

REPORT ON EXAMINATION
OF THE
ENDURANCE AMERICAN INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

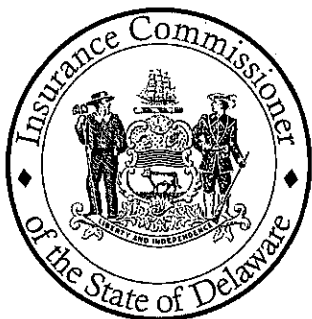
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

ENDURANCE AMERICAN INSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 30 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 30th day of June 2009.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
ENDURANCE AMERICAN 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2009

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SALUTATION

April 17, 2009

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
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Richmond, Va 23218

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Secretary, Northeastern Zone (I), NAIC
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Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Blvd, suite 100
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Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08.032, an examination has been made of the affairs, financial condition and management of

ENDURANCE AMERICAN INSURANCE COMPANY

hereinafter referred to as "Company" or "EAIC" incorporated under the laws of the State of Delaware, the statutory home office of which was located at The Corporation Trust Company, 1209 Orange St., Wilmington, DE, 19801. The main administrative offices of the Company were located at 333 Westchester Avenue, White Plains, New York, where this

examination was conducted. The examination of the Company was conducted concurrently with that of its parent, Endurance Reinsurance Corporation of America (ERCA) and its other Delaware domestic affiliates, Endurance American Specialty Insurance Company (EASIC) and American Merchants Casualty Company (AMCC). Separate reports of examination were filed for each company. The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial condition examination of the Company was conducted as of December 31, 2003, by its then domestic regulator, the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration. This financial condition examination of the Company, covered the period from January 1, 2004 through December 31, 2007 and consisted of a general survey of the Company's business policies and practices; management and any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

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

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by

the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. reviewed and tested, in part, the Company's high level controls over Information Technology systems and control environment based on its responses to questions contained in the Evaluation of Controls in Information Systems Questionnaire – Exhibit C. Other planning exhibits were reviewed and tested, as needed, by the examiners.

Work papers prepared by the Company's external accounting firm, Ernest & Young, LLP, (E&Y) New York, NY, in connection with their annual audit, were extensively reviewed in order to ascertain its analysis, review of controls, audit procedures, and conclusions. We relied upon and utilized their work papers to the fullest extent possible. In addition, the Company's Sarbanes-Oxley (SOX), section 404, compliance documentation related to the identification of financial reporting Key Activities and the attendant processes and controls maintained there in was also reviewed and relied upon to the fullest extent possible. Based upon the review of E&Y work papers, SOX compliance documentation, as well as the performance of other examination planning procedures including; account analysis, the assessment of account specific and cycle controls, and the assessment of the Endurance group control environment, an overall assessment was made determining; compliance risk, operational risk, financial reporting risk and, risk of material misstatement. In those areas in which a high reliance was placed on controls, and we determined a low likelihood of material misstatement, limited examination procedures were performed. In other areas, we attempted to identify examination procedures to specifically

address those concerns or risks noted, based on professional judgment.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the work papers of this examination:

- Fidelity Bond and Other Corporate Insurance
- Corporate Records
- Legal Actions
- NAIC Ratios
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- Compliance with Prior Examination Recommendations
- All Asset and Liability Items Not Mentioned

HISTORY

The Company was organized and incorporated as CORE Insurance Company (CORE) by owner representatives of CORE Reinsurance Company, a Bermuda domiciled property and casualty reinsurance company, under the laws of the State of Vermont on March 21, 1996. The Company commenced business on April 5, 1996. In July, 2001, the Company was placed in run-off by resolution of its Board of Directors and all then existing business was assumed and retro-ceded to Employers Reinsurance Corporation (ERC). On May 15, 2003, the Company was purchased by ERC. On June 5, 2006, the Company was purchased as a shell by Endurance Reinsurance Corporation of America (ERCA), a property and casualty insurance and reinsurance company, ERCA is a wholly owned subsidiary of Endurance Specialty Holdings, Ltd (ESHL), a Bermuda company. Subsequent to its acquisition the Company started writing new business and as approved on October 11, 2006, the Company both re-domesticated to the state of Delaware and amended and restated its Certificate of Incorporation to change its name to Endurance American Insurance Company (EAIC). Also on October 11, 2006, the Company was re-domesticated to the State of Delaware. During 2006, ERCA contributed \$107,153,297 to Company paid in surplus in order to facilitate its needs to write new business. See Capitalization below.

CAPITALIZATION

At December 31, 2007, the Company’s authorized capital is \$6,000,000, consisting of 6,000,000 issued and outstanding shares of common stock at a par value of \$1 per share. Total Adjusted Capital of \$125.4 million (per this examination) was well in excess of Adjusted Control Level risk based capital of \$5.6 million. The following changes occurred in the capital and surplus accounts since the prior examination and reflect changes made per this examination.

	Common Capital Stock	Gross Paid-in and Contributed	Unassigned Surplus	Total
December 31, 2003	\$6,000,000	\$24,000,000	\$2,149,075	\$32,149,075
Operations: (1)				(13,886,008)
2004			883,247	
2005			839,392	
2006			(1,166,241)	
2007			(14,442,406)	
Capital changes: (2)				
Surplus paid-in 2006		<u>107,153,297</u>		<u>107,153,297</u>
December 31, 2007	<u>\$6,000,000</u>	<u>\$131,153,297</u>	<u>\$ (11,736,933)</u>	<u>\$125,416,364</u>

1. Operations is defined as Net income, Change in net unrealized capital gains or (losses), Change in net unrealized foreign exchange capital gain (loss), Change in non-admitted assets, Change in net deferred income tax, and Change in provision for reinsurance.
2. Capital changes were due to surplus contributions by the Company’s parent consisting of cash (\$48,500,000), the forgiveness of intercompany payables (\$458,510), and the contribution of all issued and outstanding capital stock of Endurance American Specialty Insurance Company (EASIC) (\$58,194,787).

DIVIDENDS TO STOCKHOLDER

The Company paid no dividends to its stockholder during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware as implemented by the Company's Certificate of Incorporation and Bylaws all corporate powers of the Company and its business, property, and affairs are managed by or under the direction of its Board of Directors. The Company's bylaws require that the Board of Directors shall consist of not less than one member and a maximum total determined by the Board, who serve until either resignation, removal, or until their successor is qualified and elected. Members of the Board of Directors serving as of December 31, 2007, were as follows:

Director's Name

Kenneth J. LeStrange* Michael Paul Fujii John Bertrand Zachry III Michael J. McGuire
Mark Glen Ying

* Chairman of the Board of Directors

The Company's bylaws allow for the Board of Directors to designate one or more committees of the Board which must consist of one or more of its members. As of December 31, 2007, the Board of Directors had not appointed any committees.

A review of Company corporate records showed that regular business of the Shareholder and Board of Directors was conducted via Written Consents in lieu of regular meetings.

The Bylaws of the Company requires that the Board designate a Chairman of the Board, President, Treasurer and a Secretary. Other officers may be designated by the Board of Directors as it deems necessary. At December 31, 2007, as designated by the Board, the Company's principal officers and their respective titles are as follows:

<u>Name</u>	<u>Title</u>
Kenneth John LeStrange	Chairman of the Board
Michael Paul Fujii	President and CEO
Brian John Nolan	Treasurer
Andrew Lawrence Noga	Secretary & General Counsel
John B. Zachry III	Executive Vice President
Mark G. Ying	Executive Vice President
C. Robert Golenor	Senior Vice President
Vincent P. Eckles	Vice President
Bryan Thomas Conley	Assistant Treasurer
Roger Jackson	Assistant Treasurer
Cheryl Friscia	Assistant Secretary
Michael Coca	Chief Actuary

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company system pursuant to Title 18, Chapter 50 “Insurance Holding Company System” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of Endurance US Holdings Corporation (EUSH), who is ultimately wholly owned by Endurance Specialty Holdings, Ltd. (ESHL), a Bermuda company. ESHL is traded on the New York stock exchange under the ticket symbol “ENH”. ESHL principal business is to serve as a holding company for an international group of insurance, reinsurance and related servicing and marketing companies conducting business globally in all segments of the property and casualty industry, specializing in; property, casualty, agriculture and healthcare liability insurance, as well as; property catastrophe, U.S. casualty, agriculture and surety reinsurance. For the latest year ending, ESHL realized a consolidated combined ratio of 79.9%, earned \$541 million on revenues of \$1.859 billion, held assets totaling \$7.271 billion, and maintained total equity of \$2.512 billion. The Company was rated by AM Best as “A” (Excellent), Moody’s as “A2”, and Standard & Poor’s as “A-“(Strong).

For the year ending 2007, the organizational chart of ESHL showed 23 separate legal entities, including the Company, chartered and/or domesticated globally. The following chart illustrates the relationships between the Company and its direct affiliates, its parent, and upstream parent companies:

Endurance Specialty Holdings Ltd.	Bermuda
Endurance Specialty Insurance Ltd	Bermuda
Endurance Worldwide Holdings Limited	United Kingdom
Endurance Worldwide Insurance Limited	United Kingdom
Endurance US Holdings Corporation	Delaware
Endurance U.S. Specialty Services Corporation	Delaware
Endurance U.S. Healthcare Ins. Services Corp.	Delaware
Endurance Specialty Ins. Marketing Corp. of IL.	Illinois
Endurance Specialty Ins. Marketing Corp (California)	California
Endurance Specialty Ins. Marketing Corp of MA	Massachusetts
Endurance Specialty Ins. Brokerage Corp of NY	New York
ENH Managers, Inc.	Delaware
Endurance Elite Assurance Company Ltd.	Bermuda
(1)Endurance Reinsurance Corporation of America	New York
(4)American Merchants Casualty Co.	Ohio
(3)Endurance American Ins. Co.	Delaware
(2)Endurance American Specialty Ins. Co.	Delaware
(1)Endurance Reinsurance Co. of America	Delaware
ARMtech Insurance Services, Inc.	Texas
ARMtech, Inc.	Texas
ARMtech Holdings, Inc.	Delaware
American Agri-Business Insurance Company	Texas
Endurance Services Limited	United Kingdom

- (1) Merged January 30, 2008, with ERCA the surviving legal entity.
- (2) Acquired by ERCA August 1, 2005. Contributed to EAIC on September 30, 2006.
- (3) Acquired by ERCA June 5, 2006, and re-domesticated from Vermont to Delaware in October, 2006.
- (4) Acquired by ERCA on June 8, 2007, and re-domesticated from Ohio to Delaware on May 8, 2008.

GROWTH OF THE COMPANY

The financial growth of the Company since its last examination (2003) is summarized as follows and was compiled from its filed Annual Statements, reflective of examination changes:

Year	Premiums Earned	Assets	Liabilities	Surplus as Regards Policyholders	Net Income (Losses)
2003	\$0	\$32,936,880	\$787,805	\$32,149,075	\$1,291,654
2004	0	33,513,774	481,452	33,032,322	908,138
2005	0	34,347,290	475,576	33,871,714	755,231
2006	615	141,560,101	1,701,331	139,858,770	363,674
2007	(411,718)	132,579,808	7,163,444	125,416,364	(187,415)

The growth over the examination period has taken the form of the following:

- A 303% increase in Assets
- A 809% increase in Liabilities
- A 290% increase in Surplus as Regards Policyholders
- A 115% decrease in Net Income

Net Premiums Earned decreased due to reinsurance arrangements. Assets and Surplus increased due to 2006 surplus contributions totaling \$107,153,297. Liabilities increased primarily as a result of reinsurance arrangements. Excluding 2007, Net income was supported by net investment income. The 2007 Net Loss was primarily due to net underwriting losses.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed to transact business in the following 35 states and the District of Columbia:

Alabama	Idaho	Mississippi	Ohio	Texas
Alaska	Illinois	Missouri	Oklahoma	Utah
Arizona	Indiana	Montana	Oregon	Vermont
Colorado	Kansas	Nebraska	Pennsylvania	Washington
Delaware	Maryland	Nevada	Rhode Island	West Virginia
Georgia	Massachusetts	New York	South Carolina	Wisconsin
Hawaii	Michigan	North Dakota	South Dakota	Wyoming

The Company is licensed as an authorized reinsurer in the states of Arkansas, Connecticut, Kentucky, Maine, New Hampshire, North Carolina, and Virginia.

For the year ending 2007, the Company wrote approximately 77% of its business in the states of New York (56%), Texas (13%) and Pennsylvania (8%).

Plan of Operation:

As of December 31, 2007, the Company reported the following distribution of net premiums in the annual statement:

Other liability – occurrence	\$7,307,788
Other liability – claims made	93,473
Products liability- occurrence	3,383,934
Products liability – claims made	<u>13,473</u>
Total	<u>\$10,798,668</u>

The Company accepts business through a Program Management Agreement with affiliates, managed by Endurance Specialty Insurance Marketing Corp. and its affiliates (Program Manager). Within defined contractual retention and total limitations, the Program manager, subject to Company instructions, has full authority to act on behalf of the Company to bind risks in accordance with the prescribed underwriting guidelines made a part of the agreement and manage the business, as well as investigate, negotiate and settle all claims within its settlement authority.

INTERCOMPANY MANAGEMENT AND EXPENSE SHARING AGREEMENTS

Program Management Agreement

As detailed above, business of the Company is produced through a Program Management Agreement with Endurance Specialty Insurance Marketing Corp. and its affiliates (ESIMC). Effective June 5, 2006, and subject to Company instructions and both retention and total production limits, ESIMC has full authority to act on behalf of the Company to bind risks in accordance with prescribed underwriting guidelines and manage business, as well as investigate, negotiate and settle all claims within its settlement authority. Business produced under this agreement includes; Primary, Umbrella and Excess Casualty, as well as Property Catastrophe.

Administrative Services Agreements

Under the provisions of an Administrative Services Agreement between its parent (ERCA) and the Company, effective June 5, 2006, the Company is to receive certain management services from ERCA. ERCA has agreed to provide such services as directed by the Company and in no case should ERCA make decisions or bind commitments outside written guidelines without the direction of the Company.

Under the provisions of an Administrative Services agreement between Endurance Service Limited (ESL) and affiliated entities (including the Company), effective January 1, 2005, each party may obtain services from either ESL or any named affiliated entity to this agreement at reasonable cost.

Administrative Services and intercompany expense sharing provided under the terms of these separate agreements were similar and provided the Company with required management, personnel, office space, furniture and equipment, accounting, actuarial, records

management, legal, reporting, EDP and IT systems support, and all other services considered reasonable to the needs of the Company, excluding program management. No unusual or inappropriate provisions were noted during review of the agreements and they were properly filed with the Delaware Department of Insurance. As reported in Schedule Y – Summary of Transactions with Affiliates, the Company paid \$5,746,507 for management and cost sharing services performed in 2007.

Tax Allocation Agreement

Effective June 5, 2006, the Company and Endurance U.S. Holdings Corporation, along with other affiliates, were parties to a tax allocation agreement. Under terms of the agreement, all companies eligible to file a consolidated income tax return as allowed by Internal Revenue Code of 1986, as amended, are included in the affiliated group encompassed by the agreement. Under the provisions in the tax allocation agreement, each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member shall receive reimbursement to the extent that their losses and other credits result in a reduction of the current year's consolidated tax liability, not to exceed their liability as if filed on an individual basis. All payments between Endurance U.S. Holdings Corporation and each company under this agreement shall be made within 30 days of the date of filing the estimated or actual consolidated income tax return, except where a refund from the U.S. Treasury is due, in which case Endurance U.S. Holdings Corporation may defer payment to a Company to within 30 days after receipt of such refund.

OTHER AGREEMENTS

Investment Management Agreements

Effective June 5, 2006, the Company entered into a Discretionary Advisory Agreement with Goldman Sachs Asset Management, L.P (Goldman), under which Goldman acts as the investment advisor of Company invested assets, excluding common stocks. Goldman is bound by the Company’s approved investment policies and guidelines.

REINSURANCE

A schedule of the Company’s premiums written follows:

Direct		\$10,798,668
Assumed:		
Non-Affiliates	\$3,802,625	
Total Assumed		3,802,625
Ceded:		
Affiliates	4,208,227	
Non-Affiliates	<u>10,547,707</u>	
Total ceded		<u>14,755,934</u>
Total net premium		<u>\$(154,641)</u>

Assumed Reinsurance – Non Affiliates

As of the examination date, the Company assumed Other liability and Product liability from Swiss Reinsurance America Corporation.

Ceded Reinsurance – Affiliates

Under the terms of both a 90% quota share agreement, effective June 8, 2007, and a 100% “Net Reassumed Liability” quota share agreement, effective April 1, 2006, the Company cedes the entire amount of \$4,208,227 to its upstream unauthorized affiliate, Endurance Specialty Insurance Ltd. (ESIL) (Bermuda). The “Net Reassumed Liability” is created by the

default in loss payment of any unaffiliated third party reinsurer on reinsurance purchased by the Company. Negative total net premium of \$154,641 is due to minimum premium provisions of this treaty.

Ceded Reinsurance – Non Affiliates

The Company cedes per various quota share agreements to ten (10) Authorized and one (1) Unauthorized U.S. reinsurers. Under its Primary Casualty Quota share arrangements, the Company retains 34%. Under its Excess Casualty Quota share arrangements, the Company retains 12.5%.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, financial reporting processes and controls as well as the Company's organizational structure, compliance, management, and operations. The Company operates in a computer dominated environment. All services and operational needs of the Company are provided under its Administrative and Expense Sharing agreement with affiliates.

Ernst & Young, LLP (E&Y) audits the statutory-basis financial statements of Endurance US Holdings, including the Company, its subsidiary, its parent, and affiliates, annually. E&Y reviewed the internal control structure of Endurance US Holdings in order to establish necessary audit procedures required to express an opinion on the December 31, 2007 financial statements. No material qualifying deficiencies were found to exist in either the design or over-site of the internal control structure of the group. Based on the examination review of the Company's accounts and records related to its filed Annual Statements, discussions with management, and our review of financial reporting processes and controls, the accounting; systems, processes and,

procedures were found to conform to required insurance accounting practices.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

- Analysis of Assets, as of December 31, 2007
- Liabilities, Surplus and Other Funds, as of December 31, 2007
- Statement of Income, for the year ended December 31, 2007
- Capital and Surplus Account, December 31, 2004 to December 31, 2007
- Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2007

	Assets	Non-Admitted Assets	Net Admitted Assets	Note
Bonds	\$ 59,081,806	\$	\$ 59,081,806	1
Common Stocks	44,338,395		44,338,395	2
Cash and Short Term investments	20,749,775		20,749,775	
Receivable for securities	46,355		46,355	
Subtotals, cash and invested assets	<u>\$124,216,331</u>		<u>\$124,216,331</u>	
Investment income due and accrued	574,890		574,890	
Premiums and considerations:				
Uncollected Premiums	6,230,037	7,372	6,222,665	
Current federal and foreign income taxes	141,355		141,355	
Net deferred tax asset	415,012	398,583	16,429	
Receivables from parent, sub. and affiliates	1,408,138		1,408,138	
Aggr. write-ins for other than invested assets	<u>1,218,766</u>	<u>1,218,766</u>		
Totals	<u>\$ 134,204,529</u>	<u>\$1,624,721</u>	<u>\$ 132,579,808</u>	

Liabilities, Surplus and Other Funds

As of December 31, 2007

		<u>Note</u>
Losses	\$ 100,110	3
Loss adjustment expenses	(85,494)	3
Other expenses	100,000	
Unearned premiums	262,089	
Ceded reinsurance premiums payable	5,545,245	
Remittances and items not allocated	5,703	
Provision for reinsurance	730,000	
Payable to parent, subsidiaries and affiliates	374,538	
Aggregate write-ins for liabilities	131,253	
Total Liabilities	<u>\$ 7,163,444</u>	
Common capital stock	6,000,000	
Gross paid in and contributed surplus	131,153,297	
Unassigned funds (surplus)	<u>(11,736,933)</u>	
Surplus as regards policyholders	<u>\$ 125,416,364</u>	
Total	<u>\$ 132,579,808</u>	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2007

Underwriting Income

Premiums earned	\$ (411,718)
Deductions:	
Losses incurred	\$ 99,719
Loss expenses incurred	(160,665)
Other underwriting expenses incurred	
Total underwriting deductions	<u>\$ 4,307,665</u>
Net underwriting gain or (loss)	<u>\$ (4,719,383)</u>

Investment Income

Net investment earned	\$ 3,542,607
Net realized capital gains or (losses)	418,627
Net investment gain (loss)	\$ 3,961,234

Other Income

Aggregate write-ins for miscellaneous income	\$ 1,624
Total Other income	1,624
Net income before federal income taxes	\$ (756,525)
Federal and foreign income taxes	<u>(569,110)</u>
Net income	<u>\$ (187,415)</u>

Capital and Surplus Account

Surplus as regards policyholders December 31, 2006	\$ <u>139,858,770</u>
Net income	\$ (187,415)
Change in net unrealized capital gains or (losses)	(14,726,004)
Change in net deferred income tax	(593,029)
Change in non-admitted assets	1,781,042
Change in provision for reinsurance	(717,000)
Surplus adjustments:	
Paid in	
Change in surplus as regards policyholders	\$ <u>(14,442,406)</u>
Adjustment to surplus as a result of 2007 examination	
Surplus as regards policyholders, December 31, 2007	<u>\$ 125,416,364</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1
Bonds

\$59,081,806

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. As of the examination date, 100% of the Company's Bond investments were designated by the SVO with the highest quality of "1". Bonds with carrying values of \$3.9 million were on deposit with various states in compliance with insurance laws. The Company did not have any securities on loan.

Note 2
Common Stocks

\$44,338,395

Investment in common stocks consisted entirely of its subsidiary, EASIC, examined concurrently with the Company.

Note 3
Loss Reserves
Loss Adjustment Expense Reserves

\$100,110
(85,494)

Loss and loss adjustment expense reserves totaling \$14,616 were not considered material. INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to review the Company's Actuarial Opinion Memorandum and supporting documentation attendant with this opinion and has accepted the Company's reported figures.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

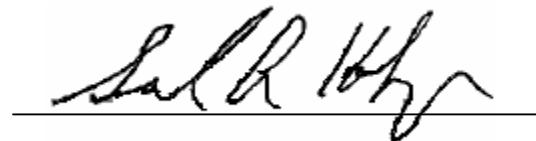
CONCLUSION

As a result of this examination, the financial condition of the Endurance American Specialty Insurance Company, as of December 31, 2007, was determined as follows:

Description	12-31-07 Current Examination	12-31-03 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$132,579,808</u>	<u>\$32,936,880</u>	<u>\$99,642,928</u>
Liabilities	7,163,444	787,805	6,375,639
Common capital stock	6,000,000	6,000,000	0
Gross paid in and contributed surplus	131,153,297	24,000,000	107,153,297
Unassigned funds (surplus)	<u>(11,736,933)</u>	<u>2,149,075</u>	<u>(13,886,008)</u>
Total surplus as regards policyholders	<u>\$125,416,364</u>	<u>\$32,149,075</u>	<u>\$93,267,289</u>
Totals	<u>\$132,579,808</u>	<u>\$32,936,880</u>	<u>\$99,642,928</u>

Since the last examination, the Company's assets increased \$99,642,928, liabilities increased \$6,375,639 and capital and surplus increased \$93,267,289. In addition to the undersigned, acknowledgement is made of the assistance provided by the Delaware Insurance Department, INS Consultants Inc. and INS Insurance Services.

Respectfully submitted,



Samuel R. Kohlmeyer, CFE
Examiner-in-Charge
State of Delaware

SUBSEQUENT EVENTS

On September 12, 2008, the Company received a \$50 million surplus contribution from its parent, ERCA. This same amount was subsequently contributed to its subsidiary, EASIC, in order to enhance operating capabilities.