

JUL 27 2006

BEFORE THE DEPARTMENT OF INSURANCE  
STATE OF NEBRASKA

NEBRASKA DEPARTMENT  
OF INSURANCE

IN THE MATTER OF THE )  
ACQUISITION OF CONTINENTAL )  
GENERAL INSURANCE COMPANY )  
BY AMERICAN FINANCIAL GROUP, )  
INC., GREAT AMERICAN INSURANCE )  
COMPANY, AND GREAT AMERICAN )  
FINANCIAL RESOURCES, INC., )  
collectively "Applicant" )

ORDER APPROVING  
ACQUISITION

CAUSE NO.: C-1578

On May 17, 2006, Great American Financial Resources, Inc., ("GAFRI"), filed an application ("Form A") seeking approval to acquire Continental General Insurance Company ("CGIC"), a Nebraska domestic life and health insurer. The application was filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat.* §44-2120, §44-2126 (Reissue 2003). The filing was amended on June 8, 2006 to include GAFRI's ultimate parent company, American Financial Group, Inc., as an applicant, and provide additional information as required by the Nebraska Department of Insurance ("Department"). The filing was further amended on July 7, 2006 to clarify the financing structure for the acquisition. A Notice of Public Hearing was issued July 10, 2006, with a public hearing held on July 26, 2006, at the Department. The hearing was recorded. The Department was represented by Christine Neighbors, Counsel, and James Nixon, Acting Chief Examiner. Applicant was represented by Mark Muething, Executive Vice President, General Counsel and Secretary, of GAFRI.

Applicant presented testimony in favor of the acquisition through Billy Hill, Executive Vice President of GAFRI and Project Garden Acquisition, a wholly-owned subsidiary of GAFRI. Exhibits were offered and received into the record. No testimony or documentary evidence was offered in opposition to the proposed acquisition.

On the basis of the filings, correspondence and information provided to the Department, the Director of Insurance ("Director"), approves the application and finds, concludes and orders as follows:

FINDINGS OF FACT

1. On May 17, 2006, the Department received a verified Form A from GAFRI for approval to acquire all issued and outstanding shares of common stock of Ceres Group, Inc., ("Ceres"). Ceres is the parent holding company of the Nebraska domestic insurer, CGIC.
2. On June 8, 2006 and July 7, 2006, the Department received amendments to the Form A in the form of verified Form A filings referenced as Amendment No. 1 and Amendment No. 2, respectively.
3. The application and its subsequent amendments were filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat. §44-2120 et seq.*, specifically §44-2126. The acquisition results in Applicant exercising control of CGIC as control is defined in the Act.
4. CGIC is a domestic insurer organized under and governed by the laws of the State of Nebraska. CGIC holds a Certificate of Authority to transact insurance business as a life and health insurer in this state.
5. American Financial Group, Inc., is a publicly traded holding company that owns 100% of the outstanding shares of Great American Insurance Company. American Financial Group, Inc., is the ultimate controlling person of the acquiring parties.
6. Great American Insurance Company is an Ohio domiciled property and casualty insurer that owns approximately 81% of the outstanding shares of GAFRI.

7. GAFRI is a publicly traded insurance holding company. Through its insurance subsidiaries, GAFRI markets fixed and variable annuities and various forms of supplemental insurance. GAFRI will acquire 100% of Ceres, the parent of CGIC, through a merger of a wholly-owned subsidiary of GAFRI, Project Garden Acquisition, Inc., with and into Ceres. Ceres will continue as the surviving corporation.

8. Applicant will purchase the issued and outstanding shares of approximately 323,295,044 of Ceres for payment of \$6.13 per share if Ceres shareholders approve the transaction at a special meeting scheduled for August 4, 2006. The total funds necessary to complete the acquisition and subsequent merger is estimated at \$205,000,000. Applicant plans to fund this transaction from cash and investments on hand and funds borrowed by AAG Holding Company, Inc., a wholly-owned subsidiary of GAFRI, under an existing \$175,000,000 revolving credit facility.

9. Applicant plans to have certain persons who currently serve as officers or directors of GAFRI or one of its insurance subsidiaries become officers or directors of CGIC. The exact composition of the post-acquisition Board of Directors of CGIC has not yet been determined.

10. Applicant plans to change the business focus of the Ceres insurance subsidiaries, including CGIC, to exit the major medical business through reinsurance agreements with other insurers after the acquisition. In addition, Applicant plans to reinsure fifty percent (50%) of its remaining in-force business after the acquisition. Going forward, Applicant plans for CGIC to focus its products on the senior market including medicare supplement insurance, senior life, and limited fixed annuity products.

The current staff of CGIC in its Missouri location will continue to service the senior business.

11. Applicant committed to maintaining a minimum 500 percent risk based capital ratio in CGIC and pledged to contribute capital to CGIC as needed in order to maintain this commitment.

12. Applicant has plans to change the Board of Directors and officers of CGIC and the business operations as described in the Form A and testimony offered at the hearing. Applicant has no plans to liquidate CGIC, sell its assets or merge it with any person or persons.

13. The Applicant has filed all the documents and information required by law and requested by the Department.

#### CONCLUSIONS OF LAW

1. The Department and Director have jurisdiction over the subject matter of this proceeding.

2. On the basis of the materials filed, correspondence received and evidence at the hearing, the Director has reason to believe that:

a. After the acquisition, CGIC will satisfy the requirements for issuance of a Certificate of Authority to conduct business of insurance in the State of Nebraska and write the lines of insurance for which it is presently licensed.

b. The effect of the acquisition will not substantially lessen the competition of insurance in the State of Nebraska nor intend to create a monopoly therein nor violate the laws of the State of Nebraska.

c. The financial condition of Applicant is such that it would not jeopardize the financial stability of CGIC or prejudice the interest of the policyholders of CGIC.

d. The Applicant has no plans or proposals to liquidate CGIC, to sell the assets of CGIC without approval of the Nebraska Department of Insurance, to merge CGIC with any person or persons without approval of the Nebraska Department of

Insurance, or to make any other material change in the business operations or corporate structures of management which would be unfair and unreasonable to policyholders of CGIC and not in the public interest.

e. The competence, experience and integrity of those persons who would control the operation of CGIC are such that it would be in the interest of the policyholders of CGIC and the public to allow the acquisition.

f. Applicant is not subject to the provisions of *Neb. Rev. Stat. §44-6115* under the Demutualization Act; and

g. The acquisition is not likely to be hazardous or prejudicial to the public.

#### ORDER

IT IS THEREFORE ORDERED that the Applicant be permitted to acquire the issued and outstanding shares of capital stock of Ceres Group, Inc., which will result in Applicant exercising control of Continental General Insurance Company.

This Order is subject to the following conditions: (1) that Applicant notify the Department of the results of the vote at the Ceres shareholder meeting scheduled for August 4, 2006; (2) that Applicant notify the Department of changes in the Board of Directors and officers of Continental General Insurance Company and provide biographical affidavits if not previously submitted to the Department; (3) that Applicant shall make any and all filings related to any other transactions noted in the Form A and shall seek approval of said transactions separate from this Order; (4) that within fifteen (15) days after the closing of the transaction, an Insurance Holding Company System Registration Statement shall be filed with the Department in accordance with *Neb. Rev. Stat. §44-2132, et seq.*

Dated this 27<sup>th</sup> day of July, 2006.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



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L. TIM WAGNER  
Director of Insurance

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was sent to Mark Muething, Esq., Executive Vice President, General Counsel and Secretary, Great American Financial Resources, Inc., 250 East Fifth Street, Cincinnati, OH 45202 and Thomas J. Kilian, President and Chief Executive Officer, Continental General Insurance Company, 17800 Royalton Road, Cleveland, OH 44136-5197 by U.S. Mail, postage prepaid, on this 27<sup>th</sup> day of July, 2006.

