

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Sagamore Insurance Company)
1099 North Meridian Street)
Indianapolis, Indiana 46204)

Examination of **Sagamore Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Sagamore Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Sagamore Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

May 15, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0014 7449 41

STATE OF INDIANA)
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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Sagamore Insurance Company)
1099 North Meridian Street)
Indianapolis, Indiana 46204)

Examination of **Sagamore Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Sagamore Insurance Company** (hereinafter “Company”) for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on January 30, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 27, 2013 and was received by the Company on March 29, 2013.

On April 24, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 15th day of May, 2013.


Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
SAGAMORE INSURANCE COMPANY
NAIC Co. CODE 40460
NAIC GROUP CODE 0867

As of

December 31, 2011

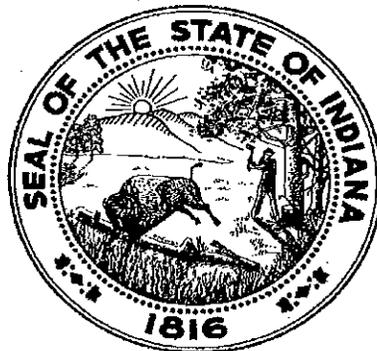


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

January 31, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3723, an examination has been made of the affairs and financial condition of:

**Sagamore Insurance Company
1099 North Meridian Street
Indianapolis, IN 46204**

hereinafter referred to as the "Company," or "SIC," an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the Company's corporate offices in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
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In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
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SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2006. The present risk-focused examination covered the period from January 1, 2007, through December 31, 2011, and was conducted by Noble Consulting Services, Inc. (Noble) on behalf of the State of Indiana.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., has been appointed by the INDOI to conduct a review of the Company's statutory reserves as of December 31, 2011. There were no actuarial adjustments from the review performed by Merlinos & Associates, Inc.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook 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, evaluating system controls, and procedures used to mitigate those risks. An 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 accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

On December 15, 1981, the Company was incorporated under the laws of Indiana as a wholly-owned subsidiary of Baldwin & Lyons, Inc. (B&L) and commenced business on December 22, 1981. On December 15, 1985, B&L contributed the stock of the Company to Protective Insurance Company (PIC), an Indiana domestic property and casualty insurer (and wholly-owned subsidiary of B&L).

CAPITAL AND SURPLUS

As of December 31, 2011, the Company had 75,000 common shares authorized, issued, and outstanding with a par value of \$100 each. The Company has no preferred stock authorized, issued, or outstanding. All issued and outstanding common shares have been owned by PIC throughout the examination period.

No adjustments to contributed surplus occurred during the examination period and the risk-based capital ratio continues to be well above the Company action level.

DIVIDENDS TO STOCKHOLDERS

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the gains from operations of such insurer of the prior year. The Company paid no dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in forty-seven (47) states and is registered as a surplus lines writer in the state of Florida, which accounted for 54% of the Company's direct premiums written in 2011. The Company's 2011 direct writings were composed of the following: non-standard private passenger automobile liability and physical damage (34%), small fleet trucking liability, cargo, and physical damage (12%), and commercial property, and business owners' liability, and other (54%).

The Company has written non-standard automobile business since 1994 and is currently being written in twenty-nine (29) states. Small fleet policies were marketed in thirty (30) states in 2011. Beginning in 2009, the Company has utilized its excess and surplus (E&S) authority in Florida to market commercial property and business owners' liability coverages. While this business is being written by the Company, 100% is being ceded to Protective Specialty Insurance Company (PSIC), a sister company. It is anticipated that PSIC will produce this business directly upon receiving its Florida E&S authority.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, during the examination period:

<u>Year</u>	<u>Admitted</u>		<u>Surplus and</u>		<u>Premiums</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Other Funds</u>	<u>Earned</u>	<u>Net Income</u>	
2011	\$ 160,075,018	\$ 42,741,719	\$ 117,333,299	\$ 27,856,777	\$ 2,527,966	
2010	158,376,605	42,336,211	116,040,394	31,124,917	1,226,826	
2009	160,235,625	46,440,554	113,795,071	27,660,843	3,683,223	
2008	148,220,847	38,930,666	109,290,181	30,876,147	6,094,661	
2007	157,610,940	51,436,888	106,174,052	44,092,231	7,807,260	

The Company has reported positive net income for each year of the examination period. As a result, surplus has grown steadily and has increased approximately 10.5% since 2007. Admitted assets and liabilities have remained relatively constant throughout the examination period.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of eleven (11) members. The stockholders, at the annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as directors at December 31, 2011:

