

REPORT ON EXAMINATION

OF THE

**NATIONWIDE LIFE INSURANCE
COMPANY OF DELAWARE**

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

NATIONWIDE LIFE INSURANCE COMPANY OF DELAWARE

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 27 JUNE 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26TH DAY OF JUNE 2006.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
NATIONWIDE LIFE INSURANCE COMPANY OF DELAWARE
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 27TH Day of JUNE 2006.

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SALUTATION

May 18, 2006

Honorable Matthew Denn
Insurance Commissioner
State of Delaware, Insurance Department
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05.026, an examination was made of the affairs and financial condition of:

NATIONWIDE LIFE INSURANCE COMPANY OF DELAWARE

hereinafter referred to as the "Company" or NLICD, incorporated under the laws of the State of Delaware. The examination was conducted at the main administrative offices at 1000 Chesterbrook Boulevard, Berwyn, Pennsylvania, along with the service center at 300 Continental Drive in Newark, Delaware.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2000. This examination covers the four year period of January 1, 2001 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were

reviewed where deemed necessary. An affiliate of the Company, Nationwide Life and Annuity Insurance Company of America (NLACA), was examined concurrently and a separate Report of Examination thereon was prepared.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of this examination.

The general procedure of the examination followed guidelines published by the National Association of Insurance Commissioners in the Financial Examiners Handbook and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In addition to items hereinafter incorporated as a part of the written report, the following were made part of the workpapers of this examination:

Corporate Insurance
Conflict of Interest Statements
All asset and liability accounts not mentioned

HISTORY

The Company is a stock life insurance company. The Company was incorporated in the State of Delaware on August 16, 1989 as the Continental American Life Insurance Company of Delaware. On January 31, 1993, the parent company, Continental American Life Insurance Company was merged into PMLIC. On October 1, 2002 the Company, along with PMLIC and Providentmutual Life and Annuity Company of America

Nationwide Life Insurance Company of Delaware

(PLACA), was acquired by Nationwide Financial Services (NFS), which is a wholly owned subsidiary of Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company. At the time of the acquisition, which was approved by the Delaware Insurance Department, the Company's name was changed to its current title. PMLIC remained as the Company's parent and its name was changed to Nationwide Life Insurance Company of America (NLICA). PLACA remained as a Delaware domiciled affiliate of the Company and its name was changed to Nationwide Life and Annuity Company of America (NLACA).

The Company moved its administrative offices during the examination period from 1050 Westlakes Drive to 1000 Chesterbrook Boulevard in Berwyn, Pennsylvania.

CAPITALIZATION

As of December 31, 2004, the Company is authorized to issue 25,000 shares of common stock at a par value of \$100 per share. The Company had 6,000 shares of common stock issued and outstanding and capital was comprised of:

Common shares of common stock issued and outstanding	\$600,000
Gross Paid in and Contributed Surplus	\$600,000

The following changes occurred in the capital and surplus accounts since the previous examination as reported in the Company's Annual Statements:

	<u>Common Capital Stock</u>	<u>Gross Paid-in & Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total</u>
December 31, 2000	<u>\$600,000</u>	<u>\$600,00</u>	<u>\$1,280,462</u>	<u>\$2,480,462</u>
Net Income			430,703	430,703
Change in AVR			(1,191)	(1,191)
Change during period			<u>429,512</u>	<u>429,512</u>
December 31, 2004	<u>\$600,000</u>	<u>\$600,000</u>	<u>\$1,709,974</u>	<u>\$2,909,974</u>

DIVIDENDS TO STOCKHOLDERS

The Company has not paid any dividends to stockholders since its inception.

CORPORATE RECORDS

The only change to the Company's corporate records during the examination period pertained to the change in the Company's name (as previously discussed). The change was reflected in both the corporate By-Laws and the Articles of Incorporation.

During the review of the Company's minutes of the meetings of the Board of Directors, it was noted that the Board of Directors was not accepting or approving the Annual Independent Audit Report issued by its Certified Public Accountants (CPA). In addition, the Board of Directors does not appear to accept or approve the Actuarial Opinion as issued by the Company's Chief Actuary. Therefore;

It is recommended that the Company's Board of Directors review and approve the Independent CPA Audit Report and the Actuarial Opinion each year at its Annual Meeting.

HOLDING COMPANY SYSTEM

NLICD is a member of an Insurance Holding Company System as defined in Section 5001 of the Delaware Insurance Code. Nationwide Mutual Insurance Company (NMIC) and Nationwide Mutual Fire Insurance Company (NMFIC) are named as the ultimate controlling persons of the Holding Company System.

The Combined financial results of NMIC and MNFIC, on a statutory basis, as of December 31, 2004 were as follows:

Assets	\$28,462,698,385
Surplus	\$9,071,942,548
Net Income	\$1,216,804,880

The following chart shows the Nationwide organization as respects the ownership of NLICD as of December 31, 2004:

Nationwide Mutual Insurance Company (Casualty)
Nationwide Mutual Fire Insurance Company (Fire)
Nationwide Corporations
 Nationwide Financial Services, Inc
 Nationwide Life Insurance Company of America
 Nationwide Life and Annuity Company of America
 Nationwide Life Insurance Company of Delaware

MANAGEMENT AND CONTROL

The Bylaws require the Board of Directors to consist of not less than three and not more than eleven members. The Company's Board of Directors consisted of the following members at December 31, 2004:

<u>Name</u>	<u>Principal Occupation</u>
Peter A. Golato	President of NLICA, NLACA & NLICD
Mary E. Kennedy	Senior VP & Asst Treasurer of NLACA
Mark R. Thresher	Chief Operating Officer of Nationwide Financial Services
William G Jurgensen	Chairman & Chief Executive Officer of NLACA

Robert A. Rosholt	EVP & Chief Investment Officer of NLACA
Richard A. Karas	Senior VP of Non-affiliated Sales
Robert C. Thompson	VP of Affiliated Sales

The following officers had been elected by the Board of Directors and were serving at December 31, 2004:

<u>Officer</u>	<u>Position</u>
Peter A. Golato	President
William G. Jurgensen	Chief Executive Officer
James D. Benson	Senior VP & Treasurer
Thomas E. Barnes	VP & Secretary
Patricia R. Halter	EVP, General Counsel & Asst. Secretary
Robert A. Rosholt	EVP & Chief Investment Officer
Terri L. Hill	EVP
Denise M. Sortino	Senior VP of Information Technology
Richard M. Klenk	Associate VP & Chief Actuary
Mary E. Kennedy	Senior VP & Asst. Treasurer
Brian W. Nocco	Senior VP & Asst. Treasurer
Carol L. Dove	VP & Asst. Treasurer

GROWTH OF COMPANY

The following information was taken from the Company's filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital & Surplus</u>	<u>Premium Income</u>	<u>Net Income</u>
2000	\$4,264,588	\$2,480,462	\$152,973	\$130,150
2001	4,282,253	2,644,897	138,842	164,135
2002	4,274,847	2,763,367	122,157	119,488
2003	4,251,034	2,839,041	108,532	77,381
2004	4,244,007	2,909,974	91,439	69,699

The block of business being assumed from NLICA decreased every year during the current examination period as it did during the prior examination period. However,

investment income continues to add to the Company's Capital and Surplus. There has been no significant growth of the Company during the period under review.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write Life (including Annuities) and Accident and Health insurance in four states: Delaware, Oregon, North Dakota, and South Dakota. This did not change during the examination period.

The Company's only activity is the assumption of a closed block of group life insurance from its parent, NLICA. There are no plans for any other business at this time.

REINSURANCE

The Company assumes, on a Quota Share basis, 25% of all non-participating endorsed Group Graded Benefit Life insurance policies underwritten by the parent, Nationwide Life Insurance Company of America. The amount of business in-force at the end of 2004 declined to only \$2,084,437 with a reserve of \$1,217,742. This is down from the reported year-end 2000 (prior exam date) amount of \$3,075,505 for in-force business with a reserve of \$1,579,214. Assumed premiums totaled \$91,439 with reinsurance payable on paid and unpaid losses of \$24,166 reported as of December 31, 2004. The review of the Agreement notes that the only change in the contract during the examination period was the change in the names of both parties, which was effective on October 1, 2002. No substantive changes to the terms and conditions of the agreement occurred during the period under review.

The Company does not cede any business.

INTER-COMPANY AGREEMENTS

Cost Sharing Agreement

The Company entered into Cost Sharing Agreement with Nationwide Mutual Insurance Company and various affiliates on July 1, 2002. Although the stated effective date was July 1, 2002, the agreement did not become legally effective as it applies to NLICD until October 1, 2002, when the approval from the Delaware Insurance Department became effective. The Company terminated its previous Cost Sharing Agreement. The current agreement notes the parties desire to have each other perform certain operational and administrative services on behalf of one another. The purpose of the agreement is to properly distribute and allocate expenses to various parties receiving services. Among the services provided to NLICD under the Cost Sharing Agreement are the following:

Operational Services

- Advertising
- Underwriting
- Policy Processing
- Claims Adjustment and Claims Administration
- Data Processing
- Accounting
- Actuarial
- Investment
- Other necessary operational services

Administrative

- Payroll
- Benefits
- Investment Management
- Legal administration
- Human Resources
- Financial (financial reporting, budgeting, tax planning, etc.)
- Other necessary administrative services

With regards to the allocation of costs for services provided under this agreement the terms appear to be equitable. The agreement calls for the costs associated with the services provided to the Company to be allocated based on standard allocation techniques and procedures. Settlement of invoices associated with services provided is required within ninety (90) days following the receipt of invoices from the intercompany providers. The Company paid NLICA \$15,000 under the Cost Sharing Agreement during 2004.

Tax Sharing Agreement

Effective October 1, 2002, NLICA, NLICD and NLACA agreed to file consolidated federal income tax returns along with combined state, local income or franchise tax returns. The terms of the agreement appear to be fair and equitable and the agreement provides that the Company's tax liability is to be determined on a separate company basis as if the Company was filing its own return.

ACCOUNTS AND RECORDS

Prior to the Company's acquisition by Nationwide Financial Services, NLICD's accounts and records were audited by the firm of Coopers & Lybrand. Subsequent thereto, they have been audited by KPMG. The Company's December 31, 2004 Statutory Financial Statements were audited by KPMG. The audited Statutory Financial Statements were reviewed for all years under examination and it was noted that the CPA firms issued unqualified opinions for each year under review. Workpapers from the 2004 audit files were utilized to the fullest extent possible.

FINANCIAL STATEMENTS

The financial condition of the Company as of December 31, 2004 and the results of the Company's operations during the year then ended are reflected in the following financial statements:

ASSETS

	Ledger <u>Assets</u>	Assets <u>Not-Admitted</u>	Examination <u>Adjustments</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$1,715,091	\$ 0	\$ 0	\$1,715,091	1
Cash and short term Investments	2,494,917	0	0	2,494,917	
Uncollected Premiums in the Course of collection	1,357	0	0	1,357	
Investment income due and accrued	<u>32,642</u>	<u>0</u>	<u>0</u>	<u>32,642</u>	
TOTALS	<u>\$4,244,007</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$4,244,007</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		Notes
Aggregate reserve for life policies and contracts	\$1,217,742	2
Policy and contract claims - Life	24,166	
Other amounts payable on reinsurance	3,500	
Commissions and expense allowances payable on reinsurance assumed	267	
Federal income taxes due or accrued	60,462	
Asset valuation reserve	1,495	
Payable to parent, subsidiaries and affiliates	26,287	
Aggregate Write-Ins - Interest on Contract Claims	<u>114</u>	
Total liabilities	<u>\$1,334,033</u>	
Common capital stock	\$ 600,000	
Gross paid in and contributed surplus	600,000	
Unassigned funds	<u>1,709,974</u>	
Capital & Surplus	<u>\$2,909,974</u>	
TOTAL Capital, Surplus & Liabilities	<u>\$4,244,007</u>	

SUMMARY OF OPERATIONS

Premiums and annuity considerations	\$ 91,439
Net investment income	<u>138,867</u>
 Total income	 <u>\$ 230,306</u>
 Death benefits	 145,076
Surrender benefits and other fund withdrawals	39,000
Interest on policy or contract funds	1,379
Increase in aggregate reserves for life and accidental and health policies and contracts	<u>(94,260)</u>
 Sub-Total	 <u>\$ 91,195</u>
 Commissions and expense allowances on reinsurance assumed	 \$ 10,510
General insurance expenses	15,000
Insurance taxes, licenses and fees	<u>8,808</u>
 Total expenses	 <u>\$125,513</u>
 Net Gain from Operations	 <u>\$104,793</u>
Dividends to policyholders	0
Federal income taxes incurred	<u>\$ 35,094</u>
 NET INCOME	 <u>\$ 69,699</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2003	\$2,839,041
 Net income	 69,699
Change in asset valuation reserve	<u>1,234</u>
 Capital and Surplus, December 31, 2004	 <u>\$2,909,974</u>

SCHEDULE OF EXAMINATION CHANGES

No financial adjustments were made to this examination report.

NOTES TO FINANCIAL STATEMENTS

Note 1. – Bonds

\$1,715,091

The admitted value of bonds was \$1,715,091 and makes up 40.4% of NLICD's total assets. One-hundred percent (100%) of these investments were rated 1 by the NAIC's Securities Valuation Office. The Company's investment portfolio was mostly comprised of U.S. Government and U. S. Treasury Notes. Cash, Cash Equivalents and Short-Term Investments comprised 58.8% of the Company's assets.

Note 2. Aggregate Reserve for Life Policies

\$1,217,742

The above reserve of \$1,217,742 was held for a closed block of graded death benefit group whole life insurance policies assumed from the parent, Nationwide Life Insurance Company of America. INS Consultants' Inc. (INS) performed a review of the aggregate reserves reported by the Company.

INS prepared the December 31, 2004 Certificate of Reserve Valuation for NLICD. During that process, NLICD workpapers and computer listings supporting these reserves were reviewed and found to be in order. Reserve factors for a sample of plan-age-duration valuation cells were verified for each of the three durations in force. No exceptions were noted. Reserves from December 31, 2000 through December 31, 2004 for this block of business also revealed a reasonable trend.

Based upon the analysis performed, the aggregate reserves were accepted for the examination.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2000, contained one recommendation. That finding with its current status is as follows:

- It is recommended that the Company comply with Section 4919 of the Insurance Code.

The Company has complied with this recommendation.

RECOMMENDATIONS

The Company's attention is directed to the following recommendation:

- **It is recommended that the Company's Board of Directors review and approve the Independent CPA Audit Report and the Actuarial Opinion each year at its Annual Meeting (Page 4 - Corporate Records).**

SUMMARY COMMENTS

The following significant events were noted during the examination:

- On October 1, 2002 the Company along with PMLIC and Providentmutual Life and Annuity Company of America (PLACA) were acquired by Nationwide Financial Services (NFS), which is a wholly owned subsidiary of Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company. At the time of the acquisition, which was approved by the Delaware Insurance Department, the Company's name was changed to its current title. PMLIC remained as the Company's parent and its name was changed to Nationwide Life Insurance Company of America (NLICA). PLACA remained as a Delaware

domiciled affiliate of the Company and its name was changed to Nationwide Life and Annuity Company of America (NLACA).

- The only business written by the Company during the examination period was the assumption of group graded benefit life insurance from the parent.
- INS prepared the December 31, 2004 Certificate of Reserve Valuation for NLICD. During that process, NLICD workpapers and computer listings supporting these reserves were reviewed and found to be in order. Reserve factors for a sample of plan-age-duration valuation cells were verified for each of the three durations in force. No exceptions were noted. Reserves from December 31, 2000 through December 31, 2004 for this block of business also revealed a reasonable trend. Based upon the analysis performed, the aggregate reserves were accepted for the examination.

CONCLUSION

The following schedule shows the changes between the current and prior examinations:

	<u>Current Examination</u>	<u>Prior Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	<u>\$4,244,007</u>	<u>\$4,264,588</u>	<u>(\$20,581)</u>
Liabilities	1,334,033	1,784,126	(450,093)
Capital & Surplus	<u>2,909,974</u>	<u>2,480,462</u>	<u>429,512</u>
Totals	<u>\$4,244,007</u>	<u>\$4,264,588</u>	<u>(\$20,581)</u>

In addition to the undersigned, J. Ray Hartsfield, CFE, and John White participated in the examination. James J. Blair, Jr., CPA, CFE, served as the examination Supervisor. Actuarial assistance was provided by Tom Bickerstaff, ASA, MAAA, of INS Consultants, Inc.

Respectfully submitted,



Gregg S Bealuk, CFE
Examiner in Charge
Department of Insurance
State of Delaware