

Report of Examination of

Nationwide Mutual Fire Insurance 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 Mutual Fire Insurance Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company is operated by and solely in the interest of its policyholders. The examination was conducted at Nationwide Mutual Insurance Company (“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>
Lewis J. Alphin	Farm Owner/Operator
James B. Bachmann	Retired Managing Partner, Ernst & Young
A. I. Bell	Owner/Operator, Bell Farms
Timothy J. Corcoran	Partner, Corcoran Farms
Yvonne M. Curl	Former Vice President and Chief Marketing Officer, Avaya Inc.
Kenneth D. Davis	Farm Owner/Operator
Keith W. Eckel	Owner, Fred W. Eckel Sons and President, Eckel Farms, Inc.
Fred C. Finney	Owner/Operator, Moreland Fruit Farm and Operator of Melrose Orchard

Daniel T. Kelley	Farm Owner/Operator
M. Diane Koken	Attorney/Consultant
Lydia M. Marshall	Former Chairperson and Chief Executive Officer, Versura, Inc.
Terry W. McClure	Farm Owner/Operator
Barry J. Nalebuff	Professor of Economics & Management
Brent R. Porteus	Partner, Blair Porteus & Sons
Stephen S. Rasmussen	Chief Executive Officer, Nationwide Group
Jeffrey W. Zellers	Chairman and President, K. W. Zeller & Sons, Inc.

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>
Mark A. Pizzi	President and Chief Operating Officer – Nationwide Insurance
David P. LaPaul	Senior 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. The Company and NMIC 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 District of Columbia, U.S. Virgin Islands and the following states:

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

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

	Direct	Assumed	Ceded	Net	Percent
Private passenger auto liability	\$ 223,153,413	\$ 465,880,974	\$ 223,153,413	\$ 465,880,974	28.8%
Auto physical damage	153,458,525	324,113,709	153,458,592	324,113,642	20.0%
Homeowners multiple peril	881,856,859	293,198,380	881,856,873	293,198,366	18.1%
Commercial multiple peril	84,172,281	159,519,427	84,172,281	159,519,427	9.9%
Other liability – occurrence	44,392,523	96,986,447	44,392,523	96,986,447	6.0%
Commercial auto liability	22,670,332	87,063,760	22,671,006	87,063,086	5.4%
Farmowners multiple peril	10,212	31,167,319	10,212	31,167,319	1.9%
Workers' compensation	9,292,280	26,714,508	9,292,280	26,714,508	1.7%
Allied lines	156,061,457	24,270,818	156,061,457	24,270,818	1.5%
Group accident and health	-	24,002,775	-	24,002,775	1.5%
Other liability - claims-made	-	23,116,208	-	23,116,208	1.4%
Fire	50,322,277	19,599,002	50,322,277	19,599,002	1.2%
Inland marine	27,712,936	17,752,792	27,712,936	17,752,792	1.1%
Products liability - occurrence	1,319,613	8,392,673	1,319,613	8,392,673	0.5%
Earthquake	8,446,193	5,164,784	8,446,193	5,164,784	0.3%
Warranty	-	4,554,413	-	4,554,413	0.3%
Ocean marine	-	2,713,429	-	2,713,429	0.2%
All other lines	1,895,721	2,908,469	1,895,721	2,908,469	0.2%
Totals	<u>\$ 1,664,764,622</u>	<u>\$ 1,617,119,887</u>	<u>\$ 1,664,765,377</u>	<u>\$ 1,617,119,132</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>\$1,607,957</u>	<u>\$1,631,497</u>	<u>\$1,669,920</u>	<u>\$1,722,112</u>	<u>\$1,748,781</u>
Losses incurred	1,055,089	936,829	1,015,383	1,099,273	942,730
Loss adjustment expense incurred	182,178	168,803	176,200	187,560	184,658
Underwriting expense incurred	546,955	543,394	544,181	554,261	596,149
Aggregate write-ins	<u>15</u>	<u>(38)</u>	<u>80</u>	<u>-</u>	<u>451</u>
Total underwriting deductions	<u>1,784,237</u>	<u>1,648,988</u>	<u>1,735,844</u>	<u>1,841,094</u>	<u>1,723,989</u>
Net underwriting gain (loss)	(\$176,279)	(\$17,491)	(\$65,924)	(\$118,982)	\$ 24,791
Pure loss ratio	65.6%	57.4%	60.8%	63.8%	53.9%
Loss adjustment expense ratio	<u>11.3%</u>	<u>10.3%</u>	<u>10.6%</u>	<u>10.9%</u>	<u>10.6%</u>
Loss ratio	76.9%	67.8%	71.4%	74.7%	64.5%
Underwriting expense ratio	33.8%	33.7%	33.0%	32.1%	34.0%
Policyholder dividend ratio	<u>0.1%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.1%</u>	<u>0.1%</u>
Combined ratio	<u>110.8%</u>	<u>101.5%</u>	<u>104.4%</u>	<u>106.9%</u>	<u>98.5%</u>

