REPORT ON EXAMINATION

OF THE

INTERBORO INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT	FEBRUARY 11, 2011
EXAMINER	VERONICA DUNCAN BLACK

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 11, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30338 dated May 19, 2009, attached hereto, I have made an examination into the condition and affairs of Interboro Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Interboro Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 155 Mineola Boulevard, Mineola, NY 11510.

1. SCOPE OF EXAMINATION

This is the first examination of the Company since it emerged from rehabilitation on February 9, 2007. The prior examination was conducted as of December 31, 2003. That report on examination was never filed due to the Company's financial difficulties and deteriorating surplus. The Company was placed in rehabilitation on April 5, 2004. This examination covered the three-year period from January 1, 2007, (just prior to the Company's emergence from rehabilitation), through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on March 7, 1914, as the Brewers Mutual Indemnity Insurance Company and commenced business on May 26, 1914. On July 14, 1914, the Company began to write workers' compensation and automobile liability insurance. On December 24, 1918, the Company changed its name to Interboro Mutual Indemnity Insurance Company. In 1949, the Company amended its license to write multiple line insurance.

Due to financial difficulties and deterioration of surplus, the Company was placed into rehabilitation by an order of the Supreme Court of the State of New York, signed April 5, 2004. The superintendent of the New York Insurance Department was appointed as rehabilitator of the Company. On December 22, 2006, the rehabilitator of the Company filed a petition with the County Clerk of Nassau to request a court order for the conversion of the Company from a mutual insurer to a stock insurer. Effective February 1, 2007, the conversion of the Company was authorized and approved by the Court in Nassau County. The Company's charter was amended and restated for the issuance of common capital stock and the conversion to a stock insurer. On February 9, 2007, the Company successfully emerged from rehabilitation and converted from a mutual to a stock insurance company. Effective November 6, 2006, prior to the Company's emergence from rehabilitation, the Company entered into a stock purchase agreement with Interboro LLC., a Delaware limited liability corporation, to acquire 100% of the common stock of the Company for a cash consideration of $15,000,000.

At December 31, 2009, the Company's capital paid in was $1,000,000 consisting of 100 shares of common stock at $10,000 par value per share. Gross paid in and contributed surplus was $14,000,000. Gross paid in and contributed surplus and/or capital paid in increased by $14,000,000 during the examination period, as follows:

Year	Description		Amount
2007	Beginning gross paid in and contributed surplus		$ 0
2007	Surplus contribution	$14,000,000	
	Total Surplus Contributions		14,000,000
2009	Ending gross paid in and contributed surplus		$14,000,000

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven or more than twenty-five members. The board of directors held fourteen meetings during the examination period. At December 31, 2009, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Susan M. Ende Massapequa, NY	Vice President, Chief Financial Officer, Treasurer & Secretary, Interboro Insurance Company
Humberto Garcia New York, NY	Investment Analyst, Mellon HBV Alternative Strategies
N. Terry Godbold Rosswell, GA	Casualty Actuary, Godbold, Malpere & Co.
Paul R. Homer Huntington, NY	Venture Capitalist, Northwood Ventures
John Maguire Little Falls, NY	Self-employed
Robert C. Meyer Scarborough, NY	Investment Banker, Larkspur Capital Corporation
David J. Nichols Wilton, CT	President & Chief Executive Officer, Interboro Insurance Company
Alexander W. Rutherfurd Ouogue, NY	Portfolio Manager, Drake Asset Management LLC
Peter Schiff Oyster Bay, NY	Venture Capitalist, Northwood Ventures

Name and Residence	Principal Business Affiliation
D. Walker Wainwright New York, NY	Consultant, Wainwright & Co.
Henry T. Wilson New York, NY	Venture Capitalist, Northwood Ventures

Board of Directors' Meetings

A review of the minutes of the board of directors' meetings held during the examination period indicate that the meetings were generally well attended, with the exception of Gary Kania, who attended less than 50% of the meetings for which he was eligible to attend. It is noted that Mr. Kania was no longer a member of the Company's board of directors as of the examination date.

Annual Shareholders' Meetings

A review of the meeting of the shareholders shows that the Company did not hold an annual meeting of its shareholders for calendar years 2007, 2008, and 2009 as required by Article II, Section 1 of the Company's Amended and Restated By-laws, which states:

> An annual meeting of the stockholder shall be held for the purpose of electing directors and transacting such other business as may properly be brought before the meeting.

This section is in accordance with Article 6, Section 602(b) of the Business Corporation Law. Further, Section 6(b) of the Company's Charter requires the following:

> The annual meeting of the stockholders shall be held on the last Monday of each calendar year (or the next business day if the Monday is a holiday).

It is recommended that the Company hold an annual stockholders' meeting for the purpose of electing its board of directors, pursuant to Article II, Section 1 of its Amended and Restated By-Laws, Section 6(b) of its Charter and Article 6, Section 602(b) of the Business Corporation Law.

Committee Meetings

For the period under examination the Company has established four committees; the executive, the audit, the nominating and compensation, and the investment committees, pursuant to the terms of its By-laws. A review of the committee minutes shows that the Company has not consistently kept the minutes to the committee meetings, or held the required number of meetings pursuant to Article IV of its Amended and Restated By-Laws. It is recommended that the Company comply with Article IV of its By-laws by keeping the minutes of its scheduled committee meetings as well as holding the required number of committee meetings.

Conflict of Interest Policy

The Company has an "Employee Acknowledgement of Conflict of Interest Policy" statement ("Conflict of Interest Statement"), which defines "outside interest" and "ethical standards" and includes questions regarding whether or not the employee, or any member of the employees immediate family, holds any interest in an outside business, which conflicts or appears to conflict with their ability to act and make independent decisions in the best interest of the Company or if the employee has any other relationships that might reasonably be regarded as creating a possible conflict of interest. It is noted that the Conflict of Interest Statement addresses only employees, not directors. It is recommended that the Conflict of Interest Statement be amended to include the Company's directors.

Additionally, it was noted that the Company could not provide any Conflict of Interest Statements that were signed by its officers, directors or key employees. It is recommended that the Company require its officers, directors and key employees to complete and sign the Conflict of Interest Statements on an annual basis and retain them in its files. It is further recommended that the completed and signed Conflict of Interest Statements be provided to the Company's board of directors annually and that the minutes of the board of directors' meetings acknowledge their review.

Code of Ethics

The Company has an Employee Manual ("Manual"), which includes a "Standards of Conduct" section that outlines certain forms of behavior that are considered unacceptable in the workplace. However, the Manual does not specifically include a code of ethics and conduct to which its officers and/or managers must adhere. A code of ethics policy should promote: (i) honest and ethical conduct, including handling of actual or apparent conflict of interest; (ii) full, fair, accurate, timely and understandable disclosure in financial and business reports; and (iii) compliance with applicable rules and regulations. A code of ethics policy also provides guidelines as to what the Company expects of its officers and/or managers and fosters throughout the Company, a sense of well-being and promotes compliance with laws and the highest ethical standards. It is recommended that the Company adopt a code of ethics policy.

As of December 31, 2009, the principal officers of the Company were as follows:

Name	Title
David Nichols	President/Chief Executive Officer
Susan M. Ende	Treasurer & Secretary/Chief Financial Officer
Peter Resnick	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in the State of New York and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers’ compensation and employers’ liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,150,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2007	$22,186,580	$22,522,896	98.51%
2008	27,315,386	27,624,242	98.88%
2009	39,921,686	40,219,904	99.26%

The Company is a property and casualty insurer. The Company writes private passenger automobile liability and physical damage insurance, homeowners multiple peril and a small book of group accident and health insurance business, with the vast majority of business written for Suffolk, Nassau, Queens and Richmond counties risks. In addition, the Company is currently running off workers' compensation business (dating back to accident year 1985) in the state of New Jersey. The Company gave up its license for this state during the later part of the 1990's. The Company utilizes a broker/producer model where its business is marketed and/or produced through independent brokers, who all have binding authority.

C. Reinsurance

Assumed

For the period under examination, the Company did not participate in any type of assumed treaty or facultative reinsurance program. The Company, however, participated in two assumed voluntary pools, the New York Special Risks Distribution Program ("NYSRD") and the National Council on Compensation Insurance Program ("NCCI"). The NYSRD is a management organization and service provider for various insurance industry groups with respect to administering the residual market for vehicles classified as public automobile and/or commercial auto. The NCCI manages the nation's largest database of workers' compensation insurance information. The Company's share of the NYSRD or the NCCI underwriting results are reported quarterly and such results are reported as assumed reinsurance by the Company.

