REPORT ON EXAMINATION

AS TO THE CONDITION OF THE

INTERNATIONAL FIDELITY INSURANCE COMPANY

NEWARK, NEW JERSEY 07102-5207

AS OF DECEMBER 31, 2012

N.A.I.C. GROUP CODE 4705

N.A.I.C. COMPANY CODE 11592

Filed

June 3, 2014

Commissioner
Department of Banking & Insurance

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

KENNETH E. KOBYLOWSKI
Commissioner

Dear Mr. Kobylowski:

In accordance with the authority vested in you by the Revised Statutes of New Jersey (N.J.S.A.) an examination has been made of assets, liabilities, methods of conducting business and other affairs of the

International Fidelity Insurance Company
One Newark Center
Newark, New Jersey 07102-5207
N.A.I.C. Group Code 4705
N.A.I.C. Company Code 11592

hereinafter referred to as the "Company" or "IFIC".

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this Examination in compliance with the requirements of N.J.S.A. 17:23-22. The examination was a full scope comprehensive examination and was conducted at the Company's home office located at One Newark Center, Newark, New Jersey.

The examination was conducted using the risk-focused examination approach and addressed the five-year period from December 31, 2007, the date of the last Financial Condition Examination. During this five-year period under examination, the Company's net admitted assets increased from $170,693,908 to $246,825,231. Liabilities increased from $84,361,155 to $143,002,263 and its surplus to policyholders increased from $86,332,753 to $103,822,969.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI). The scope of this examination was based upon the focus of certain specific key risk areas as determined by a risk assessment analysis through the use of control testing. Risks were assessed based upon its impact to the Company's financial condition and its future results. An assessment of the Company's management, corporate governance and information systems was utilized to identify, control, assess and manage its business and financial reporting risks. The overall objectives of this examination are indicated below:

- Analyze business risk activities focusing on examination procedures in those areas deemed to have greater risk to the Company's overall operations identifying significant operating issues and/or deviations from statutory accounting practices that affect solvency assessment.
- Identify significant deviations from New Jersey insurance laws, regulations and department directives.
- To comply with the standards prescribed in the revised NAIC Financial Condition Examiners Handbook, NAIC accreditation/codification standards and procedures and NJDOBI Departmental policies and procedures.
- To identify and report significant operational and internal control deficiencies and assess the Company's risk management processes.
- Assess the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current or prospective risk areas.
- To assess the risks that the Company's surplus is not materially misstated.
- To provide a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authorities.

Substantive procedures were completed on certain risks based upon the adequacy of controls, risk mitigation strategies and materiality of the risks. Additional substantive procedures were performed as required by the NJDOBI.

In addition to the items hereinafter incorporated as part of the written report, the following item were reviewed and made part of the examination workpapers:

Commitments and Contingencies
Fraud

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The following is a list of prior report recommendations and a review of the Company's compliance with those recommendations:

Holding Company Systems

Recommendation: The Company did not fully disclose the existence of related party affiliations in both the Holding Company System Registration Statement and Schedule Y. Specifically the relationship of AIA Holdings, Inc's and its common ownership with certain owners of IFIC. It is recommended the Company disclose these affiliations in its Insurance Holding Company System Annual registration Statement filing in compliance with N.J.S.A. 17:27A-3 and in Schedule Y-Part 1 and 2.

Response and Review: The Company properly disclosed its relationship with AIA Holdings, Inc. in its Holding Company System Annual registration Statement filing and in Schedule Y-Part 1 and 2.

HISTORY OF THE COMPANY

The Company was organized and incorporated on December 27, 1904 under the laws of the State of New Jersey and commenced business on January 5, 1920. The Company was formed by the Singer Sewing Company as a subsidiary issuing fidelity insurance coverage. The Monmouth Insurance Company, a Newark NJ, incorporated and licensed under the laws of New Jersey in August 1963, was merged with and into International Fidelity during the early part of 1964. Monmouth shareholders many of whom were insurance agents exchanged shares in Monmouth for IFIC shares. Thus started IFIC's writings of bail surety business which has expanded into other types of surety business over the years. Ownership of the Company is shared by a number of individuals and entities, however over 61% of the Company is owned by individuals and family trusts. Additionally two owners of IFIC also own 68.7% of AIA Holdings, Inc., a managing general agent for the Company's bail business. On July 27, 2009 the Company filed a Form D with the NJDOBI to purchase all of the shares of The Chestnut Group which was non-disapproved by the Department on September 25, 2009. The Chestnut Group's owns 100% of the Allegheny Casualty Company (ACC) a surety insurance company licensed in 48 states including the District of Columbia. Although ACC writes all types of surety business its main concentration will be "specialty" non-standard bond coverage whereby more collateral is required. All of ACC's business is reinsured with IFIC with the exception of bail business

