

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**SCHEDULE 13E-3  
(Rule 13e-100)  
(Amendment No. 2)**

**TRANSACTION STATEMENT UNDER  
SECTION 13(e) OF THE SECURITIES EXCHANGE ACT OF 1934 AND  
RULE 13e-3 THEREUNDER  
Rule 13e-3 Transaction Statement  
under Section 13(e) of the Securities Exchange Act of 1934**

**NATIONAL INTERSTATE CORPORATION**

Name of Subject Company (Issuer)

**GAIC ALLOY, INC.**

a wholly-owned subsidiary of

**GREAT AMERICAN INSURANCE COMPANY**

a wholly-owned subsidiary of

**AMERICAN FINANCIAL GROUP, INC.**

(Names of Filing Persons (other person(s)))

**Common Shares, \$0.01 Par Value Per Share**  
(Title of Class of Securities)

**63654U100**  
(CUSIP Number of Class of Securities)

**Mark A. Weiss  
Assistant General Counsel  
American Financial Group, Inc.  
301 East Fourth Street, 27<sup>th</sup> Floor  
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Telephone: (513) 579-2520**

(Name, address, and telephone numbers of person authorized to receive notices and communications on behalf of filing persons)

**With copies to:**

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This statement is filed in connection with (check the appropriate box):

- a.  The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Exchange Act of 1934.
- b.  The filing of a registration statement under the Securities Act of 1933.
- c.  A tender offer.
- d.  None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

Check the following box if the filing is a final amendment reporting the results of the transaction:

**Calculation of Filing Fee**

Transaction valuation*	Amount of filing fee*
\$314,734,608	\$31,694

\* The maximum aggregate value was determined based upon the sum of: (1) 9,727,191 common shares multiplied by \$32.00 per share (excluding common shares owned by subsidiaries of AFG); (2) stock options to purchase 180,000 common shares with an exercise price per share below \$32.00 multiplied by \$7.78 per share (the difference between \$32.00 and the weighted average exercise price of \$24.22 per share); and (3) 64,503 restricted common shares multiplied by \$32.00 per share.

\*\* The filing fee was calculated in accordance with Rule 0-11 under the Securities and Exchange Act of 1934, as amended, by multiplying the transaction value by 0.0001007.

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and date of its filing.

Amount Previously Paid: \$31,694  
Form or Registration No.: Schedule 14A

Filing Party: National Interstate Corporation  
Date Filed: August 15, 2016

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF THIS TRANSACTION, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS SCHEDULE 13E-3. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

## Introduction

This Rule 13E-3 Transaction Statement on Schedule 13E-3, together with the exhibits hereto (the “**Schedule 13E-3**” or the “**Transaction Statement**”), is being filed with the Securities and Exchange Commission (the “**SEC**”) pursuant to Section 13(e) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), by: (i) American Financial Group, Inc. (“**AFG**”), an Ohio corporation, (ii) Great American Insurance Company (“**Parent**”), an Ohio corporation and a direct wholly-owned subsidiary of AFG, (iii) GAIC Alloy, Inc. (“**Merger Sub**” and, together with Parent, “**Purchasers**”), an Ohio corporation, and (iv) National Interstate Corporation (the “**Company**”), an Ohio corporation (collectively, the “**Filing Persons**”).

This Transaction Statement relates to the Agreement and Plan of Merger, dated as of July 25, 2016, as amended by Amendment No. 1, dated as of August 15, 2016 (the “**Merger Agreement**”), by and among Parent, Merger Sub and the Company. Pursuant to the Merger Agreement, if the conditions to the closing of the merger are either satisfied or waived, Merger Sub will be merged with and into the Company, the separate corporate existence of Merger Sub will cease and the Company will continue its corporate existence under Ohio law as the surviving corporation in the merger (the “**Merger**”). Upon completion of the Merger, each common share of the Company, par value \$0.01 per share (the “**Common Shares**”), that is issued and outstanding at the effective time of the Merger (other than Common Shares (a) held by Parent or Merger Sub, (b) held by the Company in treasury or any wholly owned subsidiary of the Company or (c) held by holders of Common Shares who have properly demanded dissenters’ rights) will be cancelled and converted into the right to receive \$32.00, in cash, without interest and less any required withholding taxes. In addition, the Merger Agreement provides that the Company will declare a special cash dividend of \$0.50 per Common Share payable immediately prior to the effective time of the Merger to shareholders of record as of such time. Upon completion of the Merger, the Common Shares will no longer be publicly traded, and shareholders (other than Parent) will cease to have any ownership interest in the Company.

The board of directors of the Company, with the exception of directors Joseph E. (Jeff) Consolino, Ronald J. Brichler, Gary J. Gruber and Donald D. Larson (the “**Affiliated Directors**”), who are senior executives of Parent or AFG and who recused themselves from such determinations, and based in part on the unanimous recommendation of a special committee of directors (who are independent for purposes of serving on the special committee) that was established to evaluate and negotiate a potential transaction (as described more fully in the Proxy Statement (as defined below)), has unanimously (a) determined that the Merger Agreement and business combination and related transactions contemplated thereby are fair and in the best interest of the Company and its shareholders (other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of the Purchasers), to whom we sometimes refer in this Schedule 13E-3 as the “**Public Shareholders**”), (b) approved the Merger Agreement and the business combination and related transactions contemplated thereby, and (c) resolved to recommend that the Company’s shareholders approve the adoption of the Merger Agreement and the business combination and related transactions contemplated thereby. The Merger remains subject to the satisfaction or waiver of the conditions to closing provided for in the Merger Agreement, including obtaining the affirmative vote of (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) at least a majority of all outstanding Common Shares owned by the Public Shareholders in favor of the adoption of the Merger Agreement.

Concurrently with the filing of this Transaction Statement, the Company is filing with the SEC an amended proxy statement (the “**Proxy Statement**”) under Regulation 14A of the Exchange Act, pursuant to which the Company’s board of directors is soliciting proxies from shareholders of the Company in connection with the Merger. The Proxy Statement is attached hereto as Exhibit (a)(1). A copy of the Merger Agreement is attached to the Proxy Statement as Annex A-1 and is incorporated herein by reference.

Pursuant to General Instruction F to Schedule 13E-3, the information in the Proxy Statement, including all annexes thereto, is expressly incorporated by reference herein in its entirety, and responses to each item herein are qualified in their entirety by the information contained in the Proxy Statement. The cross-references below are being supplied pursuant to General Instruction G to Schedule 13E-3 and show the location in the Proxy Statement of the information required to be included in response to the items of Schedule 13E-3. As of the date hereof, the Proxy Statement is in preliminary form and is subject to completion or amendment.

## Item 1. Summary Term Sheet

The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Questions and Answers about the Special Meeting and the Merger”*

## Item 2. Subject Company Information

(a) **Name and Address.** The Company’s name and the address and telephone number of its principal executive offices are as follows:

National Interstate Corporation  
3250 Interstate Drive  
Richfield, Ohio 44286-9000  
(330) 659-8900

(b) **Securities.** The classes of securities to which this Transaction Statement relates is the Company’s common shares, par value \$0.01 per share, of which 19,927,191 shares were issued and outstanding as of October 6, 2016.

(c) **Trading Market and Price.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Important Information Regarding National Interstate—Market Price of the Company’s Common Shares”*

(d) **Dividends.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Important Information Regarding National Interstate—Dividends”*

*“The Merger Agreement—Conduct of Business Pending the Merger”*

(e) **Prior Public Offerings.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Important Information Regarding National Interstate—Prior Public Offerings”*

(f) **Prior Stock Purchases.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Important Information Regarding National Interstate—Transactions in Common Shares”*

### Item 3. Identity and Background of Filing Person

**(a)—(c) Name and Address; Business and Background of Entities; Business and Background of Natural Persons.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Important Information Regarding National Interstate”*

*“Important Information Regarding AFG, Parent and Merger Sub”*

*“The Parties to the Merger”*

### Item 4. Terms of the Transaction

**(a) (1) Tender Offers.** Not applicable.

**(a) (2) Mergers or Similar Transactions.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“The Merger Agreement—Structure of the Merger”*

*“The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub”*

*“The Merger Agreement—Treatment of Company Equity Awards”*

*“The Merger Agreement—Payment for the Common Shares in the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“The Special Meeting—Required Vote”*

*“The Merger Agreement—Conditions to the Merger”*

*“Special Factors—Certain Effects of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Anticipated Accounting Treatment of the Merger”*

*“Special Factors—Material U.S. Federal Income Tax Consequences of the Merger”*

**(c) Different Terms.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Special Factors—Certain Effects of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub”*

*“Advisory Vote on Merger Related Compensation”*

**(d) Appraisal Rights.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Summary Term Sheet”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Dissenters’ Rights”*

*“Dissenters’ Rights”*

Annex B: Ohio Revised Code Section 1701.85

**(e) Provisions for Unaffiliated Security Holders.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Provisions for Public Shareholders”*

**(f) Eligibility for Listing or Trading.** Not applicable.

#### **Item 5. Past Contacts, Transactions, Negotiations and Agreements**

**(a) (1)—(2) Transactions.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Voting Agreement Involving Common Shares”*

**(b)—(c) Significant Corporate Events; Negotiations or Contacts.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Questions and Answers About the Special Meeting and the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Position of AFG, Parent and Merger Sub as to Fairness of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Voting Agreement”*

*“The Merger Agreement”*

*“Voting Agreement Involving Common Shares”*

Annex A-1: Agreement and Plan of Merger

Annex A-2: Voting Agreement

**(e) Agreements Involving the Subject Company’s Securities.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Questions and Answers About the Special Meeting and the Merger”*

*“Special Factors—Certain Effects of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Voting Agreement”*

*“Special Factors—No Solicitation”*

*“Special Factors—Termination”*

*“Special Factors—Termination Fee and Parent Expenses”*

*“The Special Meeting—Required Vote”*

*“The Merger Agreement”*

*“Voting Agreement Involving Common Shares”*

Annex A-1: Agreement and Plan of Merger

Annex A-2: Voting Agreement

**Item 6. Purposes of the Transaction and Plans or Proposals.**

**(b) Use of Securities Acquired.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Special Factors—Certain Effects of the Merger”*

*“The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub”*

*“The Merger Agreement—Treatment of Company Equity Awards”*

**(c) (1)—(8) Plans.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Certain Effects of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Voting Agreement”*

*“The Special Meeting—Required Vote”*

*“The Merger Agreement—Structure of the Merger”*

*“The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub”*

*“The Merger Agreement—Treatment of Company Equity Awards”*

*“Voting Agreement Involving Common Shares”*

*“Important Information Regarding National Interstate—Dividends”*

Annex A-1: Agreement and Plan of Merger

Annex A-2: Voting Agreement



## **Item 7. Purposes, Alternatives, Reasons and Effects**

**(a) Purposes.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Summary Term Sheet—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

**(b) Alternatives.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors”*

**(c) Reasons.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Summary Term Sheet—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Position of AFG, Parent and Merger Sub as to Fairness of the Merger”*

**(d) Effects.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Questions and Answers about the Special Meeting and the Merger”*

*“Summary Term Sheet”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Certain Effects of the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Anticipated Accounting Treatment of the Merger”*

*“Special Factors—Material U.S. Federal Income Tax Consequences of the Merger”*

*“The Merger Agreement—Structure of the Merger”*

*“The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub”*

*“The Merger Agreement—Treatment of Company Equity Awards”*

*“Advisory Vote on Merger Related Compensation”*

## **Item 8. Fairness of the Transaction**

**(a)—(b) Fairness; Factors Considered in Determining Fairness.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Opinion of Morgan Stanley & Co. LLC”*

*“Summary Term Sheet—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Summary Term Sheet—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Opinion of Morgan Stanley & Co. LLC”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Position of AFG, Parent and Merger Sub as to Fairness of the Merger”*

*“Special Factors—Projected Financial Information”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Important Information Regarding National Interstate”*

Annex A-3: Opinion of Morgan Stanley

**(c) Approval of Security Holders.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Record Date and Quorum”*

*“Summary Term Sheet—Required Shareholder Votes for the Merger”*

*“Summary Term Sheet—Conditions to the Merger”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“The Special Meeting—Record Date and Quorum”*

*“The Special Meeting—Required Vote”*

*“The Merger Agreement—Conditions to the Merger”*

**(d) Unaffiliated Representative.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Summary Term Sheet—Opinion of Morgan Stanley & Co. LLC”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Opinion of Morgan Stanley & Co. LLC”*

Annex A-3: Opinion of Morgan Stanley

**(e) Approval of Directors.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

**(f) Other Offers.** Not applicable.



## Item 9. Reports, Opinions, Appraisals and Negotiations

**(a)—(c) Report, Opinion or Appraisal; Preparer and Summary of the Report, Opinion or Appraisal; Availability of Documents.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Summary Term Sheet—Opinion of Morgan Stanley & Co. LLC”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Opinion of Morgan Stanley & Co. LLC”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Position of AFG, Parent and Merger Sub as to Fairness of the Merger”*

*“Where You Can Find Additional Information”*

Annex A-3: Opinion of Morgan Stanley

Presentations to the Special Committee of the Board of Directors of the Company, May 19, 2016, May 26, 2016, July 1, 2016, July 8, 2016, July 18, 2016, July 20, 2016 and July 24, 2016 are filed as Exhibits (c)(2) – (c)(3) and (c)(5) – (c)(9) respectively and are incorporated herein by reference.

The reports, opinions or appraisals referenced in this Item 9 will be made available for inspection and copying at the principal executive offices of the Company during its regular business hours by any interested equity security holder of the Company or representative who has been so designated in writing.

## Item 10. Source and Amounts of Funds or Other Consideration

**(a)—(b) Source of Funds; Conditions.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Summary Term Sheet—Financing”*

*“Special Factors—Financing”*

**(c) Expenses.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Special Factors—Fees and Expenses”*

*“The Merger Agreement—Termination Fee and Parent Expenses”*

**(d) Borrowed Funds.** Not applicable.

## Item 11. Interest in Securities of the Subject Company

**(a) Securities Ownership.** The information set forth in the Proxy Statement under the following caption is incorporated herein by reference:

*“Important Information Regarding National Interstate—Security Ownership of Management and Certain Beneficial Owners”*

**(b) Securities Transactions.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Voting Agreement Involving Common Shares”*

*“Important Information Regarding National Interstate—Security Ownership of Management and Certain Beneficial Owners”*

*“Important Information Regarding National Interstate—Transactions in Common Shares”*

## Item 12. The Solicitation or Recommendation

**(d) Intent to Tender or Vote in a Going-Private Transaction.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Required Shareholder Votes for the Merger”*

*“Summary Term Sheet—Voting Agreement”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Voting Agreement”*

*“The Special Meeting—Required Vote”*

*“Voting Agreement Involving Common Shares”*

**(e) Recommendation of Others.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger”*

*“Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger”*

*“Special Factors—Position of AFG, Parent and Merger Sub as to Fairness of the Merger”*

## Item 13. Financial Statements

**(a) Financial Information.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Important Information Regarding National Interstate—Historical Selected Financial Information”*

*“Important Information Regarding National Interstate —Ratio of Earnings to Fixed Charges”*

*“Important Information Regarding National Interstate —Book Value Per Share”*

*“Where You Can Find Additional Information”*

The audited financial statements set forth in Item 8 of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and the financial statements set forth in Item 1 of the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 are incorporated herein by reference.

**(b) Pro Forma Information.** Not applicable.

#### **Item 14. Persons/Assets, Retained, Employed, Compensated or Used**

**(a)—(b) Solicitations or Recommendations; Employees and Corporate Assets.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Summary Term Sheet—Opinion of Morgan Stanley & Co. LLC”*

*“Summary Term Sheet—Financing”*

*“Questions and Answers about the Special Meeting and the Merger”*

*“Special Factors—Background of the Merger”*

*“Special Factors—Opinion of Morgan Stanley & Co. LLC”*

*“Special Factors—Financing”*

*“Special Factors—Fees and Expenses”*

*“The Special Meeting—Solicitation of Proxies”*

#### **Item 15. Additional Information**

**(b) Golden Parachute Compensation.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

*“Advisory Vote on Merger Related Compensation”*

*“Summary Term Sheet—Interests of the Company’s Directors and Executive Officers in the Merger”*

*“Special Factors—Interests of the Company’s Directors and Executive Officers in the Merger”*

**(c) Other Material Information.** The information set forth in the Proxy Statement, including all annexes thereto, is incorporated herein by reference.

#### **Item 16. Exhibits**

(a) (1) Preliminary Proxy Statement of National Interstate Corporation (incorporated herein by reference to the Schedule 14A filed concurrently with the Securities and Exchange Commission on October 6, 2016) (the “Proxy Statement”).

(a) (2) Form of Proxy Card (incorporated herein by reference to the Proxy Statement).

(a) (3) Letter to the Company Shareholders (incorporated herein by reference to the Proxy Statement).

(a) (4) Notice of Special Meeting of Shareholders (incorporated herein by reference to the Proxy Statement).

(a) (5) Press Release of the Company, dated as of July 25, 2016 (incorporated herein by reference to Exhibit 99.1 to the Form 8-K filed with the Securities and Exchange Commission on July 26, 2016).

(a) (6) Press Release of AFG, dated as of July 25, 2016 (incorporated herein by reference to Exhibit 99.1 to the Form 8-K filed with the Securities and Exchange Commission on July 25, 2016).

(b) None.

(c) (1) Opinion of Morgan Stanley (incorporated herein by reference to Annex A-3 of the Proxy Statement).

~~(c) (2)~~ Presentation to the Special Committee of the Board of Directors of the Company, dated May 19, 2016, presented by Morgan Stanley, provided to the Special Committee.

~~(c) (3)~~\*Presentation to the Special Committee of the Board of Directors of the Company, dated May 26, 2016, presented by Morgan Stanley, provided to the Special Committee.

~~(c) (4)~~ Negotiating Presentation delivered by Morgan Stanley & Co. LLC to American Financial Group on June 2, 2016.

~~(c) (5)~~ Presentation to the Special Committee of the Board of Directors of the Company, dated July 1, 2016, presented by Morgan Stanley, provided to the Special Committee.

~~(c) (6)~~ Presentation to the Special Committee of the Board of Directors of the Company, dated July 8, 2016, presented by Morgan Stanley, provided to the Special Committee.

(c)(7) Presentation to the Special Committee of the Board of Directors of the Company, dated July 18, 2016, presented by Morgan Stanley, provided to the Special Committee.

(c)(8) Presentation to the Special Committee of the Board of Directors of the Company, dated July 20, 2016, presented by Morgan Stanley, provided to the Special Committee.

(c)(9) Presentation to the Special Committee of the Board of Directors of the Company, dated July 24, 2016, presented by Morgan Stanley, provided to the Special Committee.

(d) (1) Agreement and Plan of Merger, dated July 25, 2016, as amended by Amendment No. 1, dated as of August 15, 2016, by and among Great American Insurance Company, GAIC Alloy, Inc., and the National Interstate Corporation (incorporated herein by reference to Annex A-1 of the Proxy Statement).

(d) (2) Voting Agreement, dated as of July 25, 2016, by and among Great American Insurance Company, National Interstate Corporation, Alan R. Spachman, The Hudson Investment Trust, Alan R. Spachman Revocable Trust Under Deed Dated 5/23/2007, and Florence McDermott Spachman Revocable Trust (incorporated herein by reference to Annex A-2 of the Proxy Statement).

(f) Section 1701.85 of the Ohio General Corporation Law (incorporated herein by reference to Annex B of the Proxy Statement).

(g) None.

\* Confidential treatment has been requested with respect to the redacted portions of these discussion materials.

SIGNATURES

After due inquiry and to the best of each of the undersigned's knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated as of October 6, 2016

NATIONAL INTERSTATE CORPORATION

By: /s/ Arthur J. Gonzales  
Name: Arthur J. Gonzales  
Title: Senior Vice President, General Counsel and Secretary

AMERICAN FINANCIAL GROUP, INC

By: /s/ Mark A. Weiss  
Name: Mark A. Weiss  
Title: Vice President

GREAT AMERICAN INSURANCE COMPANY

By: /s/ Sue A. Erhart  
Name: Sue A. Erhart  
Title: Senior Vice President and General Counsel

GAIC ALLOY, INC.

By: /s/ Sue A. Erhart  
Name: Sue A. Erhart  
Title: Vice President and General Counsel



PRELIMINARY AND CONFIDENTIAL

Project Nile

## Benchmarking Analysis

19 May 2016

Morgan Stanley

Project Nile

## Discussion Agenda

- 1 2016 Business Plan vs. 1Q'16 Results
- 2 Research Analyst / Industry Benchmarking
- 3 Selection of Companies for Benchmarking
- 4 Operating Benchmarking
- 5 Valuation Benchmarking

## Project Nile

- Nile preliminary financial outlook referenced in these materials per Nile management ("Nile Mgmt")
  - Nile 2016 Business Plan per Nile Mgmt ("Nile 2016 Plan" or "2016P")
  - Nile preliminary financial outlook beyond 2016 per Nile Mgmt and subject to further review and refinement by Nile Mgmt

## Nile 2016 Plan by Quarter

Quarter	Plan
1Q'16	\$0.47
2Q'16	\$0.51
3Q'16	\$0.53
4Q'16	\$0.55
<b>2016</b>	<b>\$2.06</b>

Source Nile 2016 Plan

Morgan Stanley

## 1 2016 Business Plan vs. 1Q'16 Results

## Yearly Financial Review (Actual to Plan)

	2014A	2015A	Nile 2016 Plan	'14A-'15A Change (%)	'15A-'16P Change (%)
<b>Premiums</b>					
GWP	689.0	727.1	772.2	5.5%	6.2%
NWP	575.6	607.4	646.4	5.5%	6.4%
NEP	557.3	585.8	614.4	5.1%	4.9%
Total Expenses	584.8	591.8	600.4	1.2%	1.5%
Net Investment Income	32.4	31.6	41.4	(2.5%)	31.1%
Net Realized Gains (Losses)	6.8	(3.3)	3.3	-	-
Net Income	11.0	20.8	41.0	89.1%	96.9%
EPS	\$0.56	\$1.05	\$2.06	87.5%	96.2%
<b>Underwriting Metrics</b>					
AY COR	98.2%	97.9%	96.4%	(0.3%)	(1.5%)
Losses & LAE Ratio	78.1%	78.1%	76.2%	0.0%	(1.9%)
Expense Ratio	20.1%	19.8%	20.2%	(0.3%)	0.4%
CY COR	103.9%	100.4%	96.4%	(3.5%)	(4.6%)
Losses & LAE Ratio	83.8%	80.6%	76.2%	(3.2%)	(4.4%)
Expense Ratio	20.1%	19.8%	20.2%	(0.3%)	0.4%

Source Nile Company Filings and Nile 2016 Plan

## Notes

1. Combined quarterly results for 2Q'16, 3Q'16, and 4Q'16 for Nile to achieve original 2016 Plan based on 1Q'16 Actual results

## Quarterly Financial Review (Actual vs. Plan)

	Nile 1Q'16 Actual	Nile 1Q'16 Plan	Variance to 1Q'16 Plan	Required For Next 3 Qtrs. to Achieve Plan <sup>(1)</sup>
<b>Premiums</b>				
GWP	164.7	164.3	(0.4)	607.5
NWP	130.0	132.2	2.3	518.4
NEP	149.4	146.2	(3.2)	465.0
Total Expenses	149.5	144.7	(4.8)	453.3
Net Investment Income	10.4	10.4	(0.1)	31.0
Net Realized Gains (Losses)	(1.1)	0.8	2.0	4.4
Net Income	6.8	9.3	2.5	34.2
EPS	\$0.34	\$0.47	0.13	\$1.72
<b>Underwriting Metrics</b>				
AY COR	98.3%	97.1%	(1.2%)	95.8%
Losses & LAE Ratio	77.3%	76.2%	(1.1%)	75.8%
Expense Ratio	21.0%	20.9%	(0.1%)	19.9%
CY COR	98.3%	97.1%	(1.2%)	95.8%
Losses & LAE Ratio	77.3%	76.2%	(1.1%)	75.8%
Expense Ratio	21.0%	20.9%	(0.1%)	19.9%

Project Nile

- 2 analysts cover Nile with detailed model projections
  - Analyst 1 (as of 2/24/16)
  - Analyst 2 (as of 5/10/16)

Book Value Per Share

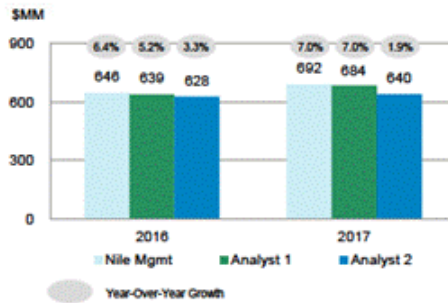
Company/Broker	2016E	2017E
Nile 2016 Plan / Nile Mgmt	19.51	21.20
<b>Research Estimates</b>		
William Blair	19.21	20.30
Raymond James	19.17	20.11

Morgan Stanley

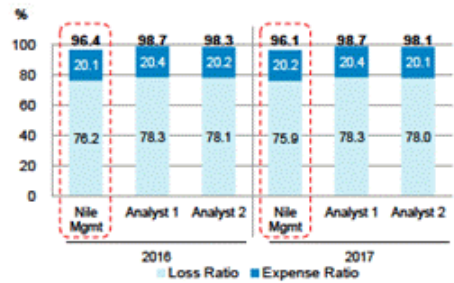
## 2 Analyst Research Estimates Benchmarking

Nile vs. Street Estimates

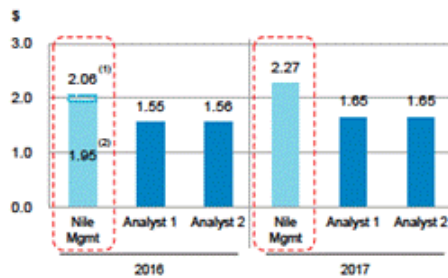
### Net Premiums Written



### AY Combined Ratios

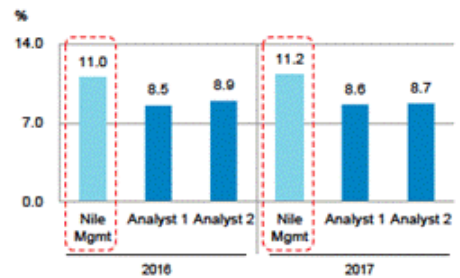


### EPS



Source: Wall Street Research, Nile 2016 Plan and Nile Mgmt

### ROAE

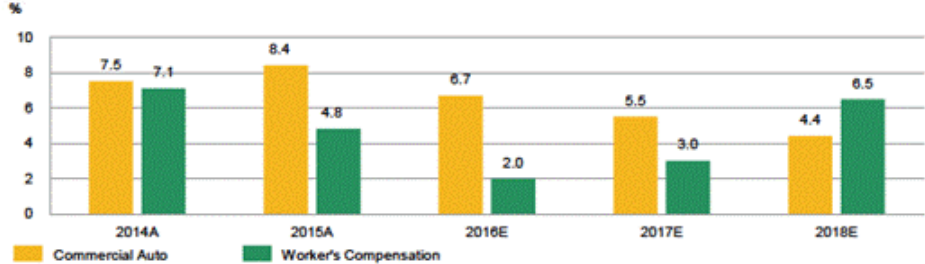


Note:  
 1. Nile 2016E EPS of \$2.06 includes investment gains / (losses)  
 2. Operating EPS

2 Industry Benchmarking: NPW Growth and Combined Ratio

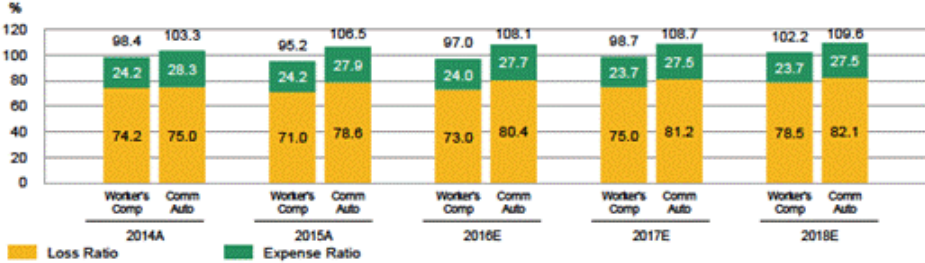
Y-o-Y NPW Growth (2014A – 2018E)

Commercial Auto and Worker's Compensation



CY Combined Ratio (2014A – 2018E)

Commercial Auto and Worker's Compensation



Source: Conning, Inc. Total Industry Forecast 2016 Q1 report (4/1/2016)

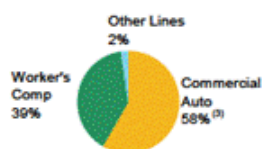
## Project Nile

**Benchmarking Criteria:**

- Noted as a competitor by Nile in either the 10-K or other business documents
- Market cap less than \$5Bn and greater than \$300MM
- Significant book of business related to commercial auto or worker's compensation as % of total business

**Nile Business Mix**

% of DPW (as of 12/31/2015)



Source: Company filings

Morgan Stanley

### 3 Selection of Companies for Benchmarking

#### Selected Comparable Companies

	Ticker	Market Cap (\$MM)	Referenced in Nile 10-K, Nile 2016 Plan or Board Materials	% of DPW <sup>(1)</sup>	
				Commercial Auto	Workers Comp.
<b>Peers</b>					
OLD REPUBLIC	ORI	4,869	✓	28.0%	37.8%
AmTrust	AFSI	4,505	✓	10.9%	50.3%
RLI	RLI	2,822	✓	11.8%	1.1%
National General	NGHC	2,226	✓	8.6%	0.0%
SELECTIVE	SIGI	2,030	✓	16.2%	13.1%
OneBeacon	OB	1,208	✓	9.8%	6.6%
UFCU	UFCS	1,013	✓	21.8%	10.5%
STATE AUTO Insurance Companies	STFC	851	✓	8.0% <sup>(2)</sup>	7.3%
EMC INSURANCE	EMCI	544	✓	19.3%	32.4%
DONEGAL INSURANCE GROUP	DGICA	392		12.2% <sup>(2)</sup>	15.6%
Baldwin & Lyons, Inc. The Pledge of Excellence	BWINB	371	✓	33.7%	43.0%

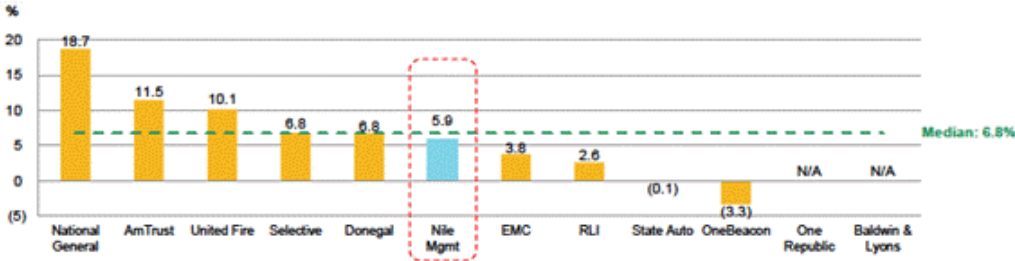
Source: S&P, Financial, Capital IQ and company filings (Market data as of 5/17/2016)

**Notes**

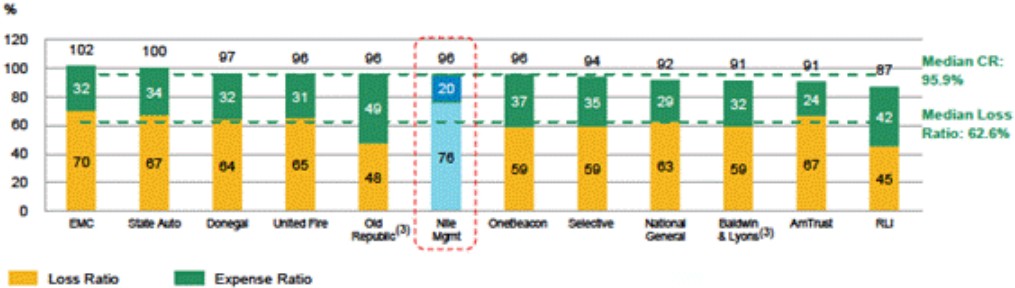
1. Data as of 12/31/2015
2. % based on Net Premiums Written
3. Commercial Auto includes: auto and other liability (46.8% of DPW) and auto physical damage (11.6% of DPW)

## 4 Operating Benchmarking: Premium Growth and Underwriting Margins

Net Premiums Earned CAGR (2015A – 2017E) <sup>(1)</sup>



AY Loss / Expense Ratios ('16E & '17E Avg. Unless Otherwise Noted) <sup>(2)</sup>

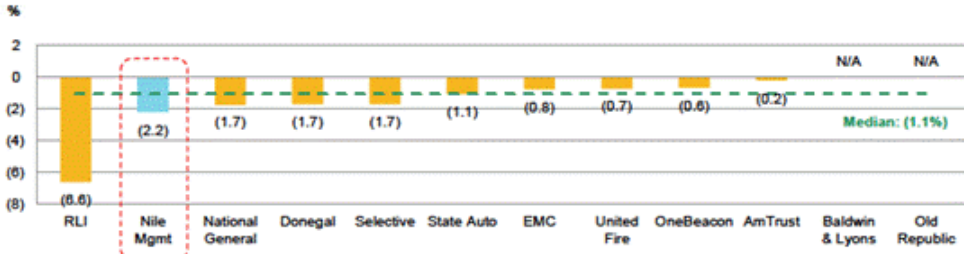


Source: SNL Financial (5/17/2016), Wall Street research

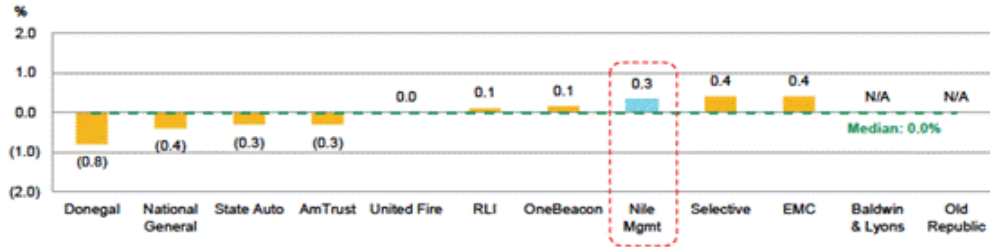
Notes:  
 1. CAGR calculated based on Wall Street research estimates for 2017E.  
 2. Average of loss ratio and expense ratio for 2016E and 2017E; Nile's ratios are based Nile 2016 Plan and Nile Mgmt.  
 3. Loss ratios represent 2015A as Wall Street research estimates were not available.

### 4 Operating Benchmarking: Loss and Expense Ratio Trends

%-Point Change in AY Loss Ratio (2017E vs. 2015A) <sup>(1)</sup>



% Point Change in AY Expense Ratio (2017E vs. 2015A) <sup>(1)</sup>



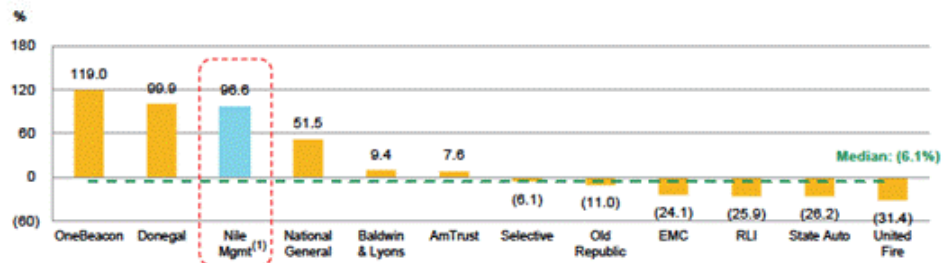
Source: SNL Financial (5/17/2016) and Nile Mgmt

Notes: 1. Based on 2017E median loss or expense ratios from Wall Street research compared to 2015A accident year ratios

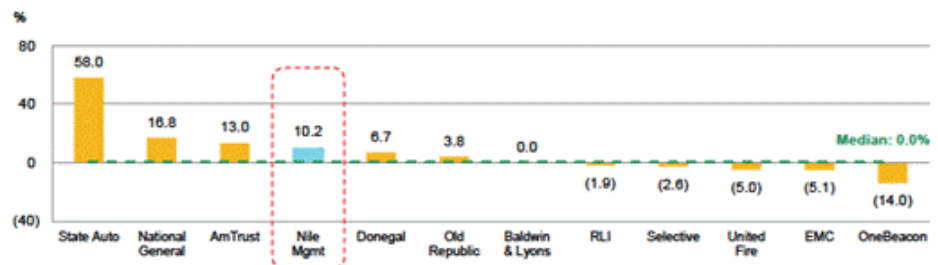


## 4 Operating Benchmarking: EPS Growth

EPS Growth (2015A – 2016E) <sup>(1)</sup>



EPS Growth (2016E – 2017E) <sup>(1)</sup>

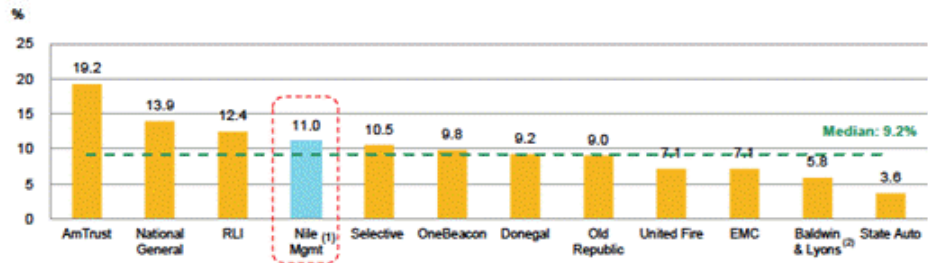


Source: SNL Financial (5/17/2016), Wall Street research, Nile 2016 Plan and Nile Mgmt

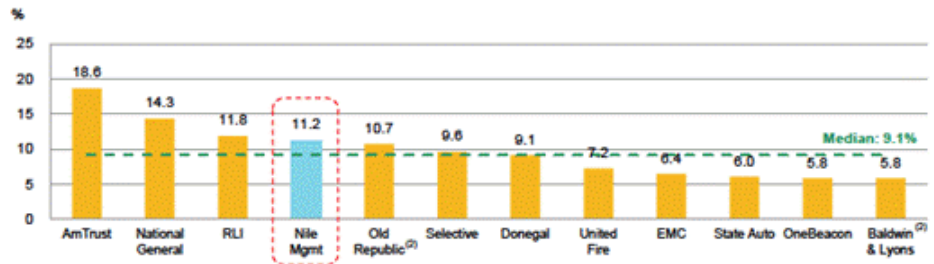
Notes  
1. Based on Nile 2016 Plan

## 4 Operating Benchmarking: ROE

### 2016 ROAE



### 2017 ROAE (1)



Source: SNL Financial (5/17/2016), Wall Street research, Nile 2016 Plan and Nile Mgmt

Notes:  
 1. Based on Nile 2016 Plan  
 2. ROAE figure reflects 2015A as Wall Street estimates were not available

Project Nile

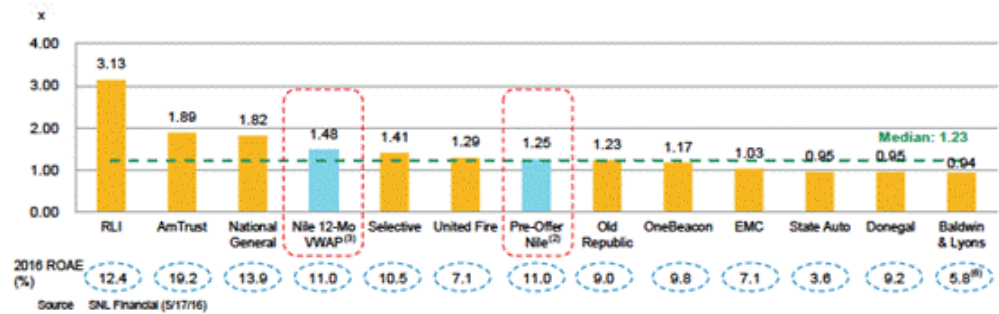
- Nile traded at \$22.61<sup>(2)</sup> ("Spot Price") as of the closing price on 3/4/16 (trading day prior to announcement)
- Nile 12-Month VWAP to 3/4/16 was \$26.62<sup>(3)</sup>

Nile Trading Multiples

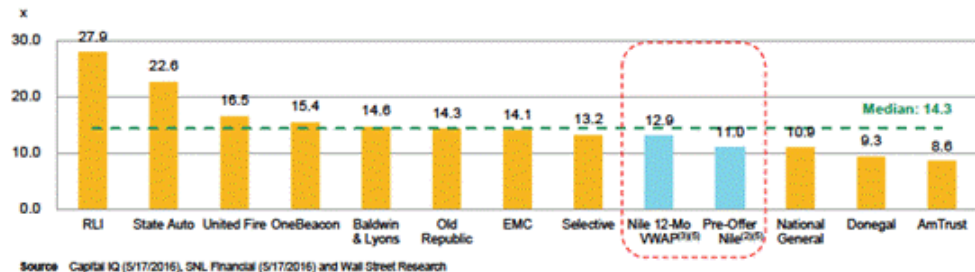
	Metric	Spot Price \$22.61	12-Mo VWAP \$26.62
P / BV <sup>(1)</sup>		\$18.03	1.25x
Nile 2016 Plan EPS <sup>(5)</sup>		\$2.06	11.0x
2016 Median Street EPS		\$1.56	14.5x
			17.1x

## 5 Valuation Benchmarking: P/BV and P/E Comparison

### Price to Book Value<sup>(1)</sup>



### P / E 2016E<sup>(4)</sup>



**Notes**

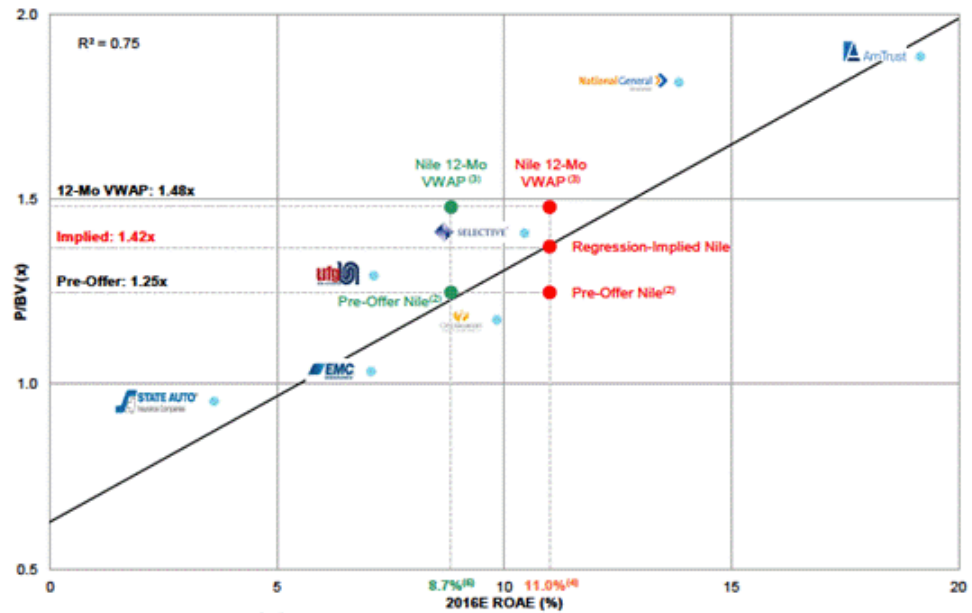
1. BV as of 3/31/2016; Pre-Offer Nile and Nile 12-Mo VWAP calculated off of BV as of 12/31/2015
2. Pre-offer price (\$22.61) of Nile as of 3/4/16, trading day prior to announcement of offer on 3/7/2016
3. 12-Mo VWAP represents LTM market data as of 3/4/16, trading day prior to announcement of offer on 3/7/2016
4. Based on median diluted EPS from Wall Street research
5. Based on Nile 2016 Plan
6. ROAE figure reflects 2015A as Wall Street estimates were not available

Project Nile

- Nile traded at \$22.61<sup>(2)</sup> ("Spot Price") as of the closing price on 3/4/16 (trading day prior to announcement)
- Nile 12-Month VWAP to 3/4/16 was \$26.62<sup>(3)</sup>

## 5 Valuation Benchmarking: P / BV vs. 2016 ROE

P / BV vs. 2016E ROAE Regression Analysis <sup>(1)</sup>



Source: SML Financial (5/17/2016) and Wall Street research

Notes

1. ORE, DGICA and BWINS not included in regression analysis due to lack of available Wall Street research estimates; RLJ is not included in regression due to its high P/BV multiple
2. Pre-offer book value of Nile on of 3/4/16; trading day prior to announcement of offer on 3/7/2016
3. 12-Mo VWAP represents LTM market data as of 3/4/16; trading day prior to announcement of offer on 3/7/2016
4. Nile 2016 Plan
5. Nile median ROAE per Wall Street Research

## Elements of Valuation Discussion

- 1 Standalone Valuation
- 2 Capital Structure
- 3 Reserves
- 4 Potential Acquisition by Nile
- 5 Potential Cost Synergies
- 6 Potential Tax Benefits to Parent
- 7 Precedent Transactions (minority squeeze-outs and M&A)

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PRELIMINARY AND CONFIDENTIAL

Project Nile

## Presentation to the Special Committee of the Board of Directors of Nile

26 May 2016

Morgan Stanley



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Project Nile

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<b>Section 2</b>	Tactical Considerations
<b>Section 3</b>	Potential Alternatives
<b>Appendix A</b>	Supporting Information
<b>Appendix B</b>	Historical Trading Metrics

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Section 1

## Preliminary Valuation Analysis

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3

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- Wall Street estimates ("Street Estimates") based on the coverage of available research estimates (two analysts)
- Nile Management estimates ("Nile Management Estimates") based on a combination of Nile 2016 Business Plan ("Nile 2016 Plan" or "2016P") and Nile preliminary financial outlook beyond 2016 ("Nile Financial Outlook"), prepared by Nile management
- In addition, at the request of the Special Committee, certain sensitivities to the Nile Management Estimates have been developed ("Sensitivity Analysis")
  - For example: including the impact of changes in division growth rates / margins and a potential M&A transaction

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PRELIMINARY VALUATION ANALYSIS

## Approach to Valuation

### Overview of Valuations Methodologies Considered

	Methodology	Description / Comments
Standalone Valuation	<b>A</b> Recent Trading Ranges	<ul style="list-style-type: none"> <li>• Market valuation prior to the announcement of the proposal, including:                             <ul style="list-style-type: none"> <li>– 52-Week Range</li> <li>– 3-Month Volume Weighted Average Price ("VWAP")</li> <li>– Pre-Offer Price <sup>(1)</sup></li> </ul> </li> </ul>
	<b>B</b> Public Trading Multiples	<p><u>Public Trading Comparables:</u></p> <ul style="list-style-type: none"> <li>• Focus on P/BV (as of 3/31/2016) as well as 2016P and 2017E P/E as relevant benchmarks of the comparables</li> <li>• Based on Street Estimates and Nile Management Estimates</li> </ul> <p><u>Regression Based Analysis:</u></p> <ul style="list-style-type: none"> <li>• P/BV implied by relationship with 2016P ROAE</li> <li>• Based on Street Estimates and Nile Management Estimates</li> </ul>
	<b>C</b> Dividend Discount Model ("DDM")	<ul style="list-style-type: none"> <li>• Available cash flows (dividends) of Nile Management Estimates discounted to 6/30/2016</li> <li>• The analysis is based on Nile Management Estimates, as well as the Sensitivity Analysis requested by the Special Committee</li> </ul>
M&A Valuation	<b>D</b> Minority Squeeze-Out Precedents	<ul style="list-style-type: none"> <li>• Premiums paid in precedent minority squeeze-outs in insurance and other industries</li> <li>• Focus on several time periods, including:                             <ul style="list-style-type: none"> <li>– Premium to 1-Day prior to announcement</li> <li>– Premium to 3-Mo prior to announcement</li> <li>– Premium to 52-week high prior to announcement</li> </ul> </li> </ul>
	<b>E</b> Recent Insurance M&A Transactions	<ul style="list-style-type: none"> <li>• Recent M&amp;A transactions within the P&amp;C insurance sector across a broad range of transaction sizes and business focus, as well as across a broader time period including transactions where the target has a similar business focus and size to Nile</li> <li>• Focus on key metrics include P/BV and NTM P/E (Street Estimates and Nile Management Estimates)</li> </ul>

Note  
1. Stock price as of the trading day (3/4/2016) prior to announcement of Amazon's proposal on 3/7/2016

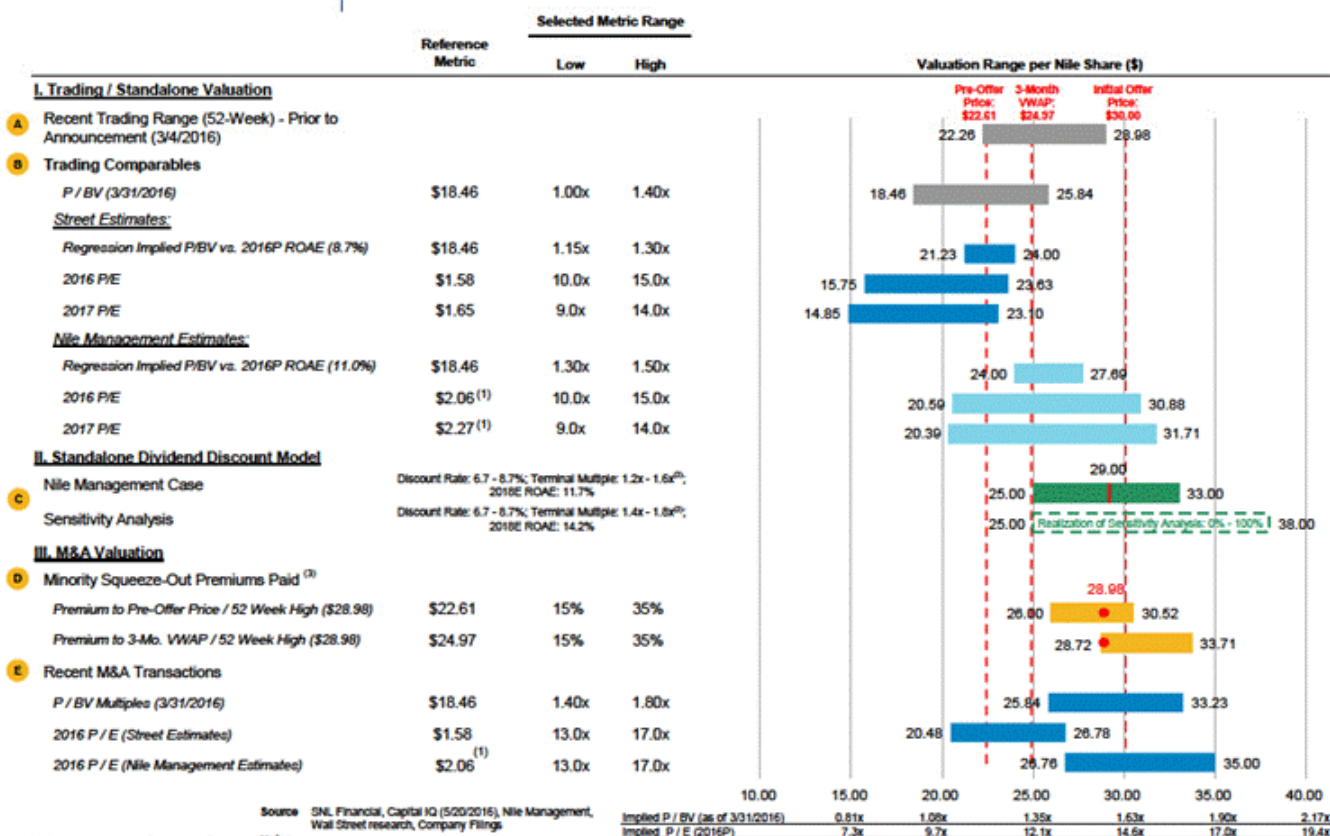
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Project Nile

PRELIMINARY VALUATION ANALYSIS

Preliminary Nile Valuation Summary



Source: SNL Financial, Capital IQ (5/20/2016), Nile Management, Wall Street research, Company Filings

Implied P / BV (as of 3/31/2016)	0.81x	1.08x	1.35x	1.63x	1.90x	2.17x
Implied P / E (2016P)	7.3x	9.7x	12.1x	14.6x	17.0x	19.4x

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Notes  
 1. 2016P and 2017E EPS based on Nile Management Estimates  
 2. Terminal multiple based on regression implied P/BV vs ROAE ("on the line")  
 3. Range is selected based on a range of premiums of the final offer price to the pre-offer and 3 month trading price

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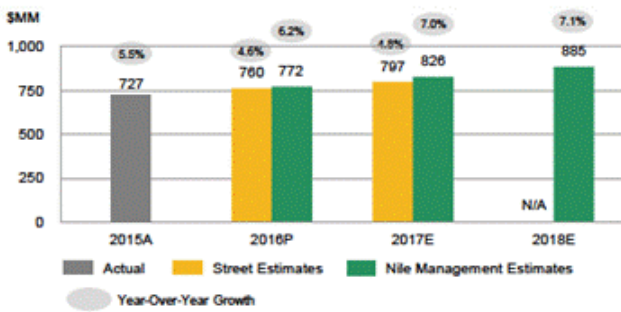
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Project Nile

PRELIMINARY VALUATION ANALYSIS

Nile Management Estimates Relative to Street Estimates

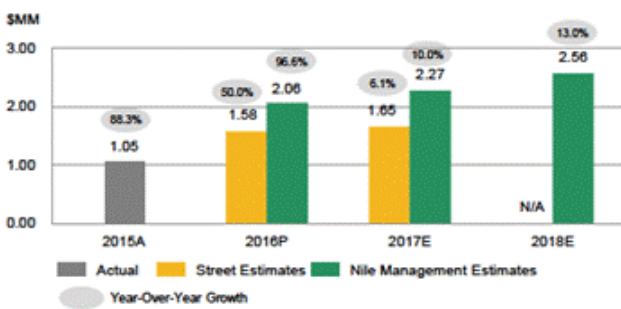
GPW



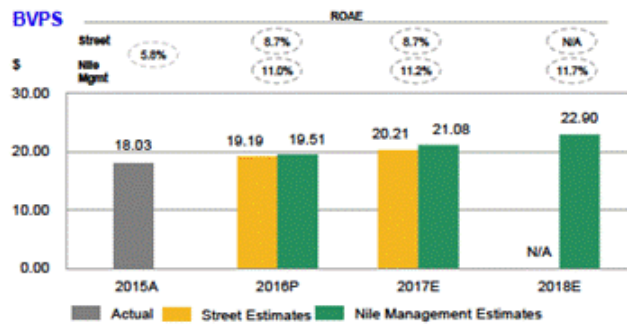
AY Combined Ratios



EPS



BVPS



Source: Street Estimates and Nile Management Estimates

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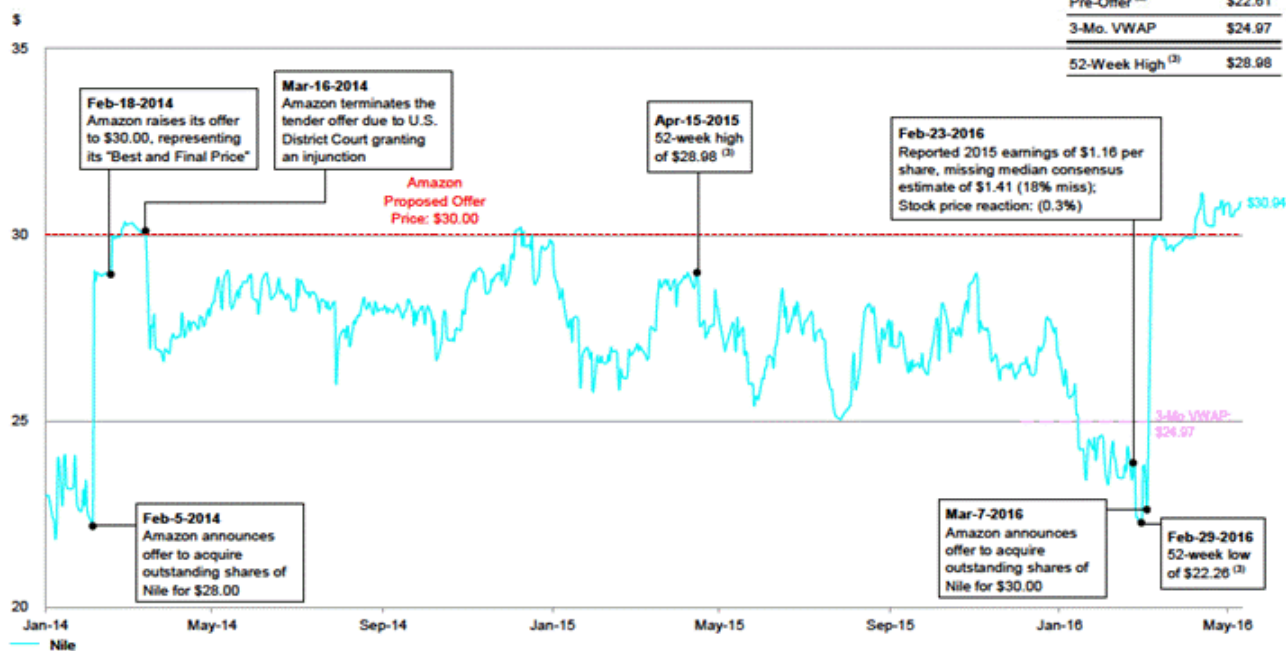
PRELIMINARY VALUATION ANALYSIS

**A Nile Recent Trading Range**

Trading Range Since January 2014

Pricing <sup>(1)</sup>

Pre-Offer <sup>(2)</sup>	\$22.61
3-Mo. VWAP	\$24.97
52-Week High <sup>(3)</sup>	\$28.98



Source Capital IQ (5/20/2016)

Notes

1. VWAP represents volume-weighted average prices for the relevant time periods starting from the date preceding the announcement of Amazon's proposal (3/4/2016)
2. Closing price of Nile on the trading day (3/4/2016) prior to announcement of Amazon's proposal on 3/7/2016
3. Calculated from the trading day prior to the announcement of Amazon's proposal (3/4/2016)

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Project Nile

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PRELIMINARY VALUATION ANALYSIS

**B** Public Comparable Companies

Nile Public Comparables

As of 05/20/2016

	Market Cap (\$MM)	2016 P/E (x)	2017 P/E (x)	P/BV (x)	2016E ROE (%)	2017E ROE (%)
<b>Nile<sup>(1)</sup></b>						
Pre-Offer <sup>(2)</sup>	450	11.0	10.0	1.25	11.0	11.2
Pre-Offer 3-Mo VWAP <sup>(3)</sup>	497	12.1	11.0	1.38	11.0	11.2
<b>Peers</b>						
Old Republic International Corporation	4,957	14.5	14.0	1.21	9.0	NA
AmTrust Financial Services, Inc.	4,653	8.9	7.9	1.86	19.2	18.6
RLI Corp.	2,850	28.2	28.8	3.27	12.4	11.8
National General Holdings Corp.	2,231	11.0	9.4	1.63	13.9	14.3
Selective Insurance Group Inc.	2,056	13.3	13.7	1.39	10.5	9.6
OneBeacon Insurance Group, Ltd.	1,225	15.2	18.1	1.20	9.8	5.8
United Fire Group, Inc	1,055	17.2	18.1	1.13	7.1	7.2
State Auto Financial Corp.	857	22.7	14.4	0.94	3.6	6.0
EMC Insurance Group Inc.	544	14.1	14.8	0.99	7.1	6.4
Donegal Group Inc.	399	9.3	8.8	0.95	9.2	9.1
Baldwin & Lyons Inc.	358	14.0	14.0	0.90	NA	NA
<b>Median</b>		<b>14.1</b>	<b>14.0</b>	<b>1.20</b>	<b>9.5</b>	<b>9.1</b>
<b>Mean</b>		<b>15.3</b>	<b>14.7</b>	<b>1.41</b>	<b>10.2</b>	<b>9.8</b>

Source: SNL Financial, Capital IQ, Company filings (Market data as of 5/20/2016), Wall Street research

Notes

1. Nile Management Estimates
2. Prior to announcement of Amazon's proposal on 3/7/2016
3. 3-Mo VWAP represents data preceding the announcement of Amazon's proposal (3/4/2016)

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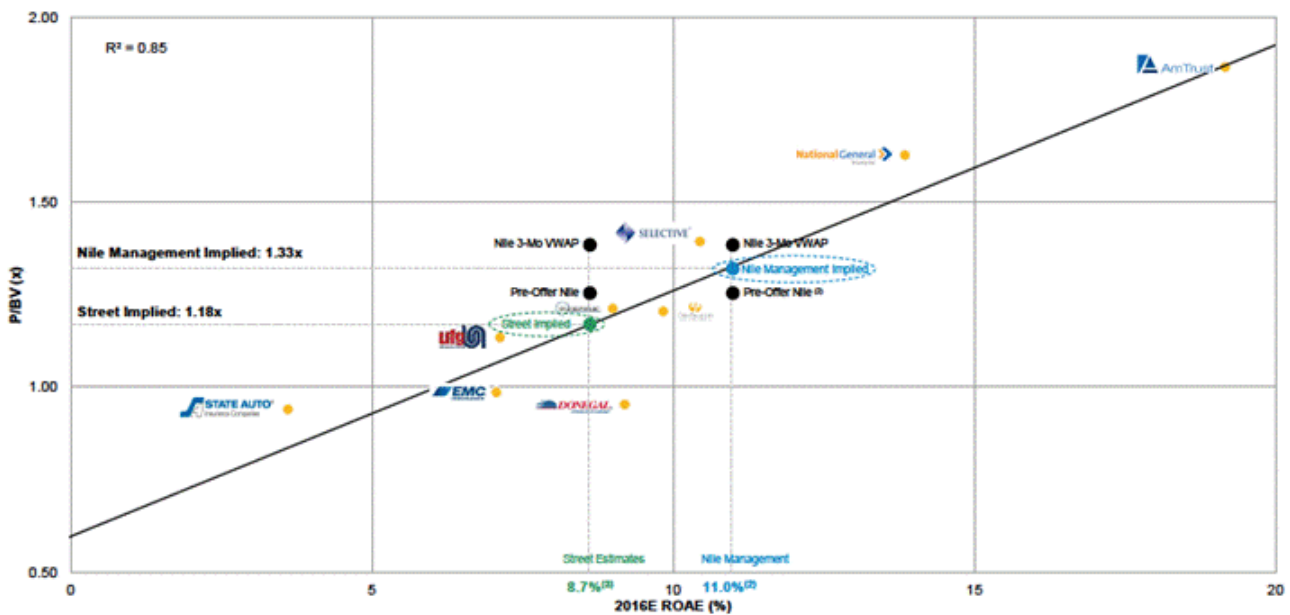
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PRELIMINARY VALUATION ANALYSIS

**B** Implied Regression Analysis Valuation

P / BV vs. 2016E ROAE Regression Analysis <sup>(1)</sup>



Source: SNL Financial (5/20/2016), Wall Street research, Street Estimates, and Nile Management Estimates

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Notes  
 1. GRG, DGICA and BWINS not included in regression analysis due to lack of available Street Estimates; RLJ is not included in regression due to its high P/BV multiple  
 2. Nile 2016 Plan  
 3. Nile median ROAE per Street Estimates



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Sensitivity Analysis

Cost of Equity	Terminal Multiple				
	1.2x	1.3x	1.4x	1.5x	1.6x
6.7%	25.00	26.97	28.43	30.90	32.87
7.2%	24.72	26.66	28.11	30.55	32.49
7.7%	24.45	26.37	27.80	30.21	32.13
8.2%	24.17	26.07	27.48	29.87	31.77
8.7%	23.90	25.78	27.18	29.54	31.41

PRELIMINARY VALUATION ANALYSIS

**c** Standalone Dividend Discount Model

Nile Management Estimates

Nile Standalone Valuation <sup>(1)</sup>

SMM	Actuals	Forecast			Terminal Value
	2015A	2016P	2017E	2018E	
<b>Operating Assumptions</b>					
GPW	727.1	772.2	826.5	884.7	
Growth (%)		6.2%	7.0%	7.1%	
Combined Ratio		96.4%	96.1%	95.7%	
Net Income	20.8	41.0	45.5	51.6	
Growth (%)		96.9%	10.7%	13.6%	
Book Value	358.9	388.8	422.2	461.0	
Book Value per Share <sup>(4)</sup>	\$18.03	\$19.50	\$21.07	\$22.89	
ROAE	5.8%	11.0%	11.2%	11.7%	
Dividends	10.4	11.2	12.0	12.9	
<b>Cash Flows</b>					
Regression Implied P/BV					1.37x <sup>(5)</sup>
Terminal Value (12/31/2018)					634
Dividends <sup>(2)</sup>		5.6	12.0	12.9	
Discount Period (Years)		0.00	1.00	2.00	2.50
Discount Factor <sup>(3)</sup>		1.00	0.93	0.86	0.83
Present Value of Cash Flows / Terminal Value		5.6	11.2	11.1	526.4
Present Value Book Value Per Share (6/30/2016)					\$26.40
<b>Present Value Price Per Share (6/30/2016) <sup>(4)</sup></b>					<b>\$27.80</b>

Source Nile Management Estimates

Notes

- Based on Nile 2016 Plan and Nile Management Financial Outlook
- 2016 represents half year of full year dividends; dividends per share are \$0.56, \$0.60 and \$0.64 in 2016, 2017 and 2018, respectively; based on total shares of 19.9MM in 2016 with 0.1MM of share increases in 2017 and 2018
- Discount factor assumes a cost of equity of 7.7%; dividends have been discounted utilizing a mid-year convention; terminal value is discounted based on 2018 year end
- Assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management
- Assumes 2016 regression relationship remains constant over time (i.e., 2018E ROAE applied to 2016E regression)

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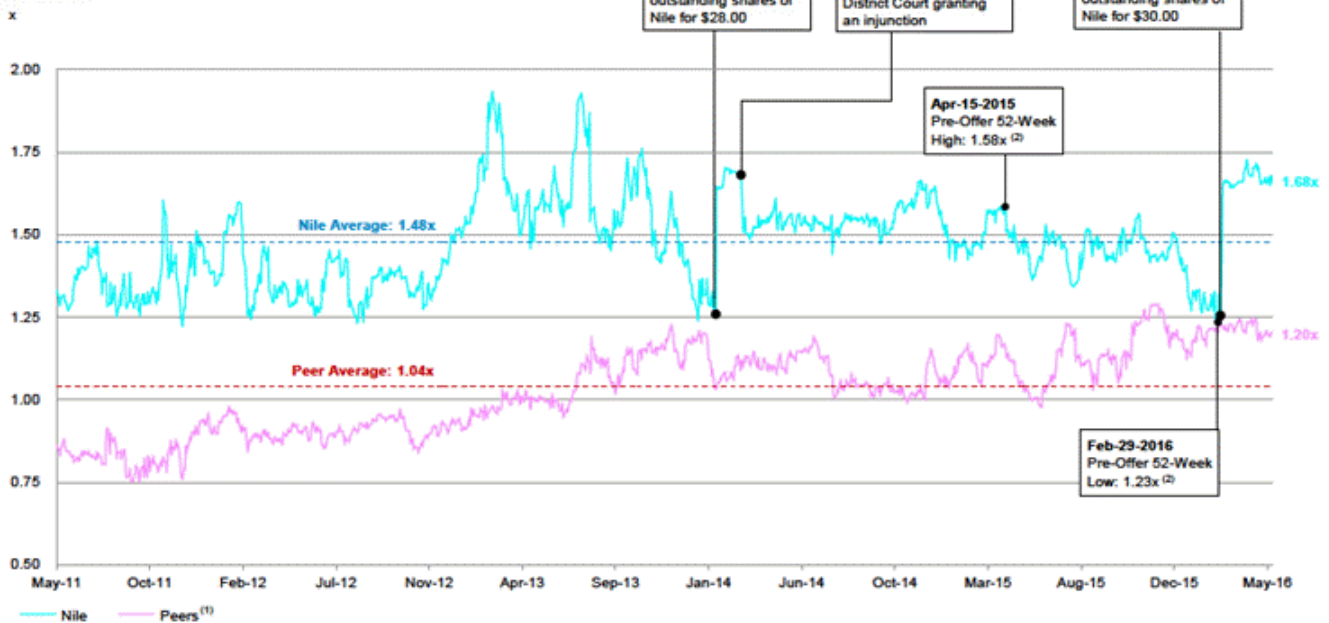
Project Nile

PRELIMINARY VALUATION ANALYSIS

**c** Historical Trading Valuation Levels

Last Five Years

Price / Book Value  
Since 2011



Source: SNL Financial (Data as of 5/20/2016)

Notes

1. Peers include AFGL, EMCI, NGHC, OB, RLI, SIGI, STFC, UFCS, ORL, DGICA, BWNB
2. Calculated from the trading day prior to the announcement of Amazon's proposal (3/4/2016); 52-Week High: \$28.96; 52-Week Low: \$22.26

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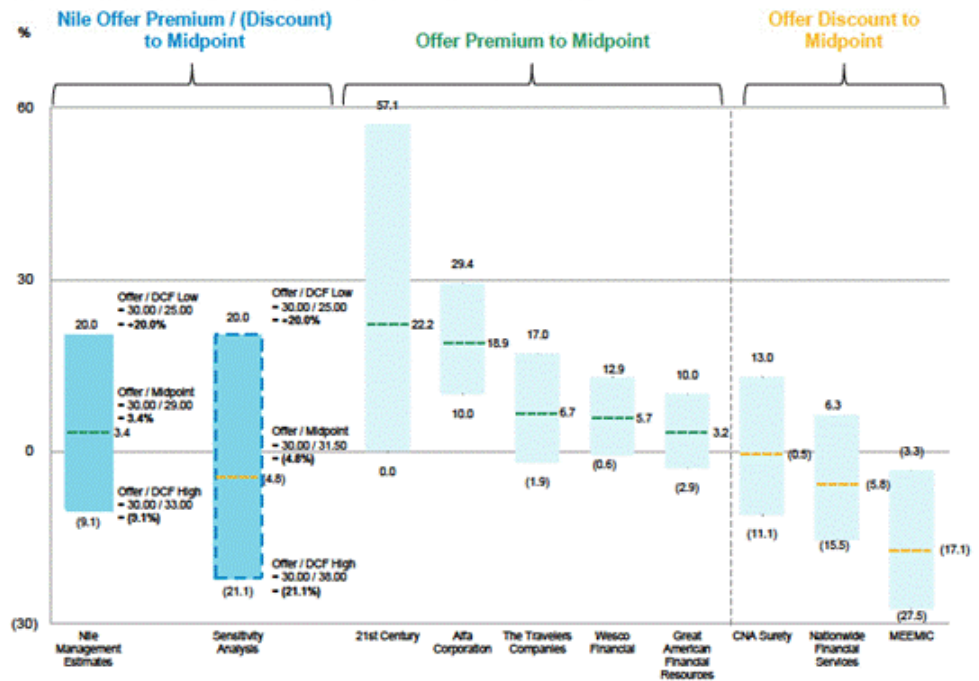
PRELIMINARY VALUATION ANALYSIS

**c** Select Precedent DCF Valuation Ranges

Legend

- Offer Price / DCF Low (%)
- Offer Price / DCF Midpoint (%)
- Offer Price / DCF High (%)
- Offer Price Discount to DCF Midpoint (%)
- Offer Price Premium to DCF Midpoint (%)

Final Offer Premium / (Discount) to Select Points in the DCF Range



Source: Capital IQ, Company Filings

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PRELIMINARY VALUATION ANALYSIS

**D** Minority Squeeze-Out Premiums

Precedent Minority Squeeze-Out Premiums

	Final Offer Premium (%) <sup>(1)</sup>		
	1-Day Prior	3-Mo VWAP Prior	52-Week High
Insurance Mean	24.5	31.9	5.3
Other Industries Mean	30.0	29.8	0.9
Combined Mean <sup>(2)</sup>	27.2	30.8	3.1

Implied Per Share Valuation			
Nile Metrics <sup>(3)</sup>	\$22.61	\$24.97	\$28.98
15% Premium	\$26.00	\$28.72	-
35% Premium	\$30.52	\$33.71	-

Selected Range

Source: SNL Financial, Capital IQ and Company Filings

Notes

- Final Offer Premiums calculated based on time periods starting from day prior to initial offer announcement.
- Average premiums are calculated from minority squeeze-out transactions in the insurance industry and other sectors respectively.
- Nile Metrics represent stock prices (for each relevant time period) prior to the announcement of Amazon's proposal on 3/7/16.

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PRELIMINARY VALUATION ANALYSIS

**D** Minority Squeeze-Out Insurance Transactions

Precedent Minority Squeeze-Out Transactions (Insurance) <sup>(1)</sup>

Date Announced	Target	Acquirer	Initial Stake (%)	Transaction Size (\$MM)	Consideration	Merger or Tender	Final Offer Premium to		
							1-Day Prior (%)	3-Mo. VWAP (%)	52-Week High (%)
11/1/2010	CNA Surety	CNA Financial	61.0	475	Cash	Tender	37.9	51.2	34.3
8/26/2010	Wesco Financial	Berkshire Hathaway	80.1	548	Cash/Stock	Merger	18.6	14.6	(7.5)
9/4/2009	Odyssey Re	Fairfax Financial	72.6	1,049	Cash	Tender	29.4	45.3	19.1
6/29/2009	First Advantage	First American	79.9	308	Stock	Tender	47.9	40.3	0.6
12/1/2008	Northbridge Financial	Fairfax Financial	63.1	554	Cash	Merger	21.0	68.8	2.9
3/5/2008	Nationwide Financial Services	Nationwide	66.3	2,471	Cash	Merger	26.3	21.5	(20.3)
7/17/2007	Alfa Corporation	Alfa Mutual	52.7	833	Cash	Merger	44.7	33.2	10.3
2/22/2007	Great American Financial Resources	American Financial Group	81.0	238	Cash	Merger	13.2	8.9	0.6
1/24/2007	21st Century	American International Group	60.7	813	Cash	Merger	34.6	30.3	22.0
7/9/2002	MEEMIC	ProAssurance	85.5	35	Cash	Tender	3.6	3.1	0.0
8/30/2000	AXA Financial	AXA Group	60.3	9,425	Cash/Stock	Merger	13.0	47.3	10.1
5/18/2000	Hartford Life	The Hartford	80.5	1,325	Cash	Tender	2.1	18.3	(8.2)
<b>Median</b>			<b>69.5</b>				<b>24.6</b>	<b>31.7</b>	<b>1.8</b>
<b>Mean</b>			<b>70.3</b>				<b>24.5</b>	<b>31.9</b>	<b>5.3</b>

Source Capital IQ and Company Filings

Notes

1. Includes transactions dating back to 2000; includes domestic transactions only
2. Final Offer Premiums calculated based on time periods starting from day prior to initial offer announcement

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Project Nile

PRELIMINARY VALUATION ANALYSIS

**D** Minority Squeeze-Out Transactions in Other Sectors

Precedent Minority Squeeze-Out Transactions (Other Sectors) <sup>(1)</sup>

Date Announced	Target	Acquiror	Initial Stake (%)	Transaction Size (\$MM)	Consideration	Merger or Tender	Final Offer Premium to		
							1-Day Prior (%)	3-Mo. VWAP (%)	52-Week High (%)
5/7/2013	Pioneer Southwest	Pioneer Natural Resources	52.4	694	Stock	Merger	57.0	69.2	48.8
11/28/2012	Danfoss Power	Danfoss A/S	75.6	690	Cash	Tender	48.6	48.9	4.3
3/21/2010	CNX Gas	CONSOL Energy	83.3	965	Cash	Tender	24.2	34.8	6.3
10/6/2006	NetRatings	Nielsen Holdings	60.0	328	Cash	Merger	44.0	54.3	35.5
3/3/2005	Siliconix	Vishay Intertechnology	84.9	200	Stock	Tender	30.7	18.0	(25.1)
8/20/2002	Pure Resources	Unocal	57.8	512	Stock	Tender	20.7	11.1	(10.3)
2/19/2002	Travelocity	Sabre Holdings	70.0	447	Cash	Tender	45.8	20.3	(27.8)
2/15/2001	Westfield America	Westfield America Trust	55.9	598	Cash	Tender	12.5	21.6	4.8
9/21/2000	Hertz	Ford Motor Co.	81.5	734	Cash	Merger	46.4	18.7	(31.4)
8/14/2000	BHC Communication	News Corporation	76.1	888	Cash/Stock	Merger	16.4	10.4	(2.4)
3/12/2000	Boise Cascade Office Products	Boise Cascade Corporation	81.1	205	Cash	Tender	8.6	10.0	4.8
3/6/2000	Thermo Instrument Systems	Thermo Fisher Scientific	88.6	301	Stock	Tender	4.6	40.0	3.3
<b>Median</b>			<b>75.9</b>				<b>27.4</b>	<b>20.9</b>	<b>3.8</b>
<b>Mean</b>			<b>72.3</b>				<b>30.0</b>	<b>29.8</b>	<b>0.9</b>

Source Capital IQ and Company Filings

Notes

1. Includes transactions dating back to 2000; Equity value ranges from \$200MM to \$10B; Includes domestic transactions only
2. Final Offer Premiums calculated based on time periods starting from day prior to initial offer announcement

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Project Nile

PRELIMINARY VALUATION ANALYSIS

**E** Selected P&C Insurance M&A Transactions

Selected M&A Precedent Transactions

Ann. Date	Target	Acquiror	Equity Value (\$MM)	P/BV (x)	NTM P/E (x)	Premium to Unaffected Price (%)
<b>Recent P&amp;C Insurance M&amp;A Transactions <sup>(1)</sup></b>						
3/16/2016	Maxum	Hartford	170	1.50x	N/A	N/A
7/1/2015	Chubb	ACE	28,300	1.79x	16.9x	30.0
6/10/2015	HCC	Tokio Marine	7,500	1.90x	18.8x	38.0
5/3/2015	Ironshore	Fosun	2,300 <sup>(2)</sup>	1.25x	N/A	N/A
6/23/2014	Western World	Validus Holdings	452	1.61x <sup>(3)</sup>	N/A	N/A
<b>Median</b>				<b>1.61x</b>	<b>17.9x</b>	<b>34.0x</b>
<b>Mean</b>				<b>1.61x</b>	<b>17.9x</b>	<b>34.0x</b>
<b>Other Insurance M&amp;A Transactions of Similar Size and Business Focus</b>						
9/23/2013	Eastern Insurance	ProAssurance Corporation	205	1.46x	14.4x	16.2
8/19/2012	Guard Insurance	National Indemnity Co.	221	1.00x	N/A	N/A
5/2/2012	JEVCO Insurance	Intact Financial	530	1.30x	N/A	N/A
11/30/2010	Mercer	United Fire & Casualty	191	1.09x	13.7x <sup>(4)</sup>	N/A
2/18/2010	Vanliner	National Interstate	135	1.03x	N/A	N/A
2/18/2010	Zenith	Fairfax	1,455	1.35x	NM	31.0
<b>Median</b>				<b>1.20x</b>	<b>14.1x</b>	<b>23.6x</b>
<b>Mean</b>				<b>1.20x</b>	<b>14.1x</b>	<b>23.6x</b>
<b>All Transactions</b>						
<b>Median</b>				<b>1.35x</b>	<b>15.7x</b>	<b>30.5</b>
<b>Mean</b>				<b>1.39x</b>	<b>16.0x</b>	<b>28.8</b>

Source: Capital IQ and Company Filings

Notes

1. Based on sampling of research reports and specific company guidance where available
2. Implied value for 100%
3. Reflects equity adjusted for ~\$300MM of excess capital including \$100MM of reserve redundancy
4. Based on median 2010 EPS Street estimates

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Section 2

## Tactical Considerations

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Project Nile

#### TACTICAL CONSIDERATIONS

### Approach to Tactical Considerations

- Members of the Special Committee are extremely focused on achieving the appropriate outcome for minority shareholders
- Lay out arguments why current offer is not sufficient to garner Special Committee support
  - Important to recognize Nile has traded around offer price within the last year and the offer itself was made at near the 2 year low
- Explain that Special Committee has considered a range of methodologies that suggest a substantially higher pre-synergy valuation, including:
  - Comparable company analysis with squeeze-out premium
  - Dividend discount analysis, with and without Project Aristotle
- Acknowledging Amazon's intention to maintain Nile as an independent division, explain incremental value of appropriate cost savings (as well as potential tax benefit to Amazon that could enhance its stock price)
- Close by stating that Amazon should now understand our approach and that the Special Committee has done the ground work necessary to respond quickly to whatever Amazon would like it to consider
- Suggest that Amazon, if inclined to move forward, submit a revised proposal for the Special Committee to evaluate

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Project Nile

TACTICAL CONSIDERATIONS

## Sensitivity Analysis Developed at Request of Special Committee

	Overview	Impact on Consolidated Outlook
1 Growth Improvement	<ul style="list-style-type: none"> <li>Increase GPW growth within the Trucking and Environmental Div.                             <ul style="list-style-type: none"> <li>Increase GPW growth from 8% to 12% in 2017 and 2018</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Increases consolidated GPW growth rate by 0.9% in 2017E/2018E from 2016P</li> </ul>
2 Underwriting Results Improvement	<ul style="list-style-type: none"> <li>Loss Ratio improvements                             <ul style="list-style-type: none"> <li>Eliminate bulk loss and LAE gap (~1% annually for 2017 and 2018)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consolidated improvement of LR by 1.0% in 2017E/2018E</li> </ul>
3 Improved Expense Efficiency	<ul style="list-style-type: none"> <li>Realization of Expense Efficiencies                             <ul style="list-style-type: none"> <li>Reversion to average of 2015/2016 ER (~19.7%)<sup>(1)</sup></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consolidated improvement of ER by 0.5% in 2018 from 2016</li> </ul>
4 M&A Opportunity	<ul style="list-style-type: none"> <li>Project Aristotle (Currently in Initial Bidding Process)                             <ul style="list-style-type: none"> <li>Acquisition is completed in August 2016</li> <li>Produces additional \$87MM GPW by 2018</li> <li>Estimated purchase price of \$65MM</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Key Impacts to Nile Management case:                             <ul style="list-style-type: none"> <li>Increases GPW by ~10% in 2017E/2018E</li> <li>Consolidated LR improves by ~1.0% in 2018E</li> <li>Increases NPE by ~\$70MM in 2018E</li> </ul> </li> </ul>

Source Nile Management Estimates and Sensitivity Analysis

Notes  
1. Based on Nile Management Estimates and Sensitivity Analysis

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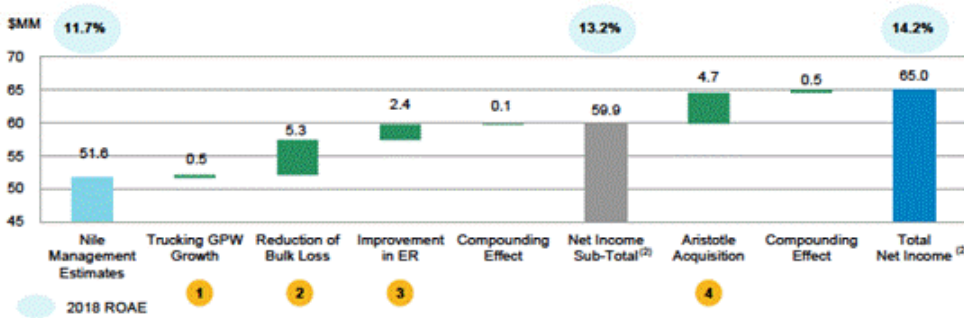
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Project Nile

TACTICAL CONSIDERATIONS

Potential Incremental Value of Sensitivity Analysis

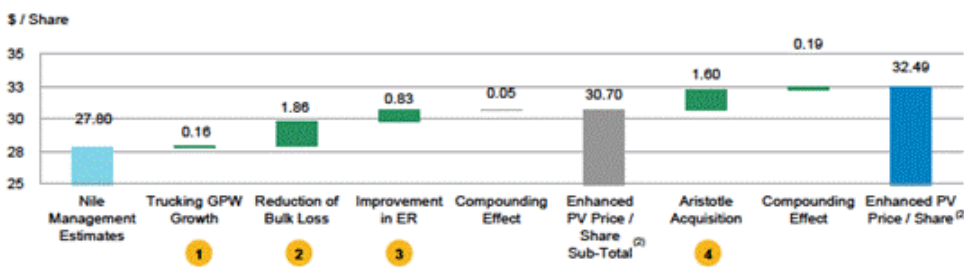
2018E Net Income – Sensitivity Analysis <sup>(1)</sup>



Impact on 2018E Net Income

% of Additional Value	2018E Net Income	
	% Incremental Value	Total Value
25%	3.4	55.0
50%	6.7	58.3
75%	10.1	61.7
100%	13.4	65.0

Discount Dividend Model PV Price Per Share – Sensitivity Analysis <sup>(1)(2)</sup>



Impact on PV Price Per Share

% of Additional Value	PV Price / Share	
	% Incremental Value	Total Value
25%	1.17	28.97
50%	2.35	30.15
75%	3.52	31.32
100%	4.70	32.49

Source Nile Management Estimates and Sensitivity Analysis

Notes

1. Based on Nile Management Estimates
2. Includes compounded improvements when additional efficiencies are combined together where applicable
3. DDM valuation assumes a discount rate of 7.7%; Based on Nile Management Estimates; assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management; values per share reflect DDM midpoint

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## Summary of Potential Synergies

	Assumptions and Calculations <sup>(1)</sup>	Potential Range of After-Tax Value	Potential Value Per Share Impact
Revenue	- Nile is expected to operate independently as a wholly-owned subsidiary; there are no revenue synergies expected	~\$0MM	\$0.00 – \$0.00
Direct Public Company Expenses	- Elimination of public company costs (~2MM)	\$10MM – \$15MM	\$0.50 – \$0.75
Potential Additional Expenses	- Additional savings in G&A costs - 5% - 10% of G&A expenses (excluding public company costs) of \$23.6MM	\$10MM – \$15MM	\$0.50 – \$0.75
Investment Income	- Potential for improved investment yield on investment portfolio by Amazon given scale and product capabilities - Assumes a 10 - 20bps yearly improvement on \$1.2Bn investment portfolio (~\$1.2MM - \$2.4MM)	\$10MM – \$15MM	\$0.50 – \$0.75
Assigned Risk	- Reduce assigned risk underwriting losses ~\$8MM in 2016P through the use of Amazon non-admitted licenses (0% - 50%)	\$0MM – \$30MM	\$0.00 – \$1.50
<b>Total Potential Synergy Value</b>		<b>\$30MM - \$75MM</b>	<b>\$1.50 – \$3.76</b>
Shares Outstanding (MM)		10.9	
		<i>Low</i>	<i>High</i>
<b>Total Synergy Value Per Share</b>		<b>\$1.50</b>	<b>\$3.76</b>
25.0%		\$0.38	\$0.94
50.0%		\$0.75	\$1.88
75.0%		\$1.13	\$2.82
Taxes <sup>(2)</sup>	- Deferred tax liability of \$63MM for Amazon that would no longer be required to be maintained	\$63MM or \$3.15 / share	

Source Nile Management Estimates and Amazon Management

Notes

- In order to determine the potential range of synergies, all calculations are tax-affected at 35% and capitalized at a 10x multiple; potential synergies per Nile Management
- Tax considerations per Amazon Management

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TACTICAL CONSIDERATIONS

## Estimated Impact of Changes in Reserves

### Background

- Recent history of reserve strengthening has impacted Nile's balance sheet:
  - 2016 YTD: No reserve strengthening recorded in 1Q'16 as determined by Nile Management
  - 2015: \$9.7MM allocated to reserve strengthening, primarily for accident years 2012 and 2013, recorded in 4Q'15
  - 2014: \$20MM of reserve strengthening took place in 2Q'14, primarily due to unfavorable development from 2011, 2012 and 2013 accident years. The development was concentrated in the commercial auto lines of business.

### Illustrative impact to Book Value of a Change in Reserves

\$MM (except per share figures)

Net Reserve Redundancy / (Deficiency)	% of Existing Net Reserve <sup>(1)</sup>	After-Tax Impact <sup>(2)</sup>	BVPS Impact <sup>(3)</sup>
+/- 5.0	0.6%	+/- 3.3	+/- \$0.16
+/- 10.0	1.3%	+/- 6.5	+/- \$0.33
+/- 15.0	1.9%	+/- 9.8	+/- \$0.49
+/- 20.0	2.5%	+/- 13.0	+/- \$0.65
+/- 25.0	3.1%	+/- 16.3	+/- \$0.81
+/- 30.0	3.8%	+/- 19.5	+/- \$0.98

Source: Company Filings

Notes

- \$736MM of net reserves as of 12/31/2015
- Assumes a marginal tax rate of 35%
- Fully diluted shares outstanding, of 19.9MM as provided by Nile Management

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TACTICAL CONSIDERATIONS

## Illustrative Negotiating Tactics with Amazon

Assumes 100% Realization of Sensitivity Analysis and Potential Synergy Range, in Addition to Nile Management Estimates

### Illustrative Build-Up of Nile Management Estimates, Sensitivity Analysis, and Potential Synergies for Purposes of Negotiations

\$ Per Share

	Low	High
<b>1 DDM Analysis</b>		
<b>Nile Management Estimates</b>	<b>27.80</b>	<b>33.00</b>
<b>2 Sensitivity Analysis</b>		
Trucking and Environmental GPW Growth	0.16	0.16
Redundancy of Bulk Loss	1.86	1.86
ER Improvement	0.83	0.83
<b>Subtotal: Sensitivity Analysis (excl. Aristotle) <sup>(1)</sup></b>	<b>30.70</b>	<b>35.90</b>
Project Aristotle <sup>(2)</sup>	1.79	1.79
<b>Subtotal: Sensitivity Analysis (incl. Aristotle)</b>	<b>32.49</b>	<b>37.69</b>
<b>3 Potential Synergies <sup>(3)</sup></b>		
Revenue	0.00	0.00
Direct Public Company Expenses	0.50	0.75
Potential Additional Expenses	0.50	0.75
Investment Income	0.50	0.75
Assigned Risk	0.00	1.50
<b>4 Total Potential Negotiating Strategy <sup>(4)</sup></b>	<b>33.99</b>	<b>41.45</b>
Tax Considerations <sup>(4)</sup>	0.00	3.15
<b>Total Potential Negotiating Strategy (including Tax Considerations)</b>	<b>33.99</b>	<b>44.60</b>

Source Nile Management Estimates, Sensitivity Analysis, Capital IQ, and Amazon Management

Notes

1. Compounding effect of \$0.05 / sh. of value has been included in the subtotal
2. Compounding effect of \$0.19 / sh. of value has been included in the Project Aristotle scenario
3. Potential synergies per Nile Management
4. Tax considerations per Amazon Management

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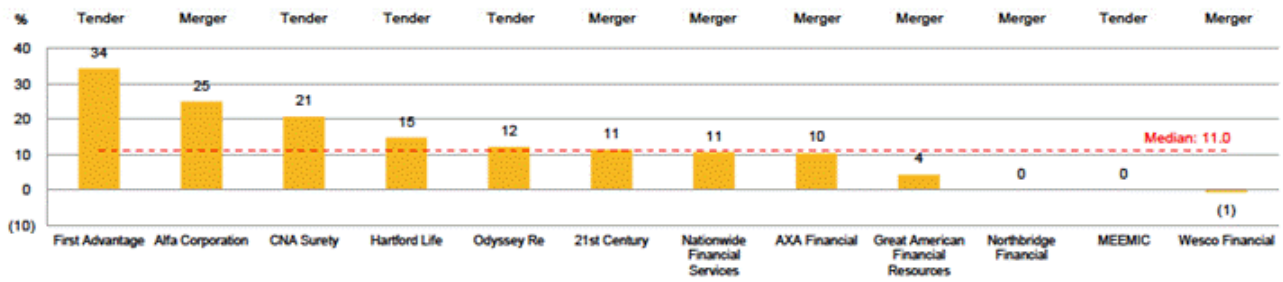
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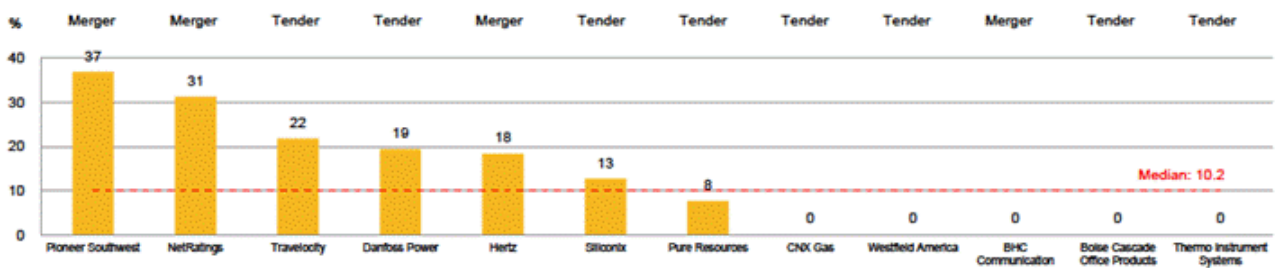
Selected Precedent Final Premium to Initial Offer Squeeze-Outs

Insurance Squeeze-Out: Final Premiums / (Discount) to Initial Offer



Source: Capital IQ, Company Filings

All Other Industries Squeeze-Out: Final Premiums / (Discount) to Initial Offer



Source: Capital IQ, Company Filings

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TACTICAL CONSIDERATIONS

## Valuation Matrix

### Implied Multiples Across Various Prices

\$MM

		Reference Metric	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00	\$37.00	\$38.00	M&A / Squeeze-Out Precedents
% Increase From Initial Proposal	Stock Price	\$30.00	0%	3%	7%	10%	13%	17%	20%	23%	27%	-
<b>Market Multiples</b>												
Total Equity Value <sup>(1)</sup>	Total Shares	19.9 MM	598.8	618.9	639.0	659.1	679.2	699.3	719.5	739.6	759.7	-
P / BV (3/31/2016)	BVPS	\$18.46	1.63x	1.68x	1.73x	1.79x	1.84x	1.90x	1.95x	2.00x	2.06x	1.4x - 1.8x
2016 P / E - Street Estimates	EPS	\$1.58	19.0x	19.7x	20.3x	21.0x	21.6x	22.2x	22.9x	23.5x	24.1x	13.0x - 17.0x <sup>(4)</sup>
2016 P / E - Nile 2016 Plan	EPS	\$2.06	14.6x	15.0x	15.5x	16.0x	16.5x	17.0x	17.5x	18.0x	18.4x	13.0x - 17.0x <sup>(4)</sup>
<b>Premium Analysis</b>												
Pre-Offer <sup>(2)</sup>	Stock Price	\$22.61	+33%	+37%	+42%	+46%	+50%	+55%	+59%	+64%	+68%	15% - 35%
3-Mo VWAP <sup>(2)</sup>	Stock Price	\$24.97	+20%	+24%	+28%	+32%	+36%	+40%	+44%	+48%	+52%	15% - 35%
52-Week High <sup>(2)</sup>	Stock Price	\$28.98	+4%	+7%	+10%	+14%	+17%	+21%	+24%	+28%	+31%	-
Current <sup>(3)</sup>	Stock Price	\$30.94	(3%)	+0%	+3%	+7%	+10%	+13%	+16%	+20%	+23%	-
<b>Transaction Analysis</b>												
DDM Midpoint (Nile Management Estimates)	Stock Price	\$29.00 <sup>(5)</sup>	+3%	+7%	+10%	+14%	+17%	+21%	+24%	+28%	+31%	-
DDM Midpoint (Sensitivity Analysis)	Stock Price	\$31.50 <sup>(6)</sup>	(5%)	(2%)	+2%	+5%	+8%	+11%	+14%	+17%	+21%	-

Source: SNL Financial, Capital IQ, Nile Management Estimates, Street Estimates and Company Filings

**Notes**

- Assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management
- Prior to announcement of Amazon's proposal on 3/7/2016
- As of 5/20/2016
- Represents NTM P/E multiples
- Represents the midpoint of the DDM valuation range of Nile Management Estimates (\$25.00 - \$33.00)
- Represents the midpoint of the DDM valuation range of Sensitivity Analysis (\$25.00 - \$38.00)

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Section 3

## Potential Alternatives

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POTENTIAL ALTERNATIVES

Potential Strategic Alternatives for Nile (1 of 2)

1

Sale of Nile to a 3rd Party

Overview

- Amazon / Nile to sell 100% of Nile to a 3<sup>rd</sup> party strategic / financial buyer
- Strategic buyers with presence in the sector and active M&A interest could include:
  - Berkshire Hathaway
  - Travelers
  - Liberty Mutual
  - W.R. Berkley
  - Hartford
  - AmTrust

