

REPORT ON EXAMINATION

OF THE

**ENDURANCE AMERICAN SPECIALTY
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2007

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

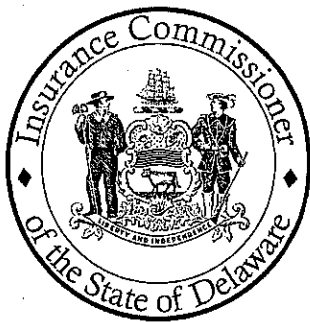
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 30 June 2009

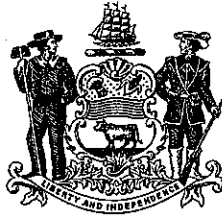


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2009.

[Handwritten signature]

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
ENDURANCE AMERICAN SPECIALTY 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 30th day of June, 2009

TABLE OF CONTENTS

SALUTATION..... 1
SCOPE OF EXAMINATION 2
HISTORY 4
CAPITALIZATION 5
DIVIDENDS TO STOCKHOLDER..... 6
MANAGEMENT AND CONTROL 7
INSURANCE HOLDING COMPANY SYSTEM 8
GROWTH OF THE COMPANY 9
TERRITORY AND PLAN OF OPERATION..... 10
INTERCOMPANY MANAGEMENT AND EXPENSE SHARING AGREEMENTS 11
 Program Management Agreement..... 11
 Administrative Services Agreement 12
 Tax Allocation Agreement 12
OTHER AGREEMENTS..... 13
 Investment Management Agreement 13
REINSURANCE..... 14
ACCOUNTS AND RECORDS..... 15
FINANCIAL STATEMENTS 16
 Analysis of Assets 17
 Liabilities, Surplus and Other Funds 17
 Underwriting and Investment Exhibit: Statement of Income 18
 Capital and Surplus Account..... 18
 Schedule of Examination Adjustments 19
NOTES TO THE FINANCIAL STATEMENTS 19
COMPLIANCE WITH PRIOR RECOMMENDATIONS 21
SUMMARY OF RECOMMENDATIONS 21
CONCLUSION 21
SUBSEQUENT EVENTS..... 22

SALUTATION

April 17, 2009

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, Va 23218

Honorable Joel Ario
Secretary, Northeastern Zone (I), NAIC
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120

Honorable James J. Donelson
Secretary, Southeastern Zone (II), NAIC
Louisiana Department of Insurance
1702 North Third Street
Baton Rouge, LA 70802

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Morris J. Chavez
Secretary, Western Zone (IV), NAIC
Department of Insurance
State of New Mexico
Post Office Box 1269
Santa Fe, NM 87504-1269

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Blvd, suite 100
Dover, DE 19904-2465

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08.033, an examination has been made of the affairs, financial condition and management of

ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY

hereinafter referred to as "Company" or "EASIC" 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 Delaware parent company, Endurance American Insurance Company (EAIC), its Delaware up stream parent company, Endurance Reinsurance Corporation of America (ERCA), and its Delaware domestic affiliate, American Merchants Casualty Co. (AMCC). Separate reports of examination were filed for each company.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial examination of the Company covered the five (5) year period from January 1, 1998, to December 31, 2002. This financial condition examination of the Company, covered the five (5) year period from January 1, 2003 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 these efforts and 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, Ernst & 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 therein 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 management and the Endurance Group (as a whole), 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
- Subsequent Events

HISTORY

The Company, formerly named Traders and Pacific Insurance Company (TPIC), was originally incorporated in Delaware as a stock property and casualty insurance company on September 9, 1982. Its original Certificate of Authority was issued on September 20, 1983 and authorized the Company to transact the business of property, marine and transportation, and casualty insurance. TPIC was a member of the Houston General Insurance Group, and a wholly owned subsidiary of Houston General Insurance Company. Houston General and its subsidiaries were in turn owned by Tokyo Marine and Fire Insurance Company, Limited, of Tokyo, Japan.

Effective January 1, 1998, Houston General and its subsidiaries, including TPIC, were acquired by Commercial Union plc, a UK corporation. Immediately after closing, Commercial Union contributed the stock of Houston General to Commercial Union Assurance Company plc, which in turn contributed the Houston General stock to Commercial Union Corporation, a U.S. holding company. On June 1, 2001, Commercial Union, including Houston General and its subsidiaries, were acquired by White Mountains Insurance Group, Ltd. In January of 2002, the stock of Houston General was sold to OneBeacon Insurance Company, a White Mountains

subsidiary, to facilitate reactivating the Company, which had been in run off since its acquisition of Commercial Union in 1998. On April 2, 2004, OneBeacon contributed \$1.2 million as a paid-in surplus to the Company, increasing total gross paid-in and contributed surplus from \$10.8 million to \$12 million.

Effective August 1, 2005, the stock of the Company was acquired by its current upstream parent, ERCA. The Company was acquired as a clean shell when all outstanding liabilities were assumed by the seller. Immediately subsequent to its acquisition, new ownership contributed cash totaling \$60 million to Company paid in surplus under two separate contributions, \$50 million on September 30, 2005, and \$10 million on December 20, 2005. These contributions allowed the Company to immediately resume writing direct business. Effective June 8, 2006, the name of the Company was changed to Endurance American Specialty Insurance Company. As of September 30, 2006, all of the issued and outstanding shares of the Company were contributed by ERCA to another subsidiary, EAIC.

CAPITALIZATION

As of December 31, 2007, and as amended since its organization, the Company's authorized capital is \$4,000,000, consisting of 40,000 issued and outstanding shares of common stock at a par value of \$100 per share. Total Adjusted Capital of \$44,338,395 million (per this examination) was approximately 350% over Adjusted Control Level risk based capital of \$9,858,387 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, 2002	\$2,800,000	\$10,800,000	\$6,723,865	\$20,323,865
Operations: (1)				(30,485,470)
2003			297,473	
2004			308,081	
2005			(19,264,658)	
2006			2,899,637	
2007			(14,726,003)	
Capital changes: (2)				
Surplus paid-in 2004		1,200,000		1,200,000
Capital paid-in 2005	1,200,000			1,200,000
Surplus paid-in 2005		58,800,000		58,800,000
Dividends: (3)				
			(6,700,000)	(6,700,000)
December 31, 2007	\$ 4,000,000	\$70,800,000	\$ (30,461,605)	\$44,338,395

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 contributions to Paid-in Surplus by its former parent company, OneBeacon, on April 2, 2004 and Paid-in Capital and Surplus contributions by ERCA during 2005.
3. Extra-ordinary dividend paid to prior Company owner.

DIVIDENDS TO STOCKHOLDER

On October 15, 2003, the Company declared and paid an extra-ordinary dividend totaling \$6,700,000 to its prior owner, OneBeacon. The dividend was approved by the Delaware Department of Insurance.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware as implemented by the Company's Certificate of Incorporation and By-Laws 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 resignation, removal, death, or until their successor is qualified and elected. Members of the Board of Directors serving as of December 31, 2007, were as follows:

Directors:

Kenneth J. LeStrange* Michael Paul Fujii John B. 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:

Officers:

<u>Name</u>	<u>Title</u>
Kenneth John LeStrange	Chairman of the Board

Michael Paul Fujii	President
Andrew Lawrence Noga	Secretary
Brian John Nolan	Treasurer
John B. Zachry III	Executive Vice President
Mark G. Ying	Executive Vice President
Clifford R. Golenor	Senior Vice President
Vincent P. Eckles	Vice President
Bryan Thomas Conley	Assistant Treasurer
Roger Jackson	Assistant Treasurer
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 (2002) 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)
2002	\$0	\$20,422,483	\$98,618	\$20,323,865	\$620,025
2003	0	13,977,523	56,185	13,921,338	279,446
2004	0	15,491,759	62,340	15,429,419	312,368
2005	4,772,482	84,379,579	28,214,818	56,164,761	(16,258,978)
2006	(1,989,380)	81,328,959	22,264,561	59,064,398	2,013,313
2007	2,435,455	81,855,396	37,517,001	44,338,395	(12,398,171)

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

- A 100% increase in Premiums Earned
- A 301% increase in Assets
- A 37,900% increase in Liabilities
- A 118% increase in Surplus as Regards Policyholders

Premiums earned increased due to the resumption of business after its acquisition by ERCA in 2005. Assets increased due to premiums written and surplus and capital contributions of \$1,200,000 and \$60,000,000 made in 2004 and 2005 respectively. Liabilities increased as a result of reserves attendant with the increase in premiums written. Surplus increased due to the 2005 surplus contribution. Net losses for the years 2005 and 2007 were primarily due to business start-up costs attendant with its acquisition in 2005, and net underwriting losses of \$20,736,340 in 2007.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed in Delaware only and is an admitted surplus lines carrier in all states, except Louisiana and Rhode Island. For the year ending 2007, the Company wrote approximately 73.6% (\$101,782,405) of its total direct business (\$138,447,546) in the five (5) states of; California (43.4%), Florida (10.0%), New York (8.9%), Illinois (6.8%), and Texas

(4.5%).

Plan of Operation:

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

Fire	\$6,318,257
Allied lines	18,622,139
Commercial multiple peril	76,948
Earthquake	53,063,077
Other liability – occurrence	27,502,360
Other liability – claims made	16,078,766
Products liability- occurrence	16,050,423
Products liability – claims made	693,856
Boiler and machinery	<u>41,720</u>
Total	<u><u>\$138,447,546</u></u>

The Company accepts business through a Program Management Agreement with affiliates, managed by Endurance Specialty Insurance Marketing Corporation (ESIMC). 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 and manage the business, as well as investigate, negotiate and settle all claims.

INTERCOMPANY MANAGEMENT AND EXPENSE SHARING AGREEMENTS

Program Management Agreement

Effective August 1, 2005, and as approved, business of the Company is produced through a Program Management Agreement with affiliates, and managed by ESIMC. Subject to Company instructions, ESIMC has full authority to act on behalf of the Company to bind risks within the prescribed underwriting guidelines attached to the agreement and manage the business, as well as investigate, negotiate and settle all claims within its prescribed settlement authority. Business produced under this agreement includes:

	<u>Lines Written</u>	<u>Retention Limits</u>	<u>Total Limits</u>
Casualty:			
Primary		\$1 million	\$2 million
Umbrella and Excess		5 million	50 million
Property:			
Primary (exc. Wind & Earthquake)		\$2 million	\$25 million
Property Catastrophe		5 million	25 million

Administrative Services Agreement

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 provided under the terms of this agreement provided the Company with required management, office space, furniture and equipment, accounting, actuarial, records management, legal, EDP and IT system 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 agreement. As reported in Schedule Y – Summary of Transactions with Affiliates, the Company paid \$31,126,677 for management services performed in 2007.

Under the provisions of an agreement between its upstream parent (ERCA) and the Company, effective January 1, 2006, as approved by the Delaware Department of Insurance, 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.

Tax Allocation Agreement

Originally effective December 18, 2002, and as amended to include the Company, 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, is 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. Balances determined to be due the U.S. Treasury shall be held in an escrow account established by Endurance U.S. Holdings Corporation and settled within thirty days of filing the consolidated return, if payment is due, and thirty days from receipt by Endurance U.S. Holdings Corp. of a refund, if a refund is due.

OTHER AGREEMENTS

Investment Management Agreement

Effective December 5, 2005, the Company entered into a Discretionary Advisory Agreement with Goldman Sachs Assets 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		\$138,447,546
Assumed:		
Non-Affiliates	\$2,981,127	
Total Assumed		<u>2,981,127</u>
Subtotal		\$141,428,673
Ceded:		
Affiliates	19,576,022	
Non-Affiliates	<u>120,226,985</u>	
Total Ceded		<u>139,803,007</u>
Net Premiums Written		<u><u>\$1,625,666</u></u>

Assumed Reinsurance – Non Affiliates

The Company assumed Other liability and Products liability from Swiss Reinsurance America Corporation (\$2,980,456) and “Nonproportional Assumed Property” from a Lloyd’s syndicate during 2007.

Ceded Reinsurance – Affiliates

Under the terms of both a 90% quota share agreement with Endurance Specialty Insurance, Ltd. (ESIL) (Bermuda), effective June 8, 2007, and a 100% “Net Reassumed Liability” quota share agreement with ESIL effective April 1, 2006, the Company cedes the entire amount of \$19,576,022. Amounts ceded under these agreements totaled approximately \$19,570,000 to ESIL, and \$6,000 to ERCA. The “Net Reassumed Liability” is created by the default in loss payment of any unaffiliated third party reinsurer on reinsurance purchased by the Company.

Ceded Reinsurance – Non Affiliates

The Company cedes per various quota share agreements to twenty three (23) Authorized – U.S. Insurers, fifteen (15) Authorized – Non-U.S. Insurers, and twenty two (22) Unauthorized – Non-U.S. Insurers. This reinsurance program applicable to these carriers is as follows:

<u>Cover</u>	<u>Retention</u>
Working Property Catastrophe Quota Share with one reinsurer	60.0%
Heavy Property, Excess Quota Share with one reinsurer	50.0%
Professional Liability Quota Share with five reinsurers	40.0%
Primary Casualty Quota Share with four reinsurers	34.0%
Working Property Catastrophe Surplus with ten reinsurers	25.0%
Excess Casualty Quota Share with nine reinsurers	12.5%
Heavy Property Surplus with five reinsurers	10.0%
Automobile Liability Carve-Out Quota Share with five reinsurers	10.0%

In addition to the above cover age, the Company is a named reinsured on the following property catastrophe reinsurance program:

1 st XS covers	\$100 mm xs \$300 mm
2 nd XS covers – 20% placed	\$300mm xs \$400 mm
2 nd XS covers – 2 nd Tranche, 25.7% placed	\$300 mm xs \$400 mm
2 nd XS covers – Collateral #1, 40% placed	\$300 mm xs \$400 mm
2 nd XS covers – Collateral #2, 7.7% placed	\$300 mm xs \$400 mm

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, its 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 Expense Sharing Agreement with affiliates.

Ernst & Young, LLP (E&Y) audits the statutory -basis financial statements of ESHL and

its subsidiaries, including the Company, annually. E&Y reviewed the internal control structure of ESHL 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 oversight of the internal control structure of ESHL. 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 (excluding recommendations made in this report) 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	\$ 7,304,139	\$	\$ 7,304,139	1
Cash, cash equiv. and ST investments	32,587,289		32,587,289	
Receivable for securities	11,813		11,813	
Subtotals, cash and invested assets	<u>\$39,903,241</u>		<u>\$39,903,241</u>	
Investment income due and accrued	175,295		175,295	
Premiums and considerations:				
Uncollected prem. & agents' bal.	13,666,236	1,091,306	12,574,930	
Amounts recoverable from reinsurers	398,010		398,010	
Current federal and foreign income taxes	10,037,221		10,037,221	
Net deferred tax asset	4,264,630	3,694,519	570,111	
EDP Equipment	232,680	232,680	0	
Furniture & Equipment	2,448,367	2,448,367	0	
Rec. from parent, sub. & affiliates	<u>18,196,588</u>	<u> </u>	<u>18,196,588</u>	2
Totals	<u>\$ 89,322,268</u>	<u>\$7,466,872</u>	<u>\$81,855,396</u>	

Liabilities, Surplus and Other Funds

As of December 31, 2007

Losses	\$ 2,435,405	Note 3
Reinsurance payable on paid losses	21,486	
Loss adjustment expenses	4,963,513	3
Commissions payable	(3,347,603)	
Other expenses	1,406,389	
Unearned premiums	2,273,173	
Ceded reinsurance premiums payable	19,096,884	
Provision for reinsurance	1,518,000	
Payable to parent, subsidiaries and affiliates	8,307,865	
Aggregate write-ins for liabilities	841,889	
Total Liabilities	<u>\$ 37,517,001</u>	
Common capital stock	4,000,000	
Gross paid in and contributed surplus	70,800,000	
Unassigned funds (surplus)	(30,461,605)	
Surplus as regards policyholders	<u>\$ 44,338,395</u>	
Total	<u>\$ 81,855,396</u>	

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

Underwriting Income

Premiums earned	\$ 2,435,455
Deductions:	
Losses incurred	\$ 1,469,089
Loss expenses incurred	612,138
Other underwriting deductions	21,090,568
Total underwriting deductions	<u>\$ 23,171,795</u>
Net underwriting gain or (loss)	<u>\$ (20,736,340)</u>

Investment Income

Net investment earned	\$ 1,570,509
Net realized capital gains or (losses)	(8,879)
Net investment gain (loss)	<u>\$ 1,561,630</u>

Other Income

Aggregate write-ins for other income	\$ 6,405
Total Other income	6,405
Net income before federal income taxes	\$ (19,168,305)
Federal and foreign income taxes	(6,770,134)
Net income	<u>\$ (12,398,171)</u>

Capital and Surplus Account

Surplus as regards policyholders December 31, 2006	\$ 59,064,398
Net income	\$ (12,398,171)
Change in net unrealized capital gains or (losses)	72,267
Change in net deferred income tax	501,537
Change in non-admitted assets	(1,821,636)
Change in provision for reinsurance	(1,080,000)
Change in surplus as regards policyholders	<u>\$ (14,726,003)</u>
Surplus as regards policyholders, December 31, 2007	<u><u>\$ 44,338,395</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1
Bonds

\$7,304,139

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 totaling \$7,271,882 were on deposit with various state insurance departments in compliance with insurance laws. The Company did not have any securities on loan.

Note 2
Receivable from Parent, Subsidiaries and Affiliates

\$18,196,588

This amount represent receivables from the Company's various marketing affiliates located in California, Illinois, Boston and New York, as managed by ESIMCI (see Program Management Agreement). It was noted that individual amounts comprising the total represented temporary balances due to/from EAIC, AMCC, and the Company, which were settled in 2008.

Note 3

Loss Reserves	\$2,435,405
Loss Adjustment Expense Reserves	4,963,513

Loss and loss adjustment expense reserves (\$7,398,918) represent 19.7% of the Company's liabilities (\$37,517,001) as of December 31, 2007. Incurred but not reported reserves (IBNR) (\$1,951,534) constituted approximately 80% of loss reserves (\$2,435,405) at year-end 2007.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net basis of reinsurance and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and loss adjustment expense reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed annual statement.

Caveat

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual

ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted.

COMPLIANCE WITH PRIOR RECOMMENDATIONS

The Company was under the control of OneBeacon during the previous examination, as of December 31, 2002, and all prior recommendations of that examination related to responsibilities of that management team. As such, recommendations related to that examination were not considered relevant and will not be commented on in this report.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

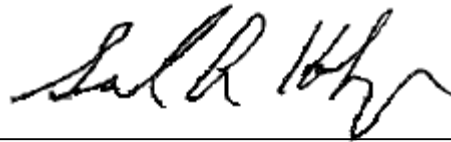
CONCLUSION

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	12-31-02 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$81,855,396</u>	<u>\$20,422,483</u>	<u>\$61,432,913</u>
Liabilities	\$37,517,001	\$98,618	\$37,418,383
Common capital stock	4,000,000	2,800,000	1,200,000
Gross paid in and contributed surplus	70,800,000	10,800,000	60,000,000
Unassigned funds (surplus)	<u>(30,461,605)</u>	<u>6,723,865</u>	<u>(37,185,470)</u>
Total surplus as regards policyholders	<u>\$44,338,395</u>	<u>\$20,323,865</u>	<u>\$24,014,530</u>
Totals	<u>\$81,855,396</u>	<u>\$20,422,483</u>	<u>\$61,432,913</u>

Since the last examination, the Company's assets increased \$61,432,913, liabilities increased \$37,418,383 and capital and surplus increased \$24,014,530. 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, EAIC, in order to enhance operating capabilities.