

REPORT ON EXAMINATION
OF THE
ENDURANCE REINSURANCE
CORPORATION OF AMERICA
AS OF
DECEMBER 31, 2007

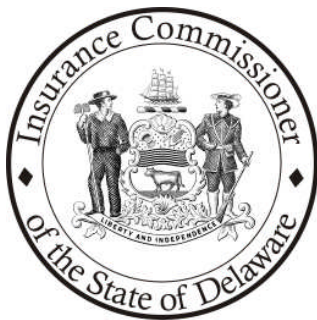
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

ENDURANCE REINSURANCE CORPORATION OF AMERICA

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

Attest By: *Sonia C. Harris*

Date: 29 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 29th day of June 2009. .

[Handwritten signature]

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
ENDURANCE REINSURANCE CORPORATION OF AMERICA
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 10th day of June, 2009

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April 17, 2009

SALUTATION

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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 08.031, an examination has been made of the affairs, financial condition and management of

ENDURANCE REINSURANCE CORPORATION OF AMERICA

hereinafter referred to as "Company" or "ERCA" incorporated under the laws of the State of Delaware, the registered office of which is located at The Corporation Trust Company, 1209 Orange St., Wilmington, DE, 19801. The statutory and main administrative offices of the Company are 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 domestic subsidiaries, Endurance American Ins. Co. (EAIC), Endurance American Specialty Ins. Co. (EASIC) and 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

Excluding its Organizational Examination, dated September 24, 2007, as a part of its application for a domestic insurance license in the State of Delaware, this is the first financial condition examination of the Company. As discussed under History, the Company was formed in order to facilitate the re-domestication of its former parent with the same name, Endurance Reinsurance Corporation of America (ERCA-NY), via merger, from the State of New York to the State of Delaware. The merger was effective January 30, 2008. The last examination of ERCA-NY was dated December 31, 2003. For regulatory purposes and per agreement with management, this examination will cover the four (4) year period from that date through December 31, 2007, and will consist of a general survey of the merged Companies' 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. For reporting purposes and also per agreement with management, Delaware Insurance Laws and Regulations will be considered applicable to examined operations of the Company, as of December 31, 2007.

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 its control environment based on the Company's 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 auditors, 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 were 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
- Any Asset and Liability Items Not Mentioned

HISTORY

Endurance Reinsurance Company of America was incorporated on March 15, 2007, under the laws of the State of Delaware in order to facilitate the re-domestication of its former parent with the name, Endurance Reinsurance Corporation of America (ERCA-NY), from the State of New York, by merger, with the Company being the surviving entity. The re-domestication was accomplished in order to enhance operational efficiencies and streamline the regulatory compliance efforts of the Company and its insurance company affiliates. The Company received its domestic insurance license on October 19, 2007, to write all lines of property and casualty insurance and reinsurance. ERCA-NY was incorporated on September 5, 2002, and received its domiciliary license from the State of New York on December 18, 2002 to write all lines of property and casualty insurance and reinsurance. The merger of ERCA-NY into the Company was accomplished on January 30, 2008. Simultaneously, the Company amended and restated its certificate of incorporation to change its name to Endurance

Reinsurance Corporation of America.

CAPITALIZATION

The Company is authorized to issue 5,000,000 shares of \$1.00 par value per share common stock. As of December 31, 2007, as evidenced by Certificate No. 1, all shares of the Company had been issued to ERCA-NY. Subsequent to its merger into ERCA-NY (discussed above), all shares of the Company became the direct investment property of Endurance U.S. Holdings Corp. (EUSH). Changes in the Company's Capital and Surplus accounts during the period under examination are as illustrated in the following schedule:

	Capital Stock	Gross Paid-in and Contributed	Unassigned Funds	Total
December 31, 2003	\$5,000,000	\$466,000,000	\$(75,033,952)	\$395,966,048
Operations: (1)				
2004			(34,501,196)	(34,501,196)
2005			(89,620,674)	(89,620,674)
2006			56,509,029	56,509,029
2007			21,509,990	21,509,990
Capital changes: (2)				
Surplus paid-in 2004		143,000,000		143,000,000
Surplus paid-in 2005		100,000,000		100,000,000
December 31, 2007	<u>\$ 5,000,000</u>	<u>\$ 709,000,000</u>	<u>\$(121,136,803)</u>	<u>\$592,863,197</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.

Total Adjusted Capital of \$592.9 million (per this examination) was approximately 760% over Adjusted Control Level risk based capital of \$77.9 million.

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 Board shall consist of "not less than thirteen (13) or more than twenty one (21) Directors", a majority of whom shall be citizens and residents of the United States and at least eighteen years old. As of the examination date, the Company maintained fifteen (15) Directors. The Directors are to be elected at the annual meeting of the Company's stockholder, to be held either within or outside the State of Delaware, on any weekday, not more than 120 days, excluding holidays, after the fiscal year end of the Company and serve until either resignation, removal, or until their successor is qualified and elected. A quorum for Board meetings is defined as a majority of the number elected. Members of the Board of Directors serving as of December 31, 2007, were as follows:

Directors

Kenneth J. LeStrange*	Thomas P. Asquino	William R. Babcock	Thomas D. Bell
Emily A. Canelo	David S. Cash	James G. D'Onofrio	Joan M. DeLemps
Steven K. Dresner	Roger H. Heckman	William M. Jewett	Edward T. Kenney, Jr.
Michael E. Angelina	Michael J. McGuire	Laura A. Shanahan	

* Chairman of the Board of Directors

Committees

Pursuant to Articles III, IV, and V of the Bylaws, the Board of Directors may elect from its own members an Executive Committee, an Audit Committee and, other committees as the Board may from time to time determine. Any committee, to the extent provided by a resolution of the Board of Directors of the Company, shall have and may exercise all the

powers and authority of the Board of Directors to the extent permitted by law and shall have such functions and duties as the Board prescribes in the management of the business and affairs of the Company. As of the examination date, the Board elected William Jewett and William Babcock to serve on its Audit Committee.

Officers

In accordance with Article VI of the Company's Bylaws, the officers of the Company shall be a Chairman of the Board, a President, a Secretary, and other such officers as may be designated by the Board and deemed advisable. Each officer shall be elected annually by the Board of Directors at their first meeting held immediately following the annual meeting of the shareholder and shall hold office at the pleasure of the Board and until either resignation, removal, or until their successors have been qualified and elected. Elected officers serving the Company as of the examination date were as follows:

<u>Name</u>	<u>Title</u>
Kenneth LeStrange	Chairman of the Board
William M. Jewett	President
Emily A. Canelo	Secretary
Katherine A. Mason	Chief Financial Officer

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 EUSH, which is ultimately wholly owned by Endurance Specialty Holdings, Ltd. (ESHL), a Bermuda company. ESHL is traded on the New York stock exchange under the ticker symbol "ENH". ESHL's 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 carries a group rating by A.M. Best of “A” (Excellent), Moody’s as “A2”, and Standard & Poor’s as “A”(Strong).

For the year ended 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 U.S. Holdings Corp.	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 Company 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 Endurance Reinsurance Company of America the surviving legal entity.

(2) Acquired by ERCA-NY August 1, 2005. Contributed to EAIC on September 30, 2006.

(3) Acquired by ERCA-NY June 5, 2006, and re-domesticated from Vermont to Delaware in October, 2006.

(4) Acquired by ERCA-NY 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	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income / (Losses)
2003	\$222,186,803	\$ 945,496,425	\$549,530,377	\$395,966,048	\$(82,886,598)
2004	311,899,358	1,288,266,456	783,801,604	504,464,852	(41,068,853)
2005	318,530,492	1,449,206,062	934,361,884	514,844,178	(66,693,537)
2006	330,131,530	1,572,805,557	1,001,452,349	571,353,208	63,406,634
2007	345,263,969	1,613,420,593	1,020,557,396	592,863,197	26,344,749

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

- A 55.4% increase in Premiums Earned
- A 70.6% increase in Admitted Assets
- A 85.7% increase in Liabilities
- A 49.7% increase in Surplus as Regards Policyholders
- A 131.7% increase in Net Income

Net premiums earned increased primarily due to increases in direct premiums written. Assets increased due to premiums written and surplus contributions totaling \$243.0 million. Liabilities increased as a result of reserves attendant with the increase in premiums written. Surplus increased primarily due the surplus contributions, offset by net losses over the examination period. Net losses for the examination period totaled approximately \$(18 million) and were generally reflective of material net underwriting losses for the years 2004 and 2005 in connection with hurricanes Katrina, Wilma and Rita.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed in the following 36 states, the District of Columbia and Puerto Rico:

Alaska	Idaho	Massachusetts	New Mexico	South Carolina	Wyoming
Arizona	Illinois	Michigan	New York	South Dakota	
Arkansas	Indiana	Minnesota	North Dakota	Tennessee	
California	Kansas	Missouri	Ohio	Texas	
Delaware	Kentucky	Montana	Oklahoma	Utah	
Georgia	Louisiana	Nebraska	Oregon	Washington	
Hawaii	Maryland	Nevada	Pennsylvania	West Virginia	

For the year ended 2007, the Company wrote over 99.94% of its direct business in the state of California and the remainder of its direct business in Texas and New York.

Plan of Operation:

The Company writes specialty lines of property and casualty insurance and reinsurance and manages its business in both segments separately. Reinsurance is underwritten on a treaty, aggregate stop loss, excess of loss, and proportional basis and is organized into the following principal lines of business: property (treaty), casualty (treaty), agribusiness (treaty/proportional/aggregate stop loss), and surety (proportional/excess of loss).

As of December 31, 2007, the Company reported the following distribution of direct premiums:

Workers' compensation	\$262,227,645
Other liability – occurrence	(616)
Other liability - claims made	142,530
Products liability - occurrence	<u>(544,431)</u>
Total	<u>\$261,825,128</u>

The workers' compensation portfolio is written entirely in the State of California and produced under and pursuant to the terms of an MGA Agreement with FirstComp Underwriters Group, Inc. (FirstComp).

INTERCOMPANY AGREEMENTS

Tax Allocation Agreement

Pursuant to a Tax Allocation Agreement, effective December 18, 2002, the Company and EUSH agreed to file a consolidated federal income tax return. 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. Balances determined to be due the U.S. Treasury shall be paid by EUSH and settled with affiliated companies within thirty days of filing the consolidated return, if payment is due or within thirty days from receipt by EUSH of a refund.

License Agreement

Pursuant to a License Agreement effective, January 1, 2005, between EUSH and the Company, EUSH leases certain office space to the Company.

Administrative Services Agreement- January 1, 2003

Pursuant to an Administrative Services Agreement, effective January 1, 2003, ESHL provides ESIL and the Company certain management, advisory and consulting services. All services provided are subject to the control and direction of the Company.

Administrative Services Agreement – January 1, 2005

Pursuant to an Administrative Services Agreement, effective January 1, 2005, EUSH and Endurance Services Limited provide certain administrative and technology services to the Company. All services rendered are subject to the direction of the Company.

Administrative Services Agreement- January 1, 2006

Pursuant to an Administrative Services Agreement, effective January 1, 2006, the Company provides certain management services to EASIC. The Company has agreed to provide such services as directed by EASIC and in no case make decisions or bind commitments outside written guidelines without the direction of EASIC.

Administrative Services Agreement- June 5, 2006

Pursuant to an Administrative Services Agreement, effective June 5, 2006, the Company provides certain administrative services to EAIC. The Company has agreed to provide such services as directed by EAIC and subject to the resources and systems available at the time of service.

Under provisions of its Administrative Service agreements, each company is to make available to the others as specified; management, underwriting, claims, accounting, financial, legal, personnel, data processing services and consulting, at times and in such manner as determined necessary or appropriate by the boards and managing officers of each company. No unusual or inappropriate provisions were noted during review of the agreements and the

Company reported that each had been filed with the appropriate insurance department at the effective date. In addition, the agreements were submitted to and approved by the Delaware Insurance Department in connection with the Company's re-domestication from New York to Delaware.

As reported in Schedule Y – Summary of Transactions with Affiliates, the Company paid a net amount of \$20,083,726 for management and cost sharing services performed in 2007.

OTHER AGREEMENTS

Investment Management

Effective November 27, 2002, the Company entered into an Investment Management Agreement with BlackRock Financial Management, Inc. (BlackRock). Under terms of the agreement, BlackRock manages the investment and reinvestment of specific invested assets designated by the Company and is bound by the Company's approved investment policies and guidelines.

Effective September 1, 2005, the Company entered into a Discretionary Advisory Agreement with Goldman Sachs Asset Management, L.P (Goldman), under which Goldman acts as the investment advisor on a limited block of Company invested assets. Goldman is bound by the Company's approved investment policies and guidelines.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct		\$ 261,825,128
Assumed:		
Affiliates	\$ 32,508,000	
Non-Affiliates	<u>494,586,539</u>	
Total Assumed		527,094,539
Ceded:		
Affiliates	\$396,082,000	
Non-Affiliates	<u>26,625,322</u>	
Total ceded		<u>422,707,322</u>
Total net premium		<u>\$ 366,212,345</u>

Assumed Reinsurance – Affiliates

The Company assumed business from two affiliates, American Agri-Business Insurance Company (AABIC) and EASIC in the amount of \$32,502,000 and \$6,000 respectively. The subject business of AABIC is primarily crop insurance.

Assumed Reinsurance – Non Affiliates

The Company assumed business in 2007 from approximately 109 insurance companies, along with assuming business from two mandatory Pools and Associations and three voluntary Pools and Associations. Reinsurance is underwritten on a treaty, aggregate stop loss, excess of loss, and proportional basis and is organized into the following principal lines of business: property (treaty), casualty (treaty), agribusiness (treaty/proportional/aggregate stop loss), and surety (proportional/excess of loss).

Ceded Reinsurance – Affiliates

Pursuant to intercompany quota share and stop loss agreements entered into with ESIL, an unauthorized upstream affiliate, the Company ceded premiums of \$396,082,000 for the year ended December 31, 2007. Under the terms of the intercompany quota share agreement, the Company cedes a 50% quota share participation in its net retained liability, per reinsurance

contract. In addition, effective January 1, 2003, the Company entered into an intercompany stop loss agreement with ESIL, whereby the Company retains losses equal to 87.5% of its net earned premium for each calendar year. Per this agreement, ESIL shall then be liable for the amount which the Company's ultimate net loss exceeds its retention up to a limit of 40% of the Company net earned premium.

Ceded Reinsurance – Non Affiliates

The Company has approximately \$26.6 million in non-affiliated ceded reinsurance, which includes approximately \$24.6 million of excess of loss coverage applicable to business written through its workers' compensation program with FirstComp. This excess of loss coverage is reinsured with nine (9) separate reinsurance programs ranging from \$3 million xs \$2 million to \$50 million XS \$250 million. Of the approximate \$2 million remaining, approximately \$1.7 million represented retrocessional arrangements applicable to crop insurance.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organizational 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 various administrative agreements with its affiliates.

E&Y audits the statutory-basis financial statements of the Company annually. E&Y reviewed the internal control structure of the Company 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 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, 2003 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	\$ 827,424,210		\$ 827,424,210	1
Preferred Stock	5,079,803		5,079,803	
Common Stock	217,403,042		217,403,042	2
Cash, cash equivalents and ST investments	58,231,830		58,231,830	
Receivable for securities	<u>2,354,380</u>		<u>2,354,380</u>	
Subtotals, cash and invested assets	\$1,110,493,265		\$1,110,493,265	
Investment income due and accrued	7,832,575		7,832,575	
Premiums and considerations:				
Uncollected premiums	30,739,924		30,739,924	
Deferred premiums	347,927,538	324,410	347,603,128	
Amounts recoverable from reinsurers	46,546,819		46,546,819	
Funds held by reinsurers	526,286		526,286	
Current federal income tax recoverable	7,779,582		7,779,582	
Net deferred tax asset	51,690,523	33,604,367	18,086,156	
EDP Equipment	46,069	5,107	40,962	
Furniture and Equipment	476,136	476,136	0	
Receivables from parent, subsidiaries and affiliates	611,164		611,164	
Aggregate write-ins for other than invested assets	45,010,188	1,849,456	43,160,732	
Totals	<u>\$1,649,680,069</u>	<u>\$36,259,476</u>	<u>\$1,613,420,593</u>	

Liabilities, Surplus and Other Funds

As of December 31, 2007

		Note
Losses	\$ 485,604,184	3
Reinsurance payable on paid losses	15,885,000	
Loss adjustment expenses	25,287,248	3
Commissions payable	(20,713,685)	
Other expenses	18,633,327	
Taxes, licenses and fees	4,167,959	
Unearned premiums	195,028,631	
Ceded reinsurance premiums payable	196,226,000	
Remittances and items not allocated	23,836,285	
Provision for reinsurance	517,000	
Payable to parent, subsidiaries and affiliates	2,322,340	
Aggregate write-ins for liabilities	<u>73,763,107</u>	
Total Liabilities	\$ 1,020,557,396	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	709,000,000	
Unassigned funds (surplus)	<u>(121,136,803)</u>	
Surplus as regards policyholders	592,863,197	
Total	<u>\$ 1,613,420,593</u>	