Potential Benefits

- ▲ Large universe of potentially interested parties could facilitate price discovery
- ▲ Other insurance buyers may identify more expense synergies achieved through consolidation of the platform
- ▲ Significant excess capital and inexpensive funding sources may increase competition of process
- ▲ Nile's niche specialty platform could be strategically compelling
- ▲ Foreign buyers (e.g. China) may show increasing appetite for U.S. insurance acquisitions

Potential Considerations

- ▼ Amazon has stated its intent to not vote its shares in favor of an alternative sale to a 3<sup>rd</sup> party
- ▼ Actuarial diligence is expected to be significant and could be a potential detractor to value
- ▼ Significant management distraction, time commitment, and downside risks to plan if a full sale process is launched
- ▼ Even under consolidation scenario, incremental value attributed to expense synergies likely to remain modest
  - Nile expenses likely do not fully reflect run-rate operating expenses, as Amazon currently provides administrative and actuarial services to Nile at no cost
- ▼ Few recent precedents of similar transaction size with valuation multiples higher than those implied by Amazon's offer

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POTENTIAL ALTERNATIVES

Potential Strategic Alternatives for Nile (2 of 2)

2

Capital Management

3

Divestiture of Business

Overview

- Lever up balance sheet, remove excess capital, and enhance ROAE

- Divest certain business segments or books of business

Potential Benefits

- ▲ Levering up the balance sheet could result in a valuation uplift based on a higher ROE, albeit likely modest
- ▲ Opportunity to utilize freed up capital to fund future growth initiatives or return capital to shareholders
- ▲ Take advantage of low interest rate environment to incur debt

- ▲ Opportunity to utilize freed up capital to fund future growth initiatives or return capital to shareholders
- ▲ Allow management to focus on most profitable lines of business
- ▲ Potential for strong buyer interest in subsidiary sales given current active M&A environment

Potential Considerations

- ▼ Additional leverage could pressure Nile's A.M. Best rating, which could in turn impact perception of capital strength among insureds and shareholders
- ▼ Without additional debt, limited excess capital available to return to shareholders

- ▼ Management has not been able to identify any non-core or easily separable divisions
- ▼ Significant time and resources required to effect a corporate carve-out
- ▼ Potential dis-synergies associated with reduced scale and diversification

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- Applied incremental leverage of ~\$70MM, which implies a leverage ratio of ~24%
- Assumes cash proceeds from issuance of debt returned to shareholders
- Illustrative analysis reflects minimal impact (modestly dilutive) to shareholder value creation

POTENTIAL ALTERNATIVES

2 Illustrative Impact of Leverage on Nile Management Estimates

Impact of Leverage on 2016 ROAE

\$MM

	Nile Management Estimates	Illustrative Leverage Scenario
Target Level of Debt	29.0	100.0
Implied Leverage (Debt / Capital)	7.5%	23.9%
Incremental Debt Relative to 2016P	-	71.0
<i>x Illustrative Cost of Debt <sup>(1)</sup></i>	1.7%	1.7%
= Incremental After-Tax Interest Expense	-	0.8
2016P Net Income	41.0	41.0
Pro-Forma Net Income	41.0	40.3
2016P Book Value <sup>(2)</sup>	388.8	388.8
Pro-Forma 2016P Book Value	388.8	317.8
Fully Diluted Shares Outstanding <sup>(3)</sup>	19.9	19.9
Dividend Per Share w/ Proceeds of Incremental Debt	-	\$3.56
<b>Implied 2016P ROAE</b>	<b>11.0%</b>	<b>11.9%</b>
Regression Implied P/B (3/31/2016)	1.33x	1.39x
<i>x Book Value Per Share (3/31/16)</i>	\$18.46	\$14.89
Implied 2016E Nile Share Price	\$24.49	\$20.68
<i>Plus: Incremental Dividend Per Share Paid</i>	-	\$3.56
<b>Illustrative Value to Nile Shareholders</b>		<b>\$24.25</b>
<b>Incremental Value Per Share</b>		<b>(\$0.25)</b>

Source: SNL Financial, Capital IQ, and Nile Management Estimates

Notes

1. Cost of debt provided by Nile Management
2. Book value per share based on Nile Estimates
3. Fully diluted shares of 19.5MM as provided by Nile Management

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Appendix A

Supporting Information

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SUPPORTING INFORMATION

## Overview of Project Aristotle

### Overview of Aristotle

\*

- The firm offers six lines of insurance business \*

\*

- The company is expected to underwrite ~\$120MM of profitable premium
- Loss and LAE ratio consistently in the ~60% range

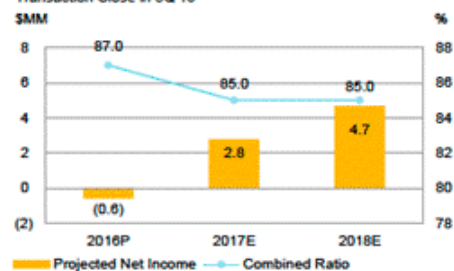
Source Nile Management

### Select Financial Metrics (2016P)

Revenue	~16MM
Net MGU Comm.	~10MM
Adj. EBITDA	~5MM
GPW	~120MM

### Incremental Impact of Aristotle Acquisition <sup>(1)</sup>

Transaction Close in 3Q'16



Notes

1. Assumes a purchase price of ~\$65MM (debt); interest rate of 5%; amortization of intangibles (~\$10MM) over 7 years

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**Benchmarking Criteria:**

- Noted as a competitor by Nile in either the 10-K or other business documents
- Market cap less than \$5Bn and greater than \$300MM
- Significant book of business related to commercial auto or worker's compensation as % of total business

**Nile Business Mix**

% of DPW (as of 12/31/2015)



Source: Company filings

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SUPPORTING INFORMATION

Selection of Public Companies

Selected Comparable Companies

Peers	Ticker	Referenced in Nile 10-K, 2016 Plan or Board Materials	Market Cap (\$MM)	% of DPW <sup>1,2</sup>	
				Commercial Auto	Workers Comp.
OLD REPUBLIC	ORI	✓	4,957	28.0%	37.8%
AmTrust	AFSI	✓	4,653	10.9%	50.3%
RLI	RLI	✓	2,850	11.8%	1.1%
National General	NGHC	✓	2,231	8.6%	0.0%
SELECTIVE	SIGI	✓	2,056	16.2%	13.1%
OneBeacon	OB	✓	1,225	9.8%	6.6%
ufcu	UFCS	✓	1,055	21.8%	10.5%
STATE AUTO	STFC	✓	857	8.0% <sup>(3)</sup>	7.3%
EMC	EMCI	✓	544	19.3%	32.4%
DONEGAL	DGICA	✓	399	12.2% <sup>(3)</sup>	15.6%
Baldwin & Lyons, Inc.	BWINB	✓	358	33.7%	43.0%

Source: S&P, Financial, Capital IQ and Company Filings (Market data as of 5/20/2016)

- Notes
1. Data as of 12/31/2015
  2. % based on Net Premiums Written
  3. Commercial Auto includes: auto and other liability (46.8% of DPW) and auto physical damage (11.6% of DPW)

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### Peer Predicted Barra Beta

As of 5/20/2016

Company	Predicted Barra Beta	Mkt. Cap. (\$Bn)
Old Republic	0.74	4.9
AmTrust	0.99	4.5
RLI	0.70	2.8
National General	0.91	2.3
Selective	0.79	2.0
United Fire	0.74	1.0
OneBeacon	0.67	1.2
State Auto	0.87	0.9
<b>Average</b>	<b>0.80</b>	<b>2.6</b>

### SUPPORTING INFORMATION

## Nile Cost of Equity Calculation

### Summary Assumptions

Assumption	Notes	WACC Calculation		
		Base	Low	High
Market Risk Premium (MRP)	Morgan Stanley estimated market risk premium	6.0%	6.0%	6.0%
Risk Free Rate (Rf)	Spot rate 10-year U.S. Treasury as of 5/16/2016	1.9%	1.9%	1.9%
Predicted Beta	Average Beta of Selected Peers	0.80	0.80	0.80
Sensitivity Adjustment	+/- 1.0% from base		(1.0%)	1.0%
<b>Cost of Equity (KE)</b>	<b>Calculated using the Capital Asset Pricing Model</b>	<b>6.7%</b>	<b>5.7%</b>	<b>7.7%</b>
Size Premium Adjustment	Delta of current market capitalization size premium of peers compared to Nile	1.0%	1.0%	1.0%
<b>Adjusted Cost of Equity (KE)</b>		<b>7.7%</b>	<b>6.7%</b>	<b>8.7%</b>

Source Capital IQ (5/20/2016)



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Appendix B

## Historical Trading Metrics

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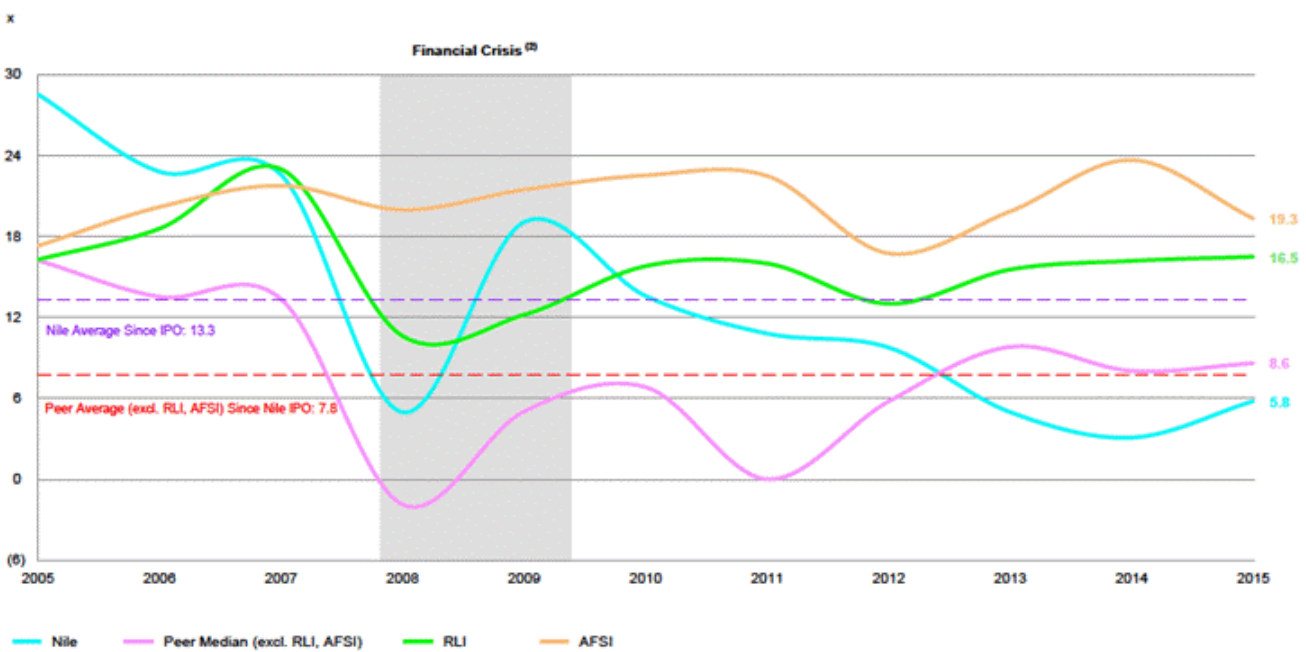
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HISTORICAL TRADING METRICS

Peer ROE Comparison Since Nile IPO

GAAP ROE Relative to Peer Median <sup>(1)</sup>



Source: Capital IQ

Morgan Stanley

Notes  
 1. Peers include ORI, NGHC, SIGI, OB, UFCS, STFC, EMCI, DGICA, BWINS, IPCC, Bristol West, and Direct General  
 2. Defined as December 2007 – June 2009

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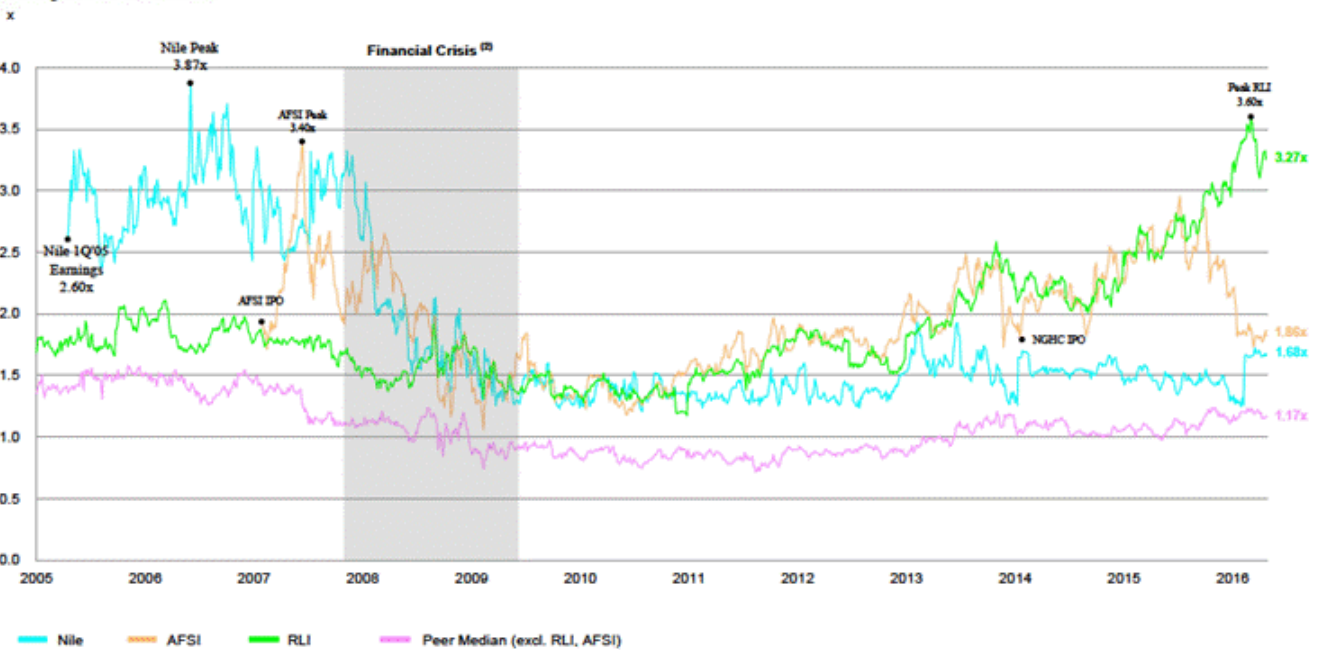
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HISTORICAL TRADING METRICS

Relative P / BV From Nile IPO to Present

P / BV Relative to Peer Median <sup>(1)</sup>

Starting at Nile IPO, 1/28/2005



Source: SNL Financial (5/20/2016)

Morgan Stanley

Notes  
 1. Peers include ORI, NGHC, SIGI, OB, UFCS, STFC, EMCI, DGICA, BWINS, IPCC, Bristol West, and Direct General  
 2. Defined as December 2007 – June 2009

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## Presentation to Amazon

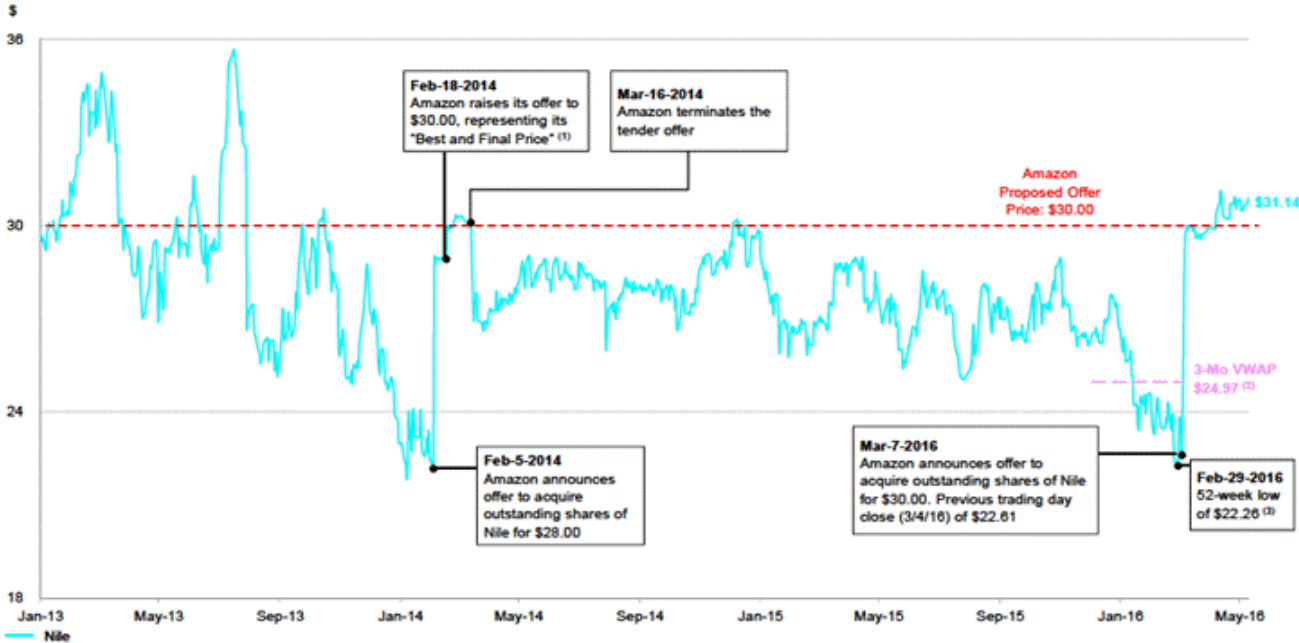
2 June 2016

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Project Nile

# Nile Recent Trading Range

Trading Range Since January 2013



Source: Capital IQ (5/27/2016); Company filings

- Notes
1. February 18, 2014 Press Release by Amazon
  2. VWAP represents volume-weighted average prices for the relevant time periods starting from the date preceding the announcement of Amazon's proposal (3/4/2016)
  3. Calculated from the trading day prior to the announcement of Amazon's proposal (3/4/2016)

Project Nile

## 1 Nile Management Estimates

SMM

	Actuals	Forecast		
	2015A	2016P	2017E	2018E
<b>Operating Assumptions</b>				
GPW	727.1	772.2	826.5	884.7
<i>Growth (%)</i>		6.2%	7.0%	7.1%
NPW	607.4	646.4	691.5	739.9
NPE	585.8	614.4	657.3	703.3
<i>Loss Ratio</i>	78.1%	76.2%	75.9%	75.5%
<i>Expense Ratio</i>	19.8%	20.1%	20.2%	20.2%
<i>Combined Ratio</i>	97.9%	96.4%	96.1%	95.7%
<b>Net Income</b>	<b>20.8</b>	<b>41.0</b>	<b>45.5</b>	<b>51.6</b>
<i>Growth (%)</i>		96.9%	10.7%	13.6%
<b>Earnings per Share <sup>(1)</sup></b>	<b>\$1.56</b>	<b>\$2.06</b>	<b>\$2.27</b>	<b>\$2.56</b>
Book Value	358.9	388.8	422.2	461.0
<b>Book Value per Share <sup>(1)</sup></b>	<b>\$18.03</b>	<b>\$19.50</b>	<b>\$21.07</b>	<b>\$22.89</b>
<i>ROAE</i>	5.8%	11.0%	11.2%	11.7%

Source Nile Management Estimates

Notes

1. Assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management



Project Nile

## 2 Areas of Additional Value

Special Committee's Views on Nile Management Estimates

A	Increased Growth
B	Bulk Loss Gap
C	Expense Efficiency
D	Reinsurance
E	M&A Opportunity
F	New Clients / New Products

Description
<ul style="list-style-type: none"> <li>• <b>Top-line growth improvement based on rate improvement, competitor exits, and increased exposures</b> <ul style="list-style-type: none"> <li>– Overall Y-o-Y GPW growth (in aggregate across all divisions) of ~8% in 2017 and ~10% in 2018 (up from ~7% in 2017 and 2018 per Nile Management Estimates)</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Eliminate bulk loss and LAE gap of ~1.0% in the Misc. and Other division annually in 2017 and 2018</b> <ul style="list-style-type: none"> <li>– Loss ratio per Nile Management Estimates in 2017 and 2018 were 75.9% and 75.8%, respectively; bulk loss improvement to 74.9% in 2017 and 74.8% in 2018</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Expense ratio improvement with scale</b> <ul style="list-style-type: none"> <li>– Expense ratio improvement to 19.7% from 20.2% in 2017 and 2018</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Increased retention and/or ability to achieve lower cost of reinsurance</b> <ul style="list-style-type: none"> <li>– ~2.0% reduction in cession rate (overall going from ~16% to ~14%) across divisions<sup>(1)</sup></li> <li>– Would result in a reduction of ceded premiums by ~12%</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Project Aristotle (Currently in Second Round Bidding Process)</b> <ul style="list-style-type: none"> <li>– Illustrate acquisition as completed in August 2016</li> <li>– Produces additional ~\$87MM GPW by 2018</li> <li>– Estimated purchase price of \$65MM, funded by debt</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>New clients or new products that generate top-line growth (forward impact not quantified)</b> <ul style="list-style-type: none"> <li>– National Accounts upside from the potential addition of 1 or more larger clients</li> <li>– Nile has typically introduced 1 to 2 new products per year, generating an increase in revenue, which has not been reflected in the Nile Management Estimates</li> </ul> </li> </ul>

Source Nile Management Estimates and Special Committee proposed areas of additional value items

**Notes**

1. Includes Truck and Environmental, Passenger Transportation, Vanliner, National Accounts, Specialty Transportation, and Hawaii and Alaska

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Project Nile

### 3 Potential Synergies

	Description
<b>A</b> Direct Public Company Expenses	<ul style="list-style-type: none"> <li>• Elimination of public company costs               <ul style="list-style-type: none"> <li>– Audit fees, stock compensation expenses, Director fees, and public reporting fees totaled \$3.2MM in 2015</li> <li>– Estimated savings of ~\$2MM by virtue of the transaction</li> </ul> </li> </ul>
<b>B</b> Other G&A Expenses	<ul style="list-style-type: none"> <li>• Additional savings in G&amp;A costs               <ul style="list-style-type: none"> <li>– Expense synergies in functional areas that include legal, HR, investments and other</li> <li>– 5% to 15% of G&amp;A expenses (excluding public company costs) of \$23.6MM in 2015</li> </ul> </li> </ul>
<b>C</b> Investment Income	<ul style="list-style-type: none"> <li>• Potential for improved investment yield on investment portfolio by Amazon given scale and product capabilities               <ul style="list-style-type: none"> <li>– Assumes a 10 – 20bps yield improvement on \$1.2Bn investment portfolio</li> </ul> </li> </ul>
<b>D</b> Assigned Risk	<ul style="list-style-type: none"> <li>• Reduce assigned risk underwriting losses through the use of Amazon non-admitted licenses               <ul style="list-style-type: none"> <li>– ~\$8MM loss in 2015 (assumed range of 0% to 50% realization of benefits)</li> </ul> </li> </ul>
<b>E</b> Tax Considerations	<ul style="list-style-type: none"> <li>• Elimination of DTL associated with Amazon               <ul style="list-style-type: none"> <li>– DTL of \$63MM (as of 12/31/2015) that would no longer be required to be maintained</li> </ul> </li> </ul>
<b>F</b> New Lines of Business (Aristotle)	<ul style="list-style-type: none"> <li>• Incremental earnings to Amazon as a result of Project Aristotle (impact not quantified)               <ul style="list-style-type: none"> <li>– Aristotle business that is currently being brokered (e.g., inland marine) could potentially be retained by Amazon</li> </ul> </li> </ul>

Source Nile Management Estimates and Special Committee proposed areas of potential synergies

Project Nile

## Nile Value Buildup

Assumes 100% Realization of Additional Value Items and the Range of Potential Synergies, in Addition to Nile Management Estimates

\$ Per Share

		Selected Per Share Valuation Ranges	
<b>1 Dividend Discount Model Analysis</b>			
	Nile Management Estimates <sup>(1)</sup>	27.80	32.87
<b>2 Areas of Additional Value</b>			
A	Increased Growth	0.39	0.39
B	Bulk Loss Gap	1.86	1.86
C	Expense Efficiency	0.83	0.83
D	Reinsurance	0.48	0.48
	<b>Subtotal (excl. Aristotle) <sup>(2)</sup></b>	<b>31.58</b>	<b>36.65</b>
E	Project Aristotle <sup>(3)</sup>	1.80	1.80
	<b>Subtotal (incl. Aristotle)</b>	<b>33.38</b>	<b>38.45</b>
<b>3 Potential Synergies <sup>(4)</sup></b>			
A	Direct Public Company Expenses	0.50	0.75
B	Other G&A Expenses	0.50	1.25
C	Investment Income	0.50	0.75
D	Assigned Risk	0.00	1.50
	<b>Total Areas of Additional Value and Potential Synergies</b>	<b>34.89</b>	<b>42.71</b>
E	Tax Considerations <sup>(5)</sup>	0.00	3.15
	<b>Total Areas of Additional Value and Potential Synergies (incl. Tax Considerations)</b>	<b>34.89</b>	<b>45.86</b>

Source Nile Management Estimates, Special Committee proposed areas of additional value items and potential synergies, and Capital IQ

**Notes**

1. Selected range is based on the cost of equity of 7.7% to 6.7% and terminal P/BV of 1.37x to 1.60x
2. Compounding effect of \$0.22 / sh. of value included in the subtotal
3. Compounding effect of \$0.20 / sh. of value has been included in the Project Aristotle scenario
4. Potential synergies per Nile Management presented after-tax (assumed 30% marginal tax rate) and capitalized at 10x
5. Tax considerations per Amazon Management

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Project Nile

## Discussion Materials

1 July 2016

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Project Nile

## Nile Implied Valuation

Based on Nile Management Case

### Regression Implied Prices

	Acquisition at Year End		
	2016E	2017E	2018E
ROAE <sup>(1)</sup> (%)	11.0	11.2	11.7
Regression Implied P/BV <sup>(2)</sup>	1.28x	1.32x	1.33x
BVPS <sup>(3)</sup>	\$19.51	\$21.08	\$22.90
Implied Stock Price	\$25.06	\$27.81	\$30.39
Premium to Implied Stock Price	25%	25%	25%
Acquisition Price		\$34.76	\$37.98
<b>A</b> PV of Acquisition Price (at 6/30/16) <sup>(4)</sup>		\$31.27	\$31.84
Aggregate Dividends per Share since 6/30/16 <sup>(4)(5)</sup>		0.88	1.52
<b>B</b> PV of Dividends (at 6/30/16) <sup>(4)</sup>		0.83	1.38
<b>A + B</b> Total PV Per Share (at 6/30/16)		\$32.10	\$33.22

Source Nile Management Estimates and Capital IQ (6/27/2016)

## Notes

1. Per Nile Management Estimates
2. Peers included in the regression analysis are the following: ORL, AFSI, NGHC, SIGI, OB, UFCS, STFC, EMCI and DGICA; AFSI, NGHC and SIGI utilize 2018E ROE for 2018E based on Wall Street Estimates, however, all other companies utilize 2017E for 2018E in the regression analysis given the lack of available data
3. BVPS based on Nile Management Estimates
4. Discounted back to 6/30/2016; assumes a discount rate of 7.3%
5. Per Nile Management Estimates; assumes quarterly payout; dividends are discounted on a quarterly basis

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Project Nile

## Review of Amazon's Prior & Current Offers for Nile

Metric	Prior Offer: 2/5/2014			Current Offer: 3/7/2016				
	1-Day Unaffected	Original	Revised	1-Day Unaffected	Original	Revised		
	\$22.17	\$28.00	\$30.00	\$22.61	\$30.00	\$30.75		
<b>P/BV</b>								
P/BV (most recent quarter) <sup>(1)</sup>	\$17.63	1.26x	1.59x	1.70x	\$18.46	1.22x	1.63x	1.67x
P/BV (ex. Fixed Maturity AOCI) <sup>(2)</sup>	\$16.84	1.32x	1.66x	1.78x	\$17.81	1.27x	1.68x	1.73x
<b>P/E</b>								
Prior Year Net Income from Operations, per share, diluted <sup>(3)</sup>	\$0.67	33.1x	41.8x	44.8x	\$1.16	19.5x	25.9x	26.5x
<b>1-Year Forward P/E<sup>(4)</sup></b>								
Management EPS / ROE	\$2.30 <sup>(5)</sup> / 13.2% <sup>(6)</sup>	9.6x	12.2x	13.0x	\$2.06 / 11.0% <sup>(6)</sup>	11.0x	14.6x	14.9x
Street Consensus EPS / ROE	\$1.64 <sup>(5)</sup> / 8.9% <sup>(7)</sup>	13.5x	17.1x	18.3x	\$1.58 / 8.7% <sup>(7)</sup>	14.4x	19.0x	19.5x

Source Nile Management Estimates, Company Filings, Capital IQ (6/27/2016)

**Notes**

- 2014 offer utilized BV as of Q3'13; current offer utilizes BV as of Q1'16
- BV ex-AOCI used, as BV excluding unrealized gains on fixed maturities unavailable for Nile in 2016 Q1
- Prior Year for the 2014 offer was based on 2013 earnings; current offer based on 2015 earnings
- 1-Year Forward EPS estimates for 2014 offer represent estimates for 2014E; 2016E estimates used for the current offer
- From Amazon SC TO-T/A, filed on 2/21/2014
- Per Nile Management Estimates
- Per Wall Street Estimates

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Project Nile

## Discussion Materials

8 July 2016

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Project Nile

## Nile Valuation Matrix

Reference Metric			Original Offer	Revised Offer	Current Offer	\$32.50	\$33.00	\$33.50	M&A / Squeeze Out Precedents
			\$30.00	\$30.75	\$32.00				
<b>Market Multiples</b>									
Total Equity Value (\$MM) <sup>(1)</sup>	Total Shares	19.9 MM	598.8	613.9	639.0	649.1	659.1	669.2	-
P / BV (3/31/2016)	BVPS	\$18.46	1.63x	1.67x	1.73x	1.76x	1.79x	1.81x	1.4x - 1.8x
2016 P / E - Street Estimates	EPS	\$1.56	19.3x	19.8x	20.6x	20.9x	21.2x	21.5x	13.0x - 17.0x <sup>(4)</sup>
2016 P / E - Nile 2016 Plan	EPS	\$2.06	14.6x	14.9x	15.5x	15.8x	16.0x	16.3x	13.0x - 17.0x <sup>(4)</sup>
<b>Premium Analysis</b>									
Pre-Offer <sup>(2)</sup>	Stock Price	\$22.61	+33%	+36%	+42%	+44%	+46%	+48%	15% - 35%
3-Mo VWAP <sup>(2)</sup>	Stock Price	\$24.97	+20%	+23%	+28%	+30%	+32%	+34%	15% - 35%
52-Week High <sup>(2)</sup>	Stock Price	\$28.98	+4%	+6%	+10%	+12%	+14%	+16%	-
Current <sup>(3)</sup>	Stock Price	\$30.12	(0%)	+2%	+6%	+8%	+10%	+11%	-
<b>Bump Analysis</b>									
% Increase From Original Offer	Stock Price	\$30.00	0.0%	2.5%	6.7%	8.3%	10.0%	11.7%	-
Incremental \$ for Amazon from Original Offer	Original Offer	\$292.8	\$0.0	\$7.4	\$19.8	\$24.8	\$29.7	\$34.7	-

Source SNL Financial, Capital IQ, Nile Management Estimates, Street Estimates and Company Filings

**Notes**

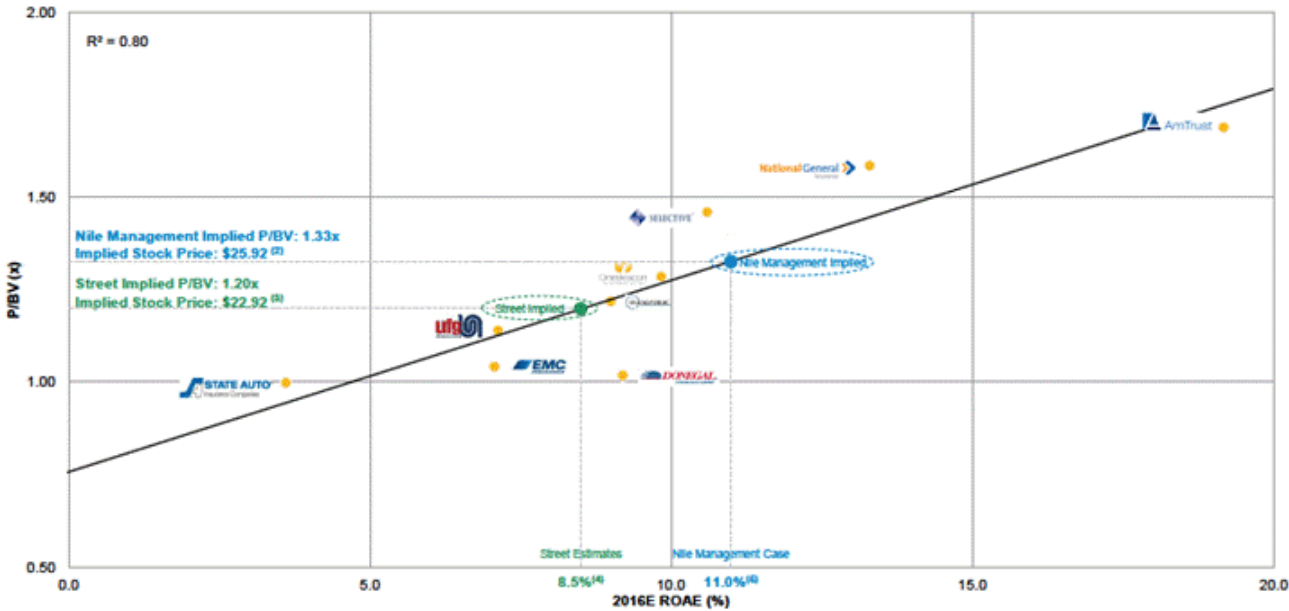
1. Assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management
2. Prior to announcement of Amazon's Original Offer on 3/7/16
3. As of 7/6/16
4. Represents NTM P/E multiples

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# Nile Regression-Implied Stock Price

P / BV vs. 2016E ROAE Regression Analysis <sup>(1)</sup>



Source: SNL Financial (7/6/16), Wall Street research, Street Estimates, and Nile Management Estimates

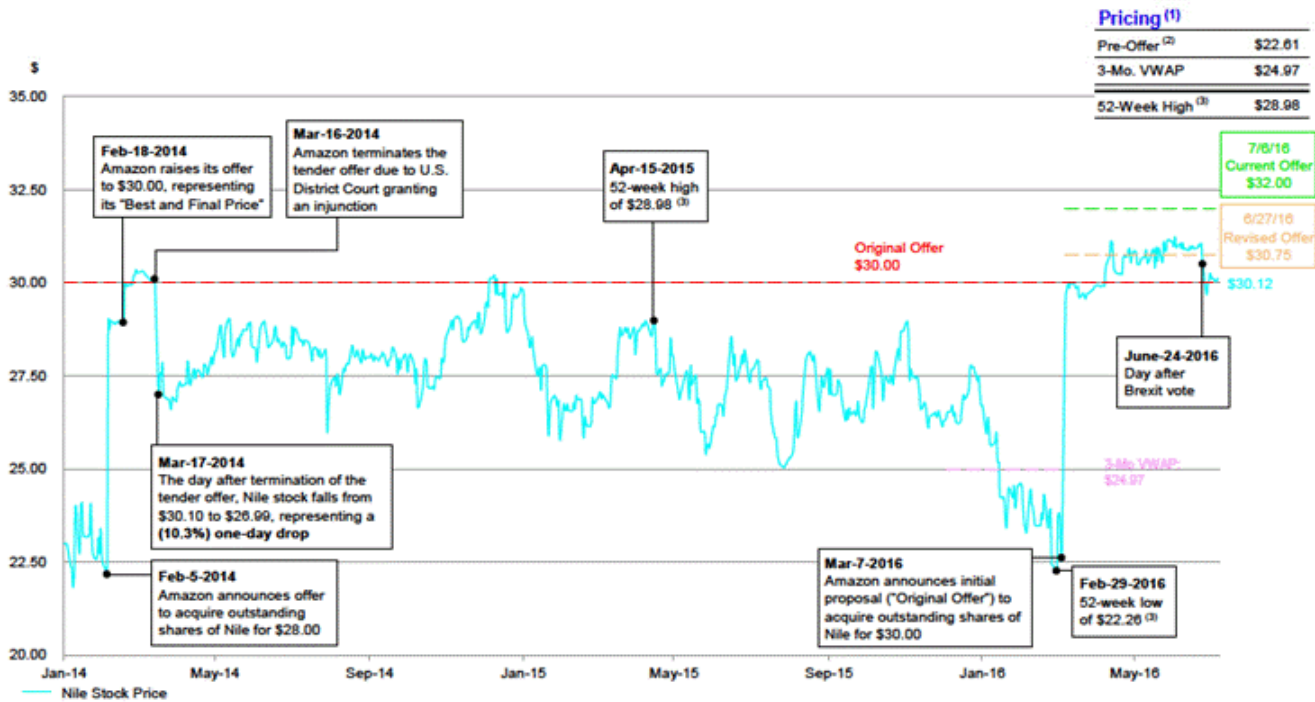
**Notes**

- 1. BWINB not included in regression analysis due to lack of available Street Estimates; RLJ is not included in regression due to its high P/BV multiple
- 2. Based on 2016 Plan BVPS of \$19.51, per Nile Management Case
- 3. Based on 2016E BVPS of \$19.10, per Street Estimates
- 4. Nile 2016 ROAE per Street Estimates
- 5. Nile 2016 Plan

Project Nile

# Nile Recent Trading Range

Trading Range Since January 2014



Source: SNL Financial (7/6/16)

**Notes**

1. VWAP represents volume-weighted average prices for the relevant time periods starting from the date preceding the announcement of Amazon's Original Offer (3/4/16)
2. Closing price of Nile on the trading day (3/4/16) prior to announcement of Amazon's Original Offer on 3/7/16
3. Calculated from the trading day prior to the announcement of Amazon's Original Offer (3/4/16)

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**Project Nile**

# Financial Update

18 July 2016

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2016E Plan EPS by Quarter

	Plan	Actual <sup>(4)</sup>
1Q'16	\$0.47	\$0.34
2Q'16	\$0.51	\$0.51
3Q'16	\$0.53	\$0.53
4Q'16	\$0.55	\$0.55
<b>2016</b>	<b>\$2.06</b>	<b>\$1.93</b>

Source Nile 2016 Plan

## May YTD Results vs. 2016 Business Plan

### 2016 Q2: QTD Financial Review (Actual vs. Plan)

BMW, April and May Results for Q2

	Nile Q2 QTD Actual	Nile Q2 QTD Plan	Variance to Plan	Required June Results to Achieve Plan <sup>(1)</sup>
<b>Premiums</b>				
GPW	119.9	124.4	(4.5)	70.1
NPW	103.2	109.1	(5.9)	49.3
NPE	99.3	96.6	0.7	50.3
Total Expenses <sup>(2)</sup>	97.3	96.8	0.6	49.5
Net Investment Income	7.0	6.9	0.1	3.4
Net Realized Gains (Losses)	2.7	0.5	2.2	(1.9)
Net Income <sup>(3)</sup>	8.4	6.8	1.6	1.8
EPS <sup>(3)</sup>	\$0.43	\$0.34	0.09	\$0.08
<b>Underwriting Metrics</b>				
AY COR	96.3%	96.3%	0.1%	96.6%
Losses & LAE Ratio	75.3%	76.0%	0.7%	78.0%
Expense Ratio	21.0%	20.4%	(0.6%)	18.6%
CY COR	96.3%	96.3%	0.1%	96.6%
Losses & LAE Ratio	75.3%	76.0%	0.7%	78.0%
Expense Ratio	21.0%	20.4%	(0.6%)	18.6%

### YTD Financial Review (Actual vs. Plan)

BMW

	Nile May YTD Actual	Nile May YTD Plan	Variance to Plan	Required for Rest of 2016 to Achieve Plan <sup>(1)</sup>
<b>Premiums</b>				
GPW	284.6	288.7	4.0	487.5
NPW	233.2	241.4	8.2	413.2
NPE	248.7	244.8	(3.9)	365.7
Total Expenses <sup>(2)</sup>	246.8	241.4	(5.4)	353.5
Net Investment Income	17.4	17.3	(0.1)	24.0
Net Realized Gains (Losses)	1.6	1.4	(0.2)	1.7
Net Income <sup>(3)</sup>	14.2	16.1	1.9	26.9
EPS <sup>(3)</sup>	\$0.77	\$0.81	0.04	\$1.29
<b>Underwriting Metrics</b>				
AY COR	97.5%	96.8%	(0.7%)	95.7%
Losses & LAE Ratio	76.5%	76.1%	(0.4%)	76.0%
Expense Ratio	21.0%	20.7%	(0.3%)	19.7%
CY COR	97.5%	96.8%	(0.7%)	95.7%
Losses & LAE Ratio	76.5%	76.1%	(0.4%)	76.0%
Expense Ratio	21.0%	20.7%	(0.3%)	19.7%

Source Nile public filings and Nile 2016 Plan prepared by Nile management

**Notes**

1. Combined results from June to December 2016 necessary for Nile to achieve original 2016 Plan based on May 2016 YTD Actual results
2. Total Expenses for Nile May YTD Actual exclude transaction expenses associated with Amazon's offer
3. Net Income and EPS for Nile May and May YTD Actual represent Net after-tax earnings from operations (per share, diluted), excluding transaction expenses associated with Amazon's offer
4. 1Q'16 actual results based on net income per share (diluted)

## May 20 vs. June 27 Aristotle Financial Outlook

2018E Comparison <sup>(1)</sup>

	May 20 Iteration 2018E	June 27 Iteration 2018E	Change	
			\$	%
<b>Operating Assumptions</b>				
GPW	86,467	117,264	30,797	35.6%
NPW	69,173	75,326	6,153	8.9%
NPE	66,611	72,536	5,925	8.9%
Loss and LAE	(39,972)	(44,307)	(4,335)	10.8%
Net Commission Expense	(8,801)	(5,136)	3,665	(41.6%)
Other Expenses	(10,705)	(15,503)	(4,798)	44.8%
Loss Ratio	60.0%	61.1%	1.1%	-
Expense Ratio <sup>(2)</sup>	29.3%	28.5%	(0.8%)	-
Combined Ratio	89.3%	89.5%	0.2%	-
Underwriting Income	7,133	7,590	457	6.4%
Investment Income	2,330	2,133	(197)	(8.5%)
MGA Income	2,853	-	(2,853)	(100.0%)
<b>Earnings Impact</b>				
EBITDA	12,316	9,723	(2,593)	(21.1%)
Depreciation and Other Amortization	(177)	(177)	-	0.0%
EBIT	12,139	9,546	(2,593)	(21.4%)
Interest expense - existing debt	(125)	(125)	-	0.0%
Less: Taxes	(3,604)	(2,826)	778	(21.6%)
<b>Net Income (Pre-Transaction Adjustments)</b>	<b>8,410</b>	<b>6,595</b>	<b>(1,815)</b>	<b>(21.6%)</b>
<b>Aristotle Adjustments:</b>				
Financing Interest Expense (After-Tax) <sup>(3)</sup>	(2,356)	(2,240)	115	(4.9%)
Transaction Amortization <sup>(4)</sup>	(1,429)	(1,429)	-	0.0%
<b>Incremental Net Income</b>	<b>4,626</b>	<b>2,926</b>	<b>(1,700)</b>	<b>(36.7%)</b>
<b>Incremental EPS</b>	<b>0.23</b>	<b>0.15</b>	<b>(0.09)</b>	<b>(36.7%)</b>

Source Aristotle financial outlook prepared by Nile management

Notes

1. Adjusts for financing interest expense and amortization

2. Expense ratio in May 20 case excludes offset from MGA income

3. May 20 financing interest expense based on purchase price of \$67.3MM funded with incremental debt at 5% annual cost, June 27 financing interest expense based on purchase price of \$64.0MM funded with incremental debt at 5% annual cost

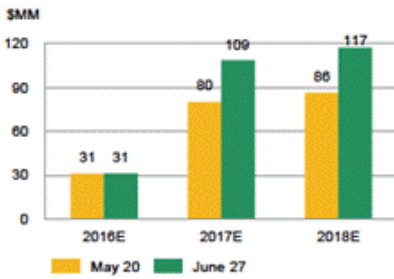
4. Per Nile management, amortization based on identifiable intangibles of \$10MM amortized over 7 years

Project Nile

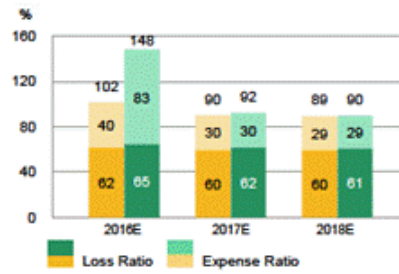
## Nile Financial Outlook for Aristotle

Comparison of May 20 vs. June 27 Financial Outlook <sup>(1)</sup>

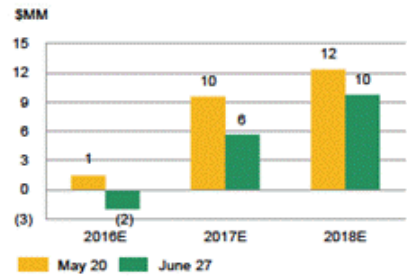
### GPW



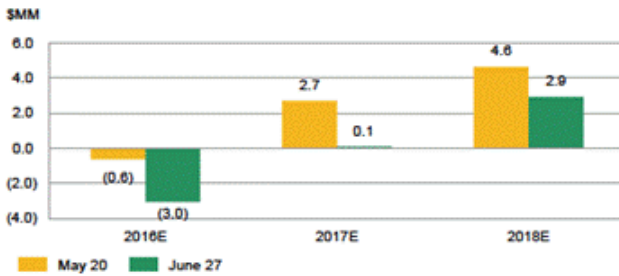
### AY Combined Ratios



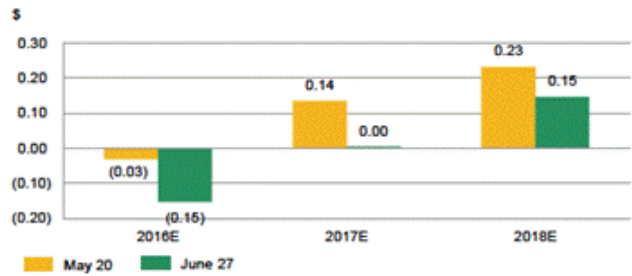
### EBITDA



### Net Income



### EPS <sup>(2)</sup>



Source: Aristotle financial outlook prepared by Nile management

Notes  
1. Adjusts for financing interest expense and amortization  
2. Based on fully diluted shares of 19.5MM per Nile management



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Project Nile

## Discussion Materials

20 July 2016

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## Project Nile

## 2016E Plan EPS by Quarter

	Plan	Actual <sup>(4)</sup>
1Q'16	\$0.47E	\$0.34A
2Q'16	\$0.51E	\$0.51E
3Q'16	\$0.53E	\$0.53E
4Q'16	\$0.55E	\$0.55E
<b>2016</b>	<b>\$2.06E</b>	<b>\$1.93E</b>

Source Nile 2016 Plan

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\$MM

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<b>Incremental Net Income</b>	<b>4,626</b>	<b>2,926</b>	<b>(1,700)</b>	<b>(36.7%)</b>
<b>Incremental EPS</b>	<b>0.23</b>	<b>0.15</b>	<b>(0.09)</b>	<b>(36.7%)</b>
<b>Valuation Impact (\$ / share) <sup>(5)</sup></b>	<b>\$1.60</b>	<b>\$0.78</b>		

Source Aristotle financial outlook prepared by Nile management

Notes

1. Adjusts for financing interest expense and amortization
2. Expense ratio in May 20 case excludes offset from MGA income
3. May 20 financing interest expense based on purchase price of \$67.3MM funded with incremental debt at 5% annual cost, June 27 financing interest expense based on purchase price of \$64.0MM funded with incremental debt at 5% annual cost
4. Per Nile management, amortization based on identifiable intangibles of \$10MM amortized over 7 years
5. Discount factor assumes a cost of equity of 7.7%

Project Nile

## Dividend Discount Model: Aristotle Comparison

Nile Management Estimates

### Nile Management Case <sup>(1)</sup>

SMM	Actuals	Forecast			Terminal Value
	2015A	2016P	2017E	2018E	
<b>Operating Assumptions</b>					
GPW	727.1	772.2	826.5	884.7	
Growth (%)		6.2%	7.0%	7.1%	
Combined Ratio		96.4%	96.1%	95.7%	
Net Income	20.8	41.0	45.5	51.6	
Growth (%)		96.9%	10.7%	13.6%	
Book Value	358.9	388.8	422.2	461.0	
Book Value per Share <sup>(2)</sup>	\$18.03	\$19.50	\$21.07	\$22.89	
ROAE	5.8%	11.0%	11.2%	11.7%	
Dividends	10.4	11.2	12.0	12.9	
<b>Cash Flows</b>					
Regression Implied P/BV					1.37 <sup>(3)</sup>
Terminal Value (12/31/2018)					634
Dividends <sup>(3)</sup>		5.6	12.0	12.9	
Discount Period (Years)		0.00	1.00	2.00	2.50
Discount Factor <sup>(4)</sup>		1.00	0.93	0.86	0.83
Present Value of Cash Flows / Terminal Value		5.8	11.2	11.1	526.4
Present Value Book Value Per Share (6/30/2016)					\$26.40
Present Value Price Per Share (6/30/2016) <sup>(5)</sup>		\$27.80			

### Nile Management Case with Project Aristotle <sup>(2)</sup>

SMM	Actuals	Forecast			Terminal Value
	2015A	2016P	2017E	2018E	
<b>Operating Assumptions</b>					
GPW	727.1	803.2	935.0	1,002.0	
Growth (%)		10.5%	16.4%	7.2%	
Combined Ratio		96.8%	95.8%	95.2%	
Net Income	20.8	38.1	45.5	54.4	
Growth (%)		83.0%	19.2%	19.7%	
Book Value	358.9	385.9	419.3	460.9	
Book Value per Share <sup>(2)</sup>	\$18.03	\$19.35	\$20.93	\$22.89	
ROAE	5.8%	10.2%	11.3%	12.4%	
Dividends	10.4	11.2	12.0	12.9	
<b>Cash Flows</b>					
Regression Implied P/BV					1.42 <sup>(3)</sup>
Terminal Value (12/31/2018)					654
Dividends <sup>(3)</sup>		5.6	12.0	12.9	
Discount Period (Years)		0.00	1.00	2.00	2.50
Discount Factor <sup>(4)</sup>		1.00	0.93	0.86	0.83
Present Value of Cash Flows / Terminal Value		5.8	11.1	11.1	542.1
Present Value Book Value Per Share (6/30/2016)					\$27.19
Present Value Price Per Share (6/30/2016) <sup>(5)</sup>		\$28.58			

△ of \$0.78

Source: SNL Financial, Nile Management Estimates

Notes:

- Based on Nile 2016 Plan and Nile Management Financial Outlook as presented to the Special Committee on May 26, 2016
- Based on June 27 Aristotle financial outlook prepared by Nile Management
- 2016 represents half year of full year dividends; dividends per share are \$0.56, \$0.60 and \$0.64 in 2016, 2017 and 2018, respectively; based on basic outstanding shares of 19.9MM in 2016 with 0.1MM of increases in share count in 2017 and 2018 respectively
- Discount factor assumes a cost of equity of 7.7%; dividends have been discounted utilizing a mid-year convention; terminal value is discounted based on 2018 year end
- Assumes fully diluted shares of 19.9MM as provided by Nile Management
- Based on P/BV vs. 2015 ROAE regression analysis including the following peers: ORL, AFSL, NGHC, SIGI, OBI, UFCS, STFC, EMCI and DGICA; AFSL, NGHC and SIGI utilize 2018E ROE for 2018E based on Wall Street Estimates, however, all other companies utilize 2017E for 2018E in the regression analysis given the lack of available data

Morgan Stanley

4

Project Nile

## Nile Significant Institutional Investors

### Top 10 Current Active Investors <sup>(1)</sup>

Institutional Investor	Shares Held (000s)	% of TSO	% of Float (ex. Amazon)	% of Float (ex. Amazon & Insiders)	Multiple of Average Daily Volume <sup>(2)</sup>		
					1-Month Daily Avg. (x)	3-Month Daily Avg. (x)	1-Year Daily Avg. (x)
T. Rowe Price Associates	1,334	6.7	13.7	18.0	30.8	53.1	46.6
Fidelity Management & Research	919	4.6	9.5	12.4	21.2	36.6	32.1
Gabelli Funds	820 <sup>(3)</sup>	4.1	8.4	11.1	18.9	32.7	28.7
Carlson Capital	400	2.0	4.1	5.4	9.2	15.9	14.0
Highbridge Capital Management	300 <sup>(3)</sup>	1.5	3.1	4.1	6.9	11.9	10.5
Longfellow Investment Management Co.	298	1.5	3.1	4.0	6.9	11.9	10.4
Fortress Investment Group	288	1.4	3.0	3.9	6.6	11.5	10.1
Glenmede Investment Management	216	1.1	2.2	2.9	5.0	8.6	7.5
Neuberger Berman	165	0.8	1.7	2.2	3.8	6.6	5.8
Delaware Investments	105	0.5	1.1	1.4	2.4	4.2	3.7
<b>Top 10 Inst'l Shareholder Ownership</b>	<b>4,845</b>	<b>24.3%</b>	<b>49.8%</b>	<b>65.5%</b>			

Source: Thomson Ownership, Capital IQ

Morgan Stanley

**Notes**

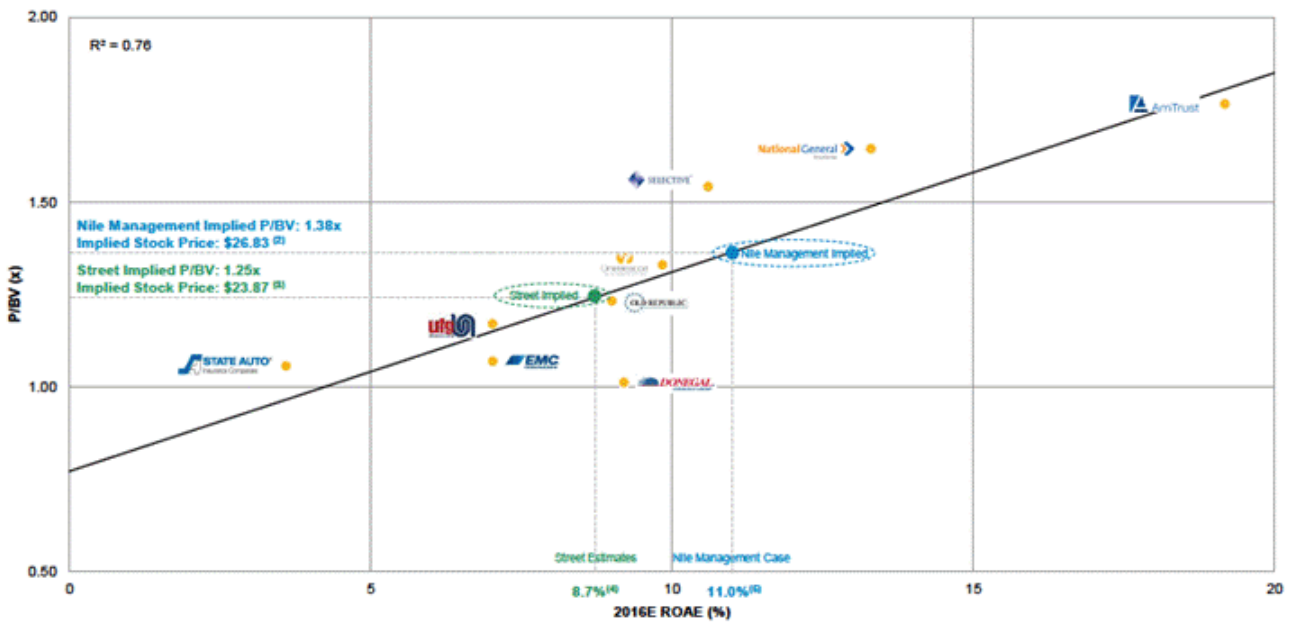
- As of 1Q/2016; excludes index funds, broker-dealers, and company management
- Average daily trading volumes based on time periods as of 7/15/16; avg. daily volume trading for 1-mo., 3-mo. and 1-yr. were the following: 43,301, 25,114 and 28,601
- Based on dialogue with investors

Project Nile

## Implied Regression Analysis Valuation (Unaffected)

\$26.83 – Based on Nile Management Estimates, Implied Standalone Value (11.0% ROE, 1.38x P/BV)  
 \$23.87 – Based on Street Estimates, Implied Standalone Value (8.7% ROE, 1.25x P/BV)

P / BV vs. 2016E ROAE Regression Analysis <sup>(1)</sup>



Source: SNL Financial (7/15/16), Wall Street research, Street Estimates, and Nile Management Estimates

**Notes**

1. BWINB not included in regression analysis due to lack of available Street Estimates; RLJ is not included in regression due to its high P/BV multiple
2. Based on 2016 Plan BVPS of \$19.51, per Nile Management Case
3. Based on 2016E BVPS of \$19.10, per Street Estimates
4. Nile 2016 ROAE per Street Estimates
5. Nile 2016 Plan

Project Nile

## Valuation Matrix

Reference Metric			Original Offer	Revised Offer	Current Offer	\$32.25	\$32.50	\$32.75	\$33.00	M&A / Squeeze Out Precedents
			\$30.00	\$30.75	\$32.00					
<b>Market Multiples</b>										
Total Equity Value (\$MM) <sup>(1)</sup>	Total Shares	19.9 MM	598.8	613.9	639.0	644.1	649.1	654.1	659.1	-
P / BV (3/31/2018)	BVPS	\$18.46	1.63x	1.67x	1.73x	1.75x	1.76x	1.77x	1.79x	1.4x - 1.8x
2016 P / E - Street Estimates	EPS	\$1.58	19.0x	19.5x	20.3x	20.5x	20.6x	20.8x	21.0x	13.0x - 17.0x <sup>(4)</sup>
2016 P / E - Nile 2016 Plan	EPS	\$2.06	14.6x	14.9x	15.5x	15.7x	15.8x	15.9x	16.0x	13.0x - 17.0x <sup>(4)</sup>
<b>Premium Analysis</b>										
Pre-Offer <sup>(2)</sup>	Stock Price	\$22.61	+33%	+30%	+42%	+43%	+44%	+45%	+46%	15% - 35%
3-Mo VWAP <sup>(2)</sup>	Stock Price	\$24.97	+20%	+23%	+28%	+29%	+30%	+31%	+32%	15% - 35%
52-Week High <sup>(2)</sup>	Stock Price	\$28.98	+4%	+0%	+10%	+11%	+12%	+13%	+14%	-
Current <sup>(3)</sup>	Stock Price	\$30.71	(2%)	+0%	+4%	+5%	+6%	+7%	+7%	-
<b>Bump Analysis</b>										
% Increase From Original Offer	Stock Price	\$30.00	0.0%	2.5%	6.7%	7.5%	8.3%	9.2%	10.0%	-
Incremental \$ for Amazon from Original Offer	Original Offer	\$262.8	\$0.0	\$7.4	\$19.8	\$22.3	\$24.8	\$27.2	\$29.7	-

Source SNL Financial, Capital IQ, Nile Management Estimates, Street Estimates and Company Filings

**Notes**

1. Assumes fully diluted shares outstanding of 19.9MM as provided by Nile Management
2. Prior to announcement of Amazon's Initial Proposal on 3/7/16
3. As of 7/15/16
4. Represents NTM P/E multiples

Morgan Stanley



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Presentation to the Special Committee  
of the Board of Directors of National Interstate

24 July 2016

Morgan Stanley

Section 1

## Summary of the Transaction

## SUMMARY OF THE TRANSACTION

# Transaction Summary

## Key Financial Terms

<b>Transaction</b>	<ul style="list-style-type: none"> <li>Acquisition of all outstanding common shares in National Interstate Corporation ("NATL" or "National Interstate") not currently owned by Great American Insurance Company ("GAIC")</li> <li>GAIC currently owns approximately 51% of outstanding common shares of National Interstate</li> </ul>
<b>Acquirer</b>	<ul style="list-style-type: none"> <li>GAIC, a wholly-owned subsidiary of American Financial Group ("AFG")</li> </ul>
<b>Deal Value</b>	<ul style="list-style-type: none"> <li>\$32.50 per National Interstate share, comprised of:                             <ul style="list-style-type: none"> <li>\$32.00 per share in cash consideration, plus</li> <li>\$0.50 per share funded via cash special dividend by National Interstate, payable at closing</li> </ul> </li> <li>~\$650MM transaction equity value <sup>(1)</sup></li> <li>Total consideration of ~\$318MM <sup>(2)</sup></li> <li>44% premium to National Interstate closing price of \$22.61 on 3/4/2016 <sup>(3)</sup></li> <li>1.76x National Interstate BVPS<sup>(4)</sup> of \$18.46 <sup>(5)</sup> as of 3/31/2016</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>No external financing required</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>[Regular quarterly dividends to be paid consistent with normal course until last record date prior to closing date]</li> </ul>
<b>Approvals</b>	<ul style="list-style-type: none"> <li>Approval of the Board of Directors of National Interstate following Special Committee recommendation</li> <li>Non-waivable closing condition requiring approval of at least a majority of the outstanding common shares of National Interstate not owned by AFG or its affiliates (i.e., majority of the minority)</li> </ul>
<b>Termination Fee</b>	<ul style="list-style-type: none"> <li>TBD</li> </ul>

### Notes

1. Source: NATL management – Cash portion of consideration of \$32.00 per share based on 20,034,141 fully diluted shares outstanding of NATL as of 6/30/2016; fully diluted shares reflect the dilutive impact of 64,523 restricted stock units and 180,000 NATL options (weighted average exercise price of \$24.22) through applying the treasury stock method, special dividend based on basic shares outstanding of 19,925,875 as of 6/30/2016

2. Based on the acquisition of approximately 49% of NATL common stock not owned by GAIC

3. Stock price as of the trading day (3/4/16) prior to announcement of AFG's Initial Proposal on 3/7/2016

4. Book value per share

5. Based on basic shares outstanding of 19,925,875 as of 6/30/2016

SUMMARY OF THE TRANSACTION

## Summary of Negotiations

### Timeline of Milestones

<p>March 6, 2016 <i>Initial Proposal</i></p>	<ul style="list-style-type: none"> <li>• AFG submitted a proposal to acquire the public shares of National Interstate not held by AFG for \$30.00 per share</li> </ul>
<p>April 6, 2016</p>	<ul style="list-style-type: none"> <li>• Formation of the Special Committee of the Board of the Directors of National Interstate ("Special Committee") to consider the Initial Proposal</li> </ul>
<p>June 2, 2016</p>	<ul style="list-style-type: none"> <li>• Morgan Stanley and Willkie Farr &amp; Gallagher ("WFG") met with representatives of AFG to discuss and, at the direction of the Special Committee, communicated the verbal rejection of the Initial Proposal</li> </ul>
<p>June 24, 2016 <i>Proposal #2</i></p>	<ul style="list-style-type: none"> <li>• AFG submitted a revised proposal to acquire the public shares of National Interstate not held by AFG for \$30.75 per share</li> </ul>
<p>June 29, 2016</p>	<ul style="list-style-type: none"> <li>• Morgan Stanley and WFG discussed with representatives of AFG the deliberations of the Special Committee in regard to Proposal #2 and at the direction of the Special Committee, communicated the verbal rejection of Proposal #2</li> </ul>
<p>July 6, 2016 <i>Proposal #3</i></p>	<ul style="list-style-type: none"> <li>• AFG submitted a revised proposal to acquire the public shares of National Interstate not held by AFG for \$32.00 per share, which was characterized as a "best and final offer"</li> </ul>
<p>July 20, 2016</p>	<ul style="list-style-type: none"> <li>• Morgan Stanley and WFG discussed with representatives of AFG the deliberations of the Special Committee in regard to Proposal #3 and at the direction of the Special Committee, communicated the ability to garner unanimity of the Special Committee vote in favor of the transaction at \$32.50 per share</li> </ul>
<p>July 21, 2016 <i>Proposal #4</i></p>	<ul style="list-style-type: none"> <li>• AFG communicated to Morgan Stanley its intention to seek approval for a revised proposal to acquire the public shares of National Interstate not held by AFG for \$32.50 per share comprised of:                             <ul style="list-style-type: none"> <li>– \$32.00 per share in cash consideration, plus</li> <li>– \$0.50 per share funded via cash special dividend by National Interstate, payable at closing</li> </ul> </li> </ul>

- Wall Street Estimates ("NATL Street Estimates") based on the coverage of available research estimates (two analysts)
- National Interstate Management Estimates ("NATL Management Estimates") based on a combination of the National Interstate 2016 Business Plan ("NATL 2016 Plan" or "2016P") and National Interstate financial outlook beyond 2016 ("NATL Management Financial Outlook") prepared by National Interstate Management and approved by the Special Committee

## SUMMARY OF THE TRANSACTION

### Key Valuation Metrics

	Reference Metric	Multiple (x) / Premium (%)	Equity Value <sup>(1)</sup>
<b>AFG Offer Price Per Share</b>		<b>\$32.50</b>	<b>\$651</b>
<b>Market Multiples</b>			
P / BV (3/31/2016)	BVPS	\$18.46	1.76x
2016 P / E - NATL Street Estimates	EPS	\$1.58	20.6x
2016 P / E - NATL 2016 Plan	EPS	\$2.06	15.8x
<b>Premium Analysis</b>			
Pre-Offer <sup>(2)</sup>	Stock Price	\$22.61	44%
3-Month VWAP <sup>(3)</sup>	Stock Price	\$24.97	30%
52-Week High <sup>(4)</sup>	Stock Price	\$28.98	12%
<b>Midpoint of DDM Valuation Range</b>			
NATL Management Estimates	Midpoint of DDM	\$29.00	12%

Source: SNL Financial, Capital IQ, NATL Management Estimates, NATL Street Estimates, and Company Filings

#### Notes

1. Source: NATL management – Cash portion of consideration of \$32.00 per share based on 20,034,141 fully diluted shares outstanding of NATL as of 5/30/2016; fully diluted shares reflect the dilutive impact of 64,503 restricted stock units and 180,000 NATL options (weighted average exercise price of \$24.22) through applying the treasury stock method, special dividend based on basic shares outstanding of 19,925,875 as of 5/30/2016
2. Stock price as of the trading day (3/4/16) prior to announcement of AFG's Initial Proposal on 3/7/16
3. VWAP represents volume-weighted average prices for the 3 months prior to the announcement of AFG's Initial Proposal (3/4/16)
4. Calculated from the trading day prior to the announcement of AFG's Initial Proposal (3/4/16)

Section 2

## Valuation Analysis

VALUATION ANALYSIS

Valuation Summary

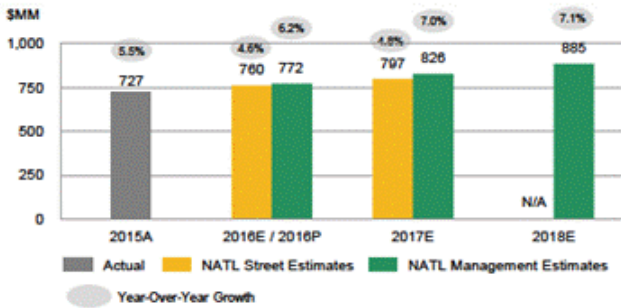




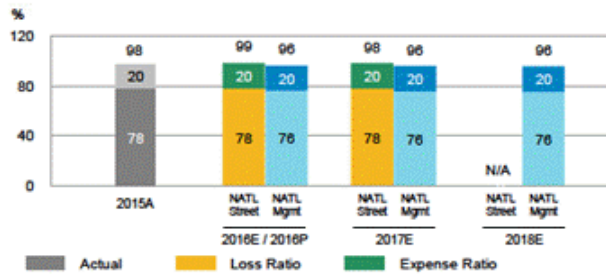
VALUATION ANALYSIS

## NATL Management Estimates Relative to NATL Street Estimates

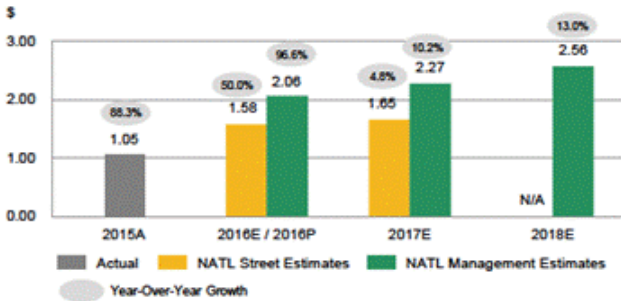
### GPW



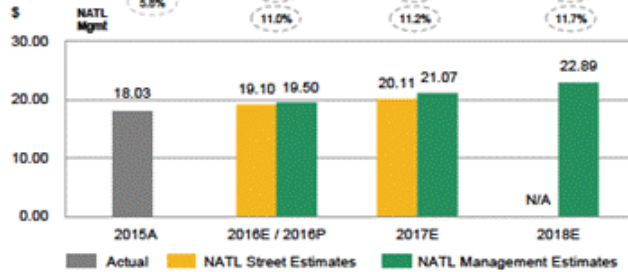
### AY Combined Ratios



### EPS



### BVPS

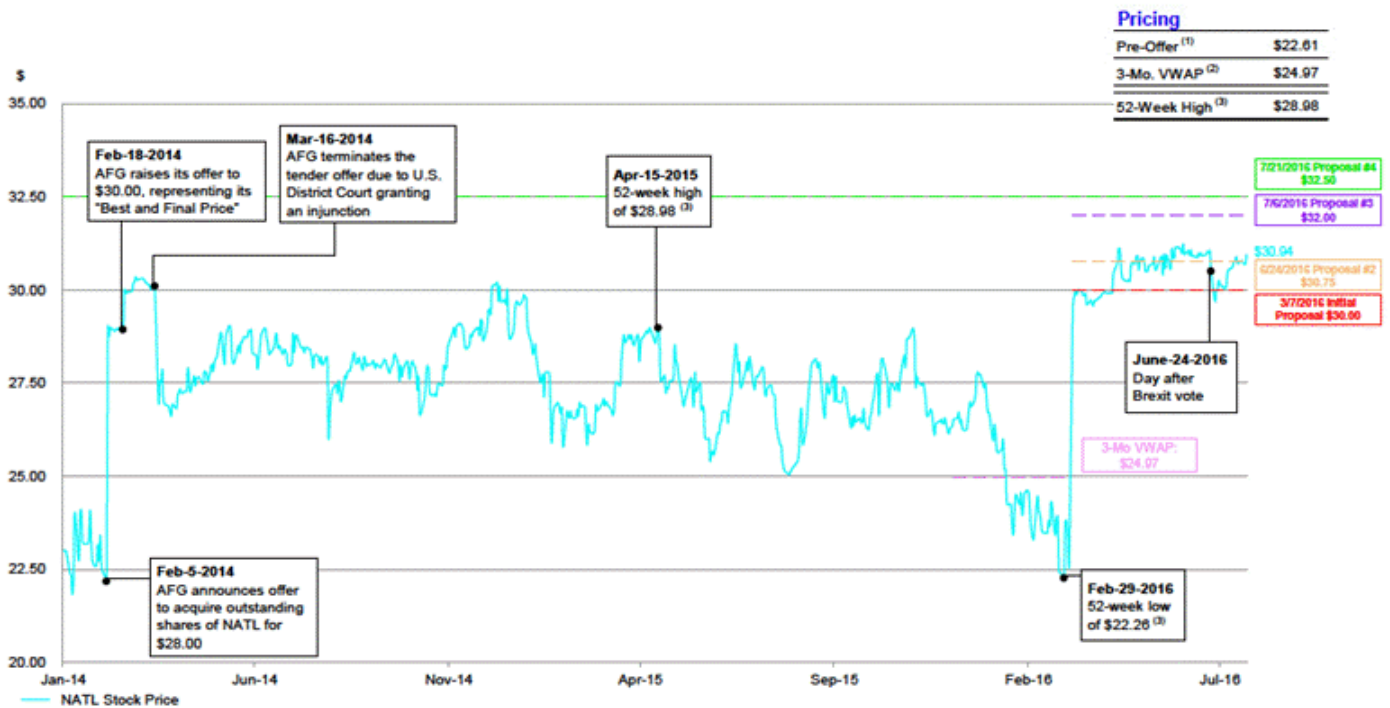


Source: NATL Management Estimates, NATL Street Estimates, and Company Filings

VALUATION ANALYSIS

**A** NATL Recent Trading Range

Trading Range Since January 2014



Source: SNL Financial (7/22/16)

