

Report of Examination of
Nationwide Life and Annuity Insurance Company
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
Separate Accounts.....	3
Reinsurance.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	5-6
Summary of Operations.....	7
Statement of Changes in the Capital and Surplus Account.....	8
Notes to Financial Statements:	
Investments.....	8
Aggregate Reserve for Life Certificates and Claims.....	8
Subsequent Events.....	9
Conclusion.....	9
Acknowledgement.....	9
Verification.....	10

Columbus, Ohio
February 8, 2013

Honorable Mary Taylor
Lieutenant Governor/Director
State of 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”), an examination was made of the

Nationwide Life and Annuity Insurance Company

an Ohio domiciled, stock life insurance company, hereinafter referred to as the (“Company.”) The Company is 100% owned by Nationwide Life Insurance Company (“NLIC”) and NLIC is 100% owned by Nationwide Financial Services, Inc. The examination was conducted at Nationwide Mutual Insurance Company (“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 Association’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 State of Vermont participated on the Life Insurance Companies group examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For the 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 and Address	Principal Occupation
Timothy G. Frommeyer	Senior Vice-President – Chief Financial Officer - (Nationwide Financial Companies)
Peter A. Golato	Senior Vice-President – Nationwide Financial Network
Stephen S. Rasmussen	Chief Executive Officer, Nationwide Group
Mark R. Thresher	Executive Vice-President - Chief Financial Officer
Kirt A. Walker	President and Chief Operating Officer - (Nationwide Financial Companies)

Officers

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

Name	Title
Kirt A. Walker	President and Chief Operating Officer
Robert W. Horner, III	Vice-President and Secretary
David P. LaPaul	Senior Vice-President and Treasurer
Steven A. Ginnan	Vice-President - Chief Actuary (Nationwide Financial)

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 company holding system.

Territory and Plan of Operations

Except for the State of New York, the Company is licensed to transact business in all states and the District of Columbia. The Company is a leading provider of long-term savings and retirement products in the United States of America to develop and sells a diverse range of products including individual annuities, private and public sector group retirement plans, investment products sold to institutions, life insurance and advisory services.

Separate Accounts

Separate account assets represent contractholders' funds that have been legally segregated into accounts with specific investment objectives. Separate account assets are comprised of public, privately registered and non-registered mutual funds and investments in securities. Investment income and realized investment gains or losses of these accounts accrue directly to the contractholders.

Reinsurance

On December 31, 2010, the Company entered into a 90% coinsurance agreement with funds withheld with its subsidiary company, Olentangy Re, to cede a block of certain universal life and term life insurance policies. On December 31, 2010, \$272,458,000 was paid by Olentangy Re to the Company as settlement of the initial reinsurance transaction.

The Company has an intercompany agreement with Nationwide Life Insurance Company ("NLIC") whereby certain inforce and subsequently issued fixed individual deferred

annuity contracts are ceded on a modified coinsurance basis and certain life insurance contract is ceded on a 100% coinsurance basis.

Effective December 1, 2010 all of the traditional life insurance business previously ceded to Nationwide Financial Reinsurance, Ltd. ("NFRe"), an affiliate, was recaptured by the Company. As part of the recapture, the Company received \$38,740,000 from NFRe under the recapture agreement, consisting of \$37,104,000 and \$1,636,000 for reserves and pending claims, respectively.

The Company has entered into reinsurance contracts to cede a portion of its individual annuity and life insurance business to unaffiliated insurers.

All contracts examined contained the necessary clauses to meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Association with the Department and audited by the Association's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2011**

Admitted assets	
Bonds	\$ 3,521,403,560
Common stocks	315,532
Mortgage loans on real estate – first liens	485,218,173
Cash and short-term investments	31,394,210
Contract loans	26,515,957
Derivatives	2,240
Receivable for securities	85,658
Securities lending reinvested collateral assets	<u>18,480,416</u>
Total cash and invested assets	4,083,415,746
Investment income due and accrued	47,934,080
Uncollected premiums and agents’ balances in the course of collection	1,478,028
Deferred premiums and agents’ balances and installments booked but deferred and not yet due	14,120,176
Amounts recoverable from reinsurers	1,622,911
Other amounts receivable under reinsurance contracts	11,258,377
Current federal and foreign income tax recoverable and interest thereon	7,740,764
Net deferred tax asset	4,146,233
Guaranty funds receivable or on deposit	140,132
Receivable from parents, subsidiaries and affiliates	8,738,919
Aggregate write-ins for other than invested assets	
Accrued fees and other assets	<u>18,313,686</u>
Total Assets excluding Separate Accounts	<u>4,198,909,052</u>
From Separate Accounts	<u>1,158,496,923</u>
Total Admitted Assets	<u>\$ 5,357,405,975</u>

