REPORT ON EXAMINATION

OF

FEDERATED NATIONAL INSURANCE COMPANY (F/K/A AMERICAN VEHICLE INSURANCE COMPANY)

SUNRISE, FLORIDA

AS OF

DECEMBER 31, 2010

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 2, 2011

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2010, of the financial condition and corporate affairs of:

FEDERATED NATIONAL INSURANCE COMPANY (F/K/A AMERICAN VEHICLE INSURANCE COMPANY)
14050 NW 14th STREET, SUITE 180
SUNRISE, FLORIDA 33323

Hereinafter referred to as, the “Company”. Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on March 21, 2011 to March 25, 2011. The fieldwork commenced on March 28, 2011, and concluded as of June 2, 2011.

This financial examination was a multi-state statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Losses and Loss Adjustment Expenses

This examination found the reserve for losses to be deficient by $1.918 million and the reserve for loss adjustment expenses to be deficient by $2.236 million. That resulted in a total deficiency of $4.154 million.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves, as of December 31, 2005, were deficient by $2,054,000. **Resolution:** The Company increased its loss and loss adjustment expense reserves effective with their Third Quarter 2007 Report.

Territory

The Company had not written insurance coverage in certain lines of business (commercial auto physical damage and commercial auto liability) appearing on its certificate of authority during the last two years that were under examination. **Resolution:** The Company began writing in those lines of business in February, 2011.

SUBSEQUENT EVENTS

The Company entered into an agreement to merge with its affiliate, Federated National Insurance Company (FNIC), effective January 25, 2011, under Consent Order 114165-10-CO issued by the Office. Under the agreement, the Company acquired 100% of the outstanding common stock of FNIC for $1 and other good and valuable consideration. The Company then changed its name to Federated National Insurance Company. The Consent Order contains stipulations including, but not limited to, restrictions on premium volume in certain areas, reduced affiliated fee payments, and no dividend payments without prior approval from the Office.

HISTORY

General

The Company was incorporated in Florida on November 23, 1983, and commenced business on March 1, 1984, as American United Insurance Company. The name was changed to American Vehicle Insurance Company on May 29, 1990. As noted above under Subsequent Events, effective January 25, 2011, the Company acquired 100% of the outstanding common stock of affiliate FNIC and merged with that affiliate. The Company then changed its name to Federated National Insurance Company. The Company is a stock insurer with 100% of its outstanding stock held by 21st Century Holding Company (TCHC).

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners multi peril	Commercial automobile liability
Commercial multi peril	Commercial auto physical damage
Private passenger auto physical damage	Surety
Other liability	Inland marine
Private passenger auto liability	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholder during the period under examination.

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000
Total common capital stock	$1,500,000
Par value per share	$3.00

Control of the Company was maintained by its parent, TCHC, which owned 100% of the stock issued by the Company.

Surplus Debentures

The Company did not have any surplus debentures during the period under examination.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals or purchase or sales through reinsurance during the period under examination. However, as noted above under Subsequent Events, the Company merged with an affiliate on January 25, 2011.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors (Board) were reviewed for the period under examination. The Board did not appoint any Committees. It authorized the Audit Committee and the Investment Committee of its parent, TCHC, to perform those functions for the Company. The Board authorized the investments made by the Investment Committee of TCHC on behalf of the Company.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2010, with subsequent changes, were:

Directors

Name and Location	Principal Occupation
Michael Herbert Braun Pembroke Pines, Florida	President of the Company
Donald George Braun, Jr. Plantation, Florida	Treasurer of the Company
Glenna Marie Guess Boca Raton, Florida	Secretary and Underwriting Mgr of the Company
Kevin Glenn Turner (resigned January 2011) Chicago, Illinois	Director of Actuarial Services for TCHC
Peter John Prygelski III Coral Springs, Florida	Chief Financial Officer of TCHC
Ydania Concepcion (elected January 2011) Miami, Florida	Statutory Controller of the Company
James Gordon Jennings (elected January 2011) Plantation, Florida	Vice President of Risk Management of TCHC

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Michael Herbert Braun	President
Donald George Braun, Jr.	Treasurer
Glenna Marie Guess	Secretary

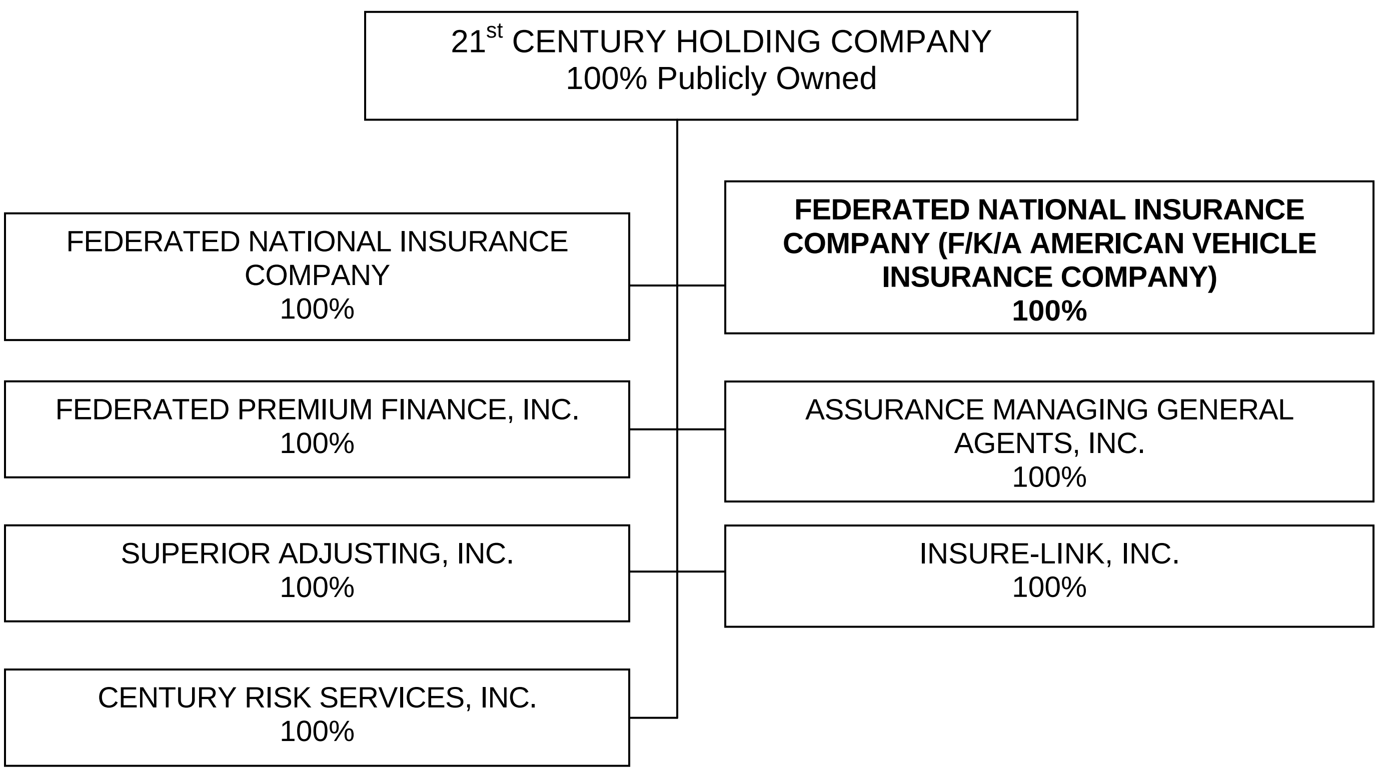
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 10, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

FEDERATED NATIONAL INSURANCE COMPANY (F/K/A AMERICAN VEHICLE INSURANCE COMPANY)
ORGANIZATIONAL CHART

DECEMBER 31, 2010



The following agreements were in effect between the Company and its affiliates:

Cost Sharing Agreement

The Company was a party to cost sharing agreements with its parent, TCHC, and other affiliates, which were entered into between January 2003 and January 2010. The terms of those agreements stated that from time to time either party may pay expenses on behalf of the other such as, but not limited to payroll, supplies etc. The agreements also stated that the Company and the affiliates will reimburse each other for expenses paid on behalf of one another within 90 days of the payment being made.

Tax Allocation Agreement

There was an Income Tax Allocation agreement, effective January 1, 2003, between the Company and TCHC. The agreement provided for TCHC, the Company and other affiliates to allocate income tax assets and liabilities among the member companies of the affiliated group. One of the provisions stated that at no time shall the amount of unsettled inter-company income taxes cause the amount paid by the Company, net of receipt of inter-company amounts, to exceed the amount that would have been due and payable to the taxing authorities if the Company were filing its tax return on a separate-entity basis.

Managing General Agency Agreement

The Company had a Managing General Agency Agreement, effective November 28, 2007, with affiliate, AMGA. Under the agreement, AMGA provided services to the Company including statistical reports, underwriting, marketing, administration and management of the insurance policies and to negotiate reinsurance agreements. Compensation paid to AMGA was in two parts. AMGA received a fee equal to the maximum allowed by Florida Statute 626.7451, or as amended, and the fee must be collected from the policyholder. Currently, the maximum amount allowed is a twenty-five ($25) dollar fee per policy. In addition, the Company paid AMGA a commission of 6% of net written premium on all business written. An addendum to this agreement, effective January 27, 2011, changed the commission to 2% on business written between January 1, 2011 and March 31, 2011; 3% on business written between April 1, 2011 and June 30, 2011; 4% on business July 1, 2011 and thereafter.

Upon review of the agreement, the examiners noted that the following three clauses as required by Section 626.7451, Florida Statutes, were missing:

(1) The insurer or managing general agent may terminate the contract for cause as provided in the contract upon written notice to the terminated party. The insurer may suspend the underwriting authority of the managing general agent during the pendency of any dispute regarding the cause for termination. The insurer or managing general agent must fulfill any obligations on policies, regardless of any dispute.

(2) The managing general agent shall render accounts to the insurer detailing all transactions and remit all funds due under the terms of the contract to the insurer on a monthly or more frequent basis.

(3) All funds collected for the account of the insurer shall be held by the managing general agent in a fiduciary capacity in a bank which is a member of the Federal Reserve System. This account shall be used for all payment as directed by the insurer. The managing general agent may retain no more than 60 days of estimated claims payments and allocated loss adjustment expenses.

<u>Subsequent Event:</u> On June 29, 2011, the Company submitted an amended MGA agreement which included the missing clauses.

Claims Service Agreement

The Company entered into a claims service agreement, effective November 5, 2007, with affiliate, Superior Adjusting, Inc. (Superior). Under the agreement, Superior processed claims for all lines of business written by the Company. Compensation paid to Superior was 4½% of earned premiums. In addition, Superior was entitled to a 15% collection fee on all subrogation receipts and a 10% collection fee for all salvage collection receipts. An addendum to this agreement, effective January 27, 2011, changed the compensation to 3.6% of earned premiums. The subrogation and salvage collection fees remained the same.

Management Agreement

There was a Management Agreement, effective January 2, 2007, between the Company and TCHC. Under this Agreement, TCHC assisted the Company in all aspects of management including, but not limited to:

Review and improving financial goals;

Compliance with legal and regulatory mandates;

Ensure an ethical business environment;

Provide for the execution of all general corporate legal matters; and

Manage and oversee all personnel.

Compensation paid to TCHC by the Company for these services was an annual payment of $100,000.

FIDELITY BOND

The Company maintained fidelity bond coverage up to $900,000 with a deductible of $100,000, which reached the suggested minimum as recommended by the NAIC. At December 31, 2010, the Company was not a named insured. Subsequent Event: On April 21, 2011, a named insured endorsement was added to include the Company as a named insured.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There were no pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama	Louisiana
Florida	Texas
Georgia	

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company experienced underwriting losses in four of the five years under examination. At December 31, 2010, the Company (and affiliate FNIC which merged with the Company in January 2011) had several rate filing requests pending. Subsequent event: These were approved in 2011 and included a 20% increase in Homeowners and a 137.9% increase in Commercial Residential –

Condo lines of business. There were also two other rate filings approved in late 2010, a 1.3% increase in Commercial Auto in Florida and a 79.6% increase in General Liability lines of business in Louisiana.

Net premiums written decreased in all five years under examination.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2010	2009	2008	2007	2006
Premiums Earned	15,043,415	19,975,936	29,443,884	38,489,798	44,301,113
Net Underwriting Gain/(Loss)	(4,055,243)	(4,543,804)	(4,486,575)	(797,286)	6,320,616
Net Income	1,636,754	(1,110,913)	(2,358,695)	1,279,251	6,209,288
Total Assets	68,372,378	71,735,720	73,228,593	71,139,518	68,926,734
Total Liabilities	46,442,537	45,950,233	48,142,202	43,569,885	42,216,037
Surplus As Regards Policyholders	21,929,841	25,785,487	25,086,391	27,569,633	26,710,697

LOSS EXPERIENCE

During the current examination period, the Company showed unfavorable loss development. The one-year loss development at December 31, 2010, was an unfavorable amount of $674,000 or 2.6% of the prior year's surplus. The two-year loss development at December 31, 2010 was an unfavorable amount of $3.5 million or 14.0% of the prior year's surplus.

