REPORT ON EXAMINATION

OF THE

ENDURANCE RISK SOLUTIONS ASSURANCE CO.

AS OF

DECEMBER 31, 2012

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 OF EXAMINATION, made as of December 31, 2012 of the

ENDURANCE RISK SOLUTIONS ASSURANCE CO.

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

Attest By: Janell T. Wood

Date: February 17, 2014

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 17th day of February, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

ENDURANCE RISK SOLUTIONS ASSURANCE CO.

AS OF

DECEMBER 31, 2012

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 17th day of February, 2014

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TABLE OF CONTENTS

SALUTATION

December 03, 2013

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.011, dated March 25, 2013, a risk focused examination has been made of the affairs, financial condition and management of the

ENDURANCE RISK SOLUTIONS ASSURANCE CO.

hereinafter referred to as "the Company" or "ERSAC" and incorporated under the laws of the state of Delaware. The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the Company's administrative office located at 333 Westchester Avenue, White Plains, New York. The examination of the Company was conducted concurrently with Endurance American Insurance Company (EAIC), Endurance American Specialty Insurance Company (EASIC) and Endurance Reinsurance Corporation of America (ERCA), all Delaware domiciled insurers. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance performed a full scope coordinated multi-state risk focused examination of the Company, as the Lead State. The Texas Department of Insurance participated in this coordinated examination. American Agri-Business Insurance Company (AA-BIC), a Texas domiciled insurance company, was examined concurrently with the four Delaware companies.

The last examination was completed as of December 31, 2007. This examination covered the period of January 1, 2008 through December 31, 2012, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

In accordance with these efforts, the consulting firm of INS Services, Inc. conducted a review of the Evaluation of Controls in Information Technology (Exhibit C). The review included tests of the operating effectiveness of specific policies and procedures relating to the Company's controls over information systems and its control environment.

During the examination, consideration was given to work performed by the Company's external accounting firm, Ernst & Young, LLP (E&Y), New York, NY. Certain auditor work papers of their 2011 and 2012 audits have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was Sarbanes Oxley (SOX) Section 404 compliant as of the examination date and we reviewed and relied on the work where deemed necessary.

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

Corporate Records
Fidelity Bonds and Other Insurance
Risk Based Capital
Employees and Agents Welfare
Statutory Deposits
Legal Actions
All Assets and Liability Items Not Mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

The Company notified the examiners on May 28, 2013 that Endurance Specialty Holdings Ltd. (ESHL) announced that its Board of Directors had elected John R. Charman as ESHL's Chairman and Chief Executive Officer, effective immediately. David Cash stepped down as the Company's Chief Executive Officer and as a member of the Board. William H. Bolinder, the then current Chairman of the Board, became ESHL'S Lead Director.

COMPANY HISTORY

The Company was originally organized as American Merchants Casualty Company (AMCC) under the laws of the State of Minnesota as a stock property and casualty company on June 6, 1986. In May of 1993, the Company re-domesticated to Ohio.

Effective June 8, 2007, ERCA acquired AMCC, then a wholly owned subsidiary of Motorists Mutual Insurance Company, as a shell insurance company. In conjunction with, and immediately after its acquisition, ERCA contributed $41.5 million in cash to the Company. The Company re-domesticated from Ohio to Delaware on March 28, 2008.

Effective October 16, 2009, the name of the Company was changed to Endurance Risk Solutions Assurance Co.

Common Capital Stock

As of December 31, 2012, the Company had 3,000,000 shares of $1.00 par value common stock authorized, issued and outstanding.

MANAGEMENT AND CONTROL

Board of Directors

The Board of Directors (Board) shall not have less than one member and the total number of directors shall be determined by the Board. As of the examination date, the Board was comprised of three members. Individuals elected and serving on the Board of Directors at December 31, 2012 were:

David Somers Cash*, Chairman
John Virgilio Del Col
Michael James McGuire

*David Somers Cash is no longer with the Company.

Officers

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2012, the Company's principal officers and their respective titles are as follows:

Joseph Charles O'Donnell,	President
Daniel Simeon Lurie,	Secretary
Kenneth Gerald Cadematori*,	Treasurer
Richard Martin Appel,	Senior Vice President
Marc Jeffrey Karnell,	Executive Vice President
John Charles Minett,	Senior Vice President

*Kenneth Gerald Cadematori is no longer with the Company.

Committees

The Company's bylaws provide that the Board may establish one or more committees. There are no committees at the Company level. Corporate governance is administered at the ultimate controlling party level by ESHL.

Conflict of Interest

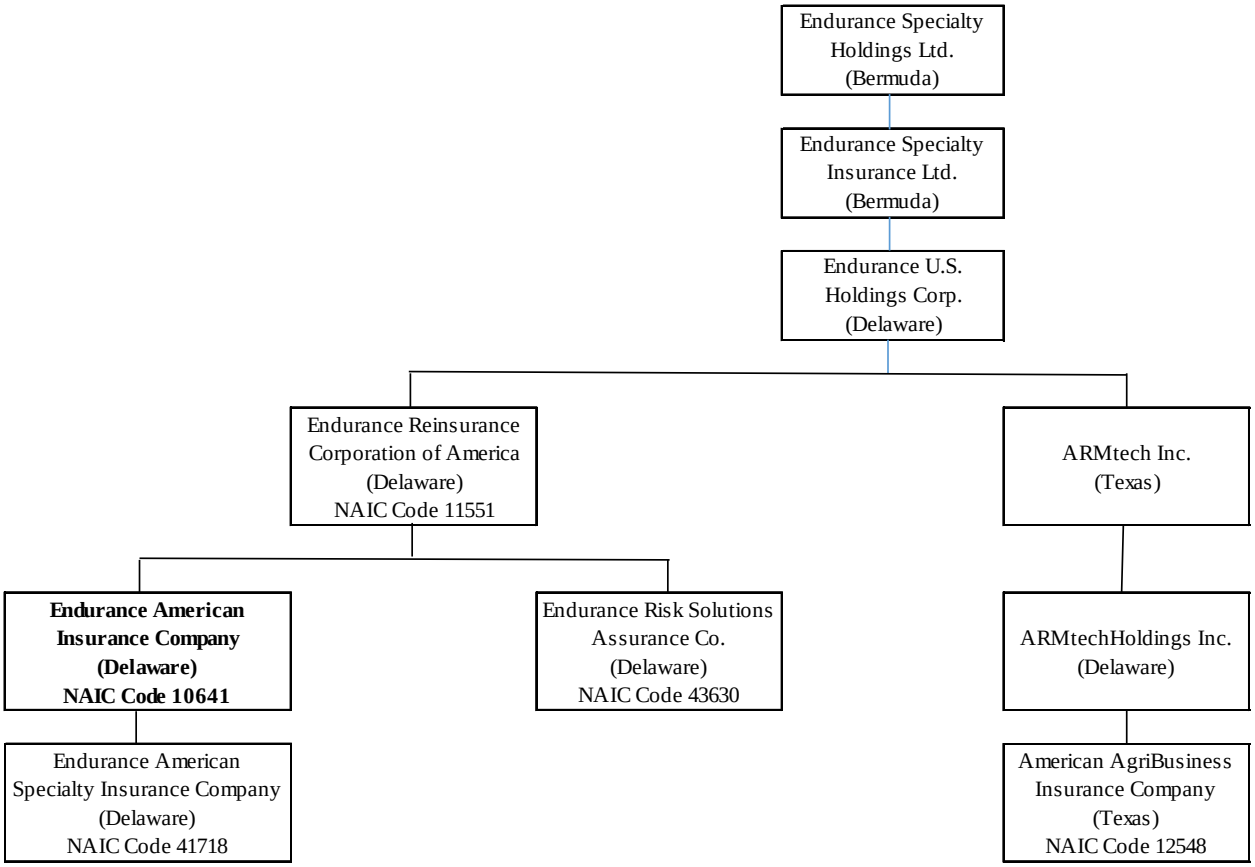
The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2012 was reviewed with no exceptions noted.

Insurance Holding Company System

The Company is a member of an insurance holding company system as it is defined under 18 Del.C. § 5001 "Insurance Holding Company System". Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

The ultimate controlling person is Endurance Specialty Holdings Ltd. (ESHL), a Bermuda corporation, which is primarily engaged through its subsidiaries in the business of property and casualty insurance. For the year ending December 31, 2012, ESHL possessed assets of approximately $8.8 billion and shareholders' equity of approximately $2.7 billion. ESHL's common stock is traded on the New York Stock Exchange under the symbol "ENH".

The following abbreviated organizational chart shows the Company's affiliates as of December 31, 2012:



Intercompany Management and Service Agreements

The Company was party to the following affiliate agreements in effect as of the examination date:

Administrative Services Agreement

Effective July 1, 2012, the Company entered into an Amended and Restated Administrative Services Agreement among all parties in the Endurance holding company group which allows for the sharing of management and administrative services among the various entities. This agreement replaces all prior administrative services agreements. This agreement was properly filed and approved by the Department on August 21, 2012.

Consolidated Tax Allocation Agreement

Effective June 8, 2007, the Company became a party to a Consolidated Tax Allocation Agreement among EAIC, EASIC and Endurance U.S. Holdings Corp (EUSH). The agreement

sets forth the manner in which the total consolidated federal income tax liability or benefit is allocated to each entity.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company is licensed to transact business in the following 25 states:

Alabama	California	Colorado	Delaware	Georgia
Idaho	Illinois	Indiana	Michigan	Minnesota
Missouri	Nevada	New Mexico	North Carolina	North Dakota
Ohio	Oregon	South Carolina	South Dakota	Tennessee
Texas	Utah	Virginia	Washington	Wisconsin

For the year ending December 31, 2012, the Company wrote approximately 86% of its business in the states of California (60%), Minnesota (19%) and Virginia (7%).

The Company has entered into Program Management Agreements with its affiliates, Endurance Specialty Insurance Marketing Corp (ESMIC) and Endurance Specialty Insurance Marketing Corp of Illinois (ESIMCI) under which the Company appointed ESIMC and ESIMCI as program managers for the purpose of underwriting and administering certain commercial special risk property and casualty insurance coverages on behalf of the Company. Within defined contractual retention and total limitations the program managers have 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.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five proceeding years since its last examination (2007):

Year	Admitted Assets	Liabilities	Unassigned Surplus	Net Written Premiums	Net Income
2008	$59,073,663	$2,058,186	$6,566,074	$356,197	$1,276,849
2009	$81,244,791	$26,945,788	$3,752,859	$30,399,835	$(3,524,354)
2010	$121,140,052	$70,886,048	$ (895,399)	$62,026,767	$(2,862,237)
2011	$177,353,935	$118,792,534	$(12,588,002)	$90,276,210	$(11,200,727)
2012	$258,637,625	$199,451,092	$(36,962,870)	$135,084,811	$(25,441,550)

Since December 31, 2008, growth of the Company has taken the form of the following:

- 338% increase in admitted assets
- 9,591% increase in liabilities
- 663% decrease in unassigned surplus
- 37,824% increase in net written premiums

The following factors contributed to the Company's change during the period covered by this exam:

- Admitted assets increased by $199.6 million during this period. Cash and invested assets increased primarily from capital contributions of $45 million received from ERCA during 2011 and 2012, and positive cash flows from operations. The capital contributions were largely offset by the Company's operating losses during 2009 through 2012. The investment strategy focuses on high quality fixed maturity investments and comprised 73%-90% of total invested assets during the five year period. During 2012, the Company adjusted the composition of its investment portfolio to optimize risk adjusted return potential and as a result reduced its holdings in U.S. government bonds and increased its holdings in corporate securities. As of December 31, 2012, 98.3% of fixed maturity investments are investment grade with a NAIC designation of 1 or 2. During 2008

through 2011, 100% of the Company's fixed maturity investments held a NAIC designation of 1 or 2. Premium receivable increased $120.6 million from December 2008 to December 2012 as a result of the Company's participation in the Pooling Agreement discussed below.

- Total liabilities increased $197.4 million during this period. Losses and Loss Adjustment Expenses reserves increased $72.5 million and are attributable to the Company's participation in the Pooling Agreement discussed below. Reinsurance payable on paid losses and loss adjustment expenses increased $191.2 million and was primarily attributable to the Pool.
- Unassigned surplus decreased approximately $43.5 million primarily due to cumulative net losses of the Pool from 2008 through 2012 totaling $41.8.
- Net premiums written (NPW) increased each year from 2008 to 2012, resulting in total NPW for the period of $318.1 million. The increase is largely the result of the Company's participation in the Pool.
- Net income was negative for four of the past five years under examination resulting in a cumulative net loss of $41.8 million. Net investment gains of $11.3 million were offset by underwriting losses of $54.3 million. Investment income earned was derived primarily from interest on fixed maturity investments and increase in invested assets following capital contributions received of $45 million during 2011 and 2012. The loss, loss adjustment expense and other underwriting expenses combined ratios during 2008 through 2010 reflect the moderate net income loss, favorable premiums growth and the Company's participation in the Pool. The combined ratio for 2011 and 2012 increased to 114% and 122%, respectively. The increases are mainly attributable to increased losses resulting from the Pool.

REINSURANCE

The Company reported the following written and assumed premiums for 2012:

Direct		$14,887,970
Assumed:		
Affiliates	$135,084,811	
Non-Affiliates	0	
Total Assumed		135,084,811
Ceded:		
Affiliates	$14,887,970	
Non-Affiliates	0	
Total Ceded		14,887,970
Total Net Premiums		$135,084,811

Pooling Agreement:

The Company assumed $135,084,811 in business during 2012 from EAIC. The business was assumed pursuant to the Pooling Agreement among the Company, EAIC, and EASIC. After third party reinsurance is placed by EAIC and 50% of the net Pool business is ceded to ESIL, 20% of the net remaining Pool business is assumed by the Company under the Pooling Agreement. The Pool business includes 20% of all business EAIC assumes from AA-BIC.

Assumed Reinsurance – Non-Affiliates:

The Company did not assume any business from non-affiliates during 2012.

Ceded Reinsurance - Affiliates:

The Company ceded $14,887,970 or 100% of its business to EAIC during 2012.

Ceded Reinsurance – Non-Affiliates

The Company did not cede any business to non-affiliates during 2012.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting

systems, organizational structure, management and compliance. The Company operates in a computer dominated environment. The general ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. All services and operational needs of the Company are provided under its Administrative Services Agreement with affiliates.

E&Y audited the statutory financial statements of the Company. E&Y reviewed the internal control structure in order to establish necessary audit procedures required to express an opinion on the December 31, 2012 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of the Endurance group.

Based on the examination review of the Company's accounts and records related to its filed Annual Statement, observations, discussions with management, and our review of financial reporting processes and controls, the Company's accounting systems, processes and procedures were found to conform to required insurance accounting practices.

FINANCIAL STATEMENTS

The financial condition of the Company and the results of its operations for the-year ended December 31, 2012 are reflected in the following statements:

Statement of Assets

Statement of Liabilities, Surplus and Other Funds

Statement of Income

Statement of Capital and Surplus

Reconciliation of Surplus Since Last Examination

Statement of Assets

For the Year Ended December 31, 2012

		Note
Bonds	$ 97,920,910	1
Cash and short term investments	36,519,147	
Subtotals	134,440,057	
Investment income due and accrued	590,521	
Uncollected premiums	450,583	
Deferred premiums	120,260,848	2
Funds held by reinsured companies	2,510,985	
Current federal income tax recoverable	5,154	
Receivable from parent, subsidiaries and affiliates	379,477	
Total Assets	$258,637,625	

Statement of Liabilities, Surplus and Other Funds

For the Year Ended December 31, 2012

		Note
Losses	$ 61,110,910	3
Reinsurance payable on paid losses	91,210,034	
Loss adjustment expenses	11,664,484	3
Commissions payable	(517,607)	
Other expenses	159,517	
Taxes, licenses and fees	249,714	
Unearned premiums	30,150,825	
Ceded reinsurance premiums payable	1,415,663	
Remittance and items not allocated	134,331	
Payable to parent, subsidiaries and affiliates	1,989,145	
Payable for securities	1,689,075	
Aggregate write-ins for liabilities	195,001	
Total Liabilities	$199,451,092	
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	93,149,403	
Unassigned funds (surplus)	(36,962,870)	
Surplus as Regards Policyholders	$ 59,186,533	
Total Liabilities, Surplus & Other Funds	$258,637,625	

Statement of Income

For the Year Ended December 31, 2012

Underwriting Income	
Premiums earned	$133,205,037
Deductions	
Losses incurred	130,983,100
Loss adjustment expenses incurred	6,297,193
Other underwriting expenses incurred	25,688,471
Aggregate write-ins for underwritng deductions	156,001
Total underwriting deductions	163,124,765
Net underwriting (loss)	(29,919,728)
Investment Income	
Net investment income earned	1,430,874
Net realized capital gains	2,162,276
Net investment gain	3,593,150
Other Income	
Net loss from premium balances charged off	(279,275)
Total other income	(279,275)
Net income before federal income taxes	(26,605,853)
Federal income taxes incurred	(1,164,303)
Net Income	$(25,441,550)

Statement of Capital and Surplus

For the Year Ended December 31, 2012

Capital and Surplus, December 31, 2011	$58,561,401
Net income	(25,441,550)
Change in net unrealized capital losses	4,089
Change in nonadmitted assets	346,193
Change in provision for reinsurance	716,400
Paid in surplus	25,000,000
Net change in capital and surplus	625,132
Capital and Surplus, December 31, 2012	$59,186,533