Capitalization of the Company consists of total capital stock of $1,500,000 consisting of 1,000,000 shares of authorized shares with a par value of $1.50 per share. Surplus notes with private entities totaling $16,000,000 were issued as follows:

- A $6,000,000 surplus note was issued on December 16, 2005 to Wilmington Trust Company acting as trustee for the note purchaser InCapS Funding II, Ltd. Interest rates on the note are based upon LIBOR (London InterBank Offered Rate) plus 4.10%. The notes mature on January 8, 2034 and any interest or repayment of principal on the notes is subject to the approval of the NJDOBI.
- A $10,000,000 surplus note was issued on December 16, 2005 to JP Morgan Chase Bank, National Association acting as Trustee for the note purchaser Merrill Lynch International. Interest rates on the note are based upon LIBOR (London InterBank Offered Rate) plus 3.45%. The notes mature on December 15, 2035 and any interest or repayment of principal on the notes is subject to the approval of the NJDOBI.

The Company is authorized to transact the kind of business specified in paragraph "e" or "g" of N.J.S.A. 17:17-1.

The Company's main administrative office is located at One Newark Center, Newark, New Jersey 07102. The registered agent upon whom process may be served is Steven S. Radin, Esq. of Sills Cummins & Gross P.C.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write business in all 50 states including the District of Columbia, Guam and Puerto Rico. The Company along with its wholly owned subsidiary Allegheny Casualty Insurance Company provide a wide range of surety bonds including contract, commercial, bail, specialty and subdivision. It also offers fidelity bonds in several states as secondary cover on commercial business written.

The Company is an authorized surety in all federal courts and is treasury listed by the United States Treasury Department.

The Company generates business through the use of over 1500 independent agents stationed nationwide. Agents are granted powers of attorney with business written subject to underwriting approval. Its marketing and underwriting is overseen by 31 regional profit centers located throughout the country. A list of those profit centers follows:

Walnut Creek (combined business)	Philadelphia
New York City	Los Angeles Contract

Chicago	Dallas Contract
Dallas Commercial	Houston Contract
Central Midwest	Columbus
Orlando Contract+	Syracuse
Dallas Specialty	Boston
Atlanta	Baltimore
Buffalo Commercial	Denver
Charlotte Contract	Philadelphia Specialty
Seattle	Newark Specialty
San Diego Contract	Denver Specialty
Orlando Commercial	Birmingham Contract
Chicago Specialty	Sacramento Specialty
Tallahassee Specialty	San Diego Specialty
New England Specialty	

Contract bonds include bid, performance, payment, completion and supply bonds. Commercial bonds include transaction, permit, judicial, custom, and miscellaneous indemnity bonds. Previously the Company had underwritten custom bond business with its strategic partner International Bond & Marine Brokerage, Ltd. However the Company ended this arrangement and any custom bond business with this former associate is currently in run-off. The Company continues to write custom bond business however the amount of business written is minimal. Bail bonds are completely underwritten and marketed by AIA Holdings, Inc. (AIA) under a Managing General Agent (MGA) Agreement (ACC has a similar MGA Agreement). Under the Agreement AIA will act as bond manager and will perform the following:

- Appoint Producers
- Underwrite and issue bonds
- Bill premiums
- Collect premium from agents
- Perform claim handling services.

In return AIA is entitled to a commission rate which varies based upon the state or territory the bail is written.

The Company's purchase of ACC complements its business by concentrating on specialty surety. This allows contractors with unsecured surety business to meet qualified levels through increased levels of collateral. All of ACC's specialty business is assumed by IFIC through an internal reinsurance agreement.

The Company maintains underwriting, claims and legal field offices throughout the country which provide Company representations in specific areas. A list of these offices follows:

Atlanta Regional Office-Underwriting-Atlanta, Georgia
Baltimore Regional Office-Contract Underwriting and Complex Claims-Hunt Valley, Maryland
Birmingham Regional Office-Underwriting-Birmingham, Alabama
Boston Regional Office-Underwriting-Rockland, Massachusetts
Buffalo Commercial Regional Office-Underwriting-Amherst, New York
Central Midwest Nebraska Regional Office-Underwriting-Lincoln, Nebraska
Central Midwest Iowa Regional Office-Underwriting-Cedar Rapids, Iowa
Charlotte Contract Regional Office-Underwriting-Charlotte, North Carolina

Chicago Regional Office-Underwriting-Naperville, Illinois
Illinois Claims Office-Claims-Belvidere, Illinois
Columbus Regional Office-Underwriting-Westerville, Ohio
Dallas Specialty, Contract and Commercial Regional Office and Southern Division Claims Office-Underwriting/Claims-Plano, Texas
Denver Regional Office-Underwriting-Greenwood Village, Colorado
Houston Contract Regional Office-Underwriting-Spring, Texas
Los Angeles Contract Regional Office-Underwriting-Santa Monica, California
New York City Regional Office-Underwriting-Newark, New Jersey
Orlando Contract and Commercial Regional Office-Underwriting-Maitland, Florida
Philadelphia Specialty Regional and Northeast Division Claims Office-Underwriting/Claims-Norristown, Pennsylvania
Sacramento Specialty Regional Office-Underwriting-Sacramento, California
San Diego Contract and Specialty Regional Office-Underwriting-San Diego, California
Tallahassee Specialty Regional Office-Underwriting-Tallahassee, Florida
Seattle Contract Regional Office and Western Division Claims Office-Underwriting/Claims-Issaquah, Washington
Syracuse Regional Office-Underwriting-Baldwinsville, New York
Walnut Creek Regional Commercial and Contract Office-Underwriting-Walnut Creek, California
Washington D.C. Office-Industry and Political Affairs-Washington, D.C.

REINSURANCE AND RETENTION

The Company entered into a continuous quota share reinsurance agreement effective January 1, 2010 with Allegheny Casualty Insurance Company. Under the Agreement ACC will cede and IFIC will accept 100% of the specialty insurance underwritten by ACC.

The Company cedes surety and fidelity business through a variable quota share reinsurance contract. Under the contract effective July 1, 2012 business is ceded and accepted by the reinsurers as follows:

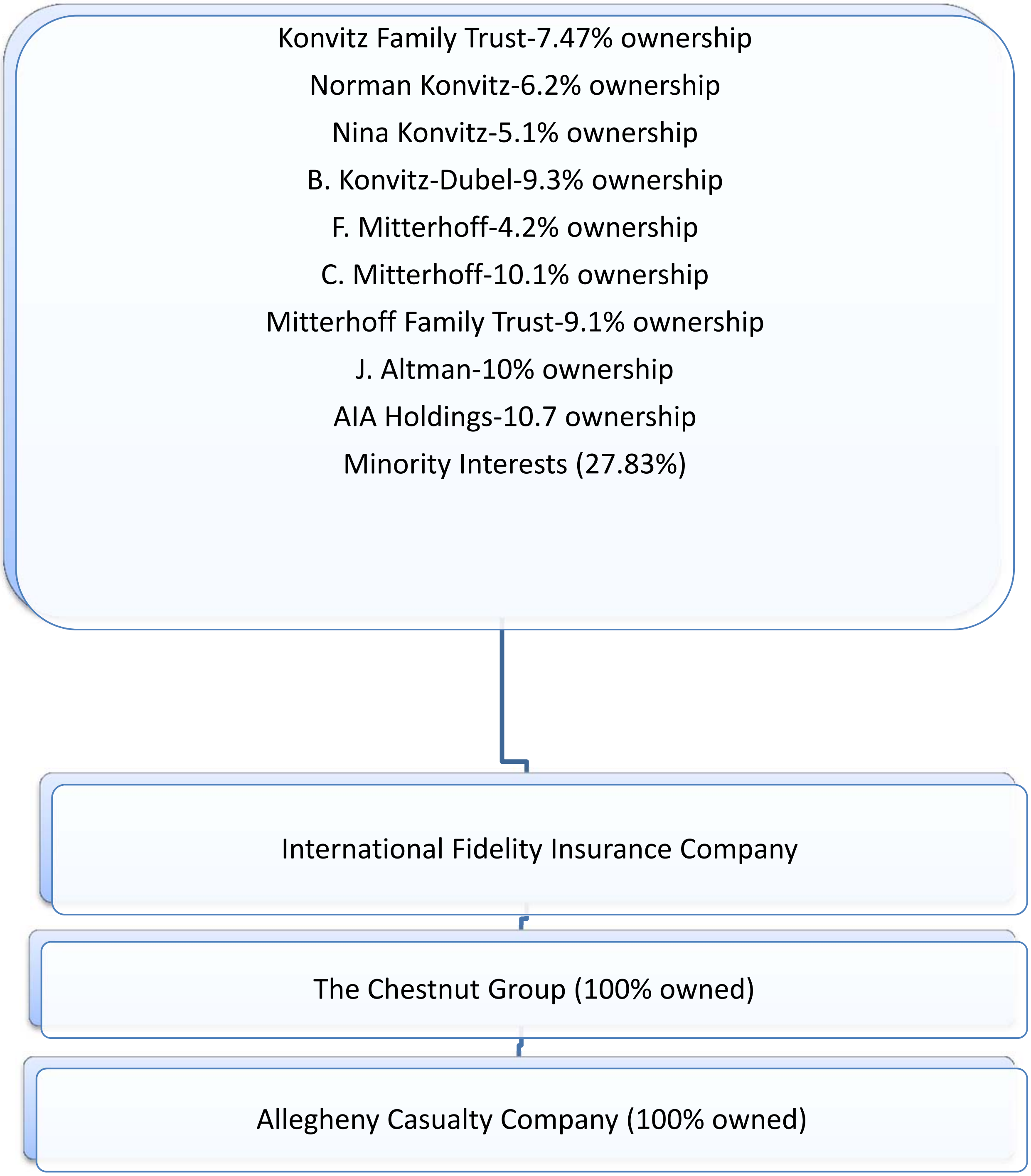
Bond Amount	Company Retention	Ceded to Reinsurer
$0-$50,000	100%	0%
$50,001-$100,000	95%	5%
$100,001-$4,000,000	75%	25%
$4,000,000-$7,000,000	45%	55%
$7,000,001-$15,000,000	35%	65% (up to max cession of $9,750,000)
$15,000,000 and Greater	Submit for Special Acceptance	

Similar variable quota share reinsurance contracts were written throughout the examination period. The contracts cover all business underwritten by IFIC and assumed from ACC excluding bail bonds. The Agreement is subject to a co-surety clause whereby certain bonds may be co-insured with Everest Reinsurance Company (Everest). Under such an arrangement other reinsurers maintain a Hold Harmless Agreement with IFIC and Everest with reinsurers maintaining its reinsurance participation in the event Everest enters into a co-surety arrangement.

Reinsurance contracts were reviewed by the NJDOBI to ensure there was adequate risk transfer on those contracts. Reinsurance agreements were also reviewed to ensure all contracts had acceptable clauses and conditions.

HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined within N.J.S.A. 17:27A-1. IFIC has several owners and it maintains 100% ownership in the Chestnut Group (sole owner of Allegheny Casualty Company) as illustrated below:



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Two of the owners listed above also own 68.7% of AIA Holdings, Inc. a managing general agent for the Company's bail business which is described in the report section "Territory and Plan of Operation".

The Company has entered into a number of affiliated agreements as described below:

- On January 1, 2010 the Company entered into an expense sharing agreement with Allegheny Casualty Insurance Company for the reimbursement of underwriting and operating expenses incurred by IFIC on behalf of Allegheny Casualty Company (ACC).
- On October 1, 2009 IFIC and ACC entered into a tax consolidated agreement whereby IFIC acts as the agent for filing the return. Under the Agreement ACC and IFIC shall share tax liabilities in an amount equal to the tax liability as if each had filed a separate return.
- The Company entered into a continuous quota share reinsurance agreement effective January 1, 2010 with Allegheny Casualty Insurance Company. Under the Agreement ACC will cede and IFIC will accept 100% of the specialty insurance underwritten by ACC.
- On April 7, 2009 IFIC and ACC entered into a reciprocal hold harmless agreement on any non-bail bonds written on a co-surety basis. These bonds require IFIC's participation and shall be written in the name of ACC. IFIC's co-surety liability shall be determined prior to the issuance of the bond.

CORPORATE RECORDS

Board and Committee minutes provided revealed adequate approval of the Company's transactions and events including the review and approval of the prior statutory financial examination report.

The Company's adherence to its Certificate of Incorporation and By-laws was validated without exception.

MANAGEMENT AND CONTROL

The annual meeting of shareholders shall be held at a place and time as determined by the Board of Directors to elect Board members and to conduct normal business transactions.

As indicated within the Company Bylaws, the Company's business and affairs shall be overseen by the Board of Directors. A majority of Directors shall constitute a quorum. Directors are elected annually and a listing of board members serving the Company as of December 31, 2012 is as follows:

Name and Affiliation	Home or Business Address
Francis Louis Mitterhoff IFIC-Chief Executive Officer and President	Brook Hollow Lane Bernardsville, NJ 07924
Norman Roger Konvitz IFIC-Executive Vice President/Secretary	47 Lincoln Avenue Elberon, NJ 07740
Daniel Jay Mitterhoff IFIC-Vice President	P. O. Box 42660 Washington D.C. 20015
Robert W. Minster IFIC-Executive Vice President Chief Operating Officer	264 Mountain Avenue Princeton, NJ 08540

Name and Affiliation	Home or Business Address
Ellen Sue Kagan Outside Director and Shareholder	59 Pilgrim Road Short Hills, NJ 07078
Jayne Ellen Kobrin Outside Director and Shareholder	75 Ironwood Court Middletown, NJ 07748
Eileen Sheffrin Retired	2100 Skycrest Drive, # 8 Walnut Creek, CA 94595
George Foster Brenner Retired	23 Carriage Hill Lane Columbus, NJ 08022
Barbara Konvitz Dubel Outside Director and Shareholder	58 Obre Place Shrewsbury, NJ 07702
Jeffery Stuart Kagan Outside Director	59 Pilgrim Road Short Hills, NJ 07078
Richard Roberts Outside Director	50 Park Place, Ste. 105 Newark, NJ 07102

Review of minutes indicated Board meetings were well attended. The Company could not provide Board minutes for the years 2011 and 2012 (see recommendation under the report caption “Corporate Records”).

The by-laws provide that the Board of Directors may designate one or more committees, each committee to consist of two or more directors and/or officers of the Company. At December 31, 2012 the following committees were in place:

AUDIT COMMITTEE
George Brenner-Chairman
Eileen Sheffrin
Richard M. Roberts
Jeffrey Stuart Kagan

INVESTMENT COMMITTEE
Francis L. Mitterhoff
Norman R. Konvitz
Robert Minster
Charlotte S. Weiss

PRICING COMMITTEE
Francis L. Mitterhoff
Robert Minster

REGULATORY COMMITTEE
Frank Tanzola
Barbara Kissner
Mark Riccordella

WATCH LIST COMMITTEE
Robert Minster
Tony DeMartino
George James
Frank Tanzola
Matt Silverstein

In accordance with the Corporate Bylaws the Board of Directors shall elect officers of the Company at the annual shareholders meeting to perform the managerial duties of the Company. Senior officers serving the Company as of December 31, 2012 are indicated below:

Name	Title
Francis Mitterhof	President/Chairman of the Board/Chief Executive Officer
Norman Konvitz	Executive Vice President/Secretary
Robert Minster	Executive Vice President/Chief Operating Officer
Barbara Kissner	Senior Vice President/Chief Information Officer
Mark Riccordella	Senior Vice President/Chief Financial Officer
Beartriz Sampedro	Senior Vice President
Frank Tanzola, Esq.	Senior Vice President
Anthony DeMartino, Jr.	Senior Vice President
George James	Senior Vice President
Jerry Watson	Senior Vice President
Adrian Oddi	Senior Vice President

POLICY ON CONFLICT OF INTEREST

The Company has adopted a policy statement on conflicts of interest. Each year all officers and directors of the Company are required to complete a formal conflict of interest questionnaire which requires the individual to disclose any act or affiliation that is likely to conflict with the individuals official duties. All of the required signatories to the conflict of interest questionnaire of officers, directors and key employees are then reviewed by IFIC's Legal Council and the President of the Company.

Conflict of interest questionnaires for 2012 were reviewed without exception.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

IFIC is covered by a fidelity bond insuring forgery or alteration, securities and computer system for a single loss limit of $1,000,000 subject to a $5,000 deductible. This fidelity coverage is deemed adequate to satisfy the minimum amounts of fidelity insurance coverage as suggested by the National Association of Insurance Commissioners (NAIC) exposure index.

The Company also maintains additional insurance coverages for the protection of its assets on the various policies in effect at December 31, 2012 as follows:

- Workers' Compensation and Employers Liability
- General Liability
- Automobile Liability
- Employee Benefits Liability
- Employment Practices Liability
- Directors and Officers Liability
- Umbrella Liability
- Business Property Liability

ACCOUNTS AND RECORDS

The Company's general and subsidiary ledgers are maintained at the main administrative office at One Newark Center, Newark, New Jersey. The Company produces its General Ledger through the use of software designed by DAPREX, Inc. with monthly postings to subsidiary systems. Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form and was tested and reconciled to the general ledger and the annual statement

Claims and premiums are processed utilizing the A/S 400 ("IBM Series"). The Company's general ledger and accounts payable are processed through an application program developed by DAPREX, Inc. The DAPREX, Inc. system integrates claim and premium data from the A/S 400 into the Company's general ledger. Investments are held in a holding file and manually posted monthly to the general ledger.