The ratio of losses and loss adjustment expenses incurred to premiums earned for 2010 and 2009 were 79.1 and 80.5, respectively.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

During 2009, the Company entered into a retrocession agreement with JRG Reinsurance Company whereby the Company assumed 50% of the business underwritten by affiliate, AMGA on behalf of the State National Group of Companies. Under this treaty, during 2010, the Company assumed premiums of $1.5 million. The companies mutually agreed to suspend this treaty effective May 15, 2011.

Ceded

The Company entered into an 80% quota share agreement with Scor Reinsurance Company, effective May 1, 2010, for private passenger automobile policies. During 2010, the total of premiums ceded under this agreement was $615,000.

The Company purchased casualty clash and contingency excess reinsurance coverage, effective December 31, 2010, with Lloyd's Syndicates as reinsurers, covering commercial other liability and private passenger and commercial automobile liability. During 2010, the total of premiums ceded under this agreement was $377,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Lauderdale Lakes, Florida.

An independent CPA firm audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008, 2009 and 2010, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a retail accounting system. The Company utilized third-party providers for their core information technology functions relating to underwriting, premium and claims processing. The applications were outsourced web-based applications where the third-party provider maintained the application, performed systems development and maintenance, as well as handled the method of access to those applications.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement, effective April 28, 2008, with M&T Trust Company (M&T). The agreement provided for M&T to hold the Company's invested assets in a custodial capacity and outlined the responsibilities of each party.

Upon review of the agreement, the examiners noted that there were three clauses missing as required by Rule 69O-143.042, Florida Administrative Code:

(g) The custodian and its agents shall be required to send to the insurance company all reports which they receive from a clearing corporation, their respective systems of internal accounting control and reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

(j) A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.

(o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

<u>Subsequent Event:</u> On May 22, 2012, the Company submitted an amended custodial agreement which included the missing clauses.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Paul L. Berkebile, CISA, CFSA, Senior Manager, INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	US Treasury Note, 4.375%, 8/15/12	$1,000,000	$1,061,600
FL	US Treasury Bond, 7.25%, 5/15/16	30,000	37,917
TOTAL FLORIDA DEPOSITS		$1,030,000	$1,099,517
AL	US Treasury Bond, 2.5%, 3/31/13	$ 400,000	$ 416,375
AL	Cash	6,669	6,669
AR	US Treasury Bond, 3.875%, 2/15/13	150,000	160,278
GA	Cash	25,000	25,000
LA	Certificate of Deposit	118,283	118,283
TOTAL OTHER DEPOSITS		$ 699,952	$ 726,605
TOTAL SPECIAL DEPOSITS		$1,729,952	$1,826,122

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FEDERATED NATIONAL INSURANCE COMPANY
(F/K/A AMERICAN VEHICLE INSURANCE COMPANY)
Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	$51,633,278		$51,633,278
Stocks:			
Common	8,590,531		8,590,531
Cash and Short-Term Investments	2,812,317		2,812,317
Receivable for securities	999,717		999,717
Agents' Balances:			
Uncollected premium	936,711		936,711
Deferred premium	653,115		653,115
Reinsurance recoverable	197,066		197,066
EDP Equipment			0
Interest and dividend income due & accrued	533,875		533,875
Current federal and foreign income tax recoverable	121,558		121,558
Net deferred tax asset	1,230,246		1,230,246
Aggregate write-in for other than invested assets	663,964		663,964
Totals	$68,372,378	$0	$68,372,378

FEDERATED NATIONAL INSURANCE COMPANY
(F/K/A AMERICAN VEHICLE INSURANCE COMPANY)
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	$16,597,917	$1,918,000	$18,515,917
Reinsurance payable on paid losses and loss adjustment expenses	502,761		502,761
Loss adjustment expenses	20,786,872	2,236,000	23,022,872
Commissions payable	24,605		24,605
Other expenses	30,431		30,431
Taxes, licenses and fees	(37,467)		(37,467)
Unearned premiums	6,010,442		6,010,442
Advance premium	2,252		2,252
Ceded reinsurance premiums payable	380,176		380,176
Payable to parent, subsidiaries and affiliates	2,144,548		2,144,548
Total Liabilities	$46,442,537	$4,154,000	$50,596,537
Common capital stock	$1,500,000		$1,500,000
Aggregate write-ins for other than special surplus funds	605,955		605,955
Gross paid in and contributed surplus	25,715,048		25,715,048
Unassigned funds (surplus)	(5,891,162)	($4,154,000)	(10,045,162)
Surplus as regards policyholders	$21,929,841	($4,154,000)	$17,775,841
Total liabilities, surplus and other funds	$68,372,378	$0	$68,372,378

FEDERATED NATIONAL INSURANCE COMPANY
(F/K/A AMERICAN VEHICLE INSURANCE COMPANY)
Statement of Income

DECEMBER 31, 2010

Underwriting Income	
Premiums earned	$15,043,415
Deductions:	
Losses incurred	$3,172,917
Loss expenses incurred	8,596,249
Other underwriting expenses incurred	7,329,492
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$19,098,658
Net underwriting gain or (loss)	($4,055,243)
Investment Income	
Net investment income earned	$1,789,003
Net realized capital gains or (losses)	3,648,072
Net investment gain or (loss)	$5,437,075
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	130,148
Aggregate write-ins for miscellaneous income	3,215
Total other income	$133,363
Net income before dividends to policyholders and before federal & foreign income taxes	$1,515,195
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,515,195
Federal & foreign income taxes	(121,558)
Net Income	$1,636,753
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$25,785,487
Net Income	$1,636,754
Net unrealized capital gains or losses	(119,475)
Change in net deferred income tax	(472,108)
Change in non-admitted assets	(4,701,185)
Capital changes: Paid in	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	(199,631)
Examination Adjustment	(4,154,000)
Change in surplus as regards policyholders for the year	($8,009,645)
Surplus as regards policyholders, December 31 current year	$17,775,841

A comparative analysis of changes in surplus is shown below.

FEDERATED NATIONAL INSURANCE COMPANY
(F/K/A AMERICAN VEHICLE INSURANCE COMPANY)

Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
Surplus as Regards Policyholders December 31, 2010, per Annual Statement				$21,929,841
ASSETS:				
No Adjustment				
LIABILITIES:				
Losses	$16,597,917	$18,515,917	($1,918,000)	
Loss adjust exp	20,786,872	23,022,872	(2,236,000)	
Net Change in Surplus:				(4,154,000)
Surplus as Regards Policyholders December 31, 2010, Per Examination				$17,775,841

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $41,538,789

An outside actuarial firm was appointed by the Board of Directors to render an opinion on the loss and loss adjustment expense reserves as of December 31, 2010. That opinion included a range of reasonable reserve estimates in the opinion of that actuarial firm. The Company selected the reserve estimates at the low end of that range to present in its 2010 annual statement.

The Office consulting actuaries, Robert W. Gardner, FCAS, MAAA of INS Consultants, Inc. and Eugene G. Thompson, ACAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company. The Office consulting actuaries presented an opinion that the reserves, as shown in the 2010 annual statement, were deficient by $4.154 million.

Capital and Surplus

The amount reported in the financial statements of this report of $17,775,841, exceeded the minimum required by Section 624.408, Florida Statutes, which is 10% of the total liabilities or $5,059,654.

SUMMARY OF RECOMMENDATIONS

Losses and Loss Adjustment Expenses

We recommend that the Company adequately reserve for losses and loss adjustment expense reserves as required by Section 625.041(1) and Section 625.101, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Federated National Insurance Company (F/K/A American Vehicle Insurance Company)** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders of $17,775,841 exceeded the minimum required by Section 624.408, Florida Statutes, which was 10% of total liabilities, or $5,059,654.

In addition to the undersigned, Patricia Casey Davis, CFE, CPA, CMA, CIA, Manager, and James Russo, CFE, CPCU, FLMI, CIE, CFSA, CFE (Fraud), Examiner In-Charge, of INS Regulatory Insurance Services, Inc., participated in the examination.

Robert W. Gardner, FCAS, MAAA, and Eugene G. Thompson, ACAS, MAAA, consulting actuaries, of INS Consultants, Inc.; Lawrence Lentini, CPA, President, Claude B. Granese, CPA, Director of Finance and Quality Control, and Paul L. Berkebile, CISA, CFSA, Senior Manager, of INS Services, Inc.; Sara Baylock, Financial Specialist and Gary Farmer, Financial Examiner/Analyst Supervisor, of the Office also participated in the examination.

Respectfully submitted,

____

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation