

**REPORT ON EXAMINATION AS TO THE CONDITION OF
FIRST INDEMNITY OF AMERICA INSURANCE COMPANY
PARSIPPANY, NEW JERSEY 07054**

AT DECEMBER 31, 2010

**NAIC COMPANY CODE 38326
NAIC GROUP CODE 0000**

FILED

April 12, 2012

Commissioner
Department of Banking &
Insurance

TABLE OF CONTENTS

	<u>PAGE</u>
SALUTATION	1
SCOPE OF EXAMINATION	2
COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS	3
COMPANY HISTORY	4
INSURANCE PRODUCTS AND RELATED SERVICES	4
TERRITORY AND PLAN OF OPERATION	4
POLICY FORMS AND UNDERWRITING PRACTICES	5
ADVERTISING AND SALES MATERIAL	5
TREATMENT OF POLICYHOLDERS	5
HOLDING COMPANY SYSTEM	6
AFFILIATED COMPANIES	6
INTER-COMPANY AGREEMENTS	7
MANAGEMENT & CONTROL	8
BOARD OF DIRECTORS	8
OFFICERS	9
CORPORATE RECORDS	10
POLICY ON CONFLICTS OF INTEREST	10
DIVIDENDS TO STOCKHOLDERS	10
EMPLOYEE WELFARE AND BENEFIT PLANS	10
ACCOUNT AND RECORDS	10
FIDELITY BOND AND OTHER INSURANCE COVERAGES	11
REINSURANCE	12
CONTINUITY OF OPERATIONS	12
FINANCIAL STATEMENTS	13
EXHIBIT-A: STATEMENT OF FINANCIAL POSITION	14
EXHIBIT-B: STATEMENT OF OPERATING RESULTS	15
EXHIBIT-C: CAPITAL AND SURPLUS ACCOUNT	16
NOTES TO THE FINANCIAL STATEMENTS	17
SUBSEQUENT EVENTS	18
SUMMARY OF RECOMMENDATIONS	18
STATEMENT BY NJDOBI ACTUARY	19
CONCLUSION	19
NOTARIZATION	20

CHRIS CHRISTIE
Governor



KENNETH E. KOBYLowski
Acting Commissioner

KIM GUADAGNO
Lt. Governor

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

PO Box 325
TRENTON, NJ 08625-0325

TEL (609) 292-7272
Fax (609) 292-6765

March 15, 2012

Honorable Thomas B. Considine
Commissioner of 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 N.J.S.A. 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
119 LITTLETON ROAD
PARSIPPANY, NJ 07054
N.A.I.C. COMPANY CODE 38326
EXAMINATION WARRANT P&C-9

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

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination was conducted using the risk-focused examination approach and addressed the three-year period from December 31, 2007, the date of the last examination, including material transactions and/or significant events occurring subsequent to the examination date. The examination followed procedures formulated by the National Association of Insurance Commissioners ("NAIC") and regulatory procedures prescribed or permitted by the Department.

The scope of this examination was framed around specific key risk areas as determined by a risk assessment analysis, which attempted to measure the impact of these risks upon the Company's financial condition and future viability. This entailed an evaluation of the Company's management, corporate governance, information systems, accounting methods, system of internal control, and the annual audit work performed by the Company's certified public accountants, encompassing the following overall objectives:

- Analysis of business risk activities deemed to have a great impact on the Company's overall operations, including deviations from statutory accounting practices that affect solvency assessment.
- Identification of significant deviations from New Jersey insurance laws, regulations and directives.
- Compliance with the guidelines outlined in the revised NAIC Financial Condition Examiners Handbook ("NAIC Handbook"), NAIC accreditation/codification standards, and with NJDOBI Departmental policies and procedures.
- Identification and reporting of significant operational and internal control deficiencies and assessment of the Company's risk management processes.
- Assessment of the quality and reliability of corporate governance to identify and manage the risk environment facing the insurer in order to identify current and prospective risk areas.
- Assessment of the risks that the Company's surplus is materially misstated.
- Provision of 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 Department. The Company, due to its size, does not maintain an internal audit department and/or staff. Assets were verified and valued and all known liabilities were established at December 31, 2010. During the three-year exam period, the Company's assets increased \$731,773 from \$4,640,616 to \$5,372,389; liabilities increased \$1,275,270 from \$552,215 to \$1,827,485 and total surplus decreased \$543,496 from \$4,088,401 to \$3,544,905.

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

Consideration of Fraud
Commitments and Contingent Liabilities

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The following is a summary of the Company's response to the recommendations of the previous examination report dated as of December 31, 2007:

I. Insurance Products and Related Services

1. Territory and Plan of Operation (2004 Exam Finding). It was recommended in the *last two examination reports* that the Company obtain written contracts between itself and any reinsurance intermediary-broker(s) in conformity with the stipulations of N.J.S.A. 17:22E-6.

Examination Review: The Company is in compliance with this recommendation.

2. It was recommended that the Board thoroughly review, on annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made part of the Company's corporate minutes.

Examination Review: The Company complied with this recommendation.

II. Management and Control

3. Corporate Records. It was recommended that the Company thoroughly review, on an annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made a part of the Company's corporate minutes..

Examination Review: The Company complied with this recommendation.

III. Continuity of Operations

4. Disaster Recovery Plan. It was recommended that the Company complete testing of the various sections of its Disaster Recovery/Business Continuity Plan, and that it schedule and execute regular, periodic testing of this plan, in addition to completing and maintaining documentation of such periodic tests.

Examination Review: The Company complied with this recommendation.

IV. Notes to Financial Statements

5. Cash and Short Term Investments. It was recommended that the Company classify and report money market funds in accordance with the guidelines and conventions developed in the P&P Manual and Annual Statement Instructions, compliant with **SSAP No. 2**, paragraph 11.

Examination Review: The Company complied with this recommendation.

6. Losses and LAEs. It was recommended that the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

Examination Review: It is again recommended that the Company evaluate the reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

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 (CEO) and President of the Company, with the remainder of the stock owned by outside individuals. This certificate of amendment also changed the statutory address of the Company to ***119 Littleton Road, Parsippany, New Jersey 07054***, the current official home address of First Indemnity, and was filed and approved by the Department on February 21 and February 22, 1996, respectively.

This Certificate of Incorporation was again amended on December 14, 2001, to update paragraph three of the Company's charter enabling the Company to only write the kinds of business specified in paragraphs "b," "g" and "n" of N.J.S.A. 17:17-1 et seq., i.e. property and casualty. The amendment was approved by the Deputy Attorney General on January 23, 2002, and filed with the Department on February 11, 2002.

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

INSURANCE PRODUCTS AND RELATED SERVICES

Territory and Plan of 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 2010, surety bonds represented 100% of total premiums written.

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 with surety needs falling below a single bond limit of \$500,000. The main strategic objectives are: (a) prudent utilization of collateral and/or funds control supplemented by reinsurance on a quota share basis, (b) targeting of niche contractors involving public works, and (c) continued service to and coverage of established business/specialty trades, i.e., sanitation, subdivision, and school transportation.

All business is produced through approximately 300 independent agents; however, the Company only deals with about 10-12 agents on an ongoing basis. 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 Pennsylvania, Maryland, Georgia, Texas and Oklahoma. However, the largest concentration of business was in New Jersey, which drew 80% of the premium volume as of December 31, 2010.

The Company's home office, headquartered in Parsippany, New Jersey, operates as a full service center providing underwriting, claims, customer service and management functions, supported by a staff of nineteen fulltime employees.

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 Underwriting 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 criteria. In general and in part the underwriting procedures and requirements are as follows:

1. The underwriter makes a personal visit with the contractor and compiles an individual profile.
2. The Company obtains annual audited financial statements for the past three years from 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 of the proper documentation necessary to protect the interests of the Company are obtained.
5. CPA-prepared business financial statements are secured.
6. Clean personal and business credit history.

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

Advertising and Sales Material

A review and sampling of advertisement materials submitted by the Company determined FIA to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

Treatment of Policyholders

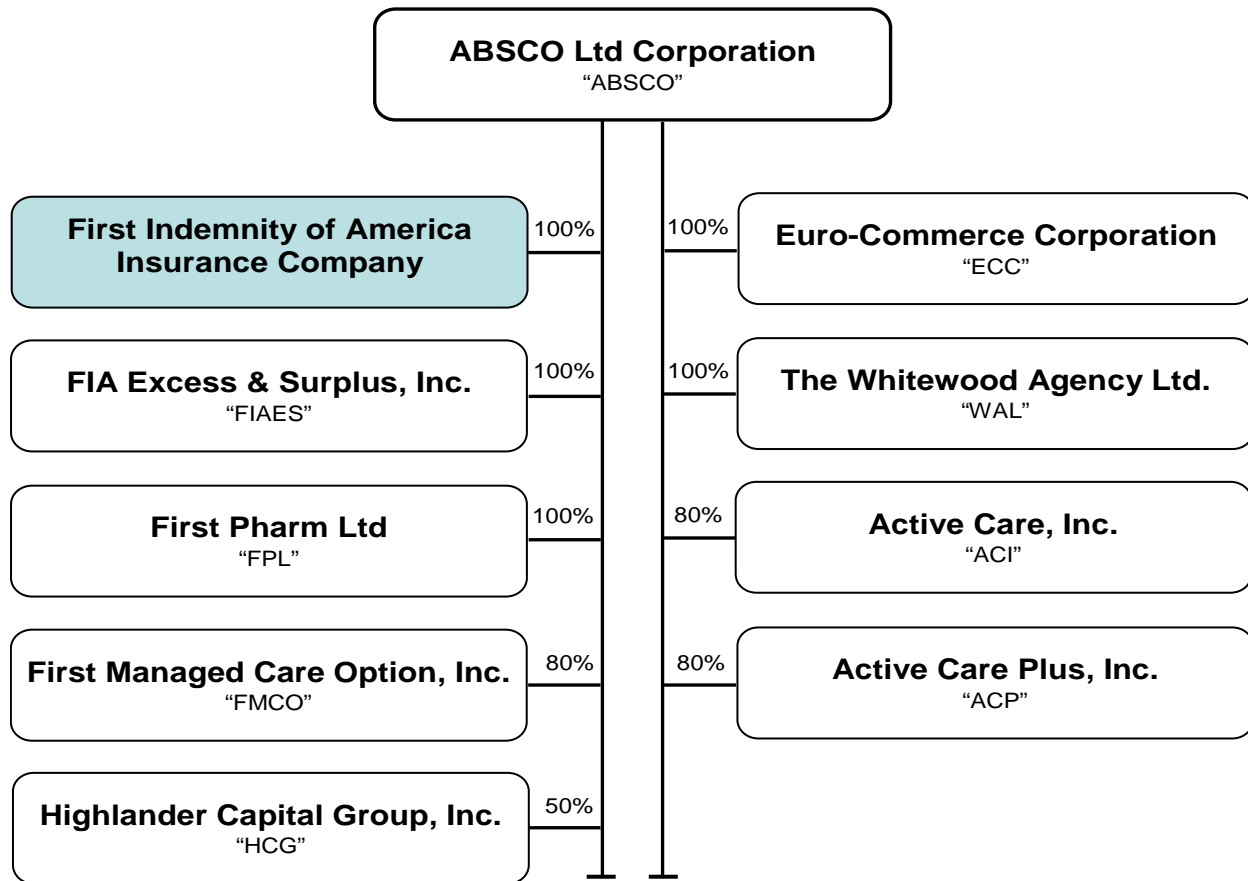
The Company keeps a journal whereby all grievances filed against First Indemnity are maintained. Inspection of this journal revealed a very low number of registered complaints, which was confirmed via a review of the NAIC Closed Complaint Trend Report for the respective examination period. Complaints are handled by the in-house Claims Manager, the documentation of which was adequately supported.

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 J. 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 particular companies within the holding company system as of December 31, 2010:



Euro-Commerce Corporation ("ECC") is a service organization acting as a TPA that provides underwriting and various administrative services relating to surety bonding programs.

FIA Excess & Surplus, Inc. ("FIAES") is a New Jersey licensed surplus lines insurance broker a.d.b.a. *The Littleton Agency*.

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

First Managed Care Options, Inc. ("FMCO") is a New York corporation that provides managed care (for workers' comp claims) and independent medical examination services.

Active Care, Inc. and Active Care Plus, Inc. both maintain a network of providers and hospitals.

Highlander Capital Group, Inc. ("HCG") is a broker/dealer registered under the Securities Exchange Commission.

On July 28, 2008, the Parent formed a new company First Pharm Ltd. ("FPL") to market a pharmaceutical program in the State of New Jersey effective January 1, 2009. FPL was established via an agency agreement entered with **4D Pharmacy Management Systems ("4DP")**, a company specializing in the customization and administration of prescription drug programs that successfully control drug utilization.

Inter-Company Agreements

The Company is a party to the following inter-company agreements in force at December 31, 2010:

Claims Management Agreement

Under the terms of the agreement, ECC will provide claims adjusting services to FIA on a time-to-time basis as needed and requested by the Company. ECC 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 Department. The Company retains the sole authority to compromise or settle claims for which ECC provides adjusting services. The agreement is effective as of January 7, 2003, and was non-disapproved by the Department on June 8, 2004.

Tax Allocation Agreement

Effective December 31, 2002, the agreement governs the filing of federal income taxes on a consolidated basis and 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. 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 of the other parties.

The parties to the agreement, in addition to the Company and its parent, are as follows:

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

Cost Sharing Agreement

This agreement is between FMCO and FIA. Effective July 8, 2010, the date of its execution, the agreement stipulates that FMCO will reimburse the Company for its share of expenses related to the use of common premises and equipment held by FIA. The agreement runs indefinitely until either party terminates upon a 30-day notice.

Exclusive Agency Agreements

The Company has entered into two separate agreements, one with FIAES and the other with WAL, granting each the authority of issuing and renewing surety bonds and collecting premiums therefrom. The agreements are effective July 8, 2010, the date of their execution, and run indefinitely until either party terminates upon a 30-day notice.

It is noted, after a review of these contracts, that the Company has not submitted a Form D with the Department for either the Cost Sharing or the Agency agreements in accordance with statutory requirements. Correspondence with Department personnel along with an actual inspection of files and records in store at the NJDOBI failed to yield any official Notice of Transaction relating to these agreements.

It is therefore recommended that the Company file a Form D with the Department to obtain approval for these affiliated arrangements pursuant to N.J.S.A. 17:27A-4(a)(2).

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, 2010, the Board consisted of seven members six of which were outside directors. The duly elected members were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Patrick J. Lynch Denville, NJ	President/CEO First Indemnity
Kathy A. Luisi Surfside, FL	Owner EBCO International, Inc.
Phillip Ressa Staten Island, NY	Owner/Broker RJW Brokerage Corp.
John P. Teevan Holmdel, NJ	Broker Gunn Allen Financial
Martin O. Teevan Holmdel, NJ	Broker Westminster Securities
Anthony Tomae Point Pleasant, NJ	Retired
John W. Weller Holmdel, NJ	President Weller Mortgage Funding

The by-laws of First Indemnity provide for the appointment of committees, which is required under N.J.S.A. 17:27A-4d(4). The members of the committees serving at December 31, 2010, were as follows:

<u>Audit Committee</u> Kathy A. Luisi (Chair) Anthony Tomae John W. Weller	<u>Executive Committee</u> Patrick Lynch (Chair) Paul Alongi, Sr. (Secretary) Glenn Runne
---	--

Finance Committee
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 N.J.S.A. 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 Finance Committee develops investment strategy for the Company and maintains oversight over its investments. This committee, along with the Board, meets the provisions of N.J.S.A. 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. However, it was noted that the Executive Committee, being comprised of the President and two other officers of the Company, was not in compliance with the requirements of this statute.

It is therefore recommended that the Executive Committee, and every committee formed thereafter by resolution of the Board, be made up of at least one-third outside directors (exclusive of the Audit Committee) pursuant to N.J.S.A. 17:27A-4d(3).

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 minutes indicated that a majority of directors attended these meetings. For the three-year period under examination, the Board held twenty-four (24) meetings, key discussions of which were reviewed under the '*Corporate Records*' section below.

The Board of Directors location for all correspondence and meetings is the FIA home office, 119 Littleton Road, Parsippany, New Jersey 07054.

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, 2010, were as follows:

<u>Name</u>	<u>Office</u>
Patrick J. Lynch	President
Glenn A. Runne	Treasurer
Jane E. Lynch	Secretary
Paul J. Alongi, Jr.	Vice President
Moira M. Blazier	Vice President
Brendan A. Gethins, Jr.	Vice President

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.

The Company's by-laws were amended on April 20, 2010 to include additional sections and the identification of the new Registered Agent, which was accepted by the Department without exception.

Policy on Conflicts of Interest

The Company maintains a program for the disclosure of conflicts of interest. Each year all officers, directors and key employees are required to complete a formal questionnaire requiring personnel to reveal any act or outside affiliation that is likely to conflict with an individual's official duties with the Company.

Examination review of these questionnaires, applicable to all years of the examination period, indicated that all potential conflicts were appropriately reported.

Dividends to Stockholders

The Company did not pay any dividends to stockholders during the examination period.

EMPLOYEE WELFARE AND BENEFIT PLANS

The Company, through its parent ABSCO Ltd. Corp., offers a 401(K) Plan to its employees who are eligible to participate of which the Company matches 50% up to 6% of the employees' contribution.

ACCOUNTS AND RECORDS

The Company makes use of an IBM AS/400 Advanced 36 mainframe 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 total entries to be made from the reports generated by these auxiliary systems, which also include amount values from source documents calculated manually on MS Excel spreadsheets. Once all journal entries are posted, the Versa Pro program produces a trial balance and the final balance sheet and income statement.

A trial balance was provided for the year ending December 31, 2010, and balances were traced to the appropriate asset, liability and income and expense exhibits of the 2010 annual statement.

Premiums: Premiums are processed in-house on the Company's AS/400 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.

Claims: Losses are also processed in-house on the AS/400 system. 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 mainframe system. 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 AS400 system as are any new reserves or reserve changes. The following relevant reports are produced by the system: (a) summary of incurred losses, (b) claims reserve and paid loss run, and (c) monthly cash disbursements.

Investments: The Company's portfolio mainly consists of bonds and notes, which are 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 Assistant Treasurer, who then enters the receipts into the Company's cash system. Reconciliations of accounts are performed on a monthly basis by the Assistant Treasurer and reviewed by the Chief Financial Officer. Reports are then produced monthly and the cash information is entered into the general ledger system.

Pursuant to N.J.A.C. 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 Department. The report contains a synopsis of the major audit activities and results thereof in the corporate area.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

At December 31, 2010, the Company maintained an insurance program designed to protect its assets arising out of property and liability risks. Coverages include property insurance, liability for employment practices, and directors and officers' liability. Additionally, on a consolidated basis, the Company maintains a fidelity bond in the amount of \$500,000 (each occurrence) that includes coverage for fidelity, loss of property on premises, forgery and altercations of financial instruments or securities.

A review of the NAIC requirement guidelines for minimum amount of fidelity insurance indicated that the Company is adequately protected.

REINSURANCE

The Company maintains the following ceded reinsurance agreements as of December 31, 2010:

<u>Type/LOB</u>	<u>Retention</u>	<u>Reinsurance</u>	<u>Reinsurers/Limits</u>
Bail Bond Quota Share	50% of 500,000	50% 500,000	International Credit of North America
Contract Surety Excess of Loss	100% of 400,000	100% of 100,000 x 400,000	International Credit of North America
Per Principal Surety Excess of Loss	Section A \$500,000 Section B 5% of \$1,000,000	Section A \$500,000 Section B 95% of \$1,000,000 x \$1,000,000	Lloyd's Sagacor Syndicate 1206 Layer 1: 1,500,000 Layer 2: 3,000,000

The Company, as of December 31, 2010, maintains the following assumed reinsurance agreement:

<u>Type/LOB</u>	<u>Retention</u>	<u>Reinsurance</u>	<u>Reinsurers/Limits</u>
Surety Quota Share	30% of 500,000	70% 500,000	First Indemnity of America Ins. Co. Reinsured: International Credit of North America

Reinsurance agreements were reviewed to ensure contracts had acceptable contracts and conditions. There were no exceptions noted.

CONTINUITY OF OPERATIONS

The Company has developed and maintains a basic disaster recovery plan for the purpose of continuing its business operations in the event of a natural or man-made disaster. The plan provides for a disaster recovery committee, headed by the Company's IT manager, who is responsible for the location, indemnification and acquisition of off site information systems sufficient to store and maintain all of the Company's underwriting, financial and claims records. The committee is also responsible for locating and if possible acquiring duplicate methods of maintaining such records on site in a location separate and apart from the existing information systems location.

FINANCIAL STATEMENTS

Financial statements are presented in the following three pages as listed below:

Exhibit - A Statement of Financial Position
as of December 31, 2010

Exhibit - B Statement of Operating Results
for the Three-Year Period ended December 31, 2010

Exhibit - C Capital and Surplus Account
for the Three-Year Period ended December 31, 2010

EXHIBIT A

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010

	Balance per Examination @ 2010	Balance per Company @ 2010	Examination Change	Note No.
ASSETS				
Bonds	\$ 1,979,657	\$ 1,979,657		1
Preferred Stocks	5,291	5,291		
Cash and Short-term Investments	2,383,253	2,383,253		
Investment Income Due and Accrued	29,898	29,898		
Uncollected Premiums and Agents' Balances	316,871	316,871		
Reinsurance:				
Amounts Recoverable	87,350	87,350		
Funds held by or Deposited with	223,770	223,770		
Net Deferred Tax Asset	346,299	346,299		
Total Admitted Assets	\$ 5,372,389	\$ 5,372,389	\$ -0-	
LIABILITIES				
Losses	\$ (2,612,189)	\$ (3,947,189)	\$ 1,335,000	2
Loss Adjustment Expenses	1,326,900	1,326,900		2
Other Expenses (excluding federal/foreign taxes)	221,459	221,459		
Taxes, Licenses, and Fees	88,885	88,885		
Unearned Premiums	1,654,451	1,654,451		
Ceded Reinsurance Premiums Payable	205,868	205,868		
Funds Held Under Reins Treaties	902,564	902,564		
Provision for Reinsurance	39,547	39,547		
Total Liabilities	\$ 1,827,485	\$ 492,485	\$ 1,335,000	
CAPITAL AND SURPLUS				
Common Capital Stock	\$ 3,500,000	\$ 3,500,000		3
Gross Paid-in and Contributed Surplus	480,945	480,945		3
Unassigned Funds (surplus)	(436,040)	898,960	(1,335,000)	3
Surplus as Regards Policyholders	\$ 3,544,905	\$ 4,879,905	\$ (1,335,000)	3
Total Liabilities, Capital and Surplus	\$ 5,372,390	\$ 5,372,390	\$ -0-	

EXHIBIT B**STATEMENT OF OPERATING RESULTS
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2010**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>UNDERWRITING INCOME</u>			
Premiums Earned	<u>\$ 2,911,394</u>	<u>\$ 3,946,691</u>	<u>\$ 4,398,300</u>
Deductions:			
Losses Incurred	1,542,678	620,818	1,094,767
Loss Expenses Incurred	(354,473)	953,295	301,277
Other Underwriting Expenses Incurred	<u>2,529,866</u>	<u>2,811,242</u>	<u>3,020,559</u>
Total Underwriting Deductions	<u>3,718,071</u>	<u>4,385,355</u>	<u>4,416,603</u>
Net Underwriting Gain or (Loss)	<u>\$ (806,677)</u>	<u>\$ (438,664)</u>	<u>\$ (18,303)</u>
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	104,629	152,359	109,579
Net Realized Capital Gains or (Losses)	<u>123,489</u>	<u>27,498</u>	<u>48,240</u>
Net Investment Gain or (Loss)	<u>\$ 228,118</u>	<u>\$ 179,857</u>	<u>\$ 157,819</u>
<u>OTHER INCOME</u>			
Aggregate Write-ins for Misc. Income	<u>-0-</u>	<u>553</u>	<u>160</u>
Total Other Income	<u>\$ -0-</u>	<u>\$ 553</u>	<u>\$ 160</u>
Dividends to Policyholders	-0-	-0-	-0-
Federal Income Taxes Incurred	<u>(452,496)</u>	<u>(211,741)</u>	<u>-0-</u>
Net Income	<u>\$ (126,063)</u>	<u>\$ (46,513)</u>	<u>\$ 139,676</u>

EXHIBIT C

CAPITAL AND SURPLUS ACCOUNT FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus as Regards Policyholders December 31, Previous Year	<u>\$ 4,088,401</u>	<u>\$ 4,019,562</u>	<u>\$ 4,107,279</u>
Net Income	(126,063)	(46,513)	139,676
Change in Net Unrealized Cap Gains/(Losses)	5,449	(77,616)	(5,014)
Change in Net Deferred Income Tax	-0-	(59,288)	(816,073)
Change in Non-admitted Assets	98,777	409,311	1,308,405
Change in Provision for Reinsurance	(47,002)	(138,177)	145,632
Surplus Adjustment: Unassigned Funds	-0-	-0-	(1,335,000)
Total Adjustments	<u>\$ 57,224</u>	<u>\$ 134,230</u>	<u>\$ (702,050)</u>
Change in Surplus for the Year	\$ (68,839)	\$ 87,717	\$ (562,374)
Surplus as Regards Policyholders Decemebr 31, Current Year	<u><u>\$ 4,019,562</u></u>	<u><u>\$ 4,107,279</u></u>	<u><u>\$ 3,544,905</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds

At December 31, 2010, the Company's long-term portfolio consisted chiefly of corporate, U.S. Treasury and U.S. Government Agency bonds majorly held by TD Banknorth, N.A. (formerly Commerce Bank), representing approximately 37% of total admitted assets. The securities were valued at amortized cost in accordance with **SSAP No. 26, Bonds, excluding Loan-Backed and Structured Securities** and were confirmed without exception via verification of audit work conducted by *TaylorChandler, LLC*, independent CPAs.

Statutory Deposits

At December 31, 2010, all of the bonds accounted for above have been deposited with the NJDOBI. Additionally, a deposit comprised of a money market fund with a book value of \$35,000 is under the custody of the Commissioner of Insurance of the State of Florida via US Bank, N.A. These assets are held in trust for the benefit and security of the policyholders of First Jersey.

Note 2 - Losses and Loss Adjustment Expenses

At December 31, 2010, the Company reported a net liability for Loss and Loss Adjustment Expenses of \$(2,620,289), which consisted of net loss reserves of \$(3,947,189) and net loss adjustment expenses of \$1,326,900.

A review of the reserves for losses and loss adjustment expenses of FIA was conducted by the Property and Casualty Actuarial Division of the NJDOBI. On the basis of the review, it was determined that the results of the actuarial analyses found gross and net booked reserves to be below the low end of the reasonable range and deficient by material amounts. For net loss and loss adjustment reserves, the Company's reserves of \$(2,620,289) was determined to be \$ (1,285,289) or a deficiency of \$ 1,335,000.

It is again recommended that the Company evaluate the reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

Note 3 - Capital and Surplus

Capital Stock

The outstanding stock of the Company at December 31, 2010, consisted of 200,000 shares of common stock with a par value of seventeen dollars and fifty cents (\$17.50) per share for a total capital of \$3,500,000.

Gross Paid-in and Contributed Surplus

The Gross Paid-in and Contributed Surplus reported by the Company at December 31, 2010, totaled \$480,905, the same as the previous examination.

Unassigned Funds

Total Unassigned Funds, as per the examination review, amounted to \$(436,040), which is \$1,335,000 less than the amount reported by the Company, resulting from a negative adjustment as determined by this examination. The decrease was due to the Company understating its year-end net liability for loss and loss adjustment expenses reserves as detailed in Note 2 above.

Surplus as Regards Policyholders

The cumulative changes in capital and surplus during the three-year examination period is reflected and summarized below:

Capital and Surplus, December 31, 2007		\$ 4,088,401
Net Income or (Loss)	(32,900)	
Change in Net Unrealized Cap Gains/(Losses)	(77,781)	
Change in Net Deferred Income Tax	(875,361)	
Change in Non-Admitted Assets	1,816,493	
Change in Provision for Reinsurance	(39,547)	
Surplus Adjustments: Examination Change	<u>(1,335,000)</u>	
Net Adjustments During Three-Year Period		<u>(543,496)</u>
Capital and Surplus, December 31, 2010		<u><u>\$ 3,544,905</u></u>

The Company meets the statutorily required minimum capital and surplus benchmark of \$1,850,000, an excess of \$1,694,905.

SUBSEQUENT EVENTS

During the first 3 Quarters of 2011, the Company strengthened its Loss and Loss Adjustment Expense Reserves, for Accident Years 2008 and prior, in the amount of \$490,000. Although the more recent Reserve strengthening does not completely offset the adjustment reflected in this Exam Report, the Department acknowledges the Company's effort and encourages them to continue its attempt to attain adequate Loss and Loss Adjustment Expense Reserves.

During 2011, the Company reported \$788,000 for 2010 Accident Year Net Incurred Loss and Loss Adjustment Expenses for Bail Bonds. \$598,000 of this total was paid.

There no were other significant events subsequent the examination date.

SUMMARY OF RECOMMENDATIONS

Compliance with Prior Examination Report Recommendations

- p. 17** Losses and Loss Adjustment Expenses. It was recommended in the last examination and again is reiterated that the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

Holding Company System

- p. 7** Inter-Company Agreements. It is recommended that the Company file a Form D with the Department to obtain approval for affiliated arrangements pursuant to N.J.S.A. 17:27A-4(a)(2).

Management & Control

- p. 8** Board of Directors. It is recommended that the Executive Committee, and every committee formed thereafter by resolution of the Board, be made up of at least one-third outside directors (exclusive of the Audit Committee) pursuant to N.J.S.A. 17:27A-4d(3).

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES
STATEMENT BY NJDOBI ACTUARY

I, Boris Privman, Managing Property and Casualty Actuary for the NJDOBI, have performed an actuarial review of the reported December 31, 2010 loss and loss adjustment expense reserves for the First Indemnity of America Insurance Company.

Actuarial findings as stated above and in this examination report are the sole responsibility of the NJDOBI's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

_____/S/
Boris Privman, FCAS, MAAA
Managing Actuary

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, employees, and certified public accounting firm is acknowledged.

Respectfully submitted,

_____/S/
Allen L. Abbott
Examiner-in-Charge
Department of Banking and Insurance
State of New Jersey

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY

I, Allen L. Abbott, 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, 2010, to the best of my information, knowledge, and belief.

Respectfully submitted,

/S/

Allen L. Abbott
Insurance Examiner I
Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Linda L. Boone, on this 29th day of March, 2012.

/S/

Notary Public of New Jersey

My commission expires: 3/26/2014