National Interstate CORP
Form DEFM14A
October 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under Rule 14a-12

NATIONAL INTERSTATE CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

Title of each class of securities to which transaction applies:

(1) Common shares, $0.01 par value per share

Aggregate number of securities to which transaction applies:

(2) 19,991,694 common shares; 180,000 common shares issuable pursuant to the exercise of outstanding options with exercise prices below $32.00; and 64,503 restricted common shares outstanding under National Interstate Corporation's Long Term Incentive Plan.

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(3) 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. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying the sum calculated in the preceding sentence by 0.0001007.

Proposed maximum aggregate value of transaction: $314,734,608

(4)

Total fee paid: $31,694

(5)

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

4059 Kinross Lakes Parkway
Richfield, Ohio 44286

Notice of Special Meeting of Shareholders

and Proxy Statement
To Be Held On November 10, 2016

Dear Shareholder:

You are cordially invited to attend a special meeting of the shareholders of National Interstate Corporation, an Ohio corporation (the "Company"), which we will hold at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time.

At the special meeting, holders of our common shares, par value $0.01 per share, will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated July 25, 2016, by and among Great American Insurance Company, an Ohio corporation ("Parent"), GAIC Alloy, Inc., an Ohio corporation and wholly-owned subsidiary of Parent ("Merger Sub," and together with Parent, "Purchasers"), and the Company, as amended by Amendment No. 1, dated as of August 15, 2016 (the "Merger Agreement"). Pursuant to the Merger Agreement, 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. Parent, which currently owns approximately 51% of the total number of outstanding shares of common stock of the Company, will own 100% of the equity interests of the Company following the transactions contemplated by the Merger Agreement.

Upon completion of the merger, each common share 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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63, 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 all shareholders of record as of such time (including Parent).

The proposed merger is a "going private transaction" under the rules of the Securities and Exchange Commission. If the merger is completed, the Company will become a privately held company, wholly-owned by Parent, an Ohio corporation and a direct wholly-owned subsidiary of American Financial Group, Inc.

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 (to whom we sometimes refer in this proxy statement as the "Affiliated Directors"), who are senior executives of Parent or American Financial Group, Inc., the parent corporation of Parent ("AFG") and who recused themselves from such determinations, and based in part on the unanimous recommendation of a special committee of independent directors, for purposes of serving on the special committee, that was established to evaluate and negotiate a potential transaction (as described more fully in the enclosed proxy statement), has unanimously (a) determined that the Merger Agreement and the 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 Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement 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 special committee made its determination after consultation with its independent legal and financial advisors and consideration of a number of factors, and the Board of Directors (with the Affiliated Directors recusing themselves) made its recommendation after consultation with its legal and financial advisors and consideration of a number of factors, including the recommendation of the special committee. ***The Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) recommends unanimously that you vote "FOR" the adoption of the Merger Agreement and the approval of the business combination and the related transactions contemplated thereby and "FOR" the adjournment of the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.***

Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of a majority of the votes cast at the special meeting, whether or not a quorum is present.

Pursuant to rules of the Securities and Exchange Commission, you also will be asked to vote at the special meeting on an advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger, as described in the proxy statement. ***The Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) also recommends unanimously that the shareholders of the Company vote "FOR" the advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the Merger.***

The enclosed proxy statement describes the Merger Agreement (a copy of which is attached to the enclosed proxy statement as Annex A-1), the merger and related agreements and provides specific information concerning the special meeting. In addition, you may obtain information about us from documents filed with the Securities and Exchange Commission. We urge you to read the entire proxy statement, including the annexes and the documents referred to or incorporated by reference in the proxy statement, carefully, as it sets forth the details of the Merger Agreement and other important information related to the merger.

Your vote is very important, regardless of the number of common shares you own. The merger cannot be completed without the approval of at least (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) a majority of the outstanding common shares owned by the Public Shareholders. Pursuant to our articles of incorporation, common shares are entitled to one vote per share. In addition, the Merger Agreement makes the approval by shareholders of the proposal to adopt the Merger Agreement a condition to the parties' obligations to consummate the merger. If you fail to vote on the proposal related to adoption of the Merger Agreement, the effect will be the same as a vote against the adoption of the Merger Agreement.

If you own common shares of record, you will find enclosed a proxy and voting instruction card or cards and an envelope in which to return the card(s). Whether or not you plan to attend this meeting, please sign, date and return your enclosed proxy and voting instruction card(s), or vote over the phone or Internet, as soon as possible so that your common shares can be voted at the meeting in accordance with your instructions. You can revoke your proxy before the special meeting and issue a new proxy as you deem appropriate. You will find the procedures to follow if you wish to revoke your proxy on page 61 of the enclosed proxy statement. Your vote is very important.

If you are a shareholder of record, submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

If you are a shareholder who holds your common shares in "street name" through a broker, bank or other nominee, please be aware that you will need to follow the directions provided by such broker, bank or nominee regarding how to instruct it to vote your common shares at the special meeting.

If you have any questions or need assistance voting your common shares, please call Innisfree M&A, Incorporated, the Company's proxy solicitor in connection with the special meeting, toll-free at (888) 750-5834.

Sincerely,

Anthony J. Mercurio
President and Chief Executive Officer

Richfield, Ohio
October 11, 2016

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated October 11, 2016 and is first being mailed to shareholders on or about October 13, 2016.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
OF NATIONAL INTERSTATE CORPORATION

Date: November 10, 2016

Time: 10:00 a.m. Eastern time

Place: 4059 Kinross Lakes Parkway
Richfield, Ohio 44286

Purpose:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated July 25, 2016, by and among Great American Insurance Company, an Ohio corporation ("Parent"), GAIC Alloy, Inc., an Ohio corporation and wholly-owned subsidiary of Parent ("Merger Sub," and together with Parent, the "Purchasers"), and the Company, as amended by Amendment No. 1, dated as of August 15, 2016 (as so amended, the "Merger Agreement");

2. To approve, on an advisory (non-binding) basis, specified compensation that may become payable to the named executive officers of the Company in connection with the merger;

3. To approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

4. To act upon other business that may properly come before the special meeting or any adjournment or postponement thereof.

Record Date: September 26, 2016 – Shareholders registered in our records or our agents' records on that date are entitled to receive notice of and to vote at the special meeting and at any adjournment thereof.

Mailing Date: The approximate mailing date of this proxy statement and accompanying proxy card is October 13, 2016.

All shareholders of record are invited to attend the special meeting in person. Your vote is important, regardless of the number of common shares you own. The merger cannot be completed without 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 the outstanding common shares owned by the shareholders other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement as the "Public

Shareholders", in favor of the adoption of the Merger Agreement. Pursuant to our articles of incorporation, common shares are entitled to one vote per share. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement, and the presence of these shares assures a quorum at the special meeting. A failure to vote your common shares on the merger or an abstention from voting on the merger will have the same effect as a vote "against" the merger for purposes of each required shareholder vote.

The advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger and the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement require the affirmative vote of a majority of the votes cast at the special meeting. As quorum is assured by the presence of those common shares of Parent, as holder of approximately 51.2% of the outstanding common shares, a failure to vote your common shares on these proposals will not have an effect on the outcome of either of these proposals. A failure to vote your common shares on the advisory proposal or an abstention from voting on the advisory proposal will have the same effect as a vote "against" the advisory proposal.

Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. You also may submit your proxy by using a toll-free telephone number or the Internet. We have provided instructions in the enclosed proxy statement and on the proxy and voting instruction card for using these convenient services.

If you sign, date and return your proxy and voting instruction card(s) without indicating how you wish to vote, your proxy will be voted in favor of the adoption of the Merger Agreement, in favor of the advisory (non-binding) vote on specified compensation that may become payable to the named executive officers of the Company in connection with the merger and in favor of the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement. If you fail to attend the special meeting or submit your proxy, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the adoption of the Merger Agreement.

You may revoke your proxy at any time before the vote at the special meeting by following the procedures outlined in the enclosed proxy statement. If you are a shareholder of record, attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person.

If you are a shareholder who holds your common shares in “street name” through a broker, bank or other nominee, please be aware that you will need to follow the directions provided by such broker, bank or nominee regarding how to instruct it to vote your common shares at the special meeting.

By order of the Board of Directors,

NATIONAL INTERSTATE CORPORATION

Dated: October 11, 2016

TABLE OF CONTENTS

NATIONAL INTERSTATE CORPORATION
SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 10, 2016

PROXY STATEMENT

This proxy statement contains information related to a special meeting of shareholders of National Interstate Corporation ("National Interstate," the "Company," "we," "us" or "our"), which will be held at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time, and any adjournments or postponements thereof. We are furnishing this proxy statement to shareholders of the Company as part of the solicitation of proxies by the Company's board of directors (the "Board of Directors" or the "Board") for use at the special meeting. This proxy statement is dated October 11, 2016 and is first being mailed to shareholders on or about October 13, 2016.

SUMMARY TERM SHEET

This Summary Term Sheet discusses certain material information contained in this proxy statement, including with respect to the Agreement and Plan of Merger, dated July 25, 2016, among Parent, Merger Sub and the Company, as amended by Amendment No. 1, dated as of August 15, 2016, to which we sometimes refer in this proxy statement as the "Merger Agreement." We encourage you to read carefully this entire proxy statement, including its annexes and the documents referred to or incorporated by reference in this proxy statement, as this Summary Term Sheet may not contain all of the information that may be important to you. Each item in this Summary Term Sheet includes page references directing you to a more complete description of that item in this proxy statement.

The proposed merger is a "going private transaction" under the rules of the U.S. Securities and Exchange Commission (the "SEC"). If the merger is completed, the Company will become a privately held company, wholly-owned by Great American Insurance Company, an Ohio corporation ("Parent" or "GAIC"). Parent is a direct wholly-owned subsidiary of American Financial Group, Inc., an Ohio corporation ("AFG"). AFG is currently publicly listed and traded on the New York Stock Exchange under the symbol "AFG."

The Parties to the Merger Agreement

National Interstate Corporation

National Interstate Corporation is an Ohio corporation. Founded in 1989, National Interstate is the holding company for a specialty property-casualty insurance group which differentiates itself by offering products and services designed to meet the unique needs of niche markets. Products include insurance for passenger, truck, and moving and storage transportation companies, alternative risk transfer, or captive programs for commercial risks, specialty personal lines products focused primarily on recreational vehicle owners, and transportation and general commercial insurance in Hawaii and Alaska. The Company's insurance subsidiaries, including the four insurers, National Interstate Insurance Company of Hawaii, Inc., National Interstate Insurance Company, Vanliner Insurance Company and Triumphe Casualty Company, are rated "A" (Excellent) by A.M. Best Company. Headquartered in Richfield, Ohio, National Interstate is an independently operated subsidiary of Great American Insurance Company, a property-casualty subsidiary of AFG. See "*Important Information Regarding National Interstate—Company Background*" beginning on page 76.

Additional information about National Interstate is contained in our public filings, certain of which are incorporated by reference into this proxy statement. See "*Where You Can Find Additional Information*" beginning on page 92.

Great American Insurance Company

Great American Insurance Company is an Ohio corporation and is a wholly-owned subsidiary of AFG. AFG is an insurance holding company based in Cincinnati, Ohio with assets of approximately $50 billion. Founded in 1872, Great American Insurance Company is the flagship company of Great American Insurance Group, through which AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of fixed and fixed-indexed annuities in the retail, financial institutions and education markets. See "*The Parties to the Merger—Great American Insurance Company*" beginning on page 58.

GAIC Alloy, Inc.

GAIC Alloy, Inc. ("Merger Sub") is an Ohio corporation. Merger Sub is a wholly-owned subsidiary of Parent and was formed solely for the purpose of engaging in the merger and other related transactions. Merger Sub has not engaged in any business other than in connection with the merger and other related transactions. See "*The Parties to the Merger—GAIC Alloy, Inc.*" beginning on page 58.

The Merger Proposal

You are being asked to consider and vote upon a proposal to adopt the Merger Agreement.

1

The Merger Agreement provides that, at the closing of the merger, 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 and a wholly-owned subsidiary of Parent. Upon completion of the merger, each outstanding common share of the Company, par value $0.01 per share (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) will be converted into the right to receive $32.00 per common share, 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 all shareholders of record as of such time (including Parent). 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 Special Meeting (Page 59)

The special meeting will be held at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time.

Record Date and Quorum (Page 59)

The holders of record of the common shares as of the close of business on September 26, 2016 (the record date for determination of shareholders entitled to notice of and to vote at the special meeting) are entitled to receive notice of and to vote at the special meeting.

The presence at the special meeting, in person or by proxy, of the holders of common shares entitled to exercise at least a majority of the outstanding voting power of the Company on the record date will constitute a quorum, permitting the Company to conduct its business at the special meeting. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting.

Required Shareholder Votes for the Merger (Page 59)

The merger cannot be completed without 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 the outstanding common shares owned by the shareholders other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement as the "Public Shareholders". Pursuant to our articles of incorporation, common shares are entitled to one vote per share. The approval of the proposal to adopt the Merger Agreement is a condition to the parties' obligations to consummate the merger. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting.

A failure to vote common shares or an abstention from voting will have the same effect as a vote against adoption of the Merger Agreement.

As of the record date, there were 19,991,694 common shares outstanding. Parent has voting power with respect to 10,200,000 common shares, representing approximately 51.2% of the outstanding voting power as of the record date. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement.

As a condition to Parent's willingness to permit the Company to pay a special dividend of $0.50 per share to all shareholders in connection with the merger, Alan R. Spachman, along with The Hudson Investment Trust, Alan R. Spachman Revocable Trust Under Deed Dated 5/23/2007 and Florence McDermott Spachman Revocable Trust, entered into a Voting Agreement with Parent and Company, pursuant to which each shareholder party to the Voting Agreement (other than Parent) has agreed from July 25, 2016 through the termination of the Voting Agreement to, among other things, vote all common shares held by such shareholder (an aggregate of 1,937,230 common shares as of such date), whether owned on July 25, 2016 or acquired thereafter, in favor of the proposal to adopt the Merger Agreement. See "*Voting Agreement Involving Common Shares*" beginning on page 74.

Except in their capacities as members of the Board or as members of the special committee that was established to evaluate and negotiate a potential transaction and consider other alternatives available to the Company (as described more fully under "*Special Factors—Background of the Merger*" on page 17), and except as contemplated by the Voting Agreement, no executive officer or director of the Company has made any recommendation either in support of or in opposition to the merger or the Merger Agreement. Joseph E. (Jeff) Consolino, Ronald J. Brichler, Gary J. Gruber and Donald D. Larson (to whom we sometimes refer in this proxy statement as the "Affiliated Directors"), who are senior executives of Parent or American Financial Group, Inc., the parent corporation

of Parent ("AFG"), recused themselves from the determination of the Board to approve and recommend the Merger Agreement and the merger.

Conditions to the Merger (Page 71)

The obligations of the Company, Parent and Merger Sub to effect the merger are subject to the fulfillment or waiver, at or before the effective time, of the following conditions:

- that no court or other governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the payment of the $0.50 per share special dividend;

- that the Merger Agreement has been adopted by the requisite majorities of all shareholders and the Public Shareholders; and

- that the Company has irrevocably transferred aggregate cash sufficient to pay the $0.50 per share special dividend to the paying agent for the benefit of holders of common shares as of immediately prior to the effective time.

The obligation of the Company to effect the merger is subject to the satisfaction or waiver of each of the following conditions at or prior to the date of the closing of the merger:

- that the representations and warranties of Purchasers set forth in the Merger Agreement are true and correct as of the date of the Merger Agreement and as of the closing date of the merger as though made on and as of the closing date (disregarding all qualifications and exceptions regarding materiality or any similar standard or qualification), except where the failure of any such representations and warranties to be true and correct would not prevent the consummation of the merger and except that representations and warranties that are made only as of a specified date need be true and correct only as of that specified date; and except that the representations and warranties of each of the Parent and Merger Sub pertaining to the requisite corporate power and authority are true and correct in all material respects;

- that each Purchaser has performed and complied in all material respects with all its agreements and covenants required by the Merger Agreement to be performed or complied with by it at or prior to the closing date of the merger; and

- that Parent has delivered to the Company a certificate of a senior executive officer of each Purchaser, dated as of the closing date of the merger, certifying that the conditions set forth in the two items described above have been satisfied.

The obligation of Purchasers to effect the merger is subject to the satisfaction or waiver of each of the following conditions at or prior to the closing date of the merger:

- that the representations and warranties of the Company set forth in the Merger Agreement are true and correct at and as of the date of the Merger Agreement and at and as of the closing date of the merger as though made as of the closing date (disregarding all qualifications and exceptions regarding materiality or a "material adverse effect" or any similar standard or qualification), except where the failure of any such representations and warranties to be true and correct would not, individually or in the aggregate, have or be reasonably expected to have a "material adverse effect", and except that representations and warranties that are made only as of a specified date need be true and correct only as of that specified date; however, (i) the representations and warranties pertaining to the Company's capitalization and the absence of a "material adverse effect" on the Company since December 31, 2015 must be true and correct in all respects (other than in *de minimis* and immaterial respects in the case of the representations regarding capitalization and permitted exercises of existing outstanding equity awards); and (ii) the representations and warranties pertaining to the requisite corporate power and authority of the Company, the Board's recommendation of the adoption of the Merger Agreement to shareholders and the special committee's receipt of an opinion from its financial advisor, brokers and finders and anti-takeover statutes or regulations must be true and correct in all material respects;

- that the Company has performed and complied in all material respects with all of its agreements and covenants required by the Merger Agreement to be performed or complied with by it at or prior to the closing date of the merger;

- that the Company has delivered to Parent and Merger Sub a certificate of a senior executive officer of the Company, dated as of the closing date of the merger, certifying that the conditions set forth in the two items described immediately above have been fulfilled;

- that since the date of the Merger Agreement, there has not been any "material adverse effect"; and

- that Parent has received approval from the Ohio Department of Insurance under Section 3925.08(D)(2) of the Ohio Revised Code for Parent's investment in the Company resulting from Parent's direct or indirect acquisition of one hundred percent (100%) of the outstanding common shares of the Company.

When the Merger Becomes Effective (Page 62)

We anticipate completing the merger in the fourth quarter of 2016, subject to adoption of the Merger Agreement by the Company's shareholders as specified herein and the satisfaction or waiver of the other conditions to closing.

Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger (Page 28)

Based in part on the unanimous recommendation of the special committee, the Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) recommends unanimously that the shareholders of the Company vote "FOR" the adoption of the Merger Agreement and the approval of the business combination and the related transactions contemplated thereby. For a description of the reasons considered by the special committee and the Board for their recommendations, see "*Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger*" beginning on page 28.

As a result of the consummation of the merger, each of the common shares (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) will be converted into the right to receive the $32.00 per share cash merger consideration, without interest and less any required withholding taxes. In addition, all shareholders of record as of immediately prior to the effective time of the merger (including Parent) will have the right to receive the $0.50 per share special dividend.

In evaluating the fairness and advisability of the Merger Agreement, the special committee considered information with respect to the Company's financial condition, results of operations, businesses, competitive position and business strategy, on both a historical and prospective basis, as well as current industry, economic and market conditions and trends. The special committee considered the following factors, each of which the special committee believes supports its determination as to fairness:

- the current and historical market prices of the common shares, including the fact that the per share merger consideration of $32.00 in cash, and $0.50 in cash in the form of a special dividend to the shareholders payable in connection with the merger (the "Merger Consideration") represents (i) a premium of approximately 44% over the closing price of the common shares of $22.61 on March 4, 2016 (the last trading day prior to the public announcement of the initial AFG proposal), 30% over the volume weighted average price (VWAP) of the common shares for the three-month period prior to the public announcement of the initial AFG proposal, and 12% over the highest per share trading price of the common shares in the 52-week period prior to the public announcement of the initial AFG proposal and (ii) a book value per share multiple equal to 1.76x;

- that the special committee was able to negotiate an effective increase in the Merger Consideration of $2.00 from the per share consideration offered in the initial AFG proposal plus the payment of $0.50 cash per share in the form of a special dividend, an overall increase of greater than eight percent (8%);

- the special committee's consideration of the risk and potential likelihood of achieving greater value for the Public Shareholders by pursuing strategic alternatives to the merger, including continuing as an independent public company and pursuing the Company's strategic plan, relative to the benefits of the merger;

- the special committee's consideration that the merger was reasonably likely to deliver greater value to the Public Shareholders than other strategic alternatives considered, including continuing as an independent public company and pursuing the Company's strategic plan, which could include the implementation of capital management strategies and/or the divestiture or acquisition of certain businesses, including a potential acquisition of another company by the Company that the Company was considering (the "Potential Acquisition"), or pursuing a potential sale of the Company to a third party financial or strategic buyer (not affiliated with AFG), which strategic alternatives were ultimately not pursued for the reasons discussed in the section entitled "*Special Factors—Background of the Merger*" on page 17;

- the special committee's consideration that the timing of the merger is in the best interest of the Public Shareholders given the substantial risk that the present value achievable for shareholders (i) in a potential alternative transaction effected at a later date or (ii) on a standalone basis, in each case assuming that the Company performs in line with the Company's financial plan and the projections described in the section entitled "*Special Factors—Projected Financial Information*" on page 46, would not exceed the present value of the Merger Consideration;

- the belief by the special committee that the Merger Consideration was the most favorable price that could be obtained from AFG and that further negotiations would run the risk of causing AFG to abandon the transaction altogether, in which event the Public Shareholders would lose the opportunity to accept the premium being offered;

- communications directed to representatives of the special committee from certain significant shareholders, indicating that they would be supportive of a transaction at a lower price than the Merger Consideration;

- the fact that the Public Shareholders will receive cash for their shares and will therefore have immediate liquidity and receive certain value for their shares of $32.00 per share and the payment of the $0.50 per share special dividend;

- the oral opinion delivered by Morgan Stanley & Co. LLC ("Morgan Stanley") to the special committee, which was subsequently confirmed by a written opinion dated July 24, 2016, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the Merger Consideration to be received by the holders of the Company's common shares (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) pursuant to the Merger Agreement was fair from a financial point of view to such holders of common shares, as more fully described in the section entitled "*Special Factors—Opinion of Morgan Stanley & Co. LLC*" beginning on page 33;

- the terms of the Merger Agreement, including:

the requirement that the Merger Agreement be approved by a majority of the outstanding common shares other than shares held by AFG and its affiliates;

the termination fee and expense reimbursement available to AFG under certain circumstances, including as described above, in connection with the termination of the Merger Agreement, which the special committee concluded were reasonable in the context of termination fees and expense reimbursements payable in comparable transactions and in light of the overall terms of the Merger Agreement;

the limited representations and warranties given by the Company; and

the other terms and conditions of the Merger Agreement, as discussed in the section entitled "*The Merger Agreement*" beginning on page 62, which the special committee, after consulting with Willkie Farr & Gallagher LLP ("Willkie Farr"), considered to be reasonable and consistent with relevant precedent transactions;

- the likelihood that the merger would be completed, and that it would be completed in a reasonably prompt time frame, based on the limited conditions precedent to each party's obligation to effect the merger;

- the absence of any material risk that any governmental authority would prevent or materially delay the merger under any insurance law;

- the fact that the termination date under the Merger Agreement allows for sufficient time to complete the merger;

- the fact that none of the obligations of any of the parties to complete the merger are conditioned upon receipt of financing; and

- the rights of Public Shareholders to elect to dissent from the merger, vote their shares against the merger and demand payment of the fair cash value of their common shares.

5

The special committee also considered a number of factors discussed below, relating to the procedural safeguards that it believes were and are present to ensure the fairness of the merger. The special committee believes these factors support its determinations and recommendations and provide assurance of the procedural fairness of the merger to the Public Shareholders:

- the Merger Agreement must be approved by 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 that are not held by AFG or its affiliates, as discussed in the section entitled "*The Special Meeting—Required Vote*" on page 59;

- the authority granted to the special committee by the Board to negotiate the terms of the definitive agreement with respect to the initial AFG proposal, or to determine not to pursue any agreement with AFG;

- the fact that the special committee consists solely of independent, for purposes of serving on the special committee, and disinterested directors without any member of the special committee (i) being an employee of the Company or any of its subsidiaries, (ii) being affiliated with AFG or its affiliates, or (iii) having any financial interest in the merger that is different from that of the Public Shareholders, other than as discussed in the section entitled "*Special Factors—Interests of the Company's Directors and Executive Officers in the Merger*" on page 48;

- the fact that the special committee (i) held numerous meetings and met regularly to discuss and evaluate the various proposals from AFG and (ii) was advised by independent financial and legal advisors and that each member of the special committee was actively engaged in the negotiation process on a regular basis;

- the fact that while, pursuant to the Voting Agreement, the parties to the Voting Agreement have committed to vote in favor of adopting the Merger Agreement and approving the merger and against any competing action, proposal, transaction or agreement or any action, proposal, transaction or agreement that could result in a breach of the Voting Agreement, materially interfere or delay the merger or change the voting rights of any class of shares of the Company, such commitments terminate automatically upon termination of the Merger Agreement or a change in the recommendation of the special committee or the Board with respect to the Merger Agreement;

- the fact that the special committee retained and received the advice of (i) Morgan Stanley as its independent financial advisor and (ii) Willkie Farr as its legal advisor;

- the fact that the Merger Consideration was the product of extensive negotiations between the special committee and its advisors, on the one hand, and AFG and its affiliates and their advisors, on the other hand;

- the oral opinion delivered by Morgan Stanley to the special committee, which was subsequently confirmed by a written opinion dated July 24, 2016, that, as of such date and based upon and subject to the assumptions made,

procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the Merger Consideration to be received by the holders of the Company's common shares (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) pursuant to the Merger Agreement was fair from a financial point of view to such holders of common shares, as more fully described in the section entitled "*Special Factors—Opinion of Morgan Stanley & Co. LLC*" beginning on page 33; and

- the recognition by the special committee that it had no obligation to recommend the approval of the merger or any other transaction.

In light of the procedural safeguards described above, the special committee did not consider it necessary to retain an unaffiliated representative to act solely on behalf of Public Shareholders for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the Merger Agreement and the merger.

In the course of reaching its determinations and making its recommendations, the special committee also considered the following countervailing factors concerning the Merger Agreement and the merger:

- the restrictions on the Company's operations prior to completion of the merger, which may delay or prevent the Company from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of the Company pending the completion of the merger;

- the possibility that the termination fee and expense reimbursement, payable by the Company upon the termination of the Merger Agreement under certain circumstances, may discourage other potential acquirers from making an acquisition proposal for the Company;

- the fact that the Public Shareholders will have no ongoing equity participation in the Company following the merger, and that such shareholders will cease to participate in the Company's future earnings or growth, if any, and will not participate in any potential future sale of the Company to a third party;

- the risk that, while the merger is expected to be completed, there can be no guarantee that all conditions to the parties' obligations to complete the merger will be satisfied, and as a result, it is possible that the merger may not be completed even if approved by the holders of a majority of the outstanding common shares held by Public Shareholders; and

- the risks and costs to the Company of the pendency of the merger or if the merger does not close, including the potential effect of the diversion of management and employee attention from the Company's business, the substantial expenses which the Company will have incurred and the potential adverse effect on the relationship of the Company and its subsidiaries with their respective employees, agents, customers and other business contacts.

The Board of Directors, in making its determination as to the fairness and advisability of the Merger Agreement and the merger, considered a number of factors, including the following:

- the special committee's analysis (as to both substantive and procedural aspects of the transaction), conclusions and unanimous determination, which the Board adopted, that the Merger Agreement and the business combination and related transactions contemplated thereby are fair and in the best interest of the Company and the Public Shareholders, and the special committee's unanimous recommendation that the Board approve the Merger Agreement and the business combination and related transactions contemplated thereby and recommend that the shareholders of the Company approve the adoption of the Merger Agreement and the business combination and related transactions contemplated thereby;

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the procedural fairness of the transaction, including that the transaction was negotiated over a period of more than four months by a special committee consisting of five directors who are not affiliated with Purchasers or AFG and are not employees of the Company or any of its subsidiaries, that the members of the special committee do not have an interest in the merger different from, or in addition to, that of the Company's shareholders who are not affiliated with Purchasers or AFG other than their interests described under "*Special Factors—Interests of the Company's Directors and Executive Officers in the Merger*" beginning on page 48, and that the special committee was advised by its own legal and financial advisors; and

- the written opinion of Morgan Stanley, dated July 24, 2016, to the special committee that as of that date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the Merger Consideration to be received by holders of common shares (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) pursuant to the Merger Agreement was fair from a financial point of view to such holders of common shares, as described under "*Special Factors—Opinion of Morgan Stanley & Co. LLC*" beginning on page 33.

For a more complete discussion of the factors considered by our Board of Directors in reaching its decision to approve and adopt the Merger Agreement and the merger, see "Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger" on page 28.

Opinion of Morgan Stanley (Page 33 and Annex A-3)

Morgan Stanley was retained by the special committee to act as its financial advisor in connection with the merger. On July 24, 2016, Morgan Stanley rendered its oral opinion, which was subsequently confirmed in writing, to the special committee to the effect that, as of that date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the Merger Consideration to be received by holders of common shares (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, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) pursuant to the Merger Agreement was fair from a financial point of view to such holders of common shares.

The full text of the written opinion of Morgan Stanley, dated July 24, 2016, is attached as Annex A-3 and is incorporated by reference into this proxy statement in its entirety. The opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion. The summary of the opinion of Morgan Stanley in this proxy statement is qualified in its entirety by reference to the full text of the opinion. You are encouraged to, and should, read Morgan Stanley's opinion and the section below captioned "*Special Factors—Opinion of Morgan Stanley & Co. LLC*" on page 33 summarizing Morgan Stanley's opinion carefully and in their entirety. Morgan Stanley's opinion was directed to the special committee, in its capacity as such, and addresses only the fairness from a financial point of view of the consideration to be received by holders of common shares (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) in connection with the merger, as of the date of the opinion, and does not address any other aspects or implications of the merger. Morgan Stanley's opinion was not intended to, and does not, constitute advice or a recommendation to any shareholder as to how to vote at any shareholders' meeting to be held in connection with the merger or whether to take any other action with respect to the merger.

Purposes and Reasons of Parent and Merger Sub for the Merger (Page 41)

Purchasers decided to pursue the merger because the Company's operations represent an important strategic component of the overall operations of Parent and acquiring the remaining shares of the Company would simplify Parent's operations and ownership structure and facilitate ongoing investment in the Company. Parent has no intention to reduce or sell its interest in the Company. For a full description of the purposes and reasons of Parent and Merger Sub, see "*Special Factors—Purposes and Reasons of Parent and Merger Sub for the Merger*" beginning on page 41.

Certain Effects of the Merger (Page 45)

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 and a wholly-owned subsidiary of Parent. Upon completion of the merger, each common share 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, as described more fully under "*The Merger Agreement— Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) will be 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 all shareholders of record as of such time (including Parent). 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. For a full description of certain effects of the merger, see "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63.

Treatment of Company Equity Awards (Page 63)

At the effective time of the merger, each outstanding option to purchase common shares granted under the Company's Long Term Incentive Plan, whether or not vested, will be cancelled in exchange for the right to receive a lump sum cash payment equal to the product of (a) the excess, if any, of (i) the sum of the $32.00 per share merger consideration and $0.50 over (ii) the per share exercise price for such option and (b) the total number of common shares underlying such option, less applicable taxes required to be withheld.

In addition, at the effective time of the merger, each outstanding award of restricted common shares granted under the Company's Long Term Incentive Plan will be cancelled in exchange for the right to receive a lump sum cash payment equal to the product of (i) the $32.00 per share merger consideration and (ii) the number of common shares subject to such restricted share award, less applicable taxes required to be withheld. Holders of restricted share awards will also have the right to receive the $0.50 per share special dividend in respect of common shares underlying such awards.

All such payments will be made by the surviving corporation, without interest, as promptly as reasonably practicable following the effective time of the merger, and in no event later than 10 business days thereafter.

Interests of the Company's Directors and Executive Officers in the Merger (Page 48)

In considering the recommendations of the special committee and of the Board of Directors with respect to the Merger Agreement, you should be aware that, aside from their interests as shareholders of the Company, the Company's directors and executive officers have interests in the merger that are different from, or in addition to, those of other shareholders of the Company generally. In particular, the Affiliated Directors currently serve on the board of directors of or are otherwise employed by the Parent or its parent, AFG, which, together, will control the Company following the merger. Interests of executive officers and directors (other than the Affiliated Directors) that may be different from or in addition to the interests of the Company's shareholders include the fact that:

- certain of the Company's executive officers have entered into employment agreements that provide for certain severance protections upon a qualifying termination;
- the Company's executive officers as of the effective time of the merger will become the initial executive officers of the surviving corporation; and
- the Company's directors and executive officers are entitled to continued indemnification and insurance coverage under the Merger Agreement, and the Company's directors and certain executive officers are entitled to continued indemnification and insurance coverage under indemnification agreements.

These interests are discussed in more detail in the section entitled "*Special Factors—Interests of the Company's Directors and Executive Officers in the Merger*" beginning on page 48. The special committee and the Board of Directors were aware of the different or additional interests described herein and considered those interests along with other matters in recommending and/or approving, as applicable, the Merger Agreement and the transactions contemplated thereby, including the merger.

Voting Agreement (Page 74)

As a condition to Parent's willingness to permit the Company to pay a special dividend of $0.50 per share to all shareholders in connection with the merger, Alan R. Spachman, along with The Hudson Investment Trust, Alan R. Spachman Revocable Trust Under Deed Dated 5/23/2007 and Florence McDermott Spachman Revocable Trust, entered into a Voting Agreement with Parent and Company. The shareholders party to the Voting Agreement (other than Parent) beneficially owned in the aggregate 1,937,230 common shares as of July 25, 2016, which, based upon the Company's representation in the Merger Agreement that, as of such date, there were 19,991,694 outstanding common shares, represented approximately 9.7% of the outstanding common shares. The terms and conditions of the Voting Agreement will apply to any common shares acquired by any such shareholder during the "voting period" from July 25,

2016 through the termination of the Voting Agreement.

Pursuant to the terms of the Voting Agreement, each shareholder party thereto (other than Parent) has agreed, during the voting period, to vote all common shares held by such shareholder, whether owned on July 25, 2016 or acquired thereafter: (i) in favor of any proposal to approve the merger and the Merger Agreement, provided that the parties to the Merger Agreement do not agree to an "excluded amendment" as described in clause (ii) below; (ii) at the request of Parent, in favor of adoption of any proposal (other than as set forth in clause (i) above) in respect of which the special committee has (A) determined is reasonably necessary to facilitate the acquisition of the Company by Parent in accordance with the terms of the Merger Agreement, (B) disclosed the determination described in clause (A) in the Company's proxy materials or other written materials disseminated to the shareholders of the Company and (C) recommended to be adopted by all of the shareholders of the Company; provided, however, that a shareholder is not required to vote in favor of any waiver, modification or amendment to the terms of the Merger Agreement that would (x) reduce the merger consideration payable pursuant to the Merger Agreement as in effect on July 25, 2016, (y) reduce the amount of the special dividend or (z) impose any materially adverse obligation on such shareholder (defined in the Voting Agreement as an "excluded amendment"); and (iii) against (A) any action, proposal, transaction or agreement which could reasonably be expected to result in a breach of any covenant, representation or warranty or any other obligation or agreement of such shareholder under the Voting Agreement and (B) any action, proposal, transaction or agreement that could reasonably be expected to materially impede, interfere with, delay, discourage, adversely affect or inhibit the timely consummation of the merger or the fulfillment of Parent's, the Company's or Merger Sub's conditions under the Merger Agreement or change in any manner the voting rights of any class of shares of the Company (including any amendments to the Company's articles of incorporation or code of regulations). For more information, see "*Voting Agreement Involving Common Shares*" beginning on page 74.

Material U.S. Federal Income Tax Consequences of the Merger (Page 54)

If you are a U.S. holder, the receipt of cash in exchange for common shares pursuant to the merger will generally be a taxable transaction for U.S. federal income tax purposes. You are encouraged to consult your own tax advisors regarding the particular tax consequences to you of the exchange of common shares for cash pursuant to the merger in light of your particular circumstances (including the application and effect of any state, local or foreign income and other tax laws).

Anticipated Accounting Treatment of the Merger (Page 51)

The Merger will be accounted for in accordance with U.S. generally accepted accounting principles. Because the Company was a 51%-owned consolidated subsidiary of Parent prior to the Merger, AFG will account for the Merger as an equity transaction for financial accounting purposes, whereby the excess of the consideration paid over the carrying value of the non-controlling interest acquired will be recorded as a direct reduction in AFG's shareholders' equity in accordance with FASB Accounting Standards Codification Topic 810, Consolidation.

Dissenters' Rights (Page 51 and Annex B)

If the merger is completed, a holder of common shares who does not vote in favor of adopting the Merger Agreement may deliver to the Company before the vote on the proposal is taken at the special meeting a written demand for payment of the fair cash value of his or her shares as to which the dissenting shareholder seeks relief under Section 1701.85 of the Ohio Revised Code. The dissenting shareholder is entitled to relief only if the shareholder complies with all of the procedures outlined in Section 1701.85 of the Ohio Revised Code. The fair cash value of the common shares determined by the court could be more, the same as, or less than the $32.00 per common share that shareholders are entitled to receive pursuant to the Merger Agreement.

SECTION 1701.85 OF THE OHIO REVISED CODE GOVERNING THE RIGHTS OF DISSENTING SHAREHOLDERS IS REPRINTED IN ITS ENTIRETY AS ANNEX B TO THIS PROXY STATEMENT. ANY NATIONAL INTERSTATE SHAREHOLDER WHO WISHES TO EXERCISE DISSENTING SHAREHOLDERS' RIGHTS OR WHO WISHES TO PRESERVE HIS, HER, OR ITS RIGHT TO DO SO SHOULD REVIEW ANNEX B CAREFULLY AND SHOULD CONSULT HIS, HER, OR ITS LEGAL ADVISOR, BECAUSE FAILURE TO TIMELY COMPLY WITH THE PROCEDURES SET FORTH THEREIN WILL RESULT IN THE LOSS OF THOSE RIGHTS.

No Solicitation; No Adverse Company Recommendation (Page 51)

Pursuant to the Merger Agreement, except as described below, the Company will not, nor will it authorize or permit any of its subsidiaries or any of its or their respective officers or directors (in their capacities as such), employees, investment bankers, attorneys, accountants, consultants or other advisors or representatives (such officers or directors (in their capacities as such), employees, investment bankers, attorneys, accountants, consultants and other advisors or representatives, which we refer to collectively in this proxy statement from time to time as "*representatives*") to directly or indirectly:

- initiate, solicit, knowingly encourage, induce or knowingly facilitate or assist any inquiries or the making, submission, announcement or commencement of any proposal or offer that constitutes, or could reasonably be expected to lead to, any "acquisition proposal," as defined in the section entitled "*The Merger Agreement—Other Covenants and Agreements—No Solicitation; No Adverse Company Recommendation*" beginning on page 67;

- execute or enter into any contract, letter of intent or agreement in principle relating to, or that could reasonably be expected to lead to, any acquisition proposal (other than a confidentiality agreement between the Company and a person making an acquisition proposal entered into in accordance with the Merger Agreement and on terms and conditions customary with respect to transactions of the nature contemplated by such acquisition proposal (the "acceptable confidentiality agreement"));

- enter into any contract or agreement in principle requiring the Company to abandon, terminate or fail to consummate the merger or any other transactions contemplated by the Merger Agreement or breach its obligations hereunder, or propose or agree to do any of the foregoing;

- fail to enforce, or grant any waiver under, any standstill or similar agreement with any person;

- engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide or furnish any non-public information or data relating to the Company or any of its subsidiaries or afford access to the business, properties, assets, books and records or personnel of the Company or any of its subsidiaries to any person (other than Parent, Merger Sub, or any of their respective affiliates or representatives) with the intent to initiate, solicit, encourage, induce or assist with the making, submission, announcement or commencement of any proposal or offer that constitutes, or could reasonably be expected to lead to, any acquisition proposal; or

- otherwise knowingly facilitate any effort or attempt to make any acquisition proposal.

If, prior to the time shareholders approve the proposal to adopt the Merger Agreement, the Company receives an unsolicited *bona fide* written acquisition proposal, (ii) the special committee determines by resolution in good faith, after consultation with its outside financial advisors and outside legal counsel, that the acquisition proposal constitutes or would reasonably be expected to lead to a "superior proposal," as defined in the section entitled "*The Merger Agreement—Other Covenants and Agreements—No Solicitation; No Adverse Company Recommendation*" beginning on page 67 and (iii) after consultation with its outside financial advisors and outside legal counsel, the special committee determines that failure to take the actions below with respect to such acquisition proposal would be inconsistent with its fiduciary duties under Ohio law, then the Company may in response to such acquisition proposal:

- furnish access and non-public information with respect to the Company and its subsidiaries to the person who has made such acquisition proposal pursuant to an acceptable confidentiality agreement meeting certain requirements specified by the Merger Agreement (as long as all such material information provided to such person has previously been provided to Parent or is provided to Parent prior to or concurrently with the time it is provided to such person); and

- participate in discussions and negotiations with such person regarding such acquisition proposal.

The Company must promptly (and, in any event, within 24 hours) advise Parent in writing by email if (i) any inquiries, proposals or offers with respect to an acquisition proposal are received by, (ii) any information is requested from, or (iii) any discussions or negotiations are sought to be initiated or continued with, it or any of its representatives. The Company is required to keep Parent informed, on a current basis, of the status and terms of any such inquiries, proposals or offers (including any determination made, or actions taken, and any material amendments to the terms of any proposals or offers) and the status of any such discussions or negotiations, including any changes in the Company's intentions as previously notified.

Except as described below, neither the Board nor any committee thereof (including the special committee) is permitted to:

- withdraw, suspend, modify or amend its recommendation that the Company's shareholders adopt the Merger Agreement in any manner adverse to Parent or fail to include such recommendation in this proxy statement or any supplement hereto;

- approve, endorse or recommend an acquisition proposal; or

- at any time following receipt of an acquisition proposal, fail to reaffirm its approval or recommendation that the Company's shareholders approve the adoption of the Merger Agreement and the business combination and related transactions contemplated thereby as promptly as practicable (but in any event within four business days after

receipt of any reasonable written request to do so from Parent).

We refer in this proxy statement to any of the actions above as an "adverse company recommendation."

At any time prior to the time shareholders approve the proposal to adopt the Merger Agreement, the special committee may make an adverse company recommendation pursuant to the procedures set forth in the Merger Agreement, if the special committee determines by resolution in good faith, after consultation with its outside financial advisors and outside legal counsel, that failure to take such action so would be inconsistent with its fiduciary duties under Ohio law, in response to (i) a superior proposal received by the Board after the date of the Merger Agreement or (ii) an "intervening event," as described in the section entitled "*The Merger Agreement—Other Covenants and Agreements—No Solicitation; No Adverse Company Recommendation*" beginning on page 67.

Financing (Page 50)

The Company and Parent estimate that the total amounts of funds required to complete the merger and related transactions (other than the special dividend) and pay related fees and expenses will be approximately $323,000,000. These payments are expected to be funded entirely by cash on hand at Parent at the effective time of the merger. The aggregate amount of the special dividend (including amounts payable to Parent) payable by the Company will be approximately $10,000,000. See "*Special Factors—Financing*" on page 50. The obtaining of financing is not a condition to the obligations of Parent and Merger Sub to effect the merger pursuant to the terms of the Merger Agreement.

Termination (Page 53)

The Company and Parent may terminate the Merger Agreement by mutual written consent at any time prior to the effective time of the merger. In addition, either the Company or Parent, in each case by written notice to the other, may terminate the Merger Agreement if:

- the merger has not been completed on or prior to February 15, 2017, provided that this termination right is not available to a party whose failure to fulfill any obligation under the Merger Agreement has been the cause of, or resulted in, the failure of the merger to occur on or prior to February 15, 2017;

- a governmental entity has issued any final non-appealable injunction, order, decree, judgment or ruling of permanently enjoining or otherwise prohibiting the merger; or

- the proposal to adopt the Merger Agreement has been submitted to a vote of shareholders for approval and the required vote has not been obtained, provided that this termination right is not available to Parent if the failure to obtain such approval is due to the failure of Parent to vote the common shares beneficially owned by it to approve the Merger Agreement.

Parent may terminate the Merger Agreement:

- if at any time prior to the time shareholders approve the proposal to adopt the Merger Agreement, the Board or any committee thereof (including the special committee) has effected an adverse company recommendation or the Company has materially breached its representations, warranties or covenants relating to non-solicitation, as described in the section entitled "*The Merger Agreement—Other Covenants and Agreements—No Solicitation; No Adverse Company Recommendation*" beginning on page 67, or the convening of the Company Shareholders' Meeting (as defined below); or

- if there is a breach of any representation, warranty, covenant or agreement set forth in the Merger Agreement on the part of the Company, except with respect to the covenants discussed in the above paragraph, such that the conditions to Purchasers' obligation to complete the merger would be incapable of fulfillment and the breach is incapable of being cured, or is not cured, within 15 days following receipt of written notice by the Company of the breach.

The Company may terminate the Merger Agreement:

- if there is a breach of any of the covenants or agreements on the part of Parent or Merger Sub or if any of the representations or warranties of Parent fail to be true, such that the conditions to each party's obligation to effect the merger or the conditions to the obligation of the Company to effect the merger would be incapable of fulfillment and the breach is incapable of being cured, or is not cured, by the earlier of February 15, 2017 and 15 days following written notice to Parent of the breach.

Termination Fee and Parent Expenses (Page 53)

Termination Fee

The Company will be required to pay a termination fee of $13,500,000 to Parent if Parent terminates the Merger Agreement following:

- an adverse company recommendation made in connection with the receipt or announcement of an acquisition proposal (as defined below) or a superior proposal (as defined below); or

- a material breach by us of any of the covenants or agreements relating to non-solicitation or the convening of the Company Shareholders' Meeting to vote on the proposal to adopt the Merger Agreement.

Parent Expenses

In addition, the Company will be required to reimburse reasonable out-of-pocket fees and expenses up to $3,950,000 (including reasonable legal fees and expenses), actually incurred on or prior to the termination of the Merger Agreement in connection with the merger by Parent, Merger Sub and their respective affiliates if Parent terminates the Merger Agreement following:

- an adverse company recommendation in a circumstance in which the termination fee is not otherwise payable;

- a submission of the proposal to adopt the Merger Agreement to a vote of shareholders for approval, after which the required vote has not been obtained, if an acquisition proposal has been made and not withdrawn at least 10 business days before the Company Shareholders' Meeting; or

- our breaching of our representations, warranties or covenants (except for the covenants discussed above the breach of which would trigger the payment of the termination fee) under the Merger Agreement and an acquisition proposal has been made and not withdrawn at least 10 business days prior to the date of termination of the Merger Agreement.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting, the Merger Agreement and the merger. These questions and answers may not address all questions that may be important to you as a shareholder of the Company. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement for further information.

Q: What is the proposed transaction?

A: The proposed transaction is the merger of Merger Sub with and into the Company pursuant to the Merger Agreement. If the merger is consummated, the Company will become a privately-held company, wholly-owned by Parent.

Q: What will I receive in the merger?

A: If the merger is completed and you do not properly exercise dissenters' rights, you will be entitled to receive the $32.00 per share cash merger consideration, without interest and less any applicable withholding taxes, for each common share that you own. In addition, all shareholders of record as of immediately prior to the effective time of the merger (including Parent) will receive a special cash dividend of $0.50 per common share payable as of such record time. You will not be entitled to retain or receive shares in the surviving corporation.

Q: Will shareholders receive dividends before the merger is completed or the Merger Agreement is terminated?

A: Under the Merger Agreement, the Company is permitted to declare and pay two quarterly dividends on its common shares of $0.14 per common share, consistent with prior timing, one of which was paid on September 13, 2016 and the other of which will be payable on December 13, 2016 with record dates of September 2, 2016 and November 28, 2016, respectively, and Parent is obligated by the Merger Agreement to cause the Affiliated Directors to vote in favor of the payment of such dividends. No regular quarterly dividends will be paid if the effective date of the merger precedes the applicable record date. The Company will pay any quarterly dividend declared for which the record date occurred prior to the closing of the merger but which is not yet paid as of the closing, without interest.

Q: When and where is the special meeting?

A: The special meeting will take place on November 10, 2016, starting at 10:00 a.m., Eastern time, at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286.

Q: What matters will be voted on at the special meeting?

A: You will be asked to vote on the following proposals:

- to adopt the Merger Agreement;
- to approve, on an advisory (non-binding) basis, specified compensation that may be payable to the named executive officers of the Company in connection with the merger;
- to approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and
- to act upon other business that may properly come before the special meeting or any adjournment or postponement thereof.

Q: What constitutes a quorum for the special meeting?

A: The presence at the special meeting, in person or by proxy, of the holders of common shares entitled to exercise at least a majority of the outstanding voting power of the Company on the record date will constitute a quorum, permitting the Company to conduct its business at the special meeting. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting.

Q: What vote of our shareholders is required to approve the Merger Agreement?

A: The consummation of the merger is conditioned upon the approval of a resolution to adopt the Merger Agreement by 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 the outstanding common shares held by the Public Shareholders, in each case, entitled to vote on such matter at a meeting of shareholders duly called and held for such purpose. Pursuant to our articles of incorporation, common shares are entitled to one vote per share. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting. In addition, the Merger Agreement makes the approval of the proposal to adopt the Merger Agreement a condition to the parties' obligations to consummate the merger. If you fail to vote on the proposal related to the adoption of the Merger Agreement, the effect will be the same as a vote against the adoption of the Merger Agreement.

Parent and certain shareholders of the Company (including Alan R. Spachman, The Hudson Investment Trust, Alan R. Spachman Revocable Trust Under Deed Dated 5/23/2007 and Florence McDermott Spachman Revocable Trust) have agreed, subject to certain conditions, to vote all common shares that they beneficially own in favor of adopting the Merger Agreement, pursuant to the Voting Agreement. See "*Voting Agreement Involving Common Shares*" on page 74.

As of the record date, there were 19,991,694 outstanding common shares. As of the record date, Parent and its affiliates beneficially owned 10,200,000 common shares, or approximately 51.2% of the outstanding common shares. As of the record date, the shareholders party to the Voting Agreement (other than Parent) beneficially owned 1,937,230 common shares in the aggregate, or approximately 9.7% of the outstanding common shares.

Each of the directors and executive officers of the Company has informed the Company that, as of the date of this proxy statement, he or she intends to vote in favor of the adoption of the Merger Agreement.

Q: If I do not favor the adoption and approval of the Merger Agreement, what are my dissenters' rights?

A: If you are a shareholder of the Company as of September 26, 2016, the record date, and you do not vote your shares in favor of the adoption and approval of the Merger Agreement and you do not return an unmarked proxy card, you will have the right under Section 1701.85 of the Ohio Revised Code ("ORC") to demand the fair cash value for your common shares. The right to make this demand is known as "dissenters' rights." Shareholders of the Company who wish to exercise their dissenters' rights must: (i) either vote against the merger or not return the proxy card, and (ii) deliver written demand for payment prior to the shareholder vote on the proposal. The demand for payment must include your address and the number of common shares owned by you, and the amount you claim to be the fair cash value of your common shares, and should be mailed to: National Interstate Corporation, 3250 Interstate Drive, Richfield, Ohio 44286, Attn: Arthur Gonzales. For additional information regarding dissenters' rights, see

"*Dissenters' Rights*" on page 87 of this proxy statement and the complete text of the applicable sections of the ORC attached to this proxy statement as Annex B.

Q: What vote of our shareholders is required to approve other matters to be presented at the special meeting?

A: The advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger and the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement require the affirmative vote of a majority of the votes cast at the special meeting. Pursuant to our articles of incorporation, common shares are entitled to one vote per share on each of these proposals.

Q: With respect to the advisory (non-binding) proposal to approve specified compensation that may be payable to the named executive officers of the Company in connection with the merger, why am I being asked to cast an advisory (non-binding) vote to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger?

A: SEC rules require us to seek an advisory, non-binding vote with respect to certain categories of compensation that may be provided to named executive officers in connection with a merger transaction.

Q: What will happen if shareholders do not approve the advisory (non-binding) proposal regarding compensation matters?

A: Approval of the advisory (non-binding) proposal regarding compensation matters is not a condition to the completion of the merger. This vote is an advisory vote and will not be binding on the Company. Therefore, if shareholders approve the proposal to adopt the Merger Agreement by the requisite majorities and the merger is completed, the payments that are the subject of the vote may become payable to the named executive officers regardless of the outcome of such vote.

Q: How does the Board of Directors recommend that I vote?

A: Based in part on the unanimous recommendation of the special committee, the Board of Directors (other than the Affiliated Directors, who recused themselves from such vote) recommends unanimously that our shareholders vote:

- "**FOR**" the adoption of the Merger Agreement and the approval of the business combination and the related transactions contemplated thereby;

- "**FOR**" the advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger; and

- "**FOR**" the proposal regarding adjournment, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.

You should read "*Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger*" beginning on page 28 for a discussion of the factors that the special committee and the Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) considered in deciding to recommend and/or approve, as applicable, the Merger Agreement. See also "*Special Factors—Interests of the Company's Directors and Executive Officers in the Merger*" beginning on page 48.

Q: What effects will the merger have on National Interstate?

A: The common shares are currently registered under the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act," and the common shares are quoted on the NASDAQ Stock Market under the symbol "NATL." As a result of the merger, the Company will cease to be a publicly traded company and will be wholly-owned by Parent. Following the consummation of the merger, the registration of the common shares and our reporting obligations with respect to the common shares under the Exchange Act will be terminated upon application to the SEC. In addition, upon the consummation of the merger, the common shares will no longer be listed on any stock exchange or quotation system, including on NASDAQ.

Q: What will happen to my options and restricted share awards under the Company's Long Term Incentive Plan?

A: If the merger is completed, any options you hold, whether or not vested, will be cancelled in exchange for your right to receive a lump sum cash payment equal to the product of (a) the excess, if any, of (i) the sum of the $32.00 per share merger consideration and $0.50 over (ii) the per share exercise price for such option and (b) the total

number of common shares underlying such option, less applicable taxes required to be withheld.

If the merger is completed, any restricted share awards will be cancelled in exchange for the right to receive a lump sum cash payment equal to the product of (i) the $32.00 per share merger consideration and (ii) the number of common shares subject to such restricted share award, less applicable taxes required to be withheld. Holders of restricted share awards will also have the right to receive the $0.50 per share special dividend in respect of common shares underlying such awards.

Q: What will happen if the merger is not consummated?

A: If the merger is not consummated for any reason, the Company's shareholders will not receive any payment for their common shares in connection with the merger, and the Company will not be obligated to pay the $0.50 per share special dividend to all shareholders of record immediately prior to the effective time of the consummation of a merger (including Parent). Instead, the Company will remain a public company and the common shares will continue to be registered under the Exchange Act, listed and traded on NASDAQ. Under specified circumstances, if the Merger Agreement is terminated, the Company may be required to pay Parent a termination fee of $13,500,000 or to reimburse the out-of-pocket expenses of Parent, Merger Sub and their affiliates incurred in connection with the merger up to a maximum of $3,950,000. See "*The Merger Agreement—Termination*" beginning on page 72 and "*The Merger Agreement—Termination Fee and Parent Expenses*" beginning on page 73.

Q: What do I need to do now?

A: We urge you to read this entire proxy statement carefully, including its annexes and the documents referred to or incorporated by reference in this proxy statement, as well as the related Schedule 13E-3, including the exhibits thereto, filed with the SEC, and to consider how the merger affects you.

If you are a shareholder of record, you can ensure that your shares are voted at the special meeting by submitting your proxy via:

- telephone, using the toll-free number listed on your proxy and voting instruction card;
- the Internet, at the address provided on your proxy and voting instruction card; or
- mail, by completing, signing, dating and mailing your proxy and voting instruction card and returning it in the envelope provided.

If you hold your common shares in "street name" through a broker, bank or other nominee, you should follow the directions provided by it regarding how to instruct it to vote your common shares. Without those instructions, your common shares will not be voted, which will have the same effect as voting against adoption of the Merger Agreement.

Q: Should I send in my stock certificates or other evidence of ownership now?

A: No. After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your common shares for the per share merger consideration. If your common shares are held in "street name" by your broker, bank or other nominee, you may receive instructions from your broker, bank or other nominee as to what action, if any, you need to take to effect the surrender of your "street name" common shares in exchange for the $32.00 per share merger consideration. Payment of the $0.50 per share special dividend will not require delivery of a letter of transmittal. Please do not send in your certificates now.

Q: Can I revoke my proxy and voting instructions?

A: Yes. You can revoke your proxy and voting instructions at any time before your proxy is voted at the special meeting. If you are a shareholder of record, you may revoke your proxy by notifying the Company's Secretary in writing at National Interstate Corporation, 3250 Interstate Drive, Richfield, Ohio 44286, by submitting a new proxy by telephone, the Internet or mail, in each case, dated after the date of the proxy being revoked, or by attending the special meeting and voting in person (but simply attending the special meeting will not cause your proxy to be revoked).

Please note that if you hold your common shares in "street name" and you have instructed a broker, bank or other nominee to vote your common shares, the above-described options for revoking your voting instructions do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to revoke your voting

instructions.

Q: What does it mean if I get more than one proxy and voting instruction card?

A: If your common shares are registered differently or held in more than one account, you will receive more than one proxy or voting instruction card. Please complete and return all of the proxy cards or voting instruction cards you receive (or submit each of your proxies by telephone or the Internet, if available to you) to ensure that all of your common shares are voted.

If your common shares are held through a broker, bank or other nominee, you will receive either a voting form or a proxy card from the nominee with specific instructions about the voting methods available to you. As a beneficial owner, in order to ensure your common shares are voted, you must provide voting instructions to the broker, bank or other nominee by the deadline provided in the materials you receive from them.

Q: Who will count the votes?

A: A representative of Broadridge Financial Solutions, Inc. will count the votes and act as an inspector of election.

Q: Who can help answer my other questions?

A: If you have more questions about the merger, or require assistance in submitting your proxy or voting your common shares or need additional copies of the proxy statement or the enclosed proxy and voting instruction card(s), please contact Innisfree M&A, Incorporated, which is acting as the proxy solicitation agent and information agent in connection with the merger.

Innisfree M&A, Incorporated
501 Madison Avenue
20th Floor
New York, NY 10022
Toll Free: (888) 750-5834

If your broker, bank or other nominee holds your common shares, you can also call your broker, bank or other nominee for additional information.

SPECIAL FACTORS

Background of the Merger

The Company has been a subsidiary of Parent since AFG initially invested in it in 1990. Parent is a wholly-owned subsidiary of AFG. The Company completed its initial public offering of common shares in 2005. Parent did not purchase or sell any common shares in, and has not purchased or sold any common shares since, the initial public offering.

The Board and senior management of the Company periodically review the Company's long-term strategic plans with the goal of maximizing shareholder value. As part of this ongoing process, the Board and the Company's senior management has, from time to time, considered strategic alternatives that may be available to the Company.

Parent currently owns approximately 51.2% of the outstanding common shares, and current or former executive officers of AFG or Parent currently comprise four of the eleven members of the Board. AFG regularly reviews its insurance businesses, operations and strategy, including its investment in the Company, with the goal of enhancing AFG shareholder value.

On February 5, 2014, Parent commenced a tender offer to acquire all of the outstanding common shares not currently owned by Parent for $28.00 per share, in cash. Parent increased the price of the tender offer to $30.00 per share on February 18, 2014 following discussions by the entire Board on February 17, 2014 during which the Company's financial advisor at the time presented its initial views of the Company's valuation range as of such date, including the conclusion by such financial advisor that the $28.00 per share offer price was not fair, from a financial point of view, to the Public Shareholders. During February and March of 2014, the Board, including Mr. Alan R. Spachman, a director of the Company, met multiple times to discuss the tender offer. On March 5, 2014, Mr. Spachman initiated litigation seeking to enjoin the tender offer, primarily due to his belief that the tender offer should be considered by a special committee of the Board of Directors comprised of independent directors and that the Company's shareholders (other than Parent) should be provided with additional information with respect to the tender offer. Following a March 14, 2014 hearing related to the litigation, on March 16, 2014, Parent withdrew and terminated the tender offer because, during the hearing before the United States District Court for the Northern District of Ohio, the court had stated that it would grant a motion for preliminary injunction enjoining the consummation of the tender offer.

On April 18, 2014, the Company entered into an agreement with Mr. Spachman whereby the Company agreed to reimburse Mr. Spachman for a portion of his legal fees and expenses that he incurred personally in connection with the tender offer by Parent. The settlement included a mutual release for all parties named in the proceedings initiated

by Mr. Spachman, including certain directors of the Company. Following the payment to Mr. Spachman, the parties filed a joint stipulation with the court to dismiss all claims with prejudice.

Between May 2014 and March 2016, AFG and Parent operated their investment in the Company in the ordinary course of business and did not make any public proposals relating to (i) a tender offer, merger or other acquisition of the Company or its assets or (ii) to the election of the Company's directors. During the period, AFG and Parent continued to evaluate the operations and results of the Company and the insurance segment in which it operates. Specifically, they discussed continued adverse reserve development, including a reserve charge of $20 million taken by the Company in the second quarter of 2014. AFG and Parent also noted the significant challenges that the commercial auto liability subsector of the property and casualty business continued to experience during the period, including that the combined ratio for the subsector exceeded 100% for each of 2011-2015. After modest improvement from 107.2% to 103.4% from 2013-2014, the combined ratio climbed to 108.8% in 2015. AFG and Parent reviewed National Interstate's results, which largely reflected the results of the subsector. National Interstate's combined ratio for 2013, 2014 and 2015 was 102.4%, 103.9% and 100.4%, respectively. In addition, National Interstate reported net earnings per share of $0.89, $0.56 and $1.05 and return on equity of 5.0%, 3.1% and 5.8% for 2013, 2014 and 2015, respectively.

On March 6, 2016, at a meeting of the board of directors of AFG, the AFG directors reviewed and approved a proposal for Parent to acquire all of the outstanding common shares of the Company that are not currently owned by Parent, for $30.00 per share in cash (the "Merger Transaction"). It was determined that AFG would propose the merger of a subsidiary of Parent with and into the Company with the outstanding common shares not owned by Parent or its affiliates being converted into the right to receive $30.00 per share in cash, which price was selected based on the AFG board of directors' determination following discussions with its management that the offer (i) would provide a substantial premium to Company shareholders and (ii) represented a 1.70x multiple of the Company's book value per share excluding unrealized gains on fixed maturities as of December 31, 2015, and a 25.9x multiple of the Company's 2015 diluted net income from operations per share. In addition, the offer was conditioned on approval of a special committee of the Board, and AFG's board of directors believed that a special committee formed by the Board would be unlikely to accept a lower offer price. In addition, AFG's board of directors determined that its proposal would include the requirement that the Board appoint a special committee of independent, for purposes of serving on the special committee, and disinterested directors to consider the Merger Transaction and to make a recommendation to the Board following consultation with independent legal and financial advisors to be retained by such special committee and that the Merger Transaction would not move forward unless such transaction were approved by the special committee. AFG's board of directors also determined that the Merger Transaction would be subject to a non-waivable condition requiring approval of a majority of the shares of the Company not owned by AFG or its affiliates.

Immediately following the March 6, 2016 meeting, Mr. Joseph E. (Jeff) Consolino, acting on behalf of AFG and Parent, contacted Messrs. Norman L. Rosenthal, I. John Cholnoky, Patrick J. Denzer, Donald W. Schwegman and Alan R. Spachman (the "Unaffiliated Directors") regarding AFG's and Parent's intent to deliver a proposal to the Company regarding the Merger Transaction. The Unaffiliated Directors are the directors of the Company who were not current executive officers of AFG, Parent or the Company and not affiliated with AFG or Parent other than by serving together on the Board with directors who are so affiliated. Mr. Consolino also contacted Keith A. Jensen, a former executive officer of AFG, who was then serving on the Board but whose term expired at the annual meeting of shareholders of the Company on May 5, 2016. In addition, on the evening of March 6, 2016, Messrs. Consolino and Larson contacted Messrs. Mercurio, Michelson and Gonzales to communicate AFG's and Parent's intent to deliver such proposal.

Later that evening on March 6, 2016, AFG sent a letter to the Board proposing the Merger Transaction. The full text of the letter sent to the Board is set forth below:

Board of Directors

National Interstate Corporation

3250 Interstate Drive

Richfield, Ohio 44286

Attn: Donald W. Schwegman

March 6, 2016

Dear Don:

American Financial Group, Inc. ("AFG") is pleased to submit this proposal for its wholly-owned subsidiary, Great American Insurance Company ("GAIC"), to acquire all of the outstanding common shares of National Interstate Corporation ("National Interstate") that are not currently owned by GAIC at a purchase price of $30.00 per share in cash. The proposed transaction will not be subject to a financing condition.

The $30.00 per share price represents a 32.7% premium over National Interstate's last closing price. The $30.00 per share price is a 1.70x multiple of National Interstate's book value per share excluding unrealized gains on fixed maturities as of December 31, 2015, and a 25.9x multiple of National Interstate's 2015 diluted net income from operations per share.

As you know, GAIC owns approximately 51% of the outstanding National Interstate common shares, and five of the 11 National Interstate directors are current or former executive officers of GAIC or AFG. We expect that the National Interstate board of directors will appoint a new special committee to consider our proposed transaction and make a recommendation to the National Interstate board of directors. We further expect that the special committee will retain its own independent legal and financial advisors to assist in its review of our proposed transaction. We will not move forward with the transaction unless it is approved by such special committee.

None of the National Interstate directors who are current or former executive officers of GAIC or AFG will participate in the consideration of the AFG proposal by National Interstate, the special committee or the special committee's advisors. In addition, the transaction will be subject to a non-waivable condition requiring approval of a majority of the shares of National Interstate not owned by AFG or its affiliates. We intend to implement the proposed transaction in a manner that will ensure that National Interstate will become a wholly-owned subsidiary of GAIC and that all shareholders of National Interstate will receive the same consideration for their shares in the proposed transaction.

GAIC currently intends that following completion of the proposed transaction, National Interstate's business will continue to be run in a manner that is generally consistent with its current operations and does not currently contemplate making any significant changes in National Interstate's strategic or operating philosophy or its business. National Interstate would proceed to operate as a separate company, 100% owned by GAIC or an affiliate, much like AFG's other wholly-owned subsidiaries.

Given our knowledge of National Interstate, we are in a position to complete the transaction in an expedited manner and to promptly enter into discussions regarding a merger agreement with the special committee and its advisors providing for the acquisition of the remaining National Interstate shares.

In considering our proposal, you should know that in our capacity as a shareholder of National Interstate we are interested only in acquiring the shares of National Interstate not already owned by GAIC and that in such capacity we have no interest in selling any of the shares owned by us in National Interstate nor would we expect, in our capacity as a shareholder, to vote in favor of any alternative sale, merger or similar transaction involving National Interstate.

AFG and GAIC have engaged Skadden, Arps, Slate, Meagher & Flom LLP as our legal advisor for the proposed transaction.

Due to our obligations under the securities laws, we intend to file a Schedule 13D amendment with the Securities and Exchange Commission and to issue a press release announcing our proposal before the market opens tomorrow. A copy of the press release is attached for your reference.

18

This indication of interest is non-binding and no agreement, arrangement or understanding between the parties will be created until such time as definitive documentation has been executed and delivered by GAIC and all other appropriate parties and the agreement, arrangement or understanding has been approved by AFG and GAIC's boards of directors.

We believe that our proposal represents an attractive opportunity for National Interstate's shareholders to receive a significant premium to National Interstate's current and recent share prices. We welcome the opportunity to meet with the special committee, once formed, and/or its advisors to discuss our proposal.

We look forward to your response.

Sincerely,

By: /s/ Carl H. Lindner III
Name: