
Section 1: 10-Q (FORM 10-Q)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2011
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number 001-31909

ASPEN INSURANCE HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
*(State or other jurisdiction of
incorporation or organization)*

Not Applicable
*(I.R.S. Employer
Identification No.)*

**141 Front Street
Hamilton, Bermuda**
(Address of principal executive offices)

HM 19
(Zip Code)

Registrant's telephone number, including area code
(441) 295-8201

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 31, 2011 there were 70,602,172 outstanding ordinary shares, with a par value of 0.15144558¢ per ordinary share, outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ASPEN INSURANCE HOLDINGS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
As at September 30, 2011 (Unaudited) and December 31, 2010
(\$ in millions, except share and per share amounts)

	As at September 30, 2011 <u>(Unaudited)</u>	As at December 31, 2010 <u></u>
ASSETS		
Investments		
Fixed income maturities, available for sale at fair value (amortized cost — \$5,275.2 and \$5,120.8)	\$ 5,608.7	\$ 5,360.4
Fixed income maturities, trading at fair value (amortized cost — \$371.2 and \$388.8)	384.1	406.2
Equity securities, available for sale at fair value (cost — \$167.6 and \$Nil)	163.8	—
Other investments, equity method	32.3	30.0
Short-term investments, available for sale at fair value (amortized cost — \$290.6 and \$286.1)	290.6	286.0
Short-term investments, trading at fair value (amortized cost — \$5.3 and \$3.7)	<u>5.3</u>	<u>3.7</u>
Total investments	6,484.8	6,086.3
Cash and cash equivalents	1,038.8	1,179.1
Reinsurance recoverables		
Unpaid losses	357.7	279.9
Ceded unearned premiums	129.9	62.4
Receivables		
Underwriting premiums	957.2	821.7
Other	69.3	67.9
Funds withheld	65.1	83.3
Deferred policy acquisition costs	207.1	166.8
Derivatives at fair value	5.8	6.8
Receivable for securities sold	0.5	0.2
Office properties and equipment	49.5	34.8
Income tax recoverable	2.5	—
Other assets	31.2	21.9
Intangible assets	<u>20.3</u>	<u>21.0</u>
Total assets	<u>\$ 9,419.7</u>	<u>\$ 8,832.1</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS
As at September 30, 2011 (Unaudited) and December 31, 2010
(\$ in millions, except share and per share amounts)

	As at September 30, 2011 (Unaudited)	As at December 31, 2010
LIABILITIES		
Insurance reserves		
Losses and loss adjustment expenses	\$ 4,399.4	\$ 3,820.5
Unearned premiums	1,014.5	859.0
Total insurance reserves	5,413.9	4,679.5
Payables		
Reinsurance premiums	135.2	113.7
Deferred taxation	35.2	49.1
Current taxation	—	11.1
Accrued expenses and other payables	186.0	238.0
Total payables	356.4	411.9
Long-term debt	498.9	498.8
Total liabilities	\$ 6,269.2	\$ 5,590.2
Commitments and contingent liabilities (see Note 14)	—	—
SHAREHOLDERS' EQUITY		
Ordinary shares: 70,595,201 shares of par value 0.15144558¢ each (December 31, 2010 — 70,508,013)	\$ 0.1	\$ 0.1
Preference shares:		
4,600,000 5.625% shares of par value 0.15144558¢ each (December 31, 2010 — 4,600,000)	—	—
5,327,500 7.401% shares of par value 0.15144558¢ each (December 31, 2010 — 5,327,500)	—	—
Non-controlling interest	0.3	0.5
Additional paid-in capital	1,381.8	1,388.3
Retained earnings	1,360.6	1,528.7
Accumulated other comprehensive income, net of taxes	407.7	324.3
Total shareholders' equity	3,150.5	3,241.9
Total liabilities and shareholders' equity	\$ 9,419.7	\$ 8,832.1

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(\$ in millions, except share and per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues				
Net earned premiums	\$ 486.9	\$ 451.7	\$ 1,399.1	\$ 1,399.2
Net investment income	57.3	58.1	171.4	175.0
Realized and unrealized investment gains	3.2	22.1	21.4	40.1
Change in fair value of derivatives	(30.0)	(3.7)	(55.7)	(7.8)
Other (expense)/income	(9.1)	1.8	(10.4)	6.6
Total Revenues	508.3	530.0	1,525.8	1,613.1
Expenses				
Losses and loss adjustment expenses	306.2	285.8	1,161.5	941.3
Policy acquisition expenses	93.4	75.6	261.5	237.9
General, administrative and corporate expenses	71.0	65.0	202.0	180.1
Interest on long-term debt	7.7	3.9	23.1	11.7
Net realized and unrealized exchange losses/(gains)	5.8	(3.4)	10.3	(2.3)
Total Expenses	484.1	426.9	1,658.4	1,368.7
Income/(loss) from operations before income tax	24.2	103.1	(132.6)	244.4
Income tax (expense)/benefit	(2.0)	(10.3)	13.3	(24.4)
Net Income/(Loss)	\$ 22.2	\$ 92.8	\$ (119.3)	\$ 220.0
Per Share Data				
Weighted average number of ordinary shares and share equivalents				
Basic(1)	70,699,343	76,722,965	70,681,993	77,133,210
Diluted(1)	73,299,874	80,363,740	70,681,993	80,782,187
Basic earnings/(loss) per ordinary share adjusted for preference share dividend	\$ 0.23	\$ 1.14	\$ (1.93)	\$ 2.63
Diluted earnings/(loss) per ordinary share adjusted for preference share dividend	\$ 0.23	\$ 1.08	\$ (1.93)	\$ 2.51

(1) The basic and diluted number of ordinary shares for the nine months ended September 30, 2011 is the same, as the inclusion of dilutive securities in a loss making period would be anti-dilutive.

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY
(\$ in millions)

	Nine Months Ended September 30,	
	2011	2010
Ordinary shares		
Beginning and end of period	\$ 0.1	\$ 0.1
Preference shares		
Beginning and end of period	—	—
Non-controlling interest		
Beginning of period	0.5	—
Change for the period	(0.2)	0.6
End of period	0.3	0.6
Additional paid-in capital		
Beginning of period	1,388.3	1,763.0
New ordinary shares issued	0.5	—
Ordinary shares repurchased and cancelled	(8.1)	(208.0)
Share-based compensation	1.1	6.5
End of period	1,381.8	1,561.5
Retained earnings		
Beginning of period	1,528.7	1,285.0
Net (loss)/income for the period	(119.3)	220.0
Dividends on ordinary and preference shares	(48.9)	(52.1)
Proportion of net loss due to non-controlling interest	0.1	—
End of period	1,360.6	1,452.9
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustments		
Beginning of period	113.4	103.4
Change for the period	0.3	6.7
End of period	113.7	110.1
Loss on derivatives		
Beginning of period	(1.0)	(1.2)
Reclassification to interest payable	0.2	0.2
End of period	(0.8)	(1.0)
Unrealized appreciation on investments		
Beginning of period	211.9	155.1
Change for the period	82.9	161.4
End of period	294.8	316.5
Total accumulated other comprehensive income	407.7	425.6
Total shareholders' equity	\$3,150.5	\$3,440.7

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income/(loss)	\$ 22.2	\$ 92.8	\$ (119.3)	\$ 220.0
Other comprehensive income, net of taxes:				
Available for sale investments:				
Reclassification adjustment for net realized (gains)/losses on investments included in net income/(loss)	(5.2)	(2.3)	(13.6)	(10.7)
Change in net unrealized gains and losses on investments	69.0	63.8	96.5	172.1
Amortization of loss on derivative contract	0.1	0.2	0.2	0.2
Change in foreign currency translation adjustment	(17.4)	3.6	0.3	6.7
Other comprehensive income/(loss)	46.5	65.3	83.4	168.3
Comprehensive income/(loss)	<u>\$ 68.7</u>	<u>\$ 158.1</u>	<u>\$ (35.9)</u>	<u>\$ 388.3</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in millions)

	Nine Months Ended	
	September 30,	
	2011	2010
Cash flows provided by operating activities:		
Net (loss)/income	\$(119.3)	\$ 220.0
Income/(loss) due to non-controlling interest	0.1	(0.2)
Adjustments to reconcile net income to net cash flows from operating activities:	—	
Depreciation and amortization	19.3	15.6
Net realized foreign exchange (gains) on available for sale investments	(0.1)	—
Share-based compensation expense	1.1	6.5
Net realized and unrealized (gains)	(19.1)	(38.7)
Other investment (gains)	(2.3)	(1.4)
Loss on derivative contracts	0.2	0.2
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	578.3	357.2
Unearned premiums	150.9	43.9
Reinsurance recoverables:		
Unpaid losses	(77.0)	58.6
Ceded unearned premiums	(67.4)	58.6
Other receivables	(1.4)	—
Accrued investment income and other receivables	—	(1.3)
Deferred policy acquisition costs	(40.2)	(21.5)
Reinsurance premiums payables	21.0	30.0
Premiums receivable	(121.6)	(175.5)
Funds withheld	18.2	6.1
Deferred taxes	(21.1)	(16.9)
Income tax payable	(23.9)	2.3
Accrued expenses and other payables	(2.5)	(10.8)
Fair value of derivatives and settlement of liabilities under derivatives	0.3	(0.2)
Long-term debt	0.1	—
Other assets	(15.2)	(30.4)
Net cash provided by operating activities	\$ 278.4	\$ 502.1

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in millions)

	Nine Months Ended	
	September 30,	
	2011	2010
Cash flows (used in) investing activities:		
(Purchases) of fixed income maturities	\$(1,879.8)	\$(1,883.2)
(Purchases) of equity securities	(185.7)	—
Proceeds from sales and maturities of fixed income maturities	1,754.2	1,709.3
Net sales/(purchases) of short-term investments	(7.4)	78.5
Net change in (payable)/receivable for securities (purchased)/sold	(40.7)	40.6
Payments for acquisitions net of cash acquired	—	(13.4)
Non-controlling interest introductory capital	—	0.8
Proceeds from sale of equity securities	12.6	—
(Purchase) of equipment	(21.6)	(12.9)
Net cash (used in) investing activities	(368.4)	(80.3)
Cash flows (used in) financing activities:		
Proceeds from the issuance of ordinary shares, net of issuance costs	0.5	—
Ordinary shares repurchased	(8.1)	(208.0)
Dividends paid on ordinary shares	(31.8)	(35.0)
Dividends paid on preference shares	(17.1)	(17.1)
Net cash (used in) financing activities	(56.5)	(260.1)
Effect of exchange rate movements on cash and cash equivalents	6.2	4.2
(Decrease)/increase in cash and cash equivalents	(140.3)	165.9
Cash and cash equivalents at beginning of period	1,179.1	748.4
Cash and cash equivalents at end of period	<u>\$ 1,038.8</u>	<u>\$ 914.3</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for income tax	\$ 4.8	\$ 48.4
Cash paid during the period for interest on long-term debt	\$ 22.7	\$ 15.0

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. History and Organization

Aspen Insurance Holdings Limited (“Aspen Holdings”) was incorporated on May 23, 2002 and holds subsidiaries that provide insurance and reinsurance on a worldwide basis. Its principal operating subsidiaries are Aspen Insurance UK Limited (“Aspen U.K.”), Aspen Insurance Limited (“Aspen Bermuda”), Aspen Specialty Insurance Company (“Aspen Specialty”), Aspen American Insurance Company (“AAIC”) and Aspen Underwriting Limited (corporate member of Lloyd’s Syndicate 4711, “AUL”), (collectively, the “Operating Subsidiaries”).

2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its subsidiaries, which are collectively referred to herein as the “Company.” All intercompany transactions and balances have been eliminated on consolidation.

The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 contained in Aspen’s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (File No. 001-31909).

Assumptions and estimates made by management have a significant effect on the amounts reported within the consolidated financial statements. The most significant of these relate to losses and loss adjustment expenses, the value of investments, reinsurance recoverables and the fair value of derivatives. All material assumptions and estimates are regularly reviewed and adjustments made as necessary, but actual results could be significantly different from those expected when the assumptions or estimates were made.

New Accounting Policies

In December 2010, the Financial Accounting Standards Board (“FASB”) issued ASU 2010-28, “*When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*” and in September 2011 issued ASU 2011-08, “*Intangibles — Goodwill for Impairment*.” The Company will be required to qualitatively assess, on either an annual or interim basis, whether it is more likely than not that a reporting unit’s fair value is less than its carrying value. If an impairment is more likely than not, then the Company must follow a two-step impairment test.

Step 1 requires the reporting entities to identify any potential impairment, by comparing the estimated fair value of a reporting unit to its carrying value. If the estimated fair value is less than the carrying value and it is more likely than not that impairment exists, then the amount of the impairment will be assessed in the updated guidance in Step 2. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing Step 2 would not be required. Evaluating an impairment in Step 2 requires the evaluation of qualitative factors including the factors presented in existing guidance that trigger an interim impairment test of goodwill such as an adverse change in the business climate, unanticipated competition, or the expectation that a reporting unit will be sold or disposed. ASU 2010-28 is effective for annual reporting periods beginning after December 15, 2010 and ASU 2011-08 is effective for annual reporting periods beginning after December 15, 2011. The provisions of the new guidance do not have a material impact on the Company’s consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS — (Continued)

Accounting Pronouncements Not Yet Adopted

In May 2011, the FASB's Emerging Issues Task Force issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which emphasizes using the same meaning and disclosures of fair value within the financial statements prepared in accordance with U.S. GAAP and IFRSs. This decision would require the Company to disclose additional information about transfers between Level 1 and Level 2 of the fair value hierarchy, additional disclosures for Level 3 fair value measurement including quantitative and qualitative information about significant unobservable inputs and discussions about the sensitivity of these unobservable inputs and a description of the Company's valuation process. ASU 2011-04 is effective for annual reporting periods beginning after December 15, 2011 with early adoption prohibited.

In 2010, the FASB's Emerging Issues Task Force issued ASU 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts," which requires costs to be incrementally or directly related to the successful acquisition of new or renewal insurance contracts to be capitalized as deferred acquisition costs. This decision would require us to expense the proportion of our general and administrative deferred acquisition costs which relate to quoted business which does not successfully convert into a policy. We have undertaken a review to quantify the impact of the change. The maximum impact would be if we were required to expense all of the deferred underwriting costs and would result in a \$29.0 million increase in cumulative operating expenses with the charge being spread across the current and prior years. ASU 2010-26 is effective for annual reporting periods beginning after December 15, 2011 and we have not yet adopted this standard.

3. Acquisitions

There were no acquisition-related transactions during the nine months ended September 30, 2011.

4. Earnings Per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen's ordinary shares by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share are based on the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period of calculation using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in millions, except share and per share amounts)			
Earnings				
Basic:				
Net income/(loss) as reported	\$ 22.2	\$ 92.8	\$ (119.3)	\$ 220.0
Preference share dividends	(5.7)	(5.7)	(17.1)	(17.1)
Basic and diluted net income/(loss) available to ordinary shareholders	16.5	87.1	(136.4)	202.9
Ordinary shares:				
Basic weighted average ordinary shares	70,699,343	76,722,965	70,681,993	77,133,210
Weighted average effect of dilutive securities(1)	2,600,531	3,640,775	—	3,648,977
Total diluted weighted average ordinary shares	73,299,874	80,363,740	70,681,993	80,782,187

ASPEN INSURANCE HOLDINGS LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS — (Continued)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(\$ in millions, except share and per share amounts)			
Earnings/(loss) per ordinary share:				
Basic	\$ 0.23	\$ 1.14	\$ (1.93)	\$ 2.63
Diluted	\$ 0.23	\$ 1.08	\$ (1.93)	\$ 2.51

(1) The basic and diluted number of ordinary shares for the nine months ended September 30, 2011 is the same, as the inclusion of dilutive securities in a loss making period would be anti-dilutive.

Ordinary Share Repurchases. On November 10, 2010, the Company entered into an accelerated share repurchase program with Barclays Capital to repurchase \$184 million of our ordinary shares. As of December 15, 2010, a total of 5,737,449 ordinary shares were received and cancelled. Upon the completion of the contract on March 14, 2011, an additional 542,736 ordinary shares were received and cancelled. A total of 6,280,185 ordinary shares were cancelled under this contract.

On February 16, 2011, an agreement was signed to repurchase 58,310 shares from the Names' Trustee (as defined in Note 12, below). The shares were repurchased on March 10, 2011 and subsequently cancelled.

On June 29, 2011, an agreement was signed to repurchase 254,107 ordinary shares from the Names' Trustee. The shares were repurchased on August 10, 2011 and subsequently cancelled.

Dividends. On October 24, 2011, the Company's Board of Directors declared the following quarterly dividends:

	<u>Dividend</u>	<u>Payable on:</u>	<u>Record Date:</u>
Ordinary shares	\$ 0.15	November 25, 2011	November 10, 2011
5.625% preference shares	\$ 0.703125	January 1, 2012	December 15, 2011
7.401% preference shares	\$ 0.462563	January 1, 2012	December 15, 2011

5. Segment Reporting

The Company has two reporting business segments: Insurance and Reinsurance. In arriving at these reporting segments, we have considered similarities in economic characteristics, products, customers, distribution and the regulatory environment. Segment profit or loss for each of the Company's operating segments is measured by underwriting profit or loss. Underwriting profit is the excess of net earned premiums over the sum of losses and loss expenses, policy acquisition expenses and general and administrative expenses. Underwriting profit or loss provides a basis for management to evaluate the segment's underwriting performance.

Reinsurance Segment. Our reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata, risk solutions and facultative), casualty reinsurance (U.S. treaty, international treaty and global facultative) and specialty reinsurance (credit and surety, structured, agriculture and specialty).

Property Catastrophe Reinsurance: Property catastrophe reinsurance is generally written on a treaty excess of loss basis where we provide protection to an insurer for an agreed portion of the total losses from a single event in excess of a specified loss amount. In the event of a loss, most contracts provide for coverage of a second occurrence following the payment of a premium to reinstate the coverage under the contract, which is referred to as a reinstatement premium. The coverage provided under excess of loss reinsurance contracts may be on a multi-perils worldwide basis or limited in scope to selected perils or geographical areas.

ASPEN INSURANCE HOLDINGS LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS — (Continued)

Other Property Reinsurance: Other property reinsurance is written on a risk excess, pro rata or facultative basis and includes our risk solutions business. Risk excess of loss property treaty reinsurance provides coverage to a reinsured where it experiences a loss in excess of its retention level on a single “risk” basis. A “risk” in this context might mean the insurance coverage on one building or a group of buildings for fire or explosion or the insurance coverage under a single policy which the reinsured treats as a single risk. This line of business is generally less exposed to accumulations of exposures and losses but can still be impacted by natural catastrophes, such as earthquakes and hurricanes.

Our proportional treaty reinsurance product provides proportional coverage to the reinsured. We share original losses in the same proportion as our share of premium and policy amounts within contractual terms. Proportional contracts typically involve close client relationships including regular audits of the cedants’ data and are written for primary insurers in the U.S. and elsewhere. This line of business is not typically driven by natural perils. Our risk solutions business writes property insurance risks for a select group of U.S. program managers.

Casualty Reinsurance: Casualty reinsurance is written on an excess of loss, pro rata and facultative basis and consists of U.S. treaty, international treaty and casualty facultative. The casualty treaty reinsurance business we write in the U.S. and internationally includes excess of loss and pro rata reinsurance contracts which are applied to portfolios of primary insurance policies. Our U.S. treaty business comprises exposures to workers’ compensation (including catastrophe), medical malpractice, general liability, auto liability, professional liability and excess liability including umbrella liability. Our international treaty business reinsures exposures mainly with respect to general liability, auto liability, professional liability, workers’ compensation and excess liability. Our excess of loss positions come most commonly from layered reinsurance structures with underlying ceding company retentions. We also write U.S. and international casualty facultative reinsurance.

Specialty Reinsurance: Specialty reinsurance is written on an excess of loss and pro rata basis and consists of credit and surety reinsurance, structured risks, agriculture reinsurance and other specialty lines. Our credit and surety reinsurance business consists of trade credit reinsurance, international surety reinsurance (mainly European, Japanese and Latin American risks and excluding the U.S.) and a political risks reinsurance portfolio. Our agricultural reinsurance business consists of European and Latin American agriculture reinsurance primarily written on a treaty basis covering crop and multi-peril business. Our specialty line of business is composed principally of reinsurance treaties covering interests similar to those underwritten in marine, energy, liability and aviation insurance, as well as contingency, terrorism, nuclear, personal accident and crop reinsurance. We also write satellite insurance and reinsurance.

A very high percentage of the property reinsurance contracts that we write excludes coverage for losses arising from the peril of terrorism. Within the U.S., our reinsurance contracts generally exclude or limit our liability to acts that are certified as “acts of terrorism” by the U.S. Treasury Department under the Terrorism Risk Insurance Act (“TRIA”), the Terrorism Risk Insurance Extension Act of 2005 (“TRIEA”) and now the Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”) (currently set to expire on December 31, 2014). With respect to casualty reinsurance risks, losses arising from the peril of terrorism that do not involve nuclear, biological or chemical attack are usually covered by our contracts. Such losses relating to commercial lines risks are generally covered on a limited basis; for example, where the covered risks fall below a stated insured value or into classes or categories we deem less likely to be targets of terrorism than others. We have written a limited number of reinsurance contracts in this segment, both on a pro rata and risk excess basis, specifically covering the peril of terrorism. These contracts typically exclude coverage protecting against nuclear, biological or chemical attack.

Insurance Segment. Our insurance segment consists of property insurance, casualty insurance, marine, energy and transportation insurance and financial and professional lines insurance.

Property Insurance: Our property insurance line comprises U.K. commercial property and construction and U.S. commercial property (excess and surplus lines basis), written on a primary, excess, quota share and facultative

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basis. In 2010, we established Aspen Risk Management Limited (“ARML”), which primarily distributes U.K. regional commercial property and liability business.

- *U.S. Property:* The U.S. commercial property insurance team covers mercantile, manufacturing, municipal and commercial real estate business.
- *U.K. Property:* The U.K. commercial property insurance team provides physical damage and business interruption coverage as a result of weather, fire, theft and other causes. Our client base is predominantly U.K. institutional property owners, middle market corporate and public sector clients.

Casualty Insurance: Our casualty insurance line comprises U.K. commercial liability, global excess casualty and U.S. casualty insurance, written on a primary, quota share and facultative basis. In 2010, we significantly reduced the amount of contractor business written in the U.S.

- *U.K. Commercial Liability:* The U.K. commercial liability team provides employers’ liability coverage and public liability coverage for insureds domiciled in the U.K. and Ireland.
- *Global Excess Casualty:* The global excess casualty line writes large, sophisticated and risk-managed insureds worldwide and covers broad-based risks at high attachment points, including general liability, commercial and residential construction liability, life science, railroads, trucking, product and public liability and associated types of cover found in general liability policies in the global insurance market.
- *U.S. Casualty:* The U.S. casualty account primarily consists of lines written within the general liability and umbrella liability insurance segments. Coverage on our general liability line is offered on those risks that are primarily miscellaneous, products liability, contractors (general contractors and artisans), real estate and retail risks, environmental and other general liability business.

Marine, Energy and Transportation Insurance: Our marine, energy and transportation insurance line comprises marine, energy and construction (“M.E.C.”) liability, energy physical damage, marine hull, specie, U.S. inland marine, ocean risks and aviation, written on a primary, quota share and facultative basis.

- *M.E.C. Liability:* The M.E.C. liability business includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs (“P&I Clubs”). It also provides liability cover for companies in the oil and gas sector, both onshore and offshore and in the power generation and U.S. commercial construction sectors.
- *Energy Physical Damage:* Energy physical damage provides insurance cover against physical damage losses in addition to Operators Extra Expenses (“OEE”) for companies operating in the oil and gas exploration and production sector.
- *Marine Hull:* The marine hull team insures physical damage for ships (including war and associated perils) and related marine assets.
- *Specie:* The specie business line focuses on the insurance of high value property items on an all risks basis, including fine art, general and bank related specie, jewelers’ block and armored car.
- *Aviation:* The aviation team writes physical damage insurance on hulls and spares (including war and associated perils) and comprehensive legal liability for airlines, smaller operators of airline equipment, airports and associated business and non-critical component part manufacturers. We also provide aviation hull deductible cover.
- *Inland Marine and Ocean Risks:* The inland marine and ocean cargo team writes business principally covering builders’ construction risk, contractors’ equipment, transportation and ocean cargo risks in addition to exhibition, fine arts and museums insurance.

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Financial and Professional Lines Insurance: Our financial and professional lines comprise financial institutions, professional liability (including management and technology liability) and financial and political risks, written on a primary, quota share and facultative basis.

- *Financial Institutions:* Our financial institutions business is written on both a primary and excess of loss basis and consists of professional liability, crime insurance and directors' and officers' ("D&O") cover, with the largest exposure comprising risks headquartered in the U.K., followed by Australia and the U.S. and then Canada and Western Europe. We cover financial institutions including commercial and investment banks, asset managers, insurance companies, stockbrokers and insureds with hybrid business models.
- *Professional Liability:* Our professional liability business is written out of the U.S. (including Errors and Omissions ("E&O")) and the U.K. and is written on both a primary and excess of loss basis. The U.K. team focuses on risks in the U.K. with some Australian and European business while the U.S. team focuses on the U.S. and Canada. We insure a wide range of professions including lawyers, surveyors, accountants, architects and engineers.
- *Management & Technology Liability:* We write on both a primary and excess basis D&O insurance, technology-related policies in the areas of network privacy, misuse of data and cyber liability and warranty and indemnity insurance in connection with, or to facilitate, corporate transactions.
- *Financial and Political Risks:* The financial and political risks team writes business covering the credit/default risk on a variety of project and trade transactions, as well as political risks, terrorism (including multi-year war on land cover), piracy and kidnap and ransom ("K&R"). We write financial and political risks worldwide but with concentrations in a number of countries, such as China, Egypt, Kazakhstan, Russia, South Korea, Switzerland, U.K. and Turkey.
- *U.S. Surety Risks:* Our surety business writes commercial surety risks including, but not limited to, Federal and Public official bonds, license and permits and fiduciary and miscellaneous bonds, focused on Fortune 1000 companies and large, privately owned companies in the U.S.

Non-underwriting Disclosures. We have provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other includes net investment income, net realized and unrealized investment gains or losses, corporate expense, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments. Corporate expenses are not allocated to the Company's operating segments as they typically do not fluctuate with the levels of premiums written and are not directly related to our operations. They include group executive costs, group finance, legal and actuarial costs, non-underwriting share-based compensation and certain strategic costs including new teams which have not commenced underwriting.

We do not allocate our assets by segment as we evaluate underwriting results of each segment separately from the results of our investment portfolio.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of our business segments for the three months ended September 30, 2011 and 2010:

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	Three Months Ended September 30, 2011		
	Reinsurance	Insurance	Total
	(\$ in millions)		
Underwriting Revenues			
Gross written premiums	\$ 276.1	\$ 219.5	\$ 495.6
Net written premiums	270.5	192.1	462.6
Gross earned premiums	303.2	246.7	549.9
Net earned premiums	279.6	207.3	486.9
Underwriting Expenses			
Losses and loss adjustment expenses	188.8	117.4	306.2
Policy acquisition expenses	51.8	41.6	93.4
General and administrative expenses	26.3	34.3	60.6
Underwriting income	12.7	14.0	26.7
Corporate expenses			(10.4)
Net investment income			57.3
Realized and unrealized investment gains			3.2
Change in fair value of derivatives			(30.0)
Interest on long term debt			(7.7)
Net realized and unrealized foreign exchange (losses)			(5.8)
Other expense			(9.1)
Net profit before tax			\$ 24.2
Net reserves for loss and loss adjustment expenses	\$ 2,713.3	\$ 1,328.4	\$4,041.7
Ratios			
Loss ratio	67.5%	56.6%	62.9%
Policy acquisition expense ratio	18.5%	20.1%	19.2%
General and administrative expense ratio(1)	9.4%	16.5%	14.6%
Expense ratio	27.9%	36.6%	33.8%
Combined ratio	95.4%	93.2%	96.7%

(1) The total group general and administrative expense ratio includes the impact from corporate expenses.

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	Three Months Ended September 30,		
	2010		
	<u>Reinsurance</u>	<u>Insurance</u>	<u>Total</u>
	(\$ in millions)		
Underwriting Revenues			
Gross written premiums	\$ 236.0	\$ 179.8	\$ 415.8
Net written premiums	229.6	147.4	377.0
Gross earned premiums	277.9	225.4	503.3
Net earned premiums	267.5	184.2	451.7
Underwriting Expenses			
Losses and loss adjustment expenses	143.5	142.3	285.8
Policy acquisition expenses	43.9	31.7	75.6
General and administrative expenses	27.1	23.6	50.7
Underwriting income/(loss)	53.0	(13.4)	39.6
Corporate expenses			(14.3)
Net investment income			58.1
Realized and unrealized investment gains			22.1
Change in fair value of derivatives			(3.7)
Interest on long term debt			(3.9)
Net realized and unrealized foreign exchange gains			3.4
Other income			1.8
Net income before tax			<u>\$ 103.1</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,242.9</u>	<u>\$ 1,165.5</u>	<u>\$3,408.4</u>
Ratios			
Loss ratio	53.6%	77.3%	63.3%
Policy acquisition expense ratio	16.4%	17.2%	16.7%
General and administrative expense ratio(1)	10.1%	12.8%	14.4%
Expense ratio	26.5%	30.0%	31.1%
Combined ratio	80.1%	107.3%	94.4%

(1) The total group general and administrative expense ratio includes the impact from corporate expenses.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of our business segments for the nine months ended September 30, 2011 and 2010:

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	Nine Months Ended September 30, 2011		
	Reinsurance	Insurance	Total
	(\$ in millions)		
Underwriting Revenues			
Gross written premiums	\$ 1,001.2	\$ 747.9	\$1,749.1
Net written premiums	915.8	582.1	1,497.9
Gross earned premiums	878.7	704.8	1,583.5
Net earned premiums	819.6	579.5	1,399.1
Underwriting Expenses			
Losses and loss adjustment expenses	805.2	356.3	1,161.5
Policy acquisition expenses	150.3	111.2	261.5
General and administrative expenses	77.2	92.7	169.9
Underwriting (loss)/income	<u>(213.1)</u>	<u>19.3</u>	(193.8)
Corporate expenses			(32.1)
Net investment income			171.4
Realized and unrealized investment gains			21.4
Change in fair value of derivatives			(55.7)
Interest on long term debt			(23.1)
Net realized and unrealized foreign exchange (losses)			(10.3)
Other expenses			(10.4)
Net (loss) before tax			<u>\$ (132.6)</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,713.3</u>	<u>\$ 1,328.4</u>	<u>\$4,041.7</u>
Ratios			
Loss ratio	98.2%	61.5%	83.0%
Policy acquisition expense ratio	18.3%	19.2%	18.7%
General and administrative expense ratio(1)	9.4%	16.0%	14.4%
Expense ratio	<u>27.7%</u>	<u>35.2%</u>	<u>33.1%</u>
Combined ratio	<u>125.9%</u>	<u>96.7%</u>	<u>116.1%</u>

(1) The total group general and administrative expense ratio includes the impact from corporate expenses.

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	Nine Months Ended September 30, 2010		
	Reinsurance	Insurance	Total
	(\$ in millions)		
Underwriting Revenues			
Gross written premiums	\$ 1,009.4	\$ 654.6	\$1,664.0
Net written premiums	970.0	525.9	1,495.9
Gross earned premiums	882.5	661.4	1,543.9
Net earned premiums	849.7	549.5	1,339.2
Underwriting Expenses			
Losses and loss adjustment expenses	546.7	394.6	941.3
Policy acquisition expenses	143.6	94.3	237.9
General and administrative expenses	79.5	65.9	145.4
Underwriting income/(loss)	79.9	(5.3)	74.6
Corporate expenses			(34.7)
Net investment income			175.0
Realized and unrealized investment gains			40.1
Change in fair value of derivatives			(7.8)
Interest on long term debt			(11.7)
Net realized and unrealized foreign exchange gains			2.3
Other income			6.6
Net income before tax			\$ 244.4
Net reserves for loss and loss adjustment expenses	\$ 2,242.9	\$ 1,165.5	\$3,408.4
Ratios			
Loss ratio	64.3%	71.8%	67.3%
Policy acquisition expense ratio	16.9%	17.2%	17.0%
General and administrative expense ratio(1)	9.4%	12.0%	12.9%
Expense ratio	26.3%	29.2%	29.9%
Combined ratio	90.6%	101.0%	97.2%

(1) The total group general and administrative expense ratio includes the impact from corporate expenses.

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6. Investments

Fixed Income Maturities, Short-Term Investments and Equities — Available For Sale. The following presents the cost, gross unrealized gains and losses, and estimated fair value of available for sale investments in fixed maturities, short-term investments and equities as at September 30, 2011 and December 31, 2010:

	As at September 30, 2011			
	Cost or	Gross	Gross	Fair Market
	Amortized Cost	Unrealized	Unrealized	
		Gains	Losses	Value
		(\$ in millions)		
U.S. Government	\$ 830.8	\$ 58.7	\$ (0.1)	\$ 889.4
U.S. Agency	256.6	24.9	—	281.5
Municipal	34.2	2.3	—	36.5
Corporate	1,842.1	130.1	(3.9)	1,968.3
FDIC Guaranteed Corporate	93.0	0.6	—	93.6
Non-U.S. Government-backed Corporate	185.6	5.6	—	191.2
Foreign Government	653.3	27.9	—	681.2
Asset-backed	54.0	5.0	—	59.0
Non-agency Commercial Mortgage-backed	87.4	7.1	(0.1)	94.4
Agency Mortgage-backed	1,238.2	75.4	—	1,313.6
Total Fixed Maturities — Available for Sale	5,275.2	337.6	(4.1)	5,608.7
Total Short-term Investments — Available for Sale	290.6	—	—	290.6
Total Equity Securities — Available for Sale	167.6	6.9	(10.7)	163.8
Total	\$ 5,733.4	\$ 344.5	\$ (14.8)	\$ 6,063.1

	As at December 31, 2010			
	Cost or	Gross	Gross	Fair Market
	Amortized Cost	Unrealized	Unrealized	
		Gains	Losses	Value
		(\$ in millions)		
U.S. Government	\$ 701.5	\$ 25.5	\$ (1.6)	\$ 725.4
U.S. Agency	278.7	23.6	—	302.3
Municipal	31.1	0.4	(0.8)	30.7
Corporate	1,861.2	113.6	(3.7)	1,971.1
FDIC Guaranteed Corporate	123.6	2.2	—	125.8
Non-U.S. Government-backed Corporate	223.6	5.2	—	228.8
Foreign Government	601.0	16.9	(1.0)	616.9
Asset-backed	54.0	4.8	—	58.8
Non-agency Commercial Mortgage-backed	119.7	8.4	—	128.1
Agency Mortgage-backed	1,126.4	48.7	(2.6)	1,172.5
Total Fixed Maturities — Available for Sale	5,120.8	249.3	(9.7)	5,360.4
Short-Term Investments — Available for Sale	286.1	—	(0.1)	286.0
Total	\$ 5,406.9	\$ 249.3	\$ (9.8)	\$ 5,646.4

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The following table provides the contractual maturity distribution of our available for sale fixed income investments as at September 30, 2011 and December 31, 2010. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>As at September 30, 2011</u>		
	<u>Amortized Cost or Cost</u>	<u>Fair Market Value</u>	<u>Average Ratings by Maturity</u>
	(\$ in millions)		
Due one year or less	\$ 627.3	\$ 633.0	AA+
Due after one year through five years	2,064.5	2,174.2	AA
Due after five years through ten years	1,102.4	1,216.8	AA-
Due after ten years	101.4	117.7	AA-
Subtotal	3,895.6	4,141.7	
Non-agency Commercial Mortgage-backed	87.4	94.4	AA+
Agency Mortgage-backed	1,238.2	1,313.6	AA+
Other Asset-backed	54.0	59.0	AAA
Total Fixed Income Maturities — Available for Sale	<u>\$ 5,275.2</u>	<u>\$ 5,608.7</u>	

	<u>As at December 31, 2010</u>		
	<u>Amortized Cost or Cost</u>	<u>Fair Market Value</u>	<u>Average Ratings by Maturity</u>
	(\$ in millions)		
Due one year or less	\$ 337.7	\$ 343.8	AA+
Due after one year through five years	2,236.3	2,330.9	AA+
Due after five years through ten years	1,146.6	1,222.2	AA-
Due after ten years	100.1	104.1	AA
Subtotal	3,820.7	4,001.0	
Non-agency Commercial Mortgage-backed	119.7	128.1	AA+
Agency Mortgage-backed	1,126.4	1,172.5	AAA
Other Asset-backed	54.0	58.8	AAA
Total Fixed Income Maturities — Available for Sale	<u>\$ 5,120.8</u>	<u>\$ 5,360.4</u>	

Fixed Income Maturities — Trading. The following tables present the cost, gross unrealized gains and losses, and estimated fair value of trading investments in fixed maturities as at September 30, 2011 and December 31, 2010:

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	<u>As at September 30, 2011</u>			
	<u>Cost or</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair Market</u>
	<u>Amortized Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
		(\$ in millions)		
U.S. Government	\$ 16.5	1.5	—	\$ 18.0
U.S. Agency	1.5	0.2	—	1.7
Municipal	2.8	0.1	—	2.9
Corporate	335.4	15.2	(4.5)	346.1
Foreign Government	9.2	0.5	(0.1)	9.6
Asset Backed	5.8	—	—	5.8
Total Fixed Income Maturities — Trading	<u>\$ 371.2</u>	<u>\$ 17.5</u>	<u>\$ (4.6)</u>	<u>\$ 384.1</u>

	<u>As at December 31, 2010</u>			
	<u>Cost or</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair Market</u>
	<u>Amortized Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
		(\$ in millions)		
U.S. Government	\$ 48.9	\$ 0.1	\$ (0.7)	\$ 48.3
U.S. Agency	0.5	—	—	0.5
Municipal	3.2	0.1	—	3.3
Corporate	322.4	18.4	(1.0)	339.8
Foreign Government	8.9	0.5	—	9.4
Asset Backed	4.9	—	—	4.9
Total Fixed Income Maturities — Trading	<u>\$ 388.8</u>	<u>\$ 19.1</u>	<u>\$ (1.7)</u>	<u>\$ 406.2</u>

The Company classifies these financial instruments as held for trading as this most closely reflects the facts and circumstances of the investments held. The trading portfolio was established in 2009.

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Gross Unrealized Loss. The following tables summarize as at September 30, 2011 and December 31, 2010, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position for our available for sale portfolio:

	As at September 30, 2011						Number of Securities
	0-12 months		Over 12 months		Total		
	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	
	(\$ in millions)						
U.S. Government	\$ 49.2	\$ (0.1)	\$ —	\$ —	\$ 49.2	\$ (0.1)	9
U.S. Agency	2.8	—	—	—	2.8	—	1
Foreign Government	21.9	—	—	—	21.9	—	10
Municipal	2.4	—	—	—	2.4	—	1
Corporate	195.5	(3.9)	—	—	195.5	(3.9)	113
Non-U.S. Government-backed							
Corporate	13.6	—	3.9	—	17.5	—	14
Asset-backed	2.1	—	—	—	2.1	—	4
Non-agency Commercial Mortgage- backed	5.1	—	1.8	(0.1)	6.9	(0.1)	4
FDIC Guaranteed Corporate	3.0	—	—	—	3.0	—	3
Agency Mortgage-backed	8.9	—	0.1	—	9.0	—	6
Total Fixed Income Maturities —							
Available for Sale	304.5	(4.0)	5.8	(0.1)	310.3	(4.1)	165
Total Short-term Investments —							
Available for Sale	11.4	—	—	—	11.4	—	9
Total Equity Securities —							
Available for Sale	81.0	(10.7)	—	—	81.0	(10.7)	37
Total	<u>\$ 396.9</u>	<u>\$ (14.7)</u>	<u>\$ 5.8</u>	<u>\$ (0.1)</u>	<u>\$ 402.7</u>	<u>\$ (14.8)</u>	<u>211</u>

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	As at December 31, 2010						
	0-12 months		Over 12 months		Total		
	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Number of Securities
	(\$ in millions)						
U.S. Government	\$ 112.9	\$ (1.6)	\$ —	\$ —	\$ 112.9	\$ (1.6)	28
U.S. Agency	5.5	—	—	—	5.5	—	3
Municipal	16.0	(0.8)	—	—	16.0	(0.8)	6
Foreign Government	110.0	(1.0)	5.0	—	115.0	(1.0)	12
Corporate	188.2	(3.7)	2.2	—	190.4	(3.7)	101
Non-U.S. Government-backed							
Corporate	24.3	—	—	—	24.3	—	9
Asset-backed	0.2	—	—	—	0.2	—	1
Agency Mortgage-backed	182.6	(2.6)	0.3	—	182.9	(2.6)	57
Non-agency Commercial Mortgage-backed	2.9	—	—	—	2.9	—	4
Total Fixed Income Maturities —							
Available for Sale	642.6	(9.7)	7.5	—	650.1	(9.7)	221
Total Short-term investments —							
Available for Sale	45.8	(0.1)	—	—	45.8	(0.1)	22
Total	<u>\$ 688.4</u>	<u>\$ (9.8)</u>	<u>\$ 7.5</u>	<u>\$ —</u>	<u>\$ 695.9</u>	<u>\$ (9.8)</u>	<u>243</u>

Other-than-temporary impairments (“OTTI”). The Company recorded OTTI charges for the three and nine months ended September 30, 2011 of \$Nil (2010 — \$Nil) and \$Nil (2010 — \$0.3 million), respectively. The Company reviews its available for sale investment portfolio on an individual security basis for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The difference between the amortized cost/cost and the estimated fair market value of available for sale investments is monitored to determine whether any investment has experienced a decline in value that is believed to be other-than-temporary. A security is impaired when the fair value is below its amortized cost/cost.

In our review of fixed maturity investments, other-than-temporary impairment is deemed to occur when there is no objective evidence to support recovery in value of a security and a) we intend to sell the security or more likely than not will be required to sell the security before recovery of its adjusted amortized cost basis or b) it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealized loss position is taken as an OTTI charge to realized losses in earnings. In the second case, the unrealized loss is separated into the amount related to credit loss and the amount related to all other factors. The OTTI charge related to credit loss is recognized in realized losses in earnings and the amount related to all other factors is recognized in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments are made for subsequent recoveries in value.

Equity securities do not have a maturity date and therefore our review of these securities utilizes a higher degree of judgment. In our review we consider our ability and intent to hold an impaired equity security for a reasonable period of time to allow for a full recovery. Where a security is considered to be other-than-temporarily

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impaired, the entire charge is recognized in realized losses in earnings. Again, the cost basis of the investment is reduced accordingly and no adjustments are made for subsequent recoveries in value.

Although we review each security on a case by case basis, we have also established parameters to help identify securities in an unrealized loss position which are other-than-temporarily impaired. These parameters focus on the extent and duration of the impairment and for both fixed maturities and equities we consider declines in value of greater than 20% for 12 consecutive months to indicate that the security may be other-than-temporarily impaired.

U.S. Government and Agency Securities. U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and corporate debt issued by agencies such as the Government National Mortgage Association (“GNMA”), Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank.

Corporate Securities. Corporate securities are composed of short-term, medium-term and long-term debt issued by corporations and supra-national securities.

Foreign Government. Foreign government securities are composed of bonds issued and guaranteed by foreign governments such as the U.K., Canada, and France.

Municipals. Municipal securities are composed of bonds issued by U.S. municipalities.

Asset-Backed Securities. Asset-backed securities are securities backed by notes or receivables against assets other than real estate.

Mortgage-Backed Securities. Mortgage-backed securities are securities that represent ownership in a pool of mortgages. Both principal and income are backed by the group of mortgages in the pool. They include bonds issued by government-sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and Federal Farm Credit Bank.

Short-Term Investments. Short-term investments comprise highly liquid debt securities with a maturity greater than three months but less than one year from the date of purchase and are held as part of the investment portfolio of the Company. Short-term investments are classified as either trading or available for sale according to the facts and circumstances of the investment held, and carried at estimated fair value.

Equity Securities. Equity securities are comprised of U.S. and foreign equity securities and are classified as available for sale. The portfolio invests in high quality global equity securities with attractive dividend yields.

Other Investments. On May 19, 2009, Aspen Holdings invested \$25.0 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a Class 3 Bermudian reinsurer focusing on insurance-linked securities. On June 1, 2010, the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The Company’s involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company’s maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date. In addition to returns on its investment, the Company provides services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re.

The Company has determined that each of Cartesian Iris 2009A L.P. and Cartesian Iris Offshore Fund L.P. has the characteristics of a variable interest entity that are addressed by the guidance in ASC 810, *Consolidation*. Neither Cartesian Iris 2009A L.P. nor Cartesian Iris Offshore Fund L.P. is consolidated by the Company. The Company has no decision-making power, those powers having been reserved for the general partner. The

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arrangement with Cartesian Iris Offshore Fund L.P. is simply that of an investee to which the Company provides additional services, including the secondment of an employee working under the direction of the board of Iris Re.

The Company has accounted for its investments in Cartesian Iris 2009A L.P. and Cartesian Offshore Fund L.P. in accordance with the equity method of accounting. Adjustments to the carrying value of this investment are made based on our share of capital including our share of income and expenses, which is provided in the quarterly management accounts of the partnership. The adjusted carrying value approximates fair value. In the three and nine months ended September 30, 2011, our share of gains and losses increased the value of our investment by \$2.3 million (2010 — \$0.9 million increase) and \$2.3 million (2010 — \$1.4 million increase), respectively. The change in value has been recognized in realized and unrealized investment gains and losses in the unaudited condensed consolidated statement of operations.

The tables below show our other investments for the nine months ended September 30, 2011 and twelve months ended December 31, 2010:

	Nine Months Ended September 30, 2011				
	Opening Undistributed Fair Value of Investment	Realized Gain	Carrying Value	Funds Distributed	Closing Undistributed Fair Value of Investment
	(\$ in millions)				
Cartesian Iris Offshore Fund L.P.	\$ 30.0	\$ 2.3	\$ 32.3	\$ —	\$ 32.3

	Twelve Months Ended December 31, 2010				
	Opening Undistributed Fair Value of Investment	Realized Gain	Carrying Value	Funds Distributed	Closing Undistributed Fair Value of Investment
	(\$ in millions)				
Cartesian Iris 2009 A L.P.	\$ 27.3	\$ 0.5	\$ 27.8	\$ (27.8)	\$ —
Cartesian Iris Offshore Fund L.P.	\$ 27.8	\$ 2.2	\$ 30.0	\$ —	\$ 30.0

Investment Purchases and Sales. The following table sets out an analysis of investment purchases, sales and maturities:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(\$ in millions)		(\$ in millions)	
Purchase of fixed income maturities	\$ 381.2	\$ 776.7	\$ 1,879.8	\$ 1,883.2
Net purchases of equity securities	3.7	—	173.1	—
(Proceeds) from sales and maturities of fixed income maturities	(400.8)	(693.7)	(1,754.2)	(1,709.3)
Net change in (receivable)/payable for securities (sold)/purchased	(1.0)	(33.0)	40.7	(40.6)
Net (sales)/purchases of short-term investments	98.7	(19.3)	7.4	(78.5)
Net purchases for the period	\$ 81.8	\$ 30.7	\$ 346.8	\$ 54.8

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Investment Income. The following is a summary of investment income:

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(\$ in millions)		(\$ in millions)	
Fixed income maturities — Available for sale	\$ 51.0	\$ 54.1	\$ 154.0	\$ 163.7
Fixed income maturities — Trading portfolio	4.2	4.5	12.8	13.3
Short-term investments — Available for sale	0.3	0.5	0.8	1.2
Short-term investments — Trading portfolio	—	—	0.1	—
Fixed term deposits (included in cash and cash equivalents)	2.0	0.7	4.4	2.0
Equity securities	1.7	—	4.9	—
Total	\$ 59.2	\$ 59.8	\$ 177.0	\$ 180.2
Investment expenses	(1.9)	(1.7)	(5.6)	(5.2)
Net investment income	\$ 57.3	\$ 58.1	\$ 171.4	\$ 175.0

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The following table summarizes the pre-tax realized investment gains and losses, and the change in unrealized gains and losses on investments recorded in shareholders' equity and in comprehensive income:

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(\$ in millions)		(\$ in millions)	
Pre-tax realized and unrealized investment gains and losses included in income statement:				
Available for sale short-term investments, fixed income maturities and equity securities:				
Gross realized gains	\$ 5.1	\$ 8.5	\$ 24.5	\$ 21.1
Gross realized (losses)	(0.7)	(0.3)	(5.2)	(0.9)
Trading portfolio short-term investments and fixed income maturities:				
Gross realized gains	1.4	5.1	5.9	8.5
Gross realized (losses)	(0.1)	(0.6)	(1.6)	(1.7)
Net change in gross unrealized gains/(losses)	(4.8)	8.5	(4.5)	12.0
Impairments:				
Total other-than-temporary impairments	—	—	—	(0.3)
Equity accounted investments:				
Gross realized (losses)/gains in Cartesian Iris	2.3	0.9	2.3	1.4
Total pre-tax realized and unrealized investment gains and losses included in income statement:	<u>\$ 3.2</u>	<u>\$ 22.1</u>	<u>\$ 21.4</u>	<u>\$ 40.1</u>
Change in available for sale unrealized gains/(losses):				
Fixed income maturities	81.8	68.2	94.0	175.9
Short-term investments	0.1	—	—	—
Equity securities	(10.2)	—	(3.8)	—
Total change in pre-tax available for sale unrealized gains/(losses)	71.7	68.2	90.2	175.9
Change in taxes	(7.9)	(6.7)	(7.3)	(14.5)
Total change in unrealized gains/(losses), net of taxes	<u>\$ 63.8</u>	<u>\$ 61.5</u>	<u>\$ 82.9</u>	<u>\$ 161.4</u>

7. Fair Value Measurements

Fair Value Measurements. Our estimates of fair value for financial assets and liabilities are based on the framework established in the fair value accounting guidance included in ASC Topic 820, *Fair Value Measurements and Disclosures*. The framework prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels, which are described in more detail below.

- Level 1 — Valuations based on unadjusted quoted prices in active markets, to which the Company has access, for identical assets or liabilities.

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- Level 2 — Valuations based on inputs other than unadjusted quoted prices in active markets for identical assets or liabilities. Inputs include quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices which are directly or indirectly observable for the asset or liability (for example interest rates, yield curves, prepayment speeds, default rates, loss severities).
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's own views about the assumptions that market participants would use in pricing the asset or liability.

Where inputs to the valuation of an asset or liability fall into more than one level of the fair value hierarchy, the classification of the asset or liability will be within the lowest level identified as significant to the valuation.

Our fixed income securities are traded on the over-the-counter market, based on prices provided by one or more market makers in each security. Securities such as U.S. Government, U.S. Agency, Foreign Government and investment grade corporate bonds have multiple market makers in addition to readily observable market value indicators such as expected credit spread, except for Treasury securities, over the yield curve. We use a variety of pricing sources to value our fixed income securities including those securities that have pay down/prepay features such as mortgage-backed securities and asset-backed securities in order to ensure fair and accurate pricing. The fair value estimates for the investment grade securities in our portfolio do not use significant unobservable inputs or modeling techniques.

Equity securities include U.S. and foreign common stocks which are classified as available for sale and carried at fair value. These securities are classified within Level 1 as their fair values are based on quoted market prices in active markets from independent pricing sources.

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The following tables present our assets measured at fair value on a recurring basis within the fair value hierarchy at September 30, 2011 and December 31, 2010.

	As at September 30, 2011			Total
	Level 1	Level 2	Level 3	
	(\$ in millions)			
Fixed income maturities available for sale, at fair value				
U.S. Government	\$ 889.4	\$ —	\$ —	\$ 889.4
U.S. Government Agency	—	281.5	—	281.5
Municipal	—	36.5	—	36.5
Foreign Government	545.3	135.9	—	681.2
Non-agency Commercial Mortgage-backed	—	94.4	—	94.4
Agency Mortgage-backed	—	1,313.6	—	1,313.6
Asset-backed	—	59.0	—	59.0
Corporate	—	1,968.3	—	1,968.3
FDIC Guaranteed Corporate	—	93.6	—	93.6
Bonds backed by Foreign Government	—	191.2	—	191.2
Total fixed income maturities available for sale, at fair value	1,434.7	4,174.0	—	5,608.7
Short-term investments available for sale, at fair value	258.0	32.6	—	290.6
Equity investments available for sale, at fair value	163.8	—	—	163.8
Fixed income maturities trading, at fair value				
U.S. Government	18.0	—	—	18.0
U.S. Government Agency	—	1.7	—	1.7
Municipal	—	2.9	—	2.9
Foreign Government	4.1	5.5	—	9.6
Asset-backed	—	5.8	—	5.8
Corporate	—	346.1	—	346.1
Total fixed income maturities trading, at fair value	22.1	362.0	—	384.1
Short-term investments trading, at fair value	3.6	1.7	—	5.3
Derivatives at fair value	—	5.8	—	5.8
Total	\$ 1,882.2	\$ 4,576.1	\$ —	\$ 6,458.3

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2011.

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	As at December 31, 2010			Total
	Level 1	Level 2	Level 3	
	(\$ in millions)			
Fixed income maturities available for sale, at fair value				
U.S. Government	\$ 725.4	\$ —	\$ —	\$ 725.4
U.S. Government Agency	—	302.3	—	302.3
Municipal	—	30.7	—	30.7
Foreign Government	507.5	109.4	—	616.9
Non-agency Commercial Mortgage-backed	—	128.1	—	128.1
Agency Mortgage-backed	—	1,172.5	—	1,172.5
Asset-backed	—	58.8	—	58.8
Corporate	—	1,964.3	6.8	1,971.1
FDIC Guaranteed Corporate	—	125.8	—	125.8
Bonds backed by Foreign Government	—	228.8	—	228.8
Total fixed income maturities available for sale, at fair value	1,232.9	4,120.7	6.8	5,360.4
Short-term investments available for sale, at fair value	246.8	39.2	—	286.0
Fixed income maturities trading, at fair value				
U.S. Government	48.3	—	—	48.3
U.S. Government Agency	—	0.5	—	0.5
Municipal	—	3.3	—	3.3
Foreign Government	4.1	5.3	—	9.4
Asset-backed	—	4.9	—	4.9
Corporate	—	339.8	—	339.8
Total fixed income maturities trading, at fair value	52.4	353.8	—	406.2
Short-term investments trading, at fair value	—	3.7	—	3.7
Derivatives at fair value	—	6.8	—	6.8
Total	<u>\$ 1,532.1</u>	<u>\$ 4,524.2</u>	<u>\$ 6.8</u>	<u>\$ 6,063.1</u>

Fixed income maturities classified as Level 3 at December 31, 2010, related to securities of Lehman Brothers Holdings, Inc. (“Lehman Brothers”) which were subsequently sold in the first quarter of 2011. Although the market value of Lehman Brothers bonds was based on broker-dealer quoted prices, management believed the valuation to be based, in part, on market expectations of future recoveries out of bankruptcy proceedings, which involved significant unobservable inputs to the valuation. Derivatives at fair value consist of the interest-rate swaps and the forward exchange contracts as described in Note 9.

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The following tables present a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the nine months ended September 30, 2011:

	<u>Nine Months Ended September 30, 2011</u>		
	<u>Fixed Maturity</u> <u>Investments</u>	<u>Derivatives at</u> <u>Fair Value</u>	<u>Total</u>
	(\$ in millions)		
Level 3 assets as of January 1, 2011	\$ 6.8	\$ —	\$ 6.8
Total unrealized gains or (losses):			
Included in comprehensive income	(4.0)	—	(4.0)
Included in earnings	4.8	—	4.8
Sales	(7.6)	—	(7.6)
Level 3 assets as of September 30, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

There were no transactions during the three months ended September 30, 2011.

The following tables present a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the three and nine months ended September 30, 2010:

	<u>Three Months Ended September 30, 2010</u>		
	<u>Fixed Maturity</u> <u>Investments</u>	<u>Derivatives at</u> <u>Fair Value</u>	<u>Total</u>
	(\$ in millions)		
Level 3 assets as of July 1, 2010	\$ 14.7	\$ 3.1	\$17.8
Total unrealized gains or (losses):			
Included in comprehensive income	0.6	—	0.6
Included in earnings	—	(1.9)	(1.9)
Level 3 assets as of September 30, 2010	<u>\$ 15.3</u>	<u>\$ 1.2</u>	<u>\$16.5</u>

	<u>Nine Months Ended September 30, 2010</u>		
	<u>Fixed Maturity</u> <u>Investments</u>	<u>Derivatives at</u> <u>Fair Value</u>	<u>Total</u>
	(\$ in millions)		
Level 3 assets as of January 1, 2010	\$ 14.9	\$ 6.7	\$21.6
Total unrealized gains or (losses):			
Included in comprehensive income	0.4	—	0.4
Included in earnings	—	(5.5)	(5.5)
Level 3 assets as of September 30, 2010	<u>\$ 15.3</u>	<u>\$ 1.2</u>	<u>\$16.5</u>

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The following table presents a reconciliation of the beginning and ending balances for the liabilities under derivative contracts measured at fair value on a recurring basis using Level 3 inputs during the three and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(\$ in millions)	
Beginning Balance	\$ 5.6	\$ 9.2
Total realized losses/(gains) included in earnings	2.4	2.4
Settlements	(4.3)	(7.9)
Ending Balance	<u>\$ 3.7</u>	<u>\$ 3.7</u>

There were no transactions during the three and nine months ended September 30, 2011.

8. Reinsurance

We purchase retrocession and reinsurance to limit and diversify the Company's risk exposure and to increase its own insurance underwriting capacity. These agreements provide for recovery of a portion of losses and loss adjustment expenses from reinsurers. As is the case with most reinsurance treaties, the Company remains liable to the extent that reinsurers do not meet their obligations under these agreements, and therefore, in line with its risk management objectives, the Company evaluates the financial condition of its reinsurers and monitor concentrations of credit risk.

Balances pertaining to reinsurance transactions are reported "gross" on the consolidated balance sheet, meaning that reinsurance recoverables on unpaid losses and ceded unearned premiums are not deducted from insurance reserves but are recorded as assets.

The largest concentrations of reinsurance recoverables as at September 30, 2011, were with Lloyd's on Lloyd's syndicates which are all rated A (Excellent) by A.M. Best and A+ (Strong) by S&P and with Munich Re which is rated A+ (Superior) by A.M. Best and AA- (Very Strong) by S&P, for their financial strength. Balances with Lloyd's and Munich Re represented 28.4% and 12.7%, respectively, of reinsurance recoverables (December 31, 2010 — 33.2% and 13.2%).

9. Derivative Contracts

The following tables summarize information on the location and amounts of derivative fair values on the consolidated balance sheet as at September 30, 2011 and December 31, 2010:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Balance Sheet Location	As at September 30, 2011		As at December 31, 2010	
		Notional Amount	Fair Value	Notional Amount	Fair Value
		(\$ in millions)		(\$ in millions)	
Interest-Rate Swaps	Derivatives at Fair Value	\$ 1,000.0	\$ 0.2(1)	\$ 500.0	\$ 6.8
Forward Exchange Contracts	Derivatives at Fair Value	\$ 178.4	\$ 5.6	\$ —	\$ —

(1) Net of \$45.8 million of cash collateral provided to counterparties as security for our net liability position.

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The following tables provide the unrealized and realized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2011 and 2010:

<u>Derivatives Not Designated as Hedging Instruments Under ASC 815</u>	<u>Location of Gain/(Loss) Recognized in Income</u>	<u>Amount of Gain/(Loss) Recognized in Income</u>	
		<u>Three Months Ended</u>	
		<u>September 30, 2011</u>	<u>September 30, 2010</u>
(\$ in millions)			
Credit Insurance Contract	Change in Fair Value of Derivatives	\$ —	\$ (1.7)
Forward Exchange Contracts(1)	Change in Fair Value of Derivatives/ Net Foreign Exchange Gains and Losses	\$ 6.1	\$ —
Interest-Rate Swaps	Change in Fair Value of Derivatives	\$ (36.1)	\$ (2.0)

<u>Derivatives Not Designated as Hedging Instruments Under ASC 815</u>	<u>Location of Gain/(Loss) Recognized in Income</u>	<u>Amount of Gain/(Loss) Recognized in Income</u>	
		<u>Nine Months Ended</u>	
		<u>September 30, 2011</u>	<u>September 30, 2010</u>
(\$ in millions)			
Credit Insurance Contract	Change in Fair Value of Derivatives	\$ —	\$ (5.7)
Forward Exchange Contracts(1)	Change in Fair Value of Derivatives/ Net Foreign Exchange Gains and Losses	\$ 5.8	\$ 1.2
Interest-Rate Swaps	Change in Fair Value of Derivatives	\$ (61.5)	\$ (2.1)

(1) The changes in fair value for forward exchange contracts for the three and nine months ended September 30, 2011 are included in changes in fair value of derivatives to be consistent with the treatment for other derivative contracts.

Credit Insurance Contract. On November 28, 2006, the Company entered into a credit insurance contract which, subject to its terms, insured the Company against losses due to the inability of one or more of our reinsurance counterparties to meet their financial obligations to the Company. The Company considered the contract to be a derivative instrument because the final settlement was expected to take place two years after expiry of cover and included an amount attributable to outstanding and incurred but not reported (“IBNR”) claims which may not at that point in time be due and payable to the Company. The contract was treated as an asset or a liability and measured at the directors’ estimate of fair value.

The contract was for five years and provided 90% cover for a named panel of reinsurers up to individual defined sub-limits. The contract did allow, subject to certain conditions, for substitution and replacement of panel members if the Company’s panel of reinsurers changes. Payments were made on a quarterly basis throughout the period of the contract based on the aggregate limit, which was set initially at \$477.0 million but was subject to adjustment. On October 26, 2010, we gave notice of our intention to cancel our credit insurance contract with effect from November 28, 2010. The notice of cancellation triggered a final payment of \$1.9 million to the contract counterparties.

Foreign Exchange Contracts. The Company uses forward exchange contracts to manage foreign currency risk. A forward foreign currency exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of the Company’s assets and liabilities denominated in foreign currencies but rather allows it to establish a rate of exchange for a future point in time. The increase in the number of contracts purchased in the first nine months of 2011 compared to the first nine months of 2010 is due to hedging against foreign currency losses from the earthquakes in New Zealand and Japan. The foreign currency contracts are recorded as derivatives at fair value with changes recorded as a net foreign exchange gain or loss in the Company’s statement of operations. As at

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September 30, 2011, the Company had five forward contracts outstanding, resulting in a gain for the three and nine months of \$6.1 million and \$5.8 million respectively (2010 — no forward contracts outstanding).

Interest Rate Swaps. As at September 30, 2011, the Company held a number of standard fixed for floating interest-rate swaps with a total notional amount of \$1.0 billion that are due to mature between August 2, 2012 and November 9, 2020. The swaps are used in the ordinary course of the Company's investment activities to partially mitigate the negative impact of rises in interest rates on the market value of the Company's fixed income portfolio. For the three and nine months ended September 30, 2011, there was a charge in respect of the interest-rate swaps of \$36.1 million and \$61.5 million, respectively (2010 — \$2.0 million and \$2.1 million) primarily due to falling interest rates and their impact on fixed income valuations and yields.

As at September 30, 2011, cash collateral with a fair value of \$45.8 million has been transferred to the Company's counterparties to support the current valuation of the interest rate swaps. At December 31, 2010, non-cash collateral with a fair value of \$7.7 million was transferred by the Company's counterparties. In accordance with FASB ASC 860 Topic Transfers and Servicing, transfers of cash collateral are recorded on the balance sheet within Derivatives at Fair Value, while transfers in respect of non-cash collateral are disclosed but not recorded.

Under the derivative accounting guidance, none of the derivatives described above meets the requirements for hedge accounting. Changes in the estimated fair value were included in the consolidated statement of operations.

10. Reserves for Losses and Adjustment Expenses

The following table represents a reconciliation of beginning and ending consolidated loss and loss adjustment expenses ("LAE") reserves for the nine months ended September 30, 2011, and twelve months ended December 31, 2010:

	As at September 30, 2011	As at December 31, 2010
	(\$ in millions)	
Provision for losses and LAE at the start of the year	\$ 3,820.5	\$ 3,331.1
Less reinsurance recoverable	(279.9)	(321.5)
Net loss and LAE at the start of the year	3,540.6	3,009.6
Net loss and LAE expenses (disposed)	(23.4)	(35.5)
Provision for losses and LAE for claims incurred:		
Current year	1,231.8	1,270.1
Prior years	(70.3)	(21.4)
Total incurred	1,161.5	1,248.7
Losses and LAE payments for claims incurred:		
Current year	(104.5)	(116.5)
Prior years	(541.5)	(550.3)
Total paid	(646.0)	(666.8)
Foreign exchange losses/(gains)	9.0	(15.4)
Net losses and LAE reserves at period end	4,041.7	3,540.6
Plus reinsurance recoverable on unpaid losses at period end	357.7	279.9
Provision for losses and LAE at September 30, 2011 and December 31, 2010	\$ 4,399.4	\$ 3,820.5

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For the nine months ended September 30, 2011, there were reserve releases of \$70.3 million compared to \$8.8 million for the nine months ended September 30, 2010 in our estimate of the ultimate claims to be paid in respect of prior accident years. For additional information on our reserve releases, please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Reserves for Losses and Loss Adjustment Expenses.” The \$23.4 million net loss and LAE expenses disposed in the nine months ended September 30, 2011 (twelve months ended December 31, 2010 — \$35.5 million) relates to the commutation of certain contracts in specialty reinsurance.

11. Capital Structure

The following table provides a summary of the Company’s authorized and issued share capital at September 30, 2011 and December 31, 2010:

	<u>As at September 30, 2011</u>		<u>As at December 31, 2010</u>	
	<u>Number</u>	<u>\$ in Thousands</u>	<u>Number</u>	<u>\$ in Thousands</u>
Authorized Share Capital:				
Ordinary Shares 0.15144558¢ per share	969,629,030	1,469	969,629,030	1,469
Non-Voting Shares 0.15144558¢ per share	6,787,880	10	6,787,880	10
Preference Shares 0.15144558¢ per share	100,000,000	152	100,000,000	152
Issued Share Capital:				
Issued ordinary shares of 0.15144558¢ per share	70,595,201	107	70,508,013	107
Issued preference shares of 0.15144558¢ each with a liquidation preference of \$50 per share	4,600,000	7	4,600,000	7
Issued preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	5,327,500	8	5,327,500	8
Total issued share capital		<u>122</u>		<u>122</u>
		<u>As at September 30, 2011</u>		<u>As at December 31, 2010</u>
		(\$ in millions)		(\$ in millions)
Additional paid-in capital	<u>\$</u>	<u>1,381.8</u>	<u>\$</u>	<u>1,388.3</u>

Ordinary Shares. The following table summarizes transactions in the Company’s ordinary shares during the nine-month period ended September 30, 2011:

	<u>Number of Shares</u>
Shares in issue at December 31, 2010	70,508,013
<i>Share transactions in the nine months ended September 30, 2011:</i>	
Shares issued to the Names’ trust upon exercise of investor options (refer to Note 12)	255,115
Shares issued to employees under the share incentive plan	654,812
Shares issued to non-employee directors	32,414
Ordinary share repurchases from shareholders	(855,153)
Shares in issue at September 30, 2011	<u>70,595,201</u>

Ordinary Share Repurchases. On November 10, 2010, the Company entered into an accelerated share repurchase program with Barclays Capital to repurchase \$184 million of its ordinary shares. As of December 15,

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2010, a total of 5,737,449 ordinary shares were received and cancelled. Upon completion of the contract on March 14, 2011, an additional 542,736 ordinary shares were received and cancelled. A total of 6,280,185 ordinary shares were cancelled under the contract.

On February 16, 2011, an agreement was signed to repurchase 58,310 shares from the Names' Trustee, as defined below. The shares were repurchased on March 10, 2011 and subsequently cancelled.

On June 29, 2011, an agreement was signed to repurchase 254,107 shares from the Names' Trustee, as defined below. The shares were repurchased on August 10, 2011 and subsequently cancelled.

12. Share Based Payments

The Company has issued options and other equity incentives under four arrangements: investor options, employee awards, non-employee director awards and the employee share purchase plans. When options are exercised or other equity awards have vested, new shares are issued as the Company does not currently hold treasury shares. The Company applies a fair value based measurement method and an estimate of future forfeitures in the calculation of the compensation costs of stock options, performance shares and restricted share units.

Investor Options. The investor options were issued on June 21, 2002 to Wellington Investment Holdings (Jersey) Limited ("Wellington Investment") and members of Syndicate 2020 who were not corporate members of Syndicate 2020. The options conferred to the members of Syndicate 2020 are held for their benefit by Appleby Services (Bermuda) Ltd. (formerly Appleby Trust (Bermuda) Limited) ("Names' Trustee"). The subscription price payable under the options is initially £10 and increases by 5% per annum, less any dividends paid. Option holders are not entitled to participate in any dividends prior to exercise and would not rank as a creditor in the event of liquidation. If not exercised, the options will expire on June 21, 2012. During the three and nine months ended September 30, 2011, the Names' Trustee exercised 13,154 and 758,932 options on a cash and cashless basis, respectively (2010 — 9,549 and 24,560 options).

Employee and Non-Executive Director Awards. Employee options and other awards are granted under the Aspen 2003 Share Incentive Plan and non-executive director awards are granted under the 2006 Stock Option Plan for Non-Employee Directors.

Stock options are granted with an exercise price equivalent to the fair value of the share on the grant date. The weighted average value at grant date is determined using the Black-Scholes option pricing model. Stock options typically vest over a three-year period with a ten-year contract period (except for options granted in 2007 which have a seven-year exercise period) with vesting dependent on time and performance conditions established at the time of grant. No options were granted in the three and nine months ended September 30, 2011 (2010 — Nil); no options were exercised during the three months ended September 30, 2011 (2010 — 199,758) and 9,208 options were exercised during the nine months ended September 30, 2011 (2010 — 721,569). Compensation costs credited against income in respect of employee options for the three and nine months ended September 30, 2011 were both \$Nil (2010 — \$Nil and \$0.5 million).

Restricted share units ("RSU's") granted to employees vest equally over a two or three-year period. Some of the grants vest at year-end, while some other grants vest on the anniversary of the date of grant or when the Compensation Committee of the Board agrees to deliver them. The fair value of the restricted share units is based on the closing price on the date of the grant. The fair value is expensed through the income statement evenly over the vesting period. During the three and nine months ended September 30, 2011, the Company granted to employees 36,695 and 166,445 restricted share units, respectively (2010 — 45,134 and 153,589). In the case of non-employee directors, one-twelfth of the RSU's vest on each one month anniversary of the date of grant, with 100% of the RSU's becoming vested on the first anniversary of the date of grant. On February 3, 2011 (with a grant date of February 9, 2011), the Board of Directors approved a total of 23,408 RSU's for the non-employee directors (February 11, 2010 — 28,640) and 16,722 RSU's to the Chairman (February 11, 2010 — 17,902). Compensation costs charged

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against income in respect of restricted share units for the three and nine months ended September 30, 2011 were \$0.7 million and \$4.0 million, respectively (2010 — \$1.0 million and \$2.6 million).

The fair value of performance share awards is based on the value of the average of the high and low of the share price on the date of the grant less a deduction for expected dividends which would not accrue during the vesting period. Performance shares vest over a three or four-year period with shares eligible for vesting dependent on the achievement of performance targets at the end of specified periods as established at the time of grant. Compensation costs charged against income in the three and nine months ended September 30, 2011 in respect of performance shares were both \$Nil (2010 — \$2.7 million and \$5.0 million).

2011 Performance Shares. On February 3 and 4, 2011, the Compensation Committee approved the grant of 853,223 performance shares with a grant date of February 9, 2011. Additional grants of 31,669 and 5,902 performance shares were made on March 21, 2011 and May 2, 2011, respectively (nine months ended September 30, 2010 — 730,653). The performance shares will be subject to a three-year vesting period with a separate annual Return on Equity (“ROE”) test for each year. One-third of the grant will be eligible for vesting each year based on a formula, and will only be issuable at the end of the three-year period. If the ROE achieved in 2011 is less than 6%, then the portion of the performance shares subject to the vesting conditions in such year will be forfeited (i.e. 33.33% of the initial grant). If the ROE achieved in 2011 is between 6% and 11%, then the percentage of the performance shares eligible for vesting will be between 10% and 100% on a straight-line basis. If the ROE achieved in 2011 is between 11% and 21%, then the percentage of the performance shares eligible for vesting will be between 100% and 200% on a straight-line basis. The Compensation Committee will determine the vesting conditions for the 2012 and 2013 portions of the grant in such years taking into consideration the market conditions and the Company’s business plans at the commencement of the years concerned. Notwithstanding the vesting criteria for each given year, if in any given year, the shares eligible for vesting are greater than 100% for the portion of such year’s grant and the average ROE over such year and the preceding year is less than the average of the minimum vesting thresholds for such year and the preceding year, then only 100% (and no more) of the shares that are eligible for vesting in such year shall vest. If the average ROE over the two years is greater than the average of the minimum vesting thresholds for such year and the preceding year, then there will be no diminution in vesting and the shares eligible for vesting in such year will vest in accordance with the vesting schedule without regard to the average ROE over the two-year period.

Employee Share Purchase Plans. On April 30, 2008, the shareholders of the Company approved the Employee Share Purchase Plan (the “ESPP”), the 2008 Sharesave Scheme and the International Employee Share Purchase Plan, which are implemented by a series of consecutive offering periods as determined by the Board. In respect of the ESPP, employees can save up to \$500 per month over a two-year period, at the end of which they will be eligible to purchase Company shares at a discounted price. In respect of the 2008 Sharesave Scheme, employees can save up to £250 per month over a three-year period, at the end of which they will be eligible to purchase Company shares at a discounted price. The purchase price will be eighty-five percent (85%) of the fair market value of a share on the offering date which may be adjusted upon changes in capitalization of the Company. Under the plan, 1,174 shares and 42,538 shares were issued during the three and nine months ended September 30, 2011, respectively (for the three and nine months ended September 30, 2010 — 1,582 shares). Compensation costs charged against income in the three and nine months ended September 30, 2011 in respect of the ESPP were \$0.1 million and \$0.4 million, respectively (2010 — \$0.1 million and \$0.5 million).

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13. Intangible Assets

	Three Months Ended September 30, 2011				Three Months Ended September 30, 2010			
	Trade Mark	Insurance Licenses	Other	Total	Trade Mark	Insurance Licenses	Other	Total
	(\$ in millions)				(\$ in millions)			
Intangible Assets								
Beginning of the period	\$ 1.5	\$ 16.6	\$ 2.4	\$20.5	\$ 1.6	\$ 6.6	\$ 3.3	\$11.5
Additions	—	—	—	—	—	10.0	—	10.0
Amortization	—	—	(0.2)	(0.2)	—	—	(0.1)	(0.1)
End of the period	<u>\$ 1.5</u>	<u>\$ 16.6</u>	<u>\$ 2.2</u>	<u>\$20.3</u>	<u>\$ 1.6</u>	<u>\$ 16.6</u>	<u>\$ 3.2</u>	<u>\$21.4</u>
	Nine Months Ended September 30, 2011				Nine Months Ended September 30, 2010			
	Trade Mark	Insurance Licenses	Other	Total	Trade Mark	Insurance Licenses	Other	Total
	(\$ in millions)				(\$ in millions)			
Intangible Assets								
Beginning of the period	\$ 1.5	\$ 16.6	\$ 2.9	\$21.0	\$ 1.6	\$ 6.6	\$ 3.6	\$11.8
Additions	—	—	—	—	—	10.0	—	10.0
Amortization	—	—	(0.7)	(0.7)	—	—	(0.4)	(0.4)
End of the period	<u>\$ 1.5</u>	<u>\$ 16.6</u>	<u>\$ 2.2</u>	<u>\$20.3</u>	<u>\$ 1.6</u>	<u>\$ 16.6</u>	<u>\$ 3.2</u>	<u>\$21.4</u>

License to use the “Aspen” Trademark. On April 5, 2005, the Company entered into an agreement with Aspen (Actuaries and Pension Consultants) Plc to acquire the right to use the Aspen trademark for a period of 99 years in the United Kingdom. The consideration paid was approximately \$1.6 million. The consideration paid was initially capitalized and recognized as an intangible asset on the Company’s balance sheet and was amortized on a straight-line basis over the useful economic life of the trademark which was considered to be 99 years. On November 10, 2009, the Company purchased for approximately \$800 the right to use the Aspen trademark indefinitely from the Capita Group PLC, parent to Capita Hartshead (Actuaries & Pension Consultants) Ltd, formerly known as Aspen (Actuaries & Pension Consultants) Plc.

APJ Transaction. On January 22, 2010, the Company entered into a sale and purchase agreement to purchase APJ Continuation Limited and its subsidiaries (“APJ”) for an aggregate consideration of \$4.8 million. The Company closed the transaction on March 22, 2010. The directors of Aspen Holdings have assessed the fair value of the net tangible and financial assets acquired at \$1.2 million. The \$3.6 million intangible asset represents our assessment of the value of renewal rights and distribution channels (\$2.2 million) and the lock-in period for employees associated with the business (\$1.4 million).

U.S. Insurance Company. On February 4, 2010, the Company entered into a stock purchase agreement to purchase a U.S. insurance company, now renamed Aspen American Insurance Company, with licenses to write insurance business on an admitted basis in the U.S. The value of these licenses was \$10.0 million and the Company completed the transaction on August 16, 2010.

14. Commitments and Contingencies

(a) Restricted assets

The Company is obliged by the terms of its contractual obligations to U.S. policyholders and by undertakings to certain regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders.

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The following table shows the forms of collateral or other security provided to policyholders as at September 30, 2011 and December 31, 2010:

	<u>As at September 30, 2011</u>	<u>As at December 31, 2010</u>
	(\$ in millions, except percentages)	
Assets held in multi-beneficiary trusts	\$ 1,660.2	\$ 1,895.7
Assets held in single-beneficiary trusts	334.7	58.2
Letter of credit issued under revolving credit facility	25.2	—
Secured letters of credit(1)	1,101.0	533.8
Total	<u>\$ 3,121.1</u>	<u>\$ 2,487.7</u>
Total as percent of cash and invested assets	<u>41.5%</u>	<u>34.2%</u>

(1) As of September 30, 2011, the Company had securities and cash of \$1,323.5 million and £19.4 million (December 31, 2010 — \$699.9 million and £30.0 million) as collateral for the secured letters of credit.

On April 29, 2009, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated October 29, 2008 in a maximum aggregate amount of up to \$450 million with a new letter of credit facility in a maximum aggregate amount of up to \$550 million. On August 12, 2011, the maximum aggregate amount was increased to \$1,050.0 million. The Company had \$898.4 million of outstanding collateralized letters of credit under this facility at September 30, 2011. Included in outstanding collateralized letters of credit is a letter of credit for \$231.7 million provided to AUL as Funds at Lloyd's and described below.

On February 28, 2011, Aspen U.K. and Aspen Bermuda entered into an amendment to the \$200.0 million secured letter of credit facility agreement with Barclays Bank PLC ("Barclays") dated as of October 6, 2009. The amendment extends the maturity date of the credit facility to December 31, 2013. All letters of credit issued under the facility are used to support reinsurance obligations of the parties to the agreement and their respective subsidiaries. The Company had \$118.9 million of outstanding collateralized letters of credit under this facility at September 30, 2011.

On July 31, 2010, Aspen Holdings and its various subsidiaries replaced its then existing \$450.0 million revolving credit facility with a three year \$280.0 million revolving credit facility.

Funds at Lloyd's. AUL operates in Lloyd's as the corporate member for Syndicate 4711. Lloyd's determines Syndicate 4711's required regulatory capital principally based on the syndicate's annual business plan. Such capital, called Funds at Lloyd's, comprises: cash, investments and a fully collateralized letter of credit. The amounts of cash, investments and letter of credit at September 30, 2011 amounted to \$245.5 million (December 31, 2010 — \$230.3 million).

Interest-rate Swaps. As at September 30, 2011, cash collateral with a fair value of \$45.8 million has been transferred to the Company's counterparties to support the current valuation of the interest rate swaps. At December 31, 2010, non-cash collateral with a fair value of \$7.7 million was transferred to the Company by its counterparties. In accordance with FASB ASC 860 Topic Transfers and Servicing, transfers of cash collateral are recorded on the balance sheet within Derivatives at Fair Value, while transfers in respect of non-cash collateral are disclosed but not recorded.

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(b) *Operating leases*

Amounts outstanding under operating leases net of subleases as of September 30, 2011 were:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Later</u>	<u>Total</u>
	(\$ in millions)					<u>Years</u>	
Operating Lease Obligations	\$ 2.7	\$10.2	\$ 9.5	\$ 9.2	\$ 8.7	\$ 25.1	\$65.4

(c) *Variable interest entities*

The Company has no investments in variable interest entities other than *Cartesian Iris 2009A L.P.* and *Cartesian Iris Offshore Fund L.P.* as disclosed in Note 6.

15. **Subsequent Events**

On or after October 12, 2011, significant floods began to take place in Bangkok, Thailand, which have caused substantial damage. The Company is currently assessing its potential claims relating to these events, but information is not sufficient to arrive at reasonable estimates at the date of filing.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this Form 10-Q and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2010, as well as the discussions of critical accounting policies, contained in our Financial Statements in our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business and in "Outlook and Trends" below, includes forward-looking statements that involve risk and uncertainties. Please see the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in this report and the "Risk Factors" in Item 1A of our 2010 Annual Report on Form 10-K for more information on factors that could cause actual results to differ materially from the results described in or implied by any forward-looking statements contained in this discussion and analysis.

On October 14, 2011, we announced that Mario Vitale will be appointed as co-CEO of Aspen Insurance with effect from January 1, 2012 when John Cavoore steps down from the role. This appointment is in addition to Mr. Vitale's current responsibility as President of Aspen US Insurance. In his new role, Mr. Vitale will work jointly with Rupert Villers, co-CEO of Aspen Insurance in developing Aspen's insurance operations. Mr. Cavoore will remain a Director of Aspen.

Overview

We are a Bermuda holding company. We write insurance and reinsurance business through our wholly-owned subsidiaries in three major jurisdictions: Aspen U.K. and AUL, corporate member of Syndicate 4711 at Lloyd's of London (United Kingdom), Aspen Bermuda (Bermuda), Aspen Specialty and AAIC (United States). Aspen U.K. also has branches in Paris, France; Zurich, Switzerland; Dublin, Ireland; Cologne, Germany; Singapore; Australia; and Canada. We operate in global markets for property and casualty insurance and reinsurance.

Highlights of our results for the three months ended September 30, 2011 were:

- Diluted book value per share⁽¹⁾ of \$38.27, increased by 0.1% over the end of the third quarter of 2010 and by 2.2% from the end of the second quarter of 2011;
- Combined ratio of 96.7%, or 85.6% excluding catastrophe losses, compared with a combined ratio of 94.4% or 89.8% excluding catastrophe losses for the third quarter of 2010;
- Net income per diluted share of \$0.23 for the quarter ended September 30, 2011 compared with \$1.08 in the same quarter last year.
- Annualized net income return on average equity⁽²⁾ of 2.8% for the third quarter of 2011 and an annualized loss on equity of 7.5% for the nine months ended September 30, 2011.
- Gross written premium of \$495.6 million for the third quarter of 2011, including \$26.6 million of positive prior premium adjustments mainly in the reinsurance segment, an increase of 19.2% from the third quarter of 2010.

⁽¹⁾ Diluted book value per ordinary share is based on total shareholders' equity less preference shares (liquidation preference less issue expenses), divided by the number of diluted ordinary shares at the end of the period.

⁽²⁾ Average equity excludes the average after-tax unrealized appreciation or depreciation on investments, preference shares and average after-tax unrealized foreign exchange gains or losses.

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Shareholders' equity and ordinary shares in issue as at September 30, 2011 and September 30, 2010 were:

	<u>As at</u> <u>September 30, 2011</u> <u>(\$ in millions, except for share amounts)</u>	<u>As at</u> <u>September 30, 2010</u>
Total shareholders' equity	\$ 3,150.5	\$ 3,440.7
Preference shares less issue expenses	(353.6)	(353.6)
Net assets attributable to ordinary shareholders	<u>\$ 2,796.9</u>	<u>\$ 3,087.1</u>
Ordinary shares	70,595,201	76,642,007
Diluted ordinary shares	73,078,704	80,808,977

The following overview of our results for the three months ended September 30, 2011 and 2010 and of our financial condition at September 30, 2011, is intended to identify important trends and should be read in conjunction with the more detailed discussion further below.

Gross written premiums. Total gross written premiums increased by 19.2% in the third quarter of 2011 when compared to 2010 with significant increases in both segments. Gross written premiums in the insurance segment have increased by 22.1% to \$219.5 million when compared to the third quarter of 2010 with the increase largely due to increased demand in our kidnap and ransom business which forms part of our financial and professional lines insurance and to the continued development of our U.S. professional lines business. In the reinsurance segment, gross written premiums have increased by 17.0% to \$276.1 million when compared to the third quarter of 2010, due to modest increases in our property lines reflecting a more positive environment in catastrophe-exposed business, continued growth in some of our specialty lines and positive prior year premiums adjustments in casualty. The table below shows our gross written premiums for each segment for the three months ended September 30, 2011 and 2010, and the percentage change in gross written premiums for each segment:

<u>Business Segment</u>	<u>For the Three Months</u> <u>Ended September 30, 2011</u>		<u>For the Three Months</u> <u>Ended September 30, 2010</u>	
	<u>(\$ in millions)</u>	<u>% increase</u>	<u>(\$ in millions)</u>	
Reinsurance	\$ 276.1	17.0%	\$ 236.0	
Insurance	219.5	22.1	179.8	
Total	<u>\$ 495.6</u>	<u>19.2%</u>	<u>\$ 415.8</u>	

Reinsurance ceded. Total reinsurance ceded for the quarter of \$33.0 million has decreased by \$5.8 million from the third quarter of 2010. The reinsurance segment is in line with the comparable quarter of 2010 while reinsurance costs reduced for the insurance segment as we purchased cover for our insurance segment earlier in the year.

Loss ratio. We monitor the ratio of losses and loss adjustment expenses to net earned premium (the "loss ratio") as a measure of relative underwriting performance where a lower ratio represents a better result than a higher ratio. The loss ratios for our two business segments for the three months ended September 30, 2011 and 2010 were as follows:

<u>Business Segment</u>	<u>For the Three Months</u> <u>Ended September 30, 2011</u>	<u>For the Three Months</u> <u>Ended September 30, 2010</u>
Reinsurance	67.5%	53.6%
Insurance	56.6	77.3
Total Loss Ratio	<u>62.9%</u>	<u>63.3%</u>

The loss ratio for the quarter of 62.9% has decreased by 0.4 percentage points compared to the third quarter of 2010. The decrease is primarily due to a \$21.8 million increase in prior year releases offset by increased catastrophe losses in the period. Reserve releases in our reinsurance segment increased from \$3.3 million in the third quarter of 2010 to \$11.7 million in the current period following favorable development in property reinsurance lines. The insurance segment had \$3.9 million reserve releases this quarter compared to \$9.5 million reserve strengthening in

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the third quarter of 2010. The reserve releases were mainly attributable to the property and marine, energy and transportation lines and were partially offset by strengthening reserves in the financial and professional lines.

We have also presented accident year loss ratios excluding the impact from prior year reserve adjustments and catastrophe losses to assist in the analysis of the underlying performance of our segments. We have defined catastrophe losses as: losses associated with Hurricane Irene and other natural catastrophes which occurred in the third quarter of 2011 and movements in loss estimates associated with the first half of the year 2011 catastrophe events (i.e., Australian floods, New Zealand and Japanese earthquakes, and the U.S. tornadoes) recognized in the third quarter of 2011. Catastrophe losses in the comparative period represent third quarter 2010 movements in losses associated with the Chilean earthquake, which occurred in the first quarter of 2010 and the New Zealand earthquake which occurred in the third quarter of 2010. Our pre-tax estimate of losses, net of reinstatement premiums, for the third quarter for U.S. storms and third quarter movements in loss estimates is \$53.7 million.

The underlying changes in accident year loss ratios by segment are also shown in the table below. The total loss ratio represents the calendar year GAAP loss ratio. The prior year adjustment in the table below reflects prior-year reserve movement and premium adjustments. The current year adjustments represent catastrophe loss events which reflect net claims and reinstatement premium adjustments.

<u>For the Three Months Ended September 30, 2011</u>	<u>Total Loss Ratio</u>	<u>Prior Year Adjustments</u>	<u>Total Accident Year Loss Ratio</u>	<u>Current Year Adjustments</u>	<u>Accident Year Loss Ratio Excluding Prior and Current Year Adjustments</u>
Reinsurance	67.5%	8.7%	76.2%	(18.2)%	58.0%
Insurance	56.6	4.5	61.1	(1.9)	59.2
Total	62.9%	6.9%	69.8%	(11.2)%	58.6%

<u>For the Three Months Ended September 30, 2010</u>	<u>Total Loss Ratio</u>	<u>Prior Year Adjustments</u>	<u>Total Accident Year Loss Ratio</u>	<u>Current Year Adjustments</u>	<u>Accident Year Loss Ratio Excluding Prior and Current Year Adjustments</u>
Reinsurance	53.6%	2.7%	56.3%	(7.7)%	48.6%
Insurance	77.3	(4.1)	73.2	—	73.2
Total	63.3%	—	63.3%	(4.6)%	58.7%

Reserve releases. The loss ratios take into account changes in our assessments of reserves for unpaid claims and loss adjustment expenses arising from earlier years. In the three months ended September 30, 2011, we recorded reserve releases for prior years (2010 — strengthening). The amounts of these changes and their effect on the loss ratio in each period are shown in the following table:

	<u>For the Three Months Ended September 30, 2011</u>	<u>For the Three Months Ended September 30, 2010</u>
	(\$ in millions)	
Reserve releases/(strengthening)	\$15.6	\$(6.2)
(Reduction)/increase in the loss ratio (as percentage of net premiums earned)	(3.2)%	1.4%

The \$21.8 million variance is mainly due to a \$3.9 million insurance reserve release in the third quarter of 2011 compared to a \$9.5 million strengthening in the third quarter of 2010, which had adverse loss experience in both our financial and professional and casualty lines. In the current quarter, we recognized releases from our property and marine, energy and transportation business lines. The reinsurance segment had reserve releases of \$11.7 million, an increase of \$8.4 million from the third quarter of 2010, following favorable development in property reinsurance lines. Further information relating to the movement of prior year reserves can be found below under “Reserves for Loss and Loss Adjustment Expenses.”

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Expense ratio. We monitor the ratio of expenses to net earned premium (the “expense ratio”) as a measure of the cost effectiveness of our policy acquisition, general, administrative and corporate processes. The table below presents the contribution of the policy acquisition expenses and general, administrative and corporate expenses to the expense ratio and the total expense ratios for each of the three months ended September 30, 2011 and 2010:

	<u>For the Three Months Ended September 30, 2011</u>	<u>For the Three Months Ended September 30, 2010</u>
Policy acquisition expenses	19.2%	16.7%
General, administrative and corporate expenses	14.6	14.4
Expense ratio	<u>33.8%</u>	<u>31.1%</u>

The policy acquisition expense ratio of 19.2% for the quarter has increased from 16.7% in the third quarter of 2010. The increase is due to a combination of higher ceded reinsurance costs and a change in the mix of business written where we have written a greater proportion of business which incurs a higher average commission rate.

General, administrative and corporate expenses have increased from 14.4% to 14.6% or by \$6.0 million for the quarter. The increase in the general, administrative and corporate expense ratio is minimal, while the increase in costs overall is due to our investment in infrastructure and capabilities to support our expansion in the U.K., U.S. and Switzerland.

Net investment income. Net investment income for the quarter of \$57.3 million has reduced by 1.4% compared to the \$58.1 million in the third quarter of 2010 due to the lower portfolio book yield partly compensating for the increase in cash and invested assets from \$7.2 billion to \$7.5 billion.

Change in fair value of derivatives. In the three months ended September 30, 2011, we recorded a loss of \$36.1 million (2010 — \$2.0 million) for the interest-rate swaps due to falling interest rates and their impact on fixed income valuations and yields. We also hold five foreign currency contracts with a combined impact on net income for the three months ended September 30, 2011 of a gain of \$6.1 million (2010 — \$Nil).

We cancelled our credit insurance contract as of November 28, 2010. In the three months ended September 30, 2010, we recorded a reduction of \$1.7 million in the estimated fair value of the credit insurance contract. Further information on these contracts can be found in Note 9 to the financial statements.

Other revenues and expenses. Other revenues and expenses in the three months ended September 30, 2011 included \$5.8 million of foreign currency exchange losses (2010 — \$3.4 million gain) and \$3.2 million of realized and unrealized investments gains (2010 — \$22.1 million). Realized and unrealized gains included \$5.9 million (2010 — \$8.2 million) of net realized gains from the fixed income maturities available for sale portfolio, \$1.3 million (2010 — \$4.5 million) of net realized gains from our fixed income maturities trading portfolio, \$4.8 million net unrealized losses (2010 — \$8.5 million gain) from our fixed income maturities trading portfolio, \$1.5 million of net realized losses from our equity investments (2010 — \$Nil) and \$2.3 million (2010 — \$0.9 million) representing our share of earnings from our investment in Cartesian Iris. We have also recognized \$8.7 million (2010 — income of \$2.4 million) of other expenses for the three months ended September 30, 2011 which is primarily due to losses associated with funds withheld contracts. We had no other-than-temporary impairment charges on our investments in the current or the prior comparative period.

Taxes. The estimated effective rate of tax for the quarter is an 8.3% charge (2010 — 10.0% charge). The effective tax rate for the year is subject to revision in future periods if circumstances change and in particular, depending on the relative claims experience of those parts of business underwritten in Bermuda (where the rate of tax on corporate profits is zero), the U.K. (where corporate tax rate was reduced from 28% to 26% effective April 1, 2011) and the U.S. (where the corporate tax rate is 35%).

Dividends. The dividend on our ordinary shares has been maintained at \$0.15 per ordinary share for the quarter. Dividends paid on our preference shares in the three months ended September 30, 2011 were \$5.7 million (2010 — \$5.7 million).

Shareholders' equity and financial leverage. Total shareholders' equity increased by \$45.9 million to \$3,150.5 million for the three months ended September 30, 2011. The most significant movements were:

- net unrealized gains on investments, net of taxes, of \$63.8 million;
- a \$5.6 million increase in retained earnings for the period, after deducting ordinary dividends of \$10.6 million, preference share dividends of \$5.7 million, and a net loss due to non-controlling interest of \$0.3 million; and
- net unrealized losses on foreign exchange translation of \$17.4 million. The net unrealized foreign exchange losses are due to the revaluation of functional currencies which have weakened against the U.S. dollar.

As at September 30, 2011, total ordinary shareholders' equity was \$2,796.9 million compared to \$2,888.3 million at December 31, 2010. The reduction in total ordinary shareholders' equity is largely attributable to a net loss after tax of \$119.3 million (2010 — net profit of \$220.0 million) for the nine months ended September 30, 2011. The remainder of our total shareholders' equity, as at September 30, 2011, was funded by two classes of preference shares with a total value as measured by their respective liquidation preferences of \$353.6 million net of share issuance costs (December 31, 2010 — \$353.6 million).

The amount outstanding under our senior notes, less amortization of expenses, of \$498.9 million (December 31, 2010 — \$498.8 million) was the only material debt that we had outstanding as of September 30, 2011 and December 31, 2010.

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders' equity plus outstanding debt. At September 30, 2011, this ratio was 13.7% (December 31, 2010 — 13.3%).

Our preference shares are classified on our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Such securities are often referred to as 'hybrids' as they have certain attributes of both debt and equity. We also monitor the ratio of the total of debt and hybrids to total capital which was 23.4% as of September 30, 2011 (December 31, 2010 — 22.8%)

Liquidity. Management monitors the liquidity of Aspen Holdings and of each of its Operating Subsidiaries. With respect to Aspen Holdings, management monitors its ability to service debt, to finance dividend payments and to provide financial support to the Operating Subsidiaries. As at September 30, 2011, Aspen Holdings held \$80.6 million (December 31, 2010 — \$354.0 million) in cash and cash equivalents which, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities, management considered sufficient to provide liquidity.

As at September 30, 2011, the Operating Subsidiaries held \$918.6 million (December 31, 2010 — \$814.3 million) in cash and cash equivalents that are readily realizable securities. Management monitors the value, currency and duration of the cash and investments within its Operating Subsidiaries to ensure that they are able to meet their insurance and other liabilities as they become due and was satisfied that there was a comfortable margin of liquidity as at September 30, 2011 and for the foreseeable future.

As of September 30, 2011, we had in issue \$1,101.0 million in letters of credit to cedants, for which the Company had funds on deposit of \$1,353.7 million as collateral for the secured letters of credit. Further information relating to letters of credit is found below under "Liquidity."

Outlook and Trends

Reinsurance. In our property lines, premium increased by 12% quarter on quarter as we benefited from positive pricing momentum in certain catastrophe-exposed property classes. In addition, some delayed earthquake renewals from Japan were written in the third quarter which had a positive pricing impact. In specialty reinsurance, we reported premium growth of 25% which reflected growth in our credit and surety account where pricing has generally been favorable and from our non-U.S. crop account, which we established in 2010. The rating environment in our specialty reinsurance lines has remained broadly stable overall. In our casualty lines, written premiums were relatively flat in the quarter though premiums have decreased more significantly for the first nine months of 2011 as we continue to manage downwards our account at this stage in the cycle. The rate environment

remains challenging in casualty reinsurance though we were able to achieve a small increase in our international lines and limit the rate reduction in our U.S. casualty reinsurance accounts by approximately 1% on average.

Insurance. Our marine, energy and construction liability account achieved average rate increases of approximately 17% year to date following a series of industry losses over the past year. Property rates in the U.K. remain soft while in U.S. property, we saw some rate increases for wind exposures as we went through the hurricane season. However, pricing remained flat for all other catastrophe and non-catastrophe U.S. property business. Within financial and professional lines, market conditions were quite varied and this line of business renewed at flat rates on average this year. We have, however, seen some rate improvement in the kidnap and ransom business.

In the U.K. employers' and public liability market, conditions continue to be challenging, with rates having decreased by an average of 5% this year. Conditions remain challenging though they have stabilized in our global excess casualty account.

Investments. We believe the downside risk in our investment portfolio over the next twelve months is most likely to arise from widening spreads on corporate bonds and weak equity markets. In respect of the Eurozone crisis, we have a modest amount of Eurozone investment exposures, mainly \$291 million at book value as at September 30, 2011. We are, of course, concerned by the potential contagion risks posed by the Eurozone crisis to bonds issued by financial institutions not just in Europe, but globally. At quarter end, our total worldwide holdings in financial institutions amounted to \$823.9 million, or 12.7% of our invested assets. This excludes government-guaranteed holdings. In particular, we have been reducing our exposure to the debt securities of Eurozone banks and these stand at less than 1% of invested assets as at September 30, 2011, all of which are to banks in Germany, France, The Netherlands and Belgium. As at September 30, 2011 we also had \$46 million of exposure to German, French and Finnish government bonds and we did not hold the sovereign bonds of any other Eurozone country.

Application of Critical Accounting Policies

Our condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, which require management to make significant estimates and assumptions. We believe that some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to reserves for property and liability losses, premiums receivable in respect of assumed reinsurance, the fair value of derivatives and the value of investments, including the extent of any other-than-temporary impairment. For a detailed discussion of our critical accounting policies please refer to our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission and the notes to the financial statements contained in this report.

We have discussed the application of these critical accounting estimates with our Board of Directors and Audit Committee.

Results of Operations for the Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

The following is a discussion and analysis of our consolidated results of operations for the three months ended September 30, 2011 and 2010 starting with a discussion of segmental results and then summarizing our consolidated results under "Total Income Statement — Third Quarter" below.

Underwriting Results by Operating Segments

We are organized into two business segments: Reinsurance and Insurance. We have considered similarities in economic characteristics, products, customers, distribution, the regulatory environment of our operating segments and quantitative thresholds to determine our reportable segments. The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance. The insurance segment consists of property insurance, casualty insurance, marine, energy and transportation insurance and financial and professional lines insurance.

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Management measures segment results on the basis of the combined ratio, which is obtained by dividing the sum of the losses and loss expenses, acquisition expenses and general and administrative expenses by net premiums earned. Other than corporate expenses, indirect general and administrative expenses are allocated to segments based on each segment's proportional share of gross earned premiums.

We have provided additional disclosures for corporate and other (non-underwriting) income and expenses in Note 5 of our unaudited financial statements. Corporate and other income includes net investment income, net realized and unrealized investment gains or losses, corporate expense, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments.

Please refer to the tables in Note 5 in our unaudited financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the three months ended September 30, 2011 and 2010. The contributions of each segment to gross written premiums in the three months ended September 30, 2011 and 2010 were as follows:

<u>Business Segment</u>	<u>Gross Written Premiums</u>	
	<u>For the Three Months</u>	<u>For the Three Months</u>
	<u>Ended September 30, 2011</u>	<u>Ended September 30, 2010</u>
	% of total gross written premiums	
Reinsurance	55.7%	56.8%
Insurance	44.3	43.2
Total	<u>100.0%</u>	<u>100.0%</u>

<u>Business Segment</u>	<u>Gross Written Premiums</u>	
	<u>For the Three Months</u>	<u>For the Three Months</u>
	<u>Ended September 30, 2011</u>	<u>Ended September 30, 2010</u>
	(\$ in millions)	
Reinsurance	\$ 276.1	\$ 236.0
Insurance	219.5	179.8
Total	<u>\$ 495.6</u>	<u>\$ 415.8</u>

Reinsurance

Our reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata, risk solutions and facultative), casualty reinsurance (U.S. treaty, international treaty, and global facultative) and specialty reinsurance (credit and surety, structured, agriculture and specialty). Please see Note 5 to the financial statements for further descriptions of the lines of business within this segment.

Gross written premiums. Gross written premiums in our reinsurance segment increased by 17.0% compared to the three months ended September 30, 2010. The increase in gross written premiums has arisen mainly from specialty reinsurance business, where we recognized loss-related additional premiums and growth in our non-U.S. crop and credit and surety business lines. The increase in other property is due to a large proportional treaty renewing at higher rates than in the prior period as we benefited from positive pricing momentum in catastrophe-exposed accounts while casualty benefited from favorable prior year premium adjustments of \$16.6 million.

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The table below shows our gross written premiums for each line of business for the three months ended September 30, 2011 and 2010, and the percentage change in gross written premiums for each such line:

<u>Lines of Business</u>	<u>Gross Written Premiums</u>			
	<u>For the Three Months</u>		<u>For the Three Months</u>	
	<u>Ended September 30, 2011</u>		<u>Ended September 30, 2010</u>	
	<u>(\$ in millions)</u>	<u>% increase</u>	<u>(\$ in millions)</u>	
Property catastrophe reinsurance	\$ 53.5	4.3%	\$ 51.3	
Other property reinsurance	78.6	18.6	66.3	
Casualty reinsurance	83.4	19.1	70.0	
Specialty reinsurance	60.6	25.2	48.4	
Total	<u>\$ 276.1</u>	<u>17.0%</u>	<u>\$ 236.0</u>	

Losses and loss adjustment expenses. The net loss ratio for the three months ended September 30, 2011 was 67.5% compared to 53.6% in the equivalent period in 2010. The increase in the loss ratio is partly attributable to an increase in catastrophe losses to \$51.8 million while the comparable period of 2010 experienced losses of \$20.4 million from the New Zealand earthquake. The third quarter of 2011 was also adversely affected by a satellite loss and an individual fire loss that resulted in higher current year loss ratios compared with the third quarter for 2010. The increase was partly mitigated by an \$8.4 million increase in prior year reserve releases from \$3.3 million in the third quarter of 2010 to \$11.7 million in the current period following favorable development in the property reinsurance lines. The net loss ratio in the period was also impacted by 2.8 percentage points reflecting the \$13.2 million increase in ceded earned premium as we purchased additional reinsurance in the year.

Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

Policy acquisition, general and administrative expenses. Policy acquisition expenses were \$51.8 million for the three months ended September 30, 2011 equivalent to 18.5% of net premiums earned (2010 — \$43.9 million or 16.4% of net premiums earned). The increase in the acquisition expense ratio is due to the purchase of additional reinsurance ahead of the hurricane season reducing our net earned premium as well as a change in the mix of business written where we have written more credit and surety, property proportional treaty, non-U.S. crop and risk solutions business, which have higher average commission rates. General and administrative expenses were broadly in line with the expenses from the third quarter of 2010.

Insurance

Our insurance segment consists of property insurance, casualty insurance, marine, energy and transportation insurance and financial and professional lines insurance. See Note 5 of the financial statements for descriptions of the lines of business within this segment.

Gross written premiums. Overall premiums have increased by 22.1% to \$219.5 million for the quarter from \$179.8 million in the equivalent period in 2010. The increase in gross written premium is mainly attributable to the financial and professional lines where we have seen additional demand, in particular for our kidnap and ransom products and to the continued development of our U.S. professional lines business. Increases in our marine, energy and transportation insurance were mainly due to increased premiums in our marine, energy and construction liability account which achieved significant rate increases following a series of industry losses in the past year. Property premium has increased due to some new U.S. program business. The increase in our casualty lines were in our global excess casualty account.

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The table below shows our gross written premiums for each line of business for the three months ended September 30, 2011 and 2010, and the percentage change in gross written premiums for each line:

<u>Lines of Business</u>	<u>Gross Written Premiums</u>			
	<u>For the Three Months</u>		<u>For the Three Months</u>	
	<u>Ended September 30, 2011</u>		<u>Ended September 30, 2010</u>	
	<u>(\$ in millions)</u>	<u>% increase</u>	<u>(\$ in millions)</u>	
Property insurance	\$ 42.5	14.9%	\$ 37.0	
Casualty insurance	38.1	15.1	33.1	
Marine, energy and transportation insurance	70.5	0.6	70.1	
Financial and professional lines insurance	68.4	72.7	39.6	
Total	\$ 219.5	22.1%	\$ 179.8	

Losses and loss adjustment expenses. The loss ratio for the quarter was 56.6% compared to 77.3% for the three months ended September 30, 2010. The reduction in the loss ratio for the quarter is mainly due to the change in the prior year reserve releases from a \$9.5 million reserve strengthening in the third quarter of 2010 to a \$3.9 million prior year reserve release in the current quarter. Another factor behind the reduction in the loss ratio is the change in the mix of business where we have written more political risk and kidnap and ransom business which has had a lower average loss ratio and less casualty business which has historically experienced higher claims activity.

The release in the current quarter was due primarily to our property and marine, energy and transportation business lines following favorable loss development, but was partly offset by deterioration in financial and professional lines where we have higher than expected claims from the U.K. professional indemnity account that had exposure to the financial crisis.

Policy acquisition, general and administrative expenses. Policy acquisition expenses of \$41.6 million for the three months ended September 30, 2011 equivalent to 20.1% of net premiums earned (2010 — \$31.7 million or 17.2% of net earned premium) were \$9.9 million higher than those in the third quarter of 2010. This was partly due to the increase in premiums earned but also attributable to a change in our business mix, towards our successful kidnap and ransom business, which has a higher acquisition expense ratio. The increase of \$10.7 million in our general and administrative expenses is mainly associated with the continued build out of our U.S. operations.

Total Income Statement — Third Quarter

Our statements of operations consolidate the underwriting results of our two segments and include certain other revenue and expense items that are not allocated to the business segments.

Gross written premiums. Total gross written premiums increased by 19.2% to \$495.6 million in the third quarter of 2011 when compared to 2010. The principal drivers behind the increase in gross written premium in each segment have been discussed above.

Reinsurance ceded. Total reinsurance ceded for the quarter of \$33.0 million has decreased by \$5.8 million from the third quarter of 2010. The reinsurance segment is in line with the comparable quarter of 2010 while ceded reinsurance premiums have reduced for the insurance segment as we purchased cover for our insurance segment earlier in the year in 2011.

Gross premiums earned. Gross premiums earned reflect the portion of gross premiums written which are recorded as revenues over the policy periods of the risks we write. The earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the reporting date. Gross premiums earned in the third quarter of 2011 increased 9.3% from the third quarter of 2010 with both segments seeing similar increases. The reinsurance segment's increase of 9.1% is due to writing more specialty business in the first nine months of 2011, in particular credit and surety and non-U.S. crop and also due to some favorable prior year premiums adjustments in casualty. Gross premiums earned in the third quarter of 2011 in the insurance segment is 9.4% higher than the third quarter of 2010 due to the increase in financial and political risk premium and in particular the kidnap and ransom business.

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Net premiums earned. Net premiums earned have increased by \$35.2 million or 7.8% in the third quarter of 2011 compared to 2010 which is consistent with the increase in gross premiums earned in the third quarter.

Losses and loss adjustment expenses. The loss ratio for the quarter of 62.9% has decreased by 0.4 percentage points compared to the third quarter of 2010. There were \$15.6 million of prior year reserve releases in the current quarter compared with \$6.2 million of reserve strengthening in the third quarter of 2010. The increase in reserve releases compensated for the increase in catastrophe losses in the quarter. Reserve releases in our reinsurance segment increased from \$3.3 million in the third quarter of 2010 to \$11.7 million in the current period following a favorable development in the property reinsurance lines. The insurance segment had a \$3.9 million reserve release this quarter compared to a \$9.5 million reserve strengthening in the third quarter of 2010.

Expenses. We monitor the ratio of expenses to gross earned premium (the “gross expense ratio”) as a measure of the cost effectiveness of our policy acquisition, general, administrative and corporate processes. The table below presents the contribution of the policy acquisition expenses and general, administrative and corporate expenses to the expense ratio and the total expense ratios for the three months ended September 30, 2011 and 2010. We also show the effect of reinsurance which impacts on the reported net expense ratio by expressing the expenses as a proportion of net earned premiums.

	Expense Ratios	
	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010
Policy acquisition expense ratio	17.0%	15.0%
General, administrative and corporate expense ratio	12.9	12.9
Gross expense ratio	29.9	27.9
Effect of reinsurance	3.9	3.2
Total net expense ratio	<u>33.8%</u>	<u>31.1%</u>

Changes in the acquisition and general and administrative ratios to gross earned premiums and the impact of reinsurance on net earned premiums by segment for each of the three months ended September 30, 2011 and 2010 are shown in the following table:

Ratios Based on Gross Earned Premium	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 2010		
	Reinsurance	Insurance	Total	Reinsurance	Insurance	Total
Policy acquisition expense ratio	17.1%	16.9%	17.0%	15.8%	14.1%	15.0%
General and administrative expense ratio(1)	<u>8.7</u>	<u>13.9</u>	<u>12.9</u>	<u>9.8</u>	<u>10.5</u>	<u>12.9</u>
Gross expense ratio	25.8	30.8	29.9	25.6	24.6	27.9
Effect of reinsurance	<u>2.1</u>	<u>5.8</u>	<u>3.9</u>	<u>0.9</u>	<u>5.4</u>	<u>3.2</u>
Total net expense ratio	<u>27.9%</u>	<u>36.6%</u>	<u>33.8%</u>	<u>26.5%</u>	<u>30.0%</u>	<u>31.1%</u>

(1) The total group general and administrative expense ratio includes the impact from corporate expenses.

The policy acquisition expense ratio, gross of the effect of reinsurance, has increased to 19.2% for the quarter from 14.6% in the third quarter of 2010. The increase is due to a change in the mix of business written across both segments where we have written a greater proportion of business with higher average commission rates, such as credit and surety, property proportional treaty, non-U.S. crop and risk solutions business in the reinsurance segment and kidnap and ransom in the insurance segment.

The general, administrative and corporate expense ratio, as a percentage of gross earned premium, is unchanged at 12.9% with general, administrative and corporate expenses increasing to \$71.0 million for the quarter compared with \$65.0 million in the third quarter of 2010. The increase in general, administrative and

corporate expenses is due to building out our U.S. insurance capacity, a U.K. regional platform and establishing a presence in the Swiss market to write insurance.

Total general, administrative and corporate expenses for the three months ended September 30, 2011 include \$10.4 million (2010 — \$14.3 million) of corporate expenses which are not allocated to our underwriting segments. We consider corporate expenses to be certain holding company costs necessary to support our worldwide insurance and reinsurance operations, share-based compensation expenses allocated to group functions and costs associated with operating as a publicly traded company.

Net investment income. Net investment income for the quarter of \$57.3 million has reduced by 1.4% compared to the \$58.1 million in the third quarter of 2010 due to a lower portfolio book yield mitigated by for the increase in cash and invested assets from \$7.2 billion to \$7.5 billion.

Change in fair value of derivatives. In the three months ended September 30, 2011, we recorded a loss of \$36.1 million (2010 — \$2.0 million) for interest rate swaps due to falling interest rates and their impact on fixed income valuations and yields. We also hold five foreign currency contracts which had a gain of \$6.1 million for the three months ended September 30, 2011 (2010 — \$Nil).

We cancelled our credit insurance contract as of November 28, 2010. In the three months ended September 30, 2010, we recorded a reduction of \$1.7 million in the estimated fair value of the credit insurance contract. Further information on these contracts can be found in Note 9 to the financial statements.

Other-than-temporary impairments. The difference between the cost and the estimated fair market value of available for sale investments is monitored to determine whether any investment has experienced a decline in value that is believed to be other-than-temporary. Impairment occurs when there is no objective evidence to support recovery in value before disposal and we intend to sell the security or more likely than not will be required to sell the security before recovery of its adjusted amortized cost basis or it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the individual security. These impairments will be included within realized losses and the cost basis of the investment reduced accordingly.

We review all of our fixed maturities on an individual security basis for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. For the realized investments losses in the third quarter of 2011, an impairment charge was not required as a result of the review of other-than-temporary impairments (2010 — \$Nil).

Income before tax. In the third quarter of 2011, profit before tax was \$24.2 million, comprised of \$16.3 million of underwriting income, \$57.3 million in net investment income, \$30.0 million of losses from a change in fair value of derivatives, \$2.6 million of net realized and unrealized investment and foreign exchange losses, \$7.7 million of interest expense and \$9.1 million of other expenses. In the third quarter of 2010, income before tax was \$103.1 million which comprised \$25.5 million of underwriting income, \$58.1 million in net investment income, \$3.7 million of losses from a change in fair value of derivatives, \$25.5 million of net foreign exchange and investment gains, \$3.9 million of interest expense and \$1.8 million of other income.

Income tax charge. Income tax charge for the three months ended September 30, 2011 was \$2.0 million. Our effective consolidated tax rate for the three months ended September 30, 2011 was 8.3% (2010 — 10.0%). The charge represents an estimate of the tax rate which will apply to our pre-tax income for 2011. As discussed in the “Overview” section above, the effective tax rate for the year may be subject to revision.

Net income after tax. Net income after tax for the three months ended September 30, 2011 was \$22.2 million, equivalent to a \$0.23 basic earnings per ordinary share adjusted for the \$5.7 million preference share dividends and fully diluted earnings per ordinary share of \$0.23 during the three months ended September 30, 2011. The net income for the three months ended September 30, 2010 was \$92.8 million equivalent to basic earnings per ordinary share of \$1.14 adjusted for the \$5.7 million preference share dividend and fully diluted earnings per share of \$1.08.

Results of Operations for the Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010

The following is a discussion and analysis of our consolidated results of operations for the nine months ended September 30, 2011 and 2010 starting with a discussion of segmental results and then summarizing our consolidated results under “Total Income Statement — Nine Months Ended September 30, 2011” below.

Underwriting Results by Operating Segments

Please refer to the tables in Note 5 in our unaudited financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the nine months ended September 30, 2011 and 2010. The contributions of each segment to gross written premiums in the nine months ended September 30, 2011 and 2010 were as follows:

<u>Business Segment</u>	<u>Gross Written Premiums</u>	
	<u>For the Nine Months</u>	<u>For the Nine Months</u>
	<u>Ended September 30, 2011</u>	<u>Ended September 30, 2010</u>
	% of total gross written premiums	
Reinsurance	57.2%	60.7%
Insurance	42.8	39.3
Total	100.0%	100.0%

<u>Business Segment</u>	<u>Gross Written Premiums</u>	
	<u>For the Nine Months</u>	<u>For the Nine Months</u>
	<u>Ended September 30, 2011</u>	<u>Ended September 30, 2010</u>
	(\$ in millions)	
Reinsurance	\$ 1,001.2	\$ 1,009.4
Insurance	747.9	654.6
Total	\$ 1,749.1	\$ 1,664.0

Reinsurance

Gross written premiums. Gross written premiums in our reinsurance segment of \$1,001.2 million are broadly in line with the \$1,009.4 million for the nine months ended September 30, 2010. Increasing written premium in specialty reinsurance comes from our growing new lines of credit and surety and our non-U.S. crop business. Property catastrophe has written more premium due to the impact of reinstatement premiums and some favorable pricing following the natural catastrophes occurring in the first half of 2011. The increases are offset by reductions in casualty reinsurance where we are seeing challenging market conditions and prices that do not meet our profitability requirements.

The table below shows our gross written premiums for each line of business for the nine months ended September 30, 2011 and 2010, and the percentage change in gross written premiums for each such line:

<u>Lines of Business</u>	<u>Gross Written Premiums</u>		
	<u>For the Nine Months</u>		<u>For the Nine Months</u>
	<u>Ended September 30, 2010</u>		<u>Ended September 30, 2011</u>
	(\$ in millions)	% increase/ (decrease)	(\$ in millions)
Property catastrophe reinsurance	\$ 297.5	3.0%	\$ 288.7
Other property reinsurance	214.3	(2.9)	220.7
Casualty reinsurance	266.6	(9.9)	296.0
Specialty reinsurance	222.8	9.2	204.0
Total	\$ 1,001.2	(0.8)%	\$ 1,009.4

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Losses and loss adjustment expenses. The net loss ratio for the nine months ended September 30, 2011 was 98.2% compared to 64.3% in the equivalent period in 2010. The increase in the loss ratio is attributable to a number of catastrophe losses in the period with \$26.2 million from the Australian floods, \$78.2 million from the New Zealand earthquake and \$207.1 million from the Japanese earthquake and tsunami which occurred in the first quarter of 2011 plus \$85.6 million from the U.S. storms in the second quarter, \$5.0 million from Hurricane Irene and \$14.0 million from other natural catastrophes in the third quarter (U.S., Scandinavian and Asian weather-related events). All losses are net of reinsurance recoveries but before reinstatement premiums and tax. The increase in losses has been partly mitigated by a \$28.3 million increase in prior year reserve releases to \$57.8 million compared to \$29.5 million in the nine months ended September 30, 2010. The nine months ended September 30, 2010 experienced gross losses of \$145.7 million relating to the earthquakes in Chile and New Zealand.

Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

Policy acquisition, general and administrative expenses. Policy acquisition expenses were \$150.3 million for the nine months ended September 30, 2011 equivalent to 18.3% of net premiums earned (2010 — \$143.6 million or 16.9% of net premiums earned). The increase in the ratio is due to our purchase of additional reinsurance reducing our net earned premium as well as a change in the mix of business where we have written less international casualty and risk excess property business which have low average commission rates and more specialty reinsurance and property proportional treaty business which have higher average commission rates. A reduction in general and administrative expenses of \$2.3 million from the nine months ended September 30, 2010 is attributable mainly to lower performance-related accruals following the high loss activity for the first nine months of 2011.

Insurance

Gross written premiums. Overall premiums have increased by 14.3% to \$747.9 million for the nine months ended September 30, 2011 from \$654.6 million in the equivalent period in 2010. The increase in gross written premium is mainly attributable to the financial and professional lines where we have seen additional demand, in particular for our kidnap and ransom products which form part of our financial and political risk business and to the continued development of our U.S. professional lines business. Gross written premiums in our casualty insurance lines have reduced when compared with the nine months ended September 30, 2010 where we have declined business that did not meet our profitability requirements coupled with higher client retention in some classes.

The table below shows our gross written premiums for each line of business for the nine months ended September 30, 2011 and 2010, and the percentage change in gross written premiums for each line:

<u>Lines of Business</u>	Gross Written Premiums		
	For the Nine Months		For the Nine Months
	Ended September 30, 2011		Ended September 30, 2010
	(\$ in millions)	% increase/ (decrease)	(\$ in millions)
Property insurance	\$ 154.7	8.2%	\$ 143.0
Casualty insurance	90.6	(14.1)	105.5
Marine, energy and transportation insurance	324.6	8.6	298.8
Financial and professional lines insurance	178.0	65.9	107.3
Total	<u>\$ 747.9</u>	<u>14.3%</u>	<u>\$ 654.6</u>

Losses and loss adjustment expenses. The loss ratio for the nine months ended September 30, 2011 was 61.5% compared to 71.8% for the nine months ended September 30, 2010. The decrease in the loss ratio is attributable to a \$12.5 million prior year reserve release compared to a \$20.7 million reserve strengthening in the nine months ended September 30, 2010. The current period was impacted by \$5.0 million from the U.S. storms that occurred in the third quarter of 2011, while the comparative period was impacted by \$35.9 million of net losses from two oil pipeline spills and a gas explosion in California in addition to \$10.7 million of losses from Deepwater Horizon.

The reserve releases for the nine months ended September 30, 2011 come primarily from our property, U.K. liability and aviation accounts partly offset by deterioration in financial and professional lines where we have higher than expected claims development from professional liability lines.

Policy acquisition, general and administrative expenses. Policy acquisition expenses of \$111.2 million for the nine months ended September 30, 2011, equivalent to 19.2% of net premiums earned (2010 — \$94.3 million or 17.2% of net earned premium), were \$16.9 million higher than those in 2010. This was mainly due to an increase in premiums written as well as to a change in the mix of business written where we have written a lower proportion of casualty business which has lower average commission rates and a higher proportion of energy, U.S. property and kidnap and ransom business which incurs higher commission rates. General and administrative expenses of \$92.7 million in the nine months ended September 30, 2011 have increased from \$65.9 million over the comparative period in 2010 mainly due to our continued build out of the U.S. operations.

Total Income Statement — Nine Months Ended September 30, 2011

Our statements of operations consolidate the underwriting results of our two segments and include certain other revenue and expense items that are not allocated to the business segments.

Gross written premiums. Total gross written premiums of \$1,749.1 million in the first nine months of 2011 have increased by 5.1% compared to the \$1,664.0 million written in 2010, with the increase principally attributable to the insurance segment.

Gross written premiums in our reinsurance segment of \$1,001.2 million were broadly in line with the \$1,009.4 million for the nine months ended September 30, 2010. The increase in reinsurance's gross written premiums were in property catastrophe and specialty reinsurance offset by decreased premiums written in property risk excess and international casualty within our other property reinsurance and casualty reinsurance lines, respectively.

Gross written premiums in our insurance segment have increased by 14.3% to \$747.9 million for the nine months ended September 30, 2011 from \$654.6 million in the equivalent period in 2010. The increase in gross written premium is mainly attributable to the marine, energy and transportation lines and financial and professional lines. Following the losses from the Deepwater Horizon incident, our marine, energy and construction liability team wrote additional business at significantly increased rates. Our financial and professional lines have benefited from increased demand for our kidnap and ransom products. Gross written premiums in our casualty insurance lines have reduced when compared with the nine months ended September 30, 2010 where we have declined business that did not meet our profitability requirements coupled with higher client retention in some classes.

Reinsurance ceded. Total reinsurance ceded of \$251.2 million has increased by \$83.1 million from the first nine months of 2010. The reinsurance segment has recognized the costs of catastrophe programs purchased to provide additional cover for the third quarter's wind season after the first two quarters' catastrophe events. Reinsurance costs increased for the insurance segment when compared with the first nine months of 2010 as we purchased advanced protection for our new U.S. professional lines business as well as an increase in the U.S. property program.

Gross premiums earned. Gross premiums earned reflect the portion of gross premiums written which are recorded as revenues over the policy periods of the risks we write. The earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the reporting date. Gross premiums earned in the first nine months of 2011 increased by 2.6% compared to the same period of 2010 as a result of the increase in gross written premiums in the period from the insurance segment.

Net premiums earned. Net premiums earned are in line with the comparable period in 2010 and reflect the increase in both gross earned premiums and the increase in reinsurance ceded for the both the quarter and year to date.

Losses and loss adjustment expenses. Losses and loss adjustment expenses have increased from \$941.3 million in 2010 to \$1,161.5 million in 2011 primarily due to \$429.0 million of net losses from natural disasters that occurred in the first nine months of 2011 (principally the Australian floods, New Zealand earthquake, Japanese

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earthquake and tsunami, U.S. tornadoes and Hurricane Irene). Reserve releases increased by \$61.5 million in the current period following favorable development in property and specialty reinsurance lines and from property, casualty and marine, energy and transportation insurance lines.

The loss ratio for the nine months ended September 30, 2011 of 83.0% has increased by 15.7 percentage points compared to the equivalent period in 2010. The increase is due mainly to losses from natural disasters which included \$26.2 million from the Australian floods, \$78.2 million from the 2011 New Zealand earthquake, \$208.1 million from the Japanese earthquake and tsunami, \$92.5 million from the U.S. storms, \$10.0 million from Hurricane Irene and \$14.0 million from other natural catastrophes. The comparative period included \$125.3 million of losses from the Chilean earthquake and \$20.4 million of losses from the 2010 New Zealand earthquake. Prior year reserve releases in our reinsurance segment increased from \$29.5 million in the first nine months of 2010 to \$57.8 million in the current period following favorable development in property reinsurance and specialty reinsurance lines. The insurance segment had a \$12.5 million reserve release for the nine months of 2011 compared to a \$20.7 million reserve strengthening in the equivalent period in 2010.

We have presented loss ratios both including and excluding the impact from prior year reserve adjustments and catastrophic losses to aid in the analysis of the underlying performance of our segments. We have defined catastrophic losses as: losses associated with the U.S. storms specifically related to Hurricane Irene which occurred in the third quarter of 2011; and movements in loss estimates associated with the half year 2011 catastrophe events (Australian floods and New Zealand and Japanese earthquakes in the first quarter 2011, and the U.S. tornadoes in the second quarter of 2011) that have been recognized in the third quarter of 2011. Catastrophic losses in the comparative period represent movements in the third quarter of 2010 of losses associated with the Chilean earthquake, which occurred in the first quarter of 2010 and the New Zealand earthquake which occurred in the third quarter of 2010.

The underlying changes in accident year loss ratios by segment are also shown in the table below. The total loss ratio represents the calendar year GAAP loss ratio. The prior year adjustment in the table below reflects prior-year reserve movements and premium adjustments. The current year adjustments represent catastrophe loss events and reflect net claims and reinstatement premium adjustments.

For the Nine Months Ended September 30, 2011	Total Loss Ratio	Prior Year Adjustment	Total		Accident Year Loss Ratio Excluding Prior and Current Year Adjustments
			Accident Year Loss Ratio	Current Year Adjustment	
Reinsurance	98.2%	9.9%	108.1%	(49.4)%	58.7%
Insurance	61.5	2.5	64.0	(2.2)	61.8
Total	83.0%	6.6%	89.6%	(29.8)%	59.8%

For the Nine Months Ended September 30, 2010	Total Loss Ratio	Prior Year Adjustment	Total		Accident Year Loss Ratio Excluding Prior and Current Year Adjustments
			Accident Year Loss Ratio	Current Year Adjustment	
Reinsurance	64.3%	5.4%	69.7%	(16.4)%	53.3%
Insurance	71.8	(3.0)	68.8	0.1	68.9
Total	67.3%	2.1%	69.4%	(9.9)%	59.5%

Expenses. We monitor the gross expense ratio as a measure of the cost effectiveness of our policy acquisition, general, administrative and corporate processes. The table below presents the contribution of the policy acquisition expenses and general, administrative and corporate expenses to the expense ratio and the total expense ratios for the nine months ended September 30, 2011 and 2010. We also show the effect of reinsurance which impacts on the reported net expense ratio by expressing the expenses as a proportion of net earned premiums.

	Expense Ratios	
	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Policy acquisition expense ratio	16.5%	15.4%
General, administrative and corporate expense ratio	12.8	11.7
Gross expense ratio	29.3	27.1
Effect of reinsurance	3.8	2.8
Total net expense ratio	<u>33.1%</u>	<u>29.9%</u>

Changes in the acquisition and general, administrative and corporate expense ratios to gross earned premiums and the impact of reinsurance on net earned premiums by segment for each of the nine months ended September 30, 2011 and 2010 are shown in the following table:

Ratios Based on Gross Earned Premium	For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Reinsurance	Insurance	Total	Reinsurance	Insurance	Total
Policy acquisition expense ratio	17.1%	15.8%	16.5%	16.3%	14.3%	15.4%
General and administrative expense ratio(1)	8.8	13.2	12.8	9.0	10.0	11.7
Gross expense ratio	25.9	29.0	29.3	25.3	24.3	27.1
Effect of reinsurance	1.8	6.2	3.8	1.0	4.9	2.8
Total net expense ratio	<u>27.7%</u>	<u>35.2%</u>	<u>33.1%</u>	<u>26.3%</u>	<u>29.2%</u>	<u>29.9%</u>

(1) The total group general and administrative expense ratio includes corporate expenses.

The policy acquisition expense ratio, gross of the effect of reinsurance, has increased to 16.5% for the nine months ended September 30, 2011 from 15.4% for the comparative period in 2010. The increase is due mainly to a change in the mix of business written across both segments where we have written a greater proportion of business with higher average commission rates.

The general, administrative and corporate expense ratio, as a percentage of gross earned premiums, has increased from 11.7% to 12.8% for the same period with general, administrative and corporate expenses increasing to \$202.0 million for the nine months ended September 30, 2011 compared with \$180.1 million in the comparable period in 2010. The increase in general, administrative and corporate expenses is due to building out our U.S. insurance infrastructure and operations, a U.K. regional platform and establishing a presence in the Swiss market to write insurance.

Net investment income. Net investment income of \$171.4 million has decreased by 2.1% compared to \$175.0 million in the nine months to September 30, 2010 due to lower reinvestment rates and declining book yields from fixed income securities partially offset by \$4.9 million of dividend income from global equity securities (2010 — \$ Nil).

Change in fair value of derivatives. In the nine months ended September 30, 2011, we recorded a charge of \$61.5 million (2010 — \$2.1 million) for the interest rate swaps due to falling interest rates and their impact on fixed income valuations and yields. We also hold five foreign currency contracts which had a net gain of \$5.8 million for the nine months ended September 30, 2011 (2010 — \$1.2 million).

In the nine months ended September 30, 2010, we recorded a reduction of \$5.7 million in the estimated fair value of the credit insurance contract. We cancelled our credit insurance contract as of November 28, 2010. Further information on these contracts can be found in Note 9 to the financial statements.

Other-than-temporary impairments. We review all of our fixed maturities on an individual security basis for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The realized investments losses in the first nine months of 2011 did not include a charge for investments we believe to be other-than-temporarily impaired (2010 — \$0.3 million).

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Income before tax. In the first nine months of 2011, losses before tax were \$132.6 million, comprised of \$225.9 million of underwriting losses, \$171.4 million in net investment income, \$55.7 million of losses from changes in fair value of derivatives, \$11.1 million of net realized and unrealized investment and foreign exchange gains, \$23.1 million of interest expense and \$10.4 million of other expenses. In the first nine months of 2010, income before tax was \$244.4 million which comprised \$39.9 million of underwriting income, \$175.0 million in net investment income, \$7.8 million of losses from changes in fair value of derivatives, \$42.4 million of net foreign exchange and investment gains, \$11.7 million of interest expense and \$6.6 million of other income. Our decrease in underwriting income in 2011 was mainly due to the \$406.0 million of losses net of reinsurance and re-instatement premiums associated with the Australian floods, New Zealand earthquake, Japan earthquake and tsunami, U.S. storms and Hurricane Irene.

Income tax benefit. Income tax benefit for the nine months ended September 30, 2011 was \$13.3 million. Our effective consolidated tax rate for the nine months ended September 30, 2011 was 10.0% (2010 — 10.0%). The recovery represents an estimate of the tax rate which will apply to our pre-tax loss for 2011. As discussed in the “Overview” above, the effective tax rate for the year is subject to revision.

Net income after tax. Net loss after tax for the nine months ended September 30, 2011 was \$119.3 million, equivalent to a \$1.93 basic and diluted loss per ordinary share adjusted for the \$17.1 million preference share dividends and on the basis of the weighted average number of ordinary shares in issue during the nine months ended September 30, 2011. Net income for the nine months ended September 30, 2010 was \$220.0 million equivalent to basic earnings per ordinary share of \$2.63 adjusted for the \$17.1 million preference share dividend and fully diluted earnings per share of \$2.51.

Reserves for Losses and Loss Adjustment Expenses

As of September 30, 2011, we had total net loss and loss adjustment expense reserves of \$4,041.7 million (December 31, 2010 — \$3,540.6 million). This amount represented our best estimate of the ultimate liability for payment of losses and loss adjustment expenses. Of the total gross reserves for unpaid losses of \$4,399.4 million at the balance sheet date of September 30, 2011, a total of \$2,222.3 million or 50.5% represented IBNR claims (December 31, 2010 — \$2,074.8 million and 54.3%, respectively). The following tables analyze gross and net loss and loss adjustment expense reserves by segment:

<u>Business Segment</u>	<u>As at September 30, 2011</u>		
	<u>Gross</u>	<u>Reinsurance Recoverable</u>	<u>Net</u>
Reinsurance	\$2,831.7	\$ (118.4)	\$ 2,713.3
Insurance	1,567.7	(239.3)	1,328.4
Total losses and loss expense reserves	<u>\$4,399.4</u>	<u>\$ (357.7)</u>	<u>\$ 4,041.7</u>

<u>Business Segment</u>	<u>As at December 31, 2010</u>		
	<u>Gross</u>	<u>Reinsurance Recoverable</u>	<u>Net</u>
Reinsurance	\$2,343.8	\$ (60.7)	\$ 2,283.1
Insurance	1,476.7	(219.2)	1,257.5
Total losses and loss expense reserves	<u>\$3,820.5</u>	<u>\$ (279.9)</u>	<u>\$ 3,540.6</u>

The increase in reinsurance recoverables is mainly due to recoveries from the current year’s catastrophe events.

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For the nine months ended September 30, 2011, there was a reduction of our estimate of the ultimate net claims to be paid in respect of prior accident years of \$70.3 million. An analysis of this reduction by business segment is as follows for each of the three and nine months ended September 30, 2011 and 2010:

<u>Business Segment</u>	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(\$ in millions)		(\$ in millions)	
Reinsurance	\$ 11.7	\$ 3.3	\$ 57.8	\$ 29.5
Insurance	3.9	(9.5)	12.5	(20.7)
Total Losses and loss expense reserves reductions	<u>\$ 15.6</u>	<u>\$ (6.2)</u>	<u>\$ 70.3</u>	<u>\$ 8.8</u>

The key elements which gave rise to the net positive development during the three months ended September 30, 2011 were as follows:

Reinsurance. Net reserve releases of \$11.7 million in the current quarter came from the U.S. casualty treaty and other property reinsurance business lines. The largest releases in the quarter were \$7.3 million from U.S. casualty treaty and \$6.2 million from property risk excess reinsurance due primarily to better than expected claims development. This was partly offset by a \$9.7 million reserve strengthening in international casualty due to adverse experience from our financial institutions and motor excess of loss accounts.

Insurance. The net reserve releases of \$3.9 million in the quarter came largely from aviation, U.S. property and marine, energy and construction liability partially offset by a strengthening in our U.K.-based financial and professional lines.

We did not make any significant changes in assumptions used in our reserving process. However, because the period of time we have been in operation is relatively short, for longer tail lines in particular, our loss experience is limited and reliable evidence of changes in trends of numbers of claims incurred, average settlement amounts, numbers of claims outstanding and average losses per claim will necessarily take years to develop.

For a more detailed description see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Reserves for Losses and Loss Adjustment Expenses,” included in our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Balance Sheet

Total cash and investments

At September 30, 2011 and December 31, 2010, total cash and investments, including accrued interest receivable, were \$7.6 billion and \$7.3 billion, respectively. The composition of our investment portfolio is summarized below:

	As at September 30, 2011		As at December 31, 2010	
	Estimated Fair Value	Percentage of Total Cash and Investments	Estimated Fair Value	Percentage of Total Cash and Investments
(\$ in millions except for percentage)				
Marketable Securities — Available for Sale				
U.S. Government	\$ 889.4	11.7%	\$ 725.4	10.0%
U.S. Government Agency	281.5	3.7	302.3	4.2
Municipal	36.5	0.5	30.7	0.4
Corporate	1,968.3	26.0	1,971.1	27.1
FDIC Guaranteed Corporate	93.6	1.2	125.8	1.7
Non-U.S. Government-backed Corporate	191.2	2.5	228.8	3.1
Foreign Government	681.2	9.0	616.9	8.5
Asset-backed	59.0	0.8	58.8	0.8
Mortgage-backed Securities	1,408.0	18.7	1,300.6	17.9
Total Fixed Income — Available for Sale	5,608.7	74.1%	5,360.4	73.7%
Marketable Securities — Trading				
U.S. Government	18.0	0.2	48.3	0.7
U.S. Government Agency	1.7	—	0.5	—
Municipal	2.9	—	3.3	—
Corporate	346.1	4.6	339.8	4.7
FDIC Guaranteed Corporate	—	—	—	—
Non-U.S. Government-backed Corporate	—	—	—	—
Foreign Government	9.6	0.1	4.9	0.1
Asset-backed Securities	5.8	0.1	9.4	0.1
Total Fixed Income — Trading	384.1	5.0%	406.2	5.6%
Total Other Investments	32.3	0.4	30.0	0.4
Total Equity Securities	163.8	2.2	—	—
Total Short-term Investments — Available for Sale	290.6	3.8	286.0	3.9
Total Short-term Investments — Trading	5.3	0.1	3.7	0.1
Total Cash and Cash Equivalents	1,038.8	13.7	1,179.1	16.2
Total Receivable for Securities Sold	0.5	—	(40.4)	(0.6)
Total Accrued Interest Receivable	53.6	0.7	54.4	0.7
Total Cash and Investments	\$ 7,577.7	100.0%	\$ 7,279.4	100.0%

Fixed maturities. At September 30, 2011, the average credit quality of our fixed income portfolio is “AA,” with 95% of the portfolio being rated “A” or higher. At December 31, 2010, the average credit quality of our fixed income portfolio was “AA+,” with 96% of the portfolio being rated “A” or higher. Our fixed income portfolio duration has decreased as at September 30, 2011 to 2.5 years from 2.9 years as at December 31, 2010 and includes the impact of the interest-rate swaps which we entered into to partially mitigate against rises in interest rates.

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Mortgage-Backed Securities. The following table summarizes the fair value of our mortgage-backed securities by rating and class at September 30, 2011:

	<u>AAA</u>	<u>AA and Below</u> <u>(\$ in millions)</u>	<u>Total</u>
Agency	\$ 2.6	\$ 1,311.0	\$ 1,313.6
Non-agency Commercial	67.6	26.8	94.4
Total Mortgage-backed Securities	\$70.2	\$ 1,337.8	\$1,408.0

Our mortgage-backed portfolio is supported by loans diversified across a number of geographic and economic sectors.

Equity securities. In March 2011, we made an initial investment into equities, deploying \$175.0 million, or 2.5% of total investments into a high quality global equity income strategy via direct investment. Our overall portfolio strategy remains focused on high quality fixed income investments; however, market conditions and portfolio diversification prompted this limited move into equities. Our group investment guidelines allow us to deploy up to 10% of the investment portfolio in non-fixed income investments. We recognized dividend income of \$4.9 million (2010 — \$Nil) and \$3.8 million (2010 — \$Nil) net unrealized losses from the equity portfolio for the period ended September 30, 2011. Equity securities are comprised of U.S. and foreign equity securities and are classified as available for sale. The portfolio targets high quality global equity securities with attractive dividend yields.

Other investments. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested \$25.0 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a Class 3 Bermudian reinsurer focusing on insurance-linked securities. On June 1, 2010, the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The Company's involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company's maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re.

We have determined that each of Cartesian Iris 2009A L.P. and Cartesian Iris Offshore Fund L.P. has the characteristics of a variable interest entity that are addressed by the guidance in ASC 810, *Consolidation*. Neither Cartesian Iris 2009A L.P. nor Cartesian Iris Offshore Fund L.P. is consolidated by us. We have no decision-making power, those powers having been reserved for the general partner. The arrangement with Cartesian Iris Offshore Fund L.P. is simply that of an investee to which we provide additional services, including the secondment of an employee working under the direction of the board of Iris Re.

We have accounted for our investments in Cartesian Iris 2009A L.P. and Cartesian Offshore Fund L.P. in accordance with the equity method of accounting. Adjustments to the carrying value of this investment are made based on our share of capital including our share of income and expenses, which is provided in the quarterly management accounts of the partnership. The adjusted carrying value approximates fair value. In the three and nine months ended September 30, 2011, our share of gains and losses increased the value of our investment by \$2.3 million and \$2.3 million, respectively (2010 — \$0.3 million increase and \$0.5 million increase). The change in value has been recognized in realized and unrealized gains and losses in the condensed consolidated statement of operations.

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The tables below show our other investments for the nine months ended September 30, 2011 and twelve months ended December 31, 2010:

	Nine Months Ended September 30, 2011				
	Opening Undistributed Fair Value of Investment	Realized Gain	Carrying Value	Funds Distributed	Closing Undistributed Fair Value of Investment
	(\$ in millions)				
Cartesian Iris Offshore Fund L.P.	\$ 30.0	\$ 2.3	\$ 32.3	\$ —	\$ 32.3

	Twelve Months Ended December 31, 2010				
	Opening Undistributed Fair Value of Investment	Realized Gain	Carrying Value	Funds Distributed	Closing Undistributed Fair Value of Investment
	(\$ in millions)				
Cartesian Iris 2009 A L.P.	\$ 27.3	\$ 0.5	\$ 27.8	\$ (27.8)	\$ —
Cartesian Iris Offshore Fund L.P.	\$ 27.8	\$ 2.2	\$ 30.0	\$ —	\$ 30.0

Valuation of Fixed Income, Equities and Short Term Available for Sale Investments and Fixed Income and Short-Term Trading Investments

Fair Value Measurements. Our estimates of fair value for financial assets and liabilities are based on the framework established in the fair value accounting guidance included in ASC Topic 820, “*Fair Value Measurements and Disclosures.*” The framework prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels, which are described in more detail below.

Fixed Maturities

The Company’s fixed income maturity securities are classified as either available for sale or trading and carried at fair value. At September 30, 2011 and December 31, 2010, we used substantially the market approach valuation techniques (e.g. use of quoted market values and other relevant observable market data provided by independent pricing sources) for estimating the fair values of fixed maturities. The pricing sources are primarily internationally recognized independent pricing services and broker-dealers.

Independent Pricing Services. Pricing services provide pricing for less complex, liquid securities based on market quotations in active markets. For securities that do not trade on a listed exchange, these pricing services may use matrix pricing consisting of observable market inputs to estimate the fair value of a security. These observable market inputs include: reported trades, benchmark yields, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic factors. Additionally, pricing services may use a valuation model such as an option adjusted spread model commonly used for estimating fair values of mortgage-backed and asset-backed securities. At September 30, 2011, pricing for approximately 98% (2010 — 95%) of our total fixed maturities was based on prices provided by nationally recognized independent pricing services made up of 83% index providers and 15% pricing vendors.

Broker-Dealers. For the most part, we obtain quotes directly from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services or index providers. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance on newly issued securities. They may also establish pricing through observing secondary trading of similar securities. Quotes from broker-dealers are non-binding. At September 30, 2011, pricing for approximately 2.2% (2010 — 4.7%) of our total fixed maturities was based on non-binding quotes from broker-dealers.

To validate the techniques or models used by third-party pricing sources, we review the process, in conjunction with the processes completed by the third-party accounting service provider, which include, but are not limited to:

- quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated);

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- initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and;
- comparison of the fair value estimates to our knowledge of the current market.

Prices obtained from brokers and pricing services are not adjusted by us; however, prices provided by a broker or pricing service in certain instances may be challenged based on market or information available from internal sources, including those available to our third-party investment accounting service provider. Subsequent to any challenge, revisions made by the broker or pricing service to the quotes are supplied to our investment accounting service provider.

Management reviews the vendor hierarchy maintained by our third-party accounting service provider in order to determine which price source provides the fair value (i.e. a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy prioritizes pricing services based on availability and reliability and assigns the highest priority to index providers.

At September 30, 2011, we obtained an average of 3.1 quotes per investment, compared to 2.9 quotes at December 31, 2010. Pricing sources used in pricing our fixed income investments at September 30, 2011 and December 31, 2010, respectively, were as follows:

	<u>As at</u> <u>September 30, 2011</u>	<u>As at</u> <u>December 31, 2010</u>
Index providers	82.8%	85.2%
Pricing services	15.0	12.5
Broker-dealers	2.2	2.3
Total	<u>100.0%</u>	<u>100.0%</u>

U.S. Government and Agency. U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and corporate debt issued by agencies such as the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank. As the fair values of our U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

Foreign Government. The issuers for securities in this category are non-U.S. governments and their agencies. The fair values of non-U.S. government bonds, primarily sourced from international indices, are based on unadjusted market prices in active markets and are therefore classified within Level 1. The fair values of the non-U.S. agency securities, again primarily sourced from international indices, are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of non-U.S. agency securities are classified within Level 2.

Municipals. Our municipal portfolio comprises bonds issued by U.S. domiciled state and municipality entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market which are Level 2 inputs in the fair value hierarchy. Consequently, these securities are classified within Level 2.

Corporate. Corporate securities consist primarily of U.S. and foreign corporations covering a variety of industries and are for the most part priced by index providers and pricing vendors. Some issuers may participate in the Federal Deposit Insurance Corporation ("FDIC") program or other similar non-U.S. government programs which guarantee timely payment of principal and interest in the event of a default. The fair values of these securities are generally determined using the spread above the risk-free yield curve. Inputs used in the evaluation of these securities include credit data, interest rate data, market observations and sector news, broker dealer quotes and trade volumes. The Company classifies these securities within Level 2.

Mortgage-backed. Our residential and commercial mortgage-backed securities consist of bonds issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, as well as private, non-

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agency issuers. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the mortgage-backed security. These spreads are generally obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price mortgage-backed securities are observable market inputs these securities are classified within Level 2.

Asset-backed. The underlying collateral for the Company's asset-backed securities consists mainly of student loans, automobile loans and credit card receivables. These securities are primarily priced by index providers and pricing vendors. Inputs to the valuation process include dealer quotes and other available trade information, prepayment speeds, interest rate data and credit spreads. The Company classifies these securities within Level 2.

Short-term investments

Short-term investments comprise highly liquid debt securities with a maturity greater than three months but less than one year from the date of purchase and are classified as either trading or available for sale and carried at estimated fair value. Short term investments are valued in a manner similar to the Company's fixed maturity investments and are classified within Level 2.

Equity Securities

Equity securities include U.S. and foreign common stocks and are classified as available for sale and carried at fair value. These securities are classified within Level 1 as their fair values are based on quoted market prices in active markets from independent pricing sources.

Derivative Financial Instruments

Foreign Currency Forward Contracts. The foreign currency forward contracts which we use to economically hedge currency risk are characterized as over-the-counter ("OTC") due to their customized nature and the fact that they do not trade on a major exchange. These instruments trade in a very deep liquid market, providing substantial price transparency and accordingly are classified as Level 2.

Interest-Rate Swaps. The interest-rate swaps which we use to economically hedge interest rate risk are also characterized as OTC and are valued by the counterparty using quantitative models with multiple market inputs. The market inputs, such as interest rates and yield curves, are observable and the valuation can be compared for reasonableness with third party pricing services. Consequently, these instruments are classified as Level 2.

Valuation of Other Investments. The value of our investment in Cartesian Iris Offshore Fund L.P. or in Cartesian Iris 2009A L.P. is based on our shares of the capital position of the partnership which includes income and expenses reported by the limited partnership as provided in its quarterly management accounts. Each of Cartesian Iris Offshore Fund L.P. and Cartesian Iris 2009A L.P. is subject to annual audit evaluating the financial statements of the partnership. We periodically review the management accounts of Cartesian Iris Offshore Fund L.P. and Cartesian Iris 2009A L.P. and evaluate the reasonableness of the valuation of our investment.

Guaranteed Investments. The following table presents the breakdown of investments which are guaranteed by mono-line insurers ("Wrapped Credit" disclosure) and those that have explicit government guarantees. The

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standalone rating is determined as the senior unsecured debt rating of the issuer. Where the credit ratings were split between Moody's and S&P the lowest rating was used.

As at September 30, 2011			As at December 31, 2010		
Rating with Guarantee	Rating without Guarantee	Market Value	Rating with Guarantee	Rating without Guarantee	Market Value
		(\$ in millions)			(\$ in millions)
AAA	AAA	\$ 78.3	AAA	AAA	\$ 93.8
	AA	24.6		AA	16.1
	AA-	2.5		AA-	9.5
	A+	15.8		A+	58.2
	A	18.9		A	38.4
	A-	37.2		A-	81.2
	BBB+	2.8		BBB+	17.8
	BBB	3.3		BBB	—
	BBB-	—		BBB-	23.7
	BB+	3.7		BB+	—
	B+	20.1		B+	—
	B	3.7		B	—
	BB	—		BB-	3.1
AA+		—	AA+	AA+	—
	AAA	—		AA	24.9
	AA+	2.9		AA+	—
	AA	4.5		AA	—
	AA-	3.0		AA-	1.9
	A+	15.2		A+	3.1
	A	15.2		A	6.4
	A-	28.7		A-	—
	BBB+	25.6		BBB+	—
	BB	3.0		BB	—
AA	AA	—	AA	AA	1.4
AA-	AA-	3.7	AA-	AA-	3.2
A-	AA-	—	A-	A-	1.9
BBB-	BBB-	0.1	BBB-	BBB-	0.1
		\$ 312.8			\$ 384.7

Our exposure to mono-line insurers was limited to one municipal holding (2010 — one municipal holding) as at September 30, 2011 with a market value of \$0.1 million (2010 — \$0.1 million). Our exposure to other third-party guaranteed debt is primarily to investments backed by the FDIC and non-U.S. government guaranteed issuers.

Other-than-temporary impairments. We recorded no OTTI charges for the nine months ended September 30, 2011 (2010 — \$0.3 million). We review our available for sale investment portfolio on an individual security basis for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The difference between the amortized cost or original cost and the estimated fair market value of available for sale investments is monitored to determine whether any investment has experienced a decline in value that is believed to be other-than-temporary. A security is impaired when the fair value is below its amortized cost or original cost.

In our review of fixed maturity investments, other-than-temporary impairment is deemed to occur when there is no objective evidence to support recovery in value of a security and a) we intend to sell the security or more likely

than not will be required to sell the security before recovery of its adjusted amortized cost basis or b) it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealized loss position is taken as an OTTI charge to realized losses in earnings. In the second case, the unrealized loss is separated into the amount related to credit loss and the amount related to all other factors. The OTTI charge related to credit loss is recognized in realized losses in earnings and the amount related to all other factors is recognized in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments are made for subsequent recoveries in value.

Equity securities do not have a maturity date and therefore our review of these securities utilizes a higher degree of judgment. In our review we consider our ability and intent to hold an impaired equity security for a reasonable period of time to allow for a full recovery. Where a security is considered to be other-than-temporarily impaired, the entire charge is recognized in realized losses in earnings. Again, the cost basis of the investment is reduced accordingly and no adjustments are made for subsequent recoveries in value.

Although we review each security on a case by case basis, we have also established parameters to help identify securities in an unrealized loss position which are other-than-temporarily impaired. These parameters focus on the extent and duration of the impairment and for both fixed maturities and equities we consider declines in value of greater than 20% for 12 consecutive months to indicate that the security is other-than-temporarily impaired.

For a discussion of our valuation techniques within the fair value hierarchy, please see Note 7 of the financial statements included elsewhere in this report.

Capital Management

Capital Management. On February 9, 2010, our Board of Directors authorized a new repurchase program for up to \$400 million of ordinary shares of which \$192.4 million remained available as at September 30, 2011. The authorization for the repurchase program covers the period to March 1, 2012.

On November 10, 2010, we entered into an accelerated share repurchase program with Barclays Capital to repurchase \$184 million of our ordinary shares. As of December 31, 2010, a total of 5,737,449 ordinary shares were received and cancelled. Upon the termination of the contract on March 14, 2011, an additional 542,736 ordinary shares were received and cancelled. A total of 6,280,185 ordinary shares were cancelled under this contract.

On February 16, 2011, an agreement was signed to repurchase 58,310 shares from the Names' Trustee. The shares were repurchased on March 10, 2011 and subsequently cancelled.

On June 29, 2011, an agreement was signed to repurchase 254,107 shares from the Names' Trustee for a total consideration of \$6.4 million. The transaction completed on August 10, 2011.

The following table shows our capital structure at September 30, 2011 compared to December 31, 2010:

	<u>As at</u> <u>September 30, 2011</u>	<u>As at</u> <u>December 31, 2010</u>
	(\$ in millions)	
Share capital, additional paid-in capital, retained income and accumulated other comprehensive income attributable to ordinary shareholders	\$ 2,796.9	\$ 2,888.3
Preference shares (liquidation preference less issue expenses), net of issue costs	353.6	353.6
Long-term debt	498.9	498.8
Total capital	<u>\$ 3,649.4</u>	<u>\$ 3,740.7</u>

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders' equity plus outstanding debt. At September 30, 2011, this ratio was 13.7% (December 31, 2010 — 13.3%).

Our preference shares are classified in our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Such securities are often referred to

as ‘hybrids’ as they have certain attributes of both debt and equity. We also monitor the ratio of the total of debt and hybrids to total capital which was 23.4% as of September 30, 2011 (December 31, 2010 — 22.8%).

Access to capital. Our business operations are in part dependent on our financial strength and the market’s perception thereof, as measured by total shareholders’ equity, which was \$3,150.5 million at September 30, 2011 (December 31, 2010 — \$3,241.9 million). We believe our financial strength provides us with the flexibility and capacity to obtain funds through debt or equity financing. Our continuing ability to access the capital markets is dependent on, among other things, our operating results, market conditions and our perceived financial strength. We regularly monitor our capital and financial position, as well as investment and securities market conditions, both in general and with respect to Aspen Holdings’ securities. Our ordinary shares and all our preference shares are listed on the New York Stock Exchange.

Liquidity

Liquidity is a measure of a company’s ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. Management monitors the liquidity of Aspen Holdings and of each of its Operating Subsidiaries and arranges credit facilities to enhance short-term liquidity resources on a stand-by basis.

Holding Company. We monitor the ability of Aspen Holdings to service debt, to finance dividend payments to ordinary and preference shareholders and to provide financial support to the Operating Subsidiaries.

As at September 30, 2011, Aspen Holdings held \$80.6 million (December 31, 2010 — \$354.0 million) in cash and cash equivalents which management considers sufficient to provide Aspen Holdings with appropriate liquidity at such time, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities. Aspen Holdings’ liquidity depends on dividends, capital distributions and interest payments from our Operating Subsidiaries. Aspen Holdings also has recourse to the credit facility described below.

In the nine months ended September 30, 2011, Aspen U.K. Holdings paid Aspen Holdings interest of \$40.6 million (2010 — \$27.4 million for the nine months ended September 30, 2010) in respect of intercompany loans and dividends of \$Nil (2010 — \$15.0 million) and Aspen Bermuda paid Aspen Holdings dividends of \$100.0 million (2010 — \$Nil).

The ability of our Operating Subsidiaries to pay us dividends or other distributions is subject to the laws and regulations applicable to each jurisdiction, as well as the Operating Subsidiaries’ need to maintain capital requirements adequate to maintain their insurance and reinsurance operations and their financial strength ratings issued by independent rating agencies. For a discussion of the various restrictions on our ability and our Operating Subsidiaries’ ability to pay dividends, see Part I, Item 1 “Business — Regulatory Matters” in our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. Also for a more detailed discussion of our Operating Subsidiaries’ ability to pay dividends, see Note 14 of our annual financial statements in our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Operating Subsidiaries. As of September 30, 2011, the Operating Subsidiaries held \$918.6 million (December 31, 2010 — \$814.3 million) in cash and short-term investments that are readily realizable securities. Management monitors the value, currency and duration of cash and investments held by its Operating Subsidiaries to ensure that they are able to meet their insurance and other liabilities as they become due and was satisfied that there was a comfortable margin of liquidity as at September 30, 2011 and for the foreseeable future.

On an ongoing basis, our Operating Subsidiaries’ sources of funds primarily consist of premiums written, investment income and proceeds from sales and redemptions of investments.

Cash is used primarily to pay reinsurance premiums, losses and loss adjustment expenses, brokerage commissions, general and administrative expenses, taxes, interest and dividends and to purchase new investments.

The potential for individual large claims and for accumulations of claims from single events means that substantial and unpredictable payments may need to be made within relatively short periods of time.

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We manage these risks by making regular forecasts of the timing and amount of expected cash outflows and ensuring that we maintain sufficient balances in cash and short-term investments to meet these estimates. Notwithstanding this policy, if our cash flow forecast is incorrect, we could be forced to liquidate investments prior to maturity, potentially at a significant loss.

The liquidity of our Operating Subsidiaries is also affected by the terms of our contractual obligations to policyholders and by undertakings to certain regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. The following table shows the forms of collateral or other security provided to policyholders as at September 30, 2011 and December 31, 2010:

	<u>As at</u> <u>September 30, 2011</u>	<u>As at</u> <u>December 31, 2010</u>
	(\$ in millions except percentages)	
Assets held in multi-beneficiary trusts	\$ 1,660.2	\$ 1,895.7
Assets held in single beneficiary trusts	334.7	58.2
Letter of credit issued under revolving credit facility	25.2	—
Secured letters of credit(1)	1,101.0	533.8
Total	\$ 3,121.1	\$ 2,487.7
Total as % of cash and invested assets	41.5%	34.2%

(1) As of September 30, 2011, the Company had securities and cash of \$1,323.5 million and £19.4 million (December 31, 2010 — \$699.9 million and £30.0 million) as collateral for the secured letters of credit.

For more information see Note 14(a) and our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Consolidated Cash Flows for the Nine Months Ended September 30, 2011. Total net cash flow from operations was \$278.4 million, a reduction of \$223.7 million from the comparative period last year. The reduction was due mainly to higher loss payments following the exceptional level of catastrophe losses in 2011 and ceded reinsurance costs. For the nine months ended September 30, 2011, our cash flow from operations provided us with sufficient liquidity to meet our operating requirements. On August 26, 2011, we paid a dividend of \$0.15 per ordinary share to shareholders of record on August 11, 2011. On October 1, 2011, dividends totaling \$3.2 million on our Perpetual Preferred Income Equity Replacement Securities (“Perpetual PIERS”) were paid to our dividend disbursing agent, for payment to our Perpetual PIERS holders of record on September 15, 2011. On October 1, 2011, dividends totaling \$2.5 million on our Perpetual Non-Cumulative Preference Shares (“Perpetual Preference Shares”) were paid to our dividend disbursing agent, for payment to our Perpetual Preference Share holders of record on September 15, 2011.

Credit Facility. On July 30, 2010, we entered into a three-year \$280.0 million revolving credit facility pursuant to a credit agreement (the “credit facilities”) by and among the Company, certain of our direct and indirect subsidiaries, including the Operating Subsidiaries (collectively, the “Borrowers”), the lenders party thereto, Barclays Bank plc, as administrative agent, Citibank, NA, as syndication agent, Credit Agricole CIB, Deutsche Bank Securities Inc. and The Bank of New York Mellon, as co-documentation agents and The Bank of New York, as collateral agent.

The facility can be used by any of the Borrowers to provide funding for our Operating Subsidiaries, to finance the working capital needs of the Company and our subsidiaries and for general corporate purposes of the Company and our subsidiaries. The revolving credit facility further provides for the issuance of collateralized and uncollateralized letters of credit. Initial availability under the facility is \$280.0 million, and the Company has the option (subject to obtaining commitments from acceptable lenders) to increase the facility by up to \$75.0 million. The facility will expire on July 30, 2013. As of September 30, 2011, no borrowings were outstanding under the credit facilities. The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers increase based on the consolidated leverage ratio of the Company.

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Under the credit facilities, we must maintain at all times a consolidated tangible net worth of not less than approximately \$2.3 billion plus 50% of consolidated net income and 50% of aggregate net cash proceeds from the issuance by the Company of its capital stock, each as accrued from January 1, 2010. The Company must also not permit its consolidated leverage ratio of total consolidated debt plus consolidated tangible net worth to exceed 35%. In addition, the credit facilities contain other customary affirmative and negative covenants as well as certain customary events of default, including with respect to a change in control. The various affirmative and negative covenants, include, among others, covenants that, subject to various exceptions, restrict the ability of the Company and its subsidiaries to: create or permit liens on assets; engage in mergers or consolidations; dispose of assets; pay dividends or other distributions; purchase or redeem the Company's equity securities or those of its subsidiaries and make other restricted payments; permit the rating of any insurance subsidiary to fall below A.M. Best financial strength rating of B++; make certain investments; agree with others to limit the ability of the Company's subsidiaries to pay dividends or other restricted payments or to make loans or transfer assets to the Company or another of its subsidiaries. The credit facilities also include covenants that restrict the ability of our subsidiaries to incur indebtedness and guarantee obligations.

On August 12, 2011, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated April 29, 2009 in a maximum aggregate amount of up to \$550.0 million with a new letter of credit facility in a maximum aggregate amount of up to \$1,050.0 million. As at September 30, 2011, we had \$898.4 million of outstanding collateralized letters of credit under this facility.

On February 28, 2011, Aspen U.K. and Aspen Bermuda entered into an amendment to the \$200.0 million secured letter of credit facility agreement with Barclays dated as of October 6, 2009. The Amendment extends the maturity date of the credit facility to December 31, 2013. As at September 30, 2011, we had \$118.9 million of outstanding collateralized letters of credit under this facility compared to \$42.4 million at the end of 2010.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations (other than our obligations to employees, our Perpetual PIERS and our Perpetual Preference Shares) under long-term debt, operating leases (net of subleases) and reserves relating to insurance and reinsurance contracts as of September 30, 2011:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Later Years</u>	<u>Total</u>
	(\$ in millions)						
Operating Lease Obligations	\$ 2.7	\$ 10.2	\$ 9.5	\$ 9.2	\$ 8.7	\$ 25.1	\$ 65.4
Long-Term Debt Obligations(1)	—	—	—	\$250.0	—	\$250.0	\$ 500.0
Reserves for Losses and loss adjustment expenses(2)	\$68.6	\$1,557.7	\$879.2	\$539.5	\$421.3	\$933.1	\$4,399.4

- (1) The long-term debt obligations disclosed above do not include the \$30.0 million annual interest payments on our outstanding senior notes.
- (2) In estimating the time intervals into which payments of our reserves for losses and loss adjustment expenses fall, as set out above, we have utilized actuarially assessed payment patterns. By the nature of the insurance and reinsurance contracts under which these liabilities are assumed, there can be no certainty that actual payments will fall in the periods shown and there could be a material acceleration or deceleration of claims payments depending on factors outside our control. This uncertainty is heightened by the short time in which we have operated, thereby providing limited Company-specific claims loss payment patterns. The total amount of payments in respect of our reserves, as well as the timing of such payments, may differ materially from our current estimates for the reasons set out in our 2010 Annual Report on Form 10-K under "— Critical Accounting Policies — Reserves for Losses and Loss Expenses."

Further information on operating leases is given in our 2010 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

For a discussion of derivative instruments we have entered into, please see Note 9 to our unaudited condensed consolidated financial statements for the three months ended September 30, 2011 included elsewhere in this report.

Effects of Inflation

Inflation may have a material effect on our consolidated results of operations by its effect on interest rates and on the cost of settling claims. The potential exists, after a catastrophe or other large property loss, for the development of inflationary pressures in a local economy as the demand for services such as construction typically surges. We believe this had an impact on the cost of claims arising from the 2005 hurricanes. The cost of settling claims may also be increased by global commodity price inflation. We seek to take both these factors into account when setting reserves for any events where we think they may be material.

Our calculation of reserves for losses and loss expenses in respect of casualty business includes assumptions about future payments for settlement of claims and claims-handling expenses, such as medical treatments and litigation costs. We write casualty business in the United States, the United Kingdom and Australia and certain other territories, where claims inflation has in many years run at higher rates than general inflation. To the extent inflation causes these costs to increase above reserves established for these claims, we will be required to increase our loss reserves with a corresponding reduction in earnings. The actual effects of inflation on our results cannot be accurately known until claims are ultimately settled.

In addition to general price inflation we are exposed to a persisting long-term upwards trend in the cost of judicial awards for damages. We seek to take this into account in our pricing and reserving of casualty business.

We also seek to take into account the projected impact of inflation on the likely actions of central banks in the setting of short-term interest rates and consequent effects on the yields and prices of fixed income securities. We consider that although inflation is currently low, in the medium-term there is a risk that inflation, interest rates and bond yields will rise with the result that the market value of certain of our fixed income investments may reduce.

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains, and the Company may from time to time make other verbal or written, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including statements regarding our capital needs, business strategy, expectations and intentions. Statements that use the terms "believe," "do not believe," "anticipate," "expect," "plan," "estimate," "project," "seek," "will," "may," "aim," "continue," "intend," "guidance" and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and because our business is subject to numerous risks, uncertainties and other factors, our actual results could differ materially from those anticipated in the forward-looking statements. The risks, uncertainties and other factors set forth in the Company's 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission and other cautionary statements made in this report, as well as the following factors, should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the possibility of greater frequency or severity of claims and loss activity, including as a result of natural or man-made (including economic and political risks) catastrophic or material loss events, than our underwriting, reserving, reinsurance purchasing or investment practices have anticipated;
- the reliability of, and changes in assumptions to, natural and man-made catastrophe pricing, accumulation and estimated loss models;
- evolving issues with respect to interpretation of coverage after major loss events, any intervening legislative or governmental action and changing judicial interpretation and judgments on insurers' liability to various risks;
- the effectiveness of our loss limitation methods;

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- changes in the total industry losses, or our share of total industry losses, such as the various losses from the U.S. storms in 2011, the earthquake and ensuing tsunami in Japan in 2011, floods in Australia in late 2010 and early 2011, the Deepwater Horizon incident in the Gulf of Mexico in 2010, the Chilean and the New Zealand Earthquakes in 2010, Hurricanes Ike and Gustav in 2008 and, with respect to such events, our reliance on loss reports received from cedants and loss adjustors, our reliance on industry loss estimates and those generated by modeling techniques, changes in rulings on flood damage or other exclusions as a result of prevailing lawsuits and case law;
- the impact of acts of terrorism and acts of war and related legislation;
- decreased demand for our insurance or reinsurance products and cyclical changes in the insurance and reinsurance sectors;
- any changes in our reinsurers' credit quality and the amount and timing of reinsurance recoverables;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- the continuing and uncertain impact of the current depressed lower growth environment in many of the countries in which we operate;
- the level of inflation in repair costs due to limited availability of labor and materials after catastrophes;
- changes in insurance and reinsurance market conditions;
- increased competition on the basis of pricing, capacity, coverage terms or other factors and the related demand and supply dynamics as contracts come up for renewal;
- a decline in our Operating Subsidiaries' ratings with S&P, A.M. Best or Moody's;
- our ability to execute our business plan to enter new markets, introduce new products and develop new distribution channels, including their integration into our existing operations;
- changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect our investment portfolio or our derivative contracts;
- the risk of a material decline in the value or liquidity of all or parts of our investment portfolio;
- changes in our ability to exercise capital management initiatives or to arrange banking facilities as a result of prevailing market changes or changes in our financial position;
- changes in government regulations or tax laws in jurisdictions where we conduct business;
- Aspen Holdings or Aspen Bermuda becoming subject to income taxes in the United States or the United Kingdom;
- loss of key personnel; and
- increased counterparty risk due to the credit impairment of financial institutions.

In addition, any estimates relating to loss events involve the exercise of considerable judgment and reflect a combination of ground-up evaluations, information available to date from brokers and cedants, market intelligence, initial tentative loss reports and other sources. Due to the complexity of factors contributing to losses and the preliminary nature of the information used to prepare estimates, there can be no assurance that our ultimate losses will remain within stated amounts.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise or disclose any difference between our actual results and those reflected in such statements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this report reflect our current views with respect to future events and are subject to these and other risks,

uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by the points made above. You should specifically consider the factors identified in this report which could cause actual results to differ before making an investment decision.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Interest rate risk. Our investment portfolio consists primarily of fixed income securities. Accordingly, our primary market risk exposure is to changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of our fixed-income portfolio falls, and the converse is also true. Our strategy for managing interest rate risk includes maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. In addition, the Company partially mitigates its exposure to interest rates by entering into interest rate swaps with financial institution counterparties in the ordinary course of its investment activities.

As at September 30, 2011, our fixed income portfolio had an approximate duration of 3.1 years excluding the impact of interest-rate swaps. The table below depicts interest rate change scenarios and the effect on our interest-rate sensitive invested assets:

Effect of Changes in Interest Rates on Portfolio Given a Parallel Shift in the Yield Curve

<u>Movement in Rates in Basis Points</u>	<u>-100</u>	<u>-50</u>	<u>0</u>	<u>50</u>	<u>100</u>	
		(\$ in millions, except percentages)				
Market value \$ in millions	\$6,481.8	\$6,385.2	\$6,288.7	\$6,192.2	\$6,095.6	
Gain/(loss) \$ in millions	193.0	97.0	—	(97.0)	(193.0)	
Percentage of portfolio	3.0%	1.5%	—%	(1.6)%	(3.2)%	

Equity risk. We have invested in equity securities which had a fair market value of \$163.8 million at September 30, 2011, equivalent to 2.2% of the total of investments, cash and cash equivalents at that date. These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. We believe that the effects of diversification and the relatively small size of our investments in equities relative to total invested assets mitigate our exposure to equity price risk.

Foreign currency risk. Our reporting currency is the U.S. Dollar. The functional currencies of our operations are U.S. Dollars, British Pounds, Euros, Canadian Dollars, Swiss Francs, Australian Dollars and Singaporean Dollars. As of September 30, 2011, approximately 80% of our cash, cash equivalents and investments were held in U.S. Dollars, approximately 7% were in British Pounds and approximately 13% were in other currencies. For the nine months ended September 30, 2011, approximately 19.0% of our gross premiums were written in currencies other than the U.S. Dollar and the British Pound and we expect that a similar proportion will be written in currencies other than the U.S. Dollar and the British Pound in the remainder of 2011.

Other foreign currency amounts are re-measured to the appropriate functional currency and the resulting foreign exchange gains or losses are reflected in the statement of operations. Functional currency amounts of assets and liabilities are then translated into U.S. Dollars. The unrealized gain or loss from this translation, net of tax, is recorded as part of shareholders' equity. The change in unrealized foreign currency translation gain or loss during the period, net of tax, is a component of comprehensive income. Both the re-measurement and translation are calculated using current exchange rates for the balance sheets and average exchange rates for the statement of operations. We may experience exchange losses to the extent our foreign currency exposure is not hedged, which in turn would adversely affect our results of operations and financial condition. Management estimates that a 10% change in the exchange rate between British Pounds and U.S. Dollars as at September 30, 2011, would have impacted reported net comprehensive income by approximately \$30.5 million for the nine months ended September 30, 2011.

We manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with investments that are denominated in these currencies. This may involve the use of forward exchange contracts from time to time. A forward exchange contract involves an

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obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. All realized gains and losses on foreign exchange forward contracts are recognized in the Statements of Operations as changes in fair value of derivatives. As at September 30, 2011, we held five foreign currency contracts which had a net gain for the nine months of \$5.8 million (2010 — \$Nil).

Credit risk. We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories, business sectors and any one issuer. As at September 30, 2011, the average rating of fixed income securities in our investment portfolio was “AA” with the decrease due to S&P’s downgrade of U.S. Government securities in August 2011. (December 31, 2010 — “AA+”). We also have credit risk through exposure to our swap counterparties who are Goldman Sachs Group (senior unsecured rating of A1 by Moody’s & A by S&P) and Credit Agricole Corporate and Investment Bank (senior unsecured rating of AA3 by Moody’s & long term issuer credit rating of A+ by S&P).

In addition, we are exposed to the credit risk of our insurance and reinsurance brokers to whom we make claims payments for our policyholders, as well as to the credit risk of our reinsurers and retrocessionaires who assume business from us. Other than fully collateralized reinsurance the substantial majority of our reinsurers have a rating of “A” (Excellent), the third highest of fifteen rating levels, or better by A.M. Best and the minimum rating of any of our material reinsurers is “A-” (Excellent), the fourth highest of fifteen rating levels, by A.M. Best.

See Note 8 to the unaudited financial statements for the three months ended September 30, 2011 above.

The table below shows our reinsurance recoverables as of September 30, 2011 and December 31, 2010, and our reinsurers’ ratings.

<u>A.M. Best</u>	<u>As at September 30, 2011 (\$ in millions)</u>	<u>As at December 31, 2010 (\$ in millions)</u>
A++	\$ 6.9	\$ 7.5
A+	86.1	74.0
A	186.7	173.5
A-	13.5	15.7
F(1)	0.6	0.7
Fully collateralized	50.0	—
Not rated	13.9	8.5
Total	<u>\$ 357.7</u>	<u>\$ 279.9</u>

(1) The A.M. Best rating of “F” denotes liquidation. We have not reduced the carrying value of the recoverable from this particular reinsurer as a trust account exists to replace the potentially insufficient reserves.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the design and operation of the Company’s disclosure controls and procedures as of the end of the period of this report. Our management does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. As a result of the inherent limitations in a cost-effective control system, misstatement due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure requirements are met. Based on the evaluation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed in the reports filed or submitted to the Commission under the Exchange Act by the Company is recorded, processed, summarized and reported in a timely fashion, and is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2011. Based upon that evaluation, the Company's management is not aware of any change in its internal control over financial reporting that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the effectiveness of the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. *Legal Proceedings*

In common with the rest of the insurance and reinsurance industry, we are subject to litigation and arbitration in the ordinary course of our business. Such legal proceedings can arise from our underwriting or general business activities. The latter would include commercial contractual disputes or employment matters. Our Operating Subsidiaries are regularly engaged in the investigation, conduct and defense of disputes, or potential disputes, resulting from questions of insurance or reinsurance coverage or claims activities. Pursuant to our insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. In some jurisdictions, noticeably the U.S., a failure to deal with such disputes or potential disputes in an appropriate manner could result in an award of "bad faith" punitive damages against our Operating Subsidiaries. Generally, our insurance operations are subject to greater frequency and diversity of claims and claims related litigation than our reinsurance operations and, in some jurisdictions, may subject to direct actions by allegedly injured persons or entities seeking damages from policy holders.

While any legal or arbitration proceedings contain an element of uncertainty, we do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

Item 1A. *Risk Factors*

There have been no significant changes in the Company's risk factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. However, also please refer to the "Cautionary Statement Regarding Forward-Looking Statements" provided elsewhere in this report.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

In connection with the options held by the Names' Trustee as described further in Note 12 to our financial statements, the Names' Trustee may exercise the options on a monthly basis. The options were exercised on a cash

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and cashless basis at the exercise price as described in Note 12 to our unaudited condensed consolidated financial statements. As a result, we issued the following unregistered shares to the Names' Trustee and its beneficiaries as described below.

<u>Date Issued</u>	<u>Total Number of Shares Issued</u>	<u>Number of Shares Issued for Options Exercised on Cash Basis</u>	<u>Total Purchase Price for Cash Exercises</u>
July 15, 2011	830	—	—
August 16, 2011	2,003	—	—

None of the transactions involved any underwriters, underwriting discounts or commissions, or any public offering and we believe that each transaction, if deemed to be a sale of a security, was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof or Regulation S for offerings of securities outside the United States. Such securities were restricted as to transfers and appropriate legends were affixed to the share certificates and instruments in such transactions.

In addition to the share repurchase program, we purchase shares offered from time to time by the Names' Trustee. On June 29, 2011, an agreement was signed to repurchase 254,107 shares from the Names' Trustee for a total consideration of \$6.4 million. The transaction was completed on August 10, 2011.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) The following sets forth those exhibits filed pursuant to Item 601 of Regulation S-K:

<u>Exhibit Number</u>	<u>Description</u>
10.1	Amended services contract between Aspen Insurance UK Services Limited and Julian Cusack, dated October 27, 2011, filed with this report.
10.2	Letter of credit facility between Aspen Insurance Limited and Citibank Europe plc, dated August 12, 2011, filed as Exhibit 10.1 on Form 8-K on August 15, 2011.
10.3	Amendment to Pledge Agreement between Aspen Insurance Limited and Citibank Europe plc, dated August 12, 2011, filed as Exhibit 10.2 on Form 8-K on August 15, 2011.
31.1	Officer Certification of Christopher O'Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
31.2	Officer Certification of Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
32.1	Officer Certification of Christopher O'Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, and Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, submitted with this report.
101.INS	XBRL Instance Document submitted with this report
101.SCH	XBRL Taxonomy Extension Schema Document submitted with this report
101.CAL	XBRL Taxonomy Calculation Linkbase Document submitted with this report
101.PRE	XBRL Taxonomy Presentation Linkbase Document submitted with this report

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASPEN INSURANCE HOLDINGS LIMITED
(Registrant)

Date: November 7, 2011

By: /s/ Christopher O’Kane

Christopher O’Kane
Chief Executive Officer

Date: November 7, 2011

By: /s/ Richard Houghton

Richard Houghton
Chief Financial Officer

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

JULIAN MICHAEL CUSACK

AND

ASPEN INSURANCE UK SERVICES LIMITED

AMENDED AND RESTATED SERVICE AGREEMENT

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AMENDED AND RESTATED SERVICE AGREEMENT

DATE: 27 October 2011

PARTIES:

- (1) **JULIAN MICHAEL CUSACK** of 115 Providence Square, London, SE1 2ED (the “**Executive**”); and
- (2) **ASPEN INSURANCE UK SERVICES LIMITED** (Registered in England No. 1184193), 30 Fenchurch St, London, EC3M 3BD, England (the “**Company**”).

OPERATIVE TERMS:

1. INTERPRETATION

1.1 In this Agreement:

“Affiliate”	means any entity directly or indirectly controlling, controlled by, or under common control with the Company; or any other entity designated by the Board in which the Company or an Affiliate has an interest;
“Board”	means the Board of Directors of Holdings from time to time;
“Group”	means the Company and its Affiliates (and “Group Company” means the Company or any one of its Affiliates);
“Holdings”	means Aspen Insurance Holdings Limited, a Bermuda limited company, the ultimate holding company of the Company and its Affiliates;
“Manager”	means the Chief Executive Officer of Holdings or such other person as the Company may nominate from time to time as the person to whom the Executive shall report.

- 1.2 In this Agreement references to any statutory provision shall include such provision as from time to time amended, whether before on or (in the case of re-enactment or consolidation only) after the date hereof, and shall be deemed to include provision of earlier legislation (as from time to time amended) which have been re-enacted (with or without modification) or replaced (directly or indirectly) by such provision and shall further include all statutory instruments or orders from time to time made pursuant thereto.
-

2. **AMENDMENT AND RESTATEMENT**

This Agreement shall serve as a complete amendment and restatement of (i) the Service Agreement entered into between the Executive and Holdings, and (ii) the Service Agreement entered into between the Executive and the Company, each dated 1 May 2008 (which were themselves an amendment and restatement of the Service Agreement entered into between Julian Cusack and Holdings dated 1 May 2007 (such agreement being undated when signed but effective following the transfer of Group CFO responsibilities)) (collectively the “**Original Agreements**”). Except as otherwise provided herein, all terms of the Original Agreements shall be superseded by the terms of this Agreement and, upon execution of this Agreement, the Original Agreements shall be of no further force and effect.

3. **POSITION**

The Company shall employ the Executive as Chief Risk Officer of the Group or such other duties as may be agreed between the Executive and the Manager from time to time.

4. **TERM**

- 4.1 The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement, beginning on the date hereof (the “**Effective Date**”) and continuing unless and until terminated in accordance with the provisions contained in this Agreement.
- 4.2 Notwithstanding the provisions of Clause 3, it is anticipated that the Executive’s employment will terminate by mutual agreement when the Executive reaches the age of 70 years.

5. **DUTIES**

5.1 During his employment hereunder the Executive shall:

- (a) report to the Manager and perform the duties and exercise the powers and functions which from time to time may reasonably be assigned to or vested in him by the Board in relation to Holdings and any other Group Company to the extent consistent with his job title set out in Clause 3 (without being entitled to any additional remuneration in respect of such duties for any Group Company) ;
 - (b) devote the whole of his working time, attention and ability to his duties in relation to the Company and any other Group Company at such place or places as the Board shall determine. The Executive shall carry out his duties under this Agreement at the Company’s premises at 30 Fenchurch St, London EC3M 3BD,, or such other place as the Company and the Executive shall mutually agree, provided that the Executive shall not be required to reside outside of the United Kingdom;
 - (c) comply with all reasonable requests, instructions and regulations given or made by the Board (or by any one authorised by it) and promptly provide such explanations, information and assistance as to the performance of his duties assigned to him under this Agreement as the Board may reasonably require;
-

- (d) faithfully and loyally serve Holdings and each other Group Company to the best of his ability and use his utmost endeavours to promote its interests in all respects;
 - (e) not engage in any activities which would detract from the proper performance of his duties hereunder, nor without the prior written consent of the Board in any capacity including as director, shareholder, principal, consultant, agent, partner or employee of any other company, firm or person (save as the holder for investment of securities which do not exceed three percent (3%) in nominal value of the share capital or stock of any class of any company quoted on a recognised stock exchange) engage or be concerned or interested directly or indirectly in any other trade, business or occupation whatsoever; and
 - (f) comply (and shall use every reasonable endeavour to procure that his spouse and minor children will comply) with all applicable rules of law, stock exchange regulations, individual registration requirements (at a cost to be borne by the Company) and codes of conduct of Holdings and any other Group Company in effect with respect to dealing in shares, debentures or other securities of Holdings or other Group Company.
- 5.2 Nothing herein shall preclude the Executive from (a) serving on the boards of directors of a reasonable number of other corporations subject to the approval of the Chief Executive Officer of the Company in each case, which approval shall not be unreasonably withheld, (b) serving on the boards of a reasonable number of trade associations subject to the approval of the Board, which approval shall not unreasonably be withheld, and/or charitable organizations, (c) engaging in any charitable activities and community affairs, and (d) managing his personal investments and affairs, provided that such activities set forth in this Clause 5.2 do not significantly interfere with the performance of his duties and responsibilities to any Group Company.

6. REMUNERATION AND COMMISSION

- 6.1 The Executive shall be paid by way of remuneration for his services during his employment hereunder a salary at the rate (the "Salary Rate") of £370,000 per annum (less necessary deductions for income tax and national insurance and any other authorised deductions), subject to increase pursuant to Clause 6.3, which shall be inclusive of any fees to which the Executive may be entitled as a director of Holdings or of any other Group Company.
- 6.2 The Executive shall be eligible for a cash bonus, based on a bonus potential of 100% of his annual salary, during his employment hereunder of such amounts (if any) at such times and subject to such conditions as the Compensation Committee of the Board (the "**Compensation Committee**") may in its absolute discretion decide; provided, however, that notwithstanding the preceding language of this Clause 6.2, the Executive shall participate in all management incentive plans made available to the Company's senior executives at a level commensurate with Executive's status and position at the Company.
- 6.3 The Company shall review the Salary Rate for increase at least once each year, and any change in the Salary Rate resulting from such review will take effect from 1 April. The Company's review shall take into consideration, among other factors, the base salary paid to individuals performing similar services at comparable companies based in Bermuda,
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the United Kingdom and the United States, as well as other relevant local or global talent pool comparables, it being expressly understood that while it is intended that the Company shall consider these factors, it shall have no obligation to take any specific action based on such factors.

- 6.4 The Executive's salary will be payable by equal monthly installments; each monthly installments will be in respect of a calendar month and will be paid on or before the last day of such calendar month. Where the employment has begun or ended in a calendar month, salary in respect of that month will be the proportion of a normal month's installments which the days of employment in that month bear to the total days in the month.
- 6.5 The Company may withhold from amounts payable under this Agreement all applicable taxes that are required to be withheld by applicable laws or regulations.

7. PENSION AND INSURANCE BENEFITS

- 7.1 During his employment hereunder, the Executive shall be entitled to participate in all employee benefit and perquisite plans and programs made available to the Company's senior level executives or to its employees generally, as such plans or programs may be in effect from time to time.
- 7.2 The Executive will be eligible for reimbursement of reasonable expenses incurred in connection with his relocation from Bermuda to the UK. Such relocation expenses will include the costs of Business Class airfares for the Executive and his spouse, together with the costs of transportation of the Executive and his spouse's personal effects. For the avoidance of doubt all tax payable on these costs shall be borne by the Company.
- 7.3 During his employment hereunder, the Company shall (subject to the relevant insurers' terms and conditions) provide the Executive with:
- 7.3.1 medical insurance;
 - 7.3.2 permanent health insurance;
 - 7.3.3 personal accident insurance; and
 - 7.3.4 Contract life insurance.

The Board shall have the right to change the arrangements for the provision of such benefits as it sees fit or, if in the reasonable opinion of the Board, the Company is unable to secure any such insurance under the rules of any applicable scheme or otherwise at reasonable rates to cease to provide any or all of the insurances unless in either case the Executive or a member of his family is at that time suffering from a medical condition which would entitle them to benefits under the policy in question in which case the existing policy is to be maintained in force by the Company or an alternative policy provided which would provide the same benefit in relation to the medical condition in question.

8. EXPENSES

The Company shall reimburse to the Executive all traveling, hotel, entertainment and other expenses properly and reasonably incurred by him in the performance of his duties hereunder and properly claimed and vouched for in accordance with the Company's expense reporting procedure in force from time to time.

9. HOLIDAYS AND HOLIDAY PAY

- 9.1 The Executive shall be entitled to an aggregate of 30 working days' paid holiday per holiday year (in addition to public holidays) in relation to his employment by the Company and, if applicable, such additional days as are set out in the Company's standard terms and conditions of employment from time to time, during each holiday year to be taken at such time or times as may be agreed with the Manager. Except as otherwise provided in the Company's holiday policy, the Executive may not carry forward any unused part of his holiday entitlement to a subsequent holiday year and the Executive shall not be entitled to any salary in lieu of untaken holiday.
- 9.2 For the holiday year during which the Executive's employment hereunder commences or terminates he shall be entitled to such proportion of his annual holiday entitlement as the period of his employment in each such holiday year bears to one holiday year as set out in the Company's holiday policy. Upon termination of his employment for whatever reason, he shall, if appropriate, be entitled to salary in lieu of any outstanding holiday entitlement.

10. DISABILITY OR DEATH

- 10.1 The Company reserves the right at any time to require the Executive (at the expense of the Company) to be examined by a medical adviser nominated by the Company and the Executive consents to the medical adviser disclosing the results of the examination to the Company and shall provide the Company with such formal consents as may be necessary for this purpose.
- 10.2 If the Executive shall be prevented by illness, accident or other incapacity from properly performing his duties hereunder he shall report this fact forthwith to the Company Secretary's office and if he is so prevented for seven or more consecutive days he shall if required by the Company provide an appropriate doctor's certificate.
- 10.3 If the Executive shall be absent from his duties hereunder owing to illness, accident or other incapacity duly certified in accordance with the provisions of clause 10.2 he shall be paid his full remuneration for any period of absence of up to a maximum of 26 weeks in aggregate in any period of 52 consecutive weeks and thereafter, subject to the provisions of clause 17, to such remuneration (if any) as the Board shall in its absolute discretion allow provided that the Company may not terminate the employment of the Executive under this clause without his consent at a time when he is unable to perform his duties through illness if the consequence of such termination would be to deprive him of any benefits that would otherwise be payable to him under the provisions of any permanent health insurance policy taken out by the Company.
- 10.4 In the event that the Executive's employment is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to: (a) salary at his Salary Rate up to and including the end of the month in which his death occurs, (b) the annual incentive award, if any, to which the Executive would have been entitled to pursuant to Clause 6.2
-

for the year in which the Executive's death occurs, multiplied by a fraction, the numerator of which is the number of days that the Executive was employed during the applicable year and the denominator of which is 365, and (c) the unpaid balance of all previously earned cash bonus and other incentive awards with respect to performance periods which have been completed, all of which amounts shall be payable in a lump sum in cash within 30 days after his death, except that the pro-rated incentive award shall be payable when such award would have otherwise been payable had the Executive not died.

11. CONFIDENTIAL INFORMATION

11.1 Except as otherwise provided in this Section, the Executive shall not during his employment hereunder or at any time after his termination for any reason whatsoever disclose to any person whatsoever or otherwise make use of any Confidential Information.

11.2 As used in this Section, the term "Confidential Information" shall mean any confidential or secret information which he has or may have acquired in the course of his employment relating to Holdings or any other Group Company or any customers or clients of the Holdings or any other Group Company, including without limiting the generality of foregoing:

11.2.1 confidential or secret information relating to the past, current or future business, finances, activities and operations of Holdings or any other Group Company;

11.2.2 confidential or secret information relating to the past, current or future business, finances, activities and operations of any third party to the extent that such information was obtained by Holdings or any other Group Company pursuant to a confidentiality agreement;

but shall not include information that is generally known to, or recognised as standard practice in, the industry in which the Company is engaged unless such information is known or recognised as a result of the Executive's breach of this covenant.

11.3 The Executive will only use Confidential Information for the benefit of Holdings or any other Group Company in the course of his employment and shall at all times exercise all due care and diligence to prevent the unauthorised disclosure or use of Confidential Information.

11.4 In the event that the Executive becomes compelled by a court or administrative order to disclose any of the Confidential Information other than as permitted pursuant to this Section, he will provide prompt notice to Holdings so that Holdings may seek a protective order or other appropriate remedy. In the event that Holdings fails to seek, or seeks and fails to obtain, such a protective order or other protective remedy, the Executive will furnish only that portion of the Confidential Information that, in the opinion of his counsel, he is legally required to furnish.

12. COPYRIGHT AND DESIGNS

12.1 The Executive hereby assigns to the Company all present and future copyright, design rights and other proprietary rights if any for the full term thereof throughout the world in respect of all works originated by him at any time during the period of his employment

by the Company or any other Group Company whether during the course of his normal duties or other duties specifically assigned to him (whether or not during normal working hours) either alone or in conjunction with any other person and in which copyright or design rights may subsist except only those designs or other works written, originated, conceived or made by him wholly unconnected with his service hereunder.

- 12.2 The Executive agrees and undertakes that he will execute such deeds or documents and do all such acts and things as may be necessary or desirable to substantiate the rights of the Company in respect of the matters referred to in this Clause. To secure his obligation under this Agreement the Executive irrevocably appoints the Company to be his attorney in his name and on his behalf to execute such deeds or documents and do all such acts and things as may be necessary or desirable to substantiate the rights of the Company in respect of the matters referred to in this Clause.
- 12.3 The Executive hereby irrevocably waives all moral rights that he had or may have in any of the works referred to in Clause 12.1, subject to the exception therein.

13. **GRATUITIES AND CODES OF CONDUCT**

- 13.1 The Executive shall comply with all codes of conduct from time to time adopted by the Board.
- 13.2 The Executive shall not, except in accordance with the Company's Gift and Hospitality Policy and any other code of conduct adopted by the Board or with the prior written consent of the Board, directly or indirectly accept any commission, rebate, discount, gratuity or gift, in cash or in kind from any person who has or is likely to have a business relationship with the Company or any other Group Company and shall notify the Company upon acceptance by the Executive of any commission, rebate, discount, gratuity or gift in accordance with the Company's Gift and Hospitality Policy or any such code of conduct from time to time.

14. **RESTRICTIVE COVENANTS**

- 14.1 For the purpose of this Clause:

"the Business" means the business of the Group or any Group Company at the date of termination of the Executive's employment with which the Executive has been concerned to a material extent at any time in the Relevant Period;

references to the **"Group"** and **"Group Companies"** shall only be reference to the Group and Group Companies in respect of which the Executive has carried out material duties in the Relevant Period;

"Relevant Period" shall mean the period of 24 months immediately preceding the date on which the Restricted Period defined in clause 14.3 commences or the date on which the Company seeks to enforce the restriction in question;

"Restricted Person" shall mean any person who or which has at any time during the Relevant Period done business with the Company or any other Group Company as customer or client or consultant and whom or which the Executive shall have had

personal dealings with, contact with or responsibility for (each, in a business or commercial capacity) during the Relevant Period;

“**Key Employee**” shall mean any person who at the date of termination of the Executive’s employment is employed or engaged by the Company or any other Group Company with whom the Executive has had material contact during the Relevant Period and (a) is employed or engaged in the capacity of Manager, Underwriter or otherwise in a senior capacity or in any other capacity as may be agreed in writing between the Executive Committee and the Executive from time to time and/or (b) is in the possession of Confidential Information and/or (c) is directly managed by or reports to the Executive.

14.2 The Executive covenants with the Company that he will not in connection with the carrying on of any business in competition with the Business during his employment or any Restricted Period applicable upon the termination of the Executive’s employment (as defined in clause 14.3) without the prior written consent of the Board either alone or jointly with or on behalf of any person directly or indirectly:

14.2.1 canvass, solicit or approach or cause to be canvassed or solicited or approached for orders in respect of any services provided and/or any products sold by the Company or any other Group Company any Restricted Person;

14.2.2 solicit or entice away or endeavour to solicit or entice away from the Company or any other Group Company any Key Employee;

14.2.3 be employed, engaged, interested in or concerned with any business or undertaking which is engaged in or carries on business in the United Kingdom, Bermuda or the USA which is or is about to be in competition with the Business;

14.3 The length of the Restricted Period depends upon the circumstances in which the Executive’s employment terminates as follows:-

14.3.1 if the Executive serves 12 months’ notice to terminate his employment without Good Reason under clause 18.2 the Restricted Period shall be a period of 12 months (or 18 months in respect of clause 14.2.2 only) from the date on which notice is served which period shall run concurrently with the 12 month notice period irrespective of whether the Executive is working his notice, on garden leave or his employment has terminated prior to the expiry of the notice period as a result of the Company making a payment pursuant to clause 19.2 within the time period specified in that clause;

14.3.2 if the Company serves notice to terminate the Executive’s employment without Cause under clause 17 the Restricted Period shall be a period of 6 months from the date on which notice is served by the Company which period shall run concurrently with the 12 month notice period irrespective of whether the Executive is working his notice, on garden leave or his employment has terminated prior to the expiry of the notice period as a result of the Company making a payment pursuant to clause 19.2 within the time period specified in that clause;

14.3.3 if the Executive serves immediate notice to terminate his employment with Good Reason under clause 18.1 the Restricted Period shall be 6 months from the date

of termination provided the Executive is paid the payment due under clause 19.2 within the time period specified in that clause;

14.3.4 if the Company serves immediate notice to terminate the Executive's employment with Cause under clause 16.1 the Restricted Period shall be 6 months from the date of termination provided the Company complies with clause 16.1;

14.4 The covenants contained in Clauses 14.2.1, 14.2.2 and 14.2.3 are intended to be separate and severable and enforceable as such. It is expressly understood and agreed that although the Executive and the Company consider the restrictions contained in this Clause 14 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

14.5 The Executive acknowledges and agrees that the Company's remedies at law for a breach of any of the provisions of Clauses 11, 12 or 14 would be inadequate and the Company would suffer irreparable damages as a result of such breach. In recognition of this fact, the Executive agrees that, in the event of such a breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

15. TERMINATION BY RECONSTRUCTION OR AMALGAMATION; CHANGE IN CONTROL

15.1 If the employment of the Executive hereunder shall be terminated solely by reason of the liquidation of any Group Company for the purposes of amalgamation or reconstruction or as part of any arrangement for the amalgamation of the undertaking of such Group Company not involving liquidation (in each case, other than a "Change in Control", as defined below) and the Executive shall be offered employment with the amalgamated or reconstructed company on the same terms as the terms of this Agreement, the Executive shall have no claim against the Company or any Group Company in respect of the termination of his employment by the Company.

15.2 If the employment of the Executive hereunder shall be terminated by the Company without Cause or by the Executive with Good Reason within the six-month period prior to a Change in Control or within the two-year period after a Change in Control, in addition to the benefits provided in Clause 19.2, the Executive shall be entitled to the following benefits: other than share options and other equity based awards granted in 2004 and 2005, which shall vest and be exercisable in accordance with the terms of their grant agreements, all share options and other equity -based awards shall immediately vest and remain exercisable for the remainder of their terms.

For purposes of this Agreement, “Change in Control” shall have the same meaning as under the Aspen Insurance Holdings 2003 Share Incentive Plan as in effect as of the date hereof.

16. TERMINATION OF EMPLOYMENT BY THE COMPANY FOR CAUSE

16.1 The Company, without prejudice to any remedy which it may have against the Executive for the breach or non-performance of any of the provisions of this Agreement, may by notice in writing to the Executive forthwith terminate his employment for “Cause”. In the event the Company terminates the Executive’s employment for Cause, the Executive shall be entitled to salary at his Salary Rate through the date of termination.

For purposes of this Agreement, “Cause” shall mean circumstances where the Executive:

- (a) becomes bankrupt or becomes the subject of an interim order under the Insolvency Act 1986 or makes any arrangement or composition with his creditors; or
- (b) is convicted of any criminal offence (other than an offence under road traffic legislation in the United Kingdom or elsewhere for which a penalty other than imprisonment is imposed); or
- (c) is guilty of any serious misconduct, any conduct tending to bring the Company or any other Group Company or himself into disrepute, or any material breach or non-observance of any of the provisions of this Agreement, or conducts himself in a way which is materially prejudicial or calculated to be materially prejudicial to the business of the Group; or
- (d) is disqualified from being a director of any company by reason of an order made by any competent court; or
- (e) is guilty of any repeated breach or non-observance of any code of conduct or fails or ceases to be registered (where such registration is, in the reasonable opinion of the Board, required for the performance of his duties) by any regulatory body in the United Kingdom or elsewhere.

17. TERMINATION OF EMPLOYMENT BY THE COMPANY WITHOUT CAUSE

17.1 The Company may terminate the employment of the Executive at any time during the employment hereunder without Cause by either (i) giving to the Executive 12 months’ prior notice in writing; or (ii) terminating the employment of the Executive immediately and paying the Executive in lieu of the notice to which he would have otherwise been entitled under (i) above (which payment in lieu shall be deemed to be included within the Severance Payment referred to in Clause 19.2) provided that the Company may not terminate the employment of the Executive under this clause without his consent at a time when he is unable to perform his duties through illness if the consequence of such termination would be to deprive him of any benefits that would otherwise be payable to him under the provisions of any permanent health insurance policy taken out by the Company.

18. TERMINATION OF EMPLOYMENT BY THE EXECUTIVE

- 18.1 The Executive shall have the right to terminate his employment at any time for Good Reason by immediate notice if, following submission of the written notice by the Executive to the Company detailing the events alleged to constitute Good Reason in accordance with this Clause, the Company shall have failed to cure such events within the 30 day period following submission of such notice. For purposes of this Agreement, "Good Reason" shall mean (i) a reduction in the Executive's annual base salary or annual bonus opportunity, or the failure to pay or provide the same when due, (ii) a material diminution in the Executive's duties, authority, responsibilities or title, or the assignment to the Executive of duties or responsibilities which are materially inconsistent with his positions, (iii) the removal of the Executive from the position described in Clause 3; (iv) the Company's requiring the Executive to be based at any office or location more than fifty (50) miles from the Executive's office as of the date hereof; or (v) any other fundamental breach of this Agreement; *provided, however*, that no such event(s) shall constitute "Good Reason" unless the Company shall have failed to cure such event(s) within 30 days after receipt by the Company from the Executive of written notice describing in detail such event(s).
- 18.2 The Executive shall have the right to terminate his employment at any time without Good Reason upon giving 12 months' prior written notice to the Company.
- 18.3 If the Executive gives notice to terminate his employment without Good Reason under Clause 18.2 or if the Executive seeks to terminate his employment without Good Reason and without the notice required by Clause 18.2 or the Company gives notice to terminate the Executive's employment under Clause 17.1(i), then provided the Company continues to provide the Executive with the salary and contractual benefits in accordance with this Agreement, the Company has, at its discretion, the right for the period (the "**Garden Leave Period**") then outstanding until the date of the termination of the Executive's employment:
- (a) to exclude the Executive from any premises of the Company or any Group Company and require the Executive not to attend at any premises of the Company or any Group Company; and/or
 - (b) to require the Executive to carry out no duties; and/or
 - (c) to require the Executive not to communicate or deal with any employees, agents, consultants, clients or other representatives of the Company or any other Group Company; and/or
 - (d) to require the Executive to resign with immediate effect from any offices he holds with the Company or any other Group Company (and any related trusteeships); and/or
 - (e) to require the Executive to take any holiday which has accrued under clause 9 during the Garden Leave Period.

The Executive shall continue to be bound by the duties set out in Clause 5 (insofar as they are compatible with being placed on garden leave), the restrictions set out in Clause 14.2 and all duties of good faith and fidelity during the Garden Leave Period.

18.4 If the Executive is required to take garden leave under clause 18.3 the Company will during this time (where the Company has served notice to terminate his employment Without Cause under clause 17.1(i) but not otherwise) pay to the Executive an annual incentive award equal to the lesser of (x) the target annual incentive award for the year in which notice was served and (y) the average annual incentive awards received by the Executive in the prior three years (or if less the number of prior years in which the Executive was employed by the Company) multiplied by a fraction, the numerator of which is the number of days that the Executive was on garden leave and the denominator of which is 365 such award to be paid on the completion of garden leave.

19. OBLIGATIONS UPON TERMINATION OF EMPLOYMENT; CERTAIN OTHER TERMINATIONS

19.1 Upon the termination of his employment hereunder for whatever reason the Executive shall:

- (a) forthwith tender his resignation as a Director of the Company and of any other Group Company without compensation, but without prejudice to any other rights which he may have under this Agreement. To secure his obligation under this Agreement the Executive irrevocably appoints the Company to be his attorney in his name and on his behalf to sign any documents and do any things necessary to give effect thereto, if the Executive shall fail to sign or do the same himself;
- (b) deliver up to the Company all keys, credit cards, correspondence, documents, specifications, reports, papers and records (including any computer materials such as discs or tapes) and all copies thereof and any other property (whether or not similar to the foregoing or any of them) belonging to the Company or any other Group Company which may be in his possession or under his control, and (unless prevented by the owner thereof) any such property belonging to others which may be in his possession or under his control and which relates in any way to the business or affairs of the Company or any other Group Company or any supplier, agent, distributor or customer of the Company or any other Group Company, and he shall not without written consent of the Board retain any copies thereof;
- (c) if so requested send to the Company Secretary a signed statement confirming that he has complied with Clause 19.1(b); and
- (d) not at any time make any untrue or misleading oral or written statement concerning the business and affairs of the Company or any other Group Company or represent himself or permit himself to be held out as being in any way connected with or interested in the business of the Company or any other Group Company (except as a former employee for the purpose of communicating with prospective employers or complying with any applicable statutory requirements).

19.2 In the event of a termination of Executive's employment hereunder by the Executive with Good Reason or by the Company without Cause (other than by reason of death), the Executive shall be entitled to (a) salary at his Salary Rate through the date in which his termination occurs; (b) the lesser of (x) the target annual incentive award for the year in which the Executive's termination occurs, and (y) the average of the annual incentive

awards received by the Executive in the prior three years (or, if less the number of prior years in which the Executive was employed by the Company), multiplied by a fraction, the numerator of which is the number of days that the Executive was employed during the applicable year and the denominator of which is 365; (c) subject to Clause 19.3 below, the sum of (x) the Executive's highest Salary Rate during the term of this Agreement and (y) the average bonus under the Company's annual incentive plan actually earned by the Executive during the three years (or number of complete years employed by the Company, if fewer) immediately prior to the year of termination (the sum of (x) and (y) hereafter referred to as the "**Severance Payment**"), and (d) the unpaid balance of all previously earned cash bonus and other incentive awards with respect to performance periods which have been completed, but which have not yet been paid, all of which amounts shall be payable in a lump sum in cash within 30 days after his termination. In the event that the Company terminates the Executive's employment without Cause under the provisions of Clause 17.1(ii) the parties acknowledge that the Severance Payment will be inclusive of the Executive's rights to be paid in lieu of the 12 months' notice period to which he is entitled under that Clause.

19.3 In the event that the Executive's employment is terminated by the Company without Cause under the provisions of Clause 17.1 (i) and the Company exercises all or any of its rights under Clause 18.3 during the 12 months' notice period, the Severance Payment shall be reduced by a sum equal to the total salary and bonus payments received by the Executive during the Garden Leave Period.

19.4 Upon any termination of employment, the Executive shall be entitled to (a) any expense reimbursement due to him and (b) other benefits (if any) in accordance with the applicable plans and programs of the Company.

19.5 In the event of any termination of employment under this Agreement, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

20. **EFFECT OF TERMINATION OF THIS AGREEMENT**

The expiry or termination of this Agreement however arising shall not operate to affect any of the provisions hereof which are expressed to operate or have effect thereafter and shall not prejudice the exercise of any right or remedy of either party accrued beforehand.

21. **GENERAL RELEASE**

Notwithstanding any provision herein to the contrary, prior to payment of any amount pursuant to Clauses 15.2 and 19.2, the Executive shall execute a valid general release, in the form attached hereto (except to the extent that the Company considers that a change in law or any current practice existing at the date of termination requires a modification to such release), pursuant to which the Executive shall release the Group and its shareholders, directors, officers, employees and agents, to the maximum extent permitted by law, from any and all claims the Executive may have against the Group that relate to or arise out of the Executive's employment or termination of employment, except such claims arising under this Agreement.

22. **OTHER TERMS AND CONDITIONS**

- 22.1 The Executive's period of continuous employment which began on 1st July 1989 shall be recognised by the Company.
- 22.2 The Company shall maintain a directors' and officers' liability insurance policy covering the Executive which is no less favorable than the policy covering other senior executive officers of the Company. In addition, the Company expressly acknowledges that the Executive is in the class of individuals entitled to be an "Indemnified Person" (as such term is defined in the Amended and Restated Bye-Laws of the Company (the "**Bye-Laws**")). As such, the Executive shall be entitled to the greatest of any and all protections regarding indemnity, insurance and advancement and reimbursement of expenses provided under the Bye-Laws as in existence on the date hereof, the directors' and officers' policy described above, or such greater protection as may be provided under applicable law, provided, however, that if the Bye-Laws are amended after the date hereof, and, as amended, they provide greater benefits than the existing Bye-Laws, the Executive shall be entitled to such greater benefits.
- 22.3 In the event that a new Bermuda work permit is required to enable the Executive to take up his new position, and the Company is unable to obtain such a permit (other than by reason of an action by the Executive) within 6 months after the Executive was scheduled to take on his new position, then the Company will use reasonable efforts to provide the Executive with alternative employment in Bermuda or the United Kingdom with the Company or one of its Affiliates at a level commensurate with the proposed role of Chairman, AIL. If the Company is unable to do so, then the Executive's employment with the Company will be terminated by mutual agreement, but the Executive will receive the financial benefits of this contract on the same terms as if he had been terminated without Cause.

23. **NOTICES**

Any notice to be given hereunder shall be in writing. Notice to the Executive shall be sufficiently served by being delivered personally to him or by being sent by first class post addressed to him at his usual or last known place of residence, Notice to the Company shall be sufficiently served by being delivered to the Company Secretary or by being sent by first class post to the registered office of the Company. Any notice if so posted shall be deemed served upon the third day following that on which it was posted.

24. **PREVIOUS AND OTHER AGREEMENTS**

This Agreement shall take effect in substitution for all previous agreements and arrangements (whether written, oral or implied) between the Company and the Executive (including, without limitation, the Original Agreement) relating to his employment which shall be deemed to have been terminated by mutual consent with effect from the commencement of this Agreement.

25. **ENTIRE AGREEMENT/AMENDMENT**

This Agreement contains the entire understanding of the parties with respect to the employment of the Executive by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not

be altered, modified, or amended except by written instrument signed by the parties hereto.

26. ASSIGNMENT

This Agreement, and all of the Executive's rights and duties hereunder, shall not be assignable or delegable by the Executive. Any purported assignment or delegation by the Executive in violation of the foregoing shall be null and void ab initio and of no force and effect. This Agreement may be assigned by the Company to a person or entity that is the successor in interest to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such successor person or entity. Failure by such successor of the Company to expressly assume this Agreement shall constitute an event of "Good Reason", entitling Executive to the Benefits set forth in Clause 15 or 19, as applicable.

27. SEVERABILITY

In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

28. SUCCESSORS/BINDING AGREEMENT

This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees of the parties hereto.

29. CO-OPERATION

During employment by the Company and thereafter, the Executive shall provide his reasonable co-operation in connection with any action or proceeding (or any appeal from any action or proceeding) that relates to events occurring during the Executive's employment; provided, however, that after the Executive's employment by the Company has ended, (i) any request for such co-operation shall accommodate the demands of the Executive's then existing schedule and (ii) if any such request will involve more than a de minimis amount of the Executive's time, the Executive shall be entitled to reasonable compensation therefor.

30. GOVERNING LAW

English law shall apply to this Agreement.

31. COUNTERPARTS

This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS whereof this Agreement has been duly executed and delivered as a deed the day and year first before written.

SIGNED as a Deed
and DELIVERED by
JULIAN MICHAEL CUSACK
in the presence of:

/s/ Julian Cusack

Witness Signature:
Witness Name:
Witness Address:

/s/ Michael Cain
Michael Cain
34 Crofton Lane, Orpington,
UK
Solicitor

Witness Occupation:

ASPEN INSURANCE UK
SERVICES LIMITED

By: /s/ Richard Houghton
Name: Richard Houghton
Title: Director

DATED _____

ASPEN INSURANCE UK SERVICES LIMITED

and

JULIAN MICHAEL CUSACK

SEVERANCE AGREEMENT

THIS AGREEMENT is made as of the day of [20[]]

BETWEEN:

- (1) **ASPEN INSURANCE UK SERVICES LIMITED** (Registered in England No. 1184193), 30 Fenchurch St, London, EC3M 3BD, England (the “**Company**”); and
- (2) **JULIAN MICHAEL CUSACK** of Baywatch, 8 Williamsville Drive, Southampton, Bermuda (hereinafter referred to as the “**Executive**”).

IT IS AGREED AS FOLLOWS:

1. INTERPRETATION

1.1 In this Agreement:

- | | |
|---------------------|---|
| “Affiliate” | means any entity directly or indirectly controlling, controlled by, or under common control with the Company; or any other entity designated by the Board in which the Company or an Affiliate has an interest. |
| “Board” | means the Board of Directors of the Company from time to time; |
| “Group” | means the Company and its Affiliates (and “Group Company” means the Company or any one of its Affiliates).; |
| “Holdings” | means Aspen Insurance Holdings Limited, a Bermuda limited company, the ultimate holding company of the Company and its Affiliates; |
| “Option Agreement” | means the nonqualified share option agreement entered into by the Executive and the Company on 20 August 2003; and |
| “Service Agreement” | shall mean the service agreement entered into between the Executive and the Company dated [], as subsequently amended. |

2. TERMINATION DATE

The Executive’s employment with the Company [will end][ended] on [date] (the “**Termination Date**”).

3. PAYMENT OF SALARY ETC

The Company will continue to provide the Executive with his salary and all other contractual benefits up to the Termination Date in the normal way. Within 14 days of the Termination Date the Company will also pay the Executive in respect of his accrued but untaken holiday (less such deductions for income tax and national insurance as are required by law).

4. TERMINATION SUMS

Subject to the Executive agreeing to all of the conditions set out below, and receipt by the Company of a copy of this Agreement signed by the Executive and the attached certificate signed by the Executive's legal adviser, the Company will pay the Executive the following sums:

- (i) £[*appropriate figure to be inserted*] in respect of the Executive's entitlement to an annual incentive award for the year in which the termination of the Executive's employment with the Company occurs, as calculated in accordance with Clause 19.2 (b) of the Service Agreement;
- (ii) the sum of £[*appropriate figure to be inserted*] in respect of the Executive's entitlement to a Severance Payment, as calculated and defined in accordance with Clauses 19.2(c) and 19.3 of the Service Agreement; and
- (iii) the sum of £[*appropriate figure to be inserted*] in respect of the Executive's entitlement to the unpaid balance of all previously earned cash bonus and other incentive awards with respect to performance periods which have been completed as at the Termination Date but not yet paid, as calculated in accordance with Clause 19.2(d) of the Service Agreement.

The sums set out in (i) to (iii) above will be subject to such deductions for income tax and national insurance as are required by law and will be paid to the Executive within [14] days of the date of signature by him of this Agreement and signature by his legal adviser of the attached certificate. Payment will be made by transfer to the Executive's bank account.

5. SHARE OPTIONS

[The Company confirms that:

- (a) with respect to share options issued under the Option Agreement; notwithstanding any provision in the Option Agreement to the contrary, the Shares underlying the Time Option (as defined in the Option Agreement) vested and became exercisable on 31 December 2006; and it is agreed that the Shares underlying the Performance-Accelerated Option (as defined in the Option Agreement) that remain unvested at the date of this Agreement shall continue to vest and become exercisable in accordance with the provisions of clause 2(b) of the Option Agreement notwithstanding the termination of the Executive's employment; and
 - (b) with respect to other share options, the extent to which share options held by the Executive as at the Termination Date shall be exercisable following the Termination Date will be determined solely in accordance with terms of the
-

agreements under which such share options were granted.] or [Other than in relation to share options granted to the Executive in 2004 and 2005, the Company confirms that all share options granted to the Executive have vested and will remain exercisable for the remainder of their terms.]1

6. WAIVER OF CLAIMS

The Executive accepts the terms set out in this Agreement in full and final settlement of all and any claims that he has or may have against the Company, the Board, Holdings or any other Group Company or any of its or their current or former shareholders, directors, officers, employees or agents, whether contractual (whether known or unknown, existing now or in the future), statutory or otherwise, arising out of or in connection with his employment with the Company or the termination of his employment and his directorship of the Company and any Group Company or his resignation therefrom. The Executive also agrees to waive irrevocably and release the Company, the Board and all Group Companies (and all of its or their current or former shareholders, directors, officers, employees or agents) from and against any claims whether contractual (whether known or unknown, existing now or in the future), statutory or otherwise, arising out of or in connection with his employment with the Company or the termination of his employment and his directorship of the Company and any Group Company or his resignation therefrom. This waiver shall not apply in relation to any claim relating to his pension rights that have accrued up to the Termination Date.

7. CONFIRMATION OF NO BREACHES

The Executive confirms and warrants to the Company that he has not at any time during his employment committed a fundamental breach of the terms of the Service Agreement.

8. SATISFACTION OF STATUTORY CONDITIONS

The Executive is aware of his rights under the Employment Act 2000 and the Human Rights Amendment Act 1987 and has informed the Company of any and all claims that he might seek to bring arising from his employment or termination of employment. This agreement relates to his claims under the Employment Act 2000 and the Human Rights Amendment Act 1987.

Second alternative to be used in the event of qualifying termination in connection with a Change of Control under Clause 15.2 of the Service Agreement.

9. RESIGNATION OF DIRECTORSHIP

At the same time as executing this Agreement the Executive will resign with immediate effect from his directorship of the Company and from all directorships and offices held with other Group Companies (and all related trusteeships) by signing and delivering the attached letters of resignation.

10. POST-TERMINATION RESTRAINTS

The Executive acknowledges that the provisions of Clause 11 (Confidentiality) and Clause 14 (Restrictive Covenants) of the Service Agreement will (to the extent that they are applicable in the circumstances of the termination of the Executive's employment

with the Company) remain in full force and effect notwithstanding the termination of his employment.

11. RETURN OF COMPANY PROPERTY

Before any payment under Clause 4 above is made, the Executive will, in accordance with Clause 19.1(b) of the Service Agreement, deliver up to the Company all vehicles, keys, credit cards, correspondence, documents, specifications, reports, papers and records (including any computer materials such as discs or tapes) and all copies thereof and any other property (whether or not similar to the foregoing or any of them) belonging to the Company or any other Group Company which may be in his possession or under his control, and (unless prevented by the owner thereof) any such property belonging to others which may be in his possession or under his control and which relates in any way to the business or affairs of the Company or any other Group Company or any supplier, agent, distributor or customer of the Company or any other Group Company, and he confirms that he has not retained any copies thereof.

12. CONFIDENTIALITY

Save by reason of any legal obligation or to enforce the terms of this letter, the parties will not:

- (a) disclose the existence or terms of this Agreement to anyone (other than to their professional advisers, the relevant tax authorities or any other competent authority or in the case of the Executive, to his spouse);
- (b) directly or indirectly disseminate, publish or otherwise disclose (or allow to be disseminated, published or otherwise disclosed) by any means (whether oral, written or otherwise) or medium (including without limitation electronic, paper, radio or television) any information directly or indirectly relating to the termination of the Executive's employment; or
- (c) make any derogatory or disparaging comments about the other or in the case of the Executive in relation to the Company, any Group Company or any of its or their shareholders, directors, officers, employees or agents.

13. NO ADMISSION OF LIABILITY

This agreement is made without any admission on the part of the Company or any Group Company that it has or they have in any way breached any law or regulation or that the Executive has any claims against the Company or any Group Company.

14. TAX INDEMNITY

The Executive hereby agrees to be responsible for the payment of any tax and employee's national insurance contributions imposed by any competent taxation authority in respect of any of the payments and benefits provided under this Agreement (other than for the avoidance of doubt, any tax and/or employee's national insurance contributions deducted or withheld by the Company in paying the sums to the Executive). The Executive further agrees to indemnify the Company and all Group Companies and keep them indemnified on an ongoing basis against any claim or demand which is made by any competent

taxation authority against the Company or any Group Company in respect of any liability of the Company or any Group Company to deduct an amount of tax or an amount in respect of tax or any employee's national insurance contributions from the payments made and benefits provided under this Agreement, including any related interest or penalties imposed by any competent taxation authority.

15. ENTIRE AGREEMENT

This letter sets out the entire agreement between the Executive and the Company and, save as set out in Clauses 5 and 10 above, supersedes all prior arrangements, proposals, representations, statements and/or understandings between the Executive, the Company and any Group Company.

16. APPLICABLE LAW

This agreement is subject to English law and the exclusive jurisdiction of the Bermuda courts.

Julian Michael Cusack

dated

For and on behalf of ASPEN INSURANCE UK SERVICES LIMITED

dated

To the board of Directors
Aspen Insurance Holdings Limited

[date]

Dear Sirs

Aspen Insurance Holdings Limited (the “Company”)

I hereby irrevocably and unconditionally resign from the office of Director of the Company with immediate effect, and I acknowledge and confirm that I have no claim of whatsoever kind outstanding for compensation or otherwise against the Company, its servants, officers, agents or employees in respect of the termination of my appointment.

Yours faithfully

SIGNED as a DEED)
and DELIVERED)
by JULIAN MICHAEL CUSACK)
in the presence of:)

Witness signature:

Witness Name:

Witness address:

[note: separate individual similar letters of resignation should be produced for any other Group companies of which the individual is a director]

[\(Back To Top\)](#)

Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATIONS

I, Christopher O’Kane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as

defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

By: /s/ Christopher O' Kane

Name: Christopher O' Kane

Title: Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATIONS

I, Richard Houghton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

By: /s/ Richard Houghton

Name: Richard Houghton

Title: Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited (the "Company") for the three months ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher O'Kane as Chief Executive Officer of the Company and Richard Houghton as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2011

By: /s/ Christopher O' Kane

Name: Christopher O' Kane

Title: Chief Executive Officer

Date: November 7, 2011

By: /s/ Richard Houghton

Name: Richard Houghton

Title: Chief Financial Officer

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

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