Notes

1. Closing price of NATL on the trading day (3/4/16) prior to announcement of AFG's Initial Proposal on 3/7/16
2. VWAP represents volume-weighted average prices for the 3 months prior to the announcement of AFG's Initial Proposal (3/4/16)
3. Calculated from the trading day prior to the announcement of AFG's Initial Proposal (3/4/16)

VALUATION ANALYSIS

**B** Public Comparable Companies

National Interstate Public Comparables

As of 7/22/2016

	Market Cap (\$MM)	2016 P/E (x)	2017 P/E (x)	P/BV (x)	2016E ROE (%)	2017E ROE (%)
<b>National Interstate Corporation <sup>(1)</sup></b>						
NATL at AFG Purchase Price <sup>(2)</sup>	651	15.8	14.3	1.76	11.0	11.2
Pre-Offer <sup>(3)</sup>	452	11.0	10.0	1.25	11.0	11.2
Pre-Offer 3-Mo VWAP <sup>(4)</sup>	499	12.1	11.0	1.39	11.0	11.2
<b>Peers</b>						
Old Republic International Corporation	5,172	15.2	14.4	1.26	9.0	NA
AmTrust Financial Services, Inc.	4,294	8.3	7.4	1.72	19.2	18.6
RLI Corp.	3,017	29.9	30.4	3.45	12.4	11.8
Selective Insurance Group Inc.	2,287	14.8	15.3	1.55	10.6	9.6
National General Holdings Corp.	2,283	11.7	9.7	1.67	12.7	12.8
OneBeacon Insurance Group, Ltd.	1,345	17.1	20.0	1.32	9.8	5.8
United Fire Group, Inc	1,080	17.5	18.6	1.16	7.0	7.0
State Auto Financial Corp.	934	26.7	16.7	1.02	3.6	5.9
EMC Insurance Group Inc.	597	15.4	16.2	1.08	7.0	6.3
Donegal Group Inc.	421	11.9	12.4	0.99	9.2	9.1
Baldwin & Lyons Inc.	394	15.6	14.7	1.00	NA	NA
<b>Median</b>		<b>15.4</b>	<b>15.3</b>	<b>1.26</b>	<b>9.5</b>	<b>9.1</b>
<b>Mean</b>		<b>16.7</b>	<b>16.0</b>	<b>1.48</b>	<b>10.1</b>	<b>9.7</b>

Source: SNL Financial, Capital IQ (7/22/16), NATL Management Estimates, Company Filings, and Wall Street research

Notes

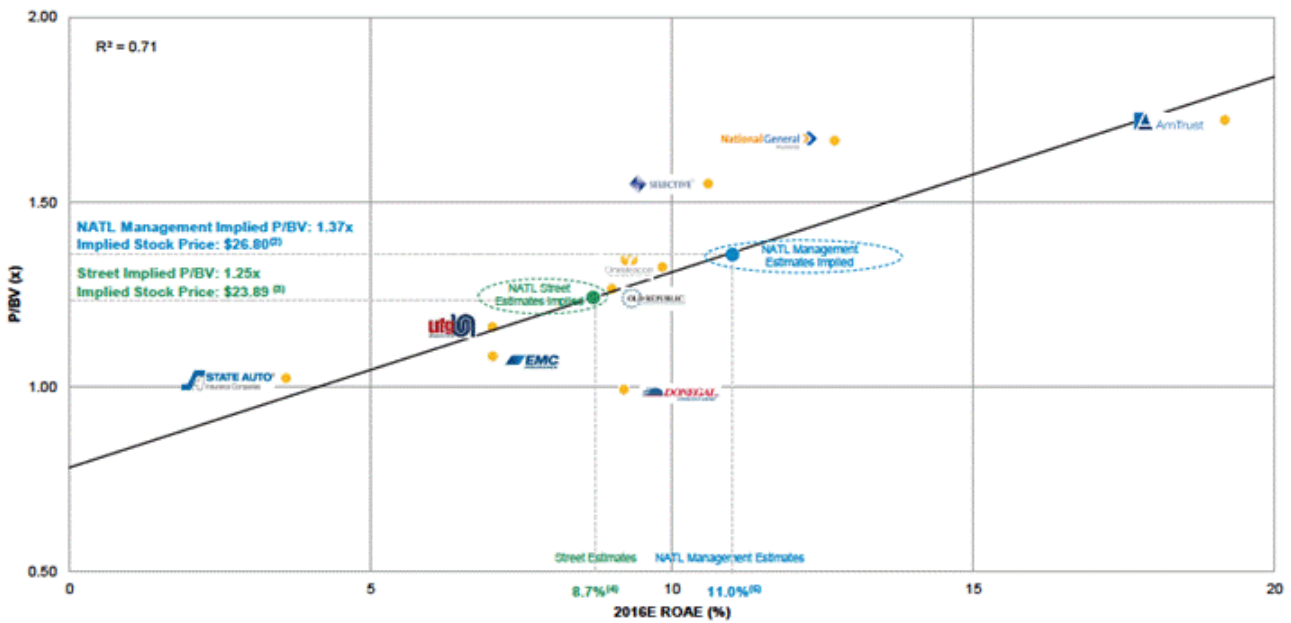
- Earnings multiples and ROEs based on NATL Management Estimates; P/BV based on book value per basic shares outstanding of \$18.46 as of 3/31/2016
- Source: NATL management – Cash portion of consideration of \$32.00 per share based on 20,034,141 fully diluted shares outstanding of NATL as of 6/30/2016; fully diluted shares reflect the dilutive impact of 64,503 restricted stock units and 100,000 NATL options (weighted average exercise price of \$24.22) through applying the treasury stock method; special dividend based on basic shares outstanding of 19,925,675 as of 6/30/2016
- Prior to announcement of AFG's Initial Proposal on 3/7/2016
- VWAP represents volume-weighted average prices for the 3 months prior to the announcement of AFG's Initial Proposal (3/4/16)

VALUATION ANALYSIS

**B** Implied Regression Analysis Valuation (Unaffected)

\$26.80 – Based on NATL Management Estimates, Implied Standalone Value (11.0% ROE, 1.37x P/BV)  
 \$23.89 – Based on Street Estimates, Implied Standalone Value (8.7% ROE, 1.25x P/BV)

P / BV vs. 2016E ROAE Regression Analysis <sup>(1)</sup>



Source SNL Financial (7/22/16), NATL Street Estimates, NATL Management Estimates, and Wall Street research

Note

1. SPFINB not included in regression analysis due to lack of available Street Estimates; RLJ is not included in regression
2. Based on NATL 2016 Plan book value per share of \$19.50, per NATL Management Estimates
3. Based on 2016E book value per share of \$19.10, per NATL Street Estimates
4. NATL 2016 ROAE per NATL Street Estimates
5. NATL 2016 Plan

### Sensitivity Analysis

Cost of Equity	Terminal Multiple				
	1.2x	1.3x	1.4x	1.5x	1.6x
6.8%	24.80	26.75	28.91	30.65	32.60
7.3%	24.52	26.45	28.58	30.30	32.23
7.5%	24.25	26.15	28.26	29.96	31.87
8.3%	23.98	25.86	27.94	29.62	31.51
8.8%	23.71	25.57	27.63	29.29	31.15

## VALUATION ANALYSIS

### c Standalone Dividend Discount Model

NATL Management Estimates

#### National Interstate Standalone Valuation <sup>(1)</sup>

SMM	Actuals	Forecast			Terminal Value
	2015A	2016P	2017E	2018E	
<b>Operating Assumptions</b>					
GPW	727.1	772.2	826.5	884.7	
Growth (%)		6.2%	7.0%	7.1%	
Combined Ratio		96.4%	96.1%	95.7%	
Net Income	20.8	41.0	45.5	51.6	
Growth (%)		96.9%	10.7%	13.6%	
Book Value	358.9	388.8	422.2	461.0	
Book Value Per Share <sup>(2)</sup>	\$18.03	\$19.50	\$21.07	\$22.89	
ROAE (%)	5.8%	11.0%	11.2%	11.7%	
Dividends	10.4	11.2	12.0	12.9	
<b>Cash Flows</b>					
Regression Implied P / BV (x)					1.41x <sup>(3)</sup>
Terminal Value (12/31/2018)					650
Dividends <sup>(2)</sup>		5.6	12.0	12.9	
Discount Period (Years)		0.00	1.00	2.00	2.50
Discount Factor <sup>(3)</sup>		1.00	0.93	0.86	0.83
Present Value of Cash Flows / Terminal Value		5.6	11.1	11.1	538.3
Present Value Book Value Per Share (6/30/2016)					\$27.00
<b>Present Value Price Per Share (6/30/2016) <sup>(4)</sup></b>					<b>\$28.26</b>

Source: SNL Financial (7/22/16), NATL Management Estimates, and NATL Public Filings

#### Notes

- Based on NATL Management Estimates
- 2016 represents half year of full year dividends; dividends per share are \$0.56, \$0.60 and \$0.64 in 2016, 2017 and 2018, respectively; based on basic outstanding shares of 19.9MM in 2015 with 0.1MM of increases in share count in 2017 and 2018 respectively (Source: NATL Management)
- Discount factor assumes a cost of equity of 7.5%; dividends have been discounted utilizing a mid-year convention; terminal value is discounted based on 2018 year end
- Assumes basic shares outstanding of 19,925,575 as of 6/30/2016 (Source: NATL Management)
- Assumes 2016 regression relationship remains constant over time (i.e., 2016E ROAE applied to 2016E regression)

Morgan Stanley

VALUATION ANALYSIS

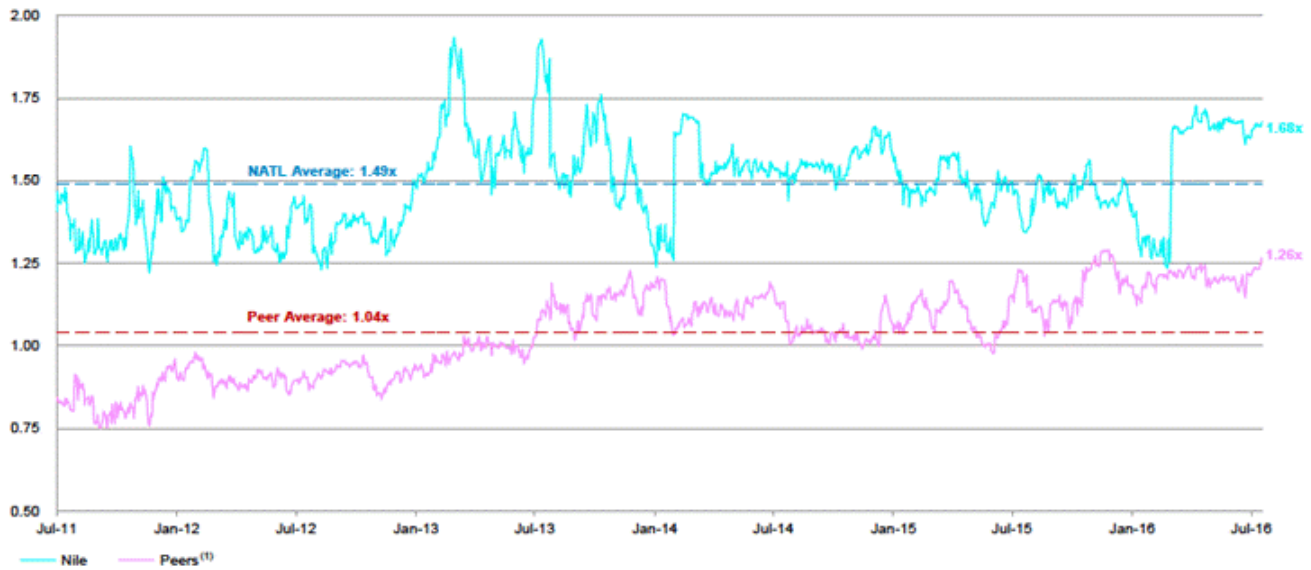
**c** Historical Trading Valuation Levels

Last Five Years

Price / Book Value

Since 2011

x



Source: SNL Financial (7/22/16)

Notes

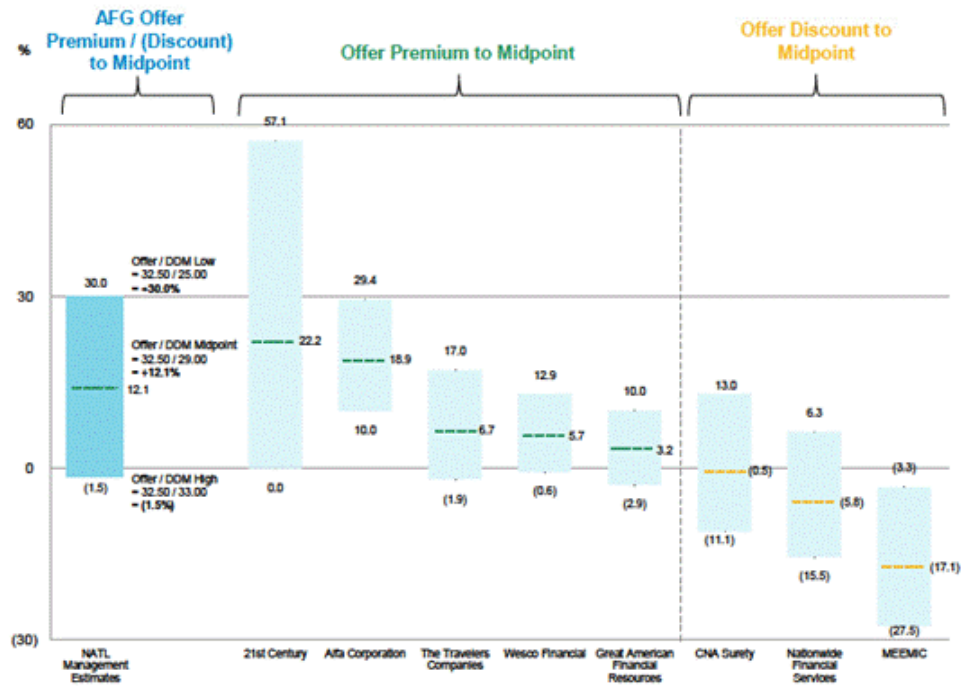
1. Peers include AFSI, EMCI, NGHC, OB, RLI, SIGI, STFC, UFCS, ORI, DGICA, BWNB

**D** Select Precedent DCF Valuation Ranges

Legend



Final Offer Premium / (Discount) to Select Points in the DCF Range



Source: Capital IQ, Company Filings, and NATL Management Estimates

VALUATION ANALYSIS

**D** Minority Squeeze-Out Premiums

Precedent Minority Squeeze-Out Premiums

	Final Offer Premium (%) <sup>(1)</sup>		
	1-Day Prior	3-Mo VWAP Prior	52-Week High
Insurance Mean	27.3	32.5	4.6
Other Industries Mean	30.0	29.8	0.9
Combined Mean <sup>(2)</sup>	28.6	31.2	2.7

Implied Per Share Valuation

NATL Metrics <sup>(3)</sup>	\$22.61	\$24.97	\$28.98
15% Premium	\$26.00	\$28.72	-
35% Premium	\$30.52	\$33.71	-

Selected Range

Source: S&P, Finandia, Capital IQ, and Company Filings

Note

- Final Offer Premiums calculated based on time periods starting from day prior to announcement of AFG's Initial Proposal (3/4/16)
- Average premiums are calculated from minority squeeze-out transactions in the insurance industry and other sectors respectively
- NATL Metrics represent stock prices (for each relevant time period) prior to the announcement of AFG's Initial Proposal on 3/7/16



VALUATION ANALYSIS

**D** Minority Squeeze-Out Insurance Transactions

Precedent Minority Squeeze-Out Transactions (Insurance) <sup>(1)</sup>

Date Announced	Target	Acquirer	Initial Stake (%)	Transaction Size (\$MM)	Consideration	Merger or Tender	Final Offer Premium <sup>(2)</sup>		
							1-Day Prior (%)	3-Mo. VWAP (%)	52-Week High (%)
11/1/2010	CNA Surety	CNA Financial	61.0	475	Cash	Tender	37.9	50.9	34.3
8/26/2010	Wesco Financial	Berkshire Hathaway	80.1	548	Cash/Stock	Merger	18.6	14.9	(7.5)
9/4/2009	Odyssey Re	Fairfax Financial	72.6	1,049	Cash	Tender	29.4	51.8	19.1
6/29/2009	First Advantage	First American	79.9	308	Stock	Tender	47.9	40.0	0.6
12/1/2008	Northbridge Financial	Fairfax Financial	63.1	554	Cash	Merger	21.0	36.5	2.9
3/5/2008	Nationwide Financial Services	Nationwide	66.3	2,471	Cash	Merger	28.3	22.2	(20.3)
7/17/2007	Alfa Corporation	Alfa Mutual	52.7	833	Cash	Merger	44.7	31.0	10.3
2/22/2007	Great American Financial Resources	American Financial Group	81.0	238	Cash	Merger	13.2	8.9	0.6
1/24/2007	21st Century	American International Group	60.7	813	Cash	Merger	34.6	30.9	22.0
3/15/2002	MEEMIC	ProAssurance	85.5	35	Cash	Tender	19.7	28.5	(9.3)
8/30/2000	AXA Financial	AXA Group	60.3	9,425	Cash/Stock	Merger	13.0	41.8	10.1
3/27/2000	Hartford Life	The Hartford	80.5	1,325	Cash	Tender	18.6	33.1	(8.2)
<b>Median</b>			<b>69.5</b>				<b>24.6</b>	<b>32.1</b>	<b>1.8</b>
<b>Mean</b>			<b>70.3</b>				<b>27.3</b>	<b>32.5</b>	<b>4.6</b>

Source: Capital IQ, Company Filings

Notes

1. Includes transactions dating back to 2000; includes domestic transactions only
2. Final Offer Premiums calculated based on time periods starting from day prior to initial offer announcement

VALUATION ANALYSIS

**D** Minority Squeeze-Out Transactions in Other Sectors

Precedent Minority Squeeze-Out Transactions (Other Sectors) <sup>(1)</sup>

Date Announced	Target	Acquirer	Initial Stake (%)	Transaction Size (\$MM)	Consideration	Merger or Tender	Final Offer Premium <sup>(2)</sup>		
							1-Day Prior (%)	3-Mo. VWAP (%)	52-Week High (%)
5/7/2013	Pioneer Southwest	Pioneer Natural Resources	52.4	694	Stock	Merger	57.1	69.3	48.8
11/28/2012	Danfoss Power	Danfoss A/S	75.6	690	Cash	Tender	48.6	48.9	4.3
3/21/2010	CNX Gas	CONSOL Energy	83.3	965	Cash	Tender	24.2	34.8	6.3
10/6/2006	NetRatings	Nielsen Holdings	60.0	328	Cash	Merger	44.0	54.3	35.5
3/3/2005	Siliconix	Vishay Intertechnology	84.9	200	Stock	Tender	30.7	18.0	(25.1)
8/20/2002	Pure Resources	Unocal	57.8	512	Stock	Tender	20.7	11.1	(10.3)
2/19/2002	Travelocity	Sabre Holdings	70.0	447	Cash	Tender	45.8	20.3	(27.8)
2/15/2001	Westfield America	Westfield America Trust	55.9	598	Cash	Tender	12.5	21.6	4.8
9/21/2000	Hertz	Ford Motor Co.	81.5	734	Cash	Merger	46.4	18.7	(31.4)
8/14/2000	BHC Communication	News Corporation	76.1	888	Cash/Stock	Merger	16.4	10.4	(2.4)
3/12/2000	Boise Cascade Office Products	Boise Cascade Corporation	81.1	205	Cash	Tender	8.6	10.0	4.8
3/6/2000	Thermo Instrument Systems	Thermo Fisher Scientific	88.6	301	Stock	Tender	4.6	40.0	3.3
<b>Median</b>			<b>75.9</b>				<b>27.4</b>	<b>20.9</b>	<b>3.8</b>
<b>Mean</b>			<b>72.3</b>				<b>30.0</b>	<b>29.8</b>	<b>0.9</b>

Source Capital IQ and Company Filings

Notes

1. Includes transactions dating back to 2000; Equity value ranges from \$200MM to \$1Bn; Includes domestic transactions only
2. Final Offer Premiums calculated based on time periods starting from day prior to initial offer announcement

VALUATION ANALYSIS

**E** Selected P&C Insurance M&A Transactions

Selected M&A Precedent Transactions

Ann. Date	Target	Acquiror	Equity Value (\$MM)	P/BV (x)	NTM P/E (x)	Premium to Unaffected Price (%)
<b>Recent P&amp;C Insurance M&amp;A Transactions <sup>(1)</sup></b>						
3/16/2016	Maxum	Hartford	170	1.50x	N/A	N/A
7/11/2015	Chubb	ACE	28,300	1.79x	16.9x	30.0
6/10/2015	HCC	Tokio Marine	7,500	1.90x	18.8x	38.0
5/3/2015	Ironshore	Fosun	2,300 <sup>(2)</sup>	1.25x	N/A	N/A
6/23/2014	Western World	Validus Holdings	452	1.61x <sup>(3)</sup>	N/A	N/A
<b>Median</b>				<b>1.61x</b>	<b>17.9x</b>	<b>34.0x</b>
<b>Mean</b>				<b>1.61x</b>	<b>17.9x</b>	<b>34.0x</b>
<b>Other Insurance M&amp;A Transactions of Similar Size and Business Focus</b>						
9/23/2013	Eastern Insurance	ProAssurance Corporation	205	1.46x	14.4x	16.2
8/19/2012	Guard Insurance	National Indemnity Co.	221	1.00x	N/A	N/A
5/2/2012	JEVCO Insurance	Intact Financial	530	1.30x	N/A	N/A
11/30/2010	Mercer	United Fire & Casualty	191	1.09x	13.7x <sup>(4)</sup>	N/A
2/18/2010	Vanliner	National Interstate	135	1.03x	N/A	N/A
2/18/2010	Zenith	Fairfax	1,455	1.35x	N/A	31.0
<b>Median</b>				<b>1.20x</b>	<b>14.1x</b>	<b>23.6x</b>
<b>Mean</b>				<b>1.20x</b>	<b>14.1x</b>	<b>23.6x</b>
<b>All Transactions</b>						
<b>Median</b>				<b>1.35x</b>	<b>15.7x</b>	<b>30.5</b>
<b>Mean</b>				<b>1.39x</b>	<b>16.0x</b>	<b>28.8</b>

Source: Capital IQ and Company Filings

Notes

1. Based on sampling of research reports and specific company guidance where available
2. Implied value for 100%
3. Reflects equity adjusted for ~\$300MM of excess capital including \$100MM of reserve redundancy
4. Based on median 2010 EPS Street estimates

Appendix A

## Supporting Information

SUPPORTING INFORMATION

## NATL Cost of Equity Calculation

### Peer Predicted Barra Beta

As of 7/22/2016

Company	Predicted Barra Beta	Mkt. Cap (\$Bn)
Old Republic	0.80	5.2
AmTrust	0.99	4.3
RLI	0.74	3.0
National General	1.02	2.3
Selective	0.85	2.3
United Fire	0.91	1.1
OneBeacon	0.75	1.3
State Auto	0.93	0.9
<b>Average</b>	<b>0.87</b>	<b>2.6</b>

### Summary Assumptions

Assumption	Notes	WACC Calculation		
		Base	Low	High
Market Risk Premium (MRP)	Morgan Stanley estimated market risk premium	6.0%	6.0%	6.0%
Risk Free Rate ( $R_f$ )	Spot rate 10-year U.S. Treasury as of 7/22/2016	1.6%	1.6%	1.6%
Predicted Beta	Average Beta of Selected Peers	0.87	0.87	0.87
Sensitivity Adjustment	+/- 1.0% from base		(1.0%)	1.0%
<b>Cost of Equity (<math>K_E</math>)</b>	<b>Calculated using the Capital Asset Pricing Model</b>	<b>6.8%</b>	<b>5.8%</b>	<b>7.8%</b>
Size Premium Adjustment	Delta of current market capitalization size premium of peers compared to NATL	1.0%	1.0%	1.0%
<b>Adjusted Cost of Equity (<math>K_E</math>)</b>		<b>7.8%</b>	<b>6.8%</b>	<b>8.8%</b>

Source: Capital IQ (7/22/16)

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