

# 2010 Third Quarter **Fact Sheet**







## **Key Statistics**

NasuayNATL
A.M. Best rating "A" (Excellent)
Employees
Fiscal year ends December
Websitewww.natl.com

## **Stock Information**

Recent price*	21.35
52-week low-high \$16.06 - \$	23.00
Market capitalization*\$413	.3MM
Dividend (Yield)*\$0.32 (	1.5%)
TTM diluted EPS	\$2.10
TTM P*/E	10.2x
*At November 8, 2010	

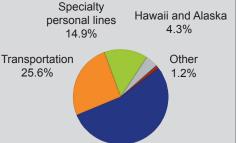
### 2009 Annual Results

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 \$23.4MM					
Combined ratio 91.9%					
Premium growth 19.1%					
Return on equity					

# 2010 YTD **Premium Mix**



Alternative risk transfer 54.0%

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 exceeded 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, 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.

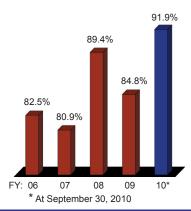
### **Strong Track Record**

- · 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.

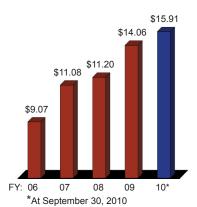
#### **Gross Premiums Written** (in millions)



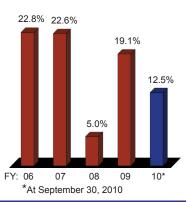
### **Combined Ratio**



### **Book Value per Share**



### **Return on Equity**



### 2010 Third-Quarter Financial Results

- Vanliner acquisition completed effective July 1, 2010 with successful ongoing integration \* Gross premiums up 67.5% for the 2010 third quarter and 19.1% year to date
- Net income of \$0.46 per share for the 2010 third guarter and \$1.40 year to date
- Annualized ROE of 12.5% for the 2010 first nine 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. Also included in the table below is the estimated gain on bargain purchase of Vanliner, which has been recognized as a separate component of revenues for both the three and nine months ended September 30,

	Three Months Ended			Nine Months Ended				
	Sept. 30,			<u>Sept 30,</u>				
	(In thousands, except per share data)						ata)	
	į	2010	į	2009		<u> 2010</u>		2009
Net after-tax earnings from operations Change in valuation allowance related to	\$	7,670	\$	5,869	\$	23,406	\$	29,324
net capital losses	\$	-	\$	1,792	\$	810	\$	2,397
After-tax realized gain from investments	\$	639	\$	495	\$	2,297	\$	1,190
Gain on bargain purchase of Vanliner	\$	635	\$		\$	635	\$	
Net income	\$	8,944	\$	<u>8,156</u>	\$	27,148	\$	32,911
Per share, diluted								
Net after-tax earnings from operations	\$	0.40	\$	0.30	\$	1.21	\$	1.51
Change in valuation allowance related to								
net capital losses	\$	-	\$	0.09	\$	0.04	\$	0.13
After-tax realized gain from investments	\$	0.03	\$	0.03	\$	0.12	\$	0.06
Gain on bargain purchase of Vanliner	\$	0.03	\$		\$	0.03	\$	
Net income	\$	0.46	\$	0.42	\$	1.40	\$	1.70

Net earnings from operations: Net earnings from operations, comprised of underwriting income and recurring investment income, was \$7.7 million for the 2010 third quarter, an increase of 30.7% compared to the 2009 third quarter. The net earnings variance was primarily due to increased investment income from the addition of the Vanliner portfolio and slightly higher underwriting earnings from the existing National Interstate business. The Company reported combined ratios of 95.1% for the 2010 third quarter compared to 92.8% for the 2009 third

Claims: The loss and loss adjustment expense (LAE) ratio for the 2010 third quarter of 76.2% was 8.0 percentage points higher than the 2009 third quarter. Vanliner added approximately 5.9 and 3.2 percentage points, respectively, to the loss and LAE ratio for the three and nine months ended September 30, 2010, primarily attributable to the runoff of acquired claims and unearned premium balances, which the Company anticipates will be less significant in future periods. The Company's third quarter claims severity and frequency is often elevated based on seasonality associated with the risks it insures. During the 2010 third quarter, the Company experienced higher claims frequency related to its specialty personal lines products. In addition, claims severity associated with several trucking products in both the Alternative Risk Transfer (ART) and transportation components was elevated for the 2010 third quarter. During the 2010 third quarter, excluding Vanliner, the Company experienced favorable development from prior

#### **Selected Financial Information**

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

year claims of \$2.5 million which reduced the loss and LAE ratio by 2.2 percentage points for the quarter which compares to \$0.3 million unfavorable development in the 2009 third quarter.

Expenses: The underwriting expense ratio of 18.9% for the 2010 third guarter was approximately 3.0 percentage points better than expected due to the required purchase accounting treatment of certain assets and liabilities acquired in conjunction with the Vanliner acquisition, which the Company anticipates will be less significant in future periods, as well as the low underwriting expense structure associated with a large portion of the business which renews during the third quarter of each year. The Company's niche products, including Vanliner, 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. Exclusive of Vanliner, the underwriting expense ratio was in the mid 20% range which is consistent with the historical run rate.

Investment Income: Net investment income for the 2010 third quarter of \$6.4 million and for the 2010 first nine months of \$16.4 million both increased compared to the same periods last year. The increase primarily resulted from the addition of the Vanliner portfolio at the beginning of the 2010 third quarter. Investment income, excluding the estimated impact from Vanliner for the 2010 periods, improved compared to 2009.

Realized Gains from Investments: The Company reported net realized gains from investments of \$1.0 million for the 2010 third quarter which increased the year to date net realized gains to \$3.5 million. The 2010 third quarter realized gains were primarily from security sales to generate funds related to the Vanliner acquisition. As of September 30, 2010, the fair value of the Company's portfolio increased to \$962.1 million reflecting the addition of the Vanliner holdings. Pre-tax net unrealized investment gains were \$23.6 million at September 30, 2010. The Company continues to maintain a high quality and diversified portfolio after the acquisition with a similar asset allocation and approximately 93% of its holdings rated as investment grade.

#### Gross premiums written:

Alternative Risk Transfer (ART): The ART component was up 63.8% for the 2010 third quarter and 11.5% for the 2010 first nine months. Contributing to this growth was the continued near 100% renewal rate in group ART programs and the addition of new insureds to our existing programs. Because of common renewal dates and other timing factors, the first nine months' growth provides a more realistic representation of the growth within this component.

Transportation and Hawaii and Alaska: In the 2010 third quarter, the Company began reporting the Vanliner business in this component, which accounted for a significant portion of the increase when compared to the 2009 third quarter. Vanliner writes a larger portion of its business in the first and third quarters compared to other quarters of the year. The existing passenger and truck transportation business again grew in the 2010 third quarter, and for the 2010 first nine months was approximately 12% ahead of the same 2009 period. The Company continues to benefit from increased marketing efforts including expanded distribution sources, agency incentives, and emphasis on top-tier truck and passenger transportation accounts.

Hawaii and Alaska: Gross premiums written in this component were down slightly for both the quarter and year to date reflecting continued competitive market conditions.

Specialty Personal Lines: Gross premiums written in the specialty personal lines component were flat for the 2010 third quarter and up 2.6% for the 2010 first nine months compared to 2009. The net growth in this component slowed reflecting underwriting and pricing actions that began earlier in the year.

#### **Balance Sheet Data**

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

		nths Ended t. 30,		ths Ended t. 30,		At Sept.	30, A	at Dec. 31,
	<u>2010</u>	2009	<u>2010</u>	2009		<u>2010</u>		2009
Operating Data: Gross premiums written	\$ 116,529 \$ 100,534	\$ 69,568	\$ 333,059	\$ 279,746	Balance Sheet Data (GAAP): Cash & investments	\$ 962,		614,974
Net premiums written Premiums earned Net investment income	\$ 100,524 \$ 111,866 6,440	\$ 58,984 \$ 70,825 4,501	\$ 267,905 \$ 251,280 16,411	\$ 219,871 \$ 209,927 14,430	Reinsurance recoverable Amounts refundable on estimated purchase price of Vanliner	209,4 5,8	438 894	149,949
Net realized gains on investments Gain on bargain purchase	983 635	760	3,534 635	1,831	Intangible assets Total assets	1,497,8		955,753
Other income Total revenues Losses & loss adjustment expenses	1,030 120,954 85,204	879 76,965 48,286	2,824 274,684 174,340	2,627 228,815 127,052	Unpaid losses & loss adjustment expenses Long-term debt Total shareholders' equity	786, 18, \$ 307,	500	417,260 15,000 271,317
Commissions & other underwriting expenses Other operating & general expenses	18,433 3,799	15,189 3,085	48,004 11,421	43,565 9,580	Book value per common share, basic Common shares outstanding at period end	\$ 15	5.91 \$ 356	14.06 19,302
Expense on amounts withheld Interest expense Total expenses	840 131 108,407	811 <u>71</u> 67,442	2,575 235 236,575	2,578 403 183,178				
Income before income taxes Provision for income taxes	12,547 12,547 3,603 \$ 8,944	9,523 1,367	38,109 10,961	45,637 12,726		;	Nine Months Ended Sept. 30,	
Net income Per Share Data:	<u>\$ 8,944</u>	<u>\$ 8,156</u>	<u>\$ 27,148</u>	<u>\$ 32,911</u>	GAAP Ratios:	<u>2010</u>		<u>2009</u>
Net income per common share, basic Net income per common share, diluted Weighted average shares outstanding, basic	\$ 0.46 \$ 0.46 19,344	\$ 0.42 \$ 0.42 19,301	\$ 1.40 \$ 1.40 19,338	\$ 1.71 \$ 1.70 19,301	Loss and loss adjustment expense ratio Underwriting expense ratio Combined ratio	<u>22</u> . 91.	4% <u>5%</u> <u>9%</u>	60.5% 24.1% 84.6%
Weighted average shares outstanding, diluted Cash dividend per common share	19,457 \$ 0.08	19,384 \$ 0.07	19,431 \$ 0.24	19,360 \$ 0.21	Return on equity Average shareholders' equity	12. \$ 289,6	.5% 623 \$	18.4% 237,992

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 tactual 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 informa