Reconciliation of Surplus Since Last Examination

	Aggregate Write-in for Special Funds	Common Capital Stock	Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2007	$0	$2,300,000	$48,149,403	$ 5,404,739	$55,854,142
Operations (1)					
2008 Operations				1,161,335	1,161,335
2009 Operations (2)	96,471			(2,812,945)	(2,812,945)
2010 Operations (2)	(96,471)			(4,648,528)	(4,648,528)
2010 (3)		700,000			700,000
2011 Operations			20,000,000	(11,692,603)	8,307,397
2012 Operations			25,000,000	(24,374,868)	625,132
Total	$0	$3,000,000	$93,149,403	$ (36,962,870)	$59,186,533

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets and change in provision for reinsurance.

(2) The change in additional admitted deferred income taxes recognized under the provision of SSAP No. 10R.

(3) On September 30, 2010, the Company issued 700,000 shares of $1.00 par value capital stock to its parent, ERCA, for $700,000.

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds **$97,920,910**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's bond holdings comprised 72.84% of total invested assets and 37.86% of total admitted assets.

Security composition for the year ending 2012 was comprised of the following:

U.S. Government Bonds	$17,896,689	18.28%
U.S. Special Revenues	25,204,077	25.74%
Industrial & Miscellaneous - Issuer	54,820,147	55.98%
Total	$97,920,913	100.00%

In April 2012, the Company became a designated subsidiary borrower under the $700,000,000 Credit Agreement by and among ESHL, various designated subsidiary borrowers, various lending institutions, and JP Morgan Chase Bank, as administrative agent (Credit Facility). The Credit Facility is comprised of two tranches. Tranche one is available to issue up to $560,000,000 of secured letters of credit and tranche two is available for up to $140,000,000 of revolving credit borrowings and for issuance of unsecured letters of credit. The Credit Facility, which expires in April, 2016, requires the borrowers to comply with certain customary restrictions, including requiring the Company to maintain a claim paying rating from A.M. Best of at least B++ at all times.

Up to $560,000,000 of the letter of credit issuances under the Credit Facility may be collateralized by a portion of the investment portfolio of the designated subsidiary borrowing under the Credit Facility to the extent of such subsidiary’s borrowing. ESHL guarantees the obligations of its subsidiaries that are parties to the Credit Facility.

Note 2 – Deferred Premiums **$120,260,848**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The amount of deferred premiums was attributable to the agriculture business assumed by the Company through the Pool. The agriculture business is settled on an annual basis in accordance with the Federal Crop Insurance Corporation (FCIC) guidelines. EAIC settles balances with the Company after it has settled balances with the FCIC.

Note 3 - Losses **$61,110,910**
Note 3 - Loss Adjustment Expenses **$11,664,484**

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2012. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverable.

The conclusions set forth in the INS report are based on information provided by the Company, including the 2012 Annual Statements and the related 2012 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment expense and adjusting and other expense. INS also reviewed the Company's work papers which reconcile the year-end 2012 data to Schedule P. The work papers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts.

Based on work performed, INS concluded the Company's carried net and gross loss and LAE reserves at December 31, 2012, were reasonably stated, and as such, no financial adjustment was required for examination purposes.

Note 4 - Reinsurance Payable on Paid Loss **$91,210,034**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The amount of reinsurance payable on paid loss was attributable to the agriculture business assumed by the Company through the Pool. The agriculture business is settled on an annual basis in accordance with the FCIC guidelines. EAIC settles with the Company after it has settled balances with the FCIC.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2007 disclosed no recommendations.

SUMMARY OF RECOMMENDATIONS

There are no proposed financial adjustments to the Company's filed 2012 Annual Statement based on the results of this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2007	December 31, 2012	Increase (Decrease)
Assets	$ 56,814,998	$ 258,637,625	$ 201,822,627
Liabilities	$ 960,856	$ 199,451,092	$ 198,490,236
Aggregate Write-ins for Special Surplus		-	
Common Capital Stock	2,300,000	3,000,000	700,000
Gross Paid In and Contributed Surplus	48,149,403	93,149,403	45,000,000
Unassigned Funds (Surplus)	5,404,739	(36,962,870)	(42,367,609)
Total Surplus as Regards Policyholders	$ 55,854,142	$ 59,186,533	$ 3,332,391
Totals	$ 56,814,998	$ 258,637,625	$ 201,822,627

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc., is acknowledged.

Respectfully submitted,

Greg Taylor

Greg Taylor, CFE
Examiner-In-Charge
State of Delaware