

REPORT ON ORGANIZATION

OF THE

ENDURANCE REINSURANCE CORPORATION OF AMERICA

AS OF

DECEMBER 6, 2002

DATE OF REPORT

DECEMBER 9, 2002

EXAMINER

ANNIE LAU

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

December 9, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21957 dated November 29, 2002 attached hereto, I have made an examination on organization of Endurance Reinsurance Corporation of America as of December 6, 2002, and submit the following report thereon.

The examination was conducted at the office of the Company's attorney located at 125 West 55th Street, New York, NY 10019.

Wherever the designations "the Company" or "Endurance" appear herein without qualification, they should be understood to indicate Endurance Reinsurance Corporation of America.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The examination comprised a complete verification of issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the Company's assets and liabilities. The records examined were the declaration of intention and charter, the by-laws, the certificate of incorporation, the corporate minutes, the stock register and the inter-company and custodial agreements entered into by the Company as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

Endurance Reinsurance Corporation of America was incorporated under the laws of the State of New York on September 5, 2002. The Department approved the Company's declaration of intention and charter on the same date. The Company's office is intended to be located in Westchester County, NY.

The Company's board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Louis Anthony Adanio Morganville, NJ	Chief Property Insurance Officer, Endurance Specialty Insurance Ltd.
Thomas David Bell Washington Crossing, PA	Executive Vice President, Treaty Reinsurance Operations, Endurance Specialty Insurance Ltd.
Mark William Boucher Richmond, Surrey, England	Executive Vice President, International Operations Endurance Specialty Insurance Ltd.; Chief Executive Officer, Endurance Worldwide Insurance Ltd. and Endurance Worldwide Holdings Ltd.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Colleen Patricia Brennan Paget, Bermuda	Chief Financial Officer, Endurance Specialty Insurance Ltd. and Endurance Specialty Holdings Ltd.
David Vincent Cabral Smith, Bermuda	Senior Vice President, Excess Casualty, Endurance Specialty Insurance Ltd.
Steven Walter Carlsen Chappaqua, NY	President, Endurance Reinsurance Corporation of America and Endurance U.S. Holdings Corp.
David Somers Cash Southampton, Bermuda	Chief Actuary and Chief Risk Officer, Endurance Specialty Insurance Ltd.
Judith Mae Hart Leawood, KS	Executive Vice President, Hospital Liability Operations, Endurance Specialty Insurance Ltd.
Ronald Harry Koch Rockville Center, NY	Senior Vice President, Casualty Reinsurance, Endurance Specialty Insurance Ltd.
James Randy Kroner New York, NY	Chief Investment Officer, Endurance Specialty Insurance Ltd. and Endurance Specialty Holdings Ltd.; Executive Vice President, Endurance U.S. Holdings Corp.
Kenneth John LeStrange Short Hills, NJ	Chairman, President and Chief Executive Officer, Endurance Specialty Insurance Ltd. and Endurance Specialty Holdings Ltd.; Chairman, Endurance U.S. Holdings Corp., Endurance Worldwide Holdings Ltd. and Endurance Worldwide Insurance Ltd.
Ralph Michael Serio Mantoloking, NJ	Executive Vice President, Alternative Risk Transfer, Corporate Operations and Marketing, Endurance Specialty Insurance Ltd.
Rob-Lee Womack, Jr. Hamilton Parish, Bermuda	Senior Vice President, Property Treaty, Endurance Specialty Insurance Ltd.

As of December 6, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kenneth John LeStrange	Chairman
Steven Walter Carlsen	President
Emily Canelo	Secretary
William Babcock	Treasurer

3. **CAPITALIZATION AND SUBSCRIPTION**

Endurance Reinsurance Corporation of America (“ERCA”) is a wholly owned subsidiary of Endurance U.S. Holdings Corporation, a Delaware Corporation, which is wholly owned by Endurance Specialty Insurance Ltd., a Bermuda Insurance Company. Endurance Specialty Holdings Ltd., a Bermuda Corporation, is the ultimate parent of the aforementioned companies.

ERCA has authorized capital of \$5,000,000, consisting of 5,000,000 shares of \$1.00 par value per share common stock. On December 5, 2002 the Company issued 5,000,000 shares of its common stock to Endurance U.S. Holdings Corporation for a consideration of \$336,000,000, of which \$5,000,000 was allocated to common stock and \$331,000,000 was paid in and contributed surplus.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par and market value of \$3,000,000 in a custodial account in the name of “the Superintendent of Insurance of the State of New York” in trust for the security of the policyholders of Endurance Reinsurance Corporation of America.

4. BALANCE SHEET

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 6, 2002 and as reported by the Company:

<u>Assets</u>		
Bonds		\$ 323,492,152
Cash		<u>12,422,643</u>
Total admitted assets		<u>\$ 335,914,795</u>
<u>Liabilities</u>		
Accounts payable		\$ <u>245,000</u>
Total liabilities		\$ 245,000
<u>Capital and Surplus</u>		
Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	331,000,000	
Unassigned funds (Surplus)	<u>(330,205)</u>	
Total surplus as regards policyholders		<u>\$ 335,669,795</u>
Total liabilities and surplus as regards policyholders		<u>\$ 335,914,795</u>

5. CUSTODIAL AGREEMENT

The custodial agreement entered between the Company and Bank of New York is missing the following protective covenants set forth in Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiner's Handbook:

1. The agreement should state that certificated securities of the insurance company shall be held separate from all other securities or in a fungible bulk. A fungible bulk of securities consists of classes of securities that are substitutable or interchangeable with others of the same class, such as bearer securities or common stocks of the same denomination. Those securities held in a fungible bulk by the custodian, in a clearing corporation, or in the Federal Reserve book-entry system, shall be separately identified on the custodian's official records as being owned by the insurance company.
2. Any custodial or safekeeping agreement with an agent, or clearing corporation should meet the requirements herein contains satisfactory safeguards and controls, including but not limited to the following provisions. For the purpose of this guidance, an agent is a national bank, state bank, or trust company with an account in a clearing corporation or a member of the Federal Reserve System. A clearing corporation is a corporation as defined in Article of the Uniform Commercial Code that is organized for the purpose of effecting transactions in securities by computerized book-entry, except those securities issued under the laws of a foreign country.
3. That in the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced; and may provide;
4. That in the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability;
5. That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domicile commissioner;
6. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

Therefore, it is recommended that the Company amend the custodial agreement with Bank of New York to comply with the guidelines set forth in the NAIC Examiner's Handbook.

6. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service Contract reimbursement

The Company is also authorized to write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 it seq. as amended).

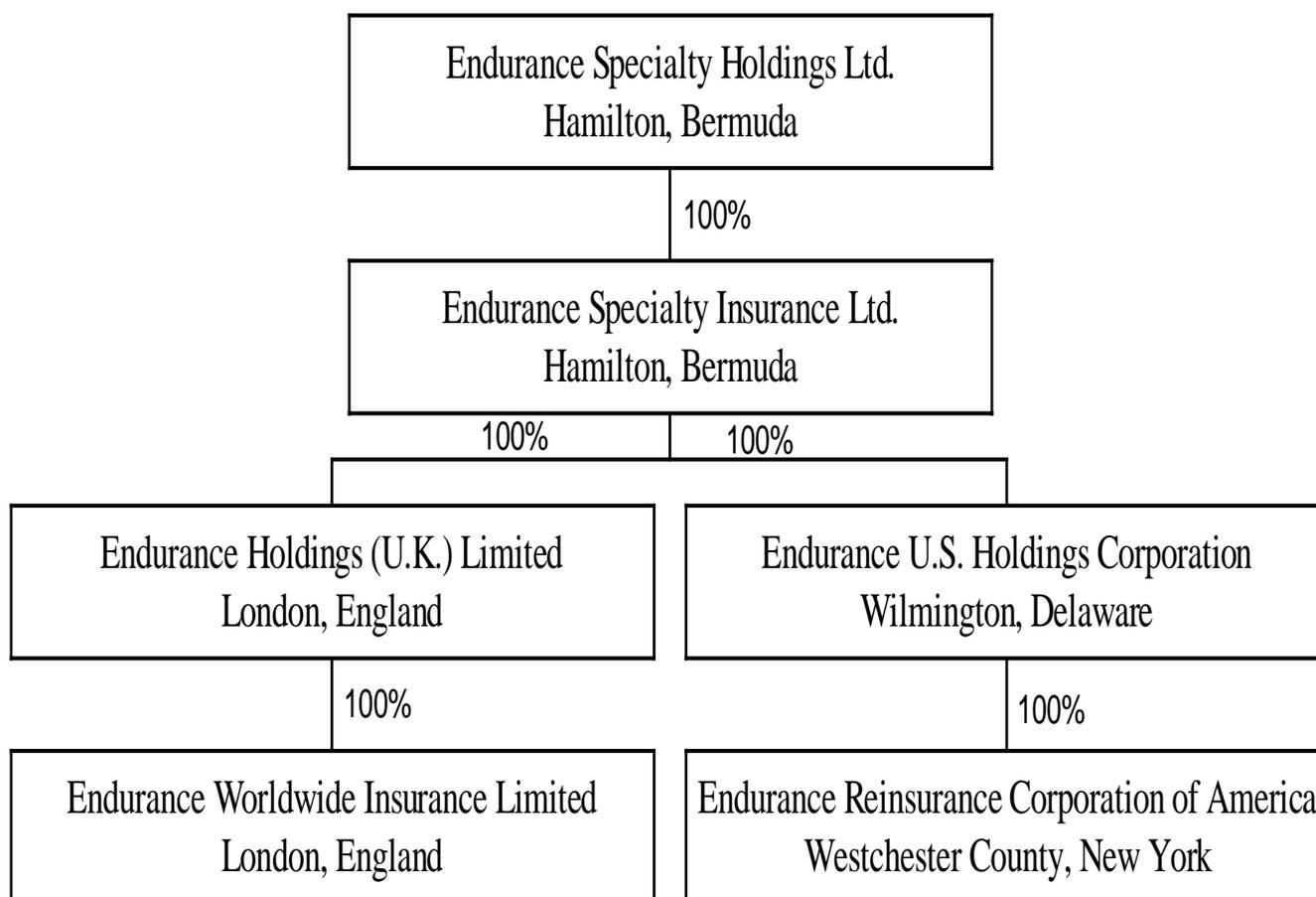
In addition, it is authorized to transact the kinds of insurance and reinsurance specified in Section 4102(c) of the New York Insurance Law, except for life, annuities and title.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

7. HOLDING COMPANY SYSTEM

Endurance Reinsurance Corporation of America ("ERCA") is wholly owned by Endurance U.S. Holdings Corporation, a Delaware Corporation, which is wholly owned by Endurance Specialty Insurance Ltd., a Bermuda Insurance Company. Endurance Specialty Holdings Ltd., a Bermuda Corporation, is the ultimate parent of the aforementioned companies.

The following is a chart of the holding company system at December 6, 2002:



Inter-Company Agreements

The Company filed the following inter-company agreements with the Department in accordance with the provisions of Section 1505(d) of the New York Insurance Law:

Tax Allocation Agreement

The Tax Allocation Agreement is between the Company and its immediately United States parent, Endurance U.S. Holdings Corp. The terms are in compliance with the guidelines set forth in Circular Letter 1979-33 of the Department.

Quota Share Reinsurance Agreement

The Company is a party to a quota share reinsurance agreement with Endurance Specialty Insurance Ltd. Under the terms of this agreement, the Company agrees to cede 50% of its net retained liability. The Company receives a ceding commission of 25% for such cessions.

8. CONCLUSION

Based on the foregoing examination, it is concluded that the Company sold \$5,000,000 shares of common stock with a par value of \$1.00 per share. These shares represented the total authorized and issued stock for which the Company received a consideration of \$336,000,000, of which \$5,000,000 represents capital paid in and \$331,000,000 represents gross paid in and contributed surplus.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Custodial Agreement</u>	
	It is recommended that the Company amend the custodial agreement with Bank of New York to comply with the guidelines set forth in the NAIC Examiner's Handbook.	7

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

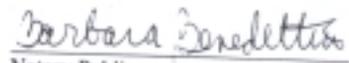
The undersigned, each an executive officer of Endurance Reinsurance Corporation of America (the "Company"), duly sworn, depose and say under oath that, on the date of the organizational examination of the Company:

- (1) Each of the undersigned is an officer of the Company.
- (2) The Company's capital and surplus equals three hundred thirty six million dollars (\$336,000,000.00), consisting of paid in capital of five million dollars (\$5,000,000.00) and contributed surplus of three hundred thirty one million dollars (\$331,000,000.00) (the "Capital and Surplus"). The Capital and Surplus is on deposit with The Bank of New York.
- (3) No part of the Capital and Surplus has been withdrawn, pledged, or in any way impaired.
- (4) No part of the Capital and Surplus is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
- (5) There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any other person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it.
- (6) Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan or disposition of the Capital and Surplus, or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.
- (7) The Capital and Surplus is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.

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Steven W. Carlsen
President

Subscribed and sworn to before me this
5th day of December, 2002.


Notary Public

BARBARA BENEDETTO
Notary Public, State of New York
No. 4018167
Qualified in Westchester County
Term Expires 12/31/05

William Babcock
William Babcock
Treasurer

Subscribed and sworn to before me this
5 day of December, 2002.

Barbara Benedetti
Notary Public

BARBARA BENEDETTI
Notary Public, State of New York
No. 4918157
Qualified in Westchester County
Term Expires 2-1-2006

Respectfully submitted,

_____/S/_____
Annie Lau, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

ANNIE LAU, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/_____
Annie Lau

Subscribed and sworn to before me
this _____ day of _____, 2002.

Appointment No. 21957

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Annie Lau

as proper person to examine into the affairs of the

ENDURANCE REINSURANCE CORPORATION OF AMERICA

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

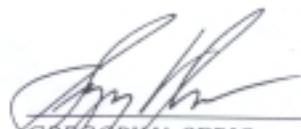
CORPORATION

with such other information as she shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 29th day of November, 2002





GREGORY V. SERIO
Superintendent of Insurance