Additionally IFIC has developed other IT applications to assist in its monitoring and tracking certain transactions. IFIC does not use multiple platforms to process premium, claim or reinsurance transactions. Each function has processing platform only. The following is a listing of these key applications:

Data Warehouse

IFIC has developed a Data Warehouse which supplements reporting for the accounting department.

UWDB

IFIC uses an internally developed application to monitor performance (both financially and job specific) of its principals\contractors.

LOC

Line of Credit (LOC) is an internally developed application that trusts SharePoint to track bond dollar amounts (single and aggregate) that are granted to its principals\contractors.

Bond Approval System

The Company uses an internally developed application using SharePoint to track approved bonds greater than $1,000,000.

TREATMENT OF POLICYHOLDERS

In accordance with N.J.S.A. 17:29B-4(10) the Company is to maintain a complaint log of all written complaints filed against the Company. A review of the log showed only those complaints registered with various state insurance departments. It is recommended the Company maintain a complaint log of all complaints expressed as written correspondence in accordance with N.J.S.A. 17:29B-4(10).

ADVERTISING

The Company targets independent agents in advertising the attributes of IFIC. However one of the advertising items noted the Company quoting its total surplus. In accordance with N.J.S.A. 17:18-10 the Company shall only advertise it's paid in capital as surplus. It is recommended the Company only advertise paid in capital as surplus in accordance with N.J.S.A. 17:18-10.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

EXHIBIT A-BALANCE SHEET AS OF DECEMBER 31, 2012

	Current Examination at 12/31/12	Balance per Company at 12/31/12	Examination Change	Note
ASSETS				
Bonds	$37,665,793	$37,665,793	$0	1
Preferred Stocks	2,500,000	2,500,000	0	
Common Stocks	80,694,734	80,694,734	0	
Mortgage Loans on Real Estate	400,000	400,000	0	
Cash and Short Term Investments	93,103,224	93,103,224	0	1
Other Invested Assets	358,888	358,888	0	
Aggregate Write-ins for Invested Assets	11,622,747	11,622,747	0	
Investment Income Due and Accrued	376,830	376,830	0	
Premiums In Course of Collection	11,392,115	11,392,115	0	
Amounts Recoverable from Reinsurers	2,486,235	2,486,235	0	
Net Deferred Tax Asset	5,627,125	5,627,125	0	
Electronic Data Processing Equipment and Software	334,973	334,973	0	
Aggregate Write-ins for Other Than Invested Assets	262,568	262,568	0	
Total Admitted Assets	$246,825,232	$246,825,232	$0	
LIABILITIES				
Losses	$13,876,269	$13,876,269	$0	2
Reinsurance Payable on Paid Losses and LAE	$1,510,083	$1,510,083	0	
Loss Adjustment Expenses	$4,652,242	$4,652,242	0	2
Commissions	5,602,396	5,602,396	0	
Other Expenses	3,872,209	3,872,209	0	
Taxes, Licenses and Fees	448,079	448,079	0	
Current Federal and Foreign Income Taxes	811,905	811,905	0	
Unearned Premiums	36,650,734	36,650,734	0	
Dividends Declared and Unpaid: Policyholders	500,000	500,000	0	
Ceded Reinsurance Premiums Payable	4,082,113	4,082,113	0	
Funds held by Company under Reinsurance Treaties	1,031	1,031	0	
Amounts Withheld or Retained by Company for Account of Others	70,783,059	70,783,059	0	
Provision for Reinsurance	2,152	2,152	0	
Payable to Parent, Subsidiaries and Affiliates	205,016	205,016	0	
Aggregate Write-ins for Liabilities	4,975	4,975	0	
Total Liabilities	$143,002,263	$143,002,263	$0	
SURPLUS AND OTHER FUNDS				
Common Capital Stock	$1,500,000	$1,500,000	$0	
Surplus Notes	16,000,000	16,000,000	0	
Gross Paid In and Contributed Surplus	374,600	374,600	0	
Unassigned Funds (Surplus)	88,265,914	88,265,914	0	
Less: Treasury Stock at Cost	(2,317,545)	(2,317,545)	0	
Surplus as Regards Policyholders	$103,822,969	$103,822,969	$0	
Total Liabilities, Surplus and Other Funds	$246,825,232	$246,825,232	$0	

EXHIBIT B-SUMMARY OF OPERATIONS FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2012

UNDERWRITING INCOME	2012	2011	2010	2009	2008
Premiums Earned	$ 109,881,335	$ 101,576,111	$ 96,772,387	$ 95,666,061	$ 96,249,543
Deductions:					
Losses Incurred	$15,257,027	$21,603,491	$16,947,203	$12,662,420	5,955,314
Loss Expenses Incurred	7,150,621	5,422,728	4,847,104	5,156,578	4,321,772
Other Underwriting Expenses Incurred	76,458,524	69,829,725	66,825,479	70,129,694	66,210,992
Total Underwriting Deductions	$ 98,866,172	$ 96,855,944	$ 88,619,786	$ 87,948,692	$ 76,488,078
Net Underwriting Gain or (Loss)	$ 11,015,163	$ 4,720,167	$ 8,152,601	$ 7,717,369	$ 19,761,465
INVESTMENT INCOME					
Net Investment Income Earned	$ (741,736)	$ 921,010	$ 211,428	$ 1,009,469	$ 3,115,667
Net Realized Capital Gains or (Losses)	1,717,292	2,542,169	97,299	412,703	(1,781,725)
Net Investment Gain or (Loss)	$ 975,556	$ 3,463,179	$ 308,727	$ 1,422,172	$ 1,333,942
OTHER INCOME					
Net Gain or (Loss) from Agents' Balances Charged Off	$ (85,975)	$ (526,122)	$ (123,412)	$ (3,557)	$ -
Miscellaneous Income	7,625	233	5,879	2,477	396
Total Other Income	$ (78,350)	$ (525,889)	$ (117,533)	$ (1,080)	$ 396
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	$ 11,912,369	$ 7,657,457	$ 8,343,795	$ 9,138,461	$ 21,095,803
Dividends to Policyholders	723,539	719,739	561,846	285,000	791,540
Net Income Before Federal Income Taxes	$ 11,188,830	$ 6,937,718	$ 7,781,949	$ 8,853,461	$ 20,304,263
Federal Income Taxes Incurred	3,803,820	657,446	1,842,129	2,431,822	7,421,688
Net Income	$ 7,385,010	$ 6,280,272	$ 5,939,820	$ 6,421,639	$ 12,882,575

EXHIBIT C-CAPITAL AND SURPLUS ACCOUNT FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2012

	2012	2011	2010	2009	2008
NET INCOME	$ 7,385,009	$ 6,280,272	$ 5,939,820	$ 6,421,639	$ 12,882,575
OTHER SURPLUS GAINS OR (-) LOSSES					
Net Unrealized Capital Gains or (-) Losses	$ 5,240,510	$ (7,815,895)	$ (1,141,425)	$ (3,324,747)	$ (6,823,260)
Change in Net Deferred Income Tax	127,125	700,000	(300,000)	1,100,000	750,000
Change in Nonadmitted Assets	(109,891)	48,127	1,655,329	(7,139,637)	(652,320)
Change in Provision for Reinsurance	(1,109)	1,061	2,069	106	3,130
Change in Treasury Stock	(1,452,360)	139,815	(1,005,000)	0	0
Total Other Surplus Gains or (-) Losses	$ 3,804,275	$ (6,926,892)	$ (789,027)	$ (9,364,278)	$ (6,722,450)
Change in Surplus as Regards Policyholders for the Year	$ 11,189,284	$ (646,620)	$ 5,150,793	$ (2,942,639)	$ 6,160,125
Surplus as Regards Policyholders December 31, Previous Year	$ 94,054,412	$ 94,701,032	$ 89,550,239	$92,492,878	$ 86,332,753
Surplus as Regards Policyholders December 31, Current Year	$ 105,243,696	$ 94,054,412	$ 94,701,032	$89,550,239	$ 92,492,878

NOTES TO FINANCIAL STATEMENTS

NOTE 1-Special Deposits

The following securities were held on deposit by states and territories on behalf of the Company as of December 31, 2012:

State	Book Value	Fair Value
Arkansas	$ 170,000	$ 172,057
Delaware	10,000	10,000
Florida	600,000	601,044
Georgia	35,000	35,050
Indiana	75,000	75,000
Louisiana	80,000	80,000
Massachusetts	57,911	67,155
Missouri	10,000	10,000
New Hampshire	500,434	510,370
New Jersey	1,553.078	1,557,369
North Carolina	1,317,299	1,345,100
Oklahoma	1,824,065	1,840,906
Oregon	259,299	264,357
Pennsylvania	25,000	25,000
South Carolina	261,485	263,627
Tennessee	200,189	200,189
Texas	8,675,041	8,675,041
Virginia	200,000	219,581

United State Treasury Notes and bank deposits totaling $1,557,369 were held for the benefit of policyholders as statutory deposits on behalf of the State of New Jersey in accordance with N.J.S.A. 17:20-1.

NOTE 2-Loss and Loss Adjustment Expense Reserves

The Company reported loss and loss adjustment expenses of $13,876,269 and $4,652,242 respectively.

The Actuarial Unit of the NJDOBI, Office of Solvency Regulation performed a review and evaluation of the outstanding gross and net loss and loss adjustment expense reserves. This review determined the year-end loss provisions established by the Company to be reasonable.

Actuarial data was tested and reconciled to ensure the NJDOBI Actuarial Unit could rely on the integrity of the loss data provided and the data reported in Schedule P.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY NJDOBI ACTUARY
INTERNATIONAL FIDELITY INSURANCE COMPANY

I, Boris Privman, FCAS, MAAA, Managing Actuary for the New Jersey Department of Banking and Insurance, Office of Solvency Regulation have reviewed the December 31, 2012 reported loss and loss adjustment expense reserves for the International Fidelity Insurance Company.

Actuarial findings as stated in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

/S/

Boris Privman-FCAS, MAAA

REPORT RECOMMENDATIONS

TREATMENT OF POLICYHOLDERS

It is recommended the Company maintain a complaint log of all complaints expressed as written correspondence in accordance with N.J.S.A. 17:29B-4(10).

ADVERTISING

It is recommended the Company only advertise paid in capital as surplus in accordance with N.J.S.A. 17:18-10.

Both of the above recommendations were agreed upon by the Company and subsequently steps were taken to ensure compliance with the recommendations.

SUBSEQUENT EVENTS

In March 2014 International Fidelity Insurance Company (IFIC) determined that in 2013 the former Chief Financial Officer (CFO) misappropriated approximately $1,020,000 by directing a wire transfer from IFIC's operating bank account to an entity owned and controlled by the former CFO. This discovery resulted in the termination of the CFO and prompted the commencement of an investigation through the use of IFIC's external attorneys and forensic accountants.

The investigation covered the transactions commencing when the CFO was first hired through his termination on March 28, 2014. Although the investigation is still ongoing, the initial findings indicate the CFO acted alone using several external entities to assist in the misappropriation of funds. To date it has been determined that the total amount of funds misappropriated to be approximately $1,100,000. Legal proceedings against the former CFO were initiated and ongoing discussions with the former CFO's attorneys continue including recovery of funds misappropriated. Through April 30, 2014 the Company has received repayment of approximately $825,000 from the former CFO.

In addition to the misappropriation of funds, the investigation has determined the former CFO controlled an IFIC investment account whereby he actively traded equity investments and bought and sold covered call options which were not in compliance with the organization's investment guidelines. Approximately $20 million of unrealized investment losses resulted from this activity, which were not reported on the December 31, 2013 financial statements. Additionally options sold on securities within this account were incorrectly accounted for resulting in an overstatement of net income of approximately $13 million. The net effect on surplus from these transactions is a reduction of approximately $33 million from the amount reported in the Company's December 31, 2013 filed Annual Statement. The Company has repositioned their investment portfolio and the securities and options described above were sold by early April of 2014.

The Company expects to incur limited tax benefits from the investment losses incurred and is evaluating a number of additional adjustments (some of which require NJDOBI or other State Insurance Department approvals) which will ultimately increase surplus. They currently estimate these additional adjustments to have the effect of increasing surplus by between $6 and $12 million.
Management is in the process of refiling their December 31, 2013 Annual Statement and is planning to establish and implement controls to prevent this type of situation from occurring again. These controls include:

- Establishing a holding company
- Changing the composition of the Board to include additional industry professionals
- Establishing formal Board of Director investment, risk and audit committees
- Creating an internal audit function
- Creating an internal audit committee
- Initializing a Whistle Blower Policy
- Assigning a Professional Manager to manage the investment portfolio
- Enhancing segregation of duties in the financial accounting areas

CONCLUSION

The examination of the International Fidelity Insurance Company was conducted by the undersigned at the Company's main administrative office located at One Newark Center, Newark, New Jersey.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,

/S/

Robert A. Pietras
Supervising Insurance Examiner

International Fidelity Insurance Company

I, Robert A. Pietras, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2012 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

Robert A. Pietras, Examiner-In-Charge
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Robert A. Pietras on this 2nd day of June, 2014.

/S/

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires July 2015