

# FEDERATED NATIONAL

NASDAQ: FNHC



**NYSSA 18<sup>th</sup> Annual Insurance Conference**  
**March 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.*

# FEDERATED NATIONAL - KEY STATS

- **Headquarters:** Sunrise, Florida
- **Ticker:** FNHC (NASDAQ-GM)
- **Common Stock Offering:** \$30 million (Priced at \$10.75 on 11/20/2013)

- **Company Overview (As of 3/7/2014):**

Market Cap: \$175.5 Million

Stock Price: \$16.10

Common Shares Out: 10.9 Million

Annual Dividend (LTM): \$0.12

"A" rating by Demotech since 1998



- **Ownership / Valuation:**

Institutional / Insider Holdings: 38.6% / 8.5%

P / Book of 1.6x and P / 2014 EPS of 13.1x

- **Financial Highlights (2013):**

Direct Premiums Written ("DPW"): \$243.4M

Net Premiums Earned ("NPE"): \$104.4M

Diluted EPS: \$1.45

GAAP Equity (12/31/2013): \$108.5M

## 3-Year Stock Price Performance



# SENIOR MANAGEMENT TEAM

- Experienced management team with a long history with Federated National and the homeowners' insurance market in Florida

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**Michael Braun (Age 46),** *Chief Executive Officer & President*

- Appointed Chief Executive Officer in July 2008
- Elected to Board in 2005
- Previously served as Chief Operating Officer
- Joined in 1998

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**Peter Prygelski (Age 45),** *Chief Financial Officer & Treasurer*

- Re-nominated to Board in 2008
- Appointed Chief Financial Officer in June 2007
- Served as Independent Director from 2004 through 2007
- Joined in 2004

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**Stephen Young (Age 39),** *Vice President of Operations*

- Appointed Vice President of Operations in June 2009
- Served as President of Federated Premium Finance
- More than 20 years of industry experience
- Joined in August 1995

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**Gordon Jennings (Age 55),** *Vice President of Risk Management*

- Appointed Vice President of Risk Management in May 2008
- Serves as President of Federated National Underwriters
- More than 23 years of industry experience
- Joined in May 2000

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**C. Brian Turnau (Age 46),** *President of Federated National Adjusting*

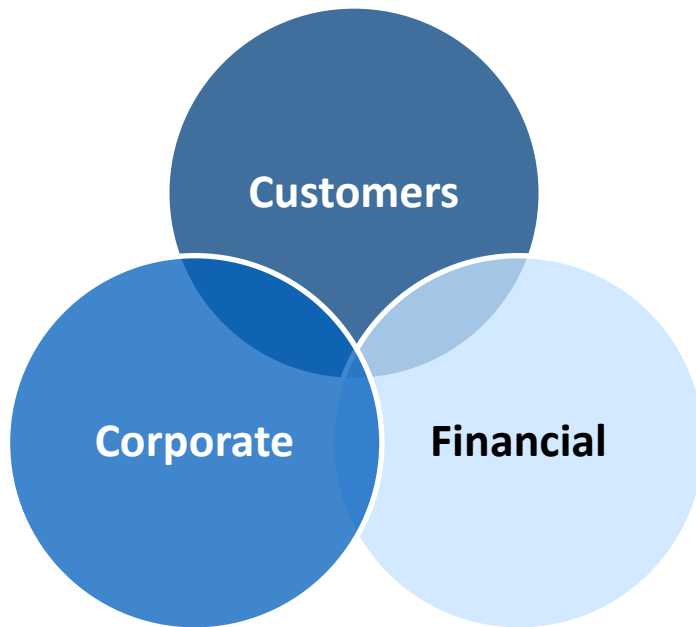
- Appointed President of Federated National Adjusting in July 2006
- Worked for private practice insurance defense litigation law firms for 15 years
- More than 13 years of industry experience
- Joined in June 2000

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**Christopher Clouse (Age 46),** *Underwriting Manager*

- Appointed Underwriting Manager in June 2010
  - Serves as President of Insure-Link
  - More than 25 years of industry experience
  - Joined in March 2008
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# COMPANY PHILOSOPHY



## **Customers**

Provide best in class customer service for our policyholders, agents, reinsurance partners and business partners while creating long-term shareholder value

## **Corporate**

Be a well-regarded employer that is mindful of the well-being of our employees and allow them to develop in an impartial, challenging, rewarding and cooperative environment

## **Financial**

Generate sustainable annual growth and long-term value for our shareholders by expanding market share, increasing sales and improving product mix, optimizing the investment portfolio on a risk-adjusted basis and improving scale

# WHO WE ARE

## Our Structure

- Federated National Holding Company, also known as FedNat, is a holding company that controls substantially all aspects of insurance underwriting, distribution and claims processes through:
  - **Federated National Insurance Company (“FNIC”)**: Florida domiciled insurance carrier
  - **Federated National Underwriters (“FNU”)**: managing general agent
  - **Federated National Adjusting (“FNA”)**: internal claims adjusting company
  - **Insure-Link**: direct-to-consumer independent insurance agency

## What We Insure

- Underwrite multi-peril homeowners’, commercial general liability, 100% ceded federal flood, personal non-standard auto and sell various other lines of insurance products

## Where We Insure

- Admitted carrier in FL, AL, GA, LA and TX, and a non-admitted carrier in AR, MO, NV and SC
- Network of approximately 3,600 independent agents, of which approximately 1,800 actively sell and service our products
- Have a marketing arrangement with an affiliate of Allstate whose agents market our homeowners’ and commercial general liability policies in Florida

## Our Strategy

- Focused on further diversifying geographic exposure in Florida and expanding selectively into other states in the Southeast region

# EXCEPTIONAL MARKET OPPORTUNITY

- The Florida homeowners' insurance market is large, highly fragmented and dominated by Citizens and small domestic carriers
- Under pressure to reduce its risk exposure, Citizens accelerated efforts to divest hundreds of thousands of homeowners' policies in 2013, but accounted for more than 20% of the market as of September 30, 2013
- Citizens' contraction and SB 1770 creates opportunity for private carriers to write additional homeowners' policies
- No CATs since 2005, contained sink hole exposure, shrinking Citizens, an improved rate environment and lower reinsurance costs offers an exceptional market opportunity
- Federated National is expected to join the Property Insurance Clearinghouse in the 1<sup>st</sup> Quarter of 2014
- For the three months ended September 30, 2013, Federated National ranked 5<sup>th</sup> based on the number of new personal residential homeowners' policies written <sup>(1)</sup>
- With only approximately 1.8% <sup>(1)</sup> of the Florida market share, Federated National has an opportunity for significant growth

## Top Personal Residential Homeowners' Insurers in Florida <sup>(1)</sup> As of September 30, 2013

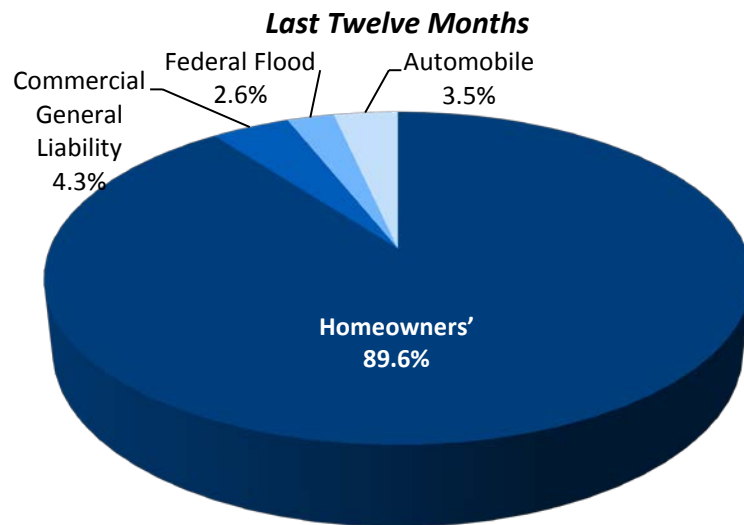
9/30/2013 Rank	9/30/2012 Rank	Institution	Total DPW for Policies In-Force	Market Share
1	1	Citizens Property Insurance Corporation	\$2,132,921,966	21.26%
2	2	Universal Property & Casualty Insurance Co.	761,743,132	7.59%
3	3	State Farm Florida Insurance Company	649,111,843	6.47%
4	8	Homeowners Choice P&C Insurance Company, Inc.	324,398,004	3.23%
5	6	Florida Peninsula Insurance Company	313,984,080	3.13%
6	5	United Services Automobile Association	290,277,593	2.89%
7	4	St. Johns Insurance Company, Inc.	279,490,211	2.79%
8	9	United Property & Casualty Insurance Company	271,574,577	2.71%
9	7	Security First Insurance Company	230,281,590	2.30%
10	14	American Integrity Insurance Company of Florida	196,797,511	1.96%
11	10	Tower Hill Prime Insurance Company	195,461,316	1.95%
12	28	Federated National Insurance Company	181,943,601	1.81%
13	11	Federal Insurance Company	167,437,749	1.67%
14	41	People's Trust Insurance Company	159,483,890	1.59%
15	12	USAA Casualty Insurance Company	151,019,655	1.51%
16	15	Tower Hill Signature Insurance Company	142,864,077	1.42%
17	13	Castle Key Insurance Company	140,802,980	1.40%
18	NA	Heritage Property & Casualty Insurance Company	137,804,147	1.37%
19	17	Tower Hill Preferred Insurance Company	134,798,558	1.34%
20	18	AIG Property Casualty Company	131,605,652	1.31%
<b>Top 20</b>			<b>\$6,993,802,131</b>	<b>69.70%</b>
<b>Grand Total</b>			<b>10,033,581,821</b>	<b>100.00%</b>

Note: Includes personal residential and excludes commercial residential business

# PREMIUM COMPOSITION

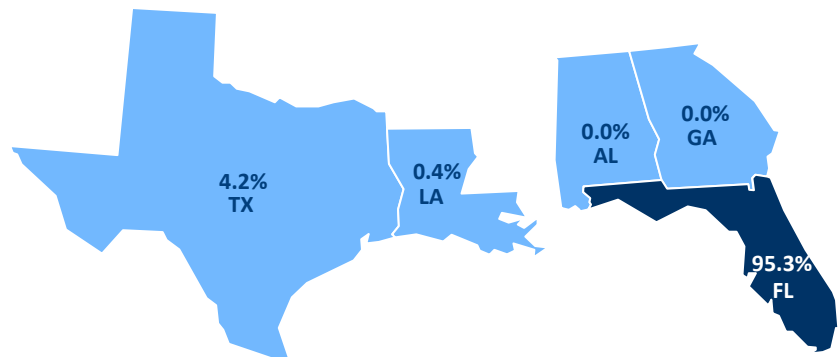
- Primarily focused on homeowners' insurance in Florida, but have product initiatives in Alabama, Georgia, Louisiana, South Carolina and Texas
- Licensed and prudently looking for growth opportunities in other states

