



Key Statistics

Nasdaq NATL
 A.M. Best rating "A" (Excellent)
 Employees 347
 Fiscal year ends December
 Website www.natl.com

Stock Information

Recent price* \$19.26
 52-week low-high \$16.06 - \$22.83
 Market capitalization* \$372.5MM
 Dividend (Yield)* \$0.32 (1.7%)
 TTM diluted EPS \$2.06
 TTM P*/E 9.3x
 *At August 11, 2010

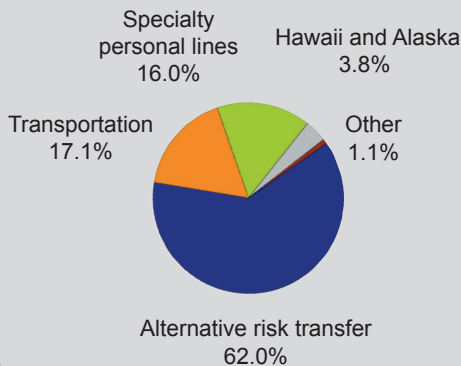
2009 Annual Results

Net earnings from operations . . . \$38.1MM
 Combined ratio 84.8%
 Premium growth (9.3%)
 Return on equity 19.1%

2010 YTD Results

Net earnings from operations . . . \$15.7MM
 Combined ratio 89.3%
 Premium growth 3.0%
 Return on equity 12.9%

2010 YTD Premium Mix



National Interstate Corporation is a leading specialty property and casualty insurance holding company with a niche orientation and focus on the transportation industry. Founded in 1989, the Company has had an uninterrupted record of profitability in every year since 1990, its first full year of operation.

The Company focuses on niche insurance markets, offering insurance products designed to meet unique needs of targeted insurance buyers. These markets often possess barriers of entry, such as being too small, too remote, or too difficult to attract, or sustain competitors. National Interstate offers property and casualty insurance that can be grouped into the following business components: alternative risk transfer, also known as captive programs, primarily for transportation companies; transportation, primarily passenger, truck, and moving and storage companies; specialty personal lines primarily for recreational vehicles and small commercial vehicle accounts; and, transportation and general commercial insurance in Hawaii and Alaska.

National Interstate seeks to grow opportunistically through new product offerings that address a specialized need in the respective market and by enhancing coverages, distribution and product design for its existing products. This strategy has proven to be successful for the Company. National Interstate's diverse product structure continues to provide the Company with growth opportunities across all phases of the commercial insurance cycle. The Company's focus on profitability has helped it consistently achieve its return on equity (ROE) objective of 15%+ inflation. For 2009 the Company achieved a ROE of 19.1%, which exceed its annual ROE goal and compared favorably to the general trend in the insurance industry.

The Company completed the acquisition of Vanliner Insurance Company effective July 1, 2010. Vanliner will be consolidated into the Company's results beginning in the 2010 third quarter. Vanliner, a market leader in providing insurance for the moving and storage industry, received a rating upgrade to "A" (Excellent) by A.M. Best Company following the closing. The Company views the Vanliner acquisition as a complement to its existing insurance products and an extension of its successful specialty niche business model.

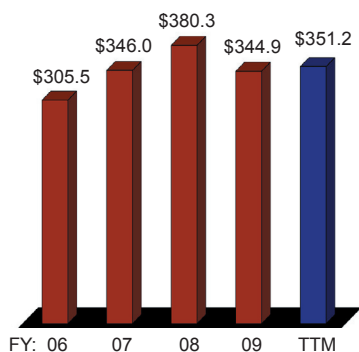
Proven Business Model

- Niche product focus.
- Each of the Company's 30+ products is headed by a product manager responsible for achieving that product's planned growth and profitability.
- Claims managed by the Company's claims professionals.
- Disciplined underwriting.
- High-quality investments.
- Effective use of reinsurance.

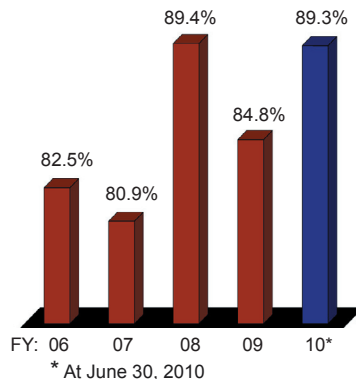
Strong Track Record

- Outstanding and consistent record of value creation, return on equity and profitable growth.
- Underwriting profit in 19 of the 21 years in business.
- Since its inception, the Company has consistently outperformed the property and casualty industry.
- Strong balance sheet and capital ratios.
- Increased quarterly dividend each year since going public in 2005.

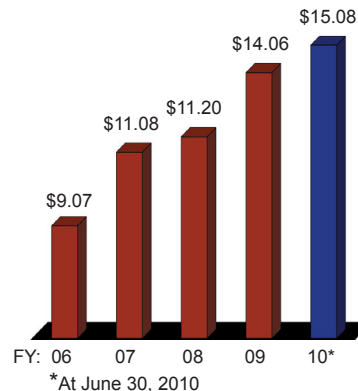
Gross Premiums Written (in millions)



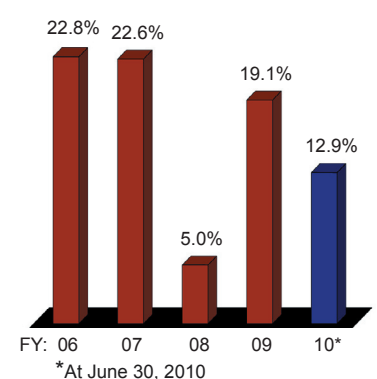
Combined Ratio



Book Value per Share



Return on Equity



2010 Second-Quarter Financial Results

- * Gross premiums up +19% for the 2010 2nd quarter and +3% for the 2010 first six months
- * Net income of \$0.39 per share for the 2010 2nd quarter and \$0.94 year to date
- * Book value per share of \$15.08 increased 7.3% in the first six months of 2010
- * Annualized ROE of 12.9% for the 2010 first six months

The table below shows the Company's net income determined in accordance with U.S. generally accepted accounting principles (GAAP), reconciled between net income from operations, the change in the valuation allowance related to net capital losses, and net realized gains (losses) from investments, all of which are non-GAAP financial measures:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	(In thousands, except per share data)			
	2010	2009	2010	2009
Net after-tax earnings from operations	\$ 6,534	\$ 10,948	\$ 15,736	\$ 23,455
Change in valuation allowance related to net capital losses	\$ -	\$ 481	\$ 810	\$ 605
After-tax realized gain from investments	\$ 1,084	\$ 680	\$ 1,658	\$ 695
Net income	<u>\$ 7,618</u>	<u>\$ 12,109</u>	<u>\$ 18,204</u>	<u>\$ 24,755</u>
Per share, diluted				
Net after-tax earnings from operations	\$ 0.33	\$ 0.57	\$ 0.81	\$ 1.21
Change in valuation allowance related to net capital losses	\$ -	\$ 0.02	\$ 0.04	\$ 0.03
After-tax realized gain from investments	\$ 0.06	\$ 0.04	\$ 0.09	\$ 0.04
Net income	<u>\$ 0.39</u>	<u>\$ 0.63</u>	<u>\$ 0.94</u>	<u>\$ 1.28</u>

Net earnings from operations: Net earnings from operations, comprised of underwriting income and recurring investment income, was \$6.5 million for the 2010 second quarter, a decrease of 40.3% compared to the 2009 second quarter. The net earnings variance was primarily the result of an increase in combined ratios of approximately 10 percentage points. The 2009 second quarter underwriting results were favorably impacted by unusually low claims activity when compared to elevated claims results in the 2010 second quarter. The Company reported combined ratios of 89.3% and 80.4% for the first six months of 2010 and 2009, respectively.

Claims: The loss and loss adjustment expense (LAE) ratio for the 2010 second quarter was 66.5% which is several percentage points higher than the Company has experienced in recent years. In contrast, the loss and LAE ratio of 56.6% for the 2009 second quarter was several percentage points better than the historical run rate. It is not unusual for the Company to experience quarterly loss and LAE ratio fluctuation given its niche orientation and policy loss limits for certain commercial coverages. The higher loss and LAE ratio in the 2010 second quarter was attributable to a variety of factors in several of the Company's niche product lines. In response to the elevated losses, starting in the 2009 fourth quarter and continuing in 2010 the Company has initiated underwriting and pricing actions for products in its Specialty Personal Lines component, but has not identified any other specific contributing factors. During the 2010 second quarter, the Company experienced favorable development from prior year claims of \$1.5 million which reduced the loss and LAE ratio by 2.2 percentage points for the quarter and is consistent with the second quarter of 2009.

Expenses: The underwriting expense ratios of 25.6% for the 2010 second quarter and 25.4% for the 2010 first six months were in line with expectations. Exclusive of the costs associated with the recently completed Vanliner acquisition, the Company's underwriting expense ratio would have been 24.8% for both the three and six months ended June 30, 2010. The Company's niche products have varying commissions and other policy acquisition costs associated with them and, as a result, the mix of business written in a particular quarter contributes to quarterly fluctuations in the underwriting expenses.

Investment Income: Net investment income for the three and six month periods ended June 30, 2010 was essentially identical with the same periods in 2009. Throughout the second quarter and first half of 2010, the Company continued to experience the effect of the low interest rate environment that was present throughout 2009 which offset the growth in the portfolio. Cash flows, including those from higher yielding investments that have matured, have been reinvested in similar but lower yielding securities available in the market. In addition, during 2010, the investment portfolio was strategically positioned to provide liquidity for the Vanliner acquisition that was effective July 1, 2010.

Realized Gains from Investments: The Company reported net realized gains from investments of \$1.7 million for the 2010 second quarter which increased the year to date net realized gains to \$2.6 million. The 2010 second quarter realized gains were primarily related to security sales to generate funds for the Vanliner acquisition. The company also used scheduled maturities and redemptions from its investment portfolio to fund the purchase. As of June 30, 2010, the portfolio's market value was \$550 million which reflected net unrealized gains of \$10.4 million. The portfolio's unrealized gain position increased approximately \$1.6 million compared to the 2010 first quarter even though the portfolio decreased approximately \$90 million primarily related to the acquisition. The Company continues to maintain a high quality and diversified portfolio with approximately 90% of its holdings rated as investment grade.

Gross premiums written: Gross premiums written for all of the components increased for the 2010 second quarter compared to the 2009 second quarter.

Alternative Risk Transfer (ART): The ART component was up 26.4% for the 2010 second quarter reflecting a combination of the continued near 100% renewal rate in our group captive programs, the addition of new insureds to our existing group programs, and new large account captive customers written in the quarter. The Company has consistently added customers to this component which represented over 60% of the Company's total gross premiums written for both the three and six months ended June 30, 2010.

Transportation and Hawaii and Alaska: Competitive conditions continue to exist in these two traditional commercial insurance markets. However, for the second consecutive quarter, the transportation component grew when compared to the same prior year quarter while Hawaii and Alaska had a modest quarter over quarter increase for the first time in several years. Gross premiums written for the Transportation component increased 14.8% for the first half of 2010 due to increased marketing efforts including expanded distribution sources, agency incentives, and emphasis on top-tier truck and passenger transportation accounts.

Specialty Personal Lines: Specialty Personal Lines: Gross premiums written in the specialty personal lines component grew 3.4% for the 2010 first six months compared to 2009, from growth in the commercial vehicle product offset by declines in other products. The net growth in this component slowed in the 2010 second quarter reflecting underwriting and pricing actions that are underway. The Company continues to expand its commercial vehicle product which is now being offered in seven states.

Selected Financial Information

(GAAP; in thousands except per-share data; unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating Data:				
Gross premiums written	\$ 110,726	\$ 92,760	\$ 216,530	\$ 210,178
Net premiums written	\$ 85,927	\$ 72,414	\$ 167,381	\$ 160,887
Premiums earned	\$ 69,233	\$ 69,663	\$ 139,414	\$ 139,102
Net investment income	5,012	4,919	9,971	9,929
Net realized gains on investments	1,669	1,048	2,551	1,071
Other income	976	960	1,794	1,748
Total revenues	<u>76,890</u>	<u>76,590</u>	<u>153,730</u>	<u>151,850</u>
Losses & loss adjustment expenses	46,032	39,440	89,136	78,766
Commissions & other underwriting expenses	14,735	15,357	29,571	28,376
Other operating & general expenses	3,996	3,203	7,622	6,495
Expense on amounts withheld	926	900	1,735	1,767
Interest expense	92	212	104	332
Total expenses	<u>65,781</u>	<u>59,112</u>	<u>128,168</u>	<u>115,736</u>
Income before income taxes	11,109	17,478	25,562	36,114
Provision for income taxes	3,491	5,369	7,358	11,359
Net income	<u>\$ 7,618</u>	<u>\$ 12,109</u>	<u>\$ 18,204</u>	<u>\$ 24,755</u>
Per Share Data:				
Net income per common share, basic	\$ 0.39	\$ 0.63	\$ 0.94	\$ 1.28
Net income per common share, diluted	\$ 0.39	\$ 0.63	\$ 0.94	\$ 1.28
Weighted average shares outstanding, basic	19,343	19,301	19,336	19,301
Weighted average shares outstanding, diluted	19,456	19,359	19,424	19,351
Cash dividend per common share	\$ 0.08	\$ 0.07	\$ 0.16	\$ 0.14

Balance Sheet Data

(GAAP; in thousands except per-share data; unaudited)

	At June 30,	At Dec. 31,
	2010	2009
Balance Sheet Data (GAAP):		
Cash & investments	\$ 550,366	\$ 614,974
Deposit in advance of acquisition	\$ 128,059	\$ -
Reinsurance recoverable	145,030	149,949
Total assets	1,072,805	955,753
Unpaid losses and loss adjustment expenses	423,118	417,260
Long-term debt	45,000	15,000
Total shareholders' equity	\$ 291,660	\$ 271,317
Book value per common share, basic	\$ 15.08	\$ 14.06
Common shares outstanding at period end	19,343	19,302
Six Months Ended		
June 30,		
	2010	2009
GAAP Ratios:		
Loss and loss adjustment expense ratio	63.9%	56.6%
Underwriting expense ratio	<u>25.4%</u>	<u>23.8%</u>
Combined ratio	<u>89.3%</u>	<u>80.4%</u>
Return on equity	12.9%	21.5%
Average shareholders' equity	\$ 281,489	\$ 229,811

This document, including any information incorporated by reference, contains "forward-looking statements" (within the meaning of Private Securities Litigation Reform Act of 1995). All statements trend analyses and other information relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "may," "target," "anticipate," "believe," "plan," "estimate," "expect," "intend," "project," and other similar expressions, constitute forward-looking statements. We made these statements based on our plans and current analyses of our business and the insurance industry as a whole. We caution that these statements may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, we cannot provide assurance that actual results will not differ from those expressed or implied by the forward-looking statements. Factors that could contribute to these differences include, among other things: general economic conditions, weakness of the financial markets and other factors, including prevailing interest rate levels and stock and credit market performance which may affect or continue to affect (among other things) our ability to sell our products and to collect amounts due to us, our ability to access

capital resources and the costs associated with such access to capital and the market value of our investments; customer response to new products and marketing initiatives; tax law changes; increasing competition in the sale of our insurance products and services and the retention of existing customers; changes in legal environment; regulatory changes or actions, including those relating to regulation of the sale, underwriting and pricing of insurance products and services and capital requirements; levels of natural catastrophes, terrorist events, incidents of war and other major losses; adequacy of insurance reserves; and availability of reinsurance and ability of reinsurers to pay their obligations. The forward-looking statements herein are made only as of the date of this report. The Company assumes no obligation to publicly update any forward-looking statements.

Please refer to the Company's investor relations website at <http://invest.NATL.com> for further financial and investor-related information.