

Report of Examination of

Nationwide Insurance Company of Florida
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 Insurance Company of Florida

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 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
Mark A. Berven	Senior Vice-President – Product & Pricing Management
Martha L. Frye	Senior Vice-President – P&C Customer Service and Sales Solutions
Jeff M. Rommel	Senior Vice-President – Field Operations Independent Channel

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>
Lisa E. Gobber	President
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 Florida and Ohio.

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

	Direct	Assumed	Ceded	Net	Percent
Homeowners multiple peril	\$ 54,871,890	\$ -	\$ 23,526,253	\$ 31,345,637	96.8%
Inland marine	1,029,452	-	28,327	1,001,125	3.1%
Earthquake	<u>17,514</u>	=	=	<u>17,514</u>	<u>0.1%</u>
Totals	<u>\$ 55,918,856</u>	<u>\$ -</u>	<u>\$ 23,554,580</u>	<u>\$ 32,364,276</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	\$ 42,138	\$ 92,014	\$ 121,024	\$ 144,898	\$ 166,076
Losses incurred	30,942	82,317	65,595	122,542	97,193
Loss adjustment expense incurred	6,535	13,868	12,489	12,133	12,632
Underwriting expense incurred	14,684	23,068	31,831	35,888	121,296
Total underwriting deductions	52,161	119,253	109,915	170,564	231,120
Net underwriting gain or (loss)	(\$ 10,023)	(\$ 27,239)	\$ 11,109	(\$ 25,665)	(\$ 65,045)
Pure loss ratio	73.4%	89.4%	54.2%	84.5%	58.5%
Loss adjustment expense ratio	15.5%	15.1%	10.3%	8.4%	7.6%
Loss ratio	88.9%	104.5%	64.5%	92.9%	66.1%
Underwriting expense ratio	45.4%	34.8%	28.9%	34.3%	92.1%
Combined ratio	134.3%	139.3%	93.4%	127.2%	158.2%

Reinsurance

The Company ceded 30% of Homeowners multiple peril business to NMIC and has various ceded reinsurance agreements in force to protect itself from potential losses in excess of what management concludes are reasonable retentions of risk.

The Company participates in the Florida Hurricane Catastrophe Fund ("FHCF.") This is a state-mandated catastrophe reinsurance fund that provides reimbursement to insurers for a portion of their future catastrophic hurricane losses.

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	\$ 334,986,767
Cash and short-term investments	<u>15,847,106</u>
Total cash and invested assets	350,833,873
Investment income due and accrued	3,806,363
Uncollected premiums and agents' balances in the course of collection	16,340
Deferred premiums, agents' balances and installments booked but deferred and not yet due	654
Net deferred tax asset	2,753,863
Receivables from parent, subsidiaries and affiliates	10,317,542
Aggregate write-ins for other than invested assets	
Florida recoupment receivable	<u>360,376</u>
Total admitted assets	<u>\$ 368,089,011</u>

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

Liabilities

Losses	\$ 49,212,795
Loss adjustment expenses	6,563,478
Commissions payable, contingent commissions and other similar charges	217,751
Current federal and foreign income taxes	74,519
Unearned premiums	27,310,008
Ceded reinsurance premiums payable	(975,151)
Amounts withheld or retained by company for account of others	1,813
Remittances and items not allocated	6,787,282
Provision for reinsurance	108,000
Payable to parent, subsidiaries and affiliates	44,133
Aggregate write-ins for liabilities	
Escrow liability	181,652
Contingent suit liabilities	9,943
State surcharge/recoupment payable	<u>361,215</u>
Total liabilities	89,897,438

Capital and Surplus

Common capital stock	1,200,000
Gross paid in and contributed surplus	548,800,000
Unassigned funds	<u>(271,808,427)</u>
Surplus as regards policyholders	<u>278,191,573</u>
Total liabilities, capital and surplus	<u>\$ 368,089,011</u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 42,138,305</u>
Losses incurred	30,942,584
Loss adjustment expenses incurred	6,534,534
Other underwriting expenses incurred	<u>14,684,143</u>
Net underwriting loss	<u>(10,022,956)</u>
Net investment income earned	11,922,565
Net realized capital gains	<u>1,939,659</u>
Net investment gain	<u>13,862,224</u>
Net loss from agents' or premium balances charged off	(63,824)
Finance and service charges not included in premiums	495,083
Aggregate write-ins for miscellaneous income	
Change in contingent suit liability	(2,654)
Florida recoupment receivable	(588,589)
Miscellaneous	<u>156,396</u>
Total other income	<u>(3,588)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal income taxes	<u>3,835,680</u>
Federal and foreign income taxes incurred	<u>(1,243,338)</u>
Net income	<u>\$ 5,079,018</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>\$ 267,914</u>	<u>\$ 276,217</u>	<u>\$ 249,260</u>	<u>\$ 238,557</u>	<u>\$ 246,104</u>
Net income	5,079	(4,622)	20,841	27,630	(12,199)
Change in net unrealized capital gains or (losses) less capital gains tax	1,904	945	639	(251)	(19)
Change in net deferred income tax	476	(540)	2,370	(12,889)	4,570
Change in non-admitted assets	2,617	(4,160)	2,982	(3,360)	58
Change in provision for reinsurance	202	74	43	(427)	-
Cumulative effect of changes in accounting principles	-	-	<u>82</u>	-	<u>43</u>
Net change in capital and surplus	<u>10,278</u>	<u>(8,303)</u>	<u>26,957</u>	<u>10,703</u>	<u>(7,547)</u>
Capital and surplus, current year end	<u>\$ 278,192</u>	<u>\$ 267,914</u>	<u>\$ 276,217</u>	<u>\$ 249,260</u>	<u>\$ 238,557</u>

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 Gregory S. Beaulieu, FCAS, MAAA, of NMIC to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Beaulieu 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

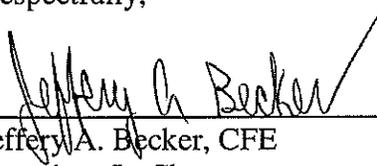
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 368,089,011</u>
Liabilities	89,897,438
Surplus as Regards Policyholders	<u>278,191,573</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 368,089,011</u>

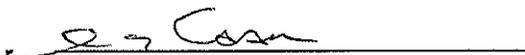
Acknowledgement

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 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 3/7/2013 [Signature] 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