

REPORT ON EXAMINATION

AS TO THE CONDITION OF THE

INTERNATIONAL FIDELITY INSURANCE COMPANY

NEWARK, NEW JERSEY 07102-5207

AS OF DECEMBER 31, 2015

N.A.I.C. GROUP CODE 4705

N.A.I.C. COMPANY CODE 11592

Filed

April 17, 2017

**Commissioner
Department of Banking
&
Insurance**

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State of New Jersey
20 West State Street
Trenton, New Jersey 08625

March 10, 2017

Commissioner:

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 three-year period from December 31, 2012, the date of the last Financial Condition Examination. During this three-year period under examination, the Company's net admitted assets decreased from \$246,825,232

to \$203,095,057. Liabilities decreased from \$143,002,263 to \$119,218,033 and its surplus to policyholders decreased from \$103,822,969 to \$83,877,024.

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
Treatment of Policyholders
Advertising
Policy Forms and Underwriting Practices

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

Treatment of Policyholders

Recommendation: 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).

Compliance: A review of the complaint log for the Company verified compliance with the above statute.

Advertising

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

Compliance: A review of the Company's advertising confirmed the Company's compliance with N.J.S.A. 17:18-10.

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, 1905. 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 56.66% 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 NJDOBI on September 25, 2009. The Chestnut Group's owns 100% of the Allegheny Casualty Company (ACC) a surety insurance company licensed in all 50 states along with the District of Columbia and Puerto Rico. ACC's main concentration of surety business will be "specialty" non-standard bond coverage. All of ACC's business is reinsured with IFIC with the exception of bail business.

In 2015 IFIC Surety Group, Inc. was incorporated in the State of New Jersey to hold all of the stock in IFIC. On August 31, 2015 the owners of IFIC exchanged 100% ownership in IFIC for 100% ownership in IFIC Surety Group, Inc.

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, 2003 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.

Capital is reduced by \$1,825,110 of treasury stock consisting of 40,558 shares at \$45 per share par value. Treasury stock is held by the Company for purchase by the Employee Stock Ownership Trust.

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, Puerto Rico and U.S. Virgin Islands. The Company along with its wholly owned subsidiary Allegheny Casualty Company provides 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 4300 independent agents stationed nationwide. Agents are granted powers of attorney with business written subject to underwriting approval. It’s marketing and underwriting is overseen by 27 regional profit centers (IFIC) and 8 regional profit centers (ACC) located throughout the country. A list of those profit centers follows:

IFIC

New York City	Chicago
Dallas Commercial	Dallas Contract
Houston Commercial	Houston Contract
Boston	Columbus
Orlando Commercial	Orlando Contract
Atlanta	Baltimore
Buffalo Commercial	Denver
Charlotte Contract	Philadelphia
Seattle Commercial	Seattle Contract
Syracuse	Birmingham Contract
Cedar Rapids	Connecticut
Southern California Commercial	Southern California Contract
Washington DC	Walnut Creek Contract
Walnut Creek Commercial	

ACC

Chicago Specialty	Newark Specialty
Connecticut Specialty	Orlando Specialty
Dallas Specialty	Philadelphia Specialty
Southern California Specialty	Denver 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.

In addition to the profit centers listed above, the Company maintains claims and legal field offices throughout the country which provide Company representations in specific areas. A list of these offices follows:

- Claims Office-Rockford, Illinois
- Claims Office-Northeast Division-Norristown, Pennsylvania
- Claims Office-Southern Division-Plano, Texas
- Claims Office-Complex Claims-Hunt Valley, Maryland
- Claims Office-Western Division-Issaquah, Washington

REINSURANCE AND RETENTION

The Company entered into a continuous quota share reinsurance agreement effective January 1, 2010 with Allegheny Casualty 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, 2015 business is ceded and accepted by the reinsurers as follows:

<u>Bond Amount</u>	<u>Company Retention</u>	<u>Ceded to Reinsurer</u>
\$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

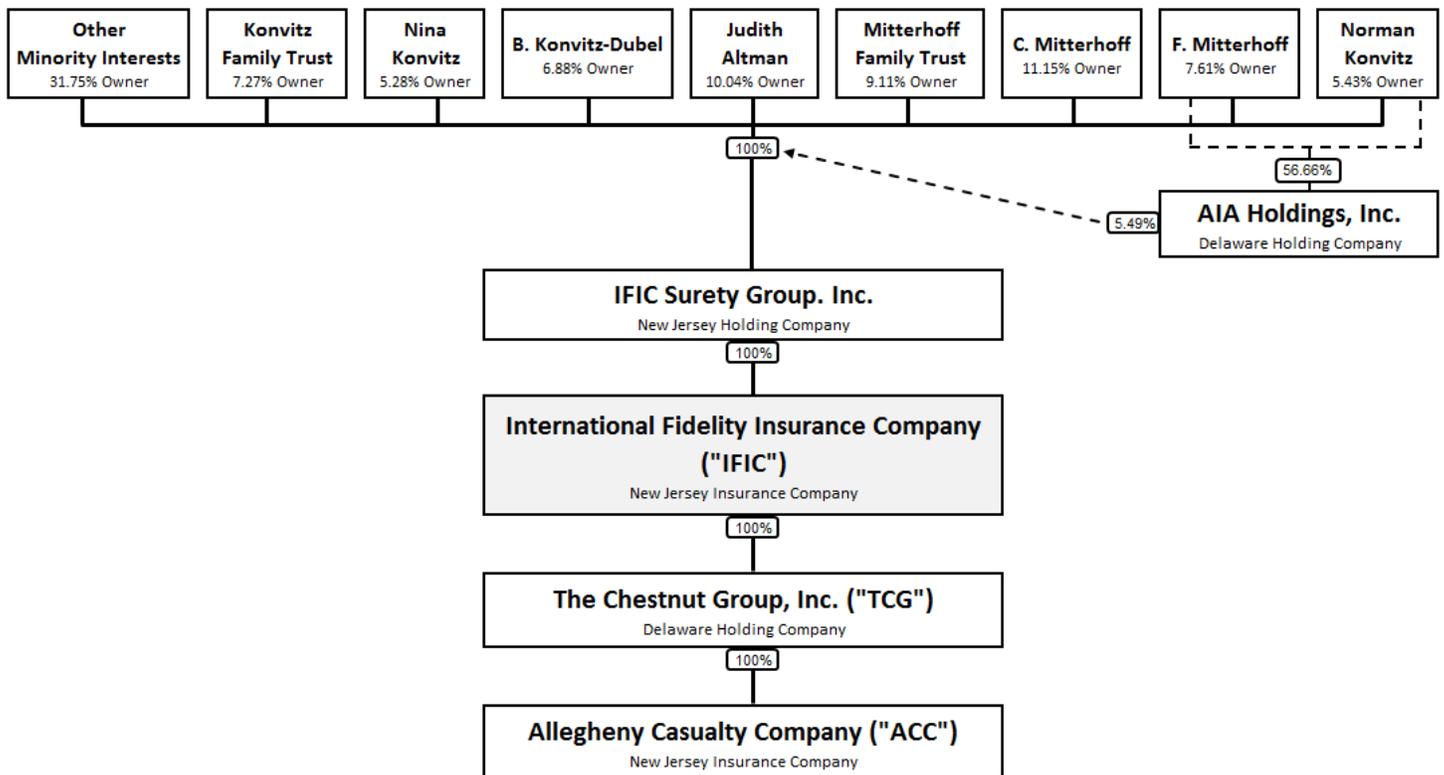
Similar variable quota share reinsurance contracts with similar terms were written throughout the examination period. The contracts cover all business underwritten by IFIC and assumed from ACC excluding bail bonds. The Agreement is subject to a co-surety clause whereby certain bonds may be co-insured 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.

In addition to the above the Company has a continuous quota share reinsurance agreement with Trisura Guarantee Insurance Company (Trisura) to assume and cede underwritten business of the two Companies. Under the agreement Trisura agrees to underwrite and cede 100% of any business underwritten in Canada by Trisura on behalf of IFIC clients. Reversely IFIC agrees to underwrite and cede 100% of any business underwritten in the United States on behalf of Trisura clients. The contract is subject to a ceding commission of 12.5% on premiums ceded or a minimum \$150 flat fee on each bond whereby no premium is due.

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:



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 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 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

Although the Company's Board Minutes provided Board resolutions, the minutes lacked detail of Board discussions on Company strategies, decisions and considerations including approval of the prior examination report, investment transactions and annual officer elections (as required by the Bylaws). Furthermore there were no minutes of any shareholder meetings or audit committee meetings. Subsequently in 2016 the Company began to record comprehensive minutes of the Board and the audit committee.

It is recommended the Company continue to maintain comprehensive minutes of its board and audit committee meetings and maintain minutes of all shareholder meetings.

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 conduct normal business transactions.

As indicated within the Company's 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 list of Board Members serving as of December 31, 2015 is as follows:

<u>NAME</u>	<u>AFFILIATION</u>
Francis Louis Mitterhoff	President, Chairman of the Board-International Fidelity Insurance Company
Ellen Sue Kagan	Executive Vice President and Treasurer-International Fidelity Insurance Company
Normal Roger Konvitz	Executive Vice President and Secretary-International Fidelity Insurance Company

Robert William Minster	Chief Executive Officer-International Fidelity Insurance Company
Martin P. Sheffield	Management Consultant –Sheffield Consulting, Inc.
Jeffrey D. Butler	Private Real Estate Investor-Greencastle Capital Management
Harvey C. Sigelbaum	Retired Executive Attorney

The Corporate By-laws give the Board the authority to manage the business affairs of the Company and to establish by resolution committees consisting of two or more directors or officers of the Company. Committees established by the Board as of December 31, 2015 are indicated below:

Audit Committee

Martin P. Sheffield
 Jeffrey D. Butler
 Harvey C. Sigelbaum

Finance and Enterprise Risk Management Committee

Martin P. Sheffield
 Jeffrey D. Butler
 Harvey C. Sigelbaum

Regulatory Committee

Maria Costa
 Frank Tanzola

Watch List Committee

Bob Minster
 Frank Tanzola
 George James
 Adrian Oddi

In accordance with the By-laws Directors after every annual shareholders meeting shall elect officers to perform the managerial duties of the Company. Officers serving the Company as of December 31, 2016 are indicated below:

Francis Mitterhoff-President
 Robert Minster-Chief Executive Officer
 Norman R. Konvitz-Executive Vice President and Secretary
 Ellen Kagan-Executive Vice President
 George James-Executive Vice President
 Adrian Oddi-Executive Vice President
 Beatrice Sampedro-Executive Vice President and Chief Human Resources Manager
 Dale Braue-Senior Vice President
 Frank Tanzola-Senior Vice President and Chief Legal Officer
 Maria Costa-Senior Vice President and Chief Accounting Officer
 George Rankin-Senior Vice President and Chief Information Officer
 Anthony DeMartino Jr.-Senior Vice President and Chief Underwriting Officer
 Bruce Monahan-Senior Vice President and Chief Audit Executive

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 individual's

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.

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, 2015 as follows:

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

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 utilizes the A/S 400 (IBM iSeries) as its book of record for new business, accounts payable, accounts receivable and general ledger. All server hardware for computer processing is located and performed at the Company's home office data center in Newark, New Jersey.

Claims and premiums processed through the A/S 400 are manually integrated into the general ledger on a monthly basis.

Investments are managed by Prime Advisors, Inc. under investment guidelines established by the Company. Clearwater Analytics, Inc. produces accounting reports for investment transactions which are reconciled to the general ledger. Clearwater Analytics, Inc. also ensures the investment manager complies with investment guidelines.

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.

Underwriting Database (UWDB)

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

Line of Credit (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.

Claims Workflow

The Company’s Claim department utilizes this automated paperless system to manage paperwork and claim files.

Profit Sharing Application

An application which is utilized by senior underwriting management to review and monitor levels of achievement of profit sharing plans by Company agents.

AX Imaging System

An application imaging bond and claim files as well as accounting information (checks).

FINANCIAL STATEMENTS AND OTHER EXHIBITS

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INTERNATIONAL FIDELITY INSURANCE COMPANY
EXHIBIT A-STATEMENT OF ASSETS, LIABILITIES AND UNASSIGNED FUNDS AS OF DECEMBER 31, 2015

	Current Examination at 12/31/15	Balance per Company at 12/31/15	Examination Change	Note Number
<u>Assets</u>				
Bonds	\$98,458,862	\$98,458,862	\$0	1
Common Stocks	31,508,222	31,508,222	0	1
Mortgage Loans on Real Estate	373,152	373,152	0	
Cash and Short Term Investments	35,819,450	35,819,450	0	1
Other Invested Assets	432,450	432,450	0	
Aggregate Write-ins for Invested Assets	20,925,879	20,925,879	0	
Investment Income Due and Accrued	582,669	582,669	0	
Premiums In the Course of Collection	10,051,083	10,051,083	0	
Amounts Recoverable from Reinsurers	(129,053)	(129,053)	0	
Federal and Foreign Income Taxes Recoverable	261,876	261,876	0	
Net Deferred Tax Asset	4,054,946	4,054,946	0	
Electronic Data Processing Equipment and Software	625,537	625,537	0	
Receivables Due from Parent, Subsidiaries and Affiliates	129,984	129,984	0	
Total Admitted Assets	<u>\$203,095,057</u>	<u>\$203,095,057</u>	<u>\$0</u>	
<u>Liabilities</u>				
Losses	(\$564,096)	(\$564,096)	\$0	2
Reinsurance Payable on Paid Losses and LAE	\$1,270,638	\$1,270,638	0	
Loss Adjustment Expenses	\$3,267,578	\$3,267,578	0	2
Commissions Payable, Contingent Commissions and Other Similar Charges	191,728	191,728	0	
Other Expenses	3,600,877	3,600,877	0	
Taxes, Licenses and Fees	331,317	331,317	0	
Unearned Premiums	32,509,578	32,509,578	0	
Dividends Declared and Unpaid: Policyholders	800,000	800,000	0	
Ceded Reinsurance Premiums Payable	3,337,507	3,337,507	0	
Funds held by Company under Reinsurance Treaties	1,031	1,031	0	
Amounts Withheld or Retained by Company for Account of Others	67,779,362	67,779,362	0	
Provision for Reinsurance	51,384	51,384	0	
Payable to Parent, Subsidiaries and Affiliates	92,221	92,221	0	
Aggregate Write-ins for Liabilities	<u>6,548,908</u>	<u>6,548,908</u>	0	
Total Liabilities	<u>\$119,218,033</u>	<u>\$119,218,033</u>	<u>\$0</u>	
<u>Surplus and Other Funds</u>				
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)	67,827,534	67,827,534	0	
Less: Treasury Stock at Cost	<u>(1,825,110)</u>	<u>(1,825,110)</u>	0	
Surplus as Regards Policyholders	<u>\$83,877,024</u>	<u>\$83,877,024</u>	0	
Total Liabilities, Surplus and Other Funds	<u>\$203,095,057</u>	<u>\$203,095,057</u>	<u>\$0</u>	

INTERNATIONAL FIDELITY INSURANCE COMPANY
EXHIBIT B-SUMMARY OF OPERATIONS FOR THE
THREE-YEAR PERIOD ENDING DECEMBER 31, 2015

<u>UNDERWRITING INCOME</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Premiums Earned</u>	\$ 116,718,681	\$ 106,958,247	\$ 102,611,215
Deductions:			
Losses Incurred	\$ 13,578,671	\$ 15,209,288	\$ 12,074,991
Loss Expenses Incurred	8,369,718	7,724,389	7,757,900
Other Underwriting Expenses Incurred	<u>75,092,270</u>	<u>83,925,571</u>	<u>78,646,487</u>
Total Underwriting Deductions	<u>\$ 97,040,659</u>	<u>\$ 106,859,248</u>	<u>\$ 98,479,378</u>
Net Underwriting Gain or (Loss)	<u>\$ 19,678,022</u>	<u>\$ 98,999</u>	<u>\$ 4,131,837</u>
 <u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$ 1,140,026	\$ (7,540)	\$ (77,450)
Net Realized Capital Gains or (Losses)	<u>(38,408,405)</u>	<u>3,919,064</u>	<u>(78,269)</u>
Net Investment Gain or (Loss)	<u>\$ (37,268,379)</u>	<u>\$ 3,911,524</u>	<u>\$ (155,719)</u>
 <u>OTHER INCOME</u>			
Net Gain or (Loss) from Agents' Balances Charged Off	\$ (22,990)	\$ (104,918)	\$ (616,743)
Miscellaneous Income	<u>12,249</u>	<u>12,091</u>	<u>86,049</u>
Total Other Income	<u>\$ (10,741)</u>	<u>\$ (92,827)</u>	<u>\$ (530,694)</u>
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	\$ (17,601,098)	\$ 3,917,696	\$ 3,445,424
Dividends to Policyholders	<u>1,267,911</u>	<u>546,147</u>	<u>862,028</u>
Net Income Before Federal Income Taxes	\$ (18,869,009)	\$ 3,371,549	\$ 2,583,396
Federal Income Taxes Incurred	<u>6,038,491</u>	<u>(248,368)</u>	<u>1,227,792</u>
Net Income	<u>\$ (24,907,500)</u>	<u>\$ 3,619,917</u>	<u>\$ 1,355,604</u>

INTERNATIONAL FIDELITY INSURANCE COMPANY
EXHIBIT C-CAPITAL AND SURPLUS ACCOUNT FOR
THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
NET INCOME	\$ (24,907,500)	\$ 3,619,917	\$ 1,355,604
 <u>OTHER SURPLUS GAINS OR (-) LOSSES</u>			
Net Unrealized Capital Gains or (-) Losses	\$ 5,996,031	\$ (2,253,824)	\$ (692,391)
Change in Net Deferred Income Tax	(2,523,844)	556,782	1,707,243
Change in Nonadmitted Assets	6,522,240	(977,822)	(4,472,024)
Change in Provision for Reinsurance	(385)	1,351	(50,198)
Total Effect of Accounting Principle Changes	(1,773,295)	-	-
Dividends to Stockholders	(1,404,802)	(915,508)	-
Change in Treasury Stock	(1,457,055)	158,085	1,791,405
Aggregate Write Ins For Surplus Gains & Losses	-	(556,228)	330,272
 Total Other Surplus Gains or (-) Losses	 \$ 5,358,890	 \$ (3,987,164)	 \$ (1,385,693)
 Change in Surplus as Regards Policyholders for the Year	 \$ (19,548,610)	 \$ (367,247)	 \$ (30,089)
 Surplus as Regards Policyholders December 31, Previous Year	 \$ 103,822,969	 \$ 84,274,359	 \$ 83,907,112
 Surplus as Regards Policyholders December 31, Current Year	 \$ 84,274,359	 \$ 83,907,112	 \$ 83,877,023

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, 2015:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	\$ 170,189	\$ 169,216
Delaware	10,000	10,000
Florida	597,224	600,990
Georgia	35,213	35,014
Indiana	75,000	75,000
Louisiana	80,000	80,000
Massachusetts	56,401	60,634
Missouri	10,000	10,000
New Hampshire	498,708	497,830
New Jersey	1,554,212	1,537,593
New Mexico	401,401	412,320
North Carolina	1,315,717	1,315,717
Oklahoma	1,946,827	1,994,745
Oregon	261,637	263,994
Pennsylvania	50,000	50,000
South Carolina	251,652	254,222
Tennessee	175,000	175,000
Texas	9,017,134	9,017,134
Virginia	202,928	202,062
U.S. Virgin Islands	500,000	500,000

United State Treasury Notes and bank deposits with a book value of \$1,554,212 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 net loss and loss adjustment expense reserves of \$2,703,482 at December 31, 2015. A review of both the gross and net loss and loss adjustment expense reserves was performed by the New Jersey Department of Banking and Insurance, Office of Solvency Regulation, Actuarial Unit. On the basis of this review the Company's loss and loss adjustment expense reserves were found to be reasonably stated and were accepted without adjustment.

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

REPORT RECOMMENDATIONS

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Although the Company's Board Minutes provided Board resolutions, the minutes lacked detail of Board discussions on Company strategies, decisions and considerations including approval of the prior examination report, investment transactions and annual officer elections (as required by the Bylaws). Furthermore there were no minutes of any shareholder meetings or audit committee meetings. Subsequently in 2016 the Company began to record comprehensive minutes of the meetings of the Board and the audit committee.

It is recommended the Company continue to maintain comprehensive minutes of its board and audit committee meetings and maintain minutes of all shareholder meetings.

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, 2015 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

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

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Linda L. Boone on this 15th day of March, 2017.

/S/

Linda L. Boone
Notary Public of New Jersey

My commission expires