

## **NATIONAL INTERSTATE CORPORATION COMPENSATION COMMITTEE CHARTER**

### **Authority**

- The Board of Directors, by resolution dated October 25, 1990, established the Compensation Committee.
- This Compensation Committee Charter was adopted by the Board on October 28, 2004.

### **Purpose**

- To discharge the Board of Directors' responsibilities relating to establishing and/or approving compensation of the Company's Directors and executive officers;
- To recommend, evaluate and administer the Company's equity compensation plans, including the Long Term Incentive Plan;
- To oversee the executive compensation policies of the Company; and
- To produce an annual report on executive compensation for inclusion in the Company's proxy statement.
  
- To assist the Board of Directors in developing and evaluating potential candidates for executive positions, including the President, and to oversee the development of executive succession plans.

### **Structure and Membership**

The Committee shall be comprised of no fewer than three Directors as appointed by the Board (upon recommendation of the Nominating/Governance Committee). So long as the Company is a "controlled company" pursuant to Nasdaq Stock Market, Inc's ("NASDAQ") Rule 4350(c)(5), only two members of the Committee must qualify as "independent directors" (as defined by NASDAQ rules), as "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and satisfy the "non-employee" Director standard contained in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended.

The Board will appoint the members of the Committee annually and each member will serve until such member's successor is duly designated or until such member's earlier resignation or removal. The Board may remove any member of the Committee from the Committee, with or without cause, by a majority vote of the Board. Unless the Board designates a Chairperson of the Committee, the members of the Committee will designate a Chairperson by a majority vote of the full Committee. The Chairperson will chair all regular sessions of the Committee and will set the agendas for Committee meetings.

### **Duties and Responsibilities**

The Committee is a part of the Board. The Committee's primary responsibilities are to make recommendations to the Board regarding executive officer and Director compensation and to recommend, evaluate and administer the Company's equity compensation plans.

The following duties shall be common recurring activities of the Committee in carrying out its purposes set forth in this Charter. These duties should serve as a guide with the understanding

that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other duties and responsibilities delegated to it by the Board from time to time related to the purposes of the Committee set forth in this Charter.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern within the purposes of the Committee that the Committee deems appropriate or necessary and shall have the authority, at the Company's expense, to engage and terminate outside counsel or other advisors for this purpose, and the authority to approve fees payable to such counsel and advisors and any other terms of retention.

To fulfill its duties and responsibilities, the Committee shall do the following:

*Compensation for Executive Officers and Directors*

- Review and discuss with management the overall executive compensation philosophy of the Company.
- Review and approve, at least annually, the corporate goals and objectives relevant to the President's compensation, evaluate the President's performance in light of these goals and objectives and determine and approve the President's compensation level based on this evaluation. In determining any long term incentive component of the President's compensation, the Committee shall consider all relevant factors, including the Company's performance and relative shareholder return, the value of similar incentive awards to presidents at comparable companies and the awards given to the President in past years.
- Review and approve Company goals and objectives relevant to executive officers' compensation, including annual performance objectives.
- Evaluate the performance of the executive officers in light of established goals and objectives and, based on such evaluation, recommend and approve the annual salary, bonus, equity awards, other incentive awards and other benefits, direct and indirect, of the executive officers.
- The Committee shall also provide oversight of management's decisions concerning the performance and compensation of other Company officers.
- Administer the granting of certain qualified and non-qualified stock options and other equity awards to employees and non-employee Directors of the Company under the Company's Long Term Incentive Plan and other equity compensation plans. The committee shall have and shall exercise all the authority of the board of directors with respect to the administration of such plans to the extent permitted under Ohio law.
- Select, retain and terminate compensation and benefits consultants and other outside advisors used to assist in the evaluation of Director or executive officer compensation, approve such consultants' and advisors' fees and other retention terms and obtain advice and assistance from internal or external legal, accounting or other advisors.
- In connection with executive compensation plans:
  - Review and recommend to the Board, or approve as appropriate, new executive compensation plans and any changes to or modifications of existing executive compensation plans;
  - Review on a periodic basis the operations of the Company's executive compensation programs to determine whether they are properly coordinated and achieving their intended purpose;
  - Establish and periodically review policies for the administration of executive compensation programs; and

- Take steps to modify any executive compensation program that, upon analysis, is determined to yield compensation or benefits that are not reasonably related to executive and corporate performance.
- Establish and periodically review policies in the area of senior management perquisites.
- Review and make recommendations to the Board, or approve, as appropriate, any contracts or other transactions with current or former executive officers of the Company and any non-independent Director, including consulting arrangements, employment contracts, severance or termination arrangements.
- Perform duties delegated to it by the Board under various executive compensation plans.
- Monitor compliance by executives with the terms and conditions of the Company's executive compensation plans.

#### *Reports and Minutes*

- Prepare an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations.
- Report regularly to the Board (i) following meetings of the Committee, (ii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities, and (iii) with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chairperson or any other member of the Committee designated by the Committee to make such report.
- Maintain minutes and other records of meetings and activities of the Committee, as appropriate under Ohio law.
- Prepare an annual performance evaluation of the Committee.

#### **Committee Meetings and Action**

- A majority of the Committee members will be a quorum for the transaction of business.
- The action of a majority of those present at a meeting at which a quorum is present will be an act of the Committee.
- Any action which may be taken at a meeting of the Committee will be deemed the action of the Committee if all of the Committee members execute a written consent and the consent is filed with the Corporate Secretary.
- The Company's President will be the management liaison to the Committee.
- The Corporate Secretary or Assistant Secretary shall be responsible for keeping minutes of the Committee meetings.
- The Committee will meet once a year and at such other times as may be requested by its Chairperson and will routinely meet to review such matters as the Committee, in its discretion, determines to be appropriate.