

Report of Examination of

Nationwide Affinity Insurance Company of America
Columbus, Ohio

As of December 31, 2011

Table of Contents

Subject	Page
Salutation	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors	2
Officers	3
Insurance Holding Company System	3
Territory and Plan of Operations	3
Reinsurance.....	4
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	5
Statement of Income	6
Statement of Changes in the Capital and Surplus Account.....	6
Notes to Financial Statements:	
Investments	6
Subsequent Events	6
Conclusion	7
Acknowledgement	7
Verification	8

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 Affinity Insurance Company of America

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 G. Arango	Division President - President and Chief Operating Officer of Titan Insurance
Lawrence A. Hilsheimer	President and Chief Operating Officer – Nationwide Direct & Customer Solutions
Michael P. Leach	Senior Vice-President, Chief Financial Officer – Property and Casualty
Mark A. Pizzi	President and Chief Operating Officer – Nationwide Insurance
Kathryne G. Reeves	Vice-President – Strategic Business Alliance

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
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 District of Columbia and the following states:

Alabama	Alaska	Arizona	Arkansas	Colorado
Connecticut	Delaware	Florida	Georgia	Idaho
Illinois	Indiana	Iowa	Kansas	Kentucky
Louisiana	Maine	Maryland	Massachusetts	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 direct written premium in 2011 by line of business:

Private passenger auto liability	\$ 330,922,615
Auto physical damage	218,822,368
Homeowners multiple peril	79,782,493
Earthquake	1,984,113
Inland marine	1,704,233
Burglary and theft	55,023
Allied lines	34,148
All other lines	<u>6,101</u>
Totals	<u>\$ 633,311,094</u>

Reinsurance

Effective January 1, 2011, the Company became a participant in an intercompany pooling agreement (“the Pool”) where 100% of the premiums are ceded to the Pool and the Company has a 0% pooling percentage. NMIC is the lead company and the pool administrator.

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	\$ 9,740,672
Cash and short-term investments	<u>3,150,499</u>
Total cash and invested assets	12,891,171
Investment income due and accrued	119,958
Uncollected Premium and agents' balances in the course of collection	33,941,067
Deferred premiums, agents' balances and installments booked but deferred and not yet due	102,484,591
Amounts recoverable from reinsurers	42,595,954
Other amounts receivable under reinsurance contracts	15,233,700
Net deferred tax asset	6,636
Receivable from parent, subsidiaries and affiliates	<u>2,289,033</u>
Total admitted assets	<u>\$ 209,562,110</u>

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

Liabilities

Current federal and foreign income taxes	\$ 121,868
Ceded reinsurance premiums payable	47,384,730
Remittances and items not allocated	23,625
Payable to parent, subsidiaries and affiliates	147,857,025
Aggregate write-ins for liabilities	
Escrow liability	409,747
State surcharge/recoupment receivable	78,446
Miscellaneous liabilities	<u>1,638,318</u>
Total liabilities	197,513,759

Capital and Surplus

Common capital stock	5,000,000
Gross paid in and contributed surplus	6,372,729
Unassigned funds	<u>675,622</u>
Surplus as regards policyholders	<u>12,048,351</u>
Total liabilities, capital and surplus	<u>\$ 209,562,110</u>

Statement of Income
As of December 31, 2011

Net investment income earned	\$ 371,211
Net investment gain	<u>371,211</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	371,211
Federal and foreign income taxes incurred	<u>121,921</u>
Net income	<u>\$ 249,290</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	\$ 11,804	\$ 9,408	\$ 11,002	\$ 13,891	\$ 13,861
Net income	249	1,220	(1,545)	(1,229)	27
Change in net unrealized capital gains or (losses) less capital gains tax	(179)	(153)	(1)	61	57
Change in net deferred income tax	-	(541)	54	204	47
Change in non-admitted assets	174	(130)	(102)	75	(101)
Surplus adjustments - Paid-in	-	2,000	-	-	-
Dividends to stockholders	=	=	=	(2,000)	=
Net change in capital and surplus	<u>244</u>	<u>2,396</u>	<u>(1,594)</u>	<u>(2,889)</u>	<u>30</u>
Capital and surplus, current year end	<u>\$ 12,048</u>	<u>\$ 11,804</u>	<u>\$ 9,408</u>	<u>\$ 11,002</u>	<u>\$ 13,891</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

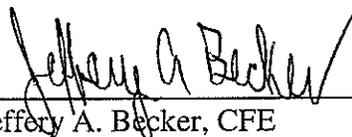
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 209,562,110</u>
Liabilities	197,513,759
Surplus as Regards Policyholders	<u>12,048,351</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 209,562,110</u>

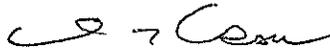
Acknowledgement

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 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

CS - 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 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 ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires