Report

of the

Examination of

National Casualty Company

Scottsdale, Arizona

As of December 31, 2001

TABLE OF CONTENTS

Page

I. INTRODUCTION 2

II. HISTORY AND PLAN OF OPERATION 4

III. MANAGEMENT AND CONTROL 6

IV. AFFILIATED COMPANIES 9

V. REINSURANCE 12

VI. FINANCIAL DATA 14

VII. SUMMARY OF EXAMINATION RESULTS 23

VIII. CONCLUSION 25

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS 26

X. ACKNOWLEDGMENT 27

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

January 29, 2003

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Commonwealth of Virginia
Tyler Building
Post Office Box 1157
Richmond, Virginia 23218

Honorable Sally McCarty
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Indiana
311 West Washington St., Suite 300
Indianapolis, Indiana 46204-2787

Honorable Jorge Gomez
Commissioner of Insurance
State of Wiscsonsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Susan F. Cogswell
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
State of Connecticut
153 Market Street 7th Floor
Hartford, Connecticut 06103

Honorable John Morrison
Secretary, Western Zone, NAIC
Commissioner of Insurance
State of Montana
840Helena Avenue
Helena, Montana 59601

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONAL CASUALTY COMPANY
Scottsdale, Arizona

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1996 as of December 31, 1995 by the Michigan Insurance Department. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination. We also relied on the cooperation and work performed by the Ohio Department of Insurance and the Arizona Department of Insurance.

Independent Actuary's Review

The Actuary from the Ohio Department of Insurance reviewed the loss and loss adjustment expense reserves for adequacy. The results of her work was reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized December 19, 1904 under the laws of Michigan and began business on December 31, 1904. Financial control of the company was acquired in 1952, by the Nationwide Mutual Insurance Company of Columbus, Ohio. Nationwide Life Insurance Company acquired complete control of the company on December 31, 1993. As of January 1, 1997 controlling stock ownership passed to Nationwide Mutual. The state of domicile changed from Michigan to Wisconsin, effective November 13, 1997.

The company writes direct premium in the following states:

New York	$ 39,853,800	11.6%
California	22,316,771	6.5
Pennsylvania	19,011,486	5.5
Florida	17,817,523	5.2
Illinois	16,815,952	4.8
All others	228,536,840	66.4
	$ 344,352,372	100%

The direct premium in the State of Wisconsin was $6,217,460. The company is licensed in all states and the District of Columbia.

The major products marketed by the company and the direct premiums written are other liability (occurrence and claims made), commercial auto liability, and auto physical damage. The major products are marketed through independent and general agents.

The following table is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 9,201,352	$ 8,744	$ 9,210,096	$ 0
Allied lines	4,145,739	76,121	4,221,860	0
Farmowners multiple peril	(242)		(242)	0
Homeowners multiple peril	8,128,856		8,128,856	0
Commercial multiple peril	3,943,370		3,943,370	0
Ocean marine	7,849,742		7,849,742	0
Inland marine	3,867,235	8,238	3,875,473	0
Medical malpractice - occurrence	(9,271)		(9,271)	0
Medical malpractice - claims made	279,189		279,189	0
Earthquake	52,080		52,080	0
Group accident and health	5,883,773		5,883,773	0
Other accident and health	8,715,555	307,032	9,022,587	0
Other liability - occurrence	113,574,053		113,574,053	0
Other liability - claims made	23,644,780	941,384	24,586,164	0
Products liability - occurrence	566,275		566,275	0
Commercial auto liability	115,108,006	850,425	115,958,431	0
Auto physical damage	32,589,570	26,590	32,616,160	0
Fidelity	231		231	0
Burglary and theft	250		250	0
Boiler and machinery	187,512		187,512	0
Write-ins for other lines of business				
Auto Warranty	6,624,317	2,237,561	8,861,878	0
Total All Lines	$344,352,372	$4,456,095	$348,808,467	$ 0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Nine directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Galen R Barnes Columbus, OH	Chairman of the Board	2003
Michael D Miller Westerville, OH	Vice President-Finance	2003
Terri L Hill Scottsdale, AZ	Senior VP-Human Resources/ Communications	2003
Douglas C Robinette Westerville, OH	Senior Vice President	2003
David K Hollingsworth Westerville, OH	Senior Vice President	2003
Michael L Horsman Scottsdale, AZ	Senior Vice President-Claims	2003
Gary L Tiepelman Scottsdale, AZ	Senior Vice President-Underwriting	2003
R Max Williamson Scottsdale, AZ	President and Chief Operating Officer	2003
Judy L Howard Scottsdale, AZ	Vice President-Finance and Treasurer	2003

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2001 Compensation
R. Max Williamson	President and Chief Operating Officer	
Robert A. Oakley	Executive VP- Chief Financial Officer	
Robert J. Woodward, Jr.	Executive VP-Chief Investment Officer	$ 146
John F. Delaloye	Vice President and Assistant Secretary	
Judy L. Howard	Vice President-Finance and Treasurer	
Carol L. Dove	Associate Vice President-Treasury Services and Assistant Treasurer	409
Arlan G. Oliva	Associate Vice President-Assistant Treasurer and Controller	
Glenn W. Soden	Associate Vice President and Secretary	
Thomas W. Dietrich	Assistant Secretary	51
Michael D. Maier	Assistant Treasurer	329
Daniel J. Murphy, Jr.	Assistant Treasurer	310

The amounts above are allocated to the company by employee estimates of time spent on NCC. The other officers are paid by other affiliates and do not have salaries that are allocated to National Casualty Company.

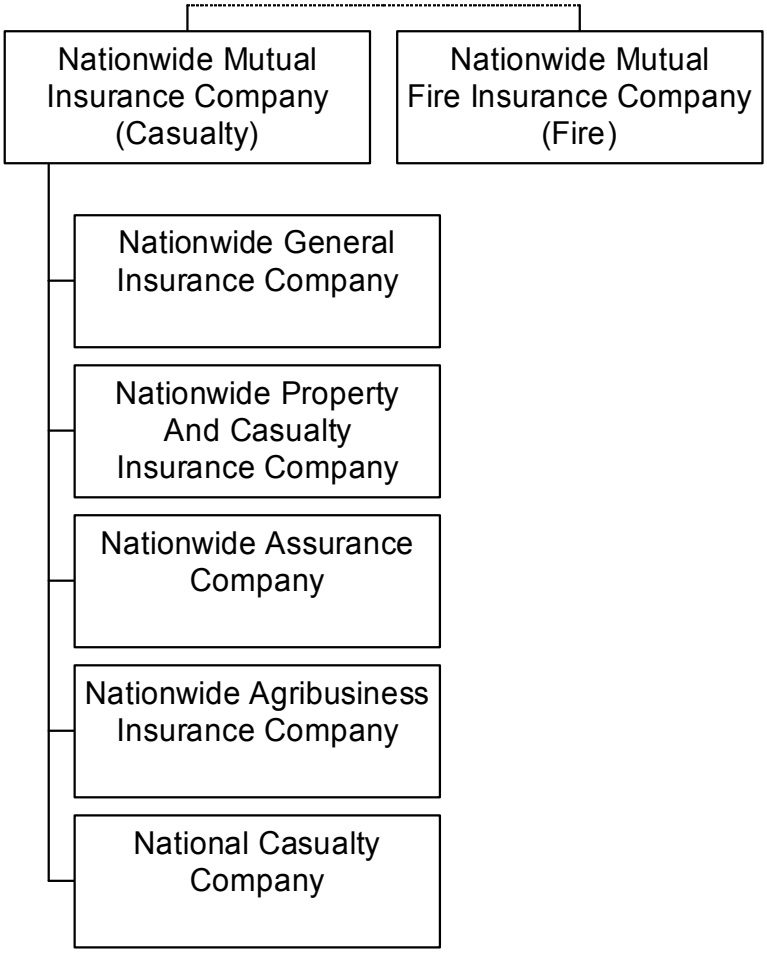
Committees of the Board

Although, the company's bylaws allow for the formation of certain committees by the board of directors, no committees had been formed at the time of the examination.

IV. AFFILIATED COMPANIES

National Casualty Company (NCC) is a member of a holding company system. The organizational chart below depicts the relationships among selected affiliates in the group. As shown below, the Nationwide Group is ultimately contolled by two mutual insurers. Either or both Nationwide Mutual Insurance Company and/or Nationwide Mutual Fire Insurance Company directly or indirectly control all subsidiaries. A brief description of the significant affiliates of NCC follows the organizational chart.

