REPORT ON EXAMINATION AS TO THE CONDITION OF

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY

MORRIS PLAINS, NEW JERSEY 07950

AT DECEMBER 31, 2016

NAIC COMPANY CODE 38326

NAIC GROUP CODE 0000

Filed

November 29, 2017

Commissioner
Department of Banking &
Insurance

TABLE OF CONTENTS **Page**

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
PO BOX 325
TRENTON, NJ 08625-0325

TEL (609) 292-5350
FAX (609) 292-6765

Chris Christie
Governor

Kim Guadagno
Lt. Governor

Richard J. Badolato
Commissioner

Peter L. Hartt
Director

October 5, 2017

Honorable Richard J. Badolato
Commissioner
Banking and Insurance State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the provisions of **<u>N.J.S.A.</u> 17:23-22**, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY
2740 STATE ROUTE 10
MORRIS PLAINS, NJ 07950
N.A.I.C. COMPANY CODE 38326

a property and liability insurance organization authorized to transact business in the State of New Jersey, and herein referred to in this report as "FIA," "First Indemnity," or "Company."

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this Examination in compliance with the requirements of **<u>N.J.S.A.</u> 17:23-22.** The examination was a full scope comprehensive examination and was conducted at the Company's home office located at 2740 State Route 10, Morris Plains, New Jersey. The examination was conducted using the risk-focused examination approach and addressed the three-year period from December 31, 2013, the date of the last Financial Condition Examination through December 31, 2016. During this three-year period under examination, based on the prior examination report, the Company's net admitted assets increased from $6,483,657 to $9,963,949. Liabilities increased from $982,972 to $4,149,786 and its surplus to policyholders increased from $5,500,685 to $5,814,163.

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. 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 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.

A review was made of the following matters to ascertain the Company's financial condition and its conformity with the insurance laws and incorporated as part of the written report and or made part of the examination work papers:

Company History
Territory and Plan of Operation
Management and Control
Corporate Records
Policy on Conflict of Interest
Holding Company System
Intercompany Agreements
Fidelity Bond and Other Insurance Coverages
Employee Welfare and Benefit Plans
Reinsurance
Accounts and Records
Continuity of Operations
Commitments and Contingencies
Fraud

No market conduct examination activities were undertaken during the examination period.

This report is confined to financial statements, assessment of risks and comments on matters that involve departures from law, regulations, rules or any other matters, which are deemed to require special explanation or description.

COMPANY HISTORY

The Company was incorporated on December 15, 1978, as a stock company under the laws of the State of New Jersey, and commenced business on December 17, 1979.

An original certificate of authority was issued by the Commissioner of Insurance of the State of New Jersey to the Company on December 17, 1979, authorizing the issuance of 200,000 shares of common stock with a par value of $10.00 per share, for a total authorized capital of $2,000,000. This certificate was amended on October 1, 1995, increasing the capital stock to $3,500,000 divided into 200,000 shares, each having an adjusted par value of $17.50. All outstanding shares are owned by A.B.S.C.O. Ltd. Corp., which in turn is 60% owned by Patrick J. Lynch, chief executive officer and president of the Company, with the remainder of the stock owned by outside individuals. The current principal office of the Company is located at 2740 State Route 10 West, Morris Plains, New Jersey 07950.

This Certificate of Incorporation was again amended on December 22, 2015, to update paragraph three of the Company's charter enabling the Company to only write the kinds of business specified in paragraph "g" of N.J.S.A. 17:17-1 et seq., i.e. property and casualty. The amendment was approved and signed by the Deputy Attorney General on December 22, 2015, and filed with the Department on January 4, 2016.

The registered agent in charge, upon whom process may be served, is Patrick J. Lynch, CEO & President of the Company.

TERRITORY AND PLAN OPERATION

The Company writes contract, financial guarantee and miscellaneous classes of surety bonds. Surety bonds are written for standard and specialty bond classes, which are predominately focused on general building contractors, sanitation, school bus transportation, security guard, and asbestos abatement.

During 2016, surety bonds represented 100% of total premiums. The Company strives to provide for risk diversification, both geographically and by line of business. Marketing strategy is focused in offering coverage to small and medium size contractors. The main strategic objectives are: (a) utilization of collateral and/or funds control supplemented by reinsurance on an excess of loss basis, (b) targeting of niche contractors involving public works, and (c) continued service to and coverage of establish business/specialty trades, i.e., sanitation, subdivision, and school transportation.

The Company both assumes and cedes premiums under a quota share reinsurance and excess of loss reinsurance arrangements.

All business is produced through approximately 300 independent agents, however, most of the Company's business is provided by 10-12 agents. The Company does not utilize the services of managing general agents.

In addition to New Jersey, the Company is licensed to write business in the States of Delaware, Georgia, Maryland, Oklahoma, Pennsylvania, Texas and West Virginia. However, the largest concentration of business was in New Jersey, which drew 62.2% of the premium volume with Maryland being the second largest with 32.6% as of December 31, 2016.

The Company's office, headquartered in Morris Plains, New Jersey, operates as a full-service center providing underwriting, claims, customer service and management functions.

The Company has retained the services of BMS Intermediaries Limited to act in its behalf in placing reinsurance business and contracts. This reinsurance intermediary is authorized to transact business in the State of New Jersey under **N.J.S.A. 17:22E-2b**.

POLICY FORMS AND UNDERWRITNG PRACTICES

The Company operates under an underwriting guidelines and instructional manual. As stated in the manual, the Company's policy is geared to attract only clients that have a good past performance record and that show a large degree of financial stability. The Company's underwriting manual details steps to be taken so that it only attracts insureds that meet this criterion. In general, and in part the underwriting procedures and requirements are as follows:

1. The underwriter will compile an individual profile of the contractor.

2. The Company obtains annual audited financial statements from the past three years of the contractor to whom the surety bond is to be written.

3. The underwriter is presented with key financial ratios to be applied against the contractor's financial statements for the prior three years. The ratios are meant to verify that the contractor is solvent, profitable and liquid.

4. The security pledged as collateral to secure the bond is verified and all the proper documentation necessary to protect the interests of the Company are obtained.

5. CPA prepared business financial statements.

6. Clean personal and business credit history.

All the policy forms issued by the Company are non-participating.

TREATMENT OF POLICYHOLDERS

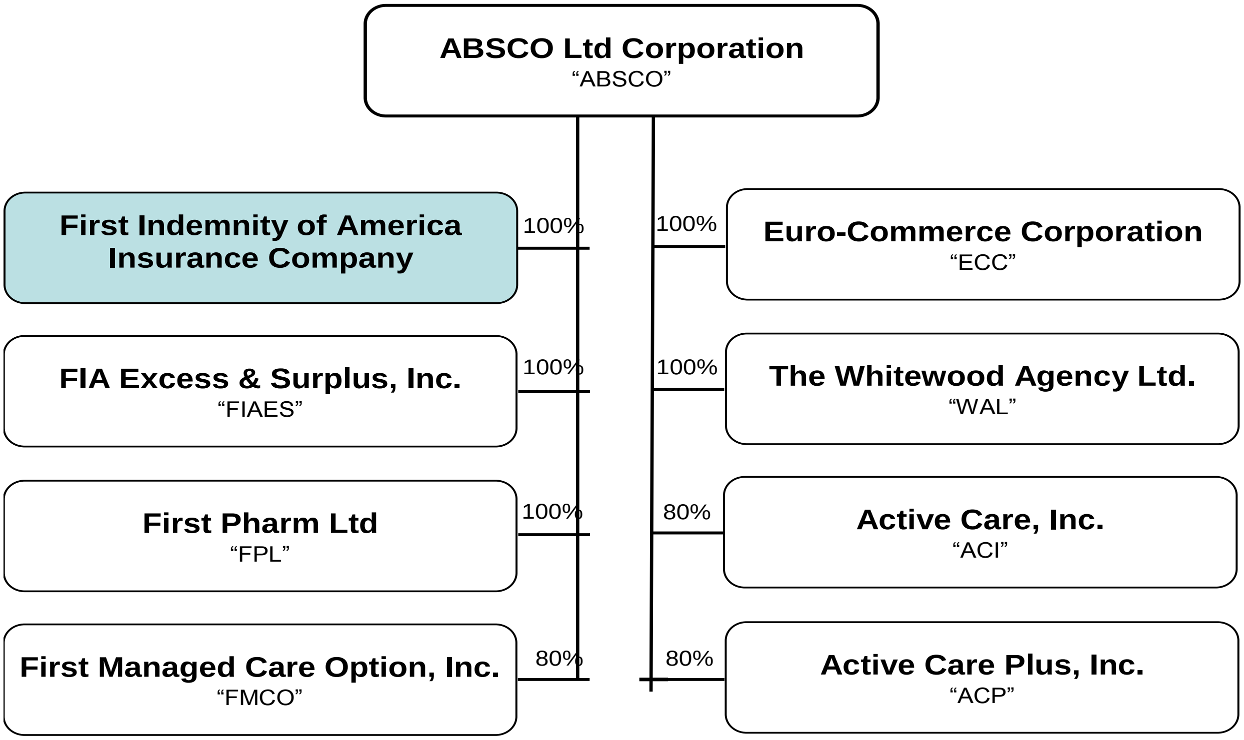
The review of the Company's complaint log indicated that the Company maintains its complaint log in accordance with **N.J.S.A. 17:29B-4(10)**.

HOLDING COMPANY SYSTEM

Affiliated Companies

The Company is a wholly owned subsidiary of ABSCO Limited Corporation ("ABSCO"), which in turn is 60% owned by Patrick Lynch, President and CEO of First Indemnity. The Company, as a member of a holding company system defined under **N.J.S.A. 17:27A-1**, has filed a registration statement in the name of its parent in accordance with **N.J.S.A. 17:27A-3.**

The following chart illustrates the interrelationship of the companies within the holding company system as of December 31, 2016:



The following is a summary of the functions performed by the various affiliated companies.

Euro-Commerce Corp. ("ECC")- a service organization acting as a TPA providing claims handling and surety bond administration.

FIA Excess & Surplus, Inc. ("FIAES") - a surplus lines insurance broker, a.d.b.a ***The Littleton Agency, (The Littleton Agency Business has been assumed by The Whitewood Agency, Ltd.).***

The Whitewood Agency Ltd. ("WAL") - a surplus lines insurance broker.

First Pharm, Ltd. ("FPL") - a pharmaceutical marketing company.

Active Care, Inc. ("ACI") - maintains a network of providers and hospitals (80% owned).

Active Care Plus, Inc. ("ACP") - maintains network of providers and hospitals (80% owned).

First Managed Care Options, Inc. ("FMCO") - provides managed care (workers' comp claims) and independent medical examination services.

<u>Inter-Company Agreements</u>

The Company is a party to the following inter-company agreements in force at December 31, 2016:

Tax Allocation Agreement - established with ABSCO Ltd. Corp, the parent. This is an agreement governing the filing of federal income taxes on a consolidated basis. The agreement stipulates that each company's tax burden would be computed in accordance with each entity's proportionate share of the tax liability on a separate return basis. The tax liability apportioned to any member shall not be greater than the consolidated tax liability apportioned to any member. Payment from members of the group is due no later than 30 days after the filing of a consolidated return by the parent. Any controversy or claim arising out of or relating to this agreement will be settled by arbitration in accordance with the rules of the American Arbitration Association. This agreement may not be assigned or transferred by any party of the affiliated group without the prior written consent of all the other parties.

The parties to the agreement, in addition to the Company and its parent (ABSCO Ltd. Corp), are as follows:

Euro Commerce Corp	FIA Excess and Surplus, Inc.
Active Care, Inc.	First Managed Care Option, Inc.
First Pharm, Ltd.	Active Care Plus, Inc.

The Whitewood Agency, Ltd.

Claims Management Agreement - Established with Euro-Commerce Corporation, the agreement was executed on and is effective as of January 7, 2003, and non-disapproved on June 8, 2004. Under the terms of the agreement, Euro-commerce Corporation will provide claims adjusting services to FIA on a time to time basis as needed and requested by the Company. Euro-Commerce Corporation is engaged among other things in the business of investigating, adjusting and resolving surety claims and instituting recovery efforts on behalf of insurance carriers. The agreement may be terminated by either party upon thirty days written notice to the other party and to the NJDOBI. The Company retains the sole authority to compromise or settle claims for which Euro-Commerce Corporation shall provide adjusting services.

Cost Sharing Agreement - - Established with First Managed Care Option, Inc. The agreement was executed on and is effective as of July 8, 2010, and runs indefinitely until either party terminates. This agreement stipulates that FMCO will reimburse FIA for its share of expenses related to the use of common premises and equipment held by the Company.

Exclusive Agency Agreement - established with the Whitewood Agency, Ltd. The agreement was executed on and is effective as of July 8, 2010, and runs indefinitely until either party terminates. This agreement names Whitewood as the Company's exclusive broker granting it the authority to issue and renew surety bonds and collect premiums therefrom.

Exclusive Agency Agreement - established with FIA Excess & Surplus, Inc. The agreement was executed on and is effective July 8, 2010 and runs indefinitely until either party terminates. This agreement names FIA Excess as the Company's exclusive broker granting it the authority to issue and renew surety bonds and collect premiums therefrom.

MANAGEMENT & CONTROL

Board of Directors

The business and property of the Company is managed and controlled by the Board of Directors (hereafter "the Board"), except as otherwise provided by the by-laws.

The by-laws specify that the Board shall consist of up to sixteen (16) members. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until that director's successor shall have been elected and qualified.

As of December 31, 2016, the Board consisted of eight members, six of which were outside directors. The duly elected members were as follows:

Name and Address	Principal Occupation
Patrick J. Lynch	President/CEO

	First Indemnity
Kathy A. Luisi	Owner EBCO International, Inc.
Philip Ressa	Owner/Broker RJW Brokerage Corp.
John P. Teevan, Jr.	Executive VP Sterling Wealth Management
Patrick J. Lynch, Jr.	Underwriter/VP First Indemnity
John W. Weller	President Weller Mortgage Funding
Andrew W. Fiore	Former Manager Tilcon
Peter Ross Waldor	President Peter Waldor & Associates

The following is a listing of committees and its members serving the Company at December 31, 2016:

<u>Audit Committee</u>
Kathy A. Luisi (Chair)
John W. Weller
Andrew W. Fiore

<u>Investment Committee</u>
Entire Board

The Company has a charter in place delineating the composition, function and objectives of its Audit Committee. This committee is responsible for, among other duties, approving all auditing services and establishing procedures relating to the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters. The committee satisfies the statutory provisions of **<u>N.J.S.A.</u> 17:27A-4d**, **paragraph 4**, which requires the establishment of at least one committee to be composed entirely of outside directors who are not officers, employees, or beneficial owners of a controlling interest in the voting securities of the Company.

The Investment Committee develops investment strategy for the Company and maintains oversight over its investments. This committee, along with the Board, meets the provisions of **<u>N.J.S.A.</u> 17:27A-4d, paragraph 3**, which requires that at least one-third of the membership (exclusive of the Audit Committee) be made up of outside directors only.

Regular meetings of the Board shall be held without notice immediately following and at the same place as the annual shareholders' meeting for the purposes of electing officers and conducting such other business as may come before the meeting. The Board, by resolution, may provide for additional regular meetings, which may be held without notice, except to members not present at the time of the adoption of the resolution. Special meetings of the Board may be called at any time by the president or by directors for any purpose. A majority of the elected Board shall constitute a quorum for the transaction of business.

A review of corporate board minutes applicable to the examination period indicated that directors held their regular meetings in accordance with the Company's by-laws, for the purpose of transacting business.

The previous examination report was received and reviewed by the Board of Directors. Attendance of Directors at meetings of the Board during the three years under examination was adequate.

The Board of Directors location for all correspondence and meetings is the FIA home office, 2740 State Route 10 West, Morris Plains, New Jersey 07950.

Officers

The by-laws, congruent with N.J.S.A. 14A:6-15, stipulate that during its regular meeting following the annual meeting of shareholders, the Board shall elect a president, a treasurer, a secretary and such other officers, including one or more vice presidents, as it shall deem necessary. One person may hold two or more offices.

The elected officers of the Company serving at December 31, 2016, were as follows:

Name	Office
Patrick J. Lynch	President/CEO
Glenn A. Runne	Vice President/CFO
Jane E. Lynch	Secretary
Paul J. Alongi, Sr.	Vice President
Moira M. Blazier	Vice President
Brenden A. Gethins, Jr.	Vice President
Patrick J. Lynch, Jr.	Vice President
Robert L. Stone	Treasurer

CORPORATE RECORDS

A review of the minutes of the Company's board and committee meetings indicated that transactions and events were adequately authorized and supported, in accordance with the provisions of the Company's by-laws.

POLICY ON CONFLICTS OF INTEREST

The Company has a questionnaire regarding conflict of interest in which the officers and directors are required to disclose any possible conflict. This questionnaire is to be completed annually. FIA does have a formal policy to complete conflict of interest. A review of the conflict of interest questionnaires for the year 2016, did not disclose any potential conflicts of interest.

ACCOUNTS AND RECORDS

The Company makes use of system called Bond Pro and a network of personal computers using various software programs to conduct its operations.

General Ledger: Financial transactions are processed via the ***ZLAND Versa Pro 2001***, a PC-based accounting program. The general ledger is not integrated with the Company's other electronic data processing systems requiring journal entries to be made from the reports generated by these auxiliary systems, which also include amount values from source documents calculated manually on Excel spreadsheets. Once all journal entries are posted, the Versa Pro program produces a trial balance and the final balance sheet and income statement.

<u>Premiums</u>: Premiums are processed in-house on the Company's Bond Pro system based on data supplied by the underwriting department and/or the accounting department. The system prints an invoice upon the production of a surety bond. When cash is received, it is entered into Quicken and then applied against the invoice and reconciled to the accounts receivable.

At the end of each month, the system generates the following reports: (a) premium billing register, (b) summary of written business broken down by reinsurance coverage, (c) cash receipts report and disbursements, and (d) an aged accounts receivables report sorted by broker.

<u>Claims</u>: Losses are also processed in-house on Excel work-sheets. Activation of claims is triggered by entries made to the check writing system for paid losses, paid LAE and recoveries. The reserves are then set by the claims area, reviewed by the Chief Financial Officer, and input into the excel work-sheets. The final reserve information is then entered into the general ledger system.

Vouchers for claim payments are prepared and signed by two people in the claims department and submitted to the accounting department for review. Loss and LAE payments are batched monthly by claim and input into the excel work-sheets as are any new reserves or reserve changes. The following reports are produced by the system: (a) summary of incurred losses, (b) claims reserve and paid loss run, and (c) monthly cash disbursements.

<u>Investments</u>: Investment accounting is monitored on a PC-based system called the SunGard ***Schedule D Investment Manager System*** (SDIM). This program generates the Company's Schedule D from the input of data obtained from broker's advices. Interest receipts are directed to the accounting department where they are reviewed and submitted to the Treasurer, who then enters the receipts into the Company's cash system. Reconciliations of accounts are performed on a monthly basis by the Treasurer and reviewed by the CFO. Reports are then produced monthly and the cash information is entered into the general ledger system.

<u>Audited Financials:</u>

Pursuant to **<u>N.J.A.C.</u> 11:2-26.4** an annual audit was performed by the CPA firm TaylorChandler, LLC, and an audited financial CPA report was filed with the NJDOBI.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

At December 31, 2016, the Company maintained an insurance program designed to protect its assets arising out of property and liability risks. Coverage includes property insurance, liability for employment practices, and directors' and officers' liability.

On a consolidated basis, the Company maintained a fidelity bond in the amount of $500,000 single loss limit and $1,000,000 aggregate limit. A review of the NAIC requirement guidelines for minimum amount of fidelity insurance indicated that the Company is adequately protected.

REINSURANCE

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophic or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimate in a manner consistent with the claim liability associated with the reinsured policy.

Estimated reinsurance recoveries from reinsurance carriers are netted with unpaid losses and loss adjustment expenses, ceded balances payable and unearned premium. At December 31, 2016, the amount was $278,000. Recoveries are estimated on the assumption that all claims reserves will be exhausted through the payment of claims. Contingent liability exists with respect to reinsurance that would become an actual liability in the event the reinsuring companies might be unable to meet their obligation to the Company under existing reinsurance agreements. The Company is required to provide a liability for the excess of net reinsurance recoverable over funds withheld, letters of credit and other deposits on business ceded to unauthorized insurers in the State of New Jersey. In addition, it is also required to provide a liability for all reinsurance recoverable balances over 90 days due from authorized companies to the extent of 20% of such amount. The provision for reinsurance was $0 as of December 31, 2016, and any increase or decrease between years was recorded directly to surplus. Amounts paid for reinsurance contracts are expensed over the period during which insured events are covered by the contracts.

The Company cedes premiums on a per principal surety excess of loss and assumes on a surety quota share basis. A summary of the Company's reinsurance program follows:

CEDED REINSURANCE:

EFF:	01/01/16-12/31/16	
TYPE:	**PER PRINCIPAL SURETY XOL**	
RETENTION:	LAYER 1: 500,000 XS 500,000	
	LAYER 2: 2,500,000 XS 1,000,000	
REINSURANCE:	LAYER 1: 100%	
	LAYER 2: 100%	
REINSURERS:	LLOYD'S SYNDICATE 4472 LIB	75%
	LLOYD'S SYNDICATE 2987 BRIT	25%
MAX IND. BOND:	2,500,000; Service bonds 3,000,000	
AGG WORK PROGRAM:	3,500,000; Service bonds 6,000,000	
AGG LIMIT:	LAYER 1: 1,500,000	
	LAYER 2: 6,000,000	

ASSUMED REINSURANCE:

EFF:	01/01/16-12/31/16
TYPE:	**SURETY QUOTA SHARE**
REINSURED:	AEGIS SECURITY INSURANCE CO.
RETENTION:	50% OF 500,000
REINSURANCE:	50% OF 500,000
REINSURER:	First Indemnity of America Ins. Co..

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company’s reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company's Disaster Recovery Plan was reviewed and approved by New Jersey Department of Banking and Insurance, Office of Solvency Regulation field insurance examination team.

FINANCIAL STATEMENTS

Financial statements as reported by the Company are listed below:

Exhibit - A Statement of Financial Position as of December 31, 2016

Exhibit - B Statement of Operating Results for the Three-Year Period Ended December 31, 2016

Exhibit - C Capital and Surplus Account for the Three-Year Period Ended December 31, 2016

EXHIBIT - A

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

ASSETS	Balance Per Examination @ 12/31/16	Balance Per Company @ 12/31/16	Examination Change	Note #
Bonds	$5,733,093	$5,733,093		
Preferred Stocks	1,380,782	1,380,782		
Common Stocks	1,023,067	1,023,067		
Real Estate: Property Occupied by the Company	856,608	856,608		
Cash and Short Term Investments	99,498	99,498		
Investment Income Due and Accrued	62,901	62,901		
Uncollected Premiums and Agents' Balances	453,958	453,958		
Reinsurance: Other Amounts Receivable	64,229	64,229		
Current Federal and Foreign Income Tax Recoverable	5,000	5,000		
Net Deferred Tax Asset	284,813	284,813		
Total Admitted Assets	$9,963,949	$9,963,949		
LIABILITIES				
Losses	$322,512	$322,512		1
Loss Adjustment Expenses	1,271,558	1,271,558		1
Other Expenses (excluding taxes, licenses and fees)	233,555	233,555		
Taxes, Licenses, and Fees (excluding federal/foreign taxes)	77,728	77,728		
Unearned Premiums	1,902,265	1,902,265		
Ceded Reinsurance Premiums Payable	237,332	237,332		
Amounts Withheld or Retained for Account of Others	104,836	104,836		
Total Liabilities	$4,149,786	$4,149,786		
CAPITAL AND SURPLUS				
Common Capital Stock	$3,500,000	$3,500,000		
Gross Paid in and Contributed Surplus	480,945	480,945		
Unassigned Funds (Surplus)	1,833,218	1,833,218		
Surplus as Regards Policyholders	$5,814,163	$5,814,163		2
Total Liabilities, Capital and Surplus	$9,963,949	$9,963,949		

EXHIBIT-B:

STATEMENT OF OPERATING RESULTS
FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 2016

	2014	2015	2016
UNDERWRITING INCOME			
Premiums Earned	$7,311,184	$6,936,868	$7,228,304
Deductions:			
Losses Incurred	$2,007,730	$918,972	$1,863,635
Loss Adjustment Expenses Incurred	804,605	865,739	435,443
Other Underwriting Expenses Incurred	4,371,868	5,265,010	4,787,439
Total Underwriting Deductions	$7,184,203	$7,049,721	$7,086,517
Net Underwriting Gain or (Loss)	$126,981	($112,853)	$141,787
INVESTMENT INCOME			
Net Investment Income Earned	$212,756	$214,267	$259,125
Net Realized Capital Gains or (Losses)	278,466	93,078	168,790
Net Investment Gain or (Loss)	491,222	307,345	427,915
OTHER INCOME			
Miscellaneous Income	1,092	29,041	650
Total Other Income	1,092	29,041	650
Dividends to Policyholders	0	0	0
Federal and Foreign Income Taxes Incurred	0	0	0
Net Income	$619,295	$223,533	$570,352

EXHIBIT - C:

CAPITAL AND SURPLUS ACCOUNT
FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 2016

	2014	2015	2016
Surplus as Regards Policyholders December 31, Previous Year	$5,500,685	$5,792,913	$5,411,006
Net Income	$619,295	$223,533	$570,352
Change in Net Unrealized Capital Gains or (Losses)	(379,656)	(579,506)	(62,448)
Change in Net Deferred Income Tax	(336,868)	(225,198)	(392,029)
Change in Non-Admitted Assets	377,578	199,264	287,282
Change in Provision For Reinsurance	11,879	0	0
Change in Surplus for the Year	$292,228	($381,907)	$403,157
Surplus as Regards Policyholders: December 31, Current Year	$5,792,913	$5,411,006	$5,814,163

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2016, the Company reported a net liability for Loss and Loss Adjustment Expenses of $1,594,070, which consisted of net loss reserves of $322,512 and net loss adjustment expenses of $1,271,558. This amount includes $(8,993,466) of anticipated salvage and subrogation(S&S) recoveries.

The reserves shown above have been reduced due to the anticipation of receiving salvage or subrogation. The amount of anticipated salvage or subrogation is $9.0M or 155% of surplus. This is appropriate for the surety line of business, and substantiated by the historical experience of the company. The company continues to collect salvage for many years after the claim is reported.

NOTE 2 - SURPLUS AS REGARDS POLICYHOLDERS

A summary of the Surplus as Regards Policyholders is detailed below:

Common Capital Stock	$3,500,000
Gross Paid in and Contributed Surplus	480,945
Unassigned Funds	1,833,218
Total Surplus as Regards Policyholders	$5,814,163

The Surplus as Regards Policyholders as determined by this examination amounted to $5,814,163 and meets the minimum needed surplus requirement.

SUBSEQUENT EVENTS

A significant subrogation recovery case was tried before the Morris County Superior Court. On May 25th, 2017, in a written opinion, the Morris County Superior court found for FIA and granted a judgment for two million two hundred twenty-eight thousand six hundred seventy-seven and eighty-five cents to FIA against the various defendants. This judgment represents 26% of the carried subrogation reserve for the company.

CONCLUSION

This statutory financial condition examination was conducted by the undersigned with the support of the Department's field and office staff at the Company's home office located in Parsippany, New Jersey 07054.

The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully submitted,

/s/

Joseph W. Samsel, CFE, CICA
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY

I, Joseph Samsel, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2016, to the best of my information, knowledge, and belief.

Respectfully Submitted,

/s/

Joseph W. Samsel, CFE, CICA
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me on this 13th day of November, 2018.

/s/

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July, 2020