

Report of Examination of

Victoria Specialty 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

Victoria Specialty Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company is 100% owned by Victoria Fire & Casualty Company (“VFCC”) and VFCC is ultimately 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 under the 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 G. Arango	Division President – President and Chief Operating Officer of Titan Insurance
Wesley Kim Austen	President and Chief Operating Officer – Allied Group
Martha L. Frye	Senior Vice-President – P&C Customer Service and Sales Solutions
Michael P. Leach	Senior Vice-President, Chief Financial Officer – Property and Casualty
Michael A. Lex	Senior Vice-President – President, Nationwide National Partners
Mark A. Pizzi	President and Chief Operating Officer – Nationwide Insurance

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 G. Arango	President and Chief Operating Officer
Wendell P. Crosser	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 Arizona, Georgia, Minnesota and Ohio.

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

Private passenger auto liability	\$ 35,913,185
Auto physical damage	16,526,919
Commercial auto liability	<u>3,748,207</u>
Total	<u>\$ 56,188,311</u>

Reinsurance

The Company has no assumed business and cedes all premiums to VFCC and NMIC.

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	\$ 558,719
Cash and short-term investments	<u>4,817,467</u>
Total cash and invested assets	5,376,186
Investment income due and accrued	8,456
Uncollected premiums and agents' balances in the course of collection	2,502,487
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,503,278
Amounts recoverable from reinsurers	3,459,523
Other amounts receivable under reinsurance contracts	1,218,708
Net deferred tax asset	274
Receivable from parent, subsidiaries and affiliates	<u>1,436,782</u>
Total admitted assets	<u>\$ 24,505,694</u>

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

Liabilities

Current federal and foreign income taxes	\$ 1,741
Ceded reinsurance premiums payable	17,008,728
Remittances and items not allocated	39,199
Payable to parent, subsidiaries and affiliates	3,671,505
Aggregate write-ins for liabilities	
Escrow liability	<u>339,776</u>
Total liabilities	21,060,949

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	1,500,000
Unassigned funds	<u>944,745</u>
Surplus as regards policyholders	<u>3,444,745</u>
Total liabilities, capital and surplus	<u>\$ 24,505,694</u>

Statement of Income
As of December 31, 2011

Net investment income earned	<u>\$ 21,263</u>
Net investment gain	<u>21,263</u>
Income before dividends to policyholders and before federal income	
Taxes	21,263
Federal and foreign income taxes incurred	<u>1,741</u>
Net income	<u>\$ 19,522</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>\$ 3,426</u>	<u>\$ 3,390</u>	<u>\$ 3,274</u>	<u>\$ 3,171</u>	<u>\$ 3,069</u>
Net income	19	30	122	103	102
Change in net deferred income tax	-	(2)	1	-	-
Change in non-admitted assets	<u>(1)</u>	<u>8</u>	<u>(7)</u>	-	-
Net change in capital and surplus	<u>18</u>	<u>36</u>	<u>116</u>	<u>103</u>	<u>102</u>
Capital and surplus, current year end	<u>\$ 3,444</u>	<u>\$ 3,426</u>	<u>\$ 3,390</u>	<u>\$ 3,274</u>	<u>\$ 3,171</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists 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.

Subsequent Events

There are no material subsequent events.

Conclusion

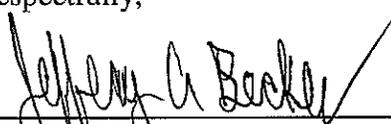
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 24,505,694</u>
Liabilities	21,060,949
Surplus as Regards Policyholders	<u>3,444,745</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 24,505,694</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 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

Elizabeth Chase
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
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