

*2009 Year End Annual Letter to Agents*

February 2010

**Valued Agents,**

Thanks to your continued investment of business in IFIC, our Direct Written Premium (DWP) from our regional profit centers grew by 5% with single digit loss ratios in both our contract and commercial lines. Without your long-term commitment to build a book of business with us, results like this in times like these would not be possible.

**What we did in 2009**

In 2009 we opened our Seattle Regional Office and closed our Little Rock Regional Office. We hired our first claims attorney located outside of the home office. As I forecast to you in last year's annual letter, our employee count increased; it grew from 178 to 195. We successfully completed our 2009 Bond Trainee Program with six trainees, now located at various offices across the country working and learning to serve you.

Late in the year, IFIC established a new underwriting department called "Specialty" to write non-standard surety business. To support this, IFIC acquired Allegheny Casualty Company (ACC.) ACC is an AM Best A- VI rated insurance company with a \$1.7 million treasury listing. The ACC specialty market will have capacity to write single bonds up to \$10 million for non-standard qualified principals within a \$15 million bonded aggregate program. This specialty market will offer the ability to be flexible in how it takes and returns collateral. As we build a staff and establish a Regional Profit Center servicing your locations, we will then be open for agency appointments and providing great service to you on submissions.

In early 2009 we implemented the IFIC Bank Stress Assessment Program. This was needed because we are flexible in taking collateral from banks of all types and sizes. This stress assessment program has enabled us to avoid having a knee-jerk reaction to the over 140 banks that failed in 2009. In fact, there were a number of cases in which this program enabled us to proactively wind down our exposure to those banks before they were taken over by the FDIC.

We are satisfied with our 2009 results. The IFIC Group (IFIC and ACC combined) earned a net income of \$5.7 million with over \$147 million in DWP. While this income level is down from the last three years, it is the company's fourth best net income year in its history. IFIC's profitability and revenues would have been higher if it were not for our decision to stop writing customs business through an MGA. We feel this short term drag on results is well worth it as it better positions IFIC for longer-term improved profitability.

In 2009 we continued to take action to reduce our exposure to a potentially significant period of inflation. We have done this by reducing the composite term of our interest bearing investments. While this is a drag on our results in the short term, it positions us well to absorb any eventual inflationary expense increases and sets us up for longer-term improved profitability.

In late 2009 we increased loss reserves in the customs and subdivision lines to strengthen our balance sheet. These actions brought IFIC Group's total direct loss ratio to approximately 15.9%. Any time we set reserves, we do so based on the specifics of the case. Given the economic downturn of the last two years, we set these reserves higher than we would in a non-recessionary environment.

What is most exciting about our 2009 year is the results of our core business written with you: the business written in our regional offices. Total 2009 DWP from our regional offices was up 5% with single digit direct loss ratios in the contract and commercial lines! We could not be more thankful for the many valued agency relationships with our regional office underwriters that make these great underlying results happen.

**What should you expect from IFIC in 2010?**

The economy will continue to be challenging for us to conduct business. If the economy starts to measurably grow and/or unemployment makes meaningful improvements, then inflation may rise to a level higher than we have seen in a generation. Whether or not this tough economic outlook occurs, we will be prepared for it. More than ever, our underwriting approach will remain one that relies on underwriting each account on its own merits. IFIC will continue not to use a risk based credit assessment program to evaluate its accounts. Rather, your surety market at IFIC will continue to rely on the working relationship between our regional office underwriters and you to drive our underwriting decisions.

Difficult economic times are not the time to cut back. Rather, they are an opportunity to expand our long-term value to our shareholders as an investment, to our employees as a place to work, to our reinsurers as a surety with which to partner and most of all to you and your clients as a surety market with which to do business.

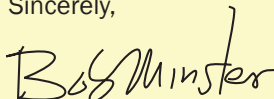
You will see the number of our employees increase by about 10%. We will start to build a staff in our new specialty underwriting line. We will continue with our Bond Trainee Program in 2010. We will continue to look for ways to expand employee benefits as we did in 2009. In the 2010 Q1 our IT and Underwriting departments will establish a new Regional Office Line of Credit structure. This will involve the Home Office issuing continuous lines of credit on your accounts to the regional underwriters who serve you. This will further improve the continuity of service you receive on your accounts.

We expect our earnings in 2010 to be on a par with those of 2009 as we establish our initial overhead investment for the Specialty line. Also, we will continue to run off our MGA customs business and position our investments for an eventual inflationary period. I am confident in our ability to remain profitable in 2010 due to two major items. One is the quality of business written with you. The second is an increase in our conservatism, commensurate with the economy, in setting our reserves.

**In Closing**

The business you place with IFIC is why we are able to achieve such satisfying results in these difficult times. As a result, IFIC remains the largest, most capitalized independent writer in the surety business. Our results and plans for the future rely so much on you. Thanks again for your business. If you are ever traveling near Newark, NJ please stop by for a visit. We would be excited to see you.

Sincerely,



Robert W. Minster  
Executive Vice President  
Chief Operating Officer

## MISSION STATEMENT

Our mission is to be a dynamic leading middle market surety that consistently provides the required return on investment to its shareholders by providing long-term rewarding relationships with its employees, agents and reinsurers.

This can only be sustained by guiding our actions according to the adage of always “doing the right thing”. This requires that all that we do be done in a manner that is legal, ethical and respectful to one another.



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