Organizational Chart
As of December 31, 2001



Nationwide Mutual Insurance Company (NMIC)

NMIC provides primarily private passenger automobile and commercial multi-peril coverages to individuals and businesses in all states, except New Jersey, and in the District of Columbia, Puerto Rico, U.S. Virgin Islands and Canada. NMIC along with Nationwide Mutual Fire Insurance Company are the ultimate parents of NCC. NCC has a 100% quota share reinsurance agreement with Nationwide Indemnity Company (NIC), which then cedes to the Nationwide Pool and also NIC provides administrative services under an agreement with the company. NCC has a Cost Sharing Agreement, Tax Sharing Agreement and an Investment Agency Agreement with NMIC and Nationwide Advisory Services, Inc., a subsidiary of NMIC. As of December 31, 2001, the company's audited financial statement reported assets of $18,553,363,751, liabilities of $12,274,101,706, and unassigned funds and special reserves of $6,279,262,045. Operations for 2001 produced a loss of ($167,648,917).

Nationwide Mutual Fire Insurance Company (NMFIC)

NMFIC provides primarily private passenger automobile and homeowners multi-peril to individuals in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. NMFIC is a party of the 100% quota share pooling reinsurance agreement and gets 11.3% of the pooled business. As of December 31, 2001, the company's audited financial statement reported assets of $2,536,220,451, liabilities of $1,383,175,026, and unassigned funds and special reserves of $1,153,045,425. Operations for 2001 produced net income of $78,050,405.

Nationwide General Insurance Company (NGIC)

NGIC provides, primarily from mass merchandising, private passenger automobile insurance. The company is part of the pooling agreement with NMIC and receives 0% of the pool back. As of December 31, 2001, the company's audited financial statement reported assets of $19,152,323, liabilities of $201,462, and unassigned funds and special reserves of $18,950,861. Operations for 2001 produced net income of $871,608.

Nationwide Property and Casualty Insurance Company (NPCIC)

NPCIC provides primarily standard private passenger automobile policies and commercial multi peril. The company is a party in the 100% quota share pooling agreement with NMIC and receives 0% of the pooled business. As of December 31, 2001, the company's audited financial statement reported assets of $22,850,611, liabilities of $295,136, and unassigned funds and special reserves of $22,555,475. Operations for 2001 produced net income of $1,223,820.

Nationwide Assurance Company (NAC)

NAC provides primarily non-standard private passenger auto liability and auto physical damage. NAC cedes 100% of its business to NMIC. It is also a party to the Cost Sharing Agreement, Tax Sharing Agreement and Investment Agency Agreement along with NCC and other affiliates. As of December 31, 2001, the company's audited financial statement reported assets of $65,316,501, liabilities of $6,842,111 and unassigned funds and special reserves of $58,474,390. Operations for 2001 produced net income of $2,872,943.

Nationwide Agribusiness Insurance Company (NAIC)

NAIC provides primarily commercial multi peril and commercial auto liability insurance. NAIC is part of the Nationwide Pool. NAIC also is a party to the same affiliated agreements as NCC. As of December 31, 2001, the company's audited financial statement reported assets of $46,706,160, liabilities of $5,321,253 and unassigned funds and special reserves of $41,384,907. Operations for 2001 produced net income of $1,866,340.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: 100% Quota Share

   Reinsurer: Nationwide Life Insurance Company

   Business Covered: All health policies except “Form 1751” major medical covered under March 31, 1993 assumption contract.

   Period: January 1, 1994 continuous until 90-day notice of termination.

   Premium: 100% of premiums on above policies.

2. Type: 100% Quota Share

   Reinsurer: Nationwide Indemnity Company

   Business Covered: 100% of construction defect claims for bodily injury, property damage and/or personal injury arising from primary general liability policies written on developers, general contractors and artisan contractors serving as subcontractors for work done in the state of California. This reinsurance contract covers policies with inception dates between January 1, 1982 and December 31, 1997. It does not cover excess or umbrella policies.

   Period: December 31, 2000, until termination of all policy liabilities or upon mutual written agreement between the parties.

   Premium: Assets equal to policy reserves.

3. Type: 100% Quota Share

   Nationwide Mutual Insurance Company

   Business Covered: 100% of remaining liability after cessions to Nationwide Life and Nationwide Indemnity.

   Period: August 1, 1982 until terminated at any calendar quarter with not less than 90 days notice.

   Premium: 100% of premiums less 1% for servicing fee.

Affiliated Assuming Contracts

1.	Type:	100% Quota Share
	Reinsurers:	NCC
	Reinsured:	Nationwide Life Insurance Company
	Business Covered:	All Major Medical Polices on "Form 1751" written on or before March 31, 1993. Applies to renewals of these policies, no new issues to be written.
	Coverage:	100% of liability under these policies
	Period:	March 31, 1993, remains continually in effect unless cancelled with 90 days advance notice.
	Premium:	100% of premiums on above policies.

Nonaffiliated Assuming Contracts

1.	Type:	Excess of Loss Reciprocal Agreement
	Reinsurer:	NCC
	Reinsured:	NAMIC Insurance Company
	Business Covered:	Insurance Company Professional Liability, Insurance Company Directors and Officers Liability, Insurance Agents and Brokers Liability, Insurance Company Combined Professional Liability and Directors and officers Liability, Professional Liability for Insurance Related Organizations, Trustee and Fiduciary Liability and All Risks of a Similar Nature.
	Coverage:	a) Quota Share 25% Participation to a maximum $250,000. b) First Excess of Loss 10% excess of $1,000,000 up to $400,000 c) Second Excess of Loss $5,000,000 Excess $5,000,000
	Period:	January 1, 1997, and may be cancelled any January 1 with 90 days notice by either party.
	Premium:	a) Quota Share Proportionate share of premium b) First Excess 10% of net premium of policies with greater than $1,000,000 limit c) Second Excess 100% of net written premium on policies written for limits greater then $5,000,000 less ceding commission of 30%.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

National Casualty Company
Assets
As of December 31, 2001

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$87,182,453	$	$	$87,182,453
Cash	8,407			8,407
Short-term investments	5,368,720			5,368,720
Receivable for securities	2,992			2,992
Reinsurance recoverable on loss and adjustment payments	2,308,301			2,308,301
Interest, dividends, and real estate income due and accrued	1,040,674			1,040,674
Equities and deposits in pools and associations	2,000			2,000
Total Assets	$95,913,547	$	$	$95,913,547

National Casualty Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Losses	$ 1,079,770
Loss adjustment expenses	64,786
Other expenses (excluding taxes, licenses, and fees)	854,683
Taxes, licenses, and fees (excluding federal and foreign income taxes)	666,657
Federal and foreign income taxes	94,514
Funds held by company under reinsurance treaties	4,418,479
Amounts withheld or retained by company for account of others	136,674
Remittances and items not allocated	6,103,636
Drafts outstanding	13,652
Payable to parent, subsidiaries, and affiliates	112,117
Write-ins for liabilities:	
Unclaimed Checks and Drafts	70,481
Miscellaneous Liabilities	8,659
Payable to Non-Affiliated	811,128
Total Liabilities	14,435,236
Common capital stock	5,000,000
Gross paid in and contributed surplus	21,486,670
Unassigned funds (surplus)	54,991,641
Surplus as Regards Policyholders	81,478,311
Total Liabilities and Surplus	$95,913,547

National Casualty Company
Summary of Operations
For the Year 2001

Underwriting Income	
Deductions:	
Losses incurred	$ (25,240)
Loss expenses incurred	(392)
Other underwriting expenses incurred	(5)
Total underwriting deductions	(25,637)
Net underwriting gain or (loss)	25,637
Investment Income	
Net investment income earned	5,670,998
Net investment gain or (loss)	5,670,998
Other Income	
Write-ins for miscellaneous income:	
Miscellaneous Income	2,187
Total other income	2,187
Net income (loss) before dividends to policyholders and before federal and foreign income taxes	5,698,822
Net income (loss) after dividends to policyholders but before federal and foreign income taxes	5,698,822
Federal and foreign income taxes incurred	1,786,908
Net Income	$3,911,914

National Casualty Company
Cash Flow
As of December 31, 2001

Loss and loss adjustment expenses paid (net of salvage or subrogation)	$ (9,990)		
Underwriting expenses paid	348,987		
Other underwriting income (expenses)	2,223,570		
Cash from underwriting		$ 1,884,573	
Investment income (net of investment expense)		5,816,219	
Other income (expenses):			
Net funds held under reinsurance treaties	(592,179)		
Write-ins for miscellaneous items:			
Miscellaneous Income	2,187		
Total other income		(589,992)	
Deduct:			
Federal income taxes paid (recovered)		1,490,990	
Net cash from operations			$ 5,619,810
Proceeds from investments sold, matured, or repaid:			
Bonds	15,562,657		
Miscellaneous proceeds	35,197		
Total investment proceeds		15,597,854	
Cost of investments acquired (long-term only):			
Bonds	19,689,439		
Total investments acquired		19,689,439	
Net cash from investments			(4,091,585)
Cash applied for financing and miscellaneous uses:			
Net transfers to affiliates	413,047		
Other applications	1,375		
Total		414,422	
Net cash from financing and miscellaneous sources			(414,422)
Net change in cash and short-term investments			1,113,803
Reconciliation			
Cash and short-term investments, December 31, 2000			4,263,324
Cash and short-term investments, December 31, 2001			$5,377,127

National Casualty Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets	$ 95,913,547	
Less liabilities	14,435,236	
Adjusted surplus		$ 81,478,311
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory surplus excess (or deficit)		$ 79,478,311
Adjusted surplus (from above)		$ 81,478,311
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security surplus excess (or deficit)		$ 78,678,311

National Casualty Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$ 73,442,439	$ 70,437,768	$ 75,401,820	$ 74,463,428	$ 77,753,734
Net income	2,996,206	4,960,521	3,865,222	3,300,709	3,911,914
Net unrealized capital gains or (losses)	3,150	8,550	5,700		(116,918)
Change in net deferred income tax	0	0	0	0	(7,044)
Cumulative effect of changes in accounting principles					(62,000)
Capital changes:					
Paid in	2,500,000	0	0	0	0
Surplus adjustments:					
Paid in	(2,500,000)	0	0	0	0
Dividends to stockholders	(6,000,000)	0	(4,800,000)	0	0
Write-ins for gains and (losses) in surplus:					
Prior Period Adjustment	(4,027)	(5,019)	(9,314)	(10,403)	(1,375)
Surplus, end of year	$ 70,437,768	$ 75,401,820	$ 74,463,428	$ 77,753,734	$ 81,478,311

National Casualty Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. There were no exceptional ratios.

	Ratio	1997	1998	1999	2000	2001
#1	Gross Premium to Surplus	377%	332%	375%	414%	428%
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Writings	0	0	0	0	0
#4	Surplus Aid to Surplus	1	1	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	6.4	6.5	6.3	6.5	6.4
#7	Change in Surplus	(4)	7	(1)	4	5
#8	Liabilities to Liquid Assets	19	17	18	15	15
#9	Agents' Balances to Surplus	0	0	0	0	0
#10	One-Year Reserve Devel. To Surplus	0	0	(1)	0	0
#11	Two-Year Reserve Devel. To Surplus	1	0	(1)	(1)	0
#12	Estimated Current Reserve Def. To Surplus	0	0	0	0	0

Growth of National Casualty Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1997	$ 86,148,446	$ 15,710,678	$ 70,437,768	$ 2,996,206
1998	90,233,243	14,831,423	75,401,820	4,960,521
1999	90,213,111	15,749,683	74,463,428	3,865,222
2000	91,315,325	13,561,591	77,753,734	3,300,709
2001	95,913,547	14,435,236	81,478,311	3,911,914

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1997	$ 265,289,841	$ 0	$ 0	0.0%	0.0%	0.0%
1998	249,963,875	0	0	0	0	0
1999	278,928,730	0	0	0	0	0
2000	321,562,171	0	0	0	0	0
2001	348,808,467	0	0	0	0	0

The company has remained stable and surplus has grown over the past five years. The company cedes most of its business to affiliates. The company has been profitable for the past five years.

