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COMPANY INTERVIEW

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Endurance Specialty Holdings Ltd. (ENH)



MICHAEL J. MCGUIRE has been Chief Financial Officer of Endurance Specialty Holdings Ltd. since January 2006. He joined Endurance in 2003 to lead its external reporting, treasury and Sarbanes-Oxley compliance initiatives. Mr. McGuire came to Endurance from Deloitte & Touche LLP where he spent over nine years working in a variety of audit and advisory roles in the United States, Bermuda and Europe. In his most recent role at Deloitte &

Touche, Mr. McGuire served as a senior manager in their merger and acquisition advisory practice, providing transaction accounting, structuring and due diligence services to private equity and strategic investors. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

SECTOR – NON-LIFE INSURANCE

(AJV609) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Mr. McGuire: Endurance Specialty Holdings is a global specialty provider of property and casualty insurance and reinsurance. We are publicly traded on the New York Stock Exchange under the symbol ENH. Endurance was formed in Bermuda in late 2001 very shortly after the tragic events of September 11. Since that time, we have expanded our operations globally and now have significant operations in the insurance centers of Bermuda, London and New York. We also have offices throughout the United States and we are currently opening new offices in Zurich and Singapore to complement our existing operations and expand our global reach.

Endurance remains focused on becoming the best specialty insurer and reinsurer in the indus-

try. To us, being the best is not about being the biggest; rather, we strive to be seen as the best by our clients, our shareholders, our employees, our rating agencies and our other stakeholders. Specialization is the critical area of focus for us in becoming the best and we are therefore focused on multiple dimensions of specialization including the knowledge and experience of our people, our use of data and technology, our distribution channels, our service delivery, our client relationships, our process excellence and ultimately our profitability. We have made great strides in each of these dimensions of specialization, and are well on our way to becoming the best specialty company in the industry.

TWST: In what way has your business model differed from the business models of similar companies that were doing business around the same time?

Mr. McGuire: From our earliest days, we built Endurance to be a specialized provider of diversified lines of property and casualty in-

insurance and reinsurance on a global basis. Many companies that were formed at the same time focused narrowly on short tail lines of business with limited geographic spread. We knew that the opportunity was much broader than purely short tailed lines of business, and that for the long term, having the broadest set of opportunities would give us a greater ability to efficiently deploy our capital throughout the underwriting cycles of the industry.

This strategy has served us well, particularly as we navigate through periods of challenging market conditions like we are facing today. In fact, we are seeing an increased appreciation for our diversified strategy as more and more companies are abandoning their monoline strategies as they seek diversification in new products and geographies.

“While we were not immune from hurricane losses, we have generated strong profits from our underwriting activities, and since inception, we have generated an annual return on equity of over 15%, which is pretty impressive when you consider that period included our startup years as well as record levels of catastrophe losses for the industry.”

TWST: What about challenges during the last seven years?

Mr. McGuire: Our industry has seen a number of challenging years in our short history. Seven of the 10 costliest hurricanes in history have occurred in the last five years. In 2004, four hurricanes made landfall in the State of Florida. In 2005, we saw the devastating hurricanes Katrina, Rita and Wilma that made landfall in the Gulf states, with Katrina resulting in the largest insured loss the industry has ever seen. Our history has also seen a significant increase in regulatory inter-

vention into our industry with various Attorneys General and state insurance departments investigating our industry and changing the competitive dynamics of our industry.

Endurance has performed exceptionally well throughout these events. While we were not immune from hurricane losses, we have generated strong profits from our underwriting activities, and since inception, we have generated an annual return on equity of over 15%, which is pretty impressive when you consider that period included our startup years as well as record levels of catastrophe losses for the industry. From a regulatory point of view, Endurance’s strong corporate governance practices and our culture of transparency and ethical behavior has served us well.

TWST: Have you changed the proportions that you have given to each business over the last six years?

Mr. McGuire: Over time, the mix of our business has changed significantly as we have proactively allocated our capital to the best opportunities. Our business is all about appropriately managing the many micro-cycles that each of our specialty business units face. Our specialization at the business unit level helps us see trends and spot opportunities quickly, enabling us to withdraw capital from or deploy capital to those units as we see relative strengths and weaknesses in those markets.

Although much of our early growth came from our reinsurance units as a result of a few early acquisitions, over time, we have continued to add to our insurance capabilities globally. We are now a very balanced organization, with strong specialty units in property and casualty insurance and reinsurance. The strength of our diversified business model can be seen in the stability of our revenues and profits at a macro level even when individual

units may see large ups and downs. Our business mix will continue to evolve as we manage through the many micro cycles our business lines face.

“We have had combined ratios over the last several years in the mid 80s, which reflects the strong margins embedded in our business. We remain focused on maintaining an appropriate margin on our business and I would put our combined ratios up there against the best in our industry as being exceptional. We look to continue generating strong margins throughout the cycle.”

TWST: I understand that the first quarter of this year was particularly good for you.

Mr. McGuire: We had a good start to the year. We grew our book value and generated strong earnings in the first quarter of 2008, which was marked by unprecedented credit and equity market volatility. In addition, we began to see strong contributions from our agricultural insurance unit, driven by our acquisition last year of ARMtech Insurance Services. With ARMtech, we are now the fifth largest provider of multi-peril crop insurance to farmers in the United States. The completion of this acquisition significantly enhances our specialized insurance operations, providing us with excellent people and leading edge technology and distribution in the agricultural insurance space. Not only does this unit significantly enhance our specialization, it also represents an excellent source of earnings and portfolio diversification for Endurance. There is very little correlation in our agriculture insurance unit to other portions of our business. Although agriculture insurance can be volatile in short periods of time, it has been profitable over time and we are very well positioned in that marketplace.

This acquisition enabled us to show very strong revenue growth year over year and was a

very positive offset to a generally more competitive market environment in our other lines of business.

TWST: What are the other main opportunities that lie ahead for the company and what are the strategies that you will be using in pursuit of them?

Mr. McGuire: We continue to invest in the buildout of our global insurance and reinsurance franchises and we will continue to examine the increasing number of acquisition opportunities that we see in the market. We have recently opened up reinsurance offices in Zurich and Singapore, and over the last few years, we have opened up a number of regional US insurance offices with experienced underwriting teams. We are well positioned in our markets. However, we remain cautious in our outlook for the property and casualty markets as we are seeing increasing levels of competition. We remain committed to maintaining underwriting discipline and will continue our focus on profitable underwriting, which is critical at this point in the underwriting cycle.

Our acquisition of ARMtech positions us exceptionally well to take advantage of a strong agricultural insurance market, and our teams are focusing on ways to expand and grow our presence there. We’ve certainly had a very good start in the first quarter of 2008. Our people and technology dedicated to the agriculture space are first rate, and this should provide some good opportunities for us in the future.

We have also seen some very good opportunities in the California workers’ compensation market. The California market has experienced several years of improved loss trends that have caused some rate reductions, although not at the same level as the reduced loss trends. The California market is reaching a point where we are seeing a stabilization of premium rates and

loss costs and it is an area where we have a very strong market position. California workers' compensation should be a stable source of business for us throughout the year, although we remain mindful of the fact that the California workers' compensation market has had some challenging periods in the past, so we are appropriately cautious there, focusing on maintaining price adequacy with the most current view of loss trends.

I mentioned earlier that we've recently opened up offices in Zurich and Singapore. Our short-term financial expectations for these locations are relatively modest. However, we expect over time that these offices will provide us with better local access to clients and customers in those regions, further diversifying our portfolio of business.

"Our people are first rate, our market positioning is strong, our technology and data are leading edge, our balance sheet is extremely strong and our historical performance has been strong. Prospectively, the embedded value of our business is excellent and we continue to see good opportunities to profitably deploy our capital."

TWST: Regarding agriculture, Congress has just passed a Farm Bill. In what way does that relate to Endurance?

Mr. McGuire: The Farm Bill recently passed by Congress will impact Endurance and any other insurance carrier that provides crop insurance to US farmers through the Federal Crop Insurance program, which is funded by the Farm Bill. The Federal Crop Insurance program was initially established in the 1930s to assist farmers in recovering from the effects of the Great Depression and Dust Bowl and continues to support insurance carriers in providing farmers with

risk management solutions to mitigate losses from droughts and other perils. The Federal Crop Insurance Corporation is responsible for administering the Federal Crop Insurance program and is supervised by the Risk Management Agency of the U.S. Department of Agriculture.

ARMtech, which we acquired last year, is one of a small number of companies that provide federally sponsored crop insurance to farmers and it has a Standard Reinsurance Agreement in place with the Federal Crop Insurance Corporation. In exchange for offering crop insurance to any eligible farmer, ARMtech receives expense reimbursements and cost effective reinsurance options from the Federal Crop Insurance Corporation.

The recently passed Farm Bill largely maintains the longstanding federal government support of the Federal Crop Insurance program, although there were some changes. The most visible change for insurance providers was a modest reduction in the expense reimbursements that insurance carriers receive from the government. Endurance and ARMtech are particularly well positioned to prosper under the new Farm Bill as we have significant scale and we have one of the most efficient operating models as a result of the significant technological advantages ARMtech has built over time. Companies lacking scale and technology may struggle under the leaner expense reimbursements of the new Farm Bill.

TWST: When you go into a new area of business, do you typically hire a person who is expert in that area or do you stretch the capabilities of your own people?

Mr. McGuire: In general, we do not enter new lines of business unless we have or can easily acquire, by hiring or by acquisition, the expertise to compete effectively as a specialist in that mar-

ket. Organic growth by stretching our people into areas they are unfamiliar with, particularly at this stage of the underwriting cycle, is unwise at best and usually results in adverse selection and poor underwriting performance. We have been very cautious when entering new lines of business to make sure that we enter new lines as a specialist.

TWST: Is there anything more that can say on the subject of challenges?

Mr. McGuire: It is clear that as an industry, we are entering a more challenging and competitive phase of the underwriting cycle. The favorable loss trends, strong profitability and capital growth of our industry over the last several years has resulted in excess capacity, creating increased competition, price reductions and loosening of terms and conditions. Endurance was built to navigate the ups and downs of our industry, and I am confident that our disciplined approach and diversified portfolio of business will enable us to continue generating strong returns for our shareholders.

Endurance remains focused on maintaining an appropriate margin for the risk that we take as a company, be it underwriting or investment risk. We are starting to see competitors being more aggressive, and in parts of our business we are non-renewing contracts where do not feel we are being appropriately compensated for the risks. In those areas, we are appropriately scaling back our business. Although it is getting harder, we do still see opportunities to deploy our capital at appropriate margins.

TWST: What might be some year-by-year milestones or indicators that investors could look for?

Mr. McGuire: Our industry is measured by a number of things including combined ratio, which really speaks to the margin that is in the business after considering loss costs, general ex-

pense costs as well as acquisition costs. We have had combined ratios over the last several years in the mid 80s, which reflects the strong margins embedded in our business. We remain focused on maintaining an appropriate margin on our business and I would put our combined ratios up there against the best in our industry as being exceptional. We look to continue generating strong margins throughout the cycle.

Another strong performance indicator for investors to look at is return on equity. In 2007, our operating return on equity was about 24%, which is down only slightly from about 26% that we achieved in 2006. Since inception on an annual basis, we've generated a 15% plus return on equity. That is a very strong achievement in only a few short years that have been marked by significant industry volatility and catastrophe losses.

TWST: What is the picture that you would hope to see for the company in about three years?

Mr. McGuire: What I would hope to see is the continued successful execution of our strategy to become the best specialty company in the industry. We will have achieved that if we can look back on our results and see industry-leading returns on equity over time, valuation multiples at the top of our peer group, customer and employee satisfaction levels at the top of our industry, and be seen by our clients as the best in the businesses we choose to operate in.

Over the last year, we have made very good progress on that objective with the acquisition of ARMtech, with the continued buildout of our specialty insurance capabilities in the US, and excellent financial results. We are on the right track, and I believe in four years we will look back and see that Endurance will have achieved a great deal and has moved ahead of the pack.

TWST: Would you tell us about the backgrounds and the capabilities of yourself and a couple of your key colleagues?

Mr. McGuire: I have been with Endurance since 2003 and have been Chief Financial Officer since January 2006. I joined Endurance in 2003 to lead our external reporting, treasury and Sarbanes-Oxley compliance initiatives and help build a global finance team. Prior to Endurance, I worked with Deloitte & Touche LLP where I spent over nine years working in a variety of audit and advisory roles in the United States, Bermuda and Europe. In my most recent role at Deloitte & Touche prior to joining Endurance, I was a senior manager in their merger and acquisition advisory practice, providing transaction accounting, structuring and due diligence services to private equity and strategic investors. I am a Certified Public Accountant and member of the AICPA. Ken LeStrange has been Endurance's Chairman, President and Chief Executive Officer since the company's formation. Ken has over 27 years of experience in property and casualty underwriting. He has significant experience as a treaty and facultative underwriter and manager of treaty underwriting operations at Swiss Reinsurance Company and American Re Corporation. He began his underwriting career with Hartford Insurance Group and held several underwriting management positions at Swiss Re. During his tenure at American Re from 1986 to December 1997, he served as Executive Vice President of American Re and as President of its alternative market subsidiary, Am Re Managers, Inc., from 1989 to December 1997. In December 1997, he joined Aon Corporation as Chairman and CEO of its alternative market operations and was later named Chairman and CEO of Aon's retail brokerage operations for the Americas. Mr. LeStrange remained with Aon until he joined Endurance in 2001.

Michael Fujii, joined Endurance on October 20, 2004 as President and CEO of our US insurance operations. In 2006, Mike was appointed to lead our global insurance business and is currently the President and Chief Executive Officer, Worldwide Insurance Operations. Mike has focused the past 30 years on the specialty lines property and casualty insurance industry. Most recently, Mike served as President and CEO of Great American Custom Insurance Services, Inc., from 1992 to 2004. Prior to that, he spent 11 years with the CIGNA Insurance Companies, serving as President of CIGNA Excess & Surplus Insurance Co. and earlier as Vice President and Chief Financial Officer of CIGNA's Excess & Surplus Division.

Bill Jewett joined Endurance in December 2002 in our US reinsurance operations and is currently President and Chief Executive Officer, Worldwide Reinsurance Operations. Bill came to Endurance from Converium Reinsurance (North America) where he was Chief Underwriter of Risk Strategies, the non-traditional reinsurance underwriting division. He had responsibility for the underwriting, marketing, planning and overall management of Converium's non-traditional reinsurance business. While at Converium, Bill also had responsibility for general casualty and workers' compensation treaty underwriting, and was a member of the company's Board of Directors. Prior to Converium, Bill was responsible for underwriting and marketing in the US for Centre Reinsurance Company of New York. He started his career at Prudential Re and spent eight years in management at NAC Re, where he served as Vice President and Manager of the Casualty Treaty department.

TWST: Do you see any need to improve the company's capital structure?

Mr. McGuire: Capital management is a core part of our strategy and our philosophy as a company. We have spent a lot of time over the years developing our capital management strategy and continuously building our capital structure, and we've been pretty active in the capital markets, both in raising capital, but also in returning capital to shareholders. Although we are always looking at ways to further optimize our capital structure, I think our capital structure is in very good shape. We started as a privately funded company with venture capital and private equity capital, but have now largely transitioned to being a broadly held public company with multiple sources of capital. In late 2007, we added to our diverse sources of capital by entering into a \$150 million forward equity arrangement that gives us a contingent source of off balance sheet equity with very little dilution. We will continue to take advantage of alternative forms of capital as part of our overall capital management.

Looking forward, I think we are entering a stage of the market cycle where it is likely that we will continue to generate capital more quickly than we can redeploy into the business. We will continue to aggressively manage our capital through stock buybacks, dividends and other capital management activities that enhance our return on equity.

TWST: Do you feel that the investment community understands the company as well as you would like it to?

Mr. McGuire: I think that's an area where there is always work to be done. I think the investment community, particularly the sellside analyst community, is challenged with too many companies to cover and not enough time and resources to spend enough time on individual companies, especially those like Endurance that have globally diverse operations that take time to understand.

I think we've spent a lot of time and effort on our investor outreach, communications and disclosures. That has been successful and I think our story is being heard and understood better. However, we are in an industry and among a set of peers that struggles to effectively differentiate. I believe that over time, our specialty focus, our transparent communications and disclosures, and superior financial results will ultimately result in an improved investor perception and valuation. As we continue to differentiate our results and performance, I think investors will understand and better appreciate the value that Endurance is.

TWST: What would be the two or three best reasons for the long-term investor to look very closely at Endurance?

Mr. McGuire: I think if you look at Endurance, there are many compelling reasons to look at Endurance as a long-term investment. Our people are first rate, our market positioning is strong, our technology and data are leading edge, our balance sheet is extremely strong and our historical performance has been strong. Prospectively, the embedded value of our business is excellent and we continue to see good opportunities to profitably deploy our capital. When you combine these factors with current valuation levels, it is an extremely compelling investment opportunity.

TWST: Is there anything that you would like to add?

Mr. McGuire: As I said earlier, our long-term objective is to become the best specialty insurer and reinsurer in the industry. Our people, technology and our market positioning, combined with our disciplined underwriting and investment approach, set Endurance apart and are the key ingredients that will enable Endurance to continue generating significant shareholder value throughout the market cycle.

TWST: Would you tell us more about the difference between you and other Bermuda-based companies?

Mr. McGuire: I think there are a number of differences. We are among the most diversified companies of our peer group, with a good balance of property, casualty and specialty lines of business in both insurance and reinsurance. If you dig deeper, you will find that each of our specialty lines is managed by dedicated specialist practitioners who share Endurance's common culture and enterprise risk management framework.

To be more specific, we talked a bit about agricultural insurance. Our agriculture teams, both insurance and reinsurance, are industry veterans and true specialists. I believe our people and technology dedicated to agriculture are among the best in the industry. We have been in the agriculture reinsurance business for many years, and with our acquisition of ARMtech last year, we are now among the largest agricultural insurance providers. We believe that operating in the agricultural market as an insurer provides Endurance with a vastly superior competitive position and earning potential than many of our Bermuda-based reinsurance peers that have recently announced growth initiatives in the agriculture reinsurance space.

Moving to other areas, I believe our catastrophe reinsurance operations represent a

sustainable franchise business for Endurance. We have industry-leading people and technology committed to the catastrophe reinsurance market. We have committed industry-leading numbers of actuaries, risk modelers and data analysts in that space and we have made significant technology investments that support our catastrophe teams. I believe our financial results in catastrophe reinsurance speak volumes about the quality of our catastrophe reinsurance franchise. Our inception to date underwriting ratio in our catastrophe reinsurance lines since we began in 2002 is an exceptional 54.5% even after including the impact of all the hurricanes we have seen in our short history.

These are just a few examples of differentiation, but I believe are reflective of the quality you would see across our business units.

TWST: Thank you. (MC)

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