Reinsurance

There are thirty-two (32) insurance companies in the Nationwide Group and this excludes the recently acquired Harleysville companies. NMIC is the lead company and the pool administrator for an intercompany pooling agreement (“the Pool.”) The following intercompany pooling agreement became effective January 1, 2011 and all lines of business are subject to the Pool. The companies, their state of domicile, and their pooling percentages are as follows:

Nationwide Mutual Insurance Company (OH)	83.7%
Nationwide Mutual Fire Insurance Company (OH)	11.3%
Scottsdale Insurance Company (OH)	4.0%
Farmland Mutual Insurance Company (IA)	<u>1.0%</u>
	100.0%

The following companies have a 0% pooling percentage:

Nationwide General Insurance Company (OH)
Nationwide Property and Casualty Insurance Company (OH)
Nationwide Affinity Insurance Company of America (OH)
Crestbrook Insurance Company (OH)
Allied Insurance Company of America (OH)
Victoria Fire & Casualty Company (OH)
Victoria Specialty Insurance Company (OH)
Victoria Select Insurance Company (OH)
Victoria National Insurance Company (OH)
AMCO Insurance Company (IA)
Allied Property & Casualty Insurance Company (IA)
Depositors Insurance Company (IA)
Nationwide Agribusiness Insurance Company (IA)
Victoria Automobile Insurance Company (IN)

The following insurance companies, including their state of domicile, cede 100% of their business to the Company through a 100% quota share reinsurance agreement:

Titan Insurance Company (MI)
Titan Indemnity Company (TX)
Nationwide Lloyds (TX)
Colonial County Mutual Insurance Company (TX)
Nationwide Assurance Company (WI)
National Casualty Company (WI)
Nationwide Insurance Company of America (WI)

The following insurance companies, including their state of domicile, cede 100% of their business to Scottsdale Insurance Company (“SIC”) through a 100% quota share reinsurance agreement and then SIC retrocedes to the above pool:

Freedom Specialty Insurance Company (OH)
Scottsdale Indemnity Company (OH)
Western Heritage Insurance Company (AZ)
Scottsdale Surplus Lines Insurance Company (AZ)

The Company enters into ceded reinsurance transactions with affiliates and non-affiliates and has various ceded reinsurance agreements in force on all lines of business to protect itself from potential losses in excess of what management concludes are reasonable retention of risk.

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**

<u>Admitted assets</u>	
Bonds	\$ 3,113,911,498
Preferred stocks	292,040
Common stocks	197,649,056
Mortgage loans on real estate - first liens	46,858,377
Real estate - properties occupied by the company	4,794,469
Real estate - properties held for the production of income	9,148,836
Cash and short-term investments	59,371,573
Other invested assets	136,698,053
Securities lending reinvested collateral assets	<u>7,649,448</u>
Total cash and invested assets	3,576,373,350
Investment income due and accrued	39,289,418
Uncollected premiums and agents balances in the course of collection	218,040,757
Deferred premiums, agent balances' and installments booked but deferred and not yet due	509,041,749
Amounts recoverable from reinsurers	81,070,405
Funds held by or deposited with reinsured companies	617
Current federal and foreign income tax recoverable	17,179,114
Net deferred tax asset	82,491,703
Guaranty funds receivable or on deposit	2,922,585
Receivable from parent, subsidiaries and affiliates	6,916,472
Aggregative write-ins for other than invested assets	
Miscellaneous assets	<u>20,074,640</u>
Total admitted assets	<u>\$ 4,553,400,810</u>

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

Liabilities

Losses	\$ 878,018,415
Reinsurance payable on paid losses and loss adjustment expenses	96,187,706
Loss adjustment expenses	189,004,168
Commissions payable, contingent commissions and other similar charges	42,007,191
Other expenses	10,753,096
Taxes, licenses and fees	8,423,900
Unearned premiums and warranty reserves	634,693,274
Advance premium	12,939,884
Dividends declared and unpaid – Policyholders	709,247
Ceded reinsurance premiums payable	91,790,177
Amounts withheld or retained by company for accounts of others	374,141
Payable to parent, subsidiaries or affiliates	313,090,310
Derivatives	(7)
Payable for securities	52,590
Payable for securities lending	14,473,134
Aggregate write-ins for liabilities	
Contingent suit liability	1,124,143
Loss based assessment payable	1,212,255
Equities and deposits in pools and associations	381,359
State surcharge/recoupment payable	253,920
Escrow liability	1,211,711
Miscellaneous liabilities	5,764,935
Pooling expense payable	<u>7,780,941</u>
Total liabilities	2,310,246,490

Capital and Surplus

Aggregate write-ins for other than special surplus funds:	
SSAP 10 DTA	14,496,370
Unassigned funds	<u>2,228,657,950</u>
Surplus as regards policyholders	<u>2,243,154,320</u>
Total liabilities, capital and surplus	<u>\$ 4,553,400,810</u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 1,607,957,271</u>
Losses incurred	1,055,088,537
Loss adjustment expenses incurred	182,177,943
Other underwriting expenses incurred	546,955,325
Aggregate write-ins for underwriting deductions	
Loss based assessment payable	<u>14,925</u>
Net underwriting loss	(176,279,459)
Net investment income earned	137,710,635
Net realized capital gains less capital gains tax	<u>670,006</u>
Net investment gain	<u>138,380,641</u>
Net loss from agents' or premium balances charged off	(7,075,204)
Finance and service charges not included in premiums	19,533,645
Aggregate write-ins for miscellaneous income	
Change in contingent suit liability	299,905
Other miscellaneous income	<u>5,840,845</u>
Total other income	<u>18,599,191</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(19,299,627)
Dividends to policyholders	<u>867,156</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>(20,166,783)</u>
Federal and foreign income taxes incurred	<u>(11,526,825)</u>
Net loss	<u>(\$ 8,639,958)</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	\$ 2,225,957	\$ 2,091,643	\$ 2,109,386	\$ 2,060,620	\$ 1,912,470
Net income (loss)	(8,640)	125,795	69,438	124,889	197,352
Change in net unrealized capital gains or (losses) less capital gains tax	6,069	19,303	(99,132)	(84,585)	(59,670)
Change in net unrealized foreign exchange capital gain (loss)	-	(132)	(4)	(15)	-
Change in net deferred income tax	17,515	(10,545)	(4,479)	5,690	6,941
Change in non-admitted assets	(3,866)	6,331	26,654	(25,726)	2,675
Cumulative effect of changes in accounting principles	-	-	3,477	-	852
Aggregate write-ins for gains and losses in surplus:					
SSAP 10 DTA	6,119	(6,438)	(13,698)	28,513	-
Net change in capital and surplus	17,197	134,314	(17,744)	48,766	148,150
Capital and surplus, current year end	\$ 2,243,154	\$ 2,225,957	\$ 2,091,643	\$ 2,109,386	\$ 2,060,620

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

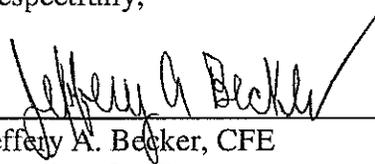
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 4,553,400,810</u>
Liabilities	2,310,246,490
Surplus as Regards Policyholders	<u>2,243,154,320</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 4,553,400,810</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,



Jeffrey 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 Ohio Revised Code, 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

CSA 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