



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

ENDEAVOUR INSURANCE COMPANY

BOSTON, MASSACHUSETTS

as of DECEMBER 31, 2005

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EMPLOYER ID NUMBER 04-3323167

ENDEAVOUR INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Findings from the Prior Examination	3
History	3
.....	
General	3
Capital Stock	3
Dividends to Stockholder	3
Growth of the Company	4
.....	
Management	4
Annual Meeting	4
.....	
Board of Directors	4
.....	
Investment Committee	6
.....	
Audit Committee	6
Officers	6
Conflict of Interest Procedures	7
.....	
Corporate Records	7
Articles of Incorporation and By-Laws	7
.....	
Disaster Recovery and Business Continuity	7
.....	
Board of Directors Minutes	7
.....	
Acquisitions, Mergers, Disposals, Dissolutions, or Sales through Reinsurance	8
.....	
Affiliated Companies	8
Organization Chart	8
Transactions and Agreements with Subsidiaries and Affiliates	9
.....	
Service Agreement	9
.....	
Inter-Affiliate Reinsurance Agreement	9
.....	
Tax Sharing Agreement	9
Fidelity Bonds and Other Insurance	9
.....	
Pension and Insurance Plans.	9
Statutory Deposits	10
Insurance Products and Related Practices	10
Policy Forms and Underwriting Practices	10
Territory and Plan of Operation	10
Treatment of Policyholders	10
Claim Settlement Practices	10
.....	
Dividends to Policyholders	10
Reinsurance	10
Inter-Affiliate Reinsurance Agreement	11
.....	
Assumed Reinsurance	11

ENDEAVOUR INSURANCE COMPANY

.....	
Involuntary Pool	11
.....	
Accounts and Records	11
.....	
Financial Statements	12
Statement of Assets, Liabilities, Surplus & Other Funds	13
.....	
Statement of Income	14
Reconciliation of Capital and Surplus	15
.....	
Notes to Financial Statements	16
.....	
Comments and Recommendations	17
.....	
Conclusion	18

For Information Purposes Only



COMMONWEALTH OF MASSACHUSETTS

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March 1, 2007

The Honorable Alfred W. Gross
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Commissioner of Insurance
The Commonwealth of Virginia
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The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
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Division of Insurance
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Honorable Commissioners and Superintendent:

Pursuant to your instructions and in accordance with Massachusetts General Law ("MGL"), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

ENDEAVOUR INSURANCE COMPANY

at its home office located at 25 New Chardon Street, Boston, Massachusetts 02114-4721. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Endeavour Insurance Company (“Company”) was last examined as of December 31, 2000, under the association plan of the National Association of Insurance Commissioners (“NAIC”) by the Massachusetts Division of Insurance (“Division”). The current association plan examination also was conducted by the Division and it covers the period from January 1, 2001, through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

This examination was conducted at the same time and in conjunction with the statutory financial condition examinations made by the Division on two of the Company’s affiliates, Atlantic Charter Insurance Company (“ACIC”) and Independence Casualty Insurance Company (“ICIC”), both of Boston, Massachusetts.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook, the examination standards of the Division, and Massachusetts General Laws. The principal focus of the examination was activity for the period ended December 31, 2005; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees’ pension and benefits plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP (“E&Y”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2001 through 2005. A review and use of E&Y’s work papers were made to the extent deemed appropriate and effective.

The Division retained the independent consulting actuarial services of Milliman, Inc. (“Milliman”) to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2005. An evaluation of the adequacy and effectiveness of controls over information systems was done by Division staff to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the Comments and Recommendations Section on Page 17 of this Report.

Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2000. The Report of the Examination as of December 31, 2000, did not note any exception conditions.

HISTORY

General

The Company was incorporated on July 2, 1996, under the laws of the Commonwealth of Massachusetts. It commenced business on August 19, 1996. Licensed only in Massachusetts, the Company writes workers compensation insurance at a deviated rate (currently, at a 20% deviation) on employers through a network of independent agents. The Company is licensed, as are its affiliates, to conduct business only in the Commonwealth of Massachusetts.

The Company is a wholly owned subsidiary of Charter Management Company, Inc. ("CMC"), a Massachusetts corporation owned by Linda J. Sallop (68%) and Mitchel I. Weisman (32%). The Company's largest producer is the Nathan Sallop Insurance Agency ("NSIA").

Besides its direct business, the Company participates as a Voluntary Direct Assignment Carrier ("VDAC") in the Massachusetts Workers' Compensation Assigned Risk Pool ("MaWCARP"), the residual market mechanism for workers' compensation insurance in the Commonwealth. The Company cedes all of its business to ACIC via a 100% quota share reinsurance agreement.

Capital Stock

The Articles of Organization for the Company authorized 200,000 shares of capital stock with no par value. In 1996, the Company initially was capitalized through the issuance of 50,000 shares of capital stock at a price of \$60.00 per share, as prescribed by Section 48 of MGL Chapter 175. The \$3.0 million initial capitalization consisted of \$1.0 million of paid-in capital and \$2.0 million of paid-in surplus. All shares were purchased by CMC.

As of December 31, 2005, the Company had authorized 200,000 shares of no par value common capital stock, of which 50,000 have been issued and are outstanding. All outstanding shares continue to be held by CMC.

Dividends to Stockholder

In the period of examination, the board of directors authorized the following dividends to be paid to the Company's sole stockholder:

ENDEAVOUR INSURANCE COMPANY

<u>Year:</u>	<u>2 0 0 1</u>	<u>2 0 0 2</u>	<u>2 0 0 3</u>	<u>2 0 0 4</u>	<u>2 0 0 5</u>
<u>Amount:</u>	\$ - 0 -	\$ - 0 -	\$ 350,000	\$ - 0 -	\$ - 0 -

Growth of the Company

The growth of the Company for the years 2001 through 2005 is indicated in the following schedule which was prepared from information in the Company's annual statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilitie s</u>	<u>Capital and Surplus</u>
2005	\$ 4,206,907	\$ 9,108	\$ 4,197,799
2004	\$ 4,119,281	\$ 22,751	\$ 4,096,530
2003	\$ 3,877,829	\$ 45,951	\$ 3,831,878
2002	\$ 4,013,552	\$ 66,187	\$ 3,947,365
2001	\$ 3,753,125	\$ 15,570	\$ 3,737,556

Management

Annual Meeting

In accordance with the Company's bylaws, the annual meeting of stockholders shall be held on the first Tuesday in March in each year. A majority in interest of all stock issued, outstanding, and entitled to vote at a meeting shall constitute a quorum of the stockholders. Stockholders entitled to vote shall have one vote for each share of stock owned by them and a proportionate vote for any fractional share of stock owned by them. Stockholders may vote in person or by proxy. If an annual meeting shall not have been held on the date fixed in the bylaws, a special meeting in lieu of an annual meeting may be held with all the force and effect of an annual meeting. The bylaws also specify that any action permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing. The corporate records document that for each year in the examination period, the requirement for an annual meeting was satisfied with an action by consent of the Company's sole stockholder.

Board of Directors

According to the bylaws, the business of the Company shall be managed by a board of directors which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The board of directors shall consist of not fewer than five directors and the stockholders shall fix the number of directors for the ensuing corporate year at the annual meeting of the stockholders or at any special meeting held for that purpose. The directors shall be elected at the annual meeting of stockholders or the special meeting in lieu of the annual meeting. Each director shall hold office until the next annual meeting of the stockholders and until a successor shall have been duly elected and qualified, but any director may resign. The stockholders may remove any director from office with or without cause; the

ENDEAVOUR INSURANCE COMPANY

board of directors may remove any director from office for cause. If the office of a director becomes vacant for any reason, the stockholders or the board of directors may elect a successor to complete the unexpired term of the predecessor, but only the stockholders may fill a vacancy resulting from enlargement of the board. A director may, but need not, be a stockholder, an officer, or an employee of the Company.

The bylaws permit that by majority vote of the board of directors, the board may be divided into two or more classes, such classes to be as nearly equal in number as possible.

At December 31, 2005, the Company's board of directors had the common governance of the same seven (7) people serving as directors on the boards of affiliates. The following table lists the members of the board, their business or professional affiliations, and their residential addresses:

<u>Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Linda Jane Sallop, Esq. Chairperson	Chairperson and President, CMC, ACIC, and ICIC	Newton, Massachusetts
Mitchel Ira Weisman, Esq.	Executive Vice President and Secretary, CMC, ACIC, and ICIC	Marblehead, Massachusetts
David Allan Bakst, Esq.	Senior Partner, Morrison, Mahoney, and Miller	Lexington, Massachusetts
Brian Albert Brooks, CPA *	Senior Partner, Retired, PricewaterhouseCoopers, LLP	Boston, Massachusetts
William Joseph Kearney *	Underwriting Manager, Retired, The Hartford Companies	Duxbury, Massachusetts
Bruce Charles Levine, CPA	Owner and Partner, Levine, Katz, Nannis, and Solomon, PC	Newton, Massachusetts
Eric Dean Schlager	Chief Executive Officer, The Bullfinch Companies, Inc.	Weston, Massachusetts

* Newly elected to directorship since the prior examination.

Directors L. J. Sallop and M. I. Weisman also serve on the board of directors for Charter Management Company, Inc.

The bylaws do not specify the number of meetings of the board of directors to be held during a year and they allow the board of directors to take action by consent and/or telephonic meetings. At any meeting of the board of directors, a majority of the directors then in office shall constitute a quorum but in no event shall a quorum be less than four directors. The minutes indicated that a quorum was obtained for all meetings of the board of directors held in the examination period.

The bylaws allow that the directors may elect from their number an executive committee, an investment committee, and such other committees as they may determine. In accord therewith, the board of directors appointed an Investment Committee and an Audit Committee. The purpose and membership of each committee at December 31, 2005, follow.

Investment Committee

The Investment Committee monitors the performance of the Company's investments and authorizes the purchase and/or sale of securities. At the date of examination, the members of the Investment Committee were Director Linda J. Sallop, Director Mitchel I. Weisman, and Treasurer Joseph N. Russo.

Audit Committee

The Audit Committee coordinates and oversees services of the Company's auditors and it serves as a liaison between the Company and its auditors. At the date of examination, the Audit Committee consisted of Directors Bruce C. Levine, Brian A. Brooks, and William J. Kearney.

Officers

According to the Company's bylaws, the officers of the Company shall be a president, a treasurer, a secretary and such other officers as the board of directors may determine. The board of directors shall elect the president, treasurer, secretary, and any other officers. The president may, but need not, be a director. The secretary shall be a resident of Massachusetts. To the extent permitted by law, any two or more offices may be held by the same person. No officer need be a stockholder in or an employee of the Company.

The president, treasurer, and secretary each shall hold office until the first meeting of the board of directors following the annual meeting of stockholders (or a special meeting in lieu thereof) and until his or her successor shall have been duly elected and qualified; each other officer shall hold office similarly, unless a shorter term shall have been specified in the vote electing such officer. The board of directors may remove from office with or without cause any officer elected or appointed by the board. Any officer may resign.

Generally, the powers and duties of each of the Company's officers are those commonly incident to the respective office; they are set forth in the bylaws and are subject to action of the board of directors. Except as the board of directors may otherwise determine, the president shall be the chief executive officer and chairman of the board of directors and shall have general supervision and control of the Company's business. Subject to the direction of the board of directors, the treasurer shall have general charge of the Company's financial affairs, shall cause to be kept accurate books of account, and shall have care and custody of all funds, securities, and valuable documents of the Company. The secretary shall keep in Massachusetts the original or attested copies of the Articles of Organization, the bylaws, the records of all meetings of incorporators and of all meetings and consents of stockholders and of the board of directors, and the stock and transfer records. The secretary or assistant secretary shall record the proceedings of any meeting of stockholders and of any meeting of the board of directors and shall have additional powers and duties as the board of directors may determine. Any vice president or assistant treasurer shall have such duties and powers as the board of directors may from time to time designate.

ENDEAVOUR INSURANCE COMPANY

The elected and appointed officers and their respective titles at December 31, 2005, were the following:

<u>Name of Officer</u>	<u>Title</u>
Linda J. Sallop, Esq.	President and Chairperson of the Board
Mitchel I. Weisman, Esq.	Executive Vice President and Secretary
Joseph N. Russo, CPA	Chief Financial Officer and Treasurer
Faye O. Shulman	Vice President, Claims Manager

All of the Company's Officers simultaneously held similar positions in ACIC and ICIC.

Conflict of Interest Procedure

In support of its answer to Question 15 of Part 1 Common Interrogatories of its 2005 Annual Statement, the Company has an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties.

Corporate Records

Articles of Incorporation and By-Laws

The Articles of Incorporation and bylaws for the Company were read and no changes have been made to these documents since the prior examination.

Disaster Recovery and Business Continuity

The bylaws of the Company were read and were found to contain specific provision for the succession of directors and officers in event of an emergency.

As part of the examination's evaluation of the Company's information technology systems and control environment, the Company has indicated that it has an informal plan in place to deal with recovery and continuity of operations. Refer to the Comments and Recommendations Section on Page 17 of this Report for a comment and recommendation on this matter.

Board of Directors Minutes

The minutes of meetings of the board of directors and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the board of directors.

With specific regard to voting and ratification of investment activity, refer to the Comments and Recommendations Section on Page 17 of this Report for a recommendation on this matter.

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ENDEAVOUR INSURANCE COMPANY

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

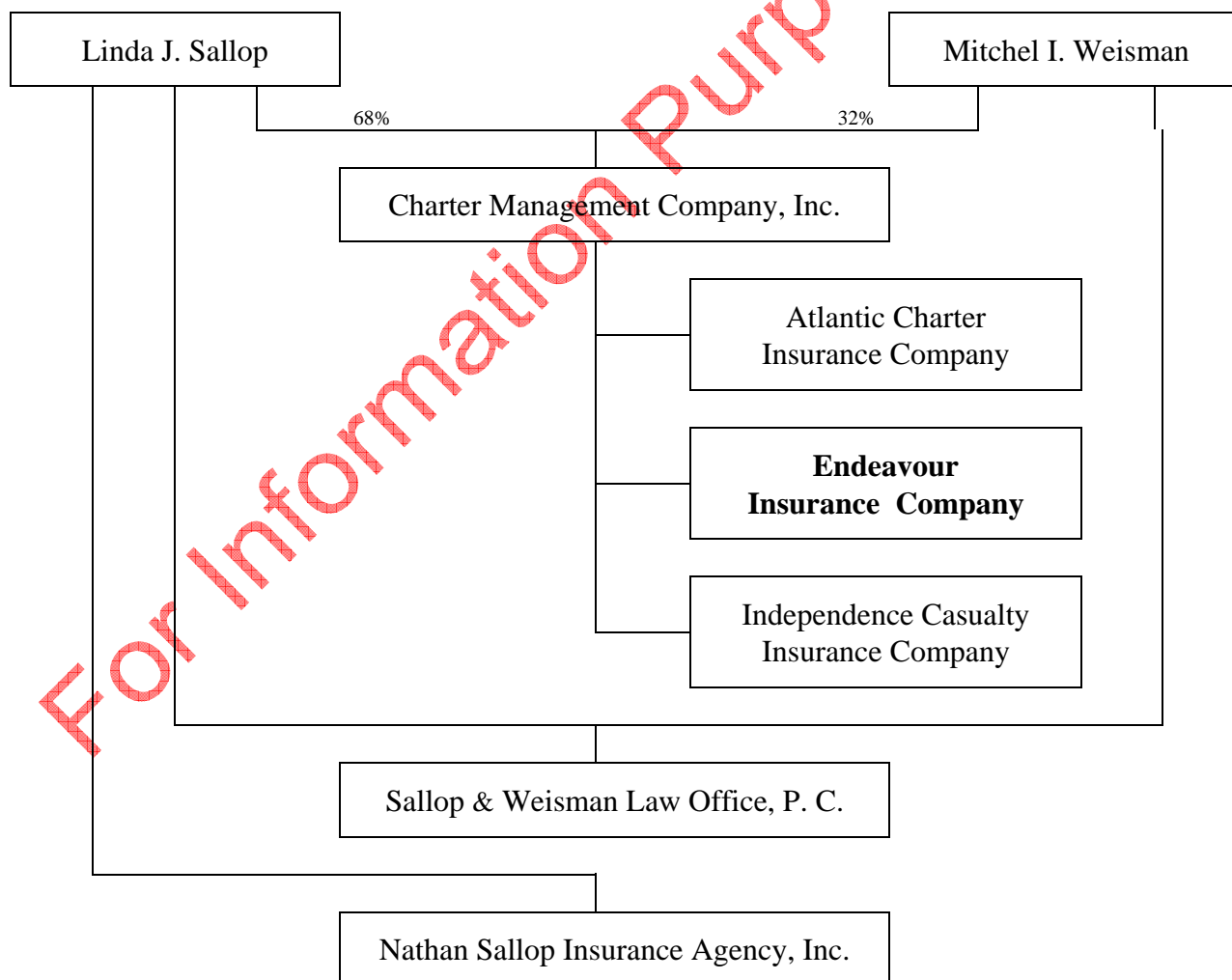
In the period of examination, the Company was not involved in any significant new transaction which involved acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

AFFILIATED COMPANIES

Per Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Section 206C of MGL Chapter 175 and Regulation 211 CMR 7.00. Charter Management Company, Inc., is the ultimate controlling party of the group of three insurance companies.

Organization Chart

The corporate organization of which the Company was a member at December 31, 2005, is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

The three predominant arrangements involving the Company and its affiliates are a service agreement, an inter-affiliate reinsurance agreement, and a tax sharing agreement. Each is described briefly in the following summary.

Service Agreement

Per the terms of a written services agreement effective August 19, 1996, the Company receives management, general administrative, underwriting, claims, financial accounting, and other services from its parent company, CMC. Under terms of the agreement, the Company shall pay to CMC 100% of the actual costs and expenses incurred by CMC on behalf of the Company.

Inter-Affiliate Reinsurance Agreement

The Company has a quota share reinsurance agreement with ACIC whereby the Company cedes and ACIC accepts all of the Company's written business.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates, CMC, ACIC, and ICIC. Per such agreement, CMC collects from or refunds to its participating subsidiaries the amount of taxes or benefits by an allocation method based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Section 60 of MGL Chapter 175. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by additional policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2005.

PENSION AND INSURANCE PLANS

The Company has no employees. All services, office space, and staff are provided through a services agreement with its direct parent company, CMC.

STATUTORY DEPOSITS

The Company is licensed to transact business and restricts its writings to businesses only in the Commonwealth of Massachusetts. It does not have statutory deposits with the Commonwealth.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

The Company currently writes only workers' compensation coverage utilizing policy forms, riders, and endorsements that are subject to the approval of the Division. At December 31, 2005, the Company's maximum retention limit, net of reinsurance, was zero dollars per risk.

Territory and Plan of Operation

The Company currently is licensed to write business only in the Commonwealth of Massachusetts. Its Certificate of Authority was current and in force. It writes coverage provided through a small network of independent agents.

Treatment of Policyholders

Claim Settlement Practices

Procedures performed in conjunction with the claims testwork indicated that the Company investigates and settles claims on a timely and equitable basis.

Dividends to Policyholders

In the period of examination, the Company paid no dividends to its policyholders.

REINSURANCE

The Company has a limited program of reinsurance. It assumes no reinsurance but it accepts its statutorily imposed residual market obligations from MaWCARP. The Company cedes all of its business to its affiliate, ACIC. The following briefly describes the major features of the Company's reinsurance activity.

Inter-Affiliate Reinsurance Agreement

Effective August 9, 1996, the Company began to participate in a 100% quota share reinsurance agreement with ACIC whereby the Company cedes to ACIC all of its premiums, losses, loss adjustment expenses, and underwriting expenses of insurance risks underwritten or assumed on or after such effective date. By such agreement, ACIC agreed to be solely responsible for the servicing and administration of such business and bears all costs associated with performing such servicing. The agreement is prospective in nature.

Aggregate balances for gross premiums associated with reinsurance transactions are shown in the summary below for each company as of the date of examination.

GROSS PREMIUMS	A. C. I. C.	E. I. C.	I. C. I. C.
Direct Business	\$ 30,546,238	\$ 10,751,899	\$ 5,748,796
Reinsurance Assumed from:			
Affiliates	16,500,695	0	0
Non-Affiliates	1,352,124	0	0
Reinsurance Ceded to:			
Affiliates	0	10,751,899	5,748,796
Non-Affiliates	3,283,889	0	0
Net Premiums Written	\$ 45,115,168	\$ 0	\$ 0

Assumed Reinsurance

Involuntary Pool

As a licensed insurer, the Company has statutorily mandated participation in MaWCARP, the residual market mechanism for workers' compensation insurance in the Commonwealth. MaWCARP bases the distributions of its operating results on a policy year basis and allocates its financial results among insurers in the property and casualty industry in proportion to their respective voluntary writings. Effective January 1, 1999, the Company exercised its option to fulfill its statutory obligation to MaWCARP by becoming a voluntary direct assignment carrier which is assigned its estimated share of MaWCARP values in the form of specific risks in lieu of a percentage of MaWCARP's overall results. The Company retains the underwriting risk of such policies and is responsible for their claims, loss adjustment expenses, and underwriting expenses.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

ENDEAVOUR INSURANCE COMPANY

The NAIC provides a questionnaire covering the evaluation of controls in the information systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the controls in the Company's information systems.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to annual statements.

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by E&Y.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2005:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005

Statement of Income for the Year Ended December 31, 2005

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2005

ENDEAVOUR INSURANCE COMPANY

**Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2005**

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$ 3,715,442	\$ 0	\$ 3,715,442	
Common stocks	277,650		277,650	
Cash and short-term investments	160,756		160,756	
Subtotals, cash and invested assets	4,153,848	0	4,153,848	
Investment income due and accrued	53,059		53,059	
Total Assets	<u>\$ 4,206,907</u>	<u>\$ 0</u>	<u>\$ 4,206,907</u>	
Liabilities and Policyholders' Surplus				
Losses	\$ 0	\$ 0	\$ 0	(1)
Loss adjustment expenses	0		0	(1)
Taxes, licenses, and fees	1,601		1,601	
Current federal and foreign income taxes	7,507		7,507	
Total Liabilities	<u>9,108</u>		<u>9,108</u>	
Common capital stock	1,000,000		1,000,000	
Gross paid-in and contributed surplus	2,000,000		2,000,000	
Unassigned funds (surplus)	1,197,799		1,197,799	
Surplus as regards policyholders	4,197,799		4,197,799	
Total Liabilities, Capital, and Surplus	<u>\$ 4,206,907</u>	<u>\$ 0</u>	<u>\$ 4,206,907</u>	

ENDEAVOUR INSURANCE COMPANY

**Statement of Income
for the Year Ended December 31, 2005**

	Per Company	Examination Changes	Per Examination	Notes
Investment Income				
Net investment income earned	\$ 158,372	\$ 0	\$ 158,372	
Net realized capital gains	8,662		8,662	
Net investment gain	<u>167,034</u>	<u>0</u>	<u>167,034</u>	
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	167,034	0	167,034	
Federal and foreign income taxes incurred	<u>7,507</u>		<u>7,507</u>	
Net Income	<u>\$ 159,527</u>	<u>\$ 0</u>	<u>\$ 159,527</u>	

ENDEAVOUR INSURANCE COMPANY

**Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2005**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Surplus as regards policyholders as of December 31, prior year	\$ 4,096,530	\$ 3,831,878	\$ 3,947,366	\$ 3,737,556	\$ 3,583,899
Net income	159,527	253,049	211,279	225,366	153,657
Change in net unrealized capital gains or (losses)	(58,258)	19,282	23,233	(15,556)	
Change in non-admitted assets		(7,679)			
Cumulative effect of changes in accounting principles					
Dividends to Stockholder			(350,000)		
Net change in surplus as regards policyholders for the year	<u>101,269</u>	<u>264,652</u>	<u>(115,488)</u>	<u>209,810</u>	<u>153,657</u>
Surplus as regards policyholders as of December 31, current year	<u>\$ 4,197,799</u>	<u>\$ 4,096,530</u>	<u>\$ 3,831,878</u>	<u>\$ 3,947,366</u>	<u>\$ 3,737,556</u>

NOTES TO FINANCIAL STATEMENT

NOTE 1:

<u>Losses</u>	<u>\$ 0</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 0</u>

As part of the examination, the Division engaged the consulting actuarial services of Milliman, Inc. The consulting actuaries for the Division performed an independent actuarial review of the loss and loss adjustment expense reserves carried by the Company, by ACIC, and by ICIC and rendered an opinion on the reasonableness of the reserves carried by the Company, by ACIC, and by ICIC, as of December 31, 2005. Their review also included a review of the reasonableness of the assumptions, selections, and methodologies used by E&Y in its actuarial report on the calculation of the reserve estimates for the Company.

The consulting actuaries from Milliman noted that the Company cedes 100% of its loss and loss adjustment expense reserves to ACIC; thus, they concluded that the Company's carried net reserve of zero dollars is appropriate. On a gross basis, the following table summarizes E&Y's reserve ranges and selected point estimate reserve, and the Company's gross loss and loss adjustment expense reserves as of December 31, 2005:

Gross Loss and Loss Adjustment Expense Reserves

(000 omitted) Reserve Category	Estimates by E & Y			Company Gross
	Low	Point	High	
Loss and ALAE *	\$ 6,804	\$ 7,996	\$ 9,188	
ULAE #	1,617	2,064	2,511	
Total Loss and LAE	<u>\$ 8,421</u>	<u>\$ 10,060</u>	<u>\$ 11,700</u>	<u>\$ 11,104</u>

* ALAE Reserves = Allocated Loss Adjustment Expense Reserves

ULAE Reserves = Unallocated Loss Adjustment Expense Reserves

In the course of analyses, Milliman used several accepted loss reserving methods and procedures to derive reserve estimates and to construct ranges. Milliman gave consideration to the relative strengths and weaknesses of each of the methods in deriving its selected point estimate within the range. Milliman noted that the range of reasonable reserve estimates does not reflect all possible outcomes; rather, it is a range that has been constructed using alternative methodologies and assumptions believed to be reasonable. Actuaries of Milliman concluded that based upon their review, they believe that the gross and net loss and loss adjustment expense reserves estimated by E&Y and carried by the Company as of December 31, 2005, are reasonable.

In its Report, Milliman detailed the reserve position of ACIC and ICIC similarly to the above presentation for loss and loss adjustment expense liabilities as of December 31, 2005. Whereas Milliman demonstrated that the Company's reserve position was conservative and that participation in the inter-company reinsurance agreement caused ACIC to carry the net reserves for the three affiliated insurance companies, the summaries of Milliman's analyses for ACIC and ICIC are not presented in this Report of Examination.

COMMENTS AND RECOMMENDATIONS

Investment Reports to the Board	Minutes of meetings of the board of directors and its Investment Committee recorded the actions of the directors and Committee members in regard to voting and ratification of investment activity. The minutes did not contain copies of the investment schedules which were presented to the directors for their consideration as required by Section 64 of MGL Chapter 175. It is recommended that copies of the investment schedules presented to directors for their consideration be maintained in the minutes of meetings in order to comply with the related statute.
Business Continuity	The Company indicated that it has an informal plan in place to deal with recovery and continuity of operations. It is recommended that the Company document and test its business contingency, recovery, and continuity plans in order to provide for continuity of management and operations in the event of a catastrophe or national emergency in accordance with Sections 180M through 180Q of MGL Chapter 175.
Escheat Filings	Though the Company follows a planned methodology for resolving outstanding checks, the examination was unable to determine how effectively the Company cleared its older outstanding checks and if any of these amounts were subject to the escheat statutes of Massachusetts. The Company indicated that it had no amounts which were escheatable to the Commonwealth of Massachusetts for the period of examination, but it had failed to comply with MGL Chapter 200A which requires a declaration form to be filed annually with the Treasurer of the Commonwealth of Massachusetts. The Company has now filed such form with the Treasurer's Office for 2005. It is recommended that the Company comply with the cited statute by filing the prescribed disclosure forms annually with the Commonwealth of Massachusetts and maintain better documentation of its activities in clearing outstanding checks.
Custodial Agreement	The Company did not provide a signed safe-keeping agreement for one of the custodians it uses to safeguard its securities. It is recommended that the Company obtain a custodial agreement with all institutions holding the Company's securities. Further, such agreements should contain provisions that satisfy the NAIC guidelines, especially in regard to indemnification for loss.

CONCLUSION

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

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