

Report of Examination of

Nationwide Indemnity Company
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio
December 14, 2012

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Nationwide Indemnity Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company is 100% owned by Nationwide Mutual Insurance Company (“NMIC.”) The examination was conducted at NMIC home office, located at One West Nationwide Boulevard, Columbus, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2006. The current examination covers the period of January 1, 2007 through and including December 31, 2011.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The State of Ohio took the lead role to perform the coordinated exam of NMIC and affiliates and the States of Arizona, California, Indiana, Iowa, Michigan, Texas, Vermont and Wisconsin were all participants on the group examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For years covered by this examination, the certified public accounting firm of KPMG, LLP (“KPMG”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by KPMG during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers’, employees’, and agents’ welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<u>Name</u>	<u>Principal Occupation</u>
David A. Bano	Senior Vice-President – Chief Claims Officer
James D. Benson	Senior Vice-President – Controller
Kevin T. Hilyard	Vice-President – Claims Commercial and Agribusiness
Michael P. Leach	Senior Vice-President, Chief Financial Officer – Property and Casualty
Duane L. Meyer	Vice-President – Nationwide Indemnity Operations
Mark R. Thresher	Executive Vice-President – Chief Financial Officer

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
David A. Bano	President and Chief Operating Officer
Carol L. Dove	Vice-President and Treasurer
Robert W. Horner, III	Vice-President and Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. NMIC and Nationwide Mutual Fire Insurance Company are the ultimate controlling parties of the insurance holding company system.

Territory and Plan of Operations

The Company is licensed to transact business in the States of Illinois, Iowa and Ohio.

The following schedule illustrates the Company's premium written in 2011 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Other liability – occurrence	-	529,603	-	529,603	51.5%
Fire	-	382,336	-	382,336	37.2%
International	-	89,485	-	89,485	8.7%
All other	=	<u>26,722</u>	=	<u>26,722</u>	<u>2.6%</u>
Totals	=	<u>1,028,146</u>	=	<u>1,028,146</u>	<u>100.0%</u>

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2011	2010	2009	2008	2007
Premiums earned	<u>\$ 1,116</u>	<u>\$ 923</u>	<u>\$ 4,421</u>	<u>\$ 1,465</u>	<u>\$ 2,413</u>
Losses incurred	(54,878)	15,090	(24,496)	(9,981)	169,734
Loss adjustment expense incurred	59,789	60,355	33,132	87,913	54,603
Underwriting expense incurred	<u>3,991</u>	<u>4,653</u>	<u>3,510</u>	<u>501</u>	<u>141</u>
Total underwriting deductions	<u>8,902</u>	<u>80,098</u>	<u>12,146</u>	<u>78,433</u>	<u>224,478</u>
Net underwriting gain	(\$ 7,786)	(\$ 79,174)	(\$ 7,725)	(\$ 76,968)	(\$ 222,065)
Pure loss ratio	(4917.4%)	1634.9%	(554.1%)	(681.3%)	7034.1%
Loss adjustment expense ratio	<u>5357.4%</u>	<u>6539.0%</u>	<u>749.4%</u>	<u>6000.9%</u>	<u>2262.9%</u>
Loss ratio	440.0%	8173.9%	195.3%	5319.6%	9297.0%
Underwriting expense ratio	<u>357.6%</u>	<u>504.1%</u>	<u>79.4%</u>	<u>34.2%</u>	<u>6.0%</u>
Combined ratio	<u>797.6%</u>	<u>8678.0%</u>	<u>274.7%</u>	<u>5353.8%</u>	<u>9303.0%</u>

Reinsurance

Effective January 1, 1999, the Company assumed 100% of Wausau business from NMIC, Nationwide Mutual Fire Insurance Company (“NMFIC”) and Nationwide Property & Casualty Insurance Company (“NPCIC.”) NMIC de-affiliated with Employers Insurance Company of Wausau (“Wausau”) and transferred a significant portion of the Wausau business to Liberty Mutual Insurance Company (“Liberty.”) As part of the de-affiliation, NMIC retained certain Asbestos & Environmental Risks in the form of individual reinsurance agreements (the “Reinsurance Agreements”) entered into between Wausau General Insurance Company, Wausau Underwriters Insurance Company, Wausau Business Insurance Company and Wausau Insurance Company (UK) Limited (collectively, the “Wausau Ceding Companies”) and the Company. NMIC entered into a Guaranty and Indemnification Agreement (the “Guaranty”) for the benefit of the Wausau Ceding Companies to guarantee the timely payment and performance of the Company’s obligations under such Reinsurance Agreements.

In March 2006, the Reinsurance Agreements were amended to clarify the terms and conditions of the Company’s collateralization and reinsurance obligations. Upon receipt of prior approval from the Department, NMIC entered into a Commitment Letter Agreement for the benefit of the Wausau Ceding Companies to effectively guaranty the timely payment and performance of the Company’s obligations under the amended Reinsurance Agreements and to also provide commitments to the Wausau Ceding Companies with respect to maintenance of the Company’s surplus and assets under certain conditions.

At December 31, 2011, the lines of business include asbestos, environmental and construction defect and are in run-off. The examination noted that the Company has policies and procedures in place to comply with SSAP 62 and 63.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2011**

Admitted assets

Bonds	\$ 3,213,391,193
Common stocks	782,153
Mortgage loans on real estate - first liens	126,213,620
Cash and short-term investments	1,834,973
Other invested assets	64,813,743
Securities lending reinvested collateral assets	<u>7,729,916</u>
Total cash and invested assets	3,414,765,598
Investment income due and accrued	39,223,355
Funds held by or deposited with reinsured companies	8,251,383
Net deferred tax asset	12,726,906
Net adjustment in assets and liabilities due to foreign exchange rates	487,671
Receivables from parent, subsidiaries and affiliates	379,412
Aggregate write-ins for other than invested assets	
Third party administrative receivables	4,321,785
Miscellaneous assets	<u>2,155,258</u>
Total admitted assets	<u>\$ 3,482,311,368</u>

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

Liabilities

Losses	\$ 1,481,818,735
Reinsurance payable on paid losses and loss adjustment expenses	2,943
Loss adjustment expenses	753,581,025
Other expenses	54,713
Current federal and foreign income taxes	45,379,119
Unearned premiums	62,146
Amounts withheld or retained by company for account of others	3,519,363
Derivatives	(10)
Payable for securities	1,304,549
Payable for securities lending	25,021,328
Aggregate write-ins for liabilities	
Assumed reinsurance balances payable	47,977,536
Miscellaneous liabilities	<u>4,699</u>
Total liabilities	2,358,726,146

Capital and Surplus

Aggregate write-ins for special surplus funds	
EU Solvency 1 Directive	9,894,000
Common capital stock	3,080,000
Gross paid in and contributed surplus	1,456,449,000
Unassigned funds	<u>(345,837,778)</u>
Surplus as regards policyholders	<u>1,123,585,222</u>
Total liabilities, capital and surplus	<u>\$ 3,482,311,368</u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 1,116,038</u>
Losses incurred	(54,877,676)
Loss expenses incurred	59,788,913
Other underwriting expenses incurred	<u>3,990,732</u>
Net underwriting loss	<u>(7,785,931)</u>
Net investment income earned	147,520,519
Net realized capital losses	<u>(431,959)</u>
Net investment gain	<u>147,088,560</u>
Aggregate write-ins for miscellaneous income	
Miscellaneous expenses	<u>(445,828)</u>
Total other income	<u>(445,828)</u>
Income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	138,856,801
Federal and foreign income taxes incurred	<u>37,830,298</u>
Net income	<u>\$ 101,026,503</u>

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

<u>Capital and Surplus</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital & surplus, prior year end	<u>\$ 1,064,461</u>	<u>\$ 985,097</u>	<u>\$ 834,096</u>	<u>\$ 780,385</u>	<u>\$ 785,438</u>
Net income	101,027	57,618	170,997	28,909	12,976
Change in net unrealized capital gains or (losses) less capital gains tax	25,878	15,341	(22,111)	12,048	(16,209)
Change in net unrealized foreign exchange capital gain (loss)	(303)	1,022	(1,383)	1,874	(576)
Change in net deferred income tax	9,490	5,951	(24,683)	21,832	545
Change in non-admitted assets	(16,378)	21	22,044	(10,363)	(1,200)
Cumulative effect of changes in accounting principles	-	-	6,726	-	-
Surplus adjustments – paid in	(60,000)	-	-	-	-
Aggregate write-ins for gains and losses in surplus:					
Goodwill write off	<u>(589)</u>	<u>(589)</u>	<u>(589)</u>	<u>(589)</u>	<u>(589)</u>
Net change in capital and surplus	<u>59,124</u>	<u>79,364</u>	<u>151,001</u>	<u>53,711</u>	<u>(5,053)</u>
Capital and surplus, current year end	<u>\$ 1,123,585</u>	<u>\$ 1,064,461</u>	<u>\$ 985,097</u>	<u>\$ 834,096</u>	<u>\$ 780,385</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Leslie R. Marlo, FCAS, MAAA, of KPMG to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Ms. Marlo prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2011.

Subsequent Events

There are no material subsequent events.

Conclusion

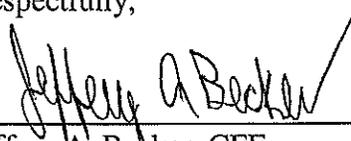
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 3,482,311,368</u>
Liabilities	2,358,726,146
Surplus as Regards Policyholders	<u>1,123,585,222</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 3,482,311,368</u>

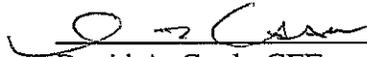
Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Methuselah Nyangoro, CFE, CPA; Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Bryan Radecky, CPA; Patricia Severs, CPA; Mark Boston, CPA; Rick Rhoades, CPA (inactive); William Harrington, CFE, CPA (inactive); Thomas Botsko, ACAS, MAAA; Bradley Schroer; Vicky Hugo, AES, CISA, CPA and Roy Moster, AES, CISA, CPA.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the ORC, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Jeffery A Becker
Examiner-In-Charge

3/7/2013
Date

S - Cook
Assistant Chief Examiner

3/7/2013
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase

(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase

(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires