Report of Examination of

Nationwide Mutual Insurance Company
Columbus, Ohio

As of December 31, 2011

Table of Contents

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 Insurance Company

an Ohio domiciled mutual property and casualty insurance company, hereinafter referred to as the ("Company.") The examination was conducted at the Company's 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 the Company and its 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.

Name	Principal Occupation
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. Zellers & Sons, Inc.

Officers

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

Name	Title
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 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 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	$1,307,186,496	$2,933,858,241	$790,227,257	$3,450,817,480	28.8%
Auto physical damage	963,054,021	1,960,419,948	522,738,409	2,400,735,560	20.0%
Homeowners multiple peril	195,771,403	2,513,535,439	537,563,200	2,171,743,642	18.1%
Commercial multiple peril	216,852,973	1,271,439,457	306,719,329	1,181,573,101	9.9%
Other liability – occurrence	134,287,607	1,021,803,455	437,704,728	718,386,334	6.0%
Commercial auto liability	215,829,057	732,556,961	303,502,804	644,883,214	5.4%
Farmowners multiple peril	184,823,354	93,434,888	47,399,432	230,858,810	1.9%
Workers' compensation	66,240,332	181,722,336	50,086,181	197,876,487	1.7%
Allied lines	11,103,231	209,858,943	41,186,293	179,775,881	1.5%
Group accident and health	23,394,461	196,491,775	42,095,768	177,790,468	1.5%
Other liability – claims made	1,625,676	237,182,051	67,584,133	171,223,594	1.4%
Fire	11,332,493	175,117,699	41,278,821	145,171,371	1.2%
Inland marine	47,360,580	121,664,166	37,528,400	131,496,346	1.1%
Product liability - occurrence	6,315,986	67,767,528	11,918,319	62,165,195	0.5%
Earthquake	2,976,662	42,762,083	7,482,778	38,255,967	0.3%
Warranty	-	81,404,972	47,670,072	33,734,900	0.3%
Ocean Marine	-	50,976,127	30,877,540	20,098,587	0.2%
All other	19,933,779	14,515,854	12,906,370	21,543,263	0.2%
Totals	$3,408,088,111	$11,906,511,923	$3,336,469,834	$11,978,130,200	100.0%

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	$11,910,268	$12,084,629	$12,369,234	$12,755,823	$12,996,625
Losses incurred	7,815,125	6,939,165	7,521,025	8,142,402	6,979,887
Loss adjustment expense incurred	1,349,406	1,250,343	1,305,129	1,389,275	1,373,627
Underwriting expense incurred	4,049,917	4,025,671	4,030,790	4,115,945	4,418,132
Aggregate write-ins for underwriting deductions	111	(282)	595	-	3,344
Total underwriting deductions	13,214,559	12,214,897	12,857,539	13,647,622	12,774,990
Net underwriting gain or loss	($1,304,292)	($130,268)	($488,304)	($891,799)	$221,635
Pure loss ratio	65.6%	57.4%	60.8%	63.8%	53.7%
Loss adjustment expense ratio	11.3%	10.3%	10.6%	10.9%	10.6%
Loss ratio	76.9%	67.7%	71.4%	74.7%	64.3%
Underwriting expense ratio	33.8%	33.3%	32.6%	32.2%	33.9%
Policyholders dividend ratio	0.1%	-	-	0.1%	0.1%
Combined ratio	110.8%	101.0%	104.0%	107.0%	98.2%

Reinsurance

There are thirty-two (32) insurance companies in the Nationwide Group and this excludes the recently acquired Harleysville companies. The Company 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)	1.0%
	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 Scottsdale companies write the most diverse book of business in the Nationwide Group, including brokerage and surplus lines. The Company participates in other reinsurance arrangements and less than 3% of the Company's earned premium is ceded to non-affiliates.

On May 31, 2011, the Catastrophe Bonds issued in June 2008 related to the Company's Caelus Re I, expired. The Company has replaced this coverage through traditional reinsurance layers.

The Company and certain of its affiliates entered into an agreement with Calelus Re II, Cayman Islands Special Purpose Reinsurance Vehicle, for the purpose of securing collateralized, multi-year property catastrophe loss protection through capital markets. In May 2010, Caelus Re issued Catastrophe Bonds, which provide reinsurance coverage to the Company for events including hurricanes and earthquakes. The Catastrophe Bonds are indemnity triggers based on bonds where the Company recovers losses in excess of a specified level of catastrophic claims, which is reset annually. In 2011 and 2010, the Company did not receive any recoveries for this coverage and the agreement expires in May, 2013.

The Company enters into both assumed and 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 retentions of risk.

The Company also participates in the Michigan Catastrophic Claims Association ("MCCA"), a private, nonprofit association that reimburses no-fault insurers for benefits that exceed a specified claim level resulting from injuries suffered in an auto accident. The Company has recognized $1.0 billion in reinsurance recoverables with MCCA. Management assumes that the MCCA will continue to perform on their obligations. MCCA's resources are limited to assessments paid by insurers to cover catastrophic medical claims. There can be no assurance that these resources will be sufficient to meet the obligations of MCCA. In the event that MCCA will not perform, the Company's recovery of less than contracted amounts from MCCA could have a material adverse effect on the Company's results of operations but is not likely to have a material adverse effect on its financial condition, liquidity, or statutory surplus.

The Company entered into an agreement with multiple reinsurers, referred to as the National Property Catastrophe Excess of Loss Reinsurance Agreement effective June 1, 2011. The program covers the Company and its consolidated affiliates, except for the Scottsdale Insurance Company and its consolidated affiliates, for 70% of loss from $750 million to $1.3 billion, 63.5% of loss from $1.3 billion to $1.8 billion and 70% of loss from $1.8 billion to $2.0 billion. The coverage is per event for each layer.

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	$ 8,401,419,406
Preferred stocks	2,962,855
Common stocks	7,038,676,009
Mortgage loans - first liens	534,909,449
Real estate property occupied by the company	553,028,486
Real estate property held for the production of income	47,212,058
Real estate property held for sale	1,695,174
Cash and short-term investments	399,679,479
Derivatives	112,595,441
Other invested assets	3,140,434,544
Receivables for securities	219,290
Securities lending reinvested collateral assets	64,829,650
Aggregate write-ins for invested assets	
Corporate owned investment value of life insurance	1,078,256,623
Subtotals, cash and invested assets	21,375,918,464
Investment income due and accrued	122,315,217
Uncollected premiums and agents' balances in the course of collection	599,129,296
Deferred premiums, agents' balances and installments booked and not yet due	2,244,251,104
Amounts recoverable from reinsurers	206,744,744
Funds held by or deposited with reinsured companies	407,679
Current federal and foreign income tax recoverable and interest thereon	185,960,776
Net deferred tax asset	1,324,286,201
Guaranty funds receivable or on deposit	21,647,823
Electronic data processing equipment and software	125,301,693
Receivable from parent, subsidiaries and affiliates	1,003,880,882
Aggregate write-ins for other than invested assets	
Miscellaneous assets	90,039,735
Agent benefit investment value of life insurance and annuity contracts	160,342,003
Recoupment receivables	92,300
Equities and deposits in pools and associations	157,513,502
Total admitted assets	$ 27,617,831,419

Statement of Liabilities, Capital and Surplus
December 31, 2011

Liabilities	
Losses	$ 6,503,552,415
Reinsurance payable on paid losses and loss adjustment expense	710,709,017
Loss adjustment expenses	1,399,969,070
Commissions payable, contingent commission and similar charges	311,150,592
Other expenses	84,091,014
Taxes, licenses and fees	78,617,071
Borrowed money	5,027,912
Unearned premiums and accrued accident and health experience rating refunds	4,701,223,633
Advance premium	95,846,749
Dividends declared and unpaid to policyholders	5,253,448
Ceded reinsurance premium payable	638,658,501
Funds held by company under reinsurance treaties	52,243
Amounts withheld or retained by company for accounts of others	680,570,671
Remittances and items not allocated	105,564,701
Provision for reinsurance	17,790,663
Net adjustment in assets and liabilities due to foreign exchange rates	2,021
Payable to parent, subsidiaries and affiliates	114,075,428
Derivatives	149,202,810
Payable for securities	7,127,054
Payable for securities lending	81,208,594
Aggregate write-ins for liabilities	
Agent's security fund reserves	1,144,736,514
Miscellaneous liabilities	66,445,358
Contingent suit liabilities	8,326,628
SRP – additional minimum liabilities	27,793,626
Reserve for state escheat payments	43,177,885
Deferred investment income	2,469,533
Loss based assessment payables	8,979,272
Pooling expense payables	137,371,130
Accrued interest payable on surplus notes	32,812,500
State surcharge/recoupment payable	1,184,458
Escrow liabilities	19,952,168
Total liabilities	$ 17,182,942,679