Ceded

The Company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Type of treaty	Cession
Property	
Property Per Risk Excess of Loss Three Layers 100% Authorized	Limit of $2,000,000 excess of $200,000 in respect of each and every risk, each loss occurrence for business classified as fire, allied lines, homeowners multiple peril (Section 1 only) and inland marine.
Property Catastrophe Excess of Loss Three Layers 89.4 % Authorized 10.6% Unauthorized	95% part of 100% as respect each layer with a limit of $50,000,000 excess of $3,000,000 ultimate net loss in each and every loss occurrence for business classified as fire, allied lines, homeowners multiple peril (Section 1 only), inland marine and automobile physical damage (fire, theft, specified perils and comprehensive portions only).

During the examination period, the Company entered into two reinsurance agreements: a property per excess of loss reinsurance agreement and a property catastrophe excess of loss reinsurance agreement, for the protection of its homeowners’ and automobile business. The rehabilitation phase of the Company afforded its management the ability to re-underwrite the existing portfolio and to focus more on the homeowners’ line of business. As a result, the Company’s product mix has shifted from automobile to homeowners’ insurance. Keeping in line with this shift, the Company increased its property per risk and its catastrophe insurance coverage while retaining a net amount of $200,000 for any property risk for the period ended December 31, 2009.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

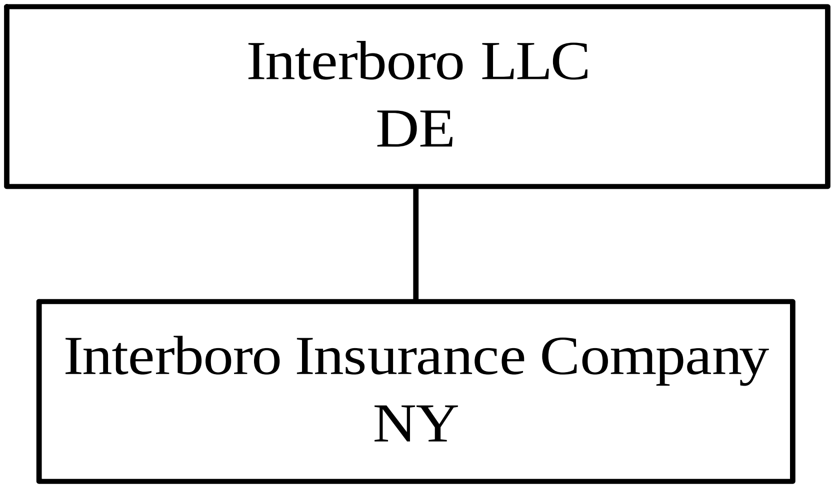
The examiner reviewed all of the ceded reinsurance contracts in effect at December 31, 2009. As of the examination date, the Company had both excess of loss and catastrophe reinsurance arrangements in place for the protection of its insurance business. The 2009 contracts contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

D. Holding Company System

The Company is a wholly-owned subsidiary of Interboro LLC., a Delaware Corporation, which is ultimately controlled by individual members pursuant to an amended and restated limited company operating agreement dated November 22, 2006, and as amended January 31, 2007.

A review of the holding company registration statements shows that the Company did not file such statements for calendar years 2007 and 2008. The Company, filed its 2009 holding company registration statement with this Department; however, the filing was not completed in a timely manner. The 2009 holding company registration statement was filed with the Department on August 30, 2010. Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company’s fiscal year. It is recommended that the Company file its annual holding company registration statements on an annual basis and in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is a chart of the holding company system at December 31, 2009:



For the period under examination, the Company did not participate in any type of related party agreements pursuant to Article 15 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	183%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	76%
Premiums in course of collection to surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$31,000,051	46.69%
Other underwriting expenses incurred	32,184,684	48.48
Net underwriting gain	3,205,540	4.83
Premiums earned	$66,390,275	100.00%

F. Accounts and Records

Custodian Agreement

As of the examination date, the Company's securities held with TD Bank were secured pursuant to a custodial agreement. A review of the custodial agreement revealed that it was lacking some of the safeguarding provisions prescribed in the NAIC Financial Condition Examiners Handbook, Section1, Part III, Subsection F – Outsourcing of Critical Functions, Custodial or Safekeeping Agreement:

It is recommended that the Company amend its custodial agreement to include provisions pursuant to the NAIC Financial Condition Examiners Handbook guidelines in order to ensure the necessary safeguard for its assets.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$48,815,032	$ 0	$48,815,032
Preferred stocks	1,016,056	0	1,016,056
Cash, cash equivalents and short-term investments	18,886,533	0	18,886,533
Investment income due and accrued	485,514	0	485,514
Uncollected premiums and agents' balances in the course of collection	652,038	171,152	480,886
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,481,639	11,674	2,469,965
Amounts recoverable from reinsurers	243,507	0	243,507
Net deferred tax asset	5,341,346	4,062,480	1,278,866
Electronic data processing equipment and software	545,361	500,012	45,349
Pension plan incremental asset FAS87 adoption	2,743,755	2,743,755	0
Lease security deposit	200,000	200,000	0
Equities and deposits in pools & associations	223,993	0	223,993
Workers' compensation funds	18,489	0	18,489
Total assets	$81,653,263	$7,689,073	$73,964,190

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$18,977,533
Loss adjustment expenses		7,712,695
Other expenses (excluding taxes, licenses and fees)		840,238
Taxes, licenses and fees (excluding federal and foreign income taxes)		39,863
Current federal and foreign income taxes		1,253,362
Unearned premiums		22,054,437
Ceded reinsurance premiums payable (net of ceding commissions)		1,202,639
Amounts withheld or retained by company for account of others		17,293
Provision for abandoned property		83,859
Unfunded pension liability		3,054,365
Total liabilities		$55,236,284
Surplus and Other Funds		
Common capital stock	$ 1,000,000	
Gross paid in and contributed surplus	14,000,000	
Unassigned funds (surplus)	3,727,908	
Surplus as regards policyholders		18,727,908
Total liabilities, surplus and other funds		$73,964,192

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2007 through 2009. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased $19,464,957 during the 3-year examination period January 1, 2007 through December 31, 2009, detailed as follows:

Underwriting Income		
Premiums earned		$66,390,275
Deductions:		
Losses incurred	$22,152,597	
Loss adjustment expenses incurred	8,847,454	
Other underwriting expenses incurred	32,184,684	
Total underwriting deductions		63,184,735
Net underwriting gain or (loss)		$ 3,205,540
Investment Income		
Net investment income earned	$ 5,282,021	
Net realized capital gain	1,950,493	
Net investment gain or (loss)		7,232,514
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (631,972)	
Finance and service charges not included in premiums	630,398	
Aggregate write-ins for miscellaneous income	172,713	
Total other income		171,139
Net income after dividends to policyholders but before federal and foreign income taxes		$10,609,193
Federal and foreign income taxes incurred		3,755,476
Net income		$6,853,717

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported as of December 31, 2006			$ (737,049)
Net income	$ 6,853,717		
Net unrealized capital gains or (losses)		$2,943,125	
Change in net deferred income tax	5,957,748		
Change in nonadmitted assets		4,790,904	
Capital changes paid in	1,000,000		
Surplus adjustments paid in	14,000,000		
Aggregate write-ins for gains and losses in surplus	0	612,479	
Total gains and losses	$27,811,465	$8,346,508	
Net increase (decrease) in surplus			19,464,957
Surplus as regards policyholders per report on examination as of December 31, 2009			$18,727,908

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $26,690,228 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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A.	Management	
	Annual Shareholders' Meetings	
	It is recommended that the Company hold an annual stockholders' meeting for the purpose of electing its board of directors, pursuant to Article II, Section 1 of its Amended and Restated By-Laws, Section 6(b) of its Charter and Article 6, Section 602(b) of the Business Corporation Law.	5

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.	Conflict of Interest Policy	
i.	It is recommended that the Conflict of Interest Statement be amended to include the Company's directors.	6
ii.	It is recommended that the Company require its officers, directors and key employees to complete and sign the Conflict of Interest Statements on an annual basis and retain them in its files.	6
iii.	It is further recommended that the completed and signed Conflict of Interest Statements be provided to the Company's board of directors annually and that the minutes of the board of directors' meetings acknowledge their review.	6
	Code of Ethics	
	It is recommended that the Company adopt a code of ethics policy.	7
B.	Holding Company System	
	It is recommended that the Company file its annual holding company registration statements on an annual basis and in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	10
C.	Accounts and Records	
	Custodian Agreement	
	It is recommended that the Company amend its custodial agreement to include provisions pursuant to the NAIC Financial Condition Examiners Handbook guidelines in order to ensure the necessary safeguards for its assets.	12

Respectfully submitted,

/S/
Veronica Duncan Black
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

VERONICA DUNCAN BLACK, being duly sworn, deposes and says that the foregoing report, subscribed by her is true to the best of her knowledge and belief.

/S/
Veronica Duncan Black

Subscribed and sworn to before me

this__________ day of ___________________, 2011.

Appointment No. 30338

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

VERONICA DUNCAN BLACK

as proper person to examine into the affairs of the

INTERBORO INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 19th *day of* May, *2009*

ERIC R. DINALLO
Superintendent of Insurance