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

Underwriting Income

Premiums earned	\$ 345,263,969
Deductions:	
Losses incurred	\$ 196,643,920
Loss expenses incurred	23,413,285
Other underwriting expenses incurred	128,525,303
Total underwriting deductions	<u>\$ 348,582,508</u>
Net underwriting gain or (loss)	<u>\$ (3,318,539)</u>

Investment Income

Net investment earned	\$ 47,462,883
Net realized capital gains or (losses)	(4,622,219)
Net investment gain (loss)	<u>\$ 42,840,664</u>

Other Income

Net gain (loss) from agents' or premium balances	(356,000)
Aggregate write-ins for miscellaneous income	2,665,463
Total Other Income	<u>\$ 2,309,463</u>
Net income before federal income taxes	\$ 41,831,588
Federal and foreign income taxes	15,486,839
Net income	<u>\$ 26,344,749</u>

Capital and Surplus Account

Surplus as regards policyholders December 31, 2003	<u>\$ 395,966,048</u>
Net income	\$ (18,011,007)
Change in net unrealized capital gains or (losses)	(45,756,104)
Change in net unrealized foreign exchange capital gains tax	7,337,044
Change in net deferred income tax	20,683,526
Change in non-admitted assets	(14,449,487)
Change in provision for reinsurance	(517,000)
Paid in Surplus	243,000,000
Aggregate Write-in: Hartford Re. contingent commission	4,610,177
Change in surplus as regards policyholders	<u>\$ 196,897,149</u>
Adjustment to surplus as a result of 2007 examination	(0)
Surplus as regards policyholders, December 31, 2007	<u>\$ 592,863,197</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1

Bonds

\$827,424,210

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, 99.9% of the Company's Bond investments were designated by the SVO with the highest quality of "1". The remaining .1% were rated "2". Bonds with carrying values of \$138.9 million were on deposit with various states, or governmental insurance departments in compliance with insurance laws.

The Company participates in a securities lending program, primarily with major brokerage firms. Under this program, the Company retains all economic interest in the securities it lends and receives fees from the borrower. The program is monitored and collateral is held at required rates between 102% - 105%. As of December 31, 2007, the Company held approximately \$41.6 million in securities on loan.

Note 2

Common Stocks

\$217,403,042

Investments in common stocks consisted entirely of insurance subsidiaries examined concurrently with the Company.

Note 3

Loss Reserves

\$485,604,184

Loss Adjustment Expense Reserves

25,287,248

Loss and loss adjustment expense reserves (\$510,891,432) represent approximately 50% of the Company's liabilities (\$1,020,557,396) as of December 31, 2007. Incurred but not reported reserves (IBNR) (\$314,319,737) constituted approximately 65% of loss reserves (\$485,604,184) 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.

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 Reinsurance Corporation of America, as of December 31, 2007, was determined as follows:

Description	12-31-07 Current Examination	12-31-03 Prior Examination	Changes Increase (Decrease)
Admitted Assets	<u>\$1,613,420,593</u>	<u>\$945,496,425</u>	<u>\$667,924,168</u>
Liabilities	<u>\$1,020,557,396</u>	<u>\$549,530,377</u>	<u>\$471,027,019</u>
Common capital stock	5,000,000	5,000,000	0
Gross paid in and contributed surplus	709,000,000	466,000,000	243,000,000
Unassigned funds (surplus)	<u>(121,136,803)</u>	<u>(75,033,952)</u>	<u>(46,102,851)</u>
Total surplus as regard policyholders	<u>\$592,863,197</u>	<u>\$395,966,048</u>	<u>\$196,897,149</u>
Totals	<u>\$1,613,420,593</u>	<u>\$945,496,425</u>	<u>\$667,924,168</u>

Since the last examination, the Company's assets increased \$667,924,168, liabilities increased \$471,027,019 and capital and surplus increased \$196,897,149. 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

Certain events of note regarding Company's operations subsequent to the examination date are described below:

Capital Contribution

On September 12, 2008, the Company contributed \$50 million to its subsidiary EAIC, which subsequently contributed this same amount to its subsidiary, EASIC, in order to enhance operating capabilities.

Termination of Agreement

On February 28, 2009, the Company's MGA Agreement with FirstComp terminated in accordance with terms of their agreement.