

## A MESSAGE FROM OUR CHAIRMAN



**Kenneth J. LeStrange**

Chairman, President and Chief Executive Officer

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### To our shareholders, clients and employees:

2008 was truly a dramatic year for our industry and the global economy. We entered the year expecting a continuation of the steady softening of the property and casualty markets, driven by increased excess capacity after two years of relatively low industry losses. As we began 2008, we continued to aggressively implement our soft market strategy: expanding in areas where opportunities existed for appropriate risk-adjusted returns; proactively declining renewal business when pricing, terms and conditions no longer met our requirements; and returning excess capital to shareholders.

In the latter half of 2008, a global financial crisis of unprecedented proportions took hold. A virtual shutdown of the world's credit and equity markets led to the failure of, or government intervention in, some of the largest and formerly most respected companies in the financial services industry. During the same period, Hurricanes Gustav and Ike both made landfall in the U.S. Gulf States, causing significant insured losses, currently estimated to exceed \$20 billion in the aggregate.

Against this backdrop, Endurance ended 2008 in excellent condition, with strong relative performance in a year marked by unprecedented volatility. We continue to maintain a very high-quality balance sheet, with exceptional financial strength and liquidity. At year end, our investment portfolio had an average credit rating of AAA with a duration of 2.3 years, generating greater than \$1.0 billion of annual cash flows. Our liquidity position is also bolstered by our multi-year, \$1.175 billion credit facility and our \$150 million variable forward equity sale arrangement.

Our net income for the year of \$99 million was adversely impacted by mark-to-market adjustments within our investment portfolio and from catastrophe losses due to Hurricanes Gustav and Ike. We generated an operating return on equity of 8.5% for the year and 14.0% inception to date — a strong result, particularly when one considers that our short history includes eight of the ten most expensive hurricanes in U.S. history and the worst financial market crisis the world economy has seen in decades.

Our underwriting performance in 2008 continued to be strong as a result of having allocated additional capital to our catastrophe reinsurance lines and our onshore commercial insurance operations — lines in which we have seen consistently strong performance and which allow us better control of data and exposures. Our strategy was further validated in 2008, as the industry was surprised by the high level of losses emanating from offshore energy exposures and large national account business lines we exited in the aftermath of the 2005 hurricane season. In contrast, the losses we experienced in our catastrophe line during 2008 were very much within our expectations and pricing parameters, and we saw no material catastrophe losses from our onshore property insurance operations.

We continue to make significant progress in achieving our strategic goal of being the best specialty reinsurance and insurance company in the world. We expanded our global operations and developed local market expertise with new offices in Zurich and Singapore, and welcomed several new specialty underwriting teams to Endurance. We successfully integrated ARMtech, the specialty crop insurer we acquired in December 2007. We are very proud of ARMtech's performance so far, particularly as its in-force policies grew by approximately 7% during the year and generated a solid underwriting profit despite significant commodity price volatility and substantial industry losses in this sector.

Although I remain cautious about the state of the global economy, I am encouraged by the opportunities for Endurance in 2009 and beyond. As we look forward to improved market conditions, we will continue to address the challenges that lie ahead by focusing on the following key areas in which we differentiate ourselves from our competitors:

- promoting a culture of disciplined risk management;
- maintaining a prudent approach to capital and investment management;
- recruiting and developing talented professionals with specialized knowledge and expertise;
- building lasting relationships with our clients and brokers, and delivering exceptional service;
- diversifying our underwriting portfolio to achieve greater stability; and
- developing and implementing technology, models and databases that support all elements of our business.

These attributes, which are integrated into our overall strategy and day-to-day processes, provide a solid foundation for the continued delivery of exceptional value to our shareholders, clients, brokers and employees.

Finally, I would like to thank my colleagues at Endurance and our many clients and business partners for their contributions to our success. We could not have ended 2008 in such a strong position without all your efforts.

Very sincerely yours,

**Kenneth J. LeStrange**

Chairman, President and Chief Executive Officer