**Statement of Liabilities, Surplus and Other Funds
December 31, 2011**

Liabilities, Surplus and other funds:	
Aggregate reserve for life contracts	\$ 3,609,287,807
Liability for deposit-type contracts	17,352,334
Contract claims – life	13,934,245
Policyholder dividends	12,403
Dividends apportioned for payment	1,091,000
Premiums and annuity considerations for life and accident and health contracts received in advance	1,046,158
Other amounts payable on reinsurance	4,027,701
Interest maintenance reserve	12,989,061
Commissions to agents due or accrued-life and annuity contracts	3,739,528
Transfers to Separate Accounts due or accrued	(59,216,745)
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,146,409
Unearned investment income	8,117
Amounts withheld or retained by company as agent or trustee	187,398
Amounts held for agents' account	50,883
Remittances and items not allocated	3,479,344
Asset valuation reserve	18,535,786
Funds held under reinsurance treaties with unauthorized reinsurers	238,224,146
Payable to parent, subsidiaries and affiliates	7,770,226
Derivatives	2,655,610
Payable for securities	469,340
Payable for securities lending	18,479,998
Aggregate write-ins for liabilities	
Interest payable on unpaid policies and contract claims	(1,920)
Reserve for Escheat Funds	935,639
Reserve for Litigation	<u>250,000</u>
Total Liabilities excluding Separate Accounts	3,896,454,468
From Separate Accounts Statement	<u>1,158,496,923</u>
Total Liabilities	5,054,951,391
Common capital stock	2,640,000
Gross paid in and contributed surplus	534,624,500
Unassigned funds (surplus)	<u>(234,809,916)</u>
Total Surplus	<u>302,454,584</u>
Total Liabilities and Surplus	<u>\$ 5,357,405,975</u>

Summary of Operations
December 31, 2011

Premiums and annuity considerations for life and accident and health contracts	\$ 337,924,147
Considerations for supplementary contracts with life contingencies	1,050,623
Net investment income	209,475,638
Amortization of interest maintenance reserve	2,068,099
Commissions and expense allowances on reinsurance ceded	31,902,447
Reserve adjustments on reinsurance ceded	(217,365,795)
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	47,655,263
Miscellaneous income	<u>15,036,037</u>
Total premiums and other revenues	427,746,459
Death benefits	23,789,616
Matured endowments	41,509
Annuity benefits	189,986,024
Disability benefits and benefits under accident and health contracts	89,102
Surrender benefits and withdrawals for life contracts	33,478,649
Interest and adjustments on contract or deposit-type contract funds	(6,781,720)
Payments on supplementary contracts with life contingencies	1,393,590
Increase in aggregate reserve for life and accident and health contracts	<u>155,552,127</u>
Total benefits paid or provided	397,548,897
Commissions on premiums, annuity considerations, and deposit-type contract funds	88,981,603
Commission and expense allowances on reinsurance assumed	18,867
General insurance expenses	98,187,520
Insurance taxes, licenses and fees, excluding federal income taxes	11,138,013
Increase in loading on deferred and uncollected premiums	2,733,533
Net transfers from Separate Accounts net of reinsurance	<u>(101,687,402)</u>
Total insurance expenses and other deductions	496,921,031
Net gain from operations before dividends to policyholders and federal income taxes	(69,174,572)
Dividends to policyholders	<u>1,047,336</u>
Net gain from operations after dividends to policyholders and before federal income taxes	(70,221,908)
Federal and foreign income taxes incurred	<u>(23,756,275)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital losses	(46,465,633)
Net realized capital losses	<u>(14,768,863)</u>
Net Loss	<u>\$ (61,234,496)</u>

Statement of Changes in the Capital and Surplus Account
(in millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Surplus December 31, previous year	\$ 287	\$ 213	\$ 122	\$ 256	\$ 232
Net loss from operations	(61)	(50)	(61)	(90)	(4)
Change in net unrealized capital gains (losses)	(3)	(66)	(11)	2	(3)
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	4
Change in net deferred income tax	16	(11)	1	22	(5)
Change in nonadmitted assets	(26)	26	3	(36)	3
Change in liability for reinsurance in unauthorized companies	-	-	15	(15)	-
Change in asset valuation reserve	(5)	(2)	(1)	22	6
Cumulative effect of changes in accounting principles	-	-	5	-	-
Paid in Surplus adjustment	100	-	140	-	-
Dividends	-	-	-	(39)	-
Aggregate write-ins for gains and losses in surplus					
Adjustment to initial commission and expense allowance	(6)	177	-	-	-
Prior period SUL Excess Reserve Reduction	-	-	-	-	23
Net change in surplus for the year	<u>15</u>	<u>74</u>	<u>91</u>	<u>(134)</u>	<u>24</u>
Surplus December 31, current year	<u>\$ 302</u>	<u>\$ 287</u>	<u>\$ 213</u>	<u>\$ 122</u>	<u>\$ 256</u>

Notes to the Financial Statements

Investments

The Company's investment portfolio consists of bonds, stocks and cash and is compliant with Section 3907.14 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles.

Aggregate Reserve for Life and Accident and Health Contracts

The Company's Board of Directors appointed James P. Cleary, FSA, MAAA, of the Company to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Cleary prepared an Actuarial Memorandum supporting the Opinion in conjunction with the preparation of the Company's December 31, 2011 Annual Statement.

Peter Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

Subsequent Events

There are no material subsequent events.

Conclusion

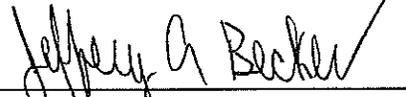
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 5,357,405,975</u>
Liabilities	\$ 5,054,951,391
Unassigned Funds	<u>302,454,584</u>
Total Liabilities and Unassigned Funds	<u>\$ 5,357,405,975</u>

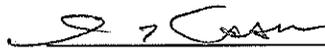
Acknowledgement

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); Peter Weber, ASA, MAAA; 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 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

John 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 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 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