Reconciliation of Surplus per Examination

There were no changes made to surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report as of 12/31/1995 by the Insurance Department of Michigan. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Location of the Company's Books and Records — The company is in violation of Section 5256 of the Michigan Insurance Code, which requires that the Company maintain all original books and records or true copies thereof, within the State of Michigan. The Company was granted approval to move the books and records to St. Louis, Missouri in 1985, but the Company closed that office in 1994. The Company has requested approval to move the books and records to Scottsdale, Arizona from St. Louis, Missouri. The approval is pending a decision by the Commissioner.

   Action— No comparable law exists for Wisconsin.

2. Complaint Register — We recommend the Company comply with Michigan Insurance Laws Section 500.2026(2), and maintain a complete record of all complaints of its insureds since the date of the last examination. The Company is aware of this Section, but could not locate the 1993 complaint register.

   Action—Compliance.

3. Director and Officer Notification — We recommend the Company comply with Section 500-250 of the Michigan Insurance Laws and give proper notification to the Bureau of Financial Analysis and Examinations of any new appointments of officers and/or directors.

   Action—Compliance.

4. Tax Sharing Agreement — We again recommend the Company obtain a federal income tax sharing agreement in accordance with NAIC Annual Statement Instructions.

   Action— Compliance.

5. Cash Management Funds — We recommend that the Company non-admit the entire balance of the cash management funds in accordance with Model Regulation 298 and the Michigan Insurance Bureau.

   Action— Compliance.

Summary of Current Examination Results

Internal Control

During internal control testing, it was discovered that currently Internal Auditors do not participate in System and Application Development. Internal Audit section members should participate in system and application development at least to the extent of expressing the need for, and type of "audit trails" within any new system. It is recommended that the company implement a documented role for internal audit input into all new system development or changes in the future.

Also, during internal control testing it was noted that operators are not logically restricted from access to program listings and documentation. Such unrestricted access to programs and documentation by operators creates a potential for unauthorized deviations from the normal operation of a program. While the company does employ other compensating controls such as supervisory presence, this is not the case on all shifts. It is recommended that the company implement a control that logically restricts operators from access to programs and detailed documentation.

Affiliated Agreements

The company had an Investment Agency Agreement with its parent that was not submitted to the Office of the Commissioner of Insurance, pursuant to s. Ins. 40.04 (2) Wis. Adm. Code. It is recommended that the company submit all affiliated agreements before implementation, pursuant to s. Ins. 40.04 (2), Wis. Adm. Code. Prior to the adoption of this report, the company submitted, and after some changes were made to the agreement, the Office of the Commissioner of Insurance did not disapprove of the contract.

VIII. CONCLUSION

The company's operations have remained stable and surplus has grown over the examination period. Net assets have grown from $86,148,446 in 1997 to $95,913,547 as of 12/31/2001. Liabilities decreased from $15,710,678 in 1997 to $14,435,236 in 2001. Surplus increased from $70,437,768 in 1997 to $81,478,311 in 2001. The company had net income for all years under examination with 2001 net income of $3,911,914.

The company was previously examined by the State of Michigan, which resulted in five recommendations. Four of the prior examination recommendations the company complied with and one did not have a comparable law in Wisconsin and so was not considered applicable.

The current examination resulted in three recommendations, which are listed in the next section of this report.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Internal Control—It is recommended that the company implement a documented role for internal audit input into all new system development or changes in the future.

2. Page 22 - Internal Control—It is recommended that the company implement a control that logically restricts operators from access to programs and detailed documentation.

3. Page 22 - Affiliated Agreements— It is recommended that the company submit all affiliated agreements before implementation, pursuant to s. Ins 40.04 (2), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

Subsequent Events

An affiliate of the parent, NMIC, Nationwide Financial Services Inc. (NSF) has an agreement to buy the Provident Mutual Life Insurance Company through a sponsored demutualization. Presently, approximately 82% of NFS, a public company, is owned by the Nationwide Corporation, which is approximately 95% owned by the company.

Nationwide Corporation reduced its interest in NFS by exchanging Class B shares it previously owned (valued at $362.8 million) for 100% interest in Gartmore Global Investments, Inc. and Nationwide Securities Inc.

Also associated with the transactions, Nationwide Global Holdings, Inc. transferred Garter Global Asset Management Trust (GGAMT) to Nationwide Corporation and Nationwide Corporation then authorized a dividend of Garter Global Investments, Inc. to GGAMT.