

# FEDERATED NATIONAL

NASDAQ: FNHC



**Joint Venture to Form an Insurance Company  
July 2014**



# SAFE HARBOR STATEMENT

*Safe harbor statement under the Private Securities Litigation Reform Act of 1995:*

*Statements that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. Without limiting the generality of the foregoing, words such as “anticipate,” “believe,” “budget,” “contemplate,” “continue,” “could,” “envision,” “estimate,” “expect,” “guidance,” “indicate,” “intend,” “may,” “might,” “plan,” “possibly,” “potential,” “predict,” “probably,” “pro-forma,” “project,” “seek,” “should,” “target,” or “will” or the negative thereof or other variations thereon and similar words or phrases or comparable terminology are intended to identify forward-looking statements.*

*Forward-looking statements might also include, but are not limited to, one or more of the following:*

- *Projections of revenues, income, earnings per share, dividends, capital structure or other financial items or measures;*
- *Descriptions of plans or objectives of management for future operations, insurance products, or services;*
- *Forecasts of future insurable events, economic performance, liquidity, need for funding and income; and*
- *Descriptions of assumptions or estimates underlying or relating to any of the foregoing.*

*The risks and uncertainties include, without limitation, risks and uncertainties related to estimates, assumptions and projections generally; the nature of the Company’s business; the adequacy of its reserves for loss and loss adjustment expense; claims experience; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail) and other catastrophic losses; reinsurance costs and the ability of reinsurers to indemnify the Company; raising additional capital and our potential failure to meet minimum capital and surplus requirements; potential assessments that support property and casualty insurance pools and associations; the effectiveness of internal financial controls; the effectiveness of our underwriting, pricing and related loss limitation methods; changes in loss trends; court decisions and trends in litigation; our potential failure to pay claims accurately; ability to obtain regulatory approval applications for requested rate increases or to underwrite in additional jurisdictions, and the timing thereof; inflation and other changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; legislative and regulatory developments; the outcome of litigation pending against the Company, and any settlement thereof; dependence on investment income and the composition of the Company’s investment portfolio; insurance agents; ratings by industry services; the reliability of our information technology systems; reliance on key personnel; acts of war and terrorist activities; and other matters described from time to time by the Company in releases and publications, and in periodic reports and other documents filed with the United States Securities and Exchange Commission.*

*In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including claims and litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a contingency. Reported results may therefore appear to be volatile in certain accounting periods.*

*Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake any obligation to update publicly or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.*

# OVERVIEW OF JOINT VENTURE

## Overview

- To-be-formed insurance company that will focus initially on homeowners' insurance in Florida
- Federated National Holding Company ("FNHC") will partner with C.A. Bancorp Inc. ("C.A. Bancorp") or an affiliate and TransRe to form Monarch National Insurance Company ("Monarch")

## Business Overview

- Targeting the standard homeowners' market in Florida, whereas Federated National Insurance Company ("FNIC"), FNHC's insurance company, targets the preferred market
- Will be complementary with minimal cannibalization of FNIC's current program
- Different premium rates and policy forms than FNIC
- Projecting underwriting profitability per policy

## FNHC Participation

- A \$14 million equity investment for approximately 42% ownership
- FNHC senior management will serve as Monarch's senior management
- Federated National Underwriters, Inc. ("FNU"), FNHC's MGA, will serve as managing general agent and claims administrator to Monarch and receive fees for such services
- FNHC will have operational control of Monarch, once formed, and therefore will be required to consolidate the to-be-formed holding company

## Why Create Monarch?

- Increase FNHC's presence in Florida homeowners' insurance by capturing standard business
- Statutory regulations require a separate capital base unless the programs are mutually exclusive

## Capital Requirements and Rating

- FNHC's capital infusion of \$14 million in Monarch's parent company will be provided from available cash
- Targeting an "A" rating by Demotech

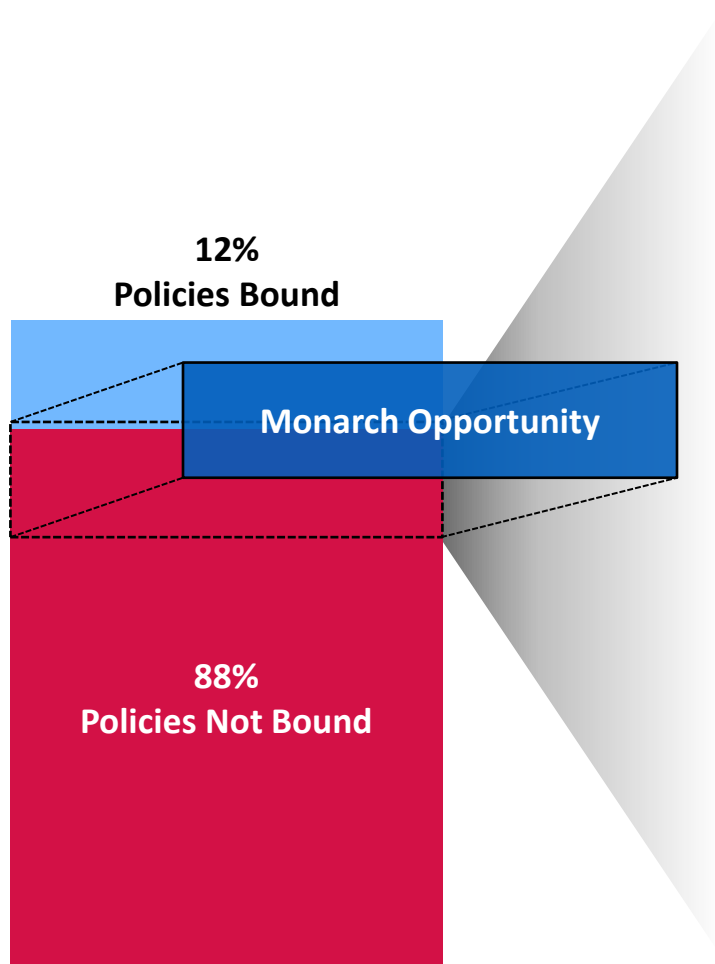
## Timing

- The formation of Monarch is subject to receipt of regulatory and other customary approvals, including final documentation
- Targeting first policy issuance in January 2015

# THE OPPORTUNITY

*Our agents ask, “why can’t you write more business?”*

*...Monarch is our answer.*



- Monarch is designed to capture additional quality business that FNHC is not able to secure with FNIC’s products
- FNIC only binds approximately 12% of the quotes submitted by its agents
- The opportunity lies in the ability to provide more coverage options to agents
- FNHC’s business is scalable and can achieve more economies of scale with increased volume
- Statutory regulations require a separate capital base unless the policies are mutually exclusive
- FNHC is partnering to form Monarch as a separate insurance company with a separate capital base and different premium rates and policy forms than FNIC to capture standard market business

# PROPOSED MONARCH MANAGEMENT AND OPERATIONS

*FNHC's CEO and CFO will serve as Monarch's CEO and CFO, and FNHC's subsidiary FNU will manage Monarch's business operations through a managing general agency ("MGA") and claims administration agreement*

## Senior Management

- Michael H. Braun, Chief Executive Officer & President
- Peter J. Prygelski, Chief Financial Officer & Treasurer

## Reinsurance

- Monarch senior management will secure reinsurance partners and negotiate reinsurance programs

## Underwriting

- Utilizing a leading actuarial firm to help develop Monarch's premium rates and policy forms
- Same underwriting staff and sophisticated underwriting analytics that FNHC utilizes to analyze the underwriting profitability of its policies on an individual basis

## Claims Administration

- Will be managed by FNHC's experienced internal claims staff
- Will utilize FNHC's minority owned independent adjusting firm Southeast Catastrophe Consulting Company as well as FNHC's other third-party independent adjuster relationships for catastrophe events

## Distribution

- Will focus on voluntary business written through independent agents
- Will utilize FNHC's relationships with over 3,500 independent agents

## Financial Reporting

- Financial reporting and accounting functions will be provided by FNHC employees

# PROPOSED ORGANIZATIONAL STRUCTURE

## Monarch Management

- Michael H. Braun – CEO & President
- Peter J. Prygelski – CFO & Treasurer

## Monarch Board of Managers

- Federated National (3 seats)
- C.A. Bancorp (3 seats)
- Independent third party (1 seat) selected by FNHC and C.A. Bancorp

## C.A. Bancorp Overview

- Publicly traded Canadian merchant bank and alternative investment manager
- Common shares are listed on the Toronto Stock Exchange under the symbol “BKP” (TSX: BKP)

## TransRe Overview

- International reinsurance organization headquartered in New York with operations worldwide