<u>Name and Address</u>	<u>Principal Occupation</u>
Gary W. Miller Greenwood, Indiana	Executive Chairman Baldwin & Lyons, Inc.
Joseph J. DeVito Indianapolis, Indiana	Chief Executive Officer, Chief Operating Officer and President Baldwin & Lyons, Inc.
George P. Corydon Carmel, Indiana	Executive Vice President, Finance and Chief Financial Officer Baldwin & Lyons, Inc.
Rodger A. Cottrell Indianapolis, Indiana	Vice President, Claims Sagamore Insurance Company
Craig C. Morfas Carmel, Indiana	Executive Vice President, Claims and Secretary Baldwin & Lyons, Inc.
Jennie L. LaReau Carmel, Indiana	Vice President, Underwriting Baldwin & Lyons, Inc.
Thomas W. Thompson New Palestine, Indiana	Assistant Vice President, Finance Baldwin & Lyons, Inc.
John E. Mitchell Indianapolis, Indiana	Vice President, Reinsurance and Actuarial Services Baldwin & Lyons, Inc.
James D. Isham Greenwood, Indiana	Senior Vice President, Administration Baldwin & Lyons, Inc.
Mark L. Bonini Carmel, Indiana	Executive Vice President, Sales, Marketing and Underwriting Baldwin & Lyons, Inc.
Hugh J. Cameron Carmel, Indiana	Vice President, Human Resources Sagamore Insurance Company

Officers

The Bylaws provide that the officers shall consist of a Chairman of the Board, President, Secretary, and Treasurer. In addition, the Board of Directors may further elect such Executive Vice Presidents, other Vice Presidents, Resident Assistant Treasurers, an Auditor-in-Chief, and other Auditors as it may decide. The Chairman of the Board and the President shall be chosen from among the Directors. Any two (2) or more offices may be held by the same person, except for the duties of the President and Secretary. The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Gary W. Miller	Executive Chairman of the Board
Joseph J. DeVito	Chief Executive Officer, Chief Operating Officer and President
Michael J. Case	Vice President and Secretary
Thomas W. Thompson	Vice President and Treasurer
G. Patrick Corydon	Executive Vice President, Finance
Rodger A. Cottrell	Vice President, Claims
John E. Mitchell	Vice President, Reinsurance and Actuarial Services
Craig C. Morfas	Vice President, Claims
Jennie L. LaReau	Vice President, Underwriting
James D. Isham	Senior Vice President, Administration
Mark L. Bonini	Executive Vice President, Sales, Marketing and Underwriting

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2011.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director subscribed to an Oath of Office statement in 2011.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Company's Articles of Incorporation during the examination period.

Bylaws

The Bylaws were amended in August, 2007 to allow for eleven (11) members of the Company's Board of Directors. Prior to the amendment, the Board of Directors was composed of six (6) members.

Minutes

The Board of Directors, shareholders, audit, investment, nominating, and compensation committee meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The annual meetings and other regular board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

An organizational chart depicting the Company's relationship with its ultimate parent and other affiliates, as of December 31, 2011, as presented below:

	<u>NAIC Code</u>	<u>Domiciliary State</u>
Baldwin & Lyons, Inc.		IN
- B&L Insurance, LTD		BM*
- B&L Brokerage Services, Inc.		IN
- B&L Capital Markets		DE
- Transportation Specialty Insurance Agency		MI
- Protective Insurance Company	12416	IN
- Sagamore Insurance Company	40460	IN
- Protective Specialty Insurance Company	13149	IN

* Affiliate is licensed in Bermuda.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI as required in accordance with IC 27-1-23-4.

Intercompany Expense Allocation Agreement

On July 28, 2005, the INDOI approved an Intercompany Expense Allocation Agreement between the Company, B&L, and PIC. The Company is allocated certain expenses paid by B&L under this agreement on an invoice-by-invoice basis using appropriate allocation methods, such as square footage utilized and employee time allocation percentages. A subsequent agreement, dated December 1, 2007, added PSIC to the Intercompany Expense Allocation Agreement and was approved by the INDOI on January 23, 2009. In 2011, the Company paid \$7,001,216 under this agreement.

Agency Agreement

B&L, in its capacity as an insurance broker, places risks with the Company pursuant to an Agency Agreement that was executed in 1993. Commissions vary by product and are commensurate with those allowed to other agents and brokers. No such risks were placed with the Company in 2011.

Intercompany Federal Income Tax Allocation Agreement

B&L and its subsidiaries, including the Company, are parties to an Intercompany Federal Income Tax Allocation Agreement in effect since 1986. The allocation of taxes is based upon the amount of tax that each company would have paid had separate returns been filed. These agreements have been in effect between B&L, PIC, and SIC since 1986. A subsequent agreement was entered into between B&L, PIC, and PSIC in December, 2007. The 2007 Intercompany Federal Income Tax Allocation Agreement between B&L, PIC, and PSIC was approved by the INDOI in February, 2009.

Reinsurance Agreements

See the "Reinsurance" section of this report of examination for further information regarding affiliated reinsurance agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by employees through a financial institution bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$6 million with a deductible of \$100,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, through B&L including, but not limited to, general liability, professional liability, directors and officers liability, auto liability, fiduciary liability, excess liability, property, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

B&L maintains a defined contribution Employee Salary Savings and Profit Sharing Plan (the 401k Plan) in which all eligible employees of B&L participate. The Company's expense allocations for contributions to the 401k Plan were \$146,800 and \$101,500, for 2010 and 2011, respectively. The Company's allocation for contribution to the 401k Plan is based on the Intercompany Expense Allocation Agreement, described in the Affiliated Agreement section of this Report of Examination.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 2,500,636	\$ 2,500,704
All Other Special Deposits:		
Arizona	535,420	538,798
Arkansas	110,000	110,915
California	359,915	359,764
Delaware	100,074	100,250
Georgia	85,000	85,707
Massachusetts	185,707	185,440
Missouri	510,047	510,321
Nevada	300,000	299,472
New Hampshire	525,668	526,622
New Mexico	621,635	622,616
North Carolina	325,406	326,623
Oregon	394,997	394,429
Tennessee	99,988	100,320
Virginia	210,038	210,280
Total Deposits	<u>\$ 6,864,531</u>	<u>\$ 6,872,261</u>

REINSURANCE

Effective January 1, 1996, PIC indemnifies SIC for certain losses and expenses. Under this reinsurance agreement, SIC ceded premium to PIC of \$0 and PIC reimbursed SIC \$0 in 2011. This agreement was approved by the INDOI.

Effective March 14, 2009, SIC and PSIC have entered into a reinsurance agreement whereby SIC cedes certain risks to PSIC. In 2011, SIC ceded earned premium to PSIC of \$31,217,972 and PSIC incurred \$9,015,282 of losses and expenses. This agreement was approved by the INDOI on June 14, 2010.

Effective December 1, 2009, SIC entered into a Professional Liability Quota Share Reinsurance Agreement with PSIC whereby SIC cedes certain risks to PSIC. SIC ceded premium of \$194,974 and PSIC incurred \$15,000 in losses and expenses in 2011. This agreement was approved by the INDOI on August 5, 2011.

Effective October 1, 2010, SIC entered into a Contingent Liability Quota Share Reinsurance Agreement with PSIC whereby SIC indemnifies PSIC for certain losses and expenses. No premiums were ceded or losses incurred by any party under this agreement in 2011. The agreement was approved by the INDOI on August 5, 2011.

The Company assumes virtually no reinsurance premiums, making the Company's results significantly better than its parent, PIC, because SIC is not exposed to the reinsurance catastrophe losses experienced by PIC. In addition, SIC seeks to reduce the losses that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk with reinsurers. In 2011, the Company ceded premiums totaling \$33,788,669, of which \$32,364,243 was ceded to affiliates and \$1,424,426 to non-affiliates.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 and 2011, were agreed to the independent audit report with no material exceptions noted. The Company's accounting procedures, practices, and account records were deemed satisfactory.

SAGAMORE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 114,910,767	\$ -	\$ 114,910,767	\$ 120,412,161
Stocks:				
Common stocks	10,352,079	-	10,352,079	10,827,444
Cash, cash equivalents and short-term investments	16,351,048	-	16,351,048	3,987,249
Receivable for securities	-	-	-	125,000
Subtotals, cash and invested assets	141,613,894	-	141,613,894	135,351,854
Investment income due and accrued	1,171,858	-	1,171,858	1,099,140
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	5,818,356	-	5,818,356	5,906,947
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,505,081	-	9,505,081	12,059,513
Reinsurance:				
Amounts recoverable from reinsurers	1,765,194	-	1,765,194	3,616,882
Current federal and foreign income tax recoverable and interest thereon	-	-	-	278,434
Guaranty funds receivable or on deposit	36,834	-	36,834	46,899
Receivables from parent, subsidiaries and affiliates	150,000	-	150,000	-
Aggregate write-ins for other than invested assets	13,801	-	13,801	16,936
Total	\$ 160,075,018	\$ -	\$ 160,075,018	\$ 158,376,605

SAGAMORE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
Losses	\$ 13,093,299	\$ -	\$ 13,093,299	\$ 15,426,823
Loss adjustment expenses	1,223,000	-	1,223,000	1,431,400
Commissions payable, contingent commissions and other similar charges	1,171,794	-	1,171,794	1,747,668
Other expenses	628,948	-	628,948	611,594
Taxes, licenses and fees	168,850	-	168,850	365,168
Current federal and foreign income taxes	226,716	-	226,716	-
Net deferred tax liability	251,979	-	251,979	293,523
Unearned premiums	13,305,326	-	13,305,326	16,843,793
Ceded reinsurance premiums payable (net of ceding commissions)	4,701,864	-	4,701,864	4,416,700
Amounts withheld or retained by company for account of others	1,119,673	-	1,119,673	855,837
Remittances and items not allocated	(2,702)	-	(2,702)	(6,933)
Provision for reinsurance	10,000	-	10,000	10,000
Payable to parent, subsidiaries and affiliates	153,774	-	153,774	109,708
Payable for securities	6,622,411	-	6,622,411	2,297
Aggregate write-ins for liabilities	66,787	-	66,787	228,633
Total liabilities	42,741,719	-	42,741,719	42,336,211
Common capital stock	7,500,000	-	7,500,000	7,500,000
Gross paid in and contributed surplus	24,559,612	-	24,559,612	24,559,612
Unassigned funds (surplus)	85,273,687	-	85,273,687	83,980,782
Surplus as regards policyholders	117,333,299	-	117,333,299	116,040,394
Totals	\$ 160,075,018	\$ -	\$ 160,075,018	\$ 158,376,605

SAGAMORE INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam- Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums earned	\$ 27,856,777	\$ -	\$ 27,856,777	\$ 31,124,917
DEDUCTIONS:				
Losses incurred	18,854,088	-	18,854,088	20,935,253
Loss adjustment expenses incurred	2,638,985	-	2,638,985	3,056,086
Other underwriting expenses incurred	8,468,447	-	8,468,447	11,135,222
Total underwriting deductions	<u>29,961,520</u>	<u>-</u>	<u>29,961,520</u>	<u>35,126,561</u>
Net underwriting gain (loss)	<u>(2,104,743)</u>	<u>-</u>	<u>(2,104,743)</u>	<u>(4,001,644)</u>
Net investment income earned	2,058,910	-	2,058,910	2,117,553
Net realized capital gains (losses) less capital gains tax	547,314	-	547,314	326,246
Net investment gain (loss)	<u>2,606,224</u>	<u>-</u>	<u>2,606,224</u>	<u>2,443,799</u>
Net gain (loss) from agents' or premium balances charged off	(485,290)	-	(485,290)	(645,169)
Finance and service charges not included in premiums	2,410,068	-	2,410,068	2,930,172
Aggregate write-ins for miscellaneous income	1,500	-	1,500	1,580
Total other income	<u>1,926,278</u>	<u>-</u>	<u>1,926,278</u>	<u>2,286,583</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,427,759	-	2,427,759	728,738
Federal and foreign income taxes incurred	<u>(100,207)</u>	<u>-</u>	<u>(100,207)</u>	<u>(498,088)</u>
Net income	<u>\$ 2,527,966</u>	<u>\$ -</u>	<u>\$ 2,527,966</u>	<u>\$ 1,226,826</u>

SAGAMORE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Reconciliation

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and Surplus Account:					
Surplus as regards policyholders, December 31 prior year	\$ 116,040,394	\$ 113,795,071	\$ 109,290,181	\$ 106,174,052	\$ 100,468,385
Net income	2,527,966	1,226,826	3,683,223	6,094,661	7,807,260
Change in net unrealized capital gains or (losses) less capital gains tax	(840,160)	1,107,259	777,482	(2,161,060)	(1,413,627)
Change in net deferred income tax	(410,851)	(31,339)	46,356	(779,976)	(723,540)
Change in nonadmitted assets	15,950	(57,423)	112,473	(27,496)	35,574
Change in provision for reinsurance	-	-	-	(10,000)	-
Aggregate write-ins for gains and losses in surplus	-	-	(114,644)	-	-
Surplus as regards policyholders, December 31 current year	<u>\$ 117,333,299</u>	<u>\$ 116,040,394</u>	<u>\$ 113,795,071</u>	<u>\$ 109,290,181</u>	<u>\$ 106,174,052</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered to have a material effect on the financial statements of the Company.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlino & Associates, Inc., hereinafter collectively referred to as the "Examiners," performed an examination of **Sagamore Insurance Company**, as of **December 31, 2011**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2012 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **Sagamore Insurance Company**, as of **December 31, 2011**, as determined by the undersigned.

Daniel P. McBay
Daniel P. McBay, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 28 day of February 2013, before me personally appeared, Daniel P. McBay, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires _____
 _____
Notary Public