



International Fidelity

INSURANCE COMPANY



2007 Annual Letter to Agents

To our valued agents:

Congratulations on your contribution to another successful year for IFIC. Your investment of business you place with IFIC is greatly appreciated and is why IFIC is the largest independent, privately owned surety in the industry. Thank you!

In 2007 the company grew over 18% to \$114 million in direct written premium. Earnings before taxes grew over 40% to \$21 million and earnings after taxes grew 30% to over \$13 million. 2007 marks a "hat-trick" for IFIC. For each of the last three years we have recorded a record level of direct written premium and net income before and after taxes. 2007 was the eighth consecutive year of an improving combined ratio. For 2007 our combined was under 77, which is a substantial improvement from 84 for 2006.

2007 was an exciting year for IFIC for many reasons. Our reinsurers, Everest Re, Partner Re and Gen Re agreed to increase our capacity. We opened new regional profit centers in San Diego, Denver and Houston. We created a single IT department and hired the company's first Chief Information Officer. Of course, the end purpose of all these investments is to grow as many relationships as possible with reputable agents who specialize in surety.

As you read this letter, conventional wisdom says that the USA is being led into a recession by difficulties in the housing and credit markets, if it is not already. We do not manage our business by making predictions on such matters. Part of being a valuable surety market to agents is being consistent and reliable. Therefore, we should not over react to such prospects.

A great underwriting company unconsciously factors a recession into its underwriting everyday when it keeps up to date on how your accounts' business is doing. During these times it would be easy and seemingly logical, for example, to say we are not a market open for business for subdivision or mortgage license bonds. For the record, IFIC is open for business in these areas as we are in all the classes of surety bonds we write. We certainly have to evolve with changing conditions in every industry we support with our surety credit, but we will not over-react.

During 2007 our capital & surplus grew from \$73 million to over \$86 million. This makes IFIC the most heavily capitalized independent privately owned writer of surety. Our goal is to continue to post these kinds of results, recession or not. That is what high performing businesses do. We are counting on your continued investment in us as a surety market to make that happen.

Our objective is to grow our capital and surplus to over \$100 million through the retention of earnings. When we achieve that level of surplus it will increase our financial size category rating with AM Best from a "VII" to an "VIII". It is our belief that achieving this will assure IFIC obtaining an upgrade from A minus to an A rating by AM Best, if that does not already happen based on our 2007 YE results. This will contribute to making IFIC a more valuable surety market for you.

We are committed to remain both disciplined and flexible in our underwriting. There is a tension to do both. We rely on the combination of your working relationship with our regional office underwriters and our underwriting guidelines to strike the right balance. We don't use credit rating/scoring of accounts to help strike the right balance because we feel it would distract us from staying focused and current on your accounts. Credit rating/scoring is difficult enough for Credit Rating Organizations whose primary business is determining credit ratings of companies, and certainly more difficult for an organization like ourselves who does not. When it comes to underwriting we are committed to making money the old fashioned way: "underwriting each account, one at a time, on its own merits."

Thanks again for helping to make 2007 a successful year for IFIC. We look forward to our relationship with you in 2008 to continue to be a mutually profitable one. Anytime you happen to be in the New York City, Northern New Jersey area and have the time, please stop by our headquarters for a visit. We would be excited to see you.



Robert Minster
Executive Vice President
Chief Underwriting & Operating Officer

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