

# Endurance Specialty Holdings Ltd.

Balance Sheet Quality and Financial Strength



# Forward Looking Statements

Some of the statements in this presentation include forward-looking statements which reflect our current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to us in general and the insurance and reinsurance sectors specifically, both as to underwriting and investment matters. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "seek," "will," and similar statements of a future or forward-looking nature identify forward-looking statements in this presentation for purposes of the U.S. federal securities laws or otherwise. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the Private Securities Litigation Reform Act of 1995.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or may be important factors that could cause actual results to differ from those indicated in the forward-looking statements. These factors include, but are not limited to, developments in the world's financial and capital markets that could adversely affect the performance of Endurance's investment portfolio or access to capital, changes in the composition of Endurance's investment portfolio, competition, possible terrorism or the outbreak of war, the frequency or severity of unpredictable catastrophic events, changes in demand for insurance or reinsurance, rating agency actions, uncertainties in our reserving process, a change in our tax status, acceptance of our products, the availability of reinsurance or retrocessional coverage, retention of key personnel, political conditions, the impact of current legislation and regulatory initiatives, changes in accounting policies, changes in general economic conditions and other factors described in our Annual Report on Form 10-K for the year ended December 31, 2007.

Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

# Highlights of Endurance's Balance Sheet Strength as of September 30, 2008

- High quality assets with low counterparty risk
  - Cash and invested assets of \$5.5 Billion (\*)
    - Average credit rating of AAA
    - Limited investments in troubled financial institutions
    - Conservative portfolio strategy has protected balance sheet
  - Very low exposure to reinsurance counterparties or other credit risk
- Significant reserve base and careful attention to setting of reserves
  - Total reserves of \$3.3 Billion
    - IBNR represents 66% of total reserves ( > 80% of long tail casualty reserves are IBNR)
    - Global schedule P reserve analysis disclosed annually highlights reserve position and commitment to transparency
- Efficient and stable capital structure, with low leverage
  - Total capital of \$2.9 Billion
    - Common Equity \$2.1 Billion
    - Preferred Equity \$0.20 Billion
    - Long Term Debt \$0.45 Billion
    - Contingent Common Equity \$0.15 Billion
- Excellent Financial Strength Ratings:
  - S&P: A (stable). Upgraded December 2006. ERM considered "Excellent".
  - AM Best A (stable). Upgraded December 2007.
  - Moody's: A2 (stable).

(\*) = Includes investments pending settlement, net

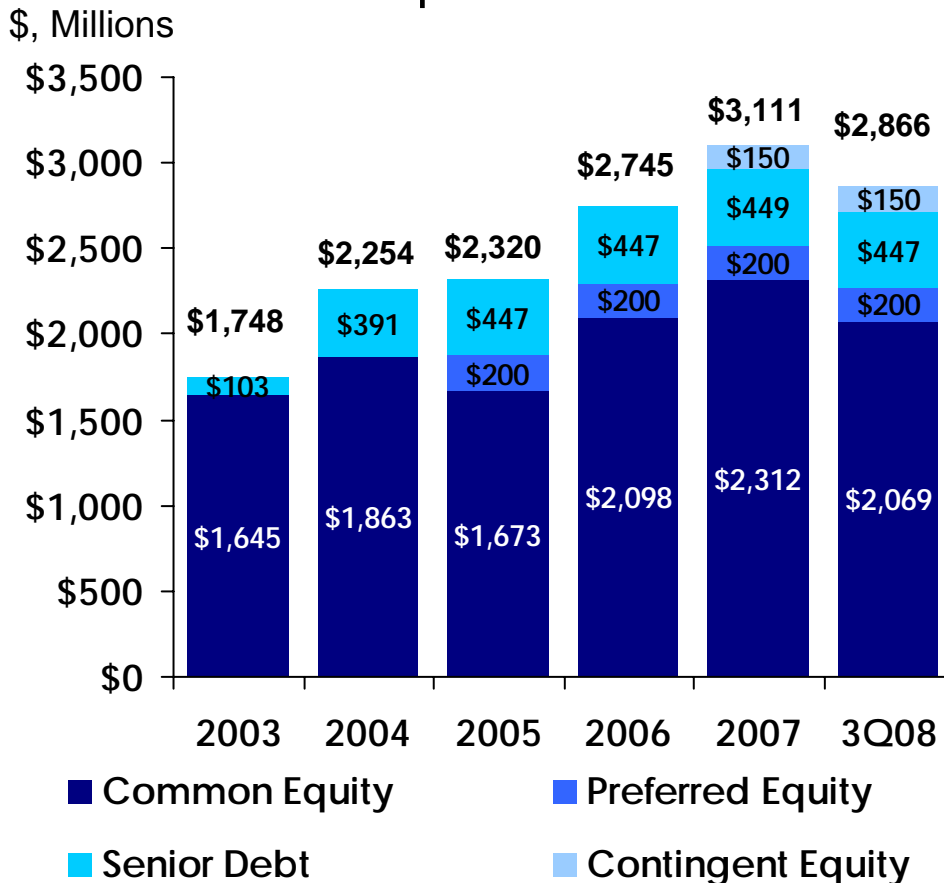
# Excellent Liquidity Position

- Cash and cash equivalents of \$667 million at 9/30/08 (\*)
  - Consists primarily of bank deposits, US Government/Agency securities, and money market funds invested in US Government / Agency securities
  
- High quality fixed income investment portfolio, including fixed maturity securities, short term investments and hybrid preferred equities, of \$4.5 billion at 9/30/08 with strong cash flows
  - Portfolio generates annual principal and interest payments of > \$1 billion
  - Short duration of 3.2 years
  
- \$1.2 billion credit facility (matures 2012)
  - Provides capacity for very low cost borrowings (LIBOR + max of 38 bps) and letters of credit
  - > \$600 million of unused capacity at 9/30/08
  - Widely syndicated facility with 16 participant banks
  
- \$150 million variable forward sale of equity can be drawn upon quickly through 2010
  
- Positive operating cash flows provide additional flexibility

*(\*) Includes investments pending settlement, net*

# Strong Capital Base

## Strong and Flexible Capital Structure

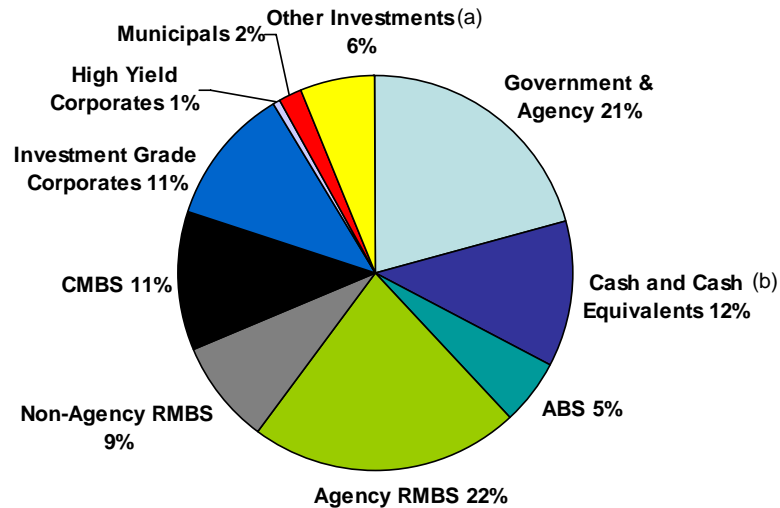


- Low leverage: Debt/Total Capital of 16.5% at 9/30/08
- Balance sheet financed with long duration liabilities / hybrid capital
  - \$250M 10 year senior notes (due 2015, 6.15% coupon)
  - \$200M 30 year senior notes (due 2034, 7.00% coupon)
  - \$200M perpetual preferred stock (no maturity, 7.75% coupon)
  - \$150M contingent equity provides quick source of common equity through 2010
- Excellent risk based capital management maintains strong rating agency capital position while providing capacity for capital management and growth
  - Approximately \$180M of share repurchases and common share dividends paid through first nine months of 2008

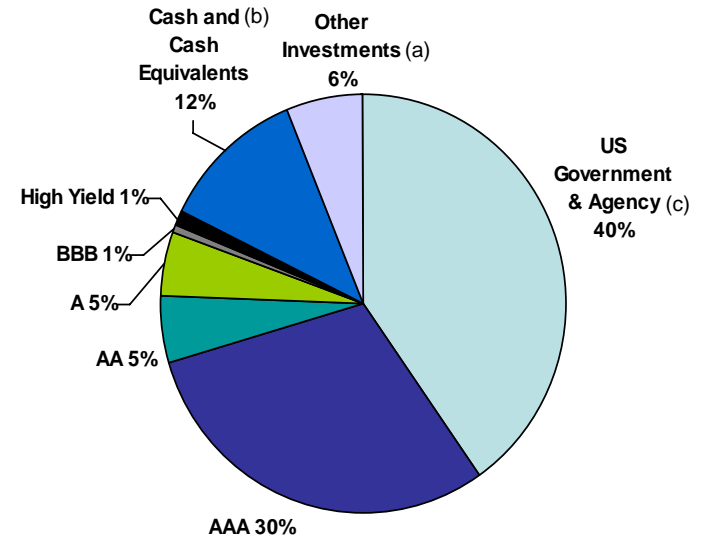
# Investment Portfolio Composition as of September 30, 2008

## Total Invested Assets \$5.5 Billion

**Total Portfolio Sector Allocation**



**Total Portfolio Rating Allocation**



- Diversified, high quality, short duration fixed income portfolio
  - Average rating – Aaa/AAA
  - Duration – 3.2 years
  - Book Yield – 4.9%
  - Market yield – 5.6%
- No sub-prime mortgage backed securities.
- No credit or interest rate derivatives.
- No exposure to Fannie Mae and Freddie Mac preferred equity or subordinated debt or any security issued by Washington Mutual

NOTES: (a) "Other Investments" includes hedge funds and high yield bank loan funds  
 (b) Includes investments pending settlement, net  
 (c) Includes agency RMBS

# Investment Portfolio Details as of September 30, 2008

## Investment Portfolio Details

Total cash and invested assets of \$5.5 billion

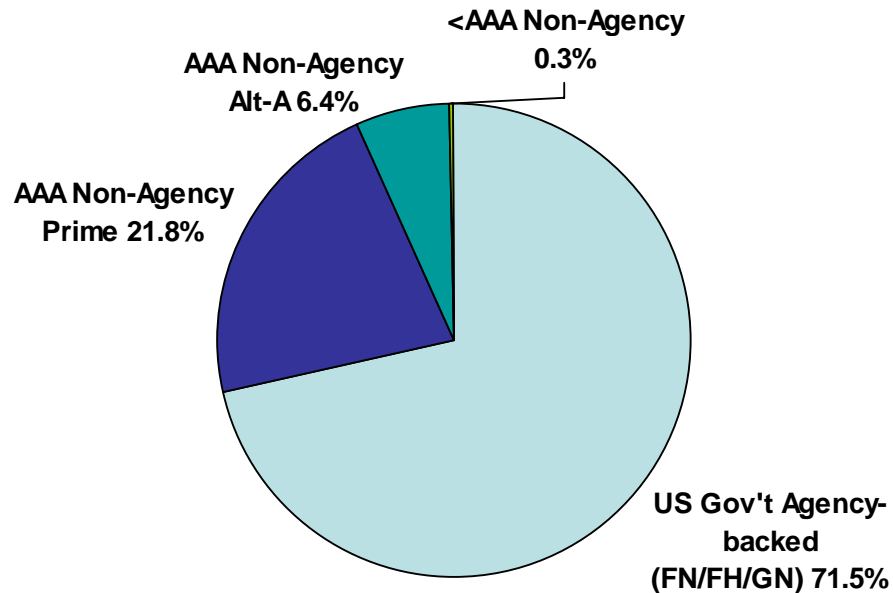
- \$4.5 billion Fixed Income Investment Portfolio
  - Average credit rating of AAA
  - \$2.6 billion of AAA-rated & Agency Structured Fixed Income
    - Agency MBS \$1.2 billion
    - AAA Non-Agency RMBS \$480 million (no subprime)
    - AAA Non-Agency CMBS \$594 million
    - AAA Auto loan backed \$114 million
    - AAA Credit card backed \$109 million
  - \$1.2 billion Government and Agency Debentures
  - \$668 million of Corporate Debt and \$104 million of Municipals
    - Predominately senior indebtedness
    - Unsecured debt of Financial Institutions - \$241 million (59 individual issuers, none greater than \$36 million)
    - High Yield \$44 million
    - Hybrid Perpetual Preferred Equity \$40 million
  - \$55 million Below AAA-rated Structured Fixed Income
    - RMBS \$5 million
    - CMBS \$18 million
    - ABS \$32 million
- \$338 million of Other Investments
  - Diversified portfolio of hedge funds and high yield bank loan funds
- \$667 million of Cash and Cash equivalents
  - Consists primarily of bank deposits, US Government/Agency securities, and money market funds invested in US Government / Agency securities

## Portfolio Commentary

- No exposure to Fannie Mae and Freddie Mac preferred equity or subordinated debt or any security issued by Washington Mutual.
- No sub-prime mortgage backed securities.
- No credit or interest rate derivatives.
- Immaterial exposure to other troubled financial institutions (Lehman- \$6.5 million pre-write down book value, and AIG - \$3.5 million pre-write down book value)
- Realized losses, other-than-temporary impairment charges and alternative investment losses in the 3<sup>rd</sup> quarter of approximately \$70 million and within risk management tolerances (1.3% of 9/30/08 Cash/Invested Assets and 3.1% of Shareholders equity).
- Portfolio experienced \$72 million increase in net unrealized loss during quarter ended 9/30/08 (1.3% of Cash and Invested Assets)

# RMBS Portfolio Allocation 09/30/08

## Total RMBS \$1.7 Billion



## RMBS Sector Commentary

- Primarily US Agency exposure, backed by Fannie Mae, Freddie Mac and Ginnie Mae – 72%
- Non-agency bonds in the portfolio are the most senior in the issue's capital structure, protected by significant subordination
- No sub-prime collateral
- Less than AAA-rated exposure is immaterial

## Conclusion

- Endurance has excellent financial strength and liquidity
  - Strong and stable ratings
  - High quality assets and exceptional liquidity
  - Strong and flexible capital base
  
- Enterprise Risk Management is competitive advantage for Endurance
  - ERM guides underwriting and asset management philosophy
  - Endurance one of very few insurers to receive “Excellent” ERM rating from Standard & Poor’s
  
- Endurance ready to meet client needs
  - Dedicated industry specialists
  - Stable and consistent market
  - Underwriting and pricing transparency