (23,619,129) | (266,307,669) | (227,434,259) |
| 47. Dividends to stockholders (Line 34)..... | 0 | (60,000,000) | (25,000,000) | (71,000,000) | (50,000,000) |
| 48. Change in surplus as regards policyholders for the year (Line 37)..... | 140,587,434 | (121,033,129) | 13,098,583 | (94,246,018) | (91,376,429) |
| Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2) | | | | | |
| 49. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)..... | 560,934,824 | 568,697,077 | 654,311,248 | 425,053,000 | 464,170,438 |
| 50. Property lines (Lines 1, 2, 9, 12, 21 & 26)..... | 385,958,585 | 337,099,408 | 300,014,306 | 280,211,270 | 246,088,425 |
| 51. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)..... | 173,256,195 | 197,030,460 | 220,070,853 | 235,938,792 | 247,889,510 |
| 52. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)..... | 108,126,021 | 67,511,562 | 8,935,599 | 26,007,818 | 18,495,294 |
| 53. Nonproportional reinsurance lines (Lines 30, 31 & 32)..... | 0 | 0 | 0 | 0 | 0 |
| 54. Total (Line 34)..... | 1,228,275,624 | 1,170,338,507 | 1,183,332,007 | 967,210,880 | 976,643,667 |
| Net Losses Paid (Page 9, Part 2, Col. 4) | | | | | |
| 55. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)..... | 351,581,520 | 292,546,711 | 398,113,604 | 242,360,326 | 324,408,190 |
| 56. Property lines (Lines 1, 2, 9, 12, 21 & 26)..... | 130,007,248 | 176,476,862 | 161,688,803 | 140,965,707 | 131,712,269 |
| 57. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)..... | 122,181,051 | 98,833,530 | 123,063,218 | 146,299,957 | 181,942,454 |
| 58. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)..... | 71,674,766 | 31,554,335 | 14,724,985 | 10,986,216 | 11,039,374 |
| 59. Nonproportional reinsurance lines (Lines 30, 31 & 32)..... | 0 | 0 | 0 | 0 | 0 |
| 60. Total (Line 34)..... | 675,444,585 | 599,411,437 | 697,590,611 | 540,612,206 | 649,102,287 |
| Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0 | | | | | |
| 61. Premiums earned (Line 1)..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 62. Losses incurred (Line 2)..... | 61.4 | 65.3 | 53.4 | 54.1 | 72.7 |
| 63. Loss expenses incurred (Line 3)..... | 15.5 | 16.1 | 15.2 | 14.6 | 13.4 |
| 64. Other underwriting expenses incurred (Line 4)..... | 34.6 | 37.5 | 37.7 | 38.7 | 28.9 |
| 65. Net underwriting gain (loss) (Line 8)..... | (11.5) | (18.9) | (6.3) | (7.4) | (14.9) |
| Other Percentages | | | | | |
| 66. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)..... | 36.3 | 32.0 | 35.5 | 35.9 | 25.0 |
| 67. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)..... | 76.9 | 81.4 | 68.6 | 68.7 | 86.0 |
| 68. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34, divided by Page 3, Line 35, Col. 1 x 100.0)..... | 93.1 | 114.1 | 88.4 | 84.4 | 73.7 |
| One Year Loss Development (000 omitted) | | | | | |
| 69. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)..... | 113,241 | 58,742 | (52,151) | (74,951) | 63,337 |
| 70. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 69 above divided by Page 4, Line 21, Col. 1 x 100)..... | 10.7 | 5.0 | (4.5) | (5.9) | 4.7 |
| Two Year Loss Development (000 omitted) | | | | | |
| 71. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2-Summary, Line 12, Col. 12)..... | 175,316 | 15,270 | (156,403) | 39,373 | 66,856 |
| 72. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second year end (Line 71 above divided by Page 4, Line 21, Col. 2 x 100.0)..... | 14.8 | 1.3 | (12.4) | 2.9 | 6.7 |