Capital and Surplus

Aggregate write-ins for other than special surplus funds	
SSAP 10 DTA	523,320,581
Amortized discount of surplus notes	(78,372,635)
Surplus notes	2,200,000,000
Unassigned funds	7,789,940,794
Surplus as regards policyholders	10,434,888,740
Total liabilities, capital and surplus	$ 27,617,831,419

Statement of Income
As of December 31, 2011

Premiums earned	$ 11,910,267,565
Losses incurred	7,815,124,829
Loss adjustment expenses	1,349,406,429
Other underwriting expenses incurred	4,049,917,436
Aggregate write-ins for underwriting deductions	
Loss based assessment payables	110,549
Net underwriting loss	(1,304,291,678)
Net investment income earned	254,699,188
Net realized capital losses	(109,455,311)
Net investment gain	145,243,877
Net loss from agents' or premium balances charged off	(52,406,593)
Finance and service charges not included in premiums	144,687,256
Aggregate write-ins for miscellaneous income	
Change in contingent liabilities	2,221,422
Other miscellaneous expenses	56,098,508
Total other income	150,600,593
Net loss before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,008,447,208)
Dividends to policyholders	6,423,094
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,014,870,302)
Federal and foreign income taxes incurred	(104,762,611)
Net loss	($ 910,107,691)

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

Capital and Surplus	2011	2010	2009	2008	2007
Capital & surplus, prior year end	$10,586,145	$9,475,043	$10,879,731	$11,361,457	$10,805,962
Net income	(910,108)	424,845	55,235	556,086	813,410
Change in net unrealized capital gains or (losses) less capital gains tax	173,057	742,308	(1,450,436)	(1,208,498)	(451,771)
Change in net unrealized foreign exchange capital gain or (loss)	(727)	4,585	956	(14,706)	7,169
Change in net deferred income tax	387,250	(32,445)	(26,692)	(25,628)	181,679
Change in nonadmitted assets	(160,191)	(58,777)	(599,074)	(500,930)	6,020
Change in provision for reinsurance	4,491	(9,346)	18,644	2,094	3,338
Change in surplus notes	-	-	700,000	400,000	-
Cumulative effect of changes in accounting principles	-	-	2,824	-	6,311
Aggregate write-ins for gains and losses in surplus					
Amortized discount of surplus notes	19,683	18,699	16,264	(119,384)	551
Goodwill amortization	(4,020)	(6,339)	(6,437)	(6,173)	(6,173)
Change in surplus-SRP additional minimum liabilities	179,537	(24,810)	(81,169)	97,384	(59,652)
Tax prior period adjustment	-	(7,940)	-	-	54,613
SSAP 10 DTA	159,772	60,322	(34,803)	338,029	-
Net change in capital and surplus	(151,256)	1,111,102	(1,404,688)	(481,726)	555,495
Capital and surplus, current year end	$10,434,889	$10,586,145	$9,475,043	$ 10,879,731	$11,361,457

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and common stocks 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

On May 1, 2012, Harleysville Mutual Insurance Company ("Harleysville") merged with and into the Company, with the Company as the surviving company. In addition, Nationals Sub, Inc., a subsidiary of NMIC, merged with and into Harleysville Group, Inc. ("HGI"), with HGI as the surviving company. As a result of the transactions, all of the subsidiaries of Harleysville, including HGI, are now direct and indirect subsidiaries of the Company. As a result of the mergers, certain cost-sharing, management, and tax-sharing agreements between the Company (as successor to Harleysville) and Harleysville affiliates have been terminated effective May 1, 2012.

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	$ 27,617,831,419
Liabilities	$ 17,182,942,679
Surplus as Regards Policyholders	10,434,888,740
Total Liabilities and Surplus as Regards Policyholders	$ 27,617,831,419

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Metty Nyrangoro, 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 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	3/7/2013	D. Cook	3/7/2013
Examiner-In-Charge	Date	Assistant Chief Examiner	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