

# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Thomas B. Leonardi, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of SPARTA Insurance Company (the "Company") as of December 31, 2010, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

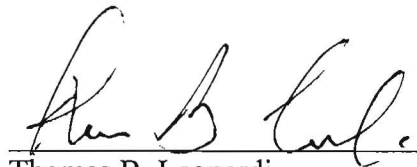
#### TO WIT:

1. I, Thomas B. Leonardi, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On February 13, 2012, the verified Examination Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On March 1, 2012, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE,** it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.

Dated at Hartford, Connecticut, this 9th day of March, 2012.

A handwritten signature in cursive script, appearing to read "Thomas B. Leonardi", written over a horizontal line.

Thomas B. Leonardi  
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

SPARTA INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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## TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
History	2
Organizational Chart	4
Management and Control	5
Insurance Coverages	7
Affiliated Transactions	7
Territory and Plan of Operation	8
Reinsurance	8
Information Technology and Controls	9
Accounts and Records	10
Financial Statements	11
Assets	11
Liabilities, Surplus and Other Funds	12
Statement of Income	13
Losses and Loss Adjustment Expenses	14
Policyholders Surplus	16
Subsequent Events	16
Conclusion	17
Signature	18

February 13, 2012

The Honorable Thomas B. Leonardi  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made an examination of the conditions and affairs of

**SPARTA INSURANCE COMPANY**

(hereinafter referred to as the Company), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home and main administrative office located at 185 Asylum Street, City Place II, Hartford, Connecticut. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Company, formerly known as American Employers' Insurance Company, was conducted by the Commonwealth of Massachusetts Division of Insurance (CMDOI) as of December 31, 2006. The current examination which covers the period from January 1, 2007 to December 31, 2010, was conducted at the main administrative office of the Company.

Concurrent examinations were performed of Connecticut domiciled SPARTA Specialty Insurance Company (SSIC) and California domiciled SPARTA American Insurance Company (SAIC), by the Connecticut Insurance Department and California Insurance Department, respectively.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (Department) reviewed the following materials submitted by the Company from 2007 through 2010:

- Board of Director (Board) minutes, through the latest 2011 meeting;
- Audit reports completed by the CPA firm retained by the Company;
- Management Discussion and Analysis;
- Statement of Actuarial Opinion; and
- Annual Statements filed with the Department.

## SPARTA INSURANCE COMPANY

A review of the 2007 through 2010 independent audit reports and a comprehensive analysis of the Company's financial statements and other filings submitted to the Financial Analysis Unit of the Department indicated no material concerns with respect to financial condition or regulatory compliance issues.

Workpapers prepared by the Company's independent public accountants, KPMG, LLP (KPMG), in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the National Association of Insurance Commissioners (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, including corporate governance, identifying inherent risks within the Company, and 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 compliance with Statutory Accounting Principles and Annual Statement Instructions (Instructions).

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Deloitte Consulting LLP (D&T) was engaged to perform an actuarial review in conjunction with the examination.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

### HISTORY

The Company is a wholly-owned subsidiary of SPARTA Insurance Holdings, Inc. (SPARTA), an insurance holding company domiciled in Delaware.

On August 9, 2007, SPARTA purchased the Company from Pennsylvania General Insurance Company (GENERAL), a Pennsylvania domiciled insurance company and a wholly-owned subsidiary of OneBeacon Insurance Group Ltd, an insurance holding company domiciled in Delaware. At the time of purchase, SPARTA made a capital contribution to the Company in the amount of \$219.6 million. Upon approval of the acquisition, the Company received an A- (Excellent) rating from A.M. Best. Prior to the purchase, the Company entered into a Transfer and Assumption Agreement under the terms of which all direct insurance assets and liabilities were transferred to GENERAL.

## SPARTA INSURANCE COMPANY

On August 31, 2007, CMDOI approved the Company's Certificate of Incorporation Amendment to change the Company name to SPARTA Insurance Company.

On April 30, 2009, the Company re-domesticated from Massachusetts to Connecticut.

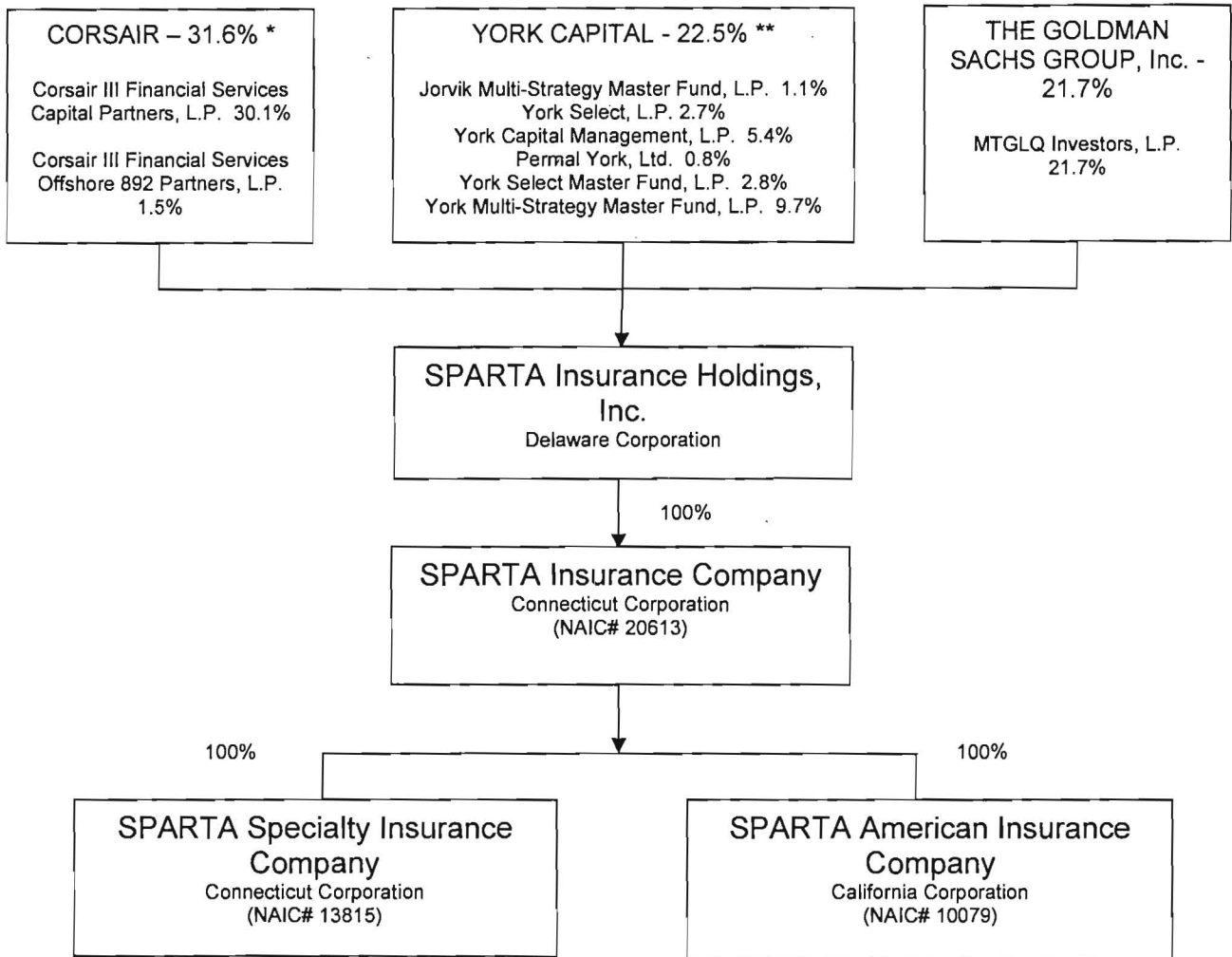
During 2010, the Company formed SSIC, an insurance company domiciled in the state of Connecticut. The Company contributed \$16 million in capital and surplus to SSIC on July 2, 2010. SSIC will underwrite property and casualty insurance on a non-admitted basis for the unbundled program marketplace.

On October 1, 2010, the Company purchased all of the outstanding common stock of Vintage Insurance Company from Fireman's Fund Insurance Company, a subsidiary of Allianz Global Risks US Insurance Company. The change of control was approved by the California Department of Insurance and the company's name was changed to SAIC. On December 8, 2010, the Company contributed \$9.5 million in capital and surplus to SAIC which is licensed to write property and casualty insurance in the state of California.

SPARTA INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is an organizational chart of the Company and its affiliates:



Institutional Investors depicted above, own 10% or more of the voting securities of SPARTA Insurance Holdings, Inc. (approximate percentages).

\* The funds listed are advised by Corsair Investments LLC, a Delaware Limited Liability Company (DE LLC) Corsair, of which the membership interests are 100% owned by Maximillian Management LLC (DE LLC), Richard E. Thornburgh, and a Thornburgh family trust. The membership interests in Maximillian Management LLC are owned by Nicholas B. Paumgarten, certain of his relatives, and by D.T. Ignacio Jayanti.

\*\* The funds listed are indirectly advised by York Capital Management Global Advisors, LLC (NY LLC) York Capital. There are only two persons who hold membership interests equal to or greater than 10% of the membership interests of York Capital: James G. Dinan; and Daniel A. Schwartz.

(Limited Partnership = L.P.; Exempted Limited Partnership = E.L.P.)



SPARTA INSURANCE COMPANY

MANAGEMENT AND CONTROL

**Board of Directors**

The property and affairs of the Company are managed by a board of not fewer than seven nor more than fifteen persons who are elected at the annual meeting of the stockholders held on the fourth Thursday of March of each year. If no annual meeting has been held on the date aforementioned, or the different date fixed by the Board or president, a special meeting in lieu thereof may be held with all the force and effect of an annual meeting.

The corporation may have a chairman of the board, and shall have a president, a treasurer, and a secretary who shall be chosen by the directors at their first annual meeting following the annual meeting of the stockholders, and it may have such other officers, including one or more senior vice presidents, vice presidents, assistant vice presidents, assistant secretaries and assistant treasurers, and such other agents and factors as may be necessary.

The Board, by a vote of a majority of the directors then in office, may create and appoint members of the Board to an Executive Committee or other committees. The Company has the following committees of the Board: Investment Committee; Audit Committee; Compensation Committee; Nomination and Governance Committee; and Risk/Underwriting Committee.

Regular meetings of the Board may be held without notice at such time, date, and place as the board of directors may from time to time determine.

Special meetings of the Board may be called orally or in writing by the president, treasurer, or two or more directors designating the time, date, and place thereof.

The members of the Board serving the Company at December 31, 2010, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
George L. Estes III	Chairman and Chief Executive Officer SPARTA Insurance Company
Geoffrey P. M. Adamson	Vice President Goldman, Sachs & Company
Nicholas B. Paumgarten	Chairman Corsair Capital
Jeremy S. Schein	Principal Corsair Capital
William C. Vratros	Vice Chairman York Capital Management

SPARTA INSURANCE COMPANY

James E. Buckman	Vice Chairman York Capital Management
William C. Mulligan	Managing Director Primus Capital Funds
William L. Rosoff	Member Cozen O'Connor
Andrew. A. Stern	Chief Executive Officer SunGard Availability Services

**Officers**

The Company's officers are chosen by the directors at their first meeting following the annual meeting of the stockholders. They may have a president, secretary, treasurer, and one or more senior vice presidents, vice presidents, assistant vice presidents, assistant secretaries, and assistant treasurers. The directors will determine the authorities and duties of the officers.

The officers serving the Company at December 31, 2010, were as follows:

<u>Name</u>	<u>Title</u>
George L. Estes III	Chairman and Chief Executive Officer
Kevin G. Costello	President and Chief Operating Officer
Dawne E. Ware	Treasurer and Chief Financial Officer
Michael A. Visintainer	Secretary and Chief Actuary
Brian D. First	Executive Vice President
Christopher J. Nenninger	Executive Vice President
Patricia M. Shea	Executive Vice President
Brian P. Mulroy	Executive Vice President
Susan B. Putterman	Executive Vice President

SPARTA INSURANCE COMPANY

Committees

The following committees were established by the Board during the period of examination: Audit; Compensation; Investment; Nominating and Governance; and Risk/Underwriting Committees.

INSURANCE COVERAGES

The Company maintains fidelity bond coverage through Hartford Fire Insurance Company. The financial institution bond coverage protects the Company for an aggregate limit of \$5,000,000, with a deductible amount of \$100,000. This exceeds the suggested minimum limits of insurance pursuant to the Handbook. The bond policy also includes computer systems fraud coverage.

In addition to the fidelity insurance policy, the following insurance coverages were in place at December 31, 2010:

<u>Company</u>	<u>Coverage</u>
Hartford Casualty Insurance Company	Property Liability, Commercial General Liability, Auto, Crime, Umbrella
Ace American Insurance Company	International Commercial
Twin City Fire Insurance Company and Pacific Insurance Company, Limited	Workers' Compensation
Greenwich Insurance Company	Directors & Officers, Private Company Management Liability
Indian Harbor Insurance Company	Errors & Omissions
XL Specialty Insurance Company	Fiduciary Liability
Hartford Fire Insurance Company	ERISA Bond
Darwin Select Insurance Company	Privacy

AFFILIATED TRANSACTIONS

The Company has established an intercompany expense agreement with SPARTA for personnel service, employee benefits, rental of space, administration and other business expenses. The agreement, approved by the Board, provides for a formula allocation of all costs.

The Company's federal income tax return is consolidated with SPARTA, SSIC and SAIC, subject to a written agreement approved by the Board.

## SPARTA INSURANCE COMPANY

### TERRITORY AND PLAN OF OPERATION

The Company is a Connecticut domiciled property and casualty insurer licensed to write business in all states, the District of Columbia and the U.S. Virgin Islands.

The Company writes unbundled commercial property and casualty insurance programs for customers who include small to medium-size insureds organized by program administrators.

SPARTA is an acronym for Specialty Program and Risk Transfer Alternatives and reflects the business segments in which the Company operates. The Company operates in two business segments, Alternative Risk Transfer (ART) and Specialty programs.

The ART segment provides primary coverage for groups of insureds with some portion of the more predictable layer of loss being reinsured by captive insurance companies with the Company retaining the remainder of the risk.

The Specialty segment provides primary insurance coverage for homogenous groups of insureds. Some of this segment includes sliding scale commissions offered to producers based upon underwriting results.

The Company markets its insurance products to producers knowledgeable in the Specialty program and ART business, national and regional retail brokers, insurance intermediaries, captive managers, and consultants.

### REINSURANCE

The Company maintains several excess of loss treaties and catastrophe reinsurance to generally limit net retentions to \$1 million for auto liability, general liability, and property coverage, and \$2 million for workers' compensation coverage. The Company has the following major reinsurance in place at December 31, 2010:

#### *Workers' Compensation Coverage*

A per occurrence treaty on a programs attaching basis consisting of two layers:

- \$3 million excess of \$2 million (80% placed for programs attaching 12/1/07 to 6/1/09, 100% placed for programs attaching effective 6/1/09 and later);
- \$5 million excess of \$5 million (100% placed for all program years).

A catastrophe treaty on a losses occurring during basis consisting of the layer \$20 million excess of \$10 million (100% placed with a \$10 million maximum any one life).

## SPARTA INSURANCE COMPANY

### *Property Catastrophe Coverage*

A per occurrence treaty consisting of the following two layers:

- \$7 million excess of \$3 million (100% placed) effective 6/1/08 to 5/31/09, and \$6 million excess of \$4 million effective June 1, 2010 to May 31, 2011;
- \$11 million excess of \$10 million effective June 1, 2010 to May 31, 2011.

### *Equipment Breakdown Coverage*

A 100% quota share treaty effective June 1, 2008.

In addition to the treaties listed above, the Company also maintains various facultative reinsurance coverages to address limiting exposure to approximately \$1 million for non-workers' compensation lines.

The Company also maintains reinsurance agreements with captives for ART programs. These captives reinsure the Company for the more predictable layer of losses, with reinsurance limits ranging from \$100,000 per occurrence to a quota share of the first \$1 million per occurrence. The captive reinsurance limit is generally subject to an aggregate attachment point, after which the Company resumes paying losses for a specified aggregate limit, generally up to \$5 million. Once the sum of the individual losses paid by the Company exceeds this aggregate attachment limit, responsibility reverts back to the captives.

### INFORMATION TECHNOLOGY (IT) AND CONTROLS

An evaluation of IT controls was conducted in accordance with the guidelines and procedures set forth in Exhibit C, Evaluation of Controls in Information Technology of the Handbook (Exhibit C). The objectives of the examination procedures were to determine if IT resources aligned with the Company's objectives and ensure that significant risks (strategic, operational, reporting, and compliance) arising out of the IT environment are appropriately mitigated by strategies or controls as outlined in Exhibit C - Part Two.

The key areas reviewed included logical and physical security, operations, program change controls, business continuity, and corporate governance.

The following financially significant application systems were in scope for the IT controls review:

- Policy Decisions (Policy Administration);
- Premium Accounting (Process Premium Data);

## SPARTA INSURANCE COMPANY

- SPARTA Management System (SMS) (Claims and Third Party Administrators feeds);
- Sungard (Enterprise Accounting System (EAS) – General Ledger; and
- Layering System – Reinsurance.

Based upon the risk-focused assessment and review, no material findings were noted which would have had a significant effect on the Annual Statement.

### ACCOUNTS AND RECORDS

Investments are processed through its investment advisor, General Re-New England Asset Management who provides monthly accounting to the Company. Manual entries are then processed on EAS.

The Company utilizes Sungard's Enterprise Financial System software for NAIC annual and quarterly financial statement preparation.

General ledger account balances were reconciled and traced to the amounts reported in the Annual Statement for 2010. Further detail analyses were performed on the individual accounts throughout the examination.

SPARTA INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements reflect the assets, liabilities, surplus and other funds, and statement of income as of December 31, 2010, as reported by the Company and as determined by the examination:

ASSETS

	1	2	3
	<b>Ledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$291,873,626		\$291,873,626
Common stocks	36,500,309		36,500,309
Cash, cash equivalents and short-term investments	32,105,837		32,105,837
Investment income due and accrued	2,584,606		2,584,606
Uncollected premiums and agents' balances in the course of collection	18,027,112	\$146,112	17,881,000
Deferred premiums, agents' balances and installments booked but deferred and not yet due	37,755,068		37,755,068
Current federal and foreign income tax recoverable	1,354,660		1,354,660
Net deferred tax asset	12,374,389	3,275,789	9,098,600
Receivables from parent, subsidiaries and affiliates	1,950,393		1,950,393
Aggregate write-ins for other than invested assets	12,846,410	4,573,419	8,272,991
Totals	<u>\$447,372,410</u>	<u>\$7,995,320</u>	<u>\$439,377,090</u>

SPARTA INSURANCE COMPANY

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses	\$88,676,046
Loss adjustment expenses	12,475,176
Other expenses	3,261,731
Taxes, licenses and fees	3,339,535
Unearned premiums	58,352,348
Ceded reinsurance premiums payable	16,133,751
Funds held by company under reinsurance treaties	2,530,722
Amounts withheld or retained by company for account of others	2,249,844
Provision for reinsurance	133,000
Aggregate write-ins for liabilities	1,405,064
Total liabilities	188,557,217
Common capital stock	4,500,000
Gross paid in and contributed surplus	249,213,144
Unassigned funds (surplus)	(2,893,271)
Surplus as regards policyholders	250,819,873
Totals	<u>\$439,377,090</u>



SPARTA INSURANCE COMPANY

**STATEMENT OF INCOME**

UNDERWRITING INCOME	
Premiums earned	\$115,418,892
DEDUCTIONS	
Losses incurred	77,602,680
Loss adjustment expenses incurred	13,535,693
Other underwriting expenses incurred	41,230,556
Total underwriting deductions	132,368,929
Net underwriting gain or (loss)	(16,950,037)
INVESTMENT INCOME	
Net investment income earned	9,126,887
Net realized capital gains (losses)	2,533,112
Net investment gain or (loss)	11,659,999
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	(43,484)
Finance and service charges not included in premiums	(2,525)
Aggregate write-ins for miscellaneous income	4,568
Total other income	(41,441)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(5,331,479)
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(5,331,479)
Federal and foreign income taxes incurred	(81,045)
Net income	(5,250,434)
<b>CAPITAL AND SURPLUS ACCOUNT</b>	
Surplus as regards policyholders, December 31 prior year	254,154,589
Net income	(5,250,434)
Change in net unrealized capital gains or (losses) less capital gains tax	94,373
Change in net deferred income tax	3,959,191
Change in nonadmitted assets	(2,305,846)
Change in provision for reinsurance	168,000
Change in surplus as regards policyholders for the year	(3,334,716)
Surplus as regards policyholders, December 31 current year	<u>\$250,819,873</u>

SPARTA INSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$101,151,222

The following items were included in the captioned account:

Losses	\$88,676,046
LAE	<u>12,475,176</u>
	<u>\$101,151,222</u>

The Company performs quarterly loss reserving reviews on both a bottom up (by individual program) and top down (by line of business (LOB)) basis both gross and net of ceded reinsurance. Data used in the review includes premiums evaluated as of the quarter ending date and loss data lagged one month.

D&T focused its review primarily on an assessment of reserve risk, pricing and underwriting risks, and liquidity risk.

Reserving Risk - D&T's assessment of reserve risk included: 1) a high level review of the 2010 Annual Statement, Statement of Actuarial Opinion, and report of the Appointed Actuary supporting the opinion; 2) meeting with Company officers responsible for determining the carried liabilities for loss and LAE, Unearned Premium Reserves (UPR), and premium deficiency; 3) commenting on the primary reserve risks, the frequency of and the process for reporting actuarial indications to management, by LOB and in the aggregate, and the processes and controls in place to mitigate those risks; 4) evaluating the reconciliation of the actuarial data to Schedule P for the Company, as well as the data integrity and the appropriateness of data segmentation for purposes of actuarial evaluation and reserve setting; 5) conducting a qualitative review of the workpapers and documentation supporting the estimates of the liabilities to assess the appropriateness of methodologies and the quality of assumptions, including but not limited to expected loss ratios, claim emergence patterns and anticipated recoveries; 6) providing guidance regarding risks associated with reinsurance cessions to unauthorized reinsurers listed in Schedule F – Part 3; and 7) commenting on reserve segments that may increase the risk that actual losses or other contractual payments reflected in the corresponding reserves will be greater than the carried liabilities.

Additionally, based on the risks identified, D&T conducted a more detailed review of the workpapers and documentation supporting the carried liabilities. They determined that multiple actuarial methods are applied to the data to develop indications of ultimate losses. These methods include the paid and incurred loss development and Bornhuetter-Ferguson (B-F) methods, and the expected loss method. Initial expected loss ratios by program are based on the individual program pricing analyses and are used as input to the B-F methods and as the basis for the expected loss method. Industry loss development factors (LDFs) by LOB and accident year are weighted based on the distribution of gross written premium by state.

## SPARTA INSURANCE COMPANY

Pricing and Underwriting Risk – D&T’s assessment of pricing and underwriting risks included: 1) interviewing Company officers responsible for establishing pricing and underwriting practices/policies; 2) commenting on the frequency of and the process for reporting pricing considerations to management; 3) evaluating the actuarial process for development of rate indications and assessing the appropriateness of methodologies and the quality of assumptions in the Company’s pricing model; and 4) a high level evaluation of price monitoring processes and controls.

Additionally, based on the risks identified, D&T conducted a more detailed review of the workpapers and documentation supporting the pricing process. Each program is reviewed by a member of the Company’s actuarial team. The Company requests five years of exposure, premium, and loss information, and based on this information, the actuarial team develops indicated loss rates based on both experience and exposure rating. Experience rating is based on the individual program’s historical premium and loss information projected to the future experience period by adjusting premiums and losses for development, trends, and benefit level changes.

Liquidity Risk – D&T’s assessment of liquidity risk included: 1) meeting with appropriate officers of the Company to assess the process for identifying and evaluating catastrophic exposure and risk concentration; and 2) reviewing the frequency of and the process for reporting assessments to management, as well as the controls in place to mitigate those risks.

Based upon the risk-based assessment and review, no material findings were noted which affected the Company’s ability to manage its reserving, pricing and underwriting, or liquidity risk.

SPARTA INSURANCE COMPANY

POLICYHOLDERS SURPLUS

\$250,819,873

The following is a reconciliation of policyholders surplus during the period under examination:

Surplus as regards policyholders, December 31, 2006	\$35,210,090
Net income/(Net loss)	(8,149,528)
Change in net unrealized capital gain (loss)	516,215
Change in net unrealized foreign exchange capital gain (loss)	(2)
Change in net deferred income tax	9,219,937
Change in nonadmitted assets	(5,343,518)
Change in provision for reinsurance	(133,000)
Surplus adjustments transferred to capital	219,630,000
Aggregate write-ins for gains and losses in surplus	(130,321)
Net change in capital and policyholder surplus for the examination period	\$215,609,783
Surplus as regards policyholders, December 31, 2010	<u>\$250,819,873</u>

Changes to the Company's policyholder surplus over the exam period were largely due to profitable results of operations.

SUBSEQUENT EVENTS

1. Effective January 1, 2011, the Company entered into a reinsurance pooling agreement with its insurance subsidiaries, SSIC and SAIC, which requires SSIC and SAIC to automatically and obligatorily cede to the Company as reinsurance, and the Company will be obligated to accept as assumed reinsurance, 100% of the gross liabilities with respect to policies issued or assumed by SSIC and SAIC. The Company will automatically and obligatorily cede 19% to SSIC, 8% to SAIC and retain 73% for its own account.
2. On February 17, 2011, the Company contributed an additional \$31 million in cash and invested assets to SSIC.
3. On March 28, 2011, SPARTA contributed \$5 million to the Company.
4. On May 16, 2011, SPARTA filed an Application for a Disclaimer of Affiliation under CGS 38a-135(j) which was approved by the Department on May 24, 2011.

SPARTA INSURANCE COMPANY

CONCLUSION

The results of this examination disclosed that as of December 31, 2010, the Company had admitted assets of \$439,377,090, liabilities of \$188,557,217, and capital and surplus of \$250,819,873. During the period under examination, admitted assets increased \$404,001,652, liabilities increased \$188,391,869, and capital and surplus increased \$215,609,783.

It was determined that the Company's assets and liabilities were fairly stated in accordance with guidance outlined in the NAIC Accounting Practices and Procedures Manual. Assets were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Company's obligations to policyholders.

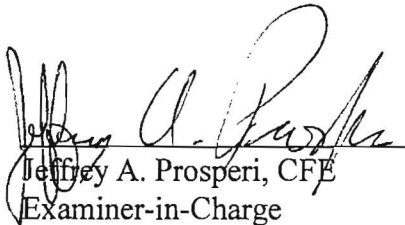
SPARTA INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, William Arfanis, CFE, Lisa Pagliaro, AFE, Daniel Levine, AFE, Alan Sundell, AFE, Michael Estabrook, AFE, Kenneth Roulier, AFE, CISA, AES, Richard Marcks, FCAS, MAAA, of the State of Connecticut Insurance Department, and Deloitte Consulting LLP participated in this examination.

I, Jeffrey A. Prosperi, 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,



Jeffrey A. Prosperi, CFE  
Examiner-in-Charge  
State of Connecticut  
Insurance Department

State of Connecticut                      ss

County of Hartford

Subscribed and sworn before me, Patricia Butler, Notary Public/~~Commissioner of the Superior Court~~, on this 10<sup>th</sup> day of February, 2012.

Patricia A. Butler  
Notary Public/Commissioner of the Superior Court

My Commission Expires September 30, 2013