**DPW by Line of Business**



**DPW by Geography <sup>(2)</sup>**

*December 31, 2013*



**Total LTM DPW: \$243,373 <sup>(1)</sup>**

(1) DPW in thousands. Last twelve months data as of December 31, 2013

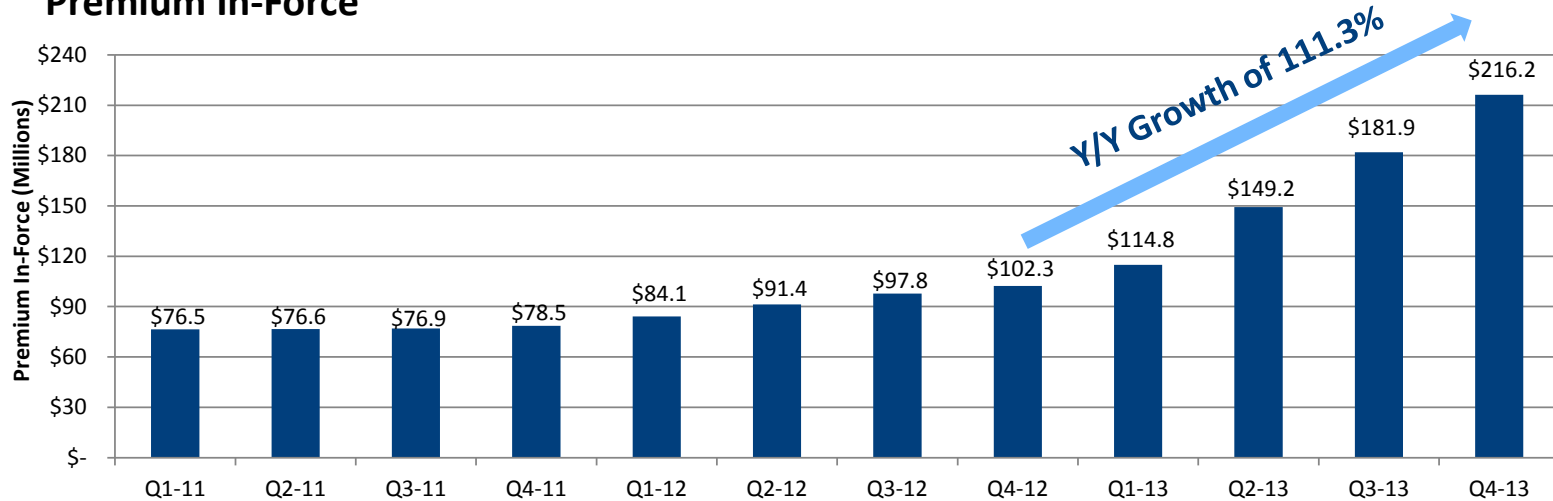
(2) Admitted carrier in FL, AL, GA, LA and TX, and a non-admitted carrier in AR, MO, NV and SC

Note: Based on GAAP financial information; December 31, 2013 financials reflect unaudited information

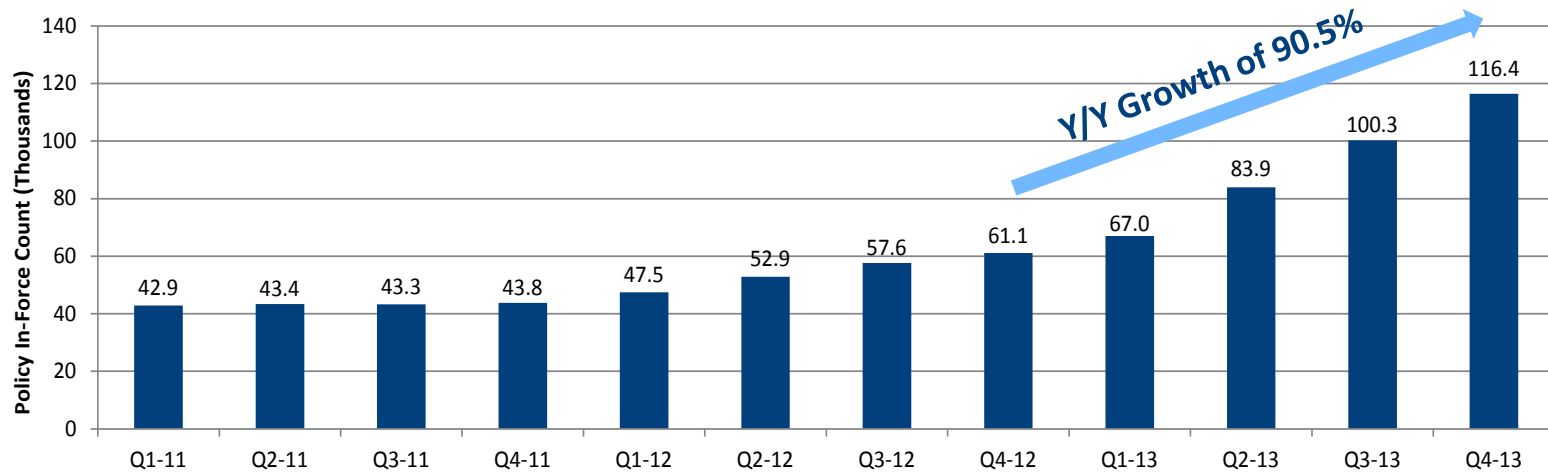


# HOMEOWNERS' POLICY GROWTH

## Premium In-Force



## Policy In-Force Count

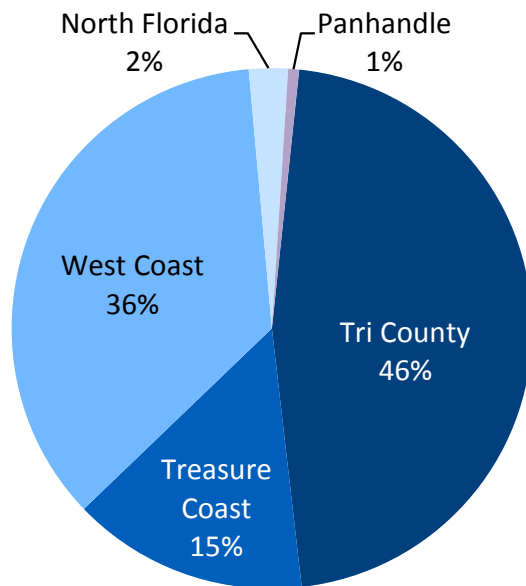


# FLORIDA GEOGRAPHIC DIVERSIFICATION

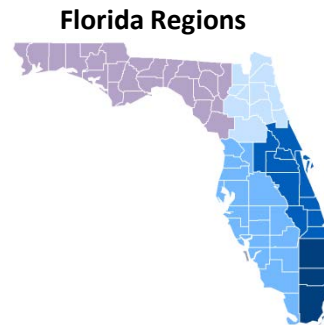
- We have diversified our risk concentration by increasing our policy count outside the Tri-County (Miami-Dade, Broward, Palm Beach counties) area from 54% at 12/31/2010 to 82% at 12/31/2013

## Florida HO Policy Composition

*December 31, 2010*

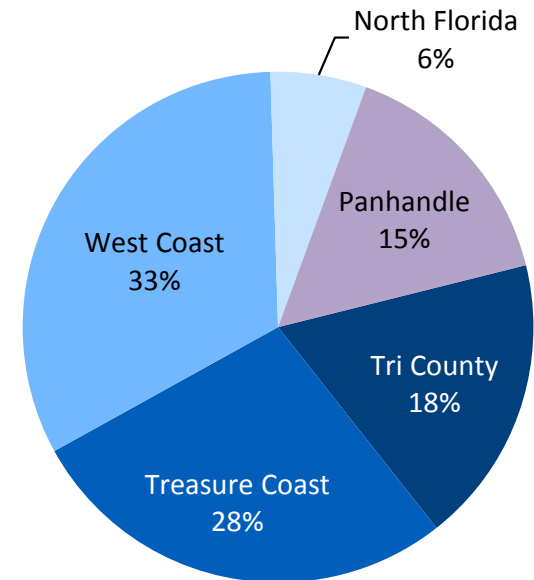


**Total Policies: 43,132**



## Florida HO Policy Composition

*December 31, 2013*



**Total Policies: 116,401**

# UNDERWRITING PROCESS

## Sophisticated Analytics

- Utilize point of sale software which ensures rate adequacy
- Delivers instantaneous risk analytics and quoting and binding capabilities
- Provides agents with access to numerous key data points essential to assessing risk factors

## Underwriting Standards

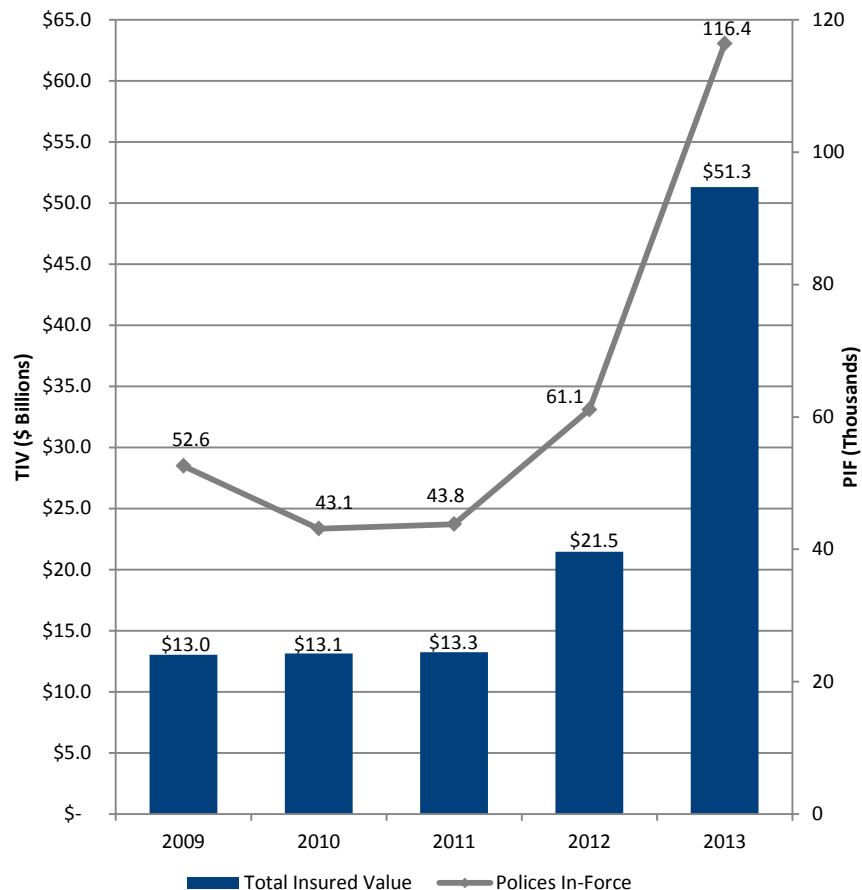
- Focus on higher value properties
- Emphasis on newer properties which typically have more advanced wind / hurricane mitigation features and lower All Other Peril (non-catastrophe) losses, all of which mitigate expected losses
- Largely avoided claims associated with sinkhole losses by carefully underwriting certain geographic areas in Florida

## Geographic Diversification

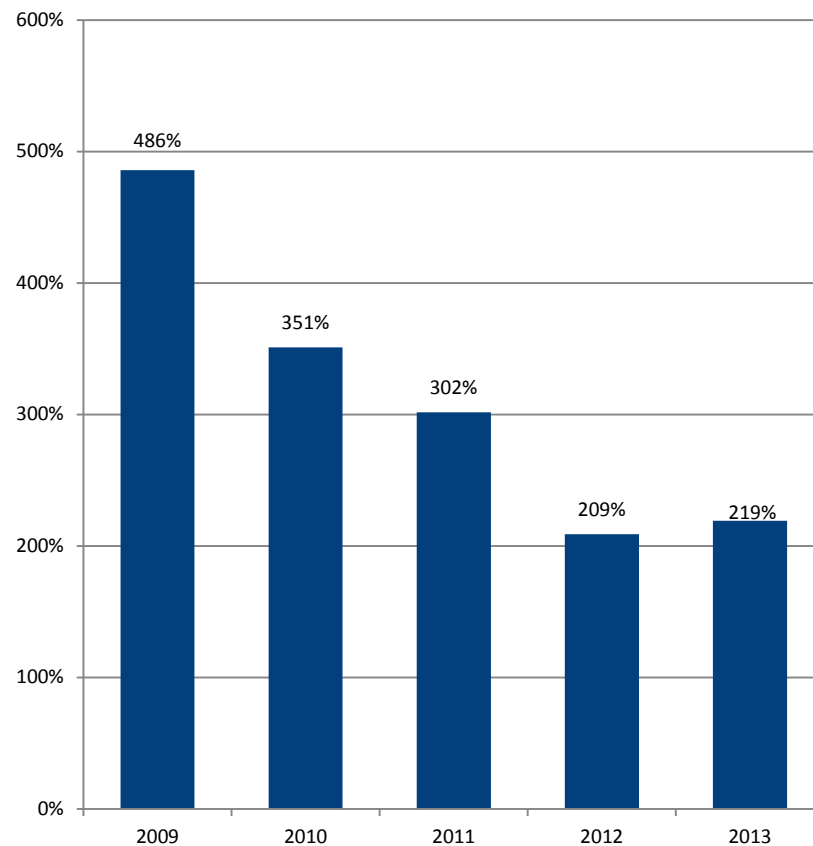
- Reduced geographic concentration in the Tri-County area and expanded in other counties in Florida
- Greater diversification has enhanced underwriting results and reduced our risk exposure
- Select expansion into Alabama, Georgia, Louisiana, South Carolina and Texas

# QUALITY GROWTH IN HOMEOWNERS' PORTFOLIO

## Total Insured Value and Policies In-Force



## 1-in-100 Year Probable Maximum Loss <sup>(1)</sup> / In-Force Premium



# SINKHOLE PERFORMANCE

*(Dollars in Thousands)*

Accident Year	Gross Earned		Ultimate Gross
	Premium	Ultimate Losses	Loss Ratio
2004	\$ 43,660	\$ 109	0.2%
2005	65,162	-	0.0%
2006	95,534	393	0.4%
2007	118,923	216	0.2%
2008	73,836	925	1.3%
2009	71,111	3,940	5.5%
2010	78,239	5,736	7.3%
2011	76,611	3,070	4.0%
2012	90,449	1,864	2.1%
2013	150,257	2,300	1.5%
Total	\$ 863,782	\$ 18,553	2.1%

- Largely avoided claims associated with sinkhole losses by selectively underwriting certain geographic areas in Florida
- After the Florida Legislature enacted stricter laws narrowing the definition of a sinkhole loss, FNIC established rates, forms and rules that allow us to market our property insurance to most regions of the State of Florida that we previously avoided

# ROBUST IN-HOUSE CLAIMS CAPABILITIES

## In-House Claims Adjuster

- 8 field adjusters and 23 onsite (desk) adjusters; 7 claims managers and supervisors; in-house litigation manager; all of whom are fully licensed
- Average experience is over 10 years
- Long tenure with Federated National; over half of the homeowners' adjusters served the Company during the storms of 2004 and 2005
- Training and knowledge is promoted and enhanced through on and off-site education

## Strategic Alliance with CAT Adjuster

- Owns 1/4 of Southeast Catastrophe Consulting Company, an independent CAT claims adjuster
- Dedicated CAT adjusters available to Federated National when needed
- All data and systems functionality is backed-up through a remote cloud-based computing system

## Efficient Claims Response

- 24/7 new claims reporting capacity with immediate emergency response available when warranted
- Long standing relationships with water remediation companies, emergency services providers and loss causation analysts that provide rapid mitigation of damages and exceptional customer service

# CATASTROPHE REINSURANCE PROGRAM

- \$563 million of total coverage for CAT losses and LAE at a cost of \$68 million in premiums
- Maximum single event coverage of \$420 million
- \$7 million pre-tax retention on the first 2 events
- 36 highly rated private global reinsurers that are long-term partners and the FHC
- Most reinsurance partners are rated "A-" or higher by A.M. Best
- 2013-2014 reinsurance program was modeled to meet a 1:100 year catastrophe event using a RMS-Risklink model with loss amplification and without storm surge factors

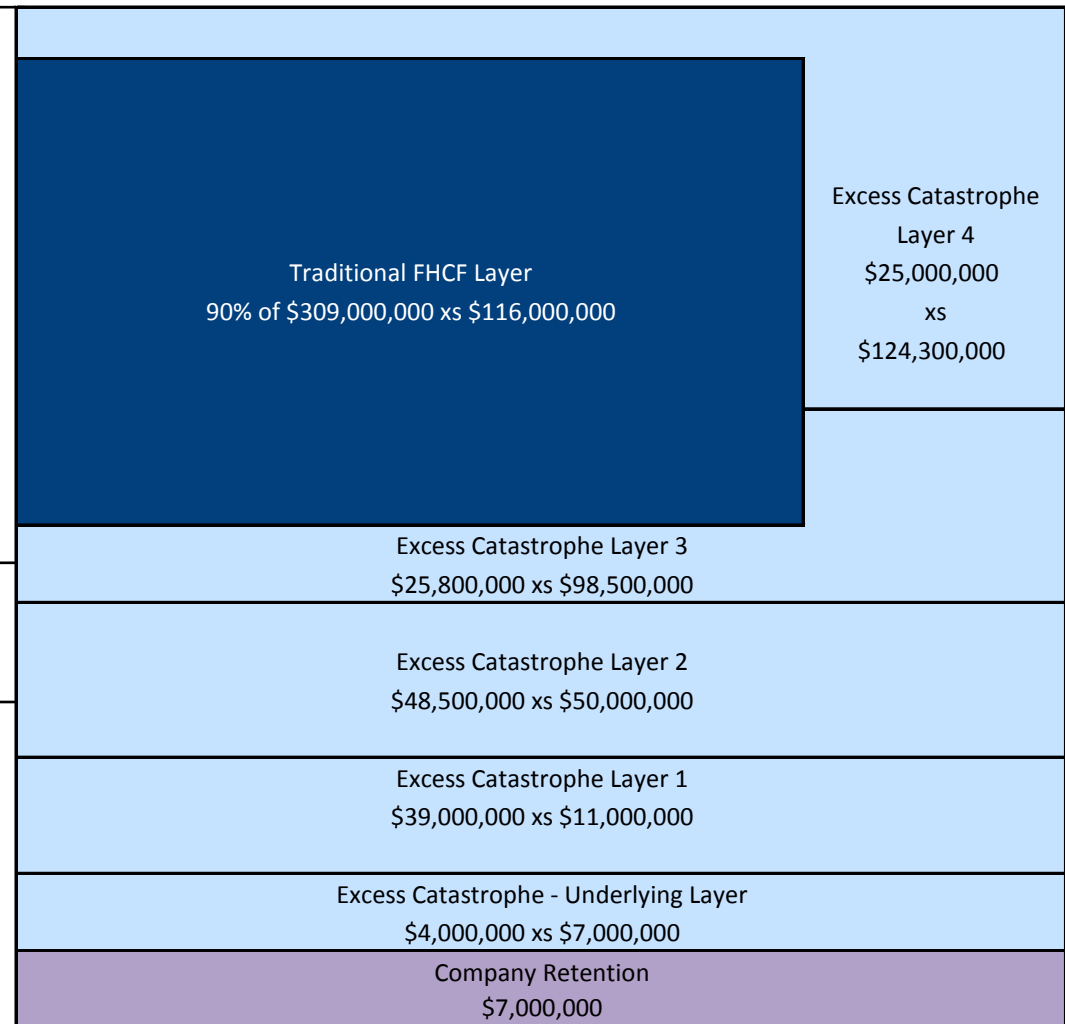
**\$427 million**  
1:108 YR  
(Actual)

**Andrew-Equivalent Storm Today**  
\$99 million

**Wilma-Equivalent Storm Today**  
\$67 million

**July 1, 2013 – June 30, 2014**

## Reinstatement Premium Protection Paid for Second Event



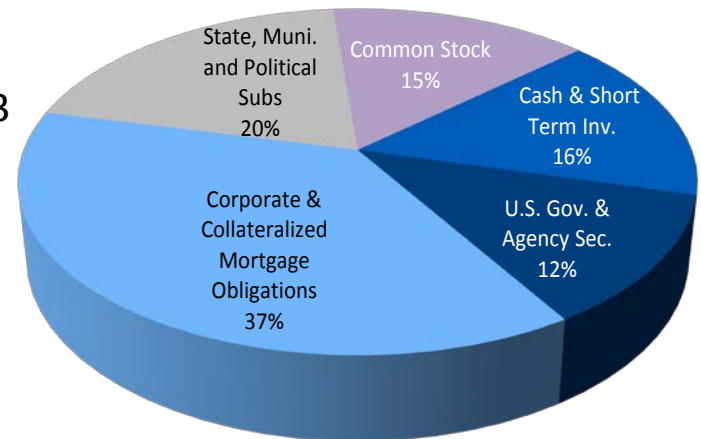
# INVESTMENT STRATEGY

- Designed to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk
- Utilize outside investment managers for the fixed income and equities portfolios
- As of December 31, 2013, 100% of the Company's fixed income portfolio was rated investment grade
  - Average duration: 4.0 years
  - Composite rating: A+ (S&P)
  - Average yield: 1.95%
- Historical returns on investments as of December 31, 2013
  - 1 Year: 4.50%
  - 2 Year: 5.32%
- Actively increasing fixed income concentration in portfolio

## Investments and Cash

*As of December 31, 2013*

**(\$262.1 Million)**

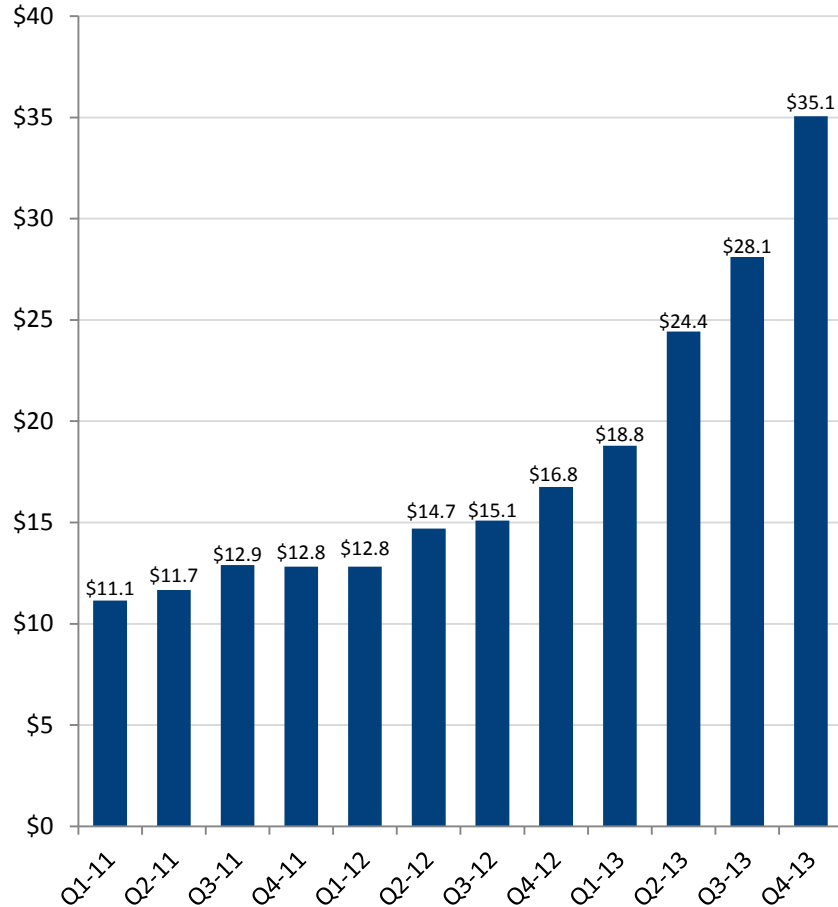




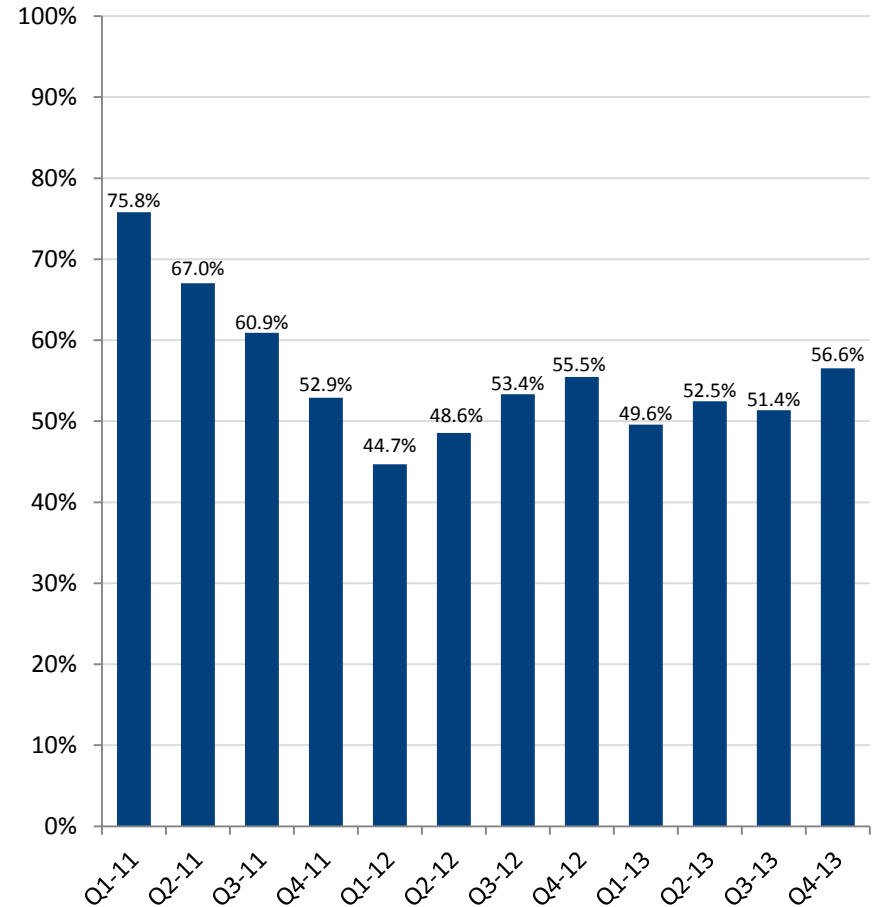
# GAAP FINANCIAL HIGHLIGHTS

## Net Premiums Earned

Dollars in Millions

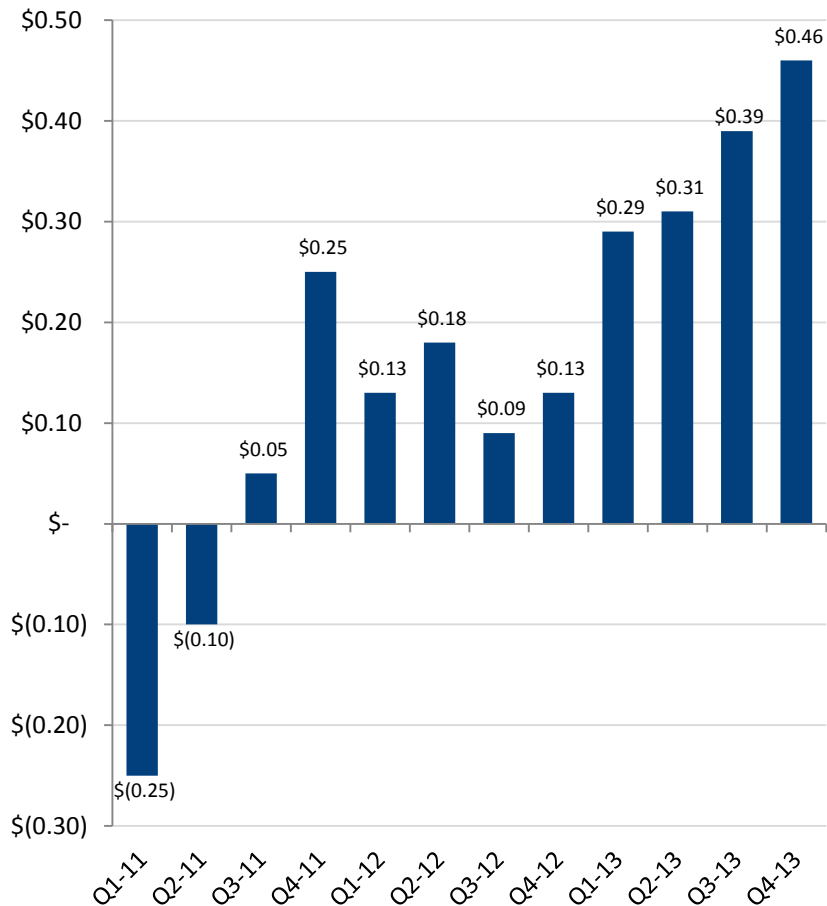


## Loss & LAE Ratio

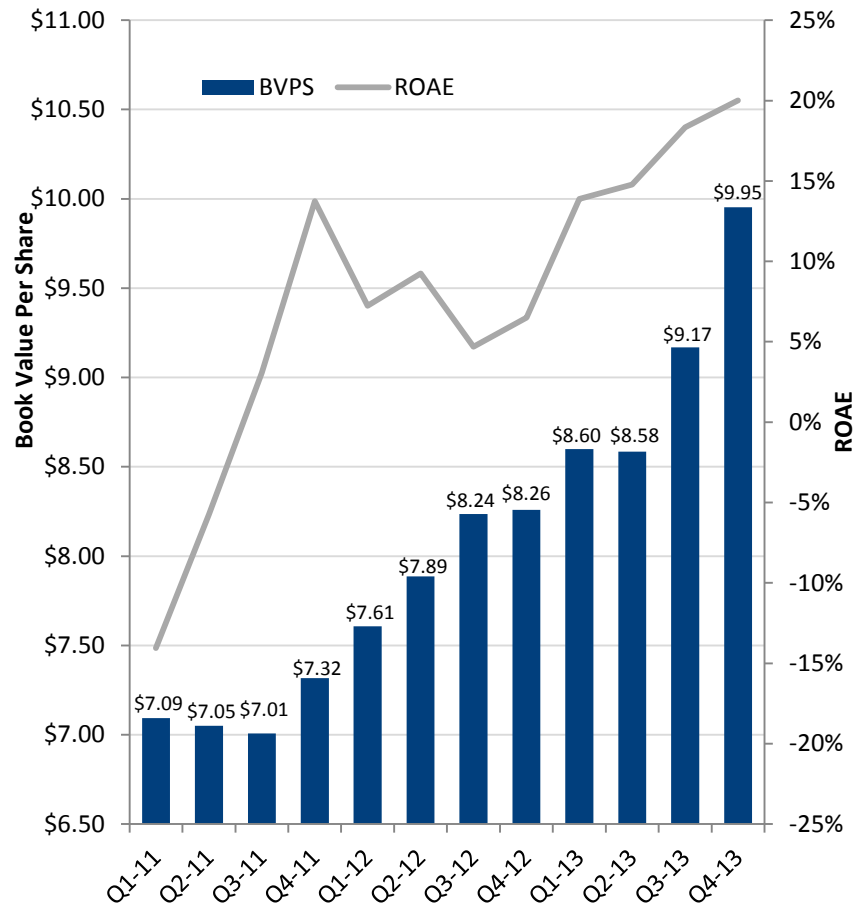


# GAAP FINANCIAL HIGHLIGHTS (CONTINUED)

## Diluted Earnings Per Share



## Reported BVPS & ROAE



# FINANCIAL UPDATE

- For the recent quarter ended December 31, 2013, we experienced strong growth in written premiums, revenue and earned premium. Further, we continued to build our policy base while maintaining our stringent underwriting criteria.

*(Dollars in Millions, Except Per Share Data)*

	3 Months Ended		%	12 Months Ended		%
	2013	2012	Change	2013	2012	Change
Income Statement						
Gross premiums written	\$67.8	\$29.8	128%	\$243.4	\$119.5	104%
Net premiums written	63.2	28.0	126%	160.7	68.4	135%
Net premiums earned	35.1	16.8	109%	104.4	59.4	76%
Net income	4.6	1.1	327%	12.7	4.3	195%
EPS - diluted	0.46	0.13	254%	1.45	0.53	174%
GAAP loss and LAE ratio	56.6%	55.5%	--	54.0%	50.9%	--

	As of December 31,		%
	2013	2012	Change
<b>Balance Sheet</b>			
Cash and investments	\$262.2	\$151.2	73%
Total assets	316.7	185.9	70%
Unpaid losses and LAE	61.0	49.9	22%
Unearned premiums	128.3	59.0	118%
Shareholders' equity	108.5	65.9	65%
BVPS - reported	9.95	8.26	20%
<b>Other</b>			
Homeowners' policy count (actuals)	116,401	61,102	91%

# THE OPPORTUNITY



# CONTACT US

## Company Contacts

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