

Report of Examination of

National Interstate Insurance Company of Hawaii, Inc
Richfield, Ohio

As of December 31, 2010

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.....	4
Significant Operating Results.....	4
Reinsurance	5
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus	7-8
Statement of Income.....	9
Statement of Changes in the Capital and Surplus Account.....	9
Notes to Financial Statements:	
Investments.....	10
Loss and Loss Adjustment Expense Reserves	10
Conclusion.....	10
Acknowledgement.....	11

Richfield, Ohio
October 18, 2011

Honorable Joseph Torti, III
Deputy Director and Superintendent of Insurance
Chairman, Financial Condition (E) Committee
National Association of Insurance Commissioners
Department of Business Regulation
1511 Pontiac Avenue
Cranston, Rhode Island 02920

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam and Sir:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

National Interstate Insurance Company of Hawaii, Inc

previously a Hawaii domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company re-domesticated to the State of Ohio effective September 11, 2008. The examination was conducted at the Company’s home office, located at 3250 Interstate Drive, Richfield, Ohio.

Scope of Examination

The Hawaii Department last examined the Company as of December 31, 2005. The current examination covers the period of January 1, 2006 through December 31, 2010.

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.

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

For examination years 2006 through 2010, the certified public accounting firm of Ernst & Young, LLP (“E&Y”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by E&Y during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

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>
Alan Robert Spachman	Chairman, National Interstate Corporation
David Warner Michelson	President and Chief Executive Officer, National Interstate Corporation
Terry Eugene Phillips	Senior Vice President, National Interstate Corporation
Julie Ann McGraw	Vice President, Treasurer and Chief Financial Officer, National Interstate Corporation
Tanya Marie Inama	Assistant Vice President and Deputy General Counsel, National Interstate
Arthur Jeffrey Gonzales	Vice President, General Counsel and Secretary, National Interstate Corporation

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>
David Warner Michelson	President
Julie Ann McGraw	Treasurer
Arthur Jeffrey Gonzales	Vice President, General Counsel and Secretary
John Lloyd Woods	Vice President

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. Great American Insurance Company owns 52.5% of the voting stock of National Interstate Corporation, a publicly traded insurance holding company. The following displays the chain of ownership of the insurance companies as of December 31, 2010:

Great American Insurance Company
Agricultural Services, LLC
El Aguila Compania de Seguros, S.A. de C.V.
FCIA Management Company, Inc.
GAI Warranty Company
 GAI Warranty Company of Florida
Great American Alliance Insurance Company
Great American Assurance Company
Great American Casualty Insurance Company
Great American Contemporary Insurance Company
Great American E & S Insurance Company
Great American Fidelity Insurance Company
Great American Insurance Agency, Inc.
Great American Insurance Company of New York
Great American Lloyd's Insurance Company
Great American Protection Insurance Company
Great American Security Insurance Company
Great American Spirit Insurance Company
National Interstate Corporation (52.5%)
 Hudson Indemnity, Ltd.
 National Interstate Insurance Company
 National Interstate Insurance Company of Hawaii, Inc.
 Triumphe Casualty Company
 Vanliner Group, Inc.
 Vanliner Insurance Company
 Vanliner Reinsurance Limited

Territory and Plan of Operations

The Company is licensed to transact business in the states of Hawaii, Michigan, New Jersey and Ohio.

The following schedule illustrates the Company's premium written in 2010 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Commercial auto liability	9,740,021	2,616,022	9,802,670	2,553,373	53.2%
Auto physical damage	4,466,235	1,315,215	4,468,346	1,313,104	27.4%
Workers' compensation	3,339,937	678,601	3,479,712	538,826	11.2%
Other liability – occurrence	684,060	156,095	684,060	156,095	3.3%
Private passenger auto liability	761,665	140,097	761,665	140,097	2.9%
All other	<u>296,067</u>	<u>96,982</u>	<u>296,067</u>	<u>96,982</u>	<u>2.0%</u>
Totals	<u>\$ 19,287,985</u>	<u>\$ 5,003,012</u>	<u>\$ 19,492,520</u>	<u>\$ 4,798,477</u>	<u>100.0%</u>

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2010	2009	2008	2007	2006
Premiums earned	<u>\$ 4,544</u>	<u>\$ 4,339</u>	<u>\$ 4,485</u>	<u>\$ 4,831</u>	<u>\$ 2,199</u>
Losses incurred	2,287	1,916	2,176	2,026	738
Loss adjustment expense incurred	468	386	486	284	103
Underwriting expense incurred	<u>1,498</u>	<u>1,344</u>	<u>1,284</u>	<u>1,927</u>	<u>1,262</u>
Total underwriting deductions	<u>4,253</u>	<u>3,646</u>	<u>3,946</u>	<u>4,237</u>	<u>2,103</u>
Net underwriting gain	<u>\$ 290</u>	<u>\$ 692</u>	<u>\$ 539</u>	<u>\$ 594</u>	<u>\$ 97</u>
Pure loss ratio	50.3%	44.2%	48.5%	41.9%	33.5%
Loss adjustment expense ratio	<u>10.3%</u>	<u>8.9%</u>	<u>10.8%</u>	<u>5.9%</u>	<u>4.7%</u>
Loss ratio	60.6%	53.1%	59.3%	47.8%	38.2%
Underwriting expense ratio	<u>31.2%</u>	<u>31.4%</u>	<u>32.0%</u>	<u>40.1%</u>	<u>27.1%</u>
Combined ratio	<u>91.9%</u>	<u>84.5%</u>	<u>91.3%</u>	<u>87.9%</u>	<u>65.3%</u>

Reinsurance

Effective January 1, 2008, the Company entered into an intercompany reinsurance pooling agreement with its parent company and insurance affiliates (“the Group”). The effect is to transfer all net retained insurance liabilities of the subsidiaries to the Company and to cede specified percentages of the net underwriting results of the Group to the participating companies as follows:

<u>The Group</u>	<u>% Participation</u>
National Interstate Insurance Company (Lead)	96%
National Interstate Insurance Company of Hawaii, Inc	2%
Triumphe Casualty Company	2%

The passenger transportation book of business is protected by excess of loss reinsurance up to \$5 million on liability or workers’ compensation. An automatic facultative agreement is in place for those policies greater than \$5 million. The Group retains up to 100% of the liability on the first \$1 million and the first \$12 million of losses in the \$4 million excess of the \$1 million, referred to as the annual aggregate deductible (“AAD”). Losses above the AAD are 100% reinsured up to an annual aggregate limit of \$20 million. The Group retains up to 100% of the first \$1 million in auto physical damage losses within this program.

The commercial truck business is reinsured under an excess of loss program with limits up to \$1 million with an automatic facultative agreement in place for those policies greater than \$1 million. The Group retains 100% of the first \$500,000 of liability exposure and 50% of the \$500,000, excess of \$500,000 layer. The Group also retains up to 100% of \$1 million in auto physical damage for this book.

The recreational vehicle program has an excess of loss agreement covering losses up to \$2 million of those exceeding the Group’s retention level of \$400,000 for liability. The Group obtains reinsurance protection for physical damage losses exceeding the Group’s \$350,000 retention up to a \$2 million cover.

Mainland catastrophe protection is in place primarily covering the Group’s auto physical damage in excess of \$750,000 up to \$5 million per occurrence. Likewise, catastrophe excess of loss reinsurance for workers’ compensation is in place for losses greater than \$1 million.

For the Hawaii business, the Group utilizes multiple reinsurance contracts, including excess of loss and quota share programs. Excess of loss protection with limits of \$750,000 excess of \$250,000 is purchased for the general commercial and auto liability business. Workers’ compensation coverage is reinsured with a quota share contract with the Group retaining 40% of the losses up to a limit of \$250,000. Excess protection is in place for losses above that amount. The Group cedes 95% of Hawaii property losses up to a limit of \$3.25 million per risk. A catastrophe cover reinsures auto physical damage and property losses exceeding \$500,000 up to \$5 million.

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, 2010**

Admitted assets

Bonds	\$ 21,270,736
Cash	<u>289,876</u>
Total cash and invested assets	21,560,612
Investment income due and accrued	203,098
Uncollected premiums and agents' balances in the course of collection	1,333,647
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,188,216
Amounts recoverable for reinsurers	222,664
Funds held by or deposited with reinsured companies	(16,657)
Net deferred tax asset	264,895
Receivables from parent, subsidiaries and affiliates	1,027,438
Aggregate write-ins for other than invested assets:	
Receivable from insured for deductible payments	36,888
Commission receivable	<u>22,819</u>
Total admitted assets	<u>\$ 27,843,620</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2010**

Liabilities

Losses	\$ 3,096,880
Loss adjustment expenses	970,891
Commissions payable, contingent commissions and other similar charges	165,704
Other expenses	281,056
Taxes, licenses and fees	94,741
Current federal income taxes	271,667
Unearned premiums	2,210,849
Advanced premiums	19,995
Ceded reinsurance premiums payable	1,369,201
Funds held by company under reinsurance treaties	6,990,158
Amounts withheld or retained by company for account of others	178,787
Payable to parent, subsidiaries and affiliates	<u>154,035</u>
Total liabilities	15,803,965

Capital and Surplus

Aggregate write-ins for special surplus funds	
Additional admitted deferred taxes assets – SSAP 10R	36,305
Common capital stock	3,500,000
Gross paid in and contributed surplus	3,141,936
Unassigned funds	<u>5,361,415</u>
Surplus as regards policyholders	<u>12,039,656</u>
Total liabilities, capital and surplus	<u>\$ 27,843,620</u>

**Statement of Income
As of December 31, 2010**

Premium earned	<u>\$ 4,543,784</u>
Losses incurred	2,287,439
Loss adjustment expenses	467,600
Other underwriting expenses incurred	<u>1,498,322</u>
Net underwriting gain	<u>290,423</u>
Net investment income earned	701,982
Net realized capital losses	<u>37,341</u>
Net investment gain	<u>739,323</u>
Finance and service charges not included in premiums	46,715
Aggregate write-ins for miscellaneous income:	
Roadside assistance fees	16,367
Interest from funds held	<u>(115,629)</u>
Total other income	<u>(52,547)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	977,199
Federal and foreign income taxes incurred	<u>251,560</u>
Net income	<u>\$ 725,639</u>

**Statement of Changes in the Capital and Surplus Account
(In thousands)**

<u>Capital and Surplus</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital & surplus, prior year end	<u>\$ 11,295</u>	<u>\$ 10,397</u>	<u>\$ 9,614</u>	<u>\$ 8,736</u>	<u>\$ 8,361</u>
Net income	726	899	839	811	230
Change in net deferred income tax	35	(5)	5	64	195
Change in non-admitted assets	(20)	(28)	(81)	(7)	(20)
Change in provision for reinsurance	-	-	20	10	(30)
Capital changes: Paid in	500	-	-	-	-
Surplus adjustments: Paid in	(500)	-	-	-	-
Change in nonadmitted assets – additional admitted deferred taxes assets – SSAP 10R	5	-	-	-	-
<u>Implementation of SSAP 10R</u>	-	<u>32</u>	-	-	-
Net change in capital and surplus	<u>745</u>	<u>898</u>	<u>783</u>	<u>878</u>	<u>375</u>
Capital and surplus, current year end	<u>\$ 12,040</u>	<u>\$ 11,295</u>	<u>\$ 10,397</u>	<u>\$ 9,614</u>	<u>\$ 8,736</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 appointed John L. Doellman, FCAS, MAAA, an actuary employed with Great American Insurance Company, to certify the total reserves for all years under examination.

Thomas Botsko, Chief Property and Casualty Actuary of the Department, reviewed the actuarial studies performed and determined the loss and loss adjustment expense ("LAE") reserves presented in the Company's 2010 annual statement appear to make a reasonable provision for the Company's loss and LAE reserves.

Conclusion

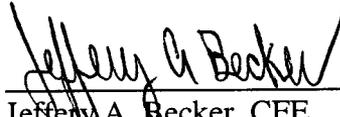
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$ 27,843,620</u>
Liabilities	\$ 15,803,964
Surplus as Regards Policyholders	<u>12,039,656</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 27,843,620</u>

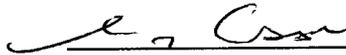
Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Louis Radecky, CFE, CPA; Trish Mesler, CPA; William Harrington, CFE, CPA; Thomas Botsko, ACAS, MAAA; Bradley Schroer; Vicky Hugo, AES, CFE and Larry Rice, AES, CISA.

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, 2010.

Jeffery A. Becker 10/18/2011 [Signature] 10/18/2011
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/her knowledge and belief.

Subscribed and sworn to before me this 18 day of October, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
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/her knowledge and belief.

Subscribed and sworn to before me this 18 day of October, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires