

REPORT ON EXAMINATION

OF THE

**ST. PAUL SURPLUS LINES
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2007

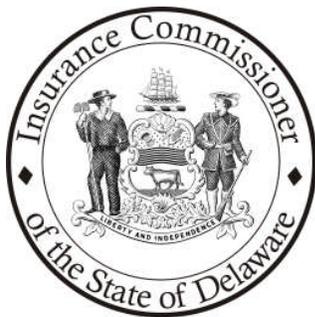
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

St. Paul Surplus Lines Insurance Company

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 25 June 2009



In witness whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 25th day of June 2009. .

[Handwritten signature]

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
ST. PAUL SURPLUS LINES INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 25th day of June, 2009

TABLE OF CONTENTS

SCOPE OF EXAMINATION1

HISTORY3

CAPITALIZATION4

DIVIDENDS TO STOCKHOLDERS4

MANAGEMENT4

HOLDING COMPANY SYSTEM5

MANAGEMENT AND SERVICE AGREEMENTS
AND RELATED PARTY TRANSACTIONS8

TERRITORY AND PLAN OF OPERATION9

GROWTH OF COMPANY9

RETENTION AND REINSURANCE10

ACCOUNTS AND RECORDS11

FINANCIAL STATEMENTS12

 Assets13

 Liabilities, Surplus and Other Funds14

 Statement of Income15

 Capital and Surplus Accounts16

RECONCILIATION OF EXAMINATION CHANGES IN SURPLUS17

NOTES TO FINANCIAL STATEMENTS17

CONCLUSION18

ACKNOWLEDGEMENT18

May 5, 2009

Honorable Karen Weldin Stewart, CIR-ML
Commissioner of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No 08.022, dated May 29, 2008, an examination has been made of the affairs, financial condition and management of

ST. PAUL SURPLUS LINES INSURANCE COMPANY

(hereinafter referred to as the “Company”) incorporated under the laws of the state of Delaware as a stock company with its statutory office located at 385 Washington Street, St. Paul, Minnesota. The examination was conducted at the main administrative office of the Company located at One Tower Square, Hartford, Connecticut. The report of the examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2002, by representatives of the Delaware Department of Insurance. This comprehensive financial examination covered the period January 1, 2003, through December 31, 2007, and included a general review of transactions and a determination of the financial condition of the Company at December 31, 2007. In addition, a search for any material transactions and/or events occurring subsequent to the examination date was performed during the course of this examination. The general procedure of the examination followed the rules established by the Committee on Financial Examiners Handbook, NAIC and generally accepted insurance examination standards. The examination was conducted in coordination with examiners from the States of Connecticut, Delaware, Illinois, Iowa, Maryland, Minnesota, New York, Texas and Wisconsin. The examination was conducted concurrently by representatives of the various States of Domicile. Separate Reports of Examination will be issued by the other States with domestic subsidiaries.

St. Paul Surplus Lines Insurance Company

The examinations were conducted concurrently on the inter-company pool basis. The arrangement, described in detail herein, included the Company as a participant. The Company's specific participation was 0.88% of the pool as of December 31, 2007.

The examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we employed a risk focused surveillance approach and gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company and its insurance affiliates were audited annually, for the years 2003 through 2007, by the accounting firm of KPMG LLP. The Companies received an unqualified statutory opinion in all five years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Companies also maintain an internal audit department and a Sarbanes Oxley compliance function. Where applicable, audit reports and workpapers were reviewed and portions thereof were relied upon for this examination.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations would be made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

This examination was conducted by the Delaware Insurance Department in accordance with the Association Plan of Examination Guidelines established by the NAIC. Individuals employed by or hired under contract by the Minnesota Department of Commerce analyzed financial items shared by the intercompany pool and the Company pursuant to the pooling arrangement.

The Company, along with other affiliated companies, was a participant in a reinsurance pooling arrangement known as the Travelers Reinsurance Pool (TRV Pool). The Travelers Indemnity Company (Indemnity) is the lead Company in the TRV Pool.

St. Paul Surplus Lines Insurance Company

Because of operational similarities that occur due to the pooling arrangement previously discussed, the following were analyzed by individuals employed by or under contract with the Minnesota Department of Commerce and reviewed by the Delaware Insurance Department, but not made a part of the work papers of this examination:

Conflict of Interest

Legal Actions pending Settlement

Policyholder Dividends

Regulatory Agency Correspondence

All Pooled Asset and Liability Items not Mentioned

HISTORY

The Company was incorporated on February 22, 1974, as St. Paul Surplus Lines Insurance Company, a stock insurer, under General Corporation Law of the State of Delaware. Business was commenced May 31, 1974. The Charter provides for a perpetual term of existence.

As a specialty carrier, the Company continued underwriting operations nearly exclusively in excess and surplus lines of insurance. The Company's Certificate of Authority, however authorized the transaction of business health, credit health, property, marine and transportation, and casualty for the following lines: vehicle, liability, burglary and theft, personal property floater, glass, boiler and machinery, credit, leakage and fire extinguisher equipment, malpractice, elevator, congenital defect, livestock, entertainments, surety and workers compensation, employer's liability and miscellaneous.

On November 16, 2003 the ultimate parent, The St. Paul Companies, Inc. (SPC) entered into an agreement and plan of merger with Travelers Property Casualty Corp. (Travelers) creating the nation's second largest commercial insurer. The transaction closed in the second quarter of 2004. The merger was structured as a tax-free, stock-for-stock merger, and solely for accounting purposes, was treated as a purchase business combination by Travelers of SPC under accounting principles generally accepted in the United States of America. The acquiring entity (SPC) issued the equity interests which allowed the combination to meet the criteria of a reverse acquisition. The resulting company became known as The St. Paul Travelers Companies, Inc., and remained a Minnesota corporation with its corporate headquarters in St. Paul, Minnesota.

St. Paul Surplus Lines Insurance Company

On February 26, 2007, The St. Paul Travelers Companies, Inc. changed its name to The Travelers Companies, Inc. (TRV) and began trading on the New York Stock Exchange under the new symbol “TRV”.

CAPITALIZATION

As of December 31, 2007, the Company had issued and outstanding 41,000 shares of common capital stock, each having a par value of \$100 per share. Capital paid-in amounted to \$4,100,000. All shares were issued to St. Paul Fire and Marine Insurance Company, a wholly owned subsidiary of The Travelers Companies, Inc.

DIVIDENDS TO STOCKHOLDER

During the period under examination, the Company paid dividends as follows:

<u>Year</u>	<u>Type</u>	<u>Amount Paid</u>
2007	Cash	\$ 15,000,000
2006	Cash	\$ 20,100,000
2005	Cash	\$ 5,973,000
2004	Cash	\$ 12,000,000
2003	Cash	\$ 0

All dividends paid were approved by the Delaware Insurance Department.

MANAGEMENT

Directors.

The Company is managed by a Board of Directors. The By-Laws require the annual shareholders meeting to be held during the second calendar quarter of each year and include an election of board members consisting of not less than three (3) nor more than eighteen (18) members.

The elected Directors of the Company at December 31, 2007, were as follows:

<u>Directors</u>	<u>Principal Occupation or Other Business Affiliation</u>
Michael Frederick Klein	Director
Brian William MacLean	Chairman of the Board, President & CEO
Kenneth Franklin Spence, III	Executive Vice President, General Counsel

St. Paul Surplus Lines Insurance Company

Officers

The Senior Officers of the Company at December 31, 2007, were as follows:

<u>Officer</u>	<u>Title</u>
Brian William MacLean	Chairman of the Board, President & CEO
Jay Steven Benet	Vice Chairman & CFO
Charles Joseph Clarke	Vice Chairman
William Herbert Heyman	Vice Chairman & Chief Investment Officer
Alan David Schnitzer	Vice Chairman & Chief Legal Officer
John Joseph Albano	Executive Vice President, Business Insurance
Andy Francis Bessette	Executive Vice President & Chief Admin Officer
William Alan Bloom	Executive Vice President & Chief Information Officer
Kathleen Lynch Boldoc	Executive Vice President & Chief Marketing Officer
John Patrick Clifford, Jr.	Executive Vice President, Human Resources
William Patrick Hannon	Executive Vice President, ERM & Business Conduct
Joseph Patrick Lacher, Jr.	Executive Vice President, Personal Insurance
Samuel Gersten Liss	Executive Vice President, Strategic Development
Mario Olivo	Executive Vice President, Market Development
Doreen Spadorcia	Executive Vice President, Claim
Kenneth Franklin Spence, III	Executive Vice President, General Counsel
Bruce Allen Backberg	Senior Vice President & Corporate Secretary
Douglas Keith Bell	Senior Vice President, Accounting Standards
Wade Thomas Overgaard	Senior Vice President & Chief Corporate Actuary
Douglas Kenneth Russell	Senior Vice President, Treasurer & Corporate Controller
Scott William Rynda	Senior Vice President, Tax Administration

Control

As of the examination date, all of the outstanding shares of common stock were held by St. Paul Fire and Marine Insurance Company. The latter was a wholly owned subsidiary of The Travelers Companies, Inc.

HOLDING COMPANY SYSTEM

St. Paul Surplus Lines Insurance Company is a wholly owned subsidiary of St. Paul Fire and Marine Insurance Company, which in turn is owned by The Travelers Companies, Inc., a Connecticut domiciled corporation.

St. Paul Surplus Lines Insurance Company

The following is an organizational chart that reflects the identities and interrelationships between the Company and Parent as of December 31, 2007.

<u>Company</u>	<u>Domiciliary Jurisdiction</u>
The Travelers Companies, Inc.	Minnesota
St. Paul Fire and Marine Insurance Company (24767)*	Minnesota
St. Paul Mercury Insurance Company (24791)*	Minnesota
St. Paul Guardian Insurance Company (24775)*	Minnesota
St. Paul Fire and Casualty Insurance Company (40967)*	Wisconsin
Seaboard Surety Company (22535)*	New York
St Paul Surplus Lines Insurance Company (30481)*	Delaware
Athena Assurance Company (41769)*	Minnesota
St. Paul Medical Liability Insurance Company (41750)*	Minnesota
Northbrook Holdings, Inc.	Delaware
Discover Property & Casualty Insurance Company (36463)*	Illinois
St. Paul Protective Insurance Company (19224)*	Illinois
Discover Specialty Insurance Company (10213)*	Illinois
Unionamerica Holdings, Ltd.	United Kingdom
Unionamerica Acquisition Company, Ltd.	United Kingdom
St. Paul Reinsurance Company Limited*	United Kingdom
Unionamerica Insurance Company, Ltd. (71%)*	United Kingdom
Unionamerica Insurance Company, Ltd. (29%)*	Cayman Islands
Unionamerica Combined Investment Co. Ltd.	United Kingdom
Jago Dedicated, Ltd (89.9%)	United Kingdom
Jago Capital Limited	United Kingdom
Lloyds Syndicate 205*	United Kingdom
Mmedica Insurance Company Ltd.*	Ireland
Captiva, Ltd. (81.1%)*	Bermuda
United States Fidelity and Guaranty Company (25887)*	Maryland
Fidelity and Guaranty Insurance Underwriters, Inc. (25879)*	Wisconsin
Fidelity and Guaranty Insurance Company (35386)*	Iowa
Discover Re Managers, Inc.	Delaware
MMI Capital Trust I	Delaware
USF&G Capital I	Delaware
USF&G Capital II	Delaware
USF&G Capital III	Delaware
USF&G Financial Services Corporation	Maryland
Mountain Ridge Insurance Company (10950)*	Vermont
St. Paul Bermuda Holdings, Inc.	Delaware
St. Paul (Bermuda), Ltd.*	Bermuda
St. Paul Re (Bermuda), Ltd.*	Bermuda
St. Paul Travelers Insurance Company Limited *	United Kingdom
F&G U.K. Underwriters Limited	United Kingdom
Lloyds Syndicate 5000 (40%)*	United Kingdom
Aprilgrange Limited	United Kingdom
Lloyds Syndicate 5000 (60%)*	United Kingdom
Travelers Property Casualty Corp	Connecticut
Travelers Insurance Group Holdings Inc.	Delaware
TPC Investments Inc.	Connecticut
TPC UK Investments LLC	Delaware
The Standard Fire Insurance Company (19070)*	Connecticut
AE Properties, Inc.	California

St. Paul Surplus Lines Insurance Company

Travelers ALPHA Holdings, Inc.	Connecticut
The Automobile Insurance Company of Hartford, Connecticut (19062)*	Connecticut
Travelers Personal Security Insurance Company (36145)*	Connecticut
Travelers Property Casualty Insurance Company (36161)*	Connecticut
Travelers Personal Insurance Company (38130)*	Connecticut
Travelers (Bermuda) Limited*	Bermuda
Travelers Casualty and Surety Company (19038)*	Connecticut
Farmington Casualty Company (41483)*	Connecticut
Travelers Guarantee Company of Canada*	Canada
Coronation Insurance Company, Ltd.*	Canada
TCS European Investments Inc.	Connecticut
TCS International Investments	Cayman Islands
Travelers Casualty and Surety Company of America (31194)*	Connecticut
Travelers Casualty Insurance Company of America (19046)*	Connecticut
Travelers Casualty Company of Connecticut (36170)*	Connecticut
Travelers Commercial Insurance Company (36137)*	Connecticut
Travelers Excess and Surplus Lines Company (29696)*	Connecticut
Travelers Lloyds of Texas Insurance Company (41564)*	Texas
Travelers PC Fund Investments, Inc.	Connecticut
The Travelers Indemnity Company (25658)*	Connecticut
The Charter Oak Fire Insurance Company (25615)*	Connecticut
First Floridian Auto and Home Insurance Company (10647)*	Florida
First Trenton Indemnity Company (29930)*	New Jersey
Travelers Auto Insurance Co. of New Jersey (10785)*	New Jersey
Atlantic Insurance Company (22209)*	Texas
Gulf Underwriters Insurance Company (42811)*	Connecticut
Select Insurance Company (22233)*	Texas
Gulf Insurance Holdings U.K. Ltd.	United Kingdom
Gulf Underwriting Holdings Limited	United Kingdom
Gulf Underwriting Limited*	United Kingdom
Travelers Casualty and Surety Company of Europe, Limited*	United Kingdom
The Northland Company	Minnesota
Commercial Guaranty Casualty Insurance Company (21296)*	Indiana
Commercial Guaranty Insurance Company (38385)*	Delaware
Jupiter Holdings, Inc.	Minnesota
American Equity Insurance Company (43117)*	Arizona
American Equity Specialty Insurance Company (10819)*	Connecticut
Northland Insurance Company (24015)*	Minnesota
Northfield Insurance Company (27987)*	Iowa
Northland Casualty Company (24031)*	Minnesota
Travelers Indemnity UK Investments, LLC	Connecticut
The Phoenix Insurance Company (25623)*	Connecticut
The Travelers Indemnity Company of America (25666)*	Connecticut
The Travelers Indemnity Company of Connecticut (25682)*	Connecticut
Travelers Property Casualty Company of America (25674)*	Connecticut
Constitution State Services, LLC	Delaware
The Premier Insurance Company of Massachusetts (12850)*	Massachusetts
TINDY RE Investments, Inc.	Connecticut
TINDY Foreign, Inc.	Connecticut
TravCo Insurance Company (28188)*	Connecticut
Travelers Commercial Casualty Company (40282)*	Connecticut
The Travelers Home and Marine Insurance Company (27998)*	Connecticut
The Travelers Lloyds Insurance Company (41262)*	Texas
The Travelers Marine Corporation	Connecticut

() NAIC Company Number.

* Designates insurance company.

**MANAGEMENT AND SERVICE AGREEMENTS AND RELATED PARTY
TRANSACTIONS**

The following material agreements were in effect as of December 31, 2007:

1. **Expense Allocation Agreement** – Effective January 1, 2007. This agreement provides for sharing and payment of expenses and costs among affiliates. Individual company allocations appear in the Annual Statement, Underwriting and Investment Exhibit, Part 3.
2. **Tax Allocation Agreement** – Effective April 1, 2004. The company is a party to the Travelers tax allocation agreement, which sets forth the manner in which the total consolidated federal income tax is allocated. Member companies of the TRV consolidated return group pay taxes annually on their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivables are for tax benefits that have been utilized in the consolidated federal income tax return. Member companies are reimbursed by TRV in the event the Internal Revenue Service levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.
3. **Money Market Liquidity Pool** – Effective May 24, 2006. The company became a party to a private short-term investment pool, known as the Travelers Money Market Liquidity Pool (TRVMMLP), in which affiliated companies may participate. This pool is managed by The Travelers Indemnity Company (Indemnity). Each company may convert its position in the pool into cash at any time and may also use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily. Each participating insurance company carries its share of the pool as a short-term investment in Schedule DA. At December 31, 2007, the TRVMMLP totaled \$4,235,629,965. The Company's share of the pool that was reported in its 2007 Schedule DA was \$7,722,264.
4. **Quota Share Reinsurance Agreement** – Effective January 1, 2007. The company participates in the Travelers Reinsurance Pool (TRV Pool), an intercompany pooling

St. Paul Surplus Lines Insurance Company

arrangement. See the section of the report titled “Retention and Reinsurance” for a detailed discussion of this agreement.

TERRITORY AND PLAN OF OPERATION

The Company was licensed only in Delaware but produced direct premium in all other states as a surplus lines company or as an authorized non-admitted insurer. Due to the nature of business the Company writes, the St. Paul Surplus Lines Insurance Company distributed its products through independent surplus lines brokers. There were approximately 580 surplus lines brokers nationwide that are contracted to submit business to the Company. Therefore, as an authorized non-admitted insurer, the Company does not utilize an agency force. In addition, the Company does not utilize Managing General Agents (MGA's) or Third-party Administrators (TPA's).

The Company's principal writings included primary general liability, umbrella and excess liability, commercial multiple peril, commercial property and inland marine.

As of the examination date, the Company had an AM Best financial strength rating of A+ (Superior). Due to the Company being a participant in the proportional pooling arrangement, the AM Best report represented the Travelers Companies on a consolidated basis.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements:

	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Written Premium</u>	<u>Net Income</u>
2007	\$600,065,407	\$178,454,795	\$411,793,837	\$31,692,874
2006	575,239,684	161,253,840	518,119,293	31,934,265
2005	570,293,272	149,629,674	549,667,931	20,131,500
2004	562,232,612	133,700,638	511,471,104	(429,736)
2003	481,576,995	88,953,767	527,531,315	19,373,161

The Company has experienced significant surplus growth over the five-year period under examination.

RETENTION AND REINSURANCE

The Company participates in the TRV Pool, an inter-company pooling arrangement. Indemnity is the lead company and administers the Pool with all of the other participating companies (the Companies) ceding their business to Indemnity. Indemnity assumes and cedes third party reinsurance on behalf of the Pool, and then Indemnity cedes to the participating companies their percentage share of the net retained pool. The provision for reinsurance and write-off of uncollectible reinsurance are reported in the statutory financial statements of Indemnity and are not allocated to the other Pool participants. The Company is a 0.88% participant in the arrangement which basically requires all business produced directly (including expenses and liabilities incurred pursuant thereto) and all expenses related to the conduct of insurance business in general (except investment expenses and federal income taxes) to be ceded 100% to Indemnity.

As of the examination date, there were 35 companies participating in the Pool. The names, NAIC company codes, and inter-company pool percentages of the Companies participating in the Pool are as follows:

<u>Company Name</u>	<u>NAIC Company Code</u>	<u>Pool Participation Percent</u>
St. Paul Fire & Marine Insurance	24767	24.79
The Travelers Indemnity Company	25658	23.29
The Travelers Casualty and Surety Company	19038	20.36
The Phoenix Insurance Company	25623	5.00
The Standard Fire Insurance Company	19070	4.84
United States Fidelity and Guaranty Company	25887	4.41
Travelers Casualty Ins. Company of America	19046	2.73
Farmington Casualty Company	41483	1.48
The Automobile Insurance Company of Hartford, CT	19062	1.37
The Travelers Indemnity Company of Connecticut	25682	1.37
The Charter Oak Fire Insurance Company	25615	1.27
Northland Insurance Company	24015	1.22
<u>St. Paul Surplus Lines Insurance Company</u>	<u>30481</u>	<u>0.88</u>
The Travelers Indemnity Company of America	25666	0.77
St. Paul Protective Insurance Company	19224	0.58
Northfield Insurance Company	27987	0.52
Travelers Casualty Company of Connecticut	36170	0.47
Travelers Commercial Casualty Company	40282	0.47
Travelers Commercial Insurance Company	36137	0.47

St. Paul Surplus Lines Insurance Company

St. Paul Mercury Insurance Company	24791	0.40
Travelers Property Casualty Company of America	25674	0.36
Travelers Property Casualty Insurance Company	36161	0.30
Athena Assurance Company	41769	0.29
St. Paul Medical Liability Insurance Company	41750	0.29
TravCo Insurance Company	28188	0.27
Travelers Excess and Surplus Lines Company	29696	0.27
The Travelers Home and Marine Insurance Company	27998	0.27
Travelers Personal Insurance Company	38130	0.27
Travelers Personal Security Insurance Company	36145	0.27
Discover Property & Casualty Insurance Company	36463	0.14
Discover Specialty Insurance Company	10213	0.14
Northland Casualty Company	24031	0.14
American Equity Specialty Insurance Company	10819	0.10
Fidelity & Guaranty Insurance Underwriters, Inc.	25879	0.10
St. Paul Guardian Insurance Company	24775	0.10

ACCOUNTS AND RECORDS

General

The Company's accounting records are maintained on data processing equipment that include mainframe and client/server platforms. The financially significant systems used for processing premiums, claims policy reserves and most investments have been developed in-house by the Company. The general ledger system is a purchased package that has been modified to fit the Company's special processing requirements. The premium, claim reserve and investment systems are automatically interfaced with the general ledger system.

Safekeeping of Assets

The Company has safekeeping agreements in place with JP Morgan Chase, and The Bank of New York. Most of the Companies' bonds, stocks and short-term investments are held in these accounts. The Company's assets were confirmed directly with the appropriate trust company.

Designated Certified Public Accountant

KPMG LLP audited the records of the Company for the years 2003 through 2007. Unqualified audit opinions for the five years were expressed on a consolidated statutory basis.

St. Paul Surplus Lines Insurance Company

Investment Policy

The Company's investment policy meets all requirements of the Delaware Insurance Code.

Reserving Practices

The examination actuaries developed reserve projections and compared them to values carried by the Company at December 31, 2007. The examination consisted of risk focused testing and substantive testing using procedures as determined necessary by the consulting actuary, to provide adequate validation of data. Based on the procedures applied, the loss and loss adjustment expense reserves appear to be reasonably stated and have been accepted for the purposes of this report.

Information provided to the examiners was further tested for consistency with the Annual Statement and compliance with other relative laws and regulations the State of Delaware.

FINANCIAL STATEMENTS

The financial statements consist of a balance sheet, underwriting and investment exhibit, and capital and surplus account showing the financial condition at December 31, 2007, as determined by this examination. It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narrative descriptions on the individual accounts in the "Notes to the Financial Statements" section of this report are presented on an exception basis. Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

St. Paul Surplus Lines Insurance Company

ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 523,910,734	\$	\$ 523,910,734
Cash and short term investments	<u>11,720,580</u>	<u></u>	<u>11,720,580</u>
Subtotal cash and invested assets	\$ 535,631,314	\$	\$ 535,631,314
Investment income due and accrued	7,281,278		7,281,278
Premium and considerations: Uncollected premiums and agents' balances in course of collection	10,249,440	1,210,778	9,038,662
Deferred premiums, agents' balances and installments booked but deferred and not yet due	35,267,126	442,206	34,824,920
Accrued retrospective premium	2,033,222	34,474	1,998,748
Net deferred tax asset	17,790,896	8,931,231	8,859,665
Receivable from parent, subsidiaries and affiliates	1,414,203		1,414,203
Aggregate write-ins for other than invested assets:			
Equities and deposits in pools	959,891		959,891
State surcharges receivable	190,511		190,511
Assumed reinsurance receivable and payable	(17,898)		(17,898)
Amounts recoverable under high- deductible policies	<u>439,987</u>	<u>555,874</u>	<u>(115,887)</u>
Totals	<u>\$ 611,239,970</u>	<u>\$ 11,174,563</u>	<u>\$ 600,065,407</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

		<u>Note</u>
Losses	\$ 273,566,306	1
Loss adjustment expenses	59,680,497	
Commission payable, contingent commissions and similar charges	5,382,933	
Other expenses	4,560,524	
Taxes, licenses and fees	3,923,622	
Current federal and foreign income taxes	2,402	
Unearned premiums	70,840,763	
Dividends declared and unpaid - Policyholders	269,824	
Ceded reinsurance premiums payable Amounts withheld or retained by company for account of others	4,624,441	
Remittances and items not allocated	1,227,090	
Aggregate write-ins for liabilities	10,868	
Retroactive reinsurance reserve assumed	219,852	
Amounts payable from escrow	47,116	
Retroactive reinsurance reserve ceded	(2,745,626)	
Total Liabilities	<u>\$ 421,610,612</u>	
Special surplus from retroactive reinsurance	\$ 1,015,053	
Capital stock	4,100,000	
Gross paid in and contributed surplus	56,030,937	
Unassigned funds (surplus)	<u>117,308,805</u>	
Surplus as regards policyholders	178,454,795	
Total	<u><u>\$ 600,065,407</u></u>	

STATEMENT OF INCOME

For the Year Ending December 31, 2007

Premiums earned	\$ 157,306,938
Deductions	
Losses incurred	\$ 73,750,070
Loss expenses incurred	19,020,774
Other underwriting expenses incurred	47,637,605
Total underwriting deductions	<u>\$ 140,408,449</u>
Net underwriting (loss)	\$ 16,898,489
Investment Income	
Net investment income earned	\$ 25,039,581
Net realized capital gains	(9,770)
Net investment gain	<u>\$ 25,029,811</u>
Other Income	
Net (loss) from agents' or premium balances charged off	\$ (330,187)
Finance and service charges not included in premiums	788,701
Aggregate write in	
Retroactive reinsurance gain/(loss)	261,075
Fines and penalties of regulatory authorities	(1,105)
Profit and loss - Miscellaneous	(237,289)
Total other income	<u>\$ 481,195</u>
Net income before dividends to policyholders and before federal income taxes	\$ 42,409,495
Dividends to policyholders	<u>204,741</u>
Net income after dividends to policyholders and before federal income taxes	<u>\$ 42,204,754</u>
Federal income taxes incurred	<u>10,511,881</u>
Net income	<u><u>\$ 31,692,874</u></u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2007

Capital and surplus December 31, 2006		\$ 161,253,840
Gains and (losses) in surplus		
Net income	\$ 31,692,874	
Change in net unrealized capital gains or (losses)	9,729	
Change in net unrealized foreign exchange capital gains	60	
Change in net deferred income tax	(290,848)	
Change in non-admitted assets and related items	789,140	
Dividends to Stockholders	(15,000,000)	
Paid in surplus		
Change in surplus as regards policyholders for the year		<u>\$ 17,200,955</u>
Surplus as regards policyholders December 31, 2007		<u><u>\$ 178,454,795</u></u>

RECONCILIATION OF EXAMINATION CHANGES IN SURPLUS

No changes were made to the Company surplus as a result of this examination.

NOTES TO THE FINANCIAL STATEMENT

1. Losses and Loss Adjustment Expenses

Loss Reserves	\$273,566,306
Loss Adjustment Expenses	\$ 59,680,497

The examination liabilities for losses and loss adjustment expenses, totaling \$273,566,306 and \$59,680,497 respectively, are the same amounts as reported by the Company in its 2007 filed annual statement.

The amounts reported as losses and loss adjustment expenses are a percentage of the TRV Pool. Because the losses and loss adjustment expenses are pooled items, the Company takes only its allocated proportion of the Pool losses on its financial statements. In this case that proportion is 0.88%.

The Minnesota Department of Commerce obtained the opinion of a consulting actuary to review the loss reserves of Pool. The consulting actuary reviewed the Pooled reserves and did not identify any proposed examination changes. As a result of the opinion, the Delaware Insurance Department did not recommend any examination changes for the loss and loss adjustment reserves reported by the Company as of December 31, 2007.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2007, was determined to be as follows:

Admitted Assets	<u>\$600,065,407</u>
Liabilities	\$421,610,612
Capital and Surplus	<u>178,454,795</u>
Total	<u>\$600,065,407</u>

Since the last examination as of December 31, 2002, total assets have increased \$147,736,057. Liabilities have increased \$36,864,676, and capital and surplus have increased \$110,871,381 in the same period.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged. In addition to the undersigned, this examination was done in conjunction with the examination of the Parent company and its domiciled affiliates. Various examiners from other states and examiners, along with actuarial and systems support representing the Minnesota Department of Commerce, participated on this examination.



Peter Bliss, CFE
Contract Examiner-In-Charge
Department of Insurance
State of Delaware
Northeastern Zone, NAIC