

REPORT ON EXAMINATION

OF THE

SEABOARD SURETY COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT

JANUARY 24, 2004

EXAMINER

MAX VEGA

## TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	6
	C. Reinsurance	8
	D. Holding company system	10
	E. Abandoned Property Laws	13
	F. Accounts and records	13
	G. Significant operating ratios	13
3.	Financial statements	15
	A. Balance sheet	15
	B. Underwriting and investment exhibit	17
4.	Losses and loss adjustment expenses	18
5.	Market conduct activities	20
6.	Subsequent Events	20
7.	Compliance with prior report on examination	21
8.	Summary of comments and recommendations	22



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

January 24, 2004

Honorable Gregory V. Serio  
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 22037, dated April 2, 2003, attached hereto, I have made an examination into the financial condition and affairs of the Seaboard Surety Company as of December 31, 2002 and respectfully submit the following report thereon.

Whenever the term "Company" appears in this report, it should be understood to mean the Seaboard Surety Company.

Whenever the term "Department" appears in this report, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 385 Washington Street, St. Paul, Minnesota 55102.

## **1. SCOPE OF EXAMINATION**

The prior examination was conducted as of December 31, 1998. The current examination covers the period from January 1, 1999 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force
- Loss experience
- Market conduct activities
- Accounts and records
- Financial statements

A review was also made to ascertain what actions were taken by the Company with regard to comments and recommendations in the prior report on examination.

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

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated in November, 1927 under the laws of the State of New York and began business on January 1, 1928. The Company was a subsidiary of the Home Insurance Company from 1968 until January 15, 1982, when it was acquired by the St. Paul Athena Insurance Company. When the St. Paul Athena Insurance Company was liquidated in 1983, the stock of Seaboard Surety Company was transferred to its current owner, St. Paul Fire and Marine Insurance Company, a wholly-owned subsidiary of the St. Paul Companies, Inc.

As of the examination date, the paid in capital was \$5,000,000 consisting of 500,000 shares of common stock with a par value of \$10.00 per share.

The accounting and financial reporting systems are integrated with, and under the control of the St. Paul Fire and Marine Insurance Company (“Fire and Marine”). The Company remains responsible for its marketing, underwriting, administration and claims handling functions.

In 1982, the Company formed a subsidiary domiciled in Canada. The subsidiary was incorporated on June 14, 1983 and is known as the Seaboard Surety of Canada. The subsidiary’s capital consists of 40,000 issued and outstanding shares which have a par value of \$100 per share. Seaboard Surety Company owns all of these shares with the exception of 27 shares, which are owned equally by the nine directors of the subsidiary.

On December 21, 1999, Seaboard Surety Company purchased Northern Indemnity, Inc from United States Fidelity and Guaranty Company (“USF&G”), an affiliate. Effective January 1, 2000, Seaboard Surety Company of Canada, another subsidiary of the Company, and Northern Indemnity, Inc.

merged. Seaboard Surety of Canada is the surviving corporation, however, the corporation will retain Northern Indemnity, Inc. as its name.

On January 1, 2004, the Company sold its subsidiary, Northern Indemnity Insurance Company (“Northern Indemnity”), to Fire and Marine for \$55.7 million. a formal filing was made with the Office of the Superintendent of Financial Institutions in Canada in order to amalgamate Northern Indemnity and St. Paul Guarantee Insurance Company (“St. Paul Guarantee”), a subsidiary of Fire and Marine, as well as certain Canadian holding companies with no business operations. The effective date of the amalgamation was January 1, 2004 and St. Paul Guarantee was the surviving company.

A. Management

Pursuant to the Company’s charter, the corporate powers of the Company shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-one members, and through such officers, employees and agents as the board shall empower.

At December 31, 2002, the board of directors was composed of the following members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Antonio V. Corasaniti North Syracuse, NY	Sr. Account Executive, St. Paul Fire and Marine Ins. Co.
William O. Cowan Tinsonium, MD	Vice-President, Surety Underwriting, St. Paul Fire and Marine Ins. Co.
Mark Fitzgerald Madison, NJ	Director, Regional Underwriting, St. Paul Fire and Marine Ins. Co.
Frederick J. Gurba Baldwin, MD	Sr. Vice-President, Surety St. Paul Fire and Marine Ins. Co.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James F. Harding Forest Hills, NY	Commercial Surety Manager, St. Paul Fire and Marine Ins. Co.
David L. Hussey Cockeysville, MD	Assistant Vice President-Practice Leader, St. Paul Fire and Marine Ins. Co.
Robert J. Lamendola Cockeysville, MD	Chairman & President, Executive Vice-President, Global Specialty Practices, St. Paul Fire and Marine Ins. Co.
Robert G. Mitchell Syracuse, NY	Manager – Underwriting, St. Paul Fire and Marine Ins. Co.
Robert T. Pearson Merrick, NY	Manager – Underwriting, St. Paul Fire and Marine Ins. Co.
Anthony S. Phillips Harrisburg, PA	Underwriting Specialist, St. Paul Fire and Marine Ins. Co.
Daniel W. Rapp Shrewsbury, MA	Director of Regional Underwriting, St. Paul Fire and Marine Ins. Co.
John F. Simanski Reisterstown, MD	Sr. Vice President – Bond, Seaboard Surety Company
John R. Souder Warminster, PA	Manager-Underwriting, St. Paul Fire and Marine Ins. Co.

All of the above individuals, except for Messrs. Cowan, Rapp and Simanski, were replaced in 2003 on the board by the following individuals:

John L. Ames,  
Bernadette R. Gonsalves  
William H. Heyman  
Gary A. Judd  
Geoffrey G. Lakis  
Timothy M. Miller  
James A. Monroe  
Rosemary Quinn  
Scott J. Swanay  
Francis J. Vetrano  
Gregory M. Vezzosi

The changes to the composition of the board of directors subsequent to 2002 were attributed to the following:

- In 2003, the Company changed its by-laws to eliminate the prior requirements that a majority of the directors be residents of New York or adjoining states. The amended by-laws, however, continue to require that not less than three directors be residents of New York.
- Restructuring and streamlining of the overall St. Paul Surety operation.
- Retirements and resignations

The following were the principal officers of the Company as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Robert J. Lamendola	Chairman & President
Bruce A. Backberg	Corporate Secretary
Thomas A. Bradley	Senior Vice President & Chief Financial Officer
Frederick J. Gurba	Sr. Vice President
John F. Simanski	Sr. Vice President
John F. Welch	Sr. Vice President
Peter W. Carman	Vice President and Comptroller
Paul H. McDonough	Vice President and Treasurer
Paul J. Brehm	Vice President
John C. Treacy	Vice President
Sheila M. Brown	Assistant Vice President

B. Territory and Plan of Operation

At December 31, 2002, the Company was authorized to transact business in all fifty states and the District of Columbia. It was also licensed in Guam, Puerto Rico, the U.S. Virgin Islands, the Panama Canal Zone and Great Britain.

<u>Paragraph</u>	<u>Kinds of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage

<u>Paragraph</u>	<u>Kinds of Insurance</u>
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation business as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69th Congress, as amended; USC Section 901 et seq. as amended) and the kinds of insurance and reinsurance defined in Section 4102(c) of the New York Insurance Law. Based on the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain at all times a surplus to policyholders of \$35,000,000.

The following schedule shows the direct premiums written each year by the Company during the examination period and the percentage of New York business to countrywide direct premiums written:

DIRECT PREMIUMS WRITTEN

<u>Year</u>	<u>Countrywide</u>	<u>New York</u>	<u>Percentage of New York State Premiums Written to Premiums Countrywide</u>
1999	\$67,678,484	\$16,787,257	24.80%
2000	\$64,961,403	\$15,485,534	23.84%
2001	\$62,701,200	\$12,942,980	20.64%
2002	\$60,293,679	\$12,733,172	21.12%

The majority of the Company's business is surety, and is marketed by approximately 1,200 producers. Additionally, the Company is a 1% participant in the St. Paul pool, described further herein.

C. Reinsurance

On January 1, 1997, Seaboard Surety Company entered into an agreement with its parent, St. Paul Fire and Marine Insurance Company, which terminated various inter-company reinsurance agreements and retroactively implemented a 100% reinsurance arrangement, with the Company retaining no business. The agreement was approved by the Department pursuant to Article 15 of the New York Insurance Law.

On January 1, 1998, the Company became a party to an inter-company pooling reinsurance agreement, led by its parent, St. Paul Fire & Marine Insurance Company. Under this agreement, the Company cedes 100% of its direct and assumed business to St. Paul Fire and Marine Insurance Company and accepts a one percent share of the net premiums, net losses, net expenses and related changes in assets and liabilities on all insurance written or reinsured by St. Paul Fire & Marine Insurance Company.

The following are the companies participating in the pool:

<u>Company</u>	<u>Percentage</u>
St. Paul Fire and Marine Insurance Company	92%
St. Paul Surplus Lines Insurance Company	3
St. Paul Medical Liability Insurance Company	1
Athena Assurance Company	1
Seaboard Surety Company	1
Northbrook Property And Casualty Insurance Company	1
Discovery Specialty Insurance Company	0.5
Discovery Property And Casualty Insurance Company	<u>0.5</u>
Total	<u>100%</u>

The Schedule F data contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts affected during the examination period. These contracts contained the required standard clauses including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The St. Paul Fire and Marine Pool had in effect the following reinsurance contracts at December 31, 2002, in which the Company had a 1% participation:

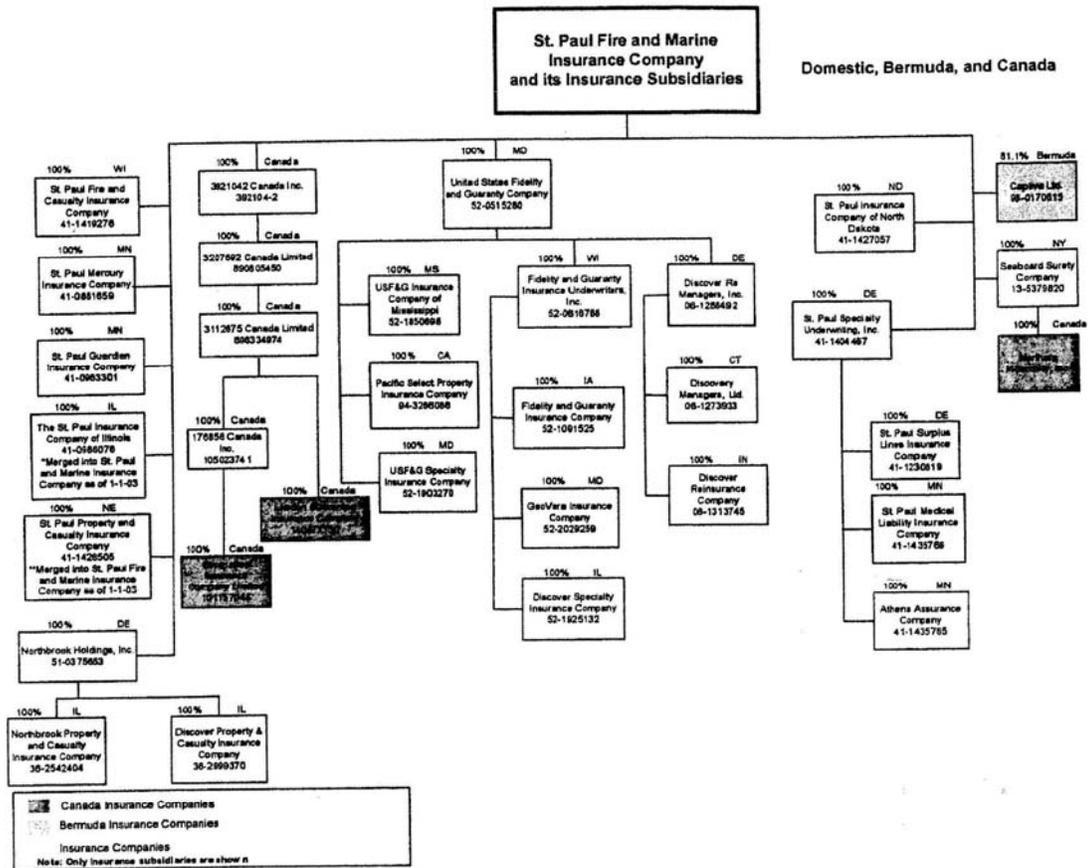
<u>Type of Contract</u>	<u>Cession</u>
Property Core Excess of Loss (Four Layers)	\$119,000,000 in excess of \$6,000,000 per risk , each loss subject to a maximum recovery of \$119,000,000.
Property Catastrophe (Five layers)	\$550,000,000 in excess of \$100,000,000 per occurrence, each and every loss occurrence.
Casualty Per Occurrence	\$7,000,000 to \$12,000,000 in excess of \$1,500,000 to \$5,000,000 each and every loss occurrence.
Casualty Capacity Excess	\$20,000,000 in excess of \$10,000,000, per risk.
Casualty Clash and Contingency Excess	\$60,000,000 in excess of \$15,000,000, per risk.

<u>Type of Contract</u>	<u>Cession</u>
Casualty Workers' Compensation Catastrophe Excess	\$40,000,000 in excess of \$10,000,000, per occurrence.
Ocean Marine Excess (Five Layers)	\$40,000,000 in excess of \$3,000,000, per occurrence.
Surety Excess	\$120,000,000 in excess of \$5,000,000, per occurrence.

D. Holding Company System

The Company is 100% owned by the St. Paul Fire and Marine Insurance Company, whose ultimate parent is St. Paul Companies, Inc. Registration statements are filed pursuant to the provisions of Article 15 of the New York Insurance Law and Department Regulation 52. The filings made during the period were reviewed and the Company was found to be in compliance with statutory requirements.

The following organizational chart shows the members of the holding company system at December 31, 2002. Each member is 100% owned.



Seaboard Surety Company has no employees or facilities of its own. All services necessary for the conduct of the Company's business are performed by or through the St. Paul Fire & Marine Insurance Company, subject to the ultimate direction and control of the Company's board of directors. At December 31, 2002, the Company was party to the following intercompany agreements with several of its affiliates:

(a) Agreement for Services and Other Resources

This agreement between Seaboard Surety Company and Seaboard Surety Company of Canada as the "consuming companies" and The St. Paul Companies, Inc and St. Paul Fire and Marine Insurance Company as the "providing companies" allows the providing companies to furnish and the consuming companies to purchase such of the services, facilities, supplies, and other resources upon which they mutually agree.

(b) Management Agreement

This agreement between Seaboard Surety Company and Seaboard Surety Company of Canada, collectively known as the "Companies" and St. Paul Fire and Marine Insurance Company, St. Paul Mercury Insurance Company and St. Paul Guardian Insurance Company, collectively known as the "Manager" grants the Manager full authority to act as the Companies' underwriting manager for all surety and property casualty insurance business conducted by the Companies.

(c) Consolidated Tax Allocation Agreement

Seaboard Surety Company has implemented a consolidated Income tax allocation agreement with its direct and indirect parent corporations. The agreement complies with the requirements of the Department Circular Letter #33 (1979). These agreements have been filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires the Company to file a report with the State Comptroller's office for any amount payable to residents of New York State. The Company has made the proper filings with the office of the Comptroller.

F. Accounts and Records

Investments

When reviewing the Company stock certificate for Northern Indemnity, it was noted that the Company's annual statement reported a value for the Northern Indemnity stock for 250,000 shares versus the actual certificate stating 200,000 shares. The Company contends that, the carrying value of the stock was not affected. It is recommended that the Company properly report the correct number of shares associated with their common stock.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of the examination:

Net premiums written in 2002 to Surplus as regards policyholders	.39 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	69.5%
Premiums in the course of collection to Surplus as regards policyholders	6.47%

All of the above ratios fall within the benchmark ranges of 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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Recovery</u>
Losses and loss adjustment expenses incurred	\$143,778,281	83.8%
Other underwriting expenses incurred	55,181,407	32.2
Net underwriting ( loss)	<u>(27,447,100)</u>	<u>(16.0)</u>
Premiums earned	<u>\$171,512,588</u>	<u>100.0%</u>

### **3. FINANCIAL STATEMENTS**

#### A. Balance Sheet

The following show the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$187,315,632	\$0	\$187,315,632
Common stocks	42,948,174	0	42,948,174
Cash and short-term investments	3,885,836	0	3,885,836
Premiums and agents' balances in course of collection	8,471,736	272,605	8,199,131
Premiums, agents' balances and installments booked but deferred and not yet due	7,021,944	47,176	6,974,768
Accrued retrospective premiums	6,437	644	5,793
Funds held by or deposited with reinsured companies	1,964,561	0	1,964,561
Reinsurance recoverables on losses and loss adjustment expense payments	2,243,834	0	2,243,834
Federal and foreign income taxes recoverable and interest thereon	7,390,686	4,655,934	2,734,752
Electronic data processing equipment and software	186,275	0	186,275
Interest, dividends and real estate income due and accrued	2,724,966	0	2,724,966
Equities and deposits in pools and associations	401,803	22,595	379,208
Aggregate write-ins for other than invested assets	5,381	0	5,381
Totals assets	<u>\$264,567,265</u>	<u>\$4,998,954</u>	<u>\$259,568,311</u>

Liabilities, Surplus and Other Funds

Losses		\$75,812,075
Reinsurance payable on paid losses and loss adjustment expenses		390,060
Loss adjustment expenses		18,314,926
Commissions payable, contingent commissions and other similar charges		640,944
Other expenses (excluding taxes, licenses and fees)		1,469,799
Taxes, licenses and fees (excluding federal and foreign income taxes)		741,339
Federal and foreign income taxes		914,001
Unearned premiums		20,382,214
Advance premiums		17,362
Policyholders (dividends declared and unpaid)		228,570
Ceded reinsurance premiums payable (net of ceding commissions)		1,876,815
Funds held by company under reinsurance treaties		2,836,325
Remittances and items not allocated		316,147
Drafts outstanding		1,054,310
Payable to parent, subsidiaries and affiliates		3,619,629
Aggregate write-ins for liabilities		<u>4,187,110</u>
 Total liabilities		 \$132,801,626

Surplus and Other Funds

Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	17,484,317	
Unassigned funds (surplus)	<u>\$104,282,368</u>	
Surplus as regards policyholders		<u>126,766,685</u>
Total liabilities surplus and other funds		<u>\$259,568,311</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's Federal income tax returns through tax year 2001. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$26,761,716 during the period from January 1, 1999 through December 31, 2002, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$171,512,588
Deductions:		
Losses and loss expenses incurred	\$143,778,281	
Other underwriting expenses incurred	<u>55,181,407</u>	
Total underwriting deduction		<u>198,959,688</u>
Net underwriting gain or (loss)		\$(27,447,100)

Investment Income

Net investment income earned	\$53,294,323	
Net realized capital gains or (losses)	<u>(2,168,807)</u>	
Net investment or (losses)		51,125,516

Other Income

Aggregate write-ins for miscellaneous income		<u>(60,585)</u>
Net income before dividends to policyholders and federal and foreign income taxes		\$23,617,831
Dividends to policyholders		<u>341,147</u>
Net income before federal income taxes		\$23,276,684
Federal and foreign income taxes incurred		<u>13,487,947</u>
Net income		<u><u>\$9,788,737</u></u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1998			\$153,528,398
	Gain in Surplus	Losses in Surplus	
Net income	\$9,788,737		
Net unrealized capital gains or (losses)	12,771,908		
Change in net unrealized foreign exchange capital loss		\$614,742	
Change in net deferred income tax		671,230	
Change in non-admitted assets		4,365,703	
Cumulative effect of changes in accounting principles	8,023,364		
Dividends to stockholders		47,540,000	
Aggregate write-ins for gains and losses in surplus		4,154,050	
	<hr/>	<hr/>	
Total gains and losses	\$30,584,009	\$57,345,725	
			<hr/>
Net decrease in surplus as regards policyholders			26,761,716
			<hr/>
Surplus as regards policyholders, per report on examination as of December 31, 2002			\$126,766,684
			<hr/>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liabilities for losses and loss adjustment expenses of \$75,812,075 and \$18,314,926, respectively, are the same amounts reported by the Company in its filed annual statement as of December 31, 2002.

The captioned liability was calculated in accordance with generally accepted actuarial principles and practices and was based upon statistical information reflected in the Company's internal records reconciled to the data contained in the Company's filed annual statements.

The Minnesota Department of Commerce (“MNDOC”) actuaries developed reserve projections and compared them to values reported by the Group at December 31, 2002. The results of the MNDOC’s analysis by line of business are set forth below:

SUMMARY OF ST. PAUL FIRE AND MARINE INSURANCE GROUP  
CONSOLIDATED RESERVE ANALYSIS  
(IN MILLIONS)

<u>Line of Business</u>	<u>MNDOC Actuaries’ Range</u> <u>as of 12/31/02*</u>			<u>Company Actuaries’ Range</u> <u>as of 12/31/02</u>			<u>Reported Reserves</u> <u>as of 12/31/02</u>
	<u>Low</u>	<u>Point Estimate</u>	<u>High</u>	<u>Low</u>	<u>Point Estimate</u>	<u>High</u>	
Medical Malpractice	\$ 2,552	\$ 2,836	\$ 3,261	\$ 1,739	\$ 2,178	\$ 2,351	1,919
Surety	115	121	130	71	228	251	110
All Other	<u>9,821</u>	<u>10,611</u>	<u>11,768</u>	<u>9,854</u>	<u>10,383</u>	<u>10,955</u>	<u>10,237</u>
Total	\$ <u>12,488</u>	\$ <u>13,568</u>	\$ <u>15,159</u>	\$ <u>11,664</u>	\$ <u>12,789</u>	\$ <u>13,557</u>	\$ <u>12,266</u>

\* Medical Malpractice and certain of the Asbestos reserves were evaluated as of 9/30/03.

The above analysis sets forth the range of reserves and point estimates developed by MNDOC and as reported by the Group. The Group’s reported reserves at December 31, 2002 were \$222 million less than the MNDOC low range estimate of \$12.488 billion, \$1.3 billion less than the MNDOC point estimate of \$13.568 billion and \$2.9 billion less than the MNDOC high range estimate of \$15.159 billion. St. Paul Fire and Marine Insurance Group consolidated reserves include the United States Fidelity and Guarantee Group (“USF&G”) Pool and the St Paul Pool. Seaboard Surety has a 1% participation in the St Paul Pool. Its 1% share of the indicated point estimate of the St Paul pool’s reserves amounted to \$106,222,033 which is \$12,095,032 more than the \$94,127,001 reported by the Company. This represents 9.5% of the Company’s surplus. Therefore, due to immateriality no financial change was made in the report herein.

## **5. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed as to encompass the more precise scope of a market conduct investigation, which is performed by the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following major areas:

1. Sales and advertising
2. Underwriting
3. Rating
4. Claims

To accomplish this review, the Company's advertising material, applications, policy forms, correspondence files, rates, and claims were examined. No exceptions were noted.

## **6. SUBSEQUENT EVENTS**

On November 16, 2003, The St. Paul Companies, Inc. ("SPC") entered into an agreement and plan of merger with Travelers Property Casualty Corp. ("Travelers") that will create the nation's second largest commercial insurer with expected total assets of \$109 billion, shareholders' equity of \$20 billion, total capital of \$26.6 billion and net written premiums of \$20.6 billion. SPC anticipates that restructuring charges in conjunction with the merger will be approximately \$300-400 million subject to final decisions by management of the combined company.

The merger will be structured as a tax-free, stock-for-stock merger, and solely for accounting purposes, will be treated as a purchase business combination by Travelers of SPC under accounting

principles generally accepted in the United States of America. In this merger, the acquiring entity SPC will issue the equity interests and this business combination meets the criteria of a reverse acquisition. Each share of Travelers Class A common stock and Class B common stock will be exchanged for 0.4334 shares of SPC common stock. The resulting company will be known as The St. Paul Travelers Companies, Inc., will remain a Minnesota corporation and will have its corporate headquarters in St. Paul, Minnesota.

The transaction has been approved by the boards of both companies, and the Federal Trade Commission granted early termination of the pre-merger waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 in December 2003. All necessary regulatory approvals were received and on March 19, 2004, the shareholders of both St. Paul Companies and Travelers Property and Casualty Corp. approved the merger transaction. The merger was completed on April 1, 2004.

## **7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained comments and recommendations, which are summarized below with the Company's subsequent actions thereon. (the page numbers shown below refer to the prior report):

### ITEM

### PAGE NO.

#### A. Management

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

5

The Company complied with the recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Reinsurance</u>	
i.     It is recommended that the Company set up a provision for unauthorized reinsurance for its respective share of the pool.	10
The Company complied with the recommendation.	
ii.    It is recommended that the Company prepare and maintain cash flow analysis for certain significant reinsurance agreements that might bring risk transfer in question to support any credit taken for reinsurance.	11
The Company complied with the recommendation.	
C. <u>Abandoned Property Law</u>	
It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law, and file reports with the State of New York by April 1 <sup>st</sup> of each year.	14
The Company complied with the recommendation.	

## **8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Investments</u>	
It is recommended that the Company properly report the correct number of shares associated with their investments.	13

Respectfully submitted

\_\_\_\_\_/S/\_\_\_\_\_  
Max P. Vega  
Senior Insurance Examiner

STATE OF NEW YORK )  
                                  ) SS.  
                                  )  
COUNTY OF NEW YORK)

MAX P. VEGA, being duly sworn, deposes and says that the foregoing report submitted to by him is true to the best of his knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
Max P. Vega

Subscribed and sworn to before me  
this \_\_\_\_ day of \_\_\_\_\_ 2005.

Appointment No 22037

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Max Vega**

*as proper person to examine into the affairs of the*

**SEABOARD SURETY COMPANY**

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

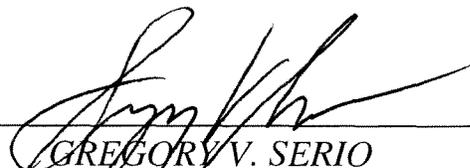
**Company**

*with such other information as she 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 2nd day of April, 2003*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance