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

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

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**Form 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2014

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-31909

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# ASPEN INSURANCE HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

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

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

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

**HM 19**  
(Zip Code)

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

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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

(Do not check if a smaller reporting company)

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, 2014, there were 62,232,928 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**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

**As at September 30, 2014 and December 31, 2013**  
**(\$ in millions, except share and per share amounts)**

	<b>As at September 30, 2014</b>	<b>As at December 31, 2013</b>
<b>ASSETS</b>		
Investments:		
Fixed income securities, available for sale at fair value (amortized cost — \$5,353.6 and \$5,449.9)	\$ 5,497.8	\$ 5,569.1
Fixed income securities, trading at fair value (amortized cost — \$761.5 and \$712.1)	774.1	716.2
Equity securities, available for sale at fair value (cost — \$93.9 and \$112.2)	125.9	149.5
Equity securities, trading at fair value (cost — \$490.2 and \$281.6)	521.1	310.9
Short-term investments, available for sale at fair value (amortized cost — \$307.2 and \$160.3)	307.2	160.3
Short-term investments, trading at fair value (amortized cost — \$7.0 and \$Nil)	7.0	—
Catastrophe bonds, trading at fair value (cost — \$31.6 and \$5.8)	32.2	5.8
Other investments, equity method	8.7	48.0
<b>Total investments</b>	<b>7,274.0</b>	<b>6,959.8</b>
Cash and cash equivalents (including \$81.1 and \$50.0 within consolidated variable interest entities)	1,289.1	1,293.6
Reinsurance recoverables		
Unpaid losses	384.7	332.7
Ceded unearned premiums	229.8	151.9
Receivables		
Underwriting premiums	1,105.3	999.0
Other	92.0	90.3
Funds withheld	47.5	46.5
Deferred policy acquisition costs	301.6	262.2
Derivatives at fair value	7.0	7.0
Receivable for securities sold	1.6	5.2
Office properties and equipment	64.4	60.1
Deferred taxation	4.0	1.6
Other assets	10.4	2.2
Intangible assets	18.2	18.4
<b>Total assets</b>	<b>\$ 10,829.6</b>	<b>\$ 10,230.5</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

**As at September 30, 2014 and December 31, 2013**  
 (\$ in millions, except share and per share amounts)

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
<b>LIABILITIES</b>		
<b>Insurance reserves</b>		
Losses and loss adjustment expenses	\$ 4,787.3	\$ 4,678.9
Unearned premiums	1,508.7	1,280.6
Total insurance reserves	6,296.0	5,959.5
<b>Payables</b>		
Reinsurance premiums	146.8	88.2
Current taxation	25.7	15.7
Accrued expenses and other payables	290.3	265.6
Liabilities under derivative contracts	12.7	2.9
Total payables	475.5	372.4
Loan notes issued by variable interest entities, at fair value	64.5	50.0
Long-term debt	549.1	549.0
Total liabilities	<u>\$ 7,385.1</u>	<u>\$ 6,930.9</u>
Commitments and contingent liabilities (see Note 16)	—	—
<b>SHAREHOLDERS' EQUITY</b>		
<b>Ordinary shares:</b>		
63,349,858 shares of par value 0.15144558¢ each (December 31, 2013 — 65,546,976)	\$ 0.1	0.1
<b>Preference shares:</b>		
11,000,000 5.95% shares of par value 0.15144558¢ each (December 31, 2013 — 11,000,000)	—	—
5,327,500 7.401% shares of par value 0.15144558¢ each (December 31, 2013 — 5,327,500)	—	—
6,400,000 7.250% shares of par value 0.15144558¢ each (December 31, 2013 — 6,400,000)	—	—
Non-controlling interest	(0.3)	(0.3)
Additional paid-in capital	1,186.4	1,297.4
Retained earnings	2,005.6	1,783.3
Accumulated other comprehensive income, net of taxes	252.7	219.1
Total shareholders' equity	3,444.5	3,299.6
Total liabilities and shareholders' equity	<u>\$ 10,829.6</u>	<u>\$ 10,230.5</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND OTHER COMPREHENSIVE INCOME**  
(\$ in millions, except share and per share amounts)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Revenues</b>				
Net earned premium	\$ 610.4	\$ 544.3	\$ 1,793.1	\$ 1,599.2
Net investment income	48.0	45.0	143.6	139.2
Realized and unrealized investment gains	1.1	23.6	53.6	54.3
Other income	1.0	1.6	4.8	3.6
Total revenues	<u>660.5</u>	<u>614.5</u>	<u>1,995.1</u>	<u>1,796.3</u>
<b>Expenses</b>				
Losses and loss adjustment expenses	342.7	290.2	967.9	892.3
Amortization of deferred policy acquisition costs	115.5	110.5	336.4	322.3
General, administrative and corporate expenses	119.8	98.9	324.2	273.2
Interest on long-term debt	7.4	7.7	22.1	23.2
Change in fair value of derivatives	5.1	(6.6)	8.6	0.5
Change in fair value of loan notes issued by variable interest entities	8.5	—	14.5	—
Realized and unrealized investment losses	1.3	5.9	8.9	28.0
Net realized and unrealized foreign exchange (gains)/losses	21.2	(2.4)	10.4	7.1
Other expenses	0.3	—	2.2	0.6
Total expenses	<u>621.8</u>	<u>504.2</u>	<u>1,695.2</u>	<u>1,547.2</u>
Income from operations before income tax	38.7	110.3	299.9	249.1
Income tax expense	(1.3)	(2.9)	(11.3)	(9.8)
Net income	\$ 37.4	\$ 107.4	\$ 288.6	\$ 239.3
Add: loss attributable to non-controlling interest	0.1	0.3	—	0.3
<b>Net income attributable to Aspen Insurance Holdings Limited's ordinary shareholders</b>	<b>\$ 37.5</b>	<b>\$ 107.7</b>	<b>\$ 288.6</b>	<b>\$ 239.6</b>
<b>Other Comprehensive Income:</b>				
Available for sale investments:				
Reclassification adjustment for net realized (gains) on investments included in net income	\$ (3.6)	\$ (8.3)	\$ (5.9)	\$ (20.7)
Change in net unrealized gains/(losses) on available for sale securities held	(29.4)	4.8	28.6	(138.6)
Amortization of loss on derivative contract	—	—	—	0.2
Change in foreign currency translation adjustment	(3.3)	3.4	14.7	(21.0)
Other comprehensive income/(loss), gross of tax	<u>(36.3)</u>	<u>(0.1)</u>	<u>37.4</u>	<u>(180.1)</u>
Tax thereon:				
Reclassification adjustment for net realized gains on investments included in net income	0.1	0.1	0.2	0.5
Change in net unrealized (losses)/gains on available for sale securities held	2.0	(0.4)	(4.0)	11.3
Total tax on other comprehensive income/(loss)	<u>2.1</u>	<u>(0.3)</u>	<u>(3.8)</u>	<u>11.8</u>
Other comprehensive income/(loss), net of tax	<u>(34.2)</u>	<u>(0.4)</u>	<u>33.6</u>	<u>(168.3)</u>
<b>Total comprehensive income attributable to Aspen Insurance Holdings Limited's ordinary shareholders</b>	<b>\$ 3.3</b>	<b>\$ 107.3</b>	<b>\$ 322.2</b>	<b>\$ 71.3</b>
<b>Per Share Data</b>				
Weighted average number of ordinary share and share equivalents				
Basic	65,116,463	66,716,202	65,283,681	67,302,857
Diluted	66,513,009	68,561,515	66,598,680	69,959,474
Basic earnings per ordinary share adjusted for preference share dividends	\$ 0.43	\$ 1.47	\$ 3.99	\$ 3.06
Diluted earnings per ordinary share adjusted for preference share dividends	\$ 0.42	\$ 1.43	\$ 3.91	\$ 2.95

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,	
	2014	2013
<b>Ordinary shares</b>		
Beginning and end of the period	\$ 0.1	\$ 0.1
<b>Preference shares</b>		
Beginning and end of the period	—	—
<b>Non-controlling interest</b>		
Beginning of the period	(0.3)	0.2
Net change attributable to non-controlling interest for the period	—	(0.3)
End of the period	(0.3)	(0.1)
<b>Additional paid-in capital</b>		
Beginning of the period	1,297.4	1,516.7
New ordinary shares issued	1.9	16.7
Ordinary shares repurchased and canceled	(120.9)	(294.9)
Preference shares issued	—	270.4
PIERS redeemed and canceled	—	(230.0)
PIERS redemption <sup>(1)</sup>	—	7.1
Share-based compensation	8.0	11.6
End of the period	1,186.4	1,297.6
<b>Retained earnings</b>		
Beginning of the period	1,783.3	1,544.0
Net income for the period	288.6	239.3
Dividends on ordinary shares	(37.9)	(36.0)
Dividends on preference shares	(28.4)	(26.1)
PIERS redemption <sup>(1)</sup>	—	(7.1)
Net profit attributable to non-controlling interest for the period	—	0.3
End of the period	2,005.6	1,714.4
<b>Accumulated other comprehensive income:</b>		
<b>Cumulative foreign currency translation adjustments, net of taxes:</b>		
Beginning of the period	88.6	112.7
Change for the period, net of income tax	14.7	(21.0)
End of the period	103.3	91.7
<b>Loss on derivatives, net of taxes:</b>		
Beginning of the period	—	(0.5)
Reclassification to interest on long-term debt	—	0.2
End of the period	—	(0.3)
<b>Unrealized appreciation on investments, net of taxes:</b>		
Beginning of the period	130.5	315.2
Change for the period, net of taxes	18.9	(147.5)
End of the period	149.4	167.7
<b>Total accumulated other comprehensive income, net of taxes</b>	<b>252.7</b>	<b>259.1</b>
<b>Total shareholders' equity</b>	<b>\$ 3,444.5</b>	<b>\$ 3,271.1</b>

(1) The \$7.1 million reclassification from additional paid-in capital to retained earnings is the difference between the capital raised upon issuance of the 5.625% Perpetual Preferred Income Equity Replacement Securities ("PIERS"), net of the original issuance costs, and the final redemption of \$230.0 million of the PIERS on May 30, 2013.

See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(\$ in millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 288.6	\$ 239.3
Proportion due to non-controlling interest	—	0.3
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	23.9	27.3
Share-based compensation	8.0	11.6
Realized and unrealized investment (gains)	(53.6)	(54.3)
Realized and unrealized investment losses	8.9	28.0
Change in fair value of loan notes issued by variable interest entities	14.5	—
Net realized and unrealized investment foreign exchange losses	31.3	11.5
Loss on derivative contracts	—	0.2
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	87.3	(46.3)
Unearned premiums	226.0	212.5
Reinsurance recoverables:		
Unpaid losses	(49.0)	54.8
Ceded unearned premiums	(76.7)	(57.6)
Other receivables	(10.5)	7.2
Deferred policy acquisition costs	(39.4)	(39.1)
Reinsurance premiums payable	32.8	26.3
Funds withheld	(0.9)	36.6
Premiums receivable	(106.7)	(39.3)
Deferred taxes	(1.4)	7.8
Income tax payable	10.0	(4.1)
Accrued expenses and other payable	76.4	33.2
Fair value of derivatives and settlement of liabilities under derivatives	9.8	(8.4)
Long-term debt	0.1	0.1
Intangible assets	0.1	(0.1)
Other assets	(3.2)	(14.5)
<b>Net cash generated by operating activities</b>	<b>\$ 476.3</b>	<b>\$ 433.0</b>

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,	
	2014	2013
<b>Cash flows (used in) investing activities:</b>		
(Purchases) of fixed income securities — Available for sale	\$ (1,440.9)	\$ (1,748.6)
(Purchases) of fixed income securities — Trading	(553.6)	(555.5)
Proceeds from sales and maturities of fixed income securities — Available for sale	1,496.9	1,564.4
Proceeds from sales and maturities of fixed income securities — Trading	515.7	276.3
(Purchases) of equity securities — Available for sale	—	(2.5)
(Purchases) of equity securities — Trading	(240.1)	(275.4)
Net (purchases) of catastrophe bonds — Trading	(26.0)	—
Proceeds from sales of equity securities — Available for sale	27.7	61.8
Proceeds from sales of equity securities — Trading	36.0	15.1
Net (purchases)/sales of short-term investments — Available for sale	(151.0)	273.5
Net (purchases)/sales of short-term investments — Trading	(7.0)	2.2
Net change in receivable for securities sold	12.8	5.6
Net proceeds from other investments	37.3	—
Purchase/(sale) of equipment	(9.6)	(10.1)
<b>Net cash (used in) investing activities</b>	<b>(301.8)</b>	<b>(393.2)</b>
<b>Cash flows (used in) financing activities:</b>		
Proceeds from the issuance of ordinary shares, net of issuance costs	1.9	16.7
Proceeds from the issuance of preference shares, net of issuance costs	—	270.4
PIERS repurchased and cancelled	—	(230.0)
Ordinary shares repurchased	(120.9)	(294.9)
Dividends paid on ordinary shares	(37.9)	(36.0)
Dividends paid on preference shares	(28.4)	(26.1)
<b>Net cash (used in) financing activities</b>	<b>(185.3)</b>	<b>(299.9)</b>
Effect of exchange rate movements on cash and cash equivalents	6.3	(5.2)
Increase/(decrease) in cash and cash equivalents	(4.5)	(265.3)
Cash and cash equivalents at beginning of period	1,293.6	1,463.6
Cash and cash equivalents at end of period	<u>\$ 1,289.1</u>	<u>\$ 1,198.3</u>
<b>Supplemental disclosure of cash flow information:</b>		
Net cash paid/(received) during the period for income tax	\$ 7.2	\$ 7.3
Cash paid during the period for interest	\$ 21.9	\$ 22.5

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 Bermuda 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”). We have also established Aspen Capital Management, Ltd and other related entities (“ACM”) which are used to leverage our existing franchise and underwriting expertise to offer investors access to diversified products. In such regard, Silverton Re Ltd. (“Silverton”), a Bermuda domiciled special purpose insurer, was established in 2013 to attract third-party capital and to provide additional collateralized capacity to support Aspen Re’s global reinsurance business. References to the “Company,” “we,” “us” or “our” refer to Aspen Holdings or Aspen Holdings and its 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 (“U.S. 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 U.S. 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, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

The balance sheet as at December 31, 2013 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. 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, 2013 contained in the Company’s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission on February 20, 2014 (File No. 001-31909).

Assumptions and estimates made by management have a significant effect on the amounts reported within the unaudited condensed 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.

#### *Accounting Pronouncements Not Yet Adopted*

On August 5, 2014, the FASB issued ASU 2014-13, “*Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*” which addresses the measurement difference in both the initial consolidation and the subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. ASU 2014-13 is effective for fiscal years beginning after December 15, 2015 and interim periods beginning after December 15, 2015. Early application for a public business entity is permitted. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

On August 8, 2014, the FASB issued ASU 2014-14, “*Receivables - Troubled debt restructuring by creditors (Subtopic 310-40)*” which reduces diversity in practice by addressing the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. ASU 2014-14 is effective for fiscal years beginning after December 15, 2014 and interim periods beginning after December 15, 2014. Early application for a public business entity is permitted. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, “*Presentation of Financial Statements - Going Concern (Subtopic 204-40)*” which provides US GAAP guidance on management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years beginning after December 15, 2016 and interim periods beginning after December 15, 2016. Early application for a public business entity is permitted. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

### 3. Reclassifications from Accumulated Other Comprehensive Income

The following tables set out the components of the Company's accumulated other comprehensive income ("AOCI") that are reclassified into the unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013:

Details about the AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Condensed Consolidated Statement of Operations
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	
	(\$ in millions)		
Available for sale securities:			
Realized gains on sale of securities	\$ 3.9	\$ 8.6	Realized and unrealized investment gains
Realized (losses) on sale of securities	(0.3)	(0.3)	Realized and unrealized investment losses
	3.6	8.3	Income from operations before income tax
Tax on net realized gains of securities	(0.1)	(0.1)	Income tax expense
	<u>\$ 3.5</u>	<u>\$ 8.2</u>	Net income
Foreign currency translation adjustments:			
Foreign currency translation adjustments, before tax	\$ —	\$ 4.8	Net realized and unrealized foreign exchange gains/(losses)
Tax on foreign currency translation adjustments	—	(1.1)	Income tax expense
	<u>\$ —</u>	<u>\$ 3.7</u>	Net income
Amortization of derivatives:			
Amortization of long-term debt associated expenses, before tax	\$ —	\$ —	Interest expense
	<u>\$ —</u>	<u>\$ —</u>	Net income
Total reclassifications from AOCI to the statement of operations, net of tax	<u>\$ 3.5</u>	<u>\$ 11.9</u>	Net income

Details about the AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Condensed Consolidated Statement of Operations
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	
	(\$ in millions)		
Available for sale securities:			
Realized gains on sale of securities	\$ 10.6	\$ 21.2	Realized and unrealized investment gains
Realized (losses) on sale of securities	(4.7)	(0.5)	Realized and unrealized investment losses
	5.9	20.7	Income from operations before tax
Tax on net realized gains of securities	(0.2)	(0.5)	Income tax expense
	<u>\$ 5.7</u>	<u>\$ 20.2</u>	Net income
Foreign currency translation adjustments:			
Foreign currency translation adjustments, before tax	\$ —	\$ 0.5	Net realized and unrealized foreign exchange gains/(losses)
Tax on foreign currency translation adjustments	—	(0.1)	Income tax expense
	<u>\$ —</u>	<u>\$ 0.4</u>	Net income
Amortization of derivatives:			
Amortization of long-term debt associated expenses, before tax	\$ —	\$ (0.2)	Interest expense
	<u>\$ —</u>	<u>\$ (0.2)</u>	Net income
Total reclassifications from AOCI to the statement of operations, net of tax	<u>\$ 5.7</u>	<u>\$ 20.4</u>	Net income

#### 4. Earnings per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen Holdings' 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, 2014 and 2013, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in millions, except share and per share amounts)			
Net income	\$ 37.4	\$ 107.4	\$ 288.6	\$ 239.3
Preference share dividends	(9.5)	(9.5)	(28.4)	(26.1)
Change in redemption value <sup>(1)</sup>	—	—	—	(7.1)
Net profit attributable to non-controlling interest	0.1	0.3	—	0.3
Basic and diluted net income available to ordinary shareholders	28.0	98.2	260.2	206.4
Ordinary shares:				
Basic weighted average ordinary shares	65,116,463	66,716,202	65,283,681	67,302,857
Weighted average effect of dilutive securities <sup>(2)</sup>	1,396,546	1,845,313	1,314,999	2,656,617
Total diluted weighted average ordinary shares	66,513,009	68,561,515	66,598,680	69,959,474
Earnings per ordinary share:				
Basic	\$ 0.43	\$ 1.47	\$ 3.99	\$ 3.06
Diluted	\$ 0.42	\$ 1.43	\$ 3.91	\$ 2.95

<sup>(1)</sup> The \$7.1 million reduction in the net income available to ordinary shareholders is the difference between the capital raised upon issuance of the PIERS, net of the original issuance costs, and the final redemption of \$230.0 million of the PIERS on May 30, 2013.

<sup>(2)</sup> Dilutive securities comprise: employee options, restricted share units and performance shares associated with the Company's long term incentive plan, employee share purchase plans and director restricted stock units and options as described in Note 14, in addition to the PIERS that were fully redeemed on May 30, 2013.

*Dividends.* On October 29, 2014, the Company's Board of Directors declared the following quarterly dividends:

	Dividend	Payable on:	Record Date:
Ordinary shares	\$ 0.20	December 2, 2014	November 13, 2014
7.401% preference shares	\$ 0.462563	January 1, 2015	December 15, 2014
7.250% preference shares	\$ 0.4531	January 1, 2015	December 15, 2014
5.95% preference shares	\$ 0.3719	January 1, 2015	December 15, 2014

#### 5. Segment Reporting

The Company has two reporting business segments: Insurance and Reinsurance. In arriving at these reporting segments, the Company has considered similarities in economic characteristics, products, customers, distribution, the regulatory environment of the Company's operating segments and quantitative thresholds to determine the Company's reportable segments. 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, amortization of deferred policy acquisition costs and general and administrative expenses. Underwriting profit or loss provides a basis for management to evaluate the segment's underwriting performance.

*Reinsurance Segment.* The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata, facultative and engineering), casualty reinsurance (U.S. treaty, international treaty and global facultative) and specialty reinsurance (credit and surety, agriculture and other specialty). ACM forms part of our property catastrophe reinsurance line of business as it currently focuses entirely on property catastrophe business through the use of alternative capital. For a more detailed description of this segment, see Part I, Item 1, "Business — Business Segments — Reinsurance" in the Company's 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Insurance Segment.* The insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. As previously stated our property and casualty insurance lines of business were integrated into a combined property and casualty line effective November 8, 2013. This includes the programs business, previously reported separately. For a more detailed description of this segment, see Part I, Item 1 “Business — Business Segments — Insurance” in the Company’s 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Non-underwriting Disclosures.* The Company has provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other income and expenses include net investment income, net realized and unrealized investment gains or losses, expenses associated with managing the group, certain strategic and non-recurring costs, changes in fair value of derivatives and changes in fair value of the loan notes issued by variable interest entities, interest expenses, 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 the Company’s segment operations. The Company does not allocate its assets by segment as it evaluates underwriting results of each segment separately from the results of the Company’s investment portfolio.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of the Company's business segments for the three months ended September 30, 2014 and 2013:

	<b>Three Months Ended September 30, 2014</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
	(\$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 256.9	\$ 395.6	\$ 652.5
Net written premiums	250.9	326.4	577.3
Gross earned premiums	291.0	403.9	694.9
Net earned premiums	279.6	330.8	610.4
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	132.0	210.7	342.7
Amortization of deferred policy acquisition costs	52.1	63.4	115.5
General and administrative expenses	38.4	45.6	84.0
Underwriting income	\$ 57.1	\$ 11.1	68.2
Corporate expenses			(35.8)
Net investment income			48.0
Realized and unrealized investment gains			1.1
Realized and unrealized investment losses			(1.3)
Change in fair value of loan notes issued by variable interest entities			(8.5)
Change in fair value of derivatives			(5.1)
Interest expense on long term debt			(7.4)
Net realized and unrealized foreign exchange (losses)			(21.2)
Other income			1.0
Other expenses			(0.3)
Income before tax			<u>\$ 38.7</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,554.2</u>	<u>\$ 1,848.4</u>	<u>\$ 4,402.6</u>
<b>Ratios</b>			
Loss ratio	47.2%	63.7%	56.1%
Policy acquisition expense ratio	18.6	19.2	18.9
General and administrative expense ratio	13.7	13.8	19.6 <sup>(1)</sup>
Expense ratio	32.3	33.0	38.5
Combined ratio	<u>79.5%</u>	<u>96.7%</u>	<u>94.6%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

**Three Months Ended September 30, 2013**

	<u>Reinsurance</u>	<u>Insurance</u>	<u>Total</u>
	( \$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 219.5	\$ 362.1	\$ 581.6
Net written premiums	218.4	323.6	542.0
Gross earned premiums	268.6	356.5	625.1
Net earned premiums	255.7	288.6	544.3
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	122.2	168.0	290.2
Amortization of deferred policy acquisition costs	49.1	61.4	110.5
General and administrative expenses	34.6	49.5	84.1
Underwriting income	<u>\$ 49.8</u>	<u>\$ 9.7</u>	59.5
Corporate expenses			(14.8)
Net investment income			45.0
Realized and unrealized investment gains			23.6
Realized and unrealized investment losses			(5.9)
Change in fair value of derivatives			6.6
Interest expense on long term debt			(7.7)
Net realized and unrealized foreign exchange gains			2.4
Other income			1.6
Other expenses			—
Income before tax			<u>\$ 110.3</u>
<b>Net reserves for loss and loss adjustment expenses</b>			
	<u>\$ 2,718.0</u>	<u>\$ 1,555.4</u>	<u>\$ 4,273.4</u>
<b>Ratios</b>			
Loss ratio	47.8%	58.2%	53.3%
Policy acquisition expense ratio	19.2	21.3	20.3
General and administrative expense ratio	13.5	17.2	18.2 <sup>(1)</sup>
Expense ratio	<u>32.7</u>	<u>38.5</u>	<u>38.5</u>
Combined ratio	<u>80.5%</u>	<u>96.7%</u>	<u>91.8%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of the Company's business segments for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014		
	Reinsurance	Insurance	Total
	(\$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 1,027.5	\$ 1,259.8	\$ 2,287.3
Net written premiums	980.4	980.8	1,961.2
Gross earned premiums	859.2	1,182.0	2,041.2
Net earned premiums	825.1	968.0	1,793.1
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	367.4	600.5	967.9
Amortization of deferred policy acquisition costs	152.3	184.1	336.4
General and administrative expenses	107.0	142.6	249.6
Underwriting income	\$ 198.4	\$ 40.8	239.2
Corporate expenses			(74.6)
Net investment income			143.6
Realized and unrealized investment gains			53.6
Realized and unrealized investment losses			(8.9)
Change in fair value of loan notes issued by variable interest entities			(14.5)
Change in fair value of derivatives			(8.6)
Interest expense on long term debt			(22.1)
Net realized and unrealized foreign exchange (losses)			(10.4)
Other income			4.8
Other expenses			(2.2)
Income before tax			<u>\$ 299.9</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,554.2</u>	<u>\$ 1,848.4</u>	<u>\$ 4,402.6</u>
<b>Ratios</b>			
Loss ratio	44.5%	62.0%	54.0%
Policy acquisition expense ratio	18.5	19.0	18.8
General and administrative expense ratio	13.0	14.7	18.1 <sup>(1)</sup>
Expense ratio	31.5	33.7	36.9
Combined ratio	<u>76.0%</u>	<u>95.7%</u>	<u>90.9%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

**Nine Months Ended September 30, 2013**

	<u>Reinsurance</u>	<u>Insurance</u>	<u>Total</u>
	( \$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 957.7	\$ 1,084.6	\$ 2,042.3
Net written premiums	907.5	844.2	1,751.7
Gross earned premiums	828.9	1,000.7	1,829.6
Net earned premiums	788.2	811.0	1,599.2
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	394.9	497.4	892.3
Amortization of deferred policy acquisition costs	161.0	161.3	322.3
General and administrative expenses	97.2	134.0	231.2
Underwriting income	<u>\$ 135.1</u>	<u>\$ 18.3</u>	153.4
Corporate expenses			(42.0)
Net investment income			139.2
Realized and unrealized investment gains			54.3
Realized and unrealized investment losses			(28.0)
Change in fair value of derivatives			(0.5)
Interest expense on long term debt			(23.2)
Net realized and unrealized foreign exchange (losses)			(7.1)
Other income			3.6
Other expenses			(0.6)
Income before tax			<u>\$ 249.1</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,718.0</u>	<u>\$ 1,555.4</u>	<u>\$ 4,273.4</u>
<b>Ratios</b>			
Loss ratio	50.1%	61.3%	55.8%
Policy acquisition expense ratio	20.4	19.9	20.2
General and administrative expense ratio	12.3	16.5	17.1 <sup>(1)</sup>
Expense ratio	<u>32.7</u>	<u>36.4</u>	<u>37.3</u>
Combined ratio	<u>82.8%</u>	<u>97.7%</u>	<u>93.1%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

## 6. Investments

### Income Statement

*Investment Income.* The following table summarizes investment income for the three and nine months ended September 30, 2014 and 2013:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
Fixed income securities — Available for sale	\$ 37.6	\$ 38.2	\$ 113.4	\$ 117.2
Fixed income securities — Trading	6.6	5.3	19.8	13.4
Short-term investments — Available for sale	0.4	0.3	1.0	1.9
Fixed term deposits (included in cash and cash equivalents)	0.5	0.7	2.4	3.4
Equity securities — Available for sale	1.0	1.2	3.5	4.7
Equity securities — Trading	3.5	1.8	10.5	5.5
Catastrophe bonds — Trading	0.5	—	0.9	—
Total	\$ 50.1	\$ 47.5	\$ 151.5	\$ 146.1
Investment expenses	(2.1)	(2.5)	(7.9)	(6.9)
Net investment income	\$ 48.0	\$ 45.0	\$ 143.6	\$ 139.2

The following table summarizes the net realized and unrealized investment gains and losses recorded in the statement of operations and the change in unrealized gains and losses on investments recorded in other comprehensive income for the three and nine months ended September 30, 2014 and 2013:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
<b>Available for sale:</b>				
Fixed income securities — gross realized gains	\$ 1.7	\$ 6.9	\$ 8.1	\$ 15.7
Fixed income securities — gross realized (losses)	(1.0)	(5.6)	(5.5)	(6.8)
Equity securities — gross realized gains	4.2	6.3	9.7	13.8
<b>Trading:</b>				
Fixed income securities — gross realized gains	1.9	0.8	6.6	6.6
Fixed income securities — gross realized (losses)	(0.2)	(1.3)	(2.4)	(1.9)
Equity securities — gross realized gains	2.8	0.4	4.5	0.8
Equity securities — gross realized (losses)	(0.1)	—	(0.3)	(0.3)
Catastrophe bonds — trading	0.5	—	0.5	—
Net change in gross unrealized gains (losses)	(10.0)	9.0	24.2	(2.7)
<b>Other investments:</b>				
Gross realized and unrealized gains in Cartesian	—	1.2	—	1.1
<b>Impairments:</b>				
Total other-than-temporary impairments	—	—	(0.7)	—
Total net realized and unrealized investment gains recorded in the statement of operations	\$ (0.2)	\$ 17.7	\$ 44.7	\$ 26.3
<b>Change in available for sale net unrealized gains (losses):</b>				
Fixed income securities	(28.5)	(3.3)	25.0	(168.7)
Equity securities	(4.5)	(0.2)	(2.3)	9.4
Total change in pre-tax available for sale unrealized gains(losses)	(33.0)	(3.5)	22.7	(159.3)
Change in taxes	8.1	(0.3)	(3.8)	11.8
Total change in net unrealized gains (losses), net of taxes recorded in other comprehensive income	\$ (24.9)	\$ (3.8)	\$ 18.9	\$ (147.5)

*Other-than-temporary Impairments.* A security is potentially impaired when its fair value is below its amortized cost. The Company reviews its available for sale fixed income and equity portfolios on an individual security basis for potential other-than-temporary impairment (“OTTI”) each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. For a more detailed description of OTTI, please refer to Note 2(c) of the “Notes to the Audited Consolidated Financial Statements” in the Company’s 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. The OTTI charge recognized for the three and nine months ended September 30, 2014 was \$Nil and \$0.7 million, respectively (2013 — \$Nil and \$Nil) and were in relation to the Company’s fixed income municipal securities.

## Balance Sheet

*Fixed Income Securities, Short-Term Investments and Equities — Available For Sale.* The following tables present the cost or amortized cost, gross unrealized gains and losses and estimated fair market value of available for sale investments in fixed income securities, short-term investments and equity securities as at September 30, 2014 and December 31, 2013:

	As at September 30, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	(\$ in millions)			
U.S. government	\$ 956.4	\$ 19.5	\$ (2.0)	\$ 973.9
U.S. agency	193.9	8.2	(0.2)	201.9
Municipal	29.7	2.0	—	31.7
Corporate	2,208.9	77.9	(8.4)	2,278.4
Non-U.S. government-backed corporate	74.2	1.3	—	75.5
Foreign government	743.2	11.1	(1.7)	752.6
Asset-backed	141.9	2.3	(0.3)	143.9
Non-agency commercial mortgage-backed	47.6	3.9	—	51.5
Agency mortgage-backed	957.8	34.8	(4.2)	988.4
Total fixed income securities — Available for sale	5,353.6	161.0	(16.8)	5,497.8
Total short-term investments — Available for sale	307.2	—	—	307.2
Total equity securities — Available for sale	93.9	32.7	(0.7)	125.9
Total	<u>\$ 5,754.7</u>	<u>\$ 193.7</u>	<u>\$ (17.5)</u>	<u>\$ 5,930.9</u>

As at December 31, 2013				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(\$ in millions)				
U.S. government	\$ 1,004.7	\$ 21.2	\$ (5.5)	\$ 1,020.4
U.S. agency	258.5	11.4	(0.8)	269.1
Municipal	32.3	0.9	(0.4)	32.8
Corporate	2,005.6	82.5	(18.7)	2,069.4
Non-U.S. government-backed corporate	83.4	1.4	(0.2)	84.6
Foreign government	772.0	11.2	(4.3)	778.9
Asset-backed	119.8	2.8	(0.3)	122.3
Non-agency commercial mortgage-backed	56.9	5.7	—	62.6
Agency mortgage-backed	1,116.7	30.6	(18.3)	1,129.0
Total fixed income securities — Available for sale	5,449.9	167.7	(48.5)	5,569.1
Total short-term investments — Available for sale	160.3	—	—	160.3
Total equity securities — Available for sale	112.2	37.8	(0.5)	149.5
Total	\$ 5,722.4	\$ 205.5	\$ (49.0)	\$ 5,878.9

*Fixed Income Securities, Short-Term Investments, Equities and Catastrophe Bonds — Trading.* The following tables present the cost or amortized cost, gross unrealized gains and losses, and estimated fair market value of trading investments in fixed income securities, short-term investments, equity securities and catastrophe bonds as at September 30, 2014 and December 31, 2013:

As at September 30, 2014				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(\$ in millions)				
U.S. government	\$ 16.5	\$ —	\$ —	\$ 16.5
U.S. agency	0.2	—	—	0.2
Municipal	1.1	—	—	1.1
Corporate	511.4	12.2	(2.5)	521.1
Foreign government	135.4	4.1	(0.3)	139.2
Asset-backed	15.1	0.1	—	15.2
Bank loans	81.8	—	(1.0)	80.8
Total fixed income securities — Trading	761.5	16.4	(3.8)	774.1
Total short-term investments — Trading	7.0	—	—	7.0
Total equity securities — Trading	490.2	47.0	(16.1)	521.1
Total catastrophe bonds — Trading	31.6	0.6	—	32.2
Total	\$ 1,290.3	\$ 64.0	\$ (19.9)	\$ 1,334.4

As at December 31, 2013				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(\$ in millions)				
U.S. government	\$ 22.7	\$ —	\$ (0.7)	\$ 22.0
U.S. agency	0.2	—	—	0.2
Municipal	1.1	—	—	1.1
Corporate	469.8	10.3	(5.3)	474.8
Foreign government	136.5	1.2	(1.5)	136.2
Asset-backed	12.7	0.1	—	12.8
Bank loans	69.1	0.3	(0.3)	69.1
Total fixed income securities — Trading	712.1	11.9	(7.8)	716.2
Total equity securities — Trading	281.6	34.0	(4.7)	310.9
Total catastrophe bonds — Trading	5.8	—	—	5.8
<b>Total</b>	<b>\$ 999.5</b>	<b>\$ 45.9</b>	<b>\$ (12.5)</b>	<b>\$ 1,032.9</b>

The Company classifies these financial instruments as held for trading as this most closely reflects the facts and circumstances of the investments held. Unrealized foreign exchange gains and losses included in the tables above are included within net realized and unrealized foreign exchange gains/(losses) within the statement of operations and other comprehensive income.

As of September 30, 2014, the Company had invested \$80.8 million in a U.S. Dollar bank loans trading portfolio and increased its investment in equities by \$160.0 million in the nine months ended September 30, 2014. In August 2013, the Company invested in a \$200.0 million BBB rated Emerging Market Debt portfolio (“EMD”), which is reported above in corporate and foreign government securities.

*Catastrophe Bonds.* The Company has invested in catastrophe bonds with a total value of \$32.2 million as of September 30, 2014. The bonds receive quarterly interest payments based on variable interest rates with scheduled maturities ranging from 2016 to 2020. The redemption value of the bonds will adjust based on the occurrence of a covered event, such as windstorms and earthquakes which occur in the geographic region of the United States, Canada, the North Atlantic, Japan and Australia.

*Other Investments.* The Company previously had an equity accounted investment in Cartesian Iris Offshore Fund L.P (“Cartesian”), which provided capital to Iris Re, a Class 3 Bermuda reinsurer (“Iris Re”). On June 29, 2013, the Company notified Cartesian Capital Group of its intention to withdraw the Company’s investment in Cartesian and to terminate the services provided to Iris Re. The termination took effect on January 1, 2014. For more information regarding the Company’s investment in Cartesian, refer to Note 6 of the “Notes to Audited Consolidated Financial Statements” in the Company’s 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

On October 2, 2012, the Company established a subsidiary, Aspen Recoveries Limited, to take ownership of a 58.5% shareholding in Chaspark Maritime Holdings Ltd., a Singaporean registered company (“Chaspark”), with the remaining shareholding owned by other insurers. The investment is accounted under the equity method. For more information regarding the Company’s investment in Chaspark, refer to Note 7, Variable Interest Entities.

The tables below show the Company’s investments in Cartesian and Chaspark for the three and nine months ended September 30, 2014 :

	For the Three Months Ended September 30, 2014		
	Cartesian	Chaspark	Total
(\$ in millions)			
Opening undistributed value of investment as at June 30, 2014	\$ —	\$ 8.7	\$ 8.7
Distribution for the three months to September 30, 2014	—	—	—
Closing value of investment as at September 30, 2014	<b>\$ —</b>	<b>\$ 8.7</b>	<b>\$ 8.7</b>

	For the Nine Months Ended September 30, 2014		
	Cartesian	Chaspark	Total
	(\$ in millions)		
Opening undistributed value of investment as at January 1, 2014	\$ 39.3	\$ 8.7	\$ 48.0
Distribution for the nine months to September 30, 2014	(39.3)	—	(39.3)
Closing value of investment as at September 30, 2014	<u>\$ —</u>	<u>\$ 8.7</u>	<u>\$ 8.7</u>

*Fixed Income Securities.* The scheduled maturity distribution of available for sale fixed income securities as at September 30, 2014 and December 31, 2013 is set forth below. 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.

	As at September 30, 2014		
	Amortized Cost or Cost	Fair Market Value	Average S&P Ratings by Maturity
	(\$ in millions)		
Due one year or less	\$ 652.5	\$ 658.3	AA
Due after one year through five years	2,502.8	2,571.3	AA-
Due after five years through ten years	955.0	978.8	AA-
Due after ten years	96.0	105.6	A+
Subtotal	<u>4,206.3</u>	<u>4,314.0</u>	
Non-agency commercial mortgage-backed	47.6	51.5	AA+
Agency mortgage-backed	957.8	988.4	AA+
Asset-backed	141.9	143.9	AAA
Total fixed income securities — Available for sale	<u>\$ 5,353.6</u>	<u>\$ 5,497.8</u>	

	As at December 31, 2013		
	Amortized Cost or Cost	Fair Market Value	Average S&P Ratings by Maturity
	(\$ in millions)		
Due one year or less	\$ 694.8	\$ 700.0	AA
Due after one year through five years	2,376.1	2,438.0	AA-
Due after five years through ten years	1,003.9	1,032.8	A+
Due after ten years	81.7	84.4	AA-
Subtotal	<u>4,156.5</u>	<u>4,255.2</u>	
Non-agency commercial mortgage-backed	56.9	62.6	AA+
Agency mortgage-backed	1,116.7	1,129.0	AA+
Asset-backed	119.8	122.3	AAA
Total fixed income securities — Available for sale	<u>\$ 5,449.9</u>	<u>\$ 5,569.1</u>	

*Guaranteed Investments.* As at September 30, 2014, the Company held \$2.4 million (December 31, 2013 — \$1.5 million) in investments which are guaranteed by mono-line insurers, excluding those with explicit government guarantees, and the Company's holding was limited to two municipal securities, both rated Caa2 or higher (December 31, 2013 — two municipal securities, both rated BBB- or higher). The standalone rating (rating without guarantee) is determined as the senior unsecured debt rating of the issuer. Where the credit ratings were split between the two main rating agencies, Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's"), the lowest rating was used. The Company's exposure to other third-party guaranteed debt is primarily to investments backed by non-U.S. government guaranteed issuers.

*Gross Unrealized Loss.* The following tables summarize as at September 30, 2014 and December 31, 2013 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 the Company's available for sale portfolio:

	September 30, 2014						
	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	\$ 182.2	\$ (0.8)	\$ 80.1	\$ (1.2)	\$ 262.3	\$ (2.0)	42
U.S. agency	17.3	—	18.8	(0.2)	36.1	(0.2)	9
Municipal	2.2	—	—	—	2.2	—	1
Corporate	474.1	(2.8)	201.8	(5.6)	675.9	(8.4)	274
Non-U.S. government-backed corporate	1.8	—	4.3	—	6.1	—	3
Foreign government	151.7	(0.3)	110.8	(1.4)	262.5	(1.7)	35
Asset-backed	43.2	(0.1)	11.2	(0.2)	54.4	(0.3)	39
Agency mortgage-backed	57.3	(0.4)	126.0	(3.8)	183.3	(4.2)	54
Total fixed income securities — Available for sale	929.8	(4.4)	553.0	(12.4)	1,482.8	(16.8)	457
Total short-term investments — Available for sale	2.0	—	—	—	2.0	—	1
Total equity securities — Available for sale	8.8	(0.7)	—	—	8.8	(0.7)	7
Total	\$ 940.6	\$ (5.1)	\$ 553.0	\$ (12.4)	\$ 1,493.6	\$ (17.5)	465

	December 31, 2013						
	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	\$ 293.9	\$ (5.5)	\$ —	\$ —	\$ 293.9	\$ (5.5)	51
U.S. agency	72.1	(0.8)	—	—	72.1	(0.8)	18
Municipal	5.5	(0.2)	1.3	(0.2)	6.8	(0.4)	7
Corporate	695.4	(16.8)	23.4	(1.9)	718.8	(18.7)	372
Non-U.S. government-backed corporate	21.8	(0.2)	4.9	—	26.7	(0.2)	8
Foreign government	239.7	(4.1)	8.5	(0.2)	248.2	(4.3)	44
Asset-backed	50.2	(0.3)	—	—	50.2	(0.3)	51
Agency mortgage-backed	491.8	(18.3)	1.2	—	493.0	(18.3)	123
Total fixed income securities — Available for sale	1,870.4	(46.2)	39.3	(2.3)	1,909.7	(48.5)	674
Total short-term investments — Available for sale	7.7	—	—	—	7.7	—	6
Total equity securities — Available for sale	6.0	(0.4)	2.3	(0.1)	8.3	(0.5)	7
Total	\$ 1,884.1	\$ (46.6)	\$ 41.6	\$ (2.4)	\$ 1,925.7	\$ (49.0)	687

*Investment Purchases and Sales.* The following table summarizes investment purchases, sales and maturities for the three and nine months ended September 30, 2014 and 2013:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
(Purchases) of fixed income securities — Available for sale	\$ (522.8)	\$ (566.8)	\$ (1,440.9)	\$ (1,748.6)
(Purchases) of fixed income securities — Trading	(154.7)	(283.2)	(553.6)	(555.5)
(Purchases) of equity securities — Available for sale	—	—	—	(2.5)
(Purchases) of equity securities — Trading	(121.2)	(38.6)	(240.1)	(275.4)
Proceeds from sales and maturities of fixed income securities — Available for sale	481.0	578.6	1,496.9	1,564.4
Proceeds from sales and maturities of fixed income securities — Trading	143.5	67.8	515.7	276.3
Proceeds from sales of equity securities — Available for sale	12.1	29.7	27.7	61.8
Proceeds from sales of equity securities — Trading	17.8	5.0	36.0	15.1
Net change in receivable/(payable) for securities sold/(purchased)	(7.0)	6.6	12.8	5.6
Net (purchases)/sales of short-term investments — Available for sale	25.0	95.5	(151.0)	275.7
Net (purchases)/sales of short-term investments — Trading	7.0	—	(7.0)	—
Net (purchases) of catastrophe bonds — Trading	(1.7)	—	(26.0)	—
Net sales of other investments	—	—	37.3	—
Net (purchases)/sales for the period	<u>\$ (121.0)</u>	<u>\$ (105.4)</u>	<u>\$ (292.2)</u>	<u>\$ (383.1)</u>

## 7. Variable Interest Entities

As at September 30, 2014, the Company had two investments in two variable interest entities (“VIE”), Chaspark and Silverton.

*Chaspark.* On October 2, 2012, the Company established a subsidiary, Aspen Recoveries Limited, to take ownership of a 58.5% shareholding in Chaspark, with the remaining shareholding owned by other insurers. The shareholding in Chaspark was received as a settlement for subrogation rights associated with a contract frustration claim settlement. The Company has determined that Chaspark has the characteristics of a VIE as addressed by the guidance in ASC 810, *Consolidation*. As discussed further in Note 6 of these unaudited condensed consolidated financial statements, the investment in Chaspark is accounted for under the equity method. In the three and nine months ended September 30, 2014, there was no change in the value of the Company’s investment in Chaspark (September 30, 2013 — \$Nil and \$Nil). The adjusted carrying value approximates fair value.

*Silverton.* On September 10, 2013, the Company established Silverton, a Bermuda domiciled special purpose insurer, to provide additional collateralized capacity to support Aspen Re’s business. In respect of the debt issued by Silverton to investors, Silverton has entered into a retrocession agreement with Aspen Bermuda effective January 1, 2014. Under this agreement, Silverton receives a quota share of Aspen Bermuda’s catastrophe business. Silverton is a non-rated insurer and the risks are fully collateralized by way of funds held in trust for the benefit of Aspen Bermuda. Silverton is able to provide investors with access to diversified natural catastrophe risk backed by the distribution, underwriting, analysis and research expertise of Aspen Re.

The Company has determined that Silverton has the characteristics of a VIE that are addressed by the guidance in ASC 810, *Consolidation*. The Company concluded that it is the primary beneficiary and has consolidated the subsidiary upon its formation as it owns 100% of the voting shares, 100% of the issued share capital and has a significant financial interest and the power to control Silverton. The Company has no other obligation to provide financial support to Silverton. Neither the creditors nor beneficial interest holders of Silverton have recourse to the Company’s general credit.

In the event of either an extreme catastrophic property reinsurance event or severe credit related event there is a risk that Aspen Bermuda would be unable to recover losses from Silverton. These two risks are mitigated as follows:

- i. Silverton has collateralized the aggregate limit provided to Aspen Bermuda by way of a trust in favor of Aspen Bermuda as the beneficiary;
- ii. the trustee is a large, well-established regulated entity; and
- iii. all funds within the trust account are bound by investment guidelines restricting investments to one of the institutional class money market funds run by large international investment managers.

Silverton issued \$65.0 million of loan notes on December 27, 2013 (of which \$50.0 million was issued to third parties and \$15.0 million to Aspen Holdings) which is held as collateral for a fully collateralized quota share of Aspen Re's global property catastrophe excess of loss reinsurance business. The final amount to be paid to the Silverton noteholders is dependent upon the settlement value of the quota share contract and operating expenses of Silverton. The operations of Silverton commenced on January 1, 2014. The Company's maximum loss exposure to Silverton is its \$15.0 million loan note holdings as at September 30, 2014 (December 31, 2013 — \$15.0 million) due to mature on September 16, 2016. The fair value of the loan notes held by the Company increased by \$2.6 million and \$4.4 million, respectively, for the three and nine months ended September 30, 2014. The total aggregate unpaid balance of the loan notes held by third parties and those held by Aspen Holdings is \$83.9 million.

The tables below show the value of the notes attributable to the third-party investments in Silverton for the three and nine months ended September 30, 2014:

	<b>Three Months Ended September 30, 2014</b>
	(\$ in millions)
Beginning balance as at June 30, 2014	\$ (56.0)
Total change in fair value included in the statement of operations	(8.5)
Balance as at September 30, 2014	<u>\$ (64.5)</u>

  

	<b>Nine Months Ended September 30, 2014</b>
	(\$ in millions)
Beginning balance as at January 1, 2014	\$ (50.0)
Total change in fair value included in the statement of operations	(14.5)
Balance as at September 30, 2014	<u>\$ (64.5)</u>

## 8. Fair Value Measurements

The Company's estimates of fair value for financial assets and liabilities are based on the framework established in the fair value accounting guidance included in ASC 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.

The Company considers prices for actively traded securities to be derived based on quoted prices in an active market for identical assets, which are Level 1 inputs in the fair value hierarchy. The majority of these securities are valued using prices supplied by index providers.

The Company considers prices for other securities that may not be as actively traded which are priced via pricing services, index providers, vendors and broker-dealers, or with reference to interest rates and yield curves, to be derived based on inputs that are observable for the asset, either directly or indirectly, which are Level 2 inputs in the fair value hierarchy. The majority of these securities are also valued using prices supplied by index providers.

The Company considers securities, other financial instruments and derivative insurance contracts subject to fair value measurement whose valuation is derived by internal valuation models to be based largely on unobservable inputs, which are Level 3 inputs in the fair value hierarchy.

The following tables present the level within the fair value hierarchy at which the Company's financial assets and liabilities are measured on a recurring basis as at September 30, 2014 and December 31, 2013, respectively:

	As at September 30, 2014			
	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>Available for sale financial assets, at fair value</b>				
U.S. government	\$ 973.9	\$ —	\$ —	\$ 973.9
U.S. agency	—	201.9	—	201.9
Municipal	—	31.7	—	31.7
Corporate	—	2,278.4	—	2,278.4
Non-U.S. government-backed corporate	—	75.5	—	75.5
Foreign government	538.2	214.4	—	752.6
Asset-backed	—	143.9	—	143.9
Non-agency commercial mortgage-backed	—	51.5	—	51.5
Agency mortgage-backed	—	988.4	—	988.4
Total fixed income securities available for sale, at fair value	1,512.1	3,985.7	—	5,497.8
Short-term investments available for sale, at fair value	302.4	4.8	—	307.2
Equity investments available for sale, at fair value	125.9	—	—	125.9
<b>Held for trading financial assets, at fair value</b>				
U.S. government	16.5	—	—	16.5
U.S. agency	—	0.2	—	0.2
Municipal	—	1.1	—	1.1
Corporate	—	521.1	—	521.1
Foreign government	33.9	105.3	—	139.2
Asset-backed	—	15.2	—	15.2
Bank loans	—	80.8	—	80.8
Total fixed income securities trading, at fair value	50.4	723.7	—	774.1
Short-term investments trading, at fair value	—	7.0	—	7.0
Equity investments trading, at fair value	521.1	—	—	521.1
Catastrophe bonds trading, at fair value	—	32.2	—	32.2
<b>Other financial assets and liabilities, at fair value</b>				
Derivatives at fair value — foreign exchange contracts	—	5.7	—	5.7
Derivatives at fair value— interest rate swaps	—	1.3	—	1.3
Liabilities under derivative contracts — foreign exchange contracts	—	(12.7)	—	(12.7)
Loan notes issued by variable interest entities, at fair value	—	—	(64.5)	(64.5)
Total	\$ 2,511.9	\$ 4,747.7	\$ (64.5)	\$ 7,195.1

There were no maturities, settlements or transfers between Level 1, Level 2 and Level 3 during the three and nine months ended September 30, 2014 and no assets or liabilities were classified as Level 3 as at September 30, 2014, except for the loan notes issued by the VIEs.

	As at December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>Available for sale financial assets, at fair value</b>				
U.S. government	\$ 1,020.4	\$ —	\$ —	\$ 1,020.4
U.S. agency	—	269.1	—	269.1
Municipal	—	32.8	—	32.8
Corporate	—	2,069.4	—	2,069.4
Non-U.S. government-backed corporate	—	84.6	—	84.6
Foreign government	596.2	182.7	—	778.9
Asset-backed	—	122.3	—	122.3
Non-agency commercial mortgage-backed	—	62.6	—	62.6
Agency mortgage-backed	—	1,129.0	—	1,129.0
Total fixed income securities available for sale, at fair value	1,616.6	3,952.5	—	5,569.1
Short-term investments available for sale, at fair value	129.5	30.8	—	160.3
Equity investments available for sale, at fair value	149.5	—	—	149.5
<b>Held for trading financial assets, at fair value</b>				
U.S. government	22.0	—	—	22.0
U.S. agency	—	0.2	—	0.2
Municipal	—	1.1	—	1.1
Corporate	—	474.8	—	474.8
Foreign government	44.2	92.0	—	136.2
Asset-backed	—	12.8	—	12.8
Bank loans	—	69.1	—	69.1
Total fixed income securities trading, at fair value	66.2	650.0	—	716.2
Equity investments trading, at fair value	310.9	—	—	310.9
Catastrophe bonds trading, at fair value	—	5.8	—	5.8
<b>Other financial assets and liabilities, at fair value</b>				
Derivatives at fair value – foreign exchange contracts	—	5.9	—	5.9
Derivatives at fair value – interest rate swaps	—	1.1	—	1.1
Liabilities under derivative contracts – foreign exchange contracts	—	(2.9)	—	(2.9)
Loan notes issued by variable interest entities, at fair value	—	—	(50.0)	(50.0)
Total	\$ 2,272.7	\$ 4,643.2	\$ (50.0)	\$ 6,865.9

There were no maturities, settlements or transfers between Level 1, Level 2 and Level 3 during the twelve months ended December 31, 2013. There were no assets or liabilities that were classified as Level 3 as at December 31, 2013, except for the loan notes issued by the VIEs.

The following tables present a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three and nine months ended September 30, 2014:

<u>Reconciliation of Liabilities Using Level 3 Inputs</u>	<u>Three Months Ended September 30, 2014</u>
	(\$ in millions)
Beginning balance as at June 30, 2014	\$ (56.0)
Total change in fair value included in the statement of operations	(8.5)
Balance as at September 30, 2014	<u>\$ (64.5)</u>

  

<u>Reconciliation of Liabilities Using Level 3 Inputs</u>	<u>Nine Months Ended September 30, 2014</u>
	(\$ in millions)
Beginning balance as at January 1, 2014	\$ (50.0)
Total change in fair value included in the statement of operations	(14.5)
Balance as at September 30, 2014	<u>\$ (64.5)</u>

*Valuation of Fixed Income Securities.* The Company's fixed income securities are classified as either available for sale or trading and carried at fair value. As at September 30, 2014 and December 31, 2013, the Company's fixed income securities were valued by pricing services, index providers or broker-dealers using standard market conventions. The market conventions utilize market quotations, market transactions in comparable instruments and various relationships between instruments including, but not limited to, yield to maturity, dollar prices and spread prices in determining value.

*Independent Pricing Services and Index Providers.* The underlying methodology used to determine the fair value of securities in the Company's available for sale and trading portfolios by the pricing services and index providers the Company uses is very similar. Pricing services will gather observable pricing inputs from multiple external sources, including buy and sell-side contacts and broker-dealers, in order to develop their internal prices. Index providers are those firms which provide prices for a range of securities within one or more asset classes, typically using their own in-house market makers (traders) as the primary pricing source for the indices, although ultimate valuations may also rely on other observable data inputs to derive a dollar price for all index-eligible securities. Index providers without in-house trading desks will function similarly to a pricing service in that they will gather their observable pricing inputs from multiple external sources. All prices for the Company's securities attributed to index providers are for an individual security within the respective indices.

Pricing services and index providers provide pricing for less complex, liquid securities based on market quotations in active markets. Pricing services and index providers supply prices for a broad range of securities including those for actively traded securities, such as Treasury and other Government securities, in addition to those that trade less frequently or where valuation includes reference to credit spreads, pay down and pre-pay features and other observable inputs. These securities include Government Agency, Municipals, Corporate and Asset-Backed Securities.

For securities that may trade less frequently or do not trade on a listed exchange, these pricing services and index providers 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 and index providers 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. Neither the Company, nor its index providers, derives dollar prices using an index as a pricing input for any individual security.

*Broker-Dealers.* The Company obtains quotes 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 of newly issued securities. They may also establish pricing through observing secondary trading of similar securities. Quotes from broker-dealers are non-binding.

The Company obtains prices for all of its fixed income investment securities via its third-party accounting service provider, and in the majority of cases receiving a number of quotes so as to obtain the most comprehensive information available to determine a security's fair value. A single valuation is applied to each security based on the vendor hierarchy maintained by the Company's third-party accounting service provider.

As at September 30, 2014, the Company obtained an average of 2.0 quotes per fixed income investment, consistent with 2.6 quotes as at December 31, 2013. Pricing sources used in pricing fixed income investments as at September 30, 2014 and December 31, 2013 were as follows:

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
Index providers	84%	85%
Pricing services	12	12
Broker-dealers	4	3
Total	<u>100%</u>	<u>100%</u>

A summary of securities priced using pricing information from index providers as at September 30, 2014 and December 31, 2013 is provided below:

	<u>As at September 30, 2014</u>		<u>As at December 31, 2013</u>	
	<u>Fair Market Value Determined using Prices from Index Providers</u>	<u>% of Total Fair Value by Security Type</u>	<u>Fair Market Value Determined using Prices from Index Providers</u>	<u>% of Total Fair Value by Security Type</u>
(\$ in millions, except for percentages)				
U.S. government	\$ 911.9	92%	\$ 998.5	96%
U.S. agency	191.3	95%	255.3	95%
Municipal	13.4	41%	14.5	43%
Corporate	2,675.2	96%	2,400.8	94%
Non-U.S. government-backed corporate	57.1	76%	55.9	66%
Foreign government	559.1	63%	605.8	66%
Asset-backed	146.0	92%	130.6	97%
Non-agency commercial mortgage-backed	51.5	100%	61.0	97%
Agency mortgage-backed	650.5	66%	830.6	74%
Total fixed income securities	<u>\$ 5,256.0</u>	84%	<u>\$ 5,353.0</u>	85%
Equities	647.0	100%	460.4	100%
Total fixed income securities and equity investments	<u>\$ 5,903.0</u>	85%	<u>\$ 5,813.4</u>	86%

The Company, in conjunction with its third-party accounting service provider, obtains an understanding of the methods, models and inputs used by the third-party pricing service and index provider to assess the ongoing appropriateness of vendors' prices. The Company and its third-party accounting service provider also have controls in place to validate that amounts provided represent fair values. Processes to validate and review pricing 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);
- comparison of market values obtained from pricing services, index providers and broker-dealers against alternative price sources for each security where further investigation is completed when significant differences exist for pricing of individual securities between pricing sources;
- initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and
- comparison of the fair value estimates to the Company's knowledge of the current market.

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

Management reviews the vendor hierarchy maintained by the Company's third-party accounting service provider in order to determine which price source provides the most appropriate 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 level assigned to each security in the Company's available for sale and trading portfolios is based upon its assessment of the transparency and reliability of the inputs

used in the valuation as of the measurement date. The hierarchy of index providers and pricing services is determined using various qualitative and quantitative points arising from reviews of the vendors conducted by the Company's third-party accounting service provider. Vendor reviews include annual onsite due diligence meetings with index providers and pricing services vendors covering valuation methodology, operational walkthroughs and legal and compliance updates. Index providers are assigned the highest priority in the pricing hierarchy due primarily to availability and reliability of pricing information.

*Fixed Income Securities.* The Company's fixed income securities are traded on the over-the-counter ("OTC") 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. The Company uses a variety of pricing sources to value 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 the Company's portfolio do not use significant unobservable inputs or modeling techniques.

*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 Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Bank. As the fair values of 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.

*Municipals.* The Company's 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.

*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. In addition, foreign government securities include a portion of the EMD portfolio which is also 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 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. In addition, corporate securities include the Company's BB High Yield Bonds and a portion of the BBB Emerging Market Debt portfolio. The Company classifies all of these securities within Level 2.

*Mortgage-backed Securities.* The Company's residential and commercial mortgage-backed securities consist of bonds issued by the Government National Mortgage Association, the FNMA and the FHLMC as well as private non-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 Securities.* 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 broker-dealer quotes and other available trade information, prepayment speeds, interest rate data and credit spreads. The Company classifies these securities within Level 2.

*Bank Loans.* These are variable rate, senior secured debt instruments issued by non-investment grade companies that are not publicly registered but are the most senior debt in a capital structure and are generally secured by company assets. Although these assets do not trade in as liquid a market as traditional fixed income instruments, they are valued in similar fashion to other fixed maturities, using similar inputs such as yield curves, interest rates and credit spreads. These securities are primarily priced by a third party pricing vendor. Bank loans are therefore classified 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. Short-term investments are valued in a manner similar to the Company's fixed maturity investments and are classified within Levels 1 and 2.

*Equity Securities.* Equity securities include U.S. and foreign common stocks and are classified either as trading or 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. As at September 30, 2014, the Company obtained an average of 4.0 quotes per equity investment, compared to 4.9 quotes as at December 31, 2013. Pricing sources used in pricing equities as at September 30, 2014 and December 31, 2013 were all provided by index providers.

*Catastrophe Bonds.* Catastrophe bonds held by the Company are variable rate fixed income instruments with redemption values adjusted based on the occurrence of a covered event, usually windstorms and earthquakes. These bonds have been classified as trading and carried at fair value. Bonds are priced using an average of multiple broker-dealer quotes and, as such, are classified as Level 2.

*Foreign Exchange Contracts.* The foreign exchange contracts which the Company uses to mitigate currency risk are characterized as OTC due to their customized nature and the fact that they do not trade on a major exchange. These instruments trade in a deep liquid market, providing substantial price transparency and accordingly are classified as Level 2.

*Interest Rate Swaps.* The interest rate swaps which the Company uses to mitigate 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.

*Loan Notes Issued by Variable Interest Entities.* Silverton, a licensed special purpose insurer, is consolidated into the Company's group accounts as a VIE. In the fourth quarter of 2013, Silverton issued \$65.0 million (\$50.0 million third-party funded) loan notes with a maturity date of September 16, 2016. The Company has elected to account for the loan notes at fair value using the guidance as prescribed under ASC 825, *Financial Instruments* as the Company believes it represents the most meaningful measurement basis for these liabilities. The loan notes are recorded at fair value at each reporting period and, as they are not quoted on an active market and contain significant unobservable inputs, they have been classified as a Level 3 instrument in the fair value hierarchy. The loan notes are unique because they are linked to the specific risks of the Company's property catastrophe book.

To determine the fair value of the loan notes, the Company runs an internal model which considers the seasonality of the risk assumed under the retrocessional agreement between Aspen Bermuda and Silverton. The seasonality used in the model is determined by applying the percentage of property catastrophe losses planned by the Company's actuaries to the estimated written premium to determine earned premium for each quarter. The inputs to the internal valuation model are based on Company specific data due to the lack of availability of observable market inputs. Reserves for losses are the most significant unobservable input. An increase in reserves for losses would normally result in a decrease in the fair value of the loan notes while a decrease in reserves would normally result in an increase in the fair value of the loan notes. The observable and unobservable inputs used to determine the fair value of the loan notes as at September 30, 2014 are presented in the table below:

<u>At September 30, 2014</u>	<u>Fair Value Level 3</u>	<u>Valuation Method</u>	<u>Observable (O) and Unobservable (U) inputs</u>	<u>Low</u>	<u>High</u>
	(\$ in millions)			(\$ in millions)	
Loan notes held by third parties	\$ 64.5	Internal Valuation Model	Gross premiums written (O)	\$ —	\$ 40.0
			Reserve for losses (U)	\$ —	\$ 2.8
			Contract period (O)	N/A	365 days
			Initial value of issuance (O)	\$ 50.0	\$ 50.0

## 9. Reinsurance

The Company purchases retrocession and reinsurance to limit and diversify the Company's risk exposure and increase its own insurance and reinsurance 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 contracts, 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 monitors concentrations of credit risk. The largest concentrations of reinsurance recoverables as at September 30, 2014 were 24.9% with Lloyd's syndicates rated A+ by S&P (December 31, 2013 — 23.5%) and 16.9% with Munich Re rated AA- by S&P (December 31, 2013 — 17.1%).

## 10. Derivative Contracts

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheet as at September 30, 2014 and December 31, 2013:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Balance Sheet Location	As at September 30, 2014		As at December 31, 2013	
		Notional Amount	Fair Value	Notional Amount	Fair Value
		(\$ in millions)		(\$ in millions)	
Interest Rate Swaps	Derivatives at Fair Value	\$ 981.2	\$ 1.3	\$ 1,000.0	\$ 1.1 <sup>(1)</sup>
Foreign Exchange Contracts	Derivatives at Fair Value	\$ 161.4	\$ 5.7	\$ 224.4	\$ 5.9
Foreign Exchange Contracts	Liabilities under Derivative Contracts	\$ 205.6	\$ (12.7)	\$ 57.5	\$ (2.9)

<sup>(1)</sup> Net of \$23.4 million of cash collateral provided to counterparties, Goldman Sachs International (\$481.2 million notional) and Cr dit Agricole CIB (\$500.0 million notional) under respective International Swap Dealers Association agreements, as security for the Company's net liability position (December 31, 2013 — \$34.3 million).

The following tables provide the unrealized and realized gains/(losses) recorded in the statement of operations for the three and nine months ended September 30, 2014 and 2013, respectively:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Income/(Loss) Recognized in the Statement of Operations	Amount of Income/(Loss) Recognized in the Statement of Operations for the Three Months Ended	
		September 30, 2014	September 30, 2013
		(\$ in millions)	
Foreign Exchange Contracts	Change in Fair Value of Derivatives	\$ (6.4)	\$ 10.8
Interest Rate Swaps	Change in Fair Value of Derivatives	\$ 1.3	\$ (4.2)

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Income/(Loss) Recognized in the Statement of Operations	Amount of Income/(Loss) Recognized in the Statement of Operations for the Nine Months Ended	
		September 30, 2014	September 30, 2013
		(\$ in millions)	
Foreign Exchange Contracts	Change in Fair Value of Derivatives	\$ (4.5)	\$ (3.7)
Interest Rate Swaps	Change in Fair Value of Derivatives	\$ (4.1)	\$ 3.2

*Foreign Exchange Contracts.* The Company uses foreign exchange contracts to manage foreign currency risk. A foreign 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 exchange contracts will not eliminate fluctuations in the value of the Company's assets and liabilities denominated in foreign currencies but rather allow it to establish a rate of exchange for a future point in time.

As at September 30, 2014, the Company held foreign exchange contracts with an aggregate notional value of \$367.0 million. The foreign exchange contracts are recorded as derivatives at fair value with changes recorded as a change in fair value of derivatives in the statement of operations. For the three and nine months ended September 30, 2014, the impact of foreign exchange contracts on net income was a charge of \$6.4 million (September 30, 2013 — gain of \$10.8 million) and a charge of \$4.5 million (September 30, 2013 — charge of \$3.7 million), respectively.

*Interest Rate Swaps.* As at September 30, 2014, the Company held fixed for floating interest rate swaps with a total notional amount of \$981.2 million (December 31, 2013 — \$1.0 billion) that are due to mature between October 8, 2014 and November 9, 2020. The interest rate 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, 2014, there was a gain in respect of the interest rate swaps of \$1.3 million (September 30, 2013 — charge of \$4.2 million) and a charge of \$4.1 million (September 30, 2013 — gain of \$3.2 million), respectively.

As at September 30, 2014, cash collateral with a fair value of \$23.4 million was held by the Company's counterparties to support the current valuation of the interest rate swaps (December 31, 2013 — \$34.3 million). As at September 30, 2014, no non-cash collateral was transferred to the Company by its counterparties (December 31, 2013 — \$Nil). Transfers of cash collateral are recorded on the consolidated balance sheet within Derivatives at Fair Value, while transfers in respect of non-cash collateral are disclosed but not recorded. As at September 30, 2014, no amount was recorded in the consolidated balance sheet for the pledged assets.

None of the derivatives mentioned above meet the requirements for hedge accounting as per ASC 815 *Derivatives and Hedging* and therefore changes in the estimated fair value are included in the consolidated statement of operations.

#### 11. Deferred Policy Acquisition Costs

The following table represents a reconciliation of beginning and ending deferred policy acquisition costs for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in millions)		(\$ in millions)	
Balance at the beginning of the period	\$ 306.4	\$ 264.4	\$ 262.2	\$ 223.0
Acquisition costs deferred	110.7	108.2	375.8	361.4
Amortization of deferred policy acquisition costs	(115.5)	(110.5)	(336.4)	(322.3)
Balance at the end of the period	\$ 301.6	\$ 262.1	\$ 301.6	\$ 262.1

#### 12. Reserves for Losses and Loss 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, 2014 and twelve months ended December 31, 2013:

	Nine Months Ended	Twelve Months Ended
	September 30, 2014	December 31, 2013
	(\$ in millions)	
Provision for losses and LAE at the start of the year	\$ 4,678.9	\$ 4,779.7
Less reinsurance recoverable	(332.7)	(499.0)
Net loss and LAE at the start of the year	4,346.2	4,280.7
Net loss and LAE expenses assumed/(disposed)	(24.2)	(34.6)
Provision for losses and LAE for claims incurred:		
Current year	1,060.5	1,331.4
Prior years	(92.6)	(107.7)
Total incurred	967.9	1,223.7
Losses and LAE payments for claims incurred:		
Current year	(56.6)	(172.8)
Prior years	(785.7)	(912.3)
Total paid	(842.3)	(1,085.1)
Foreign exchange (gains)	(45.0)	(38.5)
Net losses and LAE reserves at period end	4,402.6	4,346.2
Plus reinsurance recoverable on unpaid losses at period end	384.7	332.7
Provision for losses and LAE at the end of the relevant period	\$ 4,787.3	\$ 4,678.9

For the nine months ended September 30, 2014, there was a reduction of \$92.6 million in the Company's estimate of the ultimate claims to be paid in respect of prior accident years compared to a reduction of \$87.2 million for the nine months ended September 30, 2013. The Company had \$24.2 million worth of disposals relating to commutations during the nine months ended September 30, 2014 (nine months ended September 30, 2013 — \$34.5 million). For additional information on the reserve releases, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reserves for Losses and Loss Adjustment Expenses" below.

### 13. Capital Structure

The following table provides a summary of the Company's authorized and issued share capital as at September 30, 2014 and December 31, 2013:

	As at September 30, 2014		As at December 31, 2013	
	Number	\$ in Thousands	Number	\$ in Thousands
<b>Authorized share capital:</b>				
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
<b>Total authorized share capital</b>		<b>1,631</b>		<b>1,631</b>
<b>Issued share capital:</b>				
Issued ordinary shares of 0.15144558¢ per share	63,349,858	96	65,546,976	99
Issued 7.401% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	5,327,500	8	5,327,500	8
Issued 7.250% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	6,400,000	10	6,400,000	10
Issued 5.95% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	11,000,000	17	11,000,000	17
<b>Total issued share capital</b>		<b>131</b>		<b>134</b>

Additional paid-in capital as at September 30, 2014 was \$1,186.4 million (December 31, 2013 — \$1,297.4 million). Additional paid-in capital includes the aggregate liquidation preferences of the Company's preference shares of \$568.2 million (December 31, 2013 — \$568.2 million) less issue costs of \$12.4 million (December 31, 2013 — \$12.4 million).

*Ordinary Shares.* The following table summarizes transactions in the Company's ordinary shares during the nine months ended September 30, 2014:

	Number of Ordinary Shares
Ordinary shares in issue at December 31, 2013	65,546,976
<i>Ordinary share transactions in the nine months ended September 30, 2014</i>	
Ordinary shares issued to employees under the 2003 and 2013 share incentive plans and/or 2008 share purchase plan	692,929
Ordinary shares issued to non-employee directors	1,309
Ordinary shares repurchased	(2,891,356)
Ordinary shares in issue at September 30, 2014	63,349,858

*Ordinary Share Repurchases.* On February 7, 2013, the Company's Board of Directors replaced the then existing share repurchase authorization of \$400.0 million with a new share repurchase authorization of \$500.0 million. The ordinary share repurchase authorization, which was effective immediately through February 7, 2015, permits the Company to effect repurchases from time to time through a combination of transactions, including open market repurchases, privately negotiated transactions and accelerated share repurchase transactions.

Under open market repurchases, the Company acquired and cancelled 2,120,625 and 2,891,130 ordinary shares, respectively, for the three and nine months ended September 30, 2014. The total consideration paid for the three and nine months ended September 30, 2014 was \$90.0 million and \$120.9 million, respectively, with the average price for the three and nine months ended September 30, 2014 being \$42.46 and \$41.82, respectively. Under open market repurchases, the Company acquired and cancelled 1,498,451 and 3,979,826 ordinary shares, respectively, for the three and nine months ended

September 30, 2013. The total consideration paid for the three and nine months ended September 30, 2013 was \$54.8 million and \$143.0 million, respectively; and the average price was \$36.59 and \$35.92, respectively.

On February 26, 2013, the Company entered into an Accelerated Share Repurchase Agreement (“ASR”) with Goldman Sachs & Co. (“Goldman”) to repurchase an aggregate of \$150.0 million of the Company’s ordinary shares. Under this arrangement, the Company initially acquired and cancelled 3,348,214 ordinary shares on March 1, 2013.

The ASR commenced on February 27, 2013, and was terminated on August 29, 2013. Settlement was made entirely in the Company’s ordinary shares and was accounted for as an equity transaction under the guidelines specified under ASC 815 Derivatives and Hedging. On August 29, 2013, Goldman terminated the ASR and delivered to the Company an additional 705,062 ordinary shares. The total amount repurchased under the ASR was 4,053,276 ordinary shares at an average price of \$37.01.

In addition to the share repurchase program, the Company purchases shares offered from time to time by Appleby Services (Bermuda) Ltd. (the “Names’ Trustee”). On March 4, 2013, the Company entered into a share repurchase agreement with the Names’ Trustee for the purchase of 54,437 ordinary shares for a total purchase price of \$2.0 million. This share repurchase closed on March 21, 2013.

*Preference Shares Redemption.* During 2005 and 2006, the Company issued 4.6 million 5.625% Perpetual Preferred Income Equity Replacement Securities (“PIERS”). The PIERS were convertible at the Company’s option if, at any time on or after January 1, 2009, the closing sale price of the Company’s ordinary shares equalled or exceeded 130% of the then prevailing conversion price for 20 trading days during any consecutive 30-trading day period, as well as the last day of such 30-day period.

The PIERS were dilutive to the Company’s ordinary shares when the Company’s share price exceeded the prevailing conversion price and therefore, as the Company’s share price was generally above the 130% conversion price test, they were included in the Company’s fully diluted share count until the Company announced it would mandatorily redeem the PIERS.

On April 25, 2013, the Company announced it would mandatorily redeem all of its PIERS outstanding based on the terms of the PIERS. Each holder of a PIERS unit received \$50.00, equating to a total payment of \$230.0 million in cash plus a number of the Company’s ordinary shares based on the conversion rate calculated in accordance with the average trading price of the Company’s ordinary shares over a 20-trading day settlement period following the Company’s issuance of the press release announcing the mandatory conversion. The conversion rate was 1.7121 shares of the Company’s ordinary shares per \$50.00 liquidation preference of the PIERS equating to a total issuance of 1,835,860 ordinary shares. The Company settled the amount on May 30, 2013. In accordance with the terms of the PIERS, no further dividends were paid on the PIERS following the announcement of their mandatory redemption. Additionally, upon redemption of the PIERS, the \$7.1 million difference between the capital raised upon issuance of the PIERS, net of original issuance costs, and the final redemption of the PIERS in the amount of \$230.0 million was reclassified from additional paid-in capital to retained earnings.

*Preference Shares Issuance.* On May 2, 2013, the Company issued 11.0 million shares of 5.95% of Fixed-to-Floating Perpetual Non-Cumulative Preference Shares (the “5.95% Preference Shares”). Each preference shareholder will receive dividends on a non-cumulative basis only when declared by the Board of Directors of the Company initially at an annual fixed rate of 5.95% until July 1, 2023 at which time a floating rate, reset quarterly, of 3-month LIBOR plus 4.06% will commence per annum. The 5.95% Preference Shares have a liquidation preference of \$25.00 per share and net proceeds were \$270.4 million (comprising \$275.0 million of total liquidation preference less \$4.6 million of issue expenses). The Company used \$230.0 million of the net proceeds from this offering for settling the cash portion of the mandatory conversion of the PIERS.

The 5.95% Preference Shares rank equally with preference shares previously issued by the Company and have no fixed maturity date. The Company may redeem all or a portion of the 5.95% Preference Shares at a redemption price of \$25.00 per share on or after July 1, 2023. The Company has listed the 5.95% Preference Shares on the New York Stock Exchange under the symbol “AHLPRC.”

*Rights Agreement.* On April 17, 2014, the Board of Directors of the Company resolved to issue one preferred share purchase right (a “Right”) for each outstanding ordinary share, and adopted a shareholder rights plan, as set forth in the Rights Agreement dated as of April 17, 2014. Each Right will allow its holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preference Shares for \$160, once the Rights become exercisable. The Rights will not be exercisable until 10 business days after the public announcement that a person or group has acquired the beneficial ownership of 10% or more of the outstanding ordinary shares of the Company (or 15% in the case of passive institutional investors). The Rights may be redeemed at any time at the discretion of the Board of Directors of the Company. As of September 30, 2014, no Rights have been exercisable or exercised.

## 14. Share-Based Payments

The Company has issued options and other equity incentives under two arrangements: the employee incentive plans and the non-employee director plan. When options are exercised or other equity awards have vested, new shares are issued as the Company does not currently hold treasury shares.

*Employee and Non-Employee Director Awards.* Employee options and other awards were granted under the Aspen 2003 Share Incentive Plan, as amended (the “2003 Share Incentive Plan”), prior to April 24, 2013 and thereafter under the 2013 Share Incentive Plan (the “2013 Share Incentive Plan”). The total number of ordinary shares that may be issued under the 2013 Share Incentive Plan is 2,845,683 ordinary shares, which includes 595,683 ordinary shares available to grant under the 2003 Share Incentive Plan as of February 25, 2013. The number of ordinary shares that may be issued under the 2013 Share Incentive Plan is adjusted per the number of awards that may be forfeited under the 2003 Share Incentive Plan. The non-employee director awards are granted under the 2006 Stock Option Plan for Non-Employee Directors.

Stock options were 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 exercise 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 during the three and nine months ended September 30, 2014 (2013 — Nil and Nil) and Nil and 53,436 options, respectively, were exercised and issued in the three and nine months ended September 30, 2014 (2013 — 204,328 and 747,023 options). No charges against income were made in respect of employee options for the three and nine months ended September 30, 2014 (2013 — \$Nil and \$Nil).

Restricted share units (“RSUs”) granted to employees typically vest over a three-year period, based on continued service. Some of the RSU grants vest at year-end, while others vest on the anniversary of the date of grant or when the Compensation Committee of the Board of Directors agrees to deliver the RSUs. The fair value of the RSUs is based on the closing price on the date of the grant adjusted for illiquidity and is expensed through the income statement evenly over the vesting period. In the three and nine months ended September 30, 2014, the Company granted Nil and 259,640 RSUs to its employees, respectively (2013 — 8,571 and 307,441). Compensation costs charged against income in respect of employee RSUs for the three and nine months ended September 30, 2014 were \$1.9 million and \$7.7 million, respectively (2013 — \$2.4 million and \$7.0 million).

In the case of non-employee directors, generally one-twelfth of the RSUs vest on each one month anniversary of the date of grant, with 100% of the RSUs vesting on the first anniversary of the date of grant. On February 6, 2014 (with a grant date of February 10, 2014), the Board of Directors approved a total of 27,180 RSUs for the non-employee directors (February 11, 2013 — 25,533 and April 26, 2013 — 2,110) and 13,590 RSUs to the Chairman (February 11, 2013 — 14,188). Compensation costs charged against income in respect of non-employee director RSUs for the three and nine months ended September 30, 2014 were \$0.3 million and \$1.1 million, respectively (2013 — \$0.3 million and \$0.6 million).

The total fair value adjustment for all RSUs for the three and nine months ended September 30, 2014 was \$0.3 million and \$0.9 million respectively (2013 — \$0.1 million and \$0.3 million). The total tax credit recognized by the Company in relation to RSUs in the three and nine months ended September 30, 2014 was \$0.5 million and \$1.8 million, respectively (2013 — \$0.5 million and \$1.0 million).

*Performance Shares.* During the three and nine months ended September 30, 2014, the Company granted Nil and 315,389 performance shares, respectively (three and nine months ended September 30, 2013 — Nil and 250,066). The performance shares will be subject to a three-year vesting period with a separate annual diluted book value per share (“BVPS”) growth test for each year, adjusted to add back ordinary dividends and movements in AOCI to shareholders’ equity at the end of the relevant 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 diluted BVPS growth achieved in 2014 is:

- less than 5.2%, then the portion of the performance shares subject to the vesting conditions in such year will be forfeited (i.e., one-third of the initial grant);
- between 5.2% and 10.4%, then the percentage of the performance shares eligible for vesting in such year will be between 10% and 100% on a straight-line basis; or
- between 10.4% and 20.8%, then the percentage of the performance shares eligible for vesting in such year will be between 100% and 200% on a straight-line basis.

In calculating BVPS for 2014, the entire movement in AOCI will be excluded. Interest rate movements and credit spread movements in AOCI can be fairly significant and adversely impact growth in BVPS which management does not have any

control over. The Compensation Committee also agreed that it will review the impact of any capital management actions undertaken during 2014, including share repurchases and special dividends, and consider whether any further adjustments to growth in BVPS should be made in the context of such actions. The Compensation Committee also further agreed to exclude from the calculation of BVPS for 2014 the costs payable to third-party service providers resulting from the Company's response to the proposals received from Endurance Specialty Holdings Ltd. ("Endurance"). The Compensation Committee believes that it would not be appropriate for employee's performance-related compensation to be impacted by these costs.

The Compensation Committee will determine the vesting conditions for the 2015 and 2016 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 the shares eligible for vesting in 2015 and 2016 are greater than 100% for the portion of such year's grant and the average diluted BVPS growth 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 ordinary shares that are eligible for vesting in such year shall vest. Notwithstanding the foregoing, if in the judgment of the Compensation Committee the main reason for the BVPS metric in the earlier year falling below the minimum threshold is due to the impact of rising interest rates and bond yields, then the Compensation Committee may, in its discretion, disapply this limitation on 100% vesting.

The fair value of performance share awards is based on the value of the closing share price on the date of the grant adjusted for illiquidity less a deduction for expected dividends which would not accrue during the vesting period. Compensation costs charged against income in the three and nine months ended September 30, 2014 in respect of performance shares were \$0.3 million and \$4.5 million, respectively (2013 — \$1.4 million and \$4.2 million). The total tax recognized by the Company in relation to performance shares in the three and nine months ended September 30, 2014 was a tax credit of \$0.1 million and \$1.0 million, respectively (2013 — \$0.7 million and \$1.3 million).

*Phantom Shares.* On April 22, 2014, the Compensation Committee approved the grant of 154,512, phantom shares with a grant date of April 25, 2014 to its employees (February 6, 2013 — 152,541 with additional grants of 6,521 and 542 phantom shares made on April 8, 2013 and June 11, 2013, respectively.) The phantom shares are subject to a three-year vesting period with a separate annual diluted BVPS growth test for each year, in accordance with the test described above for the 2014 performance shares, with the difference being that any vested amount would be paid in cash in lieu of ordinary shares. As ordinary shares are not issued, these instruments have no dilutive effect.

The fair value of the phantom shares is based on the closing share price on the date of the grant adjusted for illiquidity, less estimated dividends payable over the vesting period. The fair value is expensed through the consolidated income statement evenly over the vesting period, but as the payment to beneficiaries will ultimately be in cash rather than ordinary shares, an adjustment is required each quarter to revalue the accumulated liability to the balance sheet date fair value. Compensation costs charged against income in the three and nine months ended September 30, 2014 in respect of phantom shares were \$1.2 million and \$3.6 million, respectively (2013 — a credit of \$1.6 million and a charge of \$0.0 million) with a fair value adjustment for the three and nine months ended September 30, 2014 of \$0.8 million and \$1.3 million, respectively (2013 — \$0.9 million and \$1.7 million, respectively). The total tax credit recognized by the Company in relation to phantom shares in the three and nine months ended September 30, 2014 was \$0.2 million and \$0.7 million, respectively (2013 — \$0.1 million and \$0.1 million, respectively).

*Employee Share Purchase Plans.* On April 30, 2008, the shareholders of the Company approved the Employee Share Purchase Plan, the 2008 Sharesave Scheme and the International Employee Share Purchase Plan (collectively, the "ESPP"), which are implemented by a series of consecutive offering periods as determined by the Board of Directors. In respect of the Employee Share Purchase Plan, 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, subject to a further one year holding period. In respect of the 2008 Sharesave Scheme, employees can save up to £250 per month over a three-year period (and effective April 6, 2014, £500 per month), 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 ESPP, 627 and 11,821 ordinary shares, respectively, were issued during the three and nine months ended September 30, 2014 (2013 — 1,985 and 16,339 shares). Compensation costs charged against income in the three and nine months ended September 30, 2014 in respect of the ESPP were \$0.1 million and \$0.2 million, respectively (2013 — \$0.1 million and \$0.2 million).

## 15. Intangible Assets

The following tables provide a summary of the Company's intangible assets for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
	Trade Mark	Insurance Licenses	Other	Total	Trade Mark	Insurance Licenses	Other	Total
	(\$ in millions)				(\$ in millions)			
<b>Intangible Assets</b>								
Beginning of the period	\$ 1.6	\$ 16.6	\$ —	\$ 18.2	\$ 1.6	\$ 16.6	\$ 0.5	\$ 18.7
Amortization	—	—	—	—	—	—	(0.1)	(0.1)
End of the period	\$ 1.6	\$ 16.6	\$ —	\$ 18.2	\$ 1.6	\$ 16.6	\$ 0.4	\$ 18.6
	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	Trade Mark	Insurance Licenses	Other	Total	Trade Mark	Insurance Licenses	Other	Total
	(\$ in millions)				(\$ in millions)			
<b>Intangible Assets</b>								
Beginning of the period	\$ 1.6	\$ 16.6	\$ 0.2	\$ 18.4	\$ 1.6	\$ 16.6	\$ 0.8	\$ 19.0
Amortization	—	—	(0.2)	(0.2)	—	—	(0.4)	(0.4)
End of the period	\$ 1.6	\$ 16.6	\$ —	\$ 18.2	\$ 1.6	\$ 16.6	\$ 0.4	\$ 18.6

*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 in the United Kingdom. The consideration paid was approximately \$1.6 million. As at September 30, 2014, the value of the license to use the Aspen trademark was \$1.6 million (December 31, 2013 — \$1.6 million). The trademark has an indefinite useful life and is tested for impairment annually or when events or changes in circumstances indicate that the asset might be impaired.

*Insurance Licenses.* The total value of the licenses as at September 30, 2014 was \$16.6 million (December 31, 2013 — \$16.6 million). This includes \$10.0 million of acquired licenses held by AAIC, \$4.5 million of acquired licenses held by Aspen Specialty and \$2.1 million of acquired licenses held by Aspen U.K. The insurance licenses are considered to have an indefinite life and are not being amortized. The licenses have an indefinite life and are tested for impairment annually or when events or changes in circumstances indicate that the asset might be impaired.

*Other.* In 2010, the Company purchased APJ Continuation Limited and its subsidiaries ("APJ") for an aggregate consideration of \$4.8 million. The directors of Aspen Holdings assessed the fair value of the net tangible and financial assets acquired at \$1.2 million. The \$3.6 million intangible asset represented the Company's 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). The asset was amortized over a five-year period and the value as at September 30, 2014 was \$Nil (December 31, 2013 — \$0.2 million).

## 16. Commitments and Contingent Liabilities

### (a) Restricted assets

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

The following table details the forms and value of Company's restricted assets as at September 30, 2014 and December 31, 2013:

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
	(\$ in millions, except percentages)	
<b>Regulatory trusts and deposits:</b>		
Affiliated transactions	\$ 741.4	\$ 685.8
Third party	2,146.1	2,236.4
Letters of credit / guarantees <sup>(1)</sup>	776.4	830.4
<b>Total restricted assets</b>	<u>\$ 3,663.9</u>	<u>\$ 3,752.6</u>
<b>Total as percent of cash and invested assets</b>	<u>42.8%</u>	<u>45.5%</u>

<sup>(1)</sup> As of September 30, 2014, the Company had pledged funds of \$749.4 million and £16.2 million (December 31, 2013 — \$803.7 million and £16.1 million) as collateral for the secured letters of credit.

*Funds at Lloyd's.* AUL operates at Lloyd's as the corporate member for Syndicate 4711. Lloyd's determines Syndicate 4711's required regulatory capital principally through the syndicate's annual business plan. Such capital, called Funds at Lloyd's, comprises cash and investments.

The amounts provided as Funds at Lloyd's will be drawn upon and become a liability of the Company in the event of Syndicate 4711 declaring a loss at a level that cannot be funded from other resources, or if Syndicate 4711 requires funds to cover a short term liquidity gap. The amount which the Company provides as Funds at Lloyd's is not available for distribution to the Company for the payment of dividends. Aspen Managing Agency Limited, the managing agent to Syndicate 4711, is also required by Lloyd's to maintain a minimum level of capital which as at September 30, 2014 was \$0.7 million (December 31, 2013 — \$0.7 million). This is not available for distribution by the Company for the payment of dividends.

*Letters of Credit Facility.* On June 30, 2014, Aspen Bermuda and Citibank Europe plc ("Citi Europe") replaced an existing letter of credit facility, dated July 30, 2012, in a maximum aggregate amount of up to \$950.0 million (the "LOC Facility") comprised of two maturity tranches (Tranche I with a limit of \$650.0 million and Tranche II with a limit of \$300.0 million) which expired on its own terms on June 30, 2014. The LOC Facility was replaced with a new letter of credit facility in a maximum aggregate amount of up to \$575.0 million (the "New LOC Facility"). Under the New LOC Facility, which will expire on June 30, 2016, Aspen Bermuda will pay to Citi Europe (a) a letter of credit fee based on the available amounts of each letter of credit and (b) a commitment fee, which varies based upon usage, on the unutilized portion of the New LOC Facility. Aspen Bermuda will also pay interest on the amount drawn by any beneficiary under a credit provided under the New LOC Facility at a rate per annum of LIBOR plus 1% (plus reserve asset costs, if any) from the date of drawing until the date of reimbursement by Aspen Bermuda. The New LOC Facility is used to secure obligations of Aspen Bermuda to its policyholders. In addition to the New LOC Facility, we also use regulatory trusts to secure our obligations to policyholders.

The terms of a Pledge Agreement between Aspen Bermuda and Citi Europe (pursuant to an Assignment Agreement dated October 11, 2006) dated January 17, 2006, as amended, were also amended on June 30, 2014 to change the types of securities or other assets that are acceptable as collateral under the New LOC Facility. All other agreements relating to Aspen Bermuda's LOC Facility, which now apply to the New LOC Facility with Citi Europe, as previously filed with the United States Securities and Exchange Commission, remain in full force and effect.

Aspen U.K. and Aspen Bermuda have a \$100.0 million secured letter of credit facility agreement with Barclays Bank PLC. As at September 30, 2014, the Company had \$12.3 million of outstanding collateralized letters of credit under this facility (December 31, 2013 — \$18.9 million).

*Interest Rate Swaps.* As at September 30, 2014, cash collateral with a fair value of \$23.4 million was held by the Company's counterparties to support the current valuation of the interest rate swaps (December 31, 2013 — \$34.3 million). For more information, please refer to Note 10 of these unaudited condensed consolidated financial statements.

## (b) Operating leases

Amounts outstanding under operating leases net of subleases as of September 30, 2014 were:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Later Years</u>	<u>Total</u>
	(\$ in millions)						
Operating Lease Obligations	\$ 1.8	\$ 13.6	\$ 9.7	\$ 8.5	\$ 7.2	\$ 20.3	\$ 61.1

**(c) Contingent liabilities**

In common with the rest of the insurance and reinsurance industry, the Company is also subject to litigation and arbitration in the ordinary course of business. The Company's 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 insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. Such legal proceedings are considered in connection with estimating the Company's Insurance Reserves — Loss and Loss Adjustment Expenses, as provided on the Company's consolidated balance sheet.

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 the Company's Operating Subsidiaries. In accordance with ASC 450-20-50-4b, for (a) reasonably possible losses for which no accrual is made because any of the conditions for accrual in ASC 450-20-25-2 are not met and (b) reasonably possible losses in excess of the amounts accrued pursuant to ASC 450-20-30-1, the Company will provide an estimate of the possible loss or range of possible loss or state that such an estimate cannot be made.

As of September 30, 2014, based on available information, it was the opinion of the Company's management that the probability of the ultimate resolution of pending or threatened litigation or arbitrations having a material effect on the Company's financial condition, results of operations or liquidity would be remote.

## 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, 2014 and 2013. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2013, as well as the discussions of critical accounting policies, contained in our Audited Consolidated Financial Statements in our 2013 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 report, including information with respect to our plans and strategy for our business and in "Outlook and Trends" below, includes forward-looking statements that involve risks and uncertainties. Please see the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in this report, the "Risk Factors" in Item 1A of our 2013 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.

### Overview

We are a Bermuda holding company and write insurance and reinsurance business through our wholly-owned subsidiaries in Bermuda, the U.K. and the U.S.

Some of the key results for the three and nine months ended September 30, 2014 were:

- Gross written premiums of \$652.5 million for the third quarter of 2014, an increase of 12.2% from the third quarter of 2013. Gross written premiums in reinsurance increased by 17.0% as a result of growth across all four lines of business particularly in our other property lines, while gross written premiums of insurance grew by 9.3% as a result of the continued strategic growth of our U.S. and international insurance teams;
- Net favorable development on prior year loss reserves of \$32.6 million for the third quarter of 2014 compared with \$33.6 million in the third quarter of 2013, which had a 5.3 percentage point impact on the combined ratio in the third quarter of 2014 and a 6.2 percentage point impact on the combined ratio in the third quarter of 2013;
- Combined ratio of 94.6% for the third quarter of 2014 compared with a combined ratio of 91.8% for the third quarter of 2013. There were \$17.1 million, or 2.8 combined ratio points, of pre-tax catastrophe losses net of reinsurance recoveries and reinstatement premiums in the third quarter of 2014 compared with \$14.2 million, or 2.6 percentage points, of pre-tax catastrophe losses net of reinsurance recoveries and reinstatement premiums in the third quarter of 2013;
- Realized and unrealized foreign exchange losses of \$21.2 million for the third quarter of 2014 compared with gains of \$2.4 million in the third quarter of 2013 predominantly due to the strengthening of the US Dollar during the third quarter of 2014;
- Realized and unrealized investment losses of \$0.2 million for the third quarter of 2014 compared with gains of \$17.7 million in the third quarter of 2013;
- Diluted net income per share of \$0.42 for the quarter ended September 30, 2014 compared with diluted net income per share of \$1.43<sup>(1)</sup> in the same quarter last year;
- Gross written premiums of \$2,287.3 million for the first nine months of 2014, an increase of 12.0% from the first nine months of 2013. Gross written premiums have increased in the reinsurance segment predominantly from increased catastrophe and pro rata business while the insurance segment has experienced growth across lines of business both internationally and in the U.S.;
- Combined ratio of 90.9% for the first nine months of 2014 compared with a combined ratio of 93.1% for the first nine months of 2013. There were \$49.8 million, or 2.8 percentage points, of catastrophe losses pre-tax net of reinsurance recoveries and reinstatement premiums in the first nine months of 2014 compared with \$72.9 million, or 4.6 percentage points, in the first nine months of 2013;
- Realized and unrealized foreign exchange losses of \$10.4 million for the first nine months of 2014 compared with losses of \$7.1 million for the first nine months of 2013;
- Realized and unrealized investment gains of \$44.7 million for the first nine months of 2014 compared with gains of \$26.3 million for the first nine months of 2013;

- Annualized net income return on average equity of 4.0% for the third quarter of 2014 compared with 14.8% for the third quarter of 2013 and annualized net income return on average equity of 12.0% for the first nine months of 2014 compared with 10.0% for the first nine months of 2013;
- Diluted book value per share <sup>(2)</sup> of \$44.60 as at September 30, 2014, up 9.0% from December 31, 2013; and

During the period we appointed Mr. Postlewhite, who was previously the Chief Risk Officer, as the Chief Executive Officer of Aspen Re, the Company's reinsurance business, and Mr. Thornton as the Chief Risk Officer who will also maintain his role as Head of Strategy.

We continue to execute on our strategies to expand the Aspen Capital Markets division while continuing to grow our insurance segment both in the United States and internationally. In our reinsurance segment we have been able to increase our catastrophe business on a gross basis while maintaining similar net exposures through third party collateralized reinsurance capacity arranged by our capital markets team. In the insurance segment, we increased gross written premiums by 16.2%, from \$1,084.6 million in the first nine months of 2013 to \$1,259.8 million in the first nine months of 2014.

Total shareholders' equity decreased by \$109.7 million to \$3,444.5 million for the three months ended September 30, 2014. The most significant movements were:

- the repurchase of 2,120,625 million ordinary shares for \$90.0 million through open market repurchases;
  - a \$14.9 million increase in retained earnings for the period including \$20.2 million of non-recurring corporate expenses associated with the cost of defending the unsolicited approach by Endurance, which was withdrawn on July 30, 2014; and
  - net unrealized losses on investments, net of taxes, of \$30.9 million.
- (1) Diluted net income per share for the quarter ended September 30, 2013 after deducting the \$7.1 million difference between the capital raised upon issuance of the PIERS, net of original issuance costs, and the final redemption of \$230.0 million.
- (2) Diluted book value per ordinary share is based on total shareholders' equity less preference shares (liquidation preference less issue expenses) and non-controlling interest, divided by the total number of issued and potentially dilutive ordinary shares at the end of the period.

Ordinary shareholders' equity as at September 30, 2014 and December 31, 2013 was:

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
	(\$ in millions, except for share amounts)	
Total shareholders' equity	\$ 3,444.5	\$ 3,299.6
Preference shares less issue expenses	(555.8)	(555.8)
Non-controlling interests	0.3	0.3
Net assets attributable to ordinary shareholders	<u>\$ 2,889.0</u>	<u>\$ 2,744.1</u>
Issued ordinary shares	63,349,858	65,546,976
Issued and potentially dilutive ordinary shares	64,783,243	67,089,572

## Outlook and Trends

Overall, the market has seen pressure on rates in reinsurance and insurance. Although the rate environment in reinsurance continues to be challenging, we recently capitalized on opportunities in pro rata as rates in that line are more closely aligned with the primary markets and under less pressure than other areas of the market. We also continued to see cedants reduce the number of partners with which they trade which has resulted in a larger line size for the prevailing reinsurers, including us. There are some areas in specialty reinsurance lines where rates are under pressure but we continue to find opportunities in other areas, such as developing markets in Latin America. We also continue to target growth in international markets, such as Asia Pacific and Latin America, where rates are not as pressured. Through the first nine months of 2014, our gross written premium has grown by approximately 20% in our emerging markets which now account for approximately 20% of our reinsurance segment. Both property catastrophe and casualty markets remain under pressure. In the property catastrophe market, the use of Aspen Capital Markets has allowed us to increase our offerings to our underwriting clients.

In insurance, price adequacy has remained relatively stable overall. Some areas are or have been under pressure such as energy physical damage and aviation, which have experienced meaningful rate pressures of approximately 14% and 7%, respectively. However, within aviation, hull-war rates increased by approximately 50-100% as a result of recent loss activity. We continue to allocate our capital to areas where pricing is holding steady or increasing slightly, such as certain parts of U.S. casualty and marine and energy liability where we are achieving price increases of approximately 9% year to date. In the

insurance market in the U.S., we were able to achieve flat rate renewals on average through the first nine months of 2014, which range from a rate decrease of approximately 5% in property to a rate increase of approximately 9% in primary casualty. In international insurance, we are targeting areas where the rate environment is not as pressured, such as data protection liability, credit and political risks and warranty and indemnity.

See “Cautionary Statement Regarding Forward-Looking Statements” included in this report.

### Application of Critical Accounting Policies

Our condensed consolidated financial statements are based on the selection of accounting policies and require management to make significant estimates and assumptions. 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 insurance reserves, 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 Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” in our 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission and the notes to the consolidated condensed unaudited financial statements contained in this report. We have discussed the application of these critical accounting policies with our Board of Directors and Audit Committee.

### Results of Operations for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

The following is a discussion and analysis of our consolidated results of operations for the three months ended September 30, 2014 and 2013, starting with a summary of our consolidated results and followed by a segmental analysis.

#### Total Income Statement

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

*Gross written premiums.* Gross written premiums increased by \$70.9 million, or 12.2%, in the third quarter of 2014 compared to the third quarter of 2013. Premiums from our reinsurance segment increased by 17.0% due to growth across all four lines of business but particularly our other property lines. The increase in specialty reinsurance premiums was due to a commutation in the comparative period and we continue to see lower production in specialty and credit and surety lines due to worsening conditions and increased competition. Our insurance segment’s premiums increased by 9.3% principally due to continued growth across our lines in the U.S. in addition to growth in our international financial and professional lines. The table below shows our gross written premiums for each segment for the three months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each segment:

<u>Business Segment</u>	<u>Three Months Ended</u>	<u>Three Months Ended</u>	<u>% increase</u>
	<u>September 30, 2014</u>	<u>September 30, 2013</u>	
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Reinsurance	\$ 256.9	\$ 219.5	17.0%
Insurance	395.6	362.1	9.3%
Total	<u>\$ 652.5</u>	<u>\$ 581.6</u>	12.2%

*Ceded reinsurance.* Total reinsurance ceded for the quarter of \$75.2 million increased by \$35.6 million from the third quarter of 2013 mainly as a result of the timing of ceded written premium recognized in our marine, aviation and energy, as well as our property and casualty insurance lines. For the year to date, ceded reinsurance costs are consistent with the prior year and have reduced as a percentage of gross written premiums due to our strategy to retain more risk and despite increasing our gross catastrophe reinsurance line sizes and ceding more risk to third-party investors. Although we have a strategy to retain more risk, our policy to grow Aspen Capital Markets has allowed us to increase our gross catastrophe reinsurance line sizes resulting in more risk ceded to third-party investors.

*Net premiums earned.* Net premiums earned in the third quarter of 2014 increased by 12.1% from the third quarter of 2013, consistent with the increase in gross written premiums in the period.

*Losses and loss adjustment expenses.* The loss ratio for the quarter of 56.1% increased by 2.8 percentage points compared to the third quarter of 2013 due to increased current year losses. There were \$17.1 million, or 2.8 combined ratio points, of pre-tax catastrophe losses net of reinsurance recoveries in the third quarter of 2014 compared with \$14.2 million, or 2.6 percentage points, of pre-tax catastrophe losses net of reinsurance recoveries and net of \$1.4 million of reinstatement premiums in the third

quarter of 2013. Catastrophe losses in the third quarter of 2014 included \$10.5 million for North American weather-related events and \$6.0 million for European storms.

In the reinsurance segment, the 0.6 percentage point reduction in the loss ratio from 47.8% in the third quarter of 2013 to 47.2% in the third quarter of 2014 was due predominantly to lower catastrophe losses. In the third quarter of 2013, we reported \$12.7 million (\$11.3 million net of reinstatement premiums) of catastrophe losses associated with floods in Toronto and Mexico and hailstorms in Germany while in the current quarter we recognized \$10.5 million of catastrophe losses associated with European storms and other weather related events in North America. In addition, there was a \$6.3 million decrease in prior year reserve releases from \$32.3 million in the third quarter of 2013 to \$26.0 million in the current period.

In the insurance segment, the loss ratio for the third quarter of 2014 increased by 5.5 percentage points from 58.2% in the third quarter of 2013 to 63.7% due to catastrophe losses increasing from \$2.9 million in the third quarter of 2013 to \$6.6 million in the third quarter of 2014, as a result of U.S. storms as well as a number of mid-sized losses totaling \$14.3 million affecting the property and casualty business lines and marine, aviation and energy business lines. Reserve releases were \$6.6 million for the third quarter compared to \$1.3 million for the comparative quarter last year.

We monitor the ratio of losses and LAE 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, 2014 and 2013 were as follows:

<b>Business Segment</b>	<b>Three Months Ended September 30, 2014</b>	<b>Three Months Ended September 30, 2013</b>
Reinsurance	47.2%	47.8%
Insurance	63.7%	58.2%
<b>Total Loss Ratio</b>	<b>56.1%</b>	<b>53.3%</b>

We also present, in the tables below, loss ratios including and excluding the impact from catastrophe losses to aid in the analysis of the underlying performance of our segments. For this purpose, we have defined the major third quarter 2014 catastrophe losses as losses associated with storms in Europe and North America. Catastrophe losses in the third quarter of 2013 related to hailstorms in Germany, floods in Toronto and Mexico and changes in loss estimates for the catastrophe events which occurred in the first half of 2013.

The underlying changes in loss ratios by segment are shown in the tables below for the three months ended September 30, 2014 and 2013. The total loss ratio represents the calendar year U.S. GAAP loss ratio. The current year adjustments represent the effect on the loss ratio of net claims and reinstatement premiums from catastrophe loss events.

<b>For the Three Months Ended September 30, 2014</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	47.2%	(3.8)%	43.4%
Insurance	63.7%	(2.0)%	61.7%
<b>Total</b>	<b>56.1%</b>	<b>(2.8)%</b>	<b>53.3%</b>

<b>For the Three Months Ended September 30, 2013</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	47.8%	(4.7)%	43.1%
Insurance	58.2%	(1.0)%	57.2%
<b>Total</b>	<b>53.3%</b>	<b>(2.7)%</b>	<b>50.6%</b>

Reserve releases in our reinsurance segment reduced from \$32.3 million in the third quarter of 2013 to \$26.0 million in the current period. Favorable reserve development in our specialty and other property reinsurance lines was the main contributor to the release. The release of \$32.3 million in the comparative quarter of 2013 was due to favorable development in our catastrophe and specialty reinsurance lines. The insurance segment had a \$6.6 million reserve release this quarter due primarily to favorable development in property and casualty and financial and professional business lines. The release of \$1.3 million in the comparative quarter of 2013 was due primarily to favorable development in property and casualty lines, but partially offset by strengthening in marine, aviation and energy lines.

*Expense ratio.* We monitor the ratio of expenses to net earned premium (the “expense ratio”) as a measure of the cost effectiveness of our amortization of deferred policy acquisition costs, general, administrative and corporate expenses. The table below splits the net expense ratio between the amortized deferred policy acquisition costs, general, administrative and corporate expenses and the effect of reinsurance for each of the three months ended September 30, 2014 and 2013:

<b>Ratios Based on Gross Earned Premium</b>	<b>Three Months Ended September 30, 2014</b>			<b>Three Months Ended September 30, 2013</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
Policy acquisition expense ratio	17.9%	15.7%	16.6%	18.3%	17.2%	17.7%
General and administrative expense ratio <sup>(1)</sup>	13.2	11.3	17.2	12.9	13.9	15.8
Gross expense ratio	31.1	27.0	33.8	31.2	31.1	33.5
Effect of reinsurance	1.2	6.0	4.7	1.5	7.4	5.0
Total net expense ratio	32.3%	33.0%	38.5%	32.7%	38.5%	38.5%

<sup>(1)</sup> The total group general and administrative expense ratio includes corporate expenses.

Policy acquisition expenses in the reinsurance segment have reduced when compared to the third quarter of 2013 as the prior quarter was impacted by a number of commutation adjustments which reduced earned premiums without any equivalent reduction in commissions. The reduction in the acquisition ratio in the insurance segment is principally due to increases in commissions on ceded reinsurance cessions.

General, administrative and corporate expenses increased by \$20.9 million to \$119.8 million from \$98.9 million in the third quarter of 2013. The increase includes \$20.2 million of non-recurring corporate expenses associated with the cost of defending the unsolicited approach by Endurance. Excluding the costs related to Endurance’s unsolicited approach, the general, administrative and corporate expense ratio reduced by 1.8 percentage points. Although expenses have increased as a result of growth in our business and increased U.S. dollar to Sterling exchange rates, the ratio has decreased as a result of the growth in net earned premium.

*Net investment income.* Net investment income for the quarter of \$48.0 million increased by 6.7% compared to \$45.0 million in the third quarter of 2013 due primarily to increases in fixed income interest and equity dividends.

*Change in fair value of derivatives.* In the three months ended September 30, 2014, we recorded a gain of \$1.3 million (2013 — loss of \$4.2 million) in respect of interest rate swaps due to declining interest rates and a loss of \$6.4 million (2013 — gain of \$10.8 million) in respect of foreign exchange contracts.

*Income before tax.* In the third quarter of 2014, income before tax was \$38.7 million (2013 — \$110.3 million) comprising the amounts set out in the table below:

	<b>Three Months Ended September 30, 2014</b>	<b>Three Months Ended September 30, 2013</b>
	(\$ in millions)	
Underwriting income	\$ 68.2	\$ 59.5
Corporate expenses	(35.8)	(14.8)
Other income	0.7	1.6
Net investment income	48.0	45.0
Change in fair value of derivatives	(5.1)	6.6
Change in fair value of loan notes issued by variable interest entities	(8.5)	—
Realized and unrealized investment gains	1.1	23.6
Realized and unrealized investment losses	(1.3)	(5.9)
Net realized and unrealized foreign exchange gains/(losses)	(21.2)	2.4
Interest expense	(7.4)	(7.7)
Income before tax	<u>\$ 38.7</u>	<u>\$ 110.3</u>

*Taxes.* Income tax expense for the three months ended September 30, 2014 was \$1.3 million (2013 — \$2.9 million) equating to an estimated effective tax rate of 3.4% (2013 — 2.6%). The effective tax rate represents an estimate of the tax rate which will apply to our pre-tax income for 2014 including adjustments to prior period estimates. The effective tax rate for the year is subject to revision in future periods if circumstances change and depends on the relative profitability of those parts of business underwritten in Bermuda (where the rate of tax on corporate profits is zero), the U.K. (where the corporate tax rate

decreased from 23% to 21%, effective April 1, 2014) and the U.S. (where the corporate tax rate is 34%). The increase in tax rate for the quarter is due predominantly to a greater proportion of group profits being derived from our U.K.-based operations relative to Bermuda.

*Net income after tax.* Net income after tax for the three months ended September 30, 2014 was \$37.4 million, equivalent to basic earnings per ordinary share of \$0.43 adjusted for the \$9.5 million preference share dividends. Fully diluted earnings per ordinary share were \$0.42. Net income after tax for the three months ended September 30, 2013 was \$107.4 million, equivalent to basic earnings per ordinary share of \$1.47 after deducting \$9.5 million in preference share dividends and \$7.1 million difference between the capital raised upon issuance and the final redemption of the PIERS. Fully diluted earnings per ordinary share were \$1.43.

*Investment gains/(losses).* Total realized and unrealized investment losses for the three months ended September 30, 2014 were \$0.2 million (2013 — gain of \$17.7 million) comprising the amounts set out in the table below:

	<u>Three Months Ended September 30, 2014</u>	<u>Three Months Ended September 30, 2013</u>
	(\$ in millions)	
Net realized gains/(losses):		
Fixed income securities — Available for sale	\$ 0.7	\$ 1.3
Fixed income securities — Trading	1.7	(0.5)
Equity securities — Available for sale	4.2	6.3
Equity securities — Trading	2.7	0.4
Net unrealized gains/(losses):		
Fixed income securities — Trading	(8.9)	0.9
Equity securities — Trading <sup>(1)</sup>	(1.1)	8.1
Cartesian gains	—	1.2
Catastrophe bonds — Trading	0.5	—
<b>Total realized and unrealized investment gains/(losses)</b>	<b>\$ (0.2)</b>	<b>\$ 17.7</b>

<sup>(1)</sup> Excludes \$16.3 million of unrealized foreign exchange losses (September 30, 2013 — \$6.3 million gain) which are included in net realized and unrealized foreign exchange gains/(losses) in the statement of operations.

*Other comprehensive income (loss).* Total other comprehensive losses were \$34.2 million (2013 — loss of \$0.4 million), net of taxes, for the three months ended September 30, 2014. This comprised a \$27.4 million loss in the net unrealized available for sale investment portfolio (2013 — \$4.4 million net unrealized loss largely attributable to the impact of rising interest rates on our bond portfolios), a \$3.5 million reclassification of net realized gains to net income (2013 — \$8.2 million reclassified net realized gains) and net unrealized losses in foreign currency translation of \$3.3 million (2013 — \$3.4 million net unrealized losses).

*Dividends.* The dividend on our ordinary shares increased from \$0.18 per ordinary share to \$0.20 per ordinary share effective April 23, 2014. Dividends paid on our ordinary and preference shares in the three months ended September 30, 2014 were \$13.1 million and \$9.5 million, respectively (2013 — \$12.2 million and \$9.5 million).

### Underwriting Results by Operating Segments — Third Quarter

We are organized into two business segments: Reinsurance and Insurance. The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance. The insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. As previously stated, we announced on November 8, 2013 that our property and casualty insurance lines of business would be integrated into a combined property and casualty line. This includes the programs business, previously reported separately.

We have provided additional disclosures for corporate and other (non-underwriting) income and expenses in Note 5 of our unaudited condensed consolidated financial statements included in this report. Corporate and other income includes net investment income, net realized and unrealized investment gains or losses, corporate expenses, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, none of which are allocated to the business segments.

Please refer to the tables in Note 5 in our unaudited condensed consolidated 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, 2014 and 2013. The contributions of each segment to gross written premiums in the three months ended September 30, 2014 and 2013 were as follows:

<u>Business Segment</u>	Gross Written Premiums	
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
	(% of total gross written premiums)	
Reinsurance	39.4%	37.7%
Insurance	60.6	62.3
Total	100.0%	100.0%

<u>Business Segment</u>	Gross Written Premiums	
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
	(\$ in millions)	
Reinsurance	\$ 256.9	\$ 219.5
Insurance	395.6	362.1
Total	\$ 652.5	\$ 581.6

### Reinsurance

Our reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata, facultative and engineering), casualty reinsurance (U.S. treaty, international treaty and global facultative) and specialty reinsurance (credit and surety, agriculture and other specialty). For a more detailed description of this segment, see Part I, Item 1, "Business — Business Segments — Reinsurance" in the Company's 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Gross written premiums.* Gross written premiums in our reinsurance segment increased by 17.0% compared to the three months ended September 30, 2013. The table below shows our gross written premiums for each line of business for the three months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each such line:

<u>Lines of Business</u>	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	% increase
	(\$ in millions)	(\$ in millions)	
Property catastrophe reinsurance	\$ 40.0	\$ 37.8	5.8%
Other property reinsurance	95.4	70.8	34.7%
Casualty reinsurance	70.7	68.6	3.1%
Specialty reinsurance	50.8	42.3	20.1%
Total	\$ 256.9	\$ 219.5	17.0%

The increase in property catastrophe premiums in the third quarter of 2014 is mainly attributable to the impact the Aspen Capital Markets division which has enabled us to leverage our underwriting expertise to increase line sizes and cede risk to third party investors. The increase in other property reinsurance is due to increases in our pro rata and risk excess lines while gross written premiums in casualty reinsurance increased due to increases in U.S. casualty lines. Specialty reinsurance increased due to a \$9.1 million commutation of a contract in the comparative period which reduced the gross written premiums in that period.

*Losses and loss adjustment expenses.* The loss ratio for the three months ended September 30, 2014 was 47.2% compared to 47.8% in the equivalent period in 2013. The reduction in the loss ratio is primarily attributable to lower attritional and catastrophe losses being more significant than a reduction in reserve releases. In the third quarter of 2014, we experienced \$10.5 million of natural catastrophe losses, consisting of \$6.0 million of losses associated with European storms and \$4.5 million of losses from other weather related events principally in North America. The comparable quarter of 2013 was adversely affected by \$12.7 million (\$11.3 million net reinstatement premiums) of losses associated with floods in Canada and Mexico and hailstorms in Germany. There was a \$6.3 million decrease in prior year reserve releases from \$32.3 million in the third quarter of 2013 to \$26.0 million in the current period. Reserve releases for the current quarter were mainly as a result of favorable development in the specialty and other property lines and reserve releases for the three months ended September 30, 2013 were mainly as a result of favorable development in the property catastrophe and specialty lines.

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.* Amortization of deferred policy acquisition costs was \$52.1 million for the three months ended September 30, 2014 equivalent to 18.6% of net premiums earned (2013 — \$49.1 million or 19.2% of net premiums earned). The acquisition expense ratio in the prior year was adversely affected by commutation adjustments in our specialty lines which reduced net earned premium without any equivalent reduction in commissions. The general and administrative expense ratio of 13.7% increased slightly from 13.5% for the same period in 2013 due predominantly to increased performance-related accruals.

## Insurance

Our insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. For a more detailed description of this segment, see Part I, Item 1 “Business — Business Segments — Insurance” in the Company’s 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Gross written premiums.* Gross written premiums in our insurance segment increased by 9.3% compared to the three months ended September 30, 2013. The table below shows our gross written premiums for each line of business for the three months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each line:

<u>Lines of Business</u>	<u>Three Months Ended</u> <u>September 30, 2014</u>	<u>Three Months Ended</u> <u>September 30, 2013</u>	<u>% increase/ (decrease)</u>
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Property and casualty insurance	\$ 200.9	\$ 164.6	22.1 %
Marine, aviation and energy insurance	88.2	112.9	(21.9)%
Financial and professional lines insurance	106.5	84.6	25.9 %
Total	<u>\$ 395.6</u>	<u>\$ 362.1</u>	9.3 %

The increase in gross written premiums in the period came from our U.S. and international property and casualty and financial and professional lines while the reduction in premiums in our marine, aviation and energy insurance lines came from our U.K. based marine, energy and construction unit where the account has been repositioned and in our aviation lines where market conditions are difficult.

*Losses and loss adjustment expenses.* The loss ratio for the quarter was 63.7% compared to 58.2% for the three months ended September 30, 2013, with the increase in the loss ratio due to an increased frequency of mid-sized losses in our U.K. based property and casualty lines and our marine, aviation and energy business lines totaling \$14.3 million. The loss ratio for the current quarter has also been adversely affected by \$6.6 million of catastrophe losses associated with U.S. weather-related events while the comparative period in 2013 experienced \$2.9 million of U.S. storm losses. There was a \$5.3 million increase in prior year reserve releases from \$1.3 million in the third quarter of 2013 to \$6.6 million in the current period.

The reserve releases in the current quarter were principally from our property and casualty and financial and professional lines offset by a modest strengthening in our marine, aviation and energy lines. The releases in the comparative quarter in 2013 were due primarily to favorable development in casualty, energy physical damage and aviation lines, but offset by strengthening in other lines within marine, aviation and energy.

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs for the three months ended September 30, 2014 reduced to 19.2% of net premiums earned compared to 21.3% in the third quarter of 2013 as a result of changes in business mix and increased commissions on ceded reinsurance cessions. Our general and administrative expenses decreased by \$3.9 million to \$45.6 million for the three months ended September 30, 2014 from \$49.5 million in the third quarter of 2013 due to lower performance-related accruals. The expense ratio reduced by 3.4 percentage points overall commensurate with the lower U.S. dollar expense and the increase in net earned premium.

## Results of Operations for the Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

The following is a discussion and analysis of our consolidated results of operations for the nine months ended September 30, 2014 and 2013, starting with a summary of our consolidated results and followed by a segmental analysis.

### Total Income Statement

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

*Gross written premiums.* Gross written premiums increased by \$245.0 million, or 12.0%, in the first nine months of 2014 compared to the same period in 2013. Premiums from our reinsurance segment increased by 7.3% reflecting growth in catastrophe and other property lines offset by planned reductions in casualty lines and challenging market conditions in some specialty lines. Our insurance segment's premiums increased by 16.2% principally due to growth from all our U.S. teams, our international property and casualty business lines and from international financial and professional lines. Marine, aviation and energy lines have reduced premium written due to repositioning of certain accounts and difficult market conditions. The table below shows our gross written premiums for each segment for the nine months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each segment:

<u>Business Segment</u>	<u>Nine Months Ended</u>	<u>Nine Months Ended</u>	<u>% increase</u>
	<u>September 30, 2014</u>	<u>September 30, 2013</u>	
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Reinsurance	\$ 1,027.5	\$ 957.7	7.3%
Insurance	1,259.8	1,084.6	16.2%
Total	<u>\$ 2,287.3</u>	<u>\$ 2,042.3</u>	12.0%

*Ceded reinsurance.* Total reinsurance ceded for the first nine months of 2014 of \$326.1 million increased by \$35.5 million from the first nine months of 2013. The ceded reinsurance premiums increased slightly as a percentage of gross written premiums from 14.2% in the first nine months of 2013 to 14.3% in the first nine months of 2014. Although we have a strategy to retain more risk, our policy to grow Aspen Capital Markets has allowed us to increase our gross catastrophe reinsurance line sizes resulting in more risk ceded to third-party investors.

*Net premiums earned.* Net premiums earned in the first nine months of 2014 increased by 12.1% from the first nine months of 2013 consistent with the increase in gross written premiums in the period.

*Losses and loss adjustment expenses.* The loss ratio for the first nine months of 2014 of 54.0% reduced by 1.8 percentage points compared to the first nine months of 2013 due to lower catastrophe and attritional current year losses.

In the reinsurance segment, the reduction in the loss ratio was predominantly due to a \$41.7 million reduction in catastrophe losses. In the first nine months of 2014, we recognized \$27.9 million of catastrophe losses associated with North American, European and Asian storms compared to \$69.6 million of losses associated with floods in Central Europe, Canada and India as well as the hailstorms in Germany and hailstorms and tornadoes in the U.S. for the same period in 2013.

In the insurance segment, the loss ratio for the first nine months of 2014 of 62.0% increased by 0.7 percentage points compared to the first nine months of 2013. In the first nine months of 2014, we recognized \$21.9 million of catastrophe losses from U.S. and U.K. storms compared to \$9.9 million of catastrophe losses related to the tornadoes and hailstorms in the U.S. in the first nine months of 2013. In 2013 we experienced a higher frequency of medium-sized fire-related losses in our property portfolio which had an adverse impact on the loss ratio. Prior year reserve releases increased by \$6.3 million from \$10.7 million in the first nine months of 2013 to \$17 million in the current period. The improvement in the loss ratio in 2014 excluding catastrophes and reserve releases is also the result of improved results from our U.S. operations, lower attritional losses and higher risk retentions.

We monitor 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 nine months ended September 30, 2014 and 2013 were as follows:

<b>Business Segment</b>	<b>Nine Months Ended September 30, 2014</b>	<b>Nine Months Ended September 30, 2013</b>
Reinsurance	44.5%	50.1%
Insurance	62.0%	61.3%
<b>Total Loss Ratio</b>	<b>54.0%</b>	<b>55.8%</b>

We also present, in the tables below, loss ratios including and excluding the impact from catastrophe losses to aid in the analysis of the underlying performance of our segments. For this purpose, we have defined the major 2014 catastrophe losses as losses associated with North American, European and Asian storms and flood losses in the U.K. We have defined major 2013 catastrophe losses as losses associated with hailstorms in Germany, floods in Central Europe, Canada, Mexico and India as well as tornadoes and hailstorms in the U.S.

The underlying changes in loss ratios by segment are shown in the tables below for the nine months ended September 30, 2014 and 2013. The total loss ratio represents the calendar year U.S. GAAP loss ratio. The current year adjustments represent the effect on the loss ratio of net claims and reinstatement premiums from catastrophe loss events.

<b>For the Nine Months Ended September 30, 2014</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	44.5%	(3.4)%	41.1%
Insurance	62.0%	(2.2)%	59.8%
<b>Total</b>	<b>54.0%</b>	<b>(2.8)%</b>	<b>51.2%</b>

<b>For the Nine Months Ended September 30, 2013</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	50.1%	(8.5)%	41.6%
Insurance	61.3%	(1.2)%	60.1%
<b>Total</b>	<b>55.8%</b>	<b>(4.8)%</b>	<b>51.0%</b>

Reserve releases in our reinsurance segment decreased from \$76.5 million in the first nine months of 2013 to \$75.6 million in the current period. The insurance segment had a \$10.7 million reserve release in the first nine months of 2013 compared to a \$17 million reserve release in the first nine months of 2014. Refer to "Reserves for Losses and Loss Adjustment Expenses" below for a description of the key elements giving rise to these reserve releases.

*Expense ratio.* We monitor the expense ratio as a measure of the cost effectiveness of our amortization of deferred policy acquisition costs and, general, administrative and corporate expenses. The table below splits the net expense ratio between the amortized deferred policy acquisition costs, general, administrative and corporate expenses and the effect of reinsurance for each of the nine months ended September 30, 2014 and 2013:

<b>Ratios Based on Gross Earned Premium</b>	<b>Nine Months Ended September 30, 2014</b>			<b>Nine Months Ended September 30, 2013</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
Policy acquisition expense ratio	17.7%	15.6%	16.5%	19.4%	16.1%	17.6%
General and administrative expense ratio <sup>(1)</sup>	12.5	12.1	15.9	11.7	13.4	14.9
Gross expense ratio	30.2	27.7	32.4	31.1	29.5	32.5
Effect of reinsurance	1.3	6.0	4.5	1.6	6.9	4.8
<b>Total net expense ratio</b>	<b>31.5%</b>	<b>33.7%</b>	<b>36.9%</b>	<b>32.7%</b>	<b>36.4%</b>	<b>37.3%</b>

<sup>(1)</sup> The total group general and administrative expense ratio includes corporate expenses.

Policy acquisition expenses have increased by \$14.1 million in the first nine months of 2014 due primarily to growth in written premiums. The growth in commissions payable did not result in an increase in the acquisition ratio as increased net

earned premiums which combined with changes in the business mix have resulted in a 1.4 percentage point reduction in the acquisition ratio compared to the first nine months of 2013.

General, administrative and corporate expenses increased by \$51.0 million for the first nine months of 2014 compared to the first nine months of 2013 due to \$28.5 million in non-recurring corporate expenses associated with the cost of defending the unsolicited approach by Endurance, increases in headcount associated with growth in our business, increased U.S. dollar to Sterling exchange rates and higher performance-related accruals.

*Net investment income.* Net investment income for the first nine months of 2014 was \$143.6 million, an increase of 3.2% compared to \$139.2 million in the first nine months of 2013 due primarily to increased fixed income interest and equity dividend income.

*Change in fair value of derivatives.* In the nine months ended September 30, 2014, we recorded a loss of \$4.1 million (2013 — gain of \$3.2 million) in respect of interest rate swaps due to declining interest rates and a loss of \$4.5 million (2013 — loss of \$3.7 million) in respect of foreign exchange contracts.

*Income before tax.* In the nine months ended September 30, 2014, income before tax was \$299.9 million (2013 — \$249.1 million) comprising the amounts set out in the table below:

	<b>Nine Months Ended September 30, 2014</b>	<b>Nine Months Ended September 30, 2013</b>
	(\$ in millions)	
Underwriting income	\$ 239.2	\$ 153.4
Corporate expenses	(74.6)	(42.0)
Other income	2.6	3.0
Net investment income	143.6	139.2
Change in fair value of derivatives	(8.6)	(0.5)
Change in fair value of loan notes issued by variable interest entities	(14.5)	—
Realized and unrealized investment gains	53.6	54.3
Realized and unrealized investment losses	(8.9)	(28.0)
Net realized and unrealized foreign exchange losses	(10.4)	(7.1)
Interest expense	(22.1)	(23.2)
<b>Income before tax</b>	<b>\$ 299.9</b>	<b>\$ 249.1</b>

*Taxes.* Income tax expense for the nine months ended September 30, 2014 was \$11.3 million (2013 — \$9.8 million) equating to an estimated effective tax rate of 3.8% (2013 — 3.9%). The effective tax rate represents an estimate of the tax rate which will apply to our pre-tax income for 2014 including adjustments to prior period estimates. The effective tax rate for the year is subject to revision in future periods if circumstances change and depends on the relative profitability of those parts of business underwritten in Bermuda (where the rate of tax on corporate profits is zero), the U.K. (where the corporate tax rate decreased from 23% to 21% effective April 1, 2014) and the U.S. (where the corporate tax rate is 34%).

*Net income after tax.* Net income after tax for the nine months ended September 30, 2014 was \$288.6 million, equivalent to basic earnings per share of \$3.99 adjusted for the \$28.4 million preference share dividends. Net income after tax for the nine months ended September 30, 2013 was \$239.3 million, equivalent to basic earnings per ordinary share of \$3.06, adjusted for the \$26.1 million preference share dividends and the \$7.1 million difference between the capital raised upon issuance of the PIERS and the final redemption of the PIERS. Fully diluted earnings per ordinary share were \$3.91 for the nine months ended September 30, 2014 compared to \$2.95 for the equivalent period in 2013.

*Investment gains.* Realized and unrealized investment gains for the nine months ended September 30, 2014 were \$44.7 million (2013 — \$26.3 million) comprising the amounts set out in the table below:

	<u>Nine Months Ended September 30, 2014</u>	<u>Nine Months Ended September 30, 2013</u>
	(\$ in millions)	
Net realized gains/(losses):		
Fixed income securities — Available for sale	\$ 2.6	\$ 8.9
Fixed income securities — Trading	4.2	4.7
Equity securities — Available for sale	9.7	13.8
Equity securities — Trading	4.2	0.5
Net unrealized gains/(losses):		
Fixed income securities — Trading	8.5	(18.9)
Equity securities — Trading <sup>(1)</sup>	15.7	16.2
Cartesian	—	1.1
Catastrophe bonds — Trading	0.5	—
OTTI	(0.7)	—
Total realized and unrealized investment gains	<u>\$ 44.7</u>	<u>\$ 26.3</u>

<sup>(1)</sup> Excludes \$14.1 million of unrealized foreign exchange losses (September 30, 2013 — \$1.7 million gain) which are included in net realized and unrealized foreign exchange gains/losses in the statement of operations.

*Other-than-temporary impairments.* A security is impaired when its fair value is below its amortized cost. We review our aggregate investment portfolio, including equities, on an individual security basis for potential OTTI each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The total OTTI charge for the nine months ended September 30, 2014 was \$0.7 million (2013 — \$Nil). For a more detailed description of OTTI, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Other comprehensive income.* Total other comprehensive income was \$33.6 million (2013 — loss of \$168.3 million), net of taxes, for the nine months ended September 30, 2014. This is comprised of a \$24.6 million gain in the net unrealized available for sale investment portfolio (2013 — \$127.3 million net unrealized loss) attributable to the impact of lower interest rates on our bond portfolios, less a \$5.7 million reclassification of net realized gains to net income (2013 — \$20.2 million reclassified net realized gains), net unrealized gains in foreign currency translation of \$14.7 million (2013 — \$21.0 million net unrealized losses) and an amortization of loss on derivative contracts of \$Nil (2013 — \$0.2 million).

*Dividends.* As announced on April 23, 2014, the dividend on our ordinary shares increased from \$0.18 per ordinary share to \$0.20 per ordinary share. Dividends paid on our ordinary and preference shares in the nine months ended September 30, 2014 were \$37.9 million and \$28.4 million, respectively (2013 — \$36.0 million and \$26.1 million).

## Underwriting Results by Operating Segments — Nine Months

Please refer to the tables in Note 5 in our unaudited condensed consolidated 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, 2014 and 2013. The contributions of each segment to gross written premiums in the nine months ended September 30, 2014 and 2013 were as follows:

<u>Business Segment</u>	Gross Written Premiums	
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(% of total gross written premiums)	
Reinsurance	44.9%	46.9%
Insurance	55.1	53.1
Total	100.0%	100.0%

<u>Business Segment</u>	Gross Written Premiums	
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(\$ in millions)	
Reinsurance	\$ 1,027.5	\$ 957.7
Insurance	1,259.8	1,084.6
Total	\$ 2,287.3	\$ 2,042.3

### Reinsurance

*Gross written premiums.* Gross written premiums in our reinsurance segment increased by 7.3% compared to the nine months ended September 30, 2013. The table below shows our gross written premiums for each line of business for the nine months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each such line:

<u>Lines of Business</u>	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	% increase/ (decrease)
	(\$ in millions)	(\$ in millions)	
Property catastrophe reinsurance	\$ 300.4	\$ 266.5	12.7 %
Other property reinsurance	287.6	241.3	19.2 %
Casualty reinsurance	244.6	257.3	(4.9)%
Specialty reinsurance	194.9	192.6	1.2 %
Total	\$ 1,027.5	\$ 957.7	7.3 %

The increase in property catastrophe premiums is mainly attributable to the impact of our Aspen Capital Markets division which has enabled us to increase line sizes. The increase in other property reinsurance is predominantly due to growth in our pro rata business across most regions. Gross written premiums in casualty reinsurance decreased primarily due to reductions in prior year premium estimates and planned reductions in some casualty lines.

*Losses and loss adjustment expenses.* The loss ratio for the nine months ended September 30, 2014 was 44.5% compared to 50.1% in the equivalent period in 2013. The reduction in the loss ratio is primarily attributable to lower current year catastrophe and attritional losses. In the first nine months of 2014, we experienced \$27.9 million of natural catastrophe losses comprising \$13.3 million of losses associated with North American weather-related events and \$14.6 million of other losses associated predominantly with European and Asian storms. The comparable period in 2013 experienced \$69.6 million of losses associated with floods in Central Europe, Canada and India as well as the hailstorms and tornadoes in the U.S. Reserve releases for the current period were mainly as a result of favorable development in the property catastrophe and specialty lines. 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.* Amortization of deferred policy acquisition costs were \$152.3 million for the nine months ended September 30, 2014 equivalent to 18.5% of net premiums earned (2013 — \$161.0 million or 20.4% of net premiums earned). The reduction in the acquisition expense ratio is largely due to the comparative period in 2013 including commutation adjustments which reduced earned premiums without any equivalent reduction in commissions. The general and administrative expense ratio of 13.0% increased from 12.3% for the same period in 2013 due predominantly to an increase in performance-related accruals.

## Insurance

*Gross written premiums.* Gross written premiums in our insurance segment for the nine months ended September 30, 2014 increased by 16.2% from \$1,084.6 million in the equivalent period in 2013. The table below shows our gross written premiums for each line of business for the nine months ended September 30, 2014 and 2013, and the percentage change in gross written premiums for each line:

<u>Lines of Business</u>	<u>Nine Months Ended</u> <u>September 30, 2014</u>	<u>Nine Months Ended</u> <u>September 30, 2013</u>	<u>% increase/</u> <u>(decrease)</u>
	(\$ in millions)	(\$ in millions)	
Property and casualty insurance	\$ 598.5	\$ 472.6	26.6 %
Marine, aviation and energy insurance	373.5	393.5	(5.1)%
Financial and professional lines insurance	287.8	218.5	31.7 %
Total	\$ 1,259.8	\$ 1,084.6	16.2 %

The increase in gross written premium is mainly due to continued higher contribution from all our U.S. teams, our international property and casualty team and our international financial and professional lines. Marine, aviation and energy lines have reduced premium written due to the repositioning of certain accounts and difficult market conditions.

*Losses and loss adjustment expenses.* The loss ratio of 62.0% for the first nine months of 2014 increased compared to 61.3% for the comparable period in 2013, due to higher catastrophe losses partially offset by lower attritional losses and higher reserve releases. The loss ratio for the first nine months of 2014 was adversely affected by \$21.9 million of catastrophe losses associated with U.S. and U.K. storms. Losses for the nine months ended September 30, 2013 included \$9.9 million of catastrophe losses related to the tornadoes and hailstorms in the U.S. in addition to a higher frequency of losses in our property and casualty lines of business. There has been a \$6.3 million increase in prior year reserve releases from \$10.7 million in the first nine months of 2013 to \$17.0 million in the current period.

The reserve releases in the nine-month period were principally from our property and casualty lines. The release in the comparative period in 2013 was due primarily from better than expected development from property and casualty, aviation and marine hull lines offsetting adverse development in other marine, aviation and energy lines of business.

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs for the nine months ended September 30, 2014 decreased to 19.0% of net premiums earned compared to 19.9% in the comparable period as a result of changes in business mix and increased commissions on ceded reinsurance cessions. Our general and administrative expenses in the first nine months of 2014 increased by \$8.6 million to \$142.6 million from \$134.0 million in the comparable period of 2013 due to growth in our U.S. business, increased U.S. dollar to Sterling exchange rates and higher performance-related accruals. The expense ratio decreased in the period as the increase in expenses was less significant than the increase in net earned premiums.

## Cash and investments

As at September 30, 2014 and December 31, 2013, total cash and investments, including accrued interest receivable, were \$8.6 billion and \$8.3 billion, respectively. The composition of our investment portfolio is summarized below:

	As at September 30, 2014		As at December 31, 2013	
	Estimated Fair Value	Percentage of Total Cash and Investments	Estimated Fair Value	Percentage of Total Cash and Investments
(\$ in millions except for percentages)				
Fixed income securities — available for sale				
U.S. government	\$ 973.9	11.3 %	\$ 1,020.4	12.4%
U.S. agency	201.9	2.3	269.1	3.2
Municipal	31.7	0.4	32.8	0.4
Corporate	2,278.4	26.5	2,069.4	24.9
Non-U.S. government-backed corporate	75.5	0.9	84.6	1.0
Foreign government	752.6	8.8	778.9	9.4
Asset-backed	143.9	1.7	122.3	1.4
Non-agency commercial mortgage-backed	51.5	0.6	62.6	0.8
Agency mortgage-backed	988.4	11.5	1,129.0	13.7
Total fixed income securities — available for sale	\$ 5,497.8	64.0 %	\$ 5,569.1	67.2%
Fixed income securities — trading				
U.S. government	16.5	0.2	22.0	0.3
U.S. agency	0.2	—	0.2	—
Municipal	1.1	—	1.1	—
Corporate	521.1	6.1	474.8	5.7
Foreign government	139.2	1.6	136.2	1.6
Asset-backed	15.2	0.2	12.8	0.1
Bank loans	80.8	0.9	69.1	0.8
Total fixed income securities — trading	\$ 774.1	9.0 %	\$ 716.2	8.5%
Total other investments	8.7	0.1	48.0	0.6
Total catastrophe bonds — trading	32.2	0.4	5.8	0.1
Total equity securities — available for sale	125.9	1.4	149.5	1.8
Total equity securities — trading	521.1	6.0	310.9	3.7
Total short-term investments — available for sale	307.2	3.6	160.3	1.9
Total short-term investments — trading	7.0	0.1	—	—
Total cash and cash equivalents	1,289.1	15.0	1,293.6	15.6
Total net (payable)/receivable for securities (purchased)/sold	(9.7)	(0.1)	1.1	—
Total accrued interest receivable	45.7	0.5	47.9	0.6
Total cash and investments	\$ 8,599.1	100.0 %	\$ 8,302.4	100.0%

*Fixed Income Securities.* As at September 30, 2014, the average credit quality of our fixed income portfolio was “AA-,” with 88.1% of the portfolio rated “A” or higher. As at December 31, 2013, the average credit quality of our fixed income portfolio was “AA-,” with 88.3% of the portfolio rated “A” or higher. Where the credit ratings were split between the two main rating agencies, S&P and Moody’s, the lowest rating was used. Our fixed income portfolio duration as at September 30, 2014 was 3.51 years compared to 3.50 years as at December 31, 2013 excluding the impact of the interest rate swaps, and 3.26 years including the impact of interest rate swaps (December 31, 2013 — 3.17 years).

As at September 30, 2014, we invested \$80.8 million in a U.S. Dollar bank loans trading portfolio. In May 2014 we sold our BB High Yield portfolio for net proceeds of \$25.1 million. In August 2013, we invested in a \$200.0 million BBB rated EMD portfolio, which is reported above in corporate and foreign government securities.

*Mortgage-Backed Securities.* The following table summarizes the fair value of our mortgage-backed securities by rating and class as at September 30, 2014:

	AAA	AA and Below	Total
	(\$ in millions)		
Agency	\$ —	\$ 988.4	\$ 988.4
Non-agency commercial	26.6	24.9	51.5
<b>Total mortgage-backed securities</b>	<b>\$ 26.6</b>	<b>\$ 1,013.3</b>	<b>\$ 1,039.9</b>

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

*Equity Securities.* Equity securities are comprised of U.S. and foreign equity securities and are classified as available for sale or trading. In 2014, we increased investment in our equity trading portfolio by \$160.0 million of which \$80.0 million took place in the third quarter of 2014. The total investment return from the available for sale and trading equity portfolios for the three and nine months ended September 30, 2014 and 2013 is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
<b>Available for Sale Equity Portfolio</b>				
Dividend income	\$ 1.0	\$ 3.0	\$ 3.5	\$ 4.7
Realized investment gains	4.2	9.1	9.7	13.8
Change in net unrealized gains/(losses), gross of tax	(4.5)	(20.4)	(2.3)	9.4
Realized foreign exchange gains/(losses)	(0.5)	0.2	(0.4)	(1.4)
Unrealized foreign exchange gains/(losses)	(3.3)	3.3	(2.9)	0.6
Total investment return/(loss) from the available for sale equity portfolio	<u>\$ (3.1)</u>	<u>\$ (4.8)</u>	<u>\$ 7.6</u>	<u>\$ 27.1</u>

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
<b>Trading Equity Portfolio</b>				
Dividend income	\$ 3.5	\$ 2.1	\$ 10.5	\$ 5.5
Realized investment gains	2.7	4.5	4.2	0.5
Change in net unrealized gains/(losses), gross of tax	(1.1)	(5.8)	15.7	16.2
Realized foreign exchange gains/(losses)	0.3	—	0.3	(0.4)
Unrealized foreign exchange gains/(losses)	(16.3)	(0.4)	(14.1)	1.7
Total investment return/(loss) from the trading equity portfolio	<u>\$ (10.9)</u>	<u>\$ 0.4</u>	<u>\$ 16.6</u>	<u>\$ 23.5</u>

*Interest rate swaps.* As at September 30, 2014, our interest rate swaps program was a notional \$981.2 million down from \$1.0 billion at June 30, 2014, as \$18.8 million of swaps expired on August 2, 2014. Our interest rate swaps program continues to partially mitigate the negative impact of rising interest rates on the market value of our fixed income portfolio. During the quarter, our interest rate swap position was up \$1.3 million which consisted of a \$7.5 million mark to market gain less \$6.2 million of net interest payments. As at September 30, 2014, our interest-rate swap position reduced the duration of the fixed-income portfolio from 3.51 years to 3.26 years and the duration of the aggregate portfolio from 2.82 years to 2.62 years.

*European Fixed Income and Equity Exposures.* As at September 30, 2014, we had \$1,146.6 million, or 13.2% of our total cash and investments, invested in securities issued by European issuers, including the U.K. Our European exposures consisted of sovereigns, agencies, government guaranteed bonds, covered bonds, corporate bonds and equities. We have no exposure to the sovereign debt of Greece, Ireland, Italy, Portugal or Spain (“GIIPS”), and *de minimis* holdings of Spanish corporate bonds and Italian equities.

We manage our European fixed income exposures by proactively adapting our investment guidelines to our views on the Eurozone. We continue to prohibit purchases of GIIPS sovereign (including Belgium) and guaranteed debt, peripheral European bank debt, corporate bonds issued by companies domiciled in GIIPS countries. In May 2014, we amended our

restrictions on purchases of bonds issued by U.K and non-peripheral European corporate financial issuers to allow the purchase of those issued by select issuers.

The tables below summarize our European holdings by country (Eurozone and non-Eurozone), rating and sector as at September 30, 2014. Equity investments included in the table below are not rated (“NR”). Where the credit ratings were split between the two main rating agencies, S&P and Moody’s, the lowest rating was used.

As at September 30, 2014 by Ratings										
Country	AAA	AA	A	BBB	BB	NR	Market Value	Market Value %		
(\$ in millions except percentages)										
Austria	\$ —	\$ 16.2	\$ —	\$ —	\$ —	\$ —	\$ 16.2	1.4%		
Belgium	—	—	29.2	—	—	12.5	41.7	3.6		
Denmark	2.6	—	—	—	—	7.1	9.7	0.9		
Finland	20.6	—	—	—	—	6.3	26.9	2.3		
France	—	39.7	28.9	3.0	—	42.3	113.9	9.9		
Germany	57.8	21.0	56.4	2.3	—	11.4	148.9	13.0		
Ireland	—	—	—	—	1.0	—	1.0	0.1		
Italy	—	—	—	—	—	9.1	9.1	0.8		
Luxembourg	—	—	—	0.3	1.0	—	1.3	0.1		
Netherlands	—	60.4	8.4	1.2	1.5	0.3	71.8	6.3		
Norway	7.0	13.6	—	—	—	—	20.6	1.8		
Spain	—	—	—	1.5	—	—	1.5	0.1		
Sweden	3.0	21.7	—	1.0	—	22.0	47.7	4.2		
Switzerland	11.8	43.5	52.7	8.5	—	70.4	186.9	16.3		
United Kingdom	16.4	223.7	86.4	37.3	4.4	81.2	449.4	39.2		
Total European Exposures	\$ 119.2	\$ 439.8	\$ 262.0	\$ 55.1	\$ 7.9	\$ 262.6	\$ 1,146.6	100.0%		

As at September 30, 2014 by Sectors												
Country	Sovereign	ABS	Government Guaranteed Bonds	Agency	Local Government	Corporate Financial Issuers	Corporate Non-Financial Issuers	Covered Bonds	Equity	Bank Loans	Market Value	Unrealized Pre-tax Gain/Loss
(\$ in millions except percentages)												
Austria	\$ 6.8	\$ —	\$ 9.4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16.2	\$ 0.1
Belgium	—	—	—	—	—	—	29.2	—	12.5	—	41.7	3.2
Denmark	—	—	—	—	2.6	—	—	—	7.1	—	9.7	1.0
Finland	11.6	—	—	—	9.0	—	—	—	6.3	—	26.9	1.3
France	3.7	—	8.8	24.8	—	13.1	21.2	—	42.3	—	113.9	9.2
Germany	9.8	—	36.6	10.5	19.7	—	60.9	—	11.4	—	148.9	3.5
Ireland	—	—	—	—	—	—	—	—	—	1.0	1.0	—
Italy	—	—	—	—	—	—	—	—	9.1	—	9.1	0.5
Luxembourg	—	—	—	—	—	—	0.3	—	—	1.0	1.3	—
Netherlands	11.0	—	—	29.3	—	2.8	26.8	—	0.3	1.5	71.7	1.2
Norway	—	—	—	20.7	—	—	—	—	—	—	20.7	1.0
Spain	—	—	—	—	—	—	1.5	—	—	—	1.5	—
Sweden	—	—	—	10.1	3.0	12.6	—	—	22.0	—	47.7	5.2
Switzerland	8.0	—	—	—	—	34.3	70.4	3.8	70.4	—	186.9	17.6
United Kingdom	212.0	1.3	6.7	—	—	12.8	117.1	13.8	81.3	4.4	449.4	8.1
Total European Exposures	\$ 262.9	\$ 1.3	\$ 61.5	\$ 95.4	\$ 34.3	\$ 75.6	\$ 327.4	\$ 17.6	\$ 262.7	\$ 7.9	\$ 1,146.6	\$ 51.9

## Reserves for Losses and Loss Adjustment Expenses

As at September 30, 2014, we had total net loss and loss adjustment expense reserves of \$4,402.6 million (December 31, 2013 — \$4,346.2 million). This amount represented our best estimate of the ultimate liability for payment of losses and loss adjustment expenses. The following tables analyze gross and net loss and loss adjustment expense reserves by segment as at September 30, 2014 and December 31, 2013, respectively:

<u>Business Segment</u>	As at September 30, 2014		
	Gross	Reinsurance Recoverable	Net
	(\$ in millions)		
Reinsurance	\$ 2,593.8	\$ (39.6)	\$ 2,554.2
Insurance	2,193.5	(345.1)	1,848.4
Total losses and loss expense reserves	\$ 4,787.3	\$ (384.7)	\$ 4,402.6

<u>Business Segment</u>	As at December 31, 2013		
	Gross	Reinsurance Recoverable	Net
	(\$ in millions)		
Reinsurance	\$ 2,707.0	\$ (60.2)	\$ 2,646.8
Insurance	1,971.9	(272.5)	1,699.4
Total losses and loss expense reserves	\$ 4,678.9	\$ (332.7)	\$ 4,346.2

For the nine months ended September 30, 2014, there was a reduction of our estimate of the ultimate net claims to be paid in respect of prior accident years of \$92.6 million. An analysis of this reduction by business segment is as follows for each of the three and nine months ended September 30, 2014 and 2013:

<u>Business Segment</u>	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(\$ in millions)		(\$ in millions)	
Reinsurance	\$ 26.0	\$ 32.3	\$ 75.6	\$ 76.5
Insurance	6.6	1.3	17.0	10.7
Total losses and loss expense reserves reductions	\$ 32.6	\$ 33.6	\$ 92.6	\$ 87.2

The key elements which gave rise to the net positive development during the three months ended September 30, 2014 were as follows:

*Reinsurance.* Net reserve releases were \$26.0 million in the current quarter. The largest releases in the quarter were \$15.6 million from specialty lines due to a reduction in reserves for credit and surety and marine lines and an \$8.0 million reduction in reserves for other property lines due to better than expected development.

*Insurance.* Net reserve releases of \$6.6 million in the current quarter were attributable to the majority of our business lines with the most significant releases coming from our property and casualty business and our financial and professional lines. These releases were partially offset by a \$3.5 million net strengthening in the marine, aviation and energy business lines.

The key elements which gave rise to the net positive development during the nine months ended September 30, 2014 were as follows:

*Reinsurance.* Net reserve releases were \$75.6 million in the nine months ended September 30, 2014. The largest releases were \$19.1 million from catastrophe lines due primarily to a reduction in reserving margins held against 2012 and prior catastrophe events and better than planned experience; \$37.8 million from specialty reinsurance due to a combination of a reduction in credit and surety estimates, a reduction in 2011 prior claim estimates, mainly from short-tail lines, and the final settlement of a large contract; and an \$8.8 million reduction in reserves for other property lines and \$10.4 million reduction from casualty reinsurance lines due to favorable development.

*Insurance.* Net reserve releases of \$17.0 million in the nine months ended September 30, 2014 were mainly attributable to our property and casualty lines as well as a release in the marine, aviation and energy line. These releases were partially offset by a \$12.7 million net strengthening in the marine, aviation and energy business lines, although this strengthening has been mitigated by the receipt of loss-related additional premiums.

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 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 Item 7, “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 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

## Capital Management

The following table shows our capital structure as at September 30, 2014 compared to December 31, 2013:

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
	(\$ in millions)	
Share capital, additional paid-in capital, retained income and accumulated other comprehensive income attributable to ordinary shareholders	\$ 2,888.7	\$ 2,744.0
Preference shares (liquidation preferences net of issue costs)	555.8	555.8
Long-term debt	549.1	549.0
Loan notes issued by variable interest entities <sup>(1)</sup>	64.5	50.0
<b>Total capital</b>	<b>\$ 4,058.1</b>	<b>\$ 3,898.8</b>

(1) We do not consider the loan notes issued by VIE's to be part of our permanent capital as the noteholders have no recourse to the other assets of the Company.

As at September 30, 2014, total shareholders’ equity was \$3,444.5 million compared to \$3,299.6 million as at December 31, 2013. Our total shareholders’ equity as at September 30, 2014 includes three classes of preference shares with a total value as measured by their respective liquidation preferences of \$555.8 million net of share issuance costs (December 31, 2013 — \$555.8 million).

On April 24, 2013, we announced a 5.9% increase in our normal quarterly dividend to our ordinary shareholders from \$0.17 per share to \$0.18 per ordinary share, and a further 11.1% increase to \$0.20 per ordinary share was declared on April 23, 2014.

We acquired and cancelled 2,120,625 and 2,891,130 ordinary shares in the three and nine months ended September 30, 2014, respectively. The total consideration paid for the three and nine months ended September 30, 2014 was \$90.0 million and \$120.9 million, respectively, with the average price for the three and nine months ended September 30, 2014 being \$42.46 and \$41.82, respectively. As at September 30, 2014, we had \$103.2 million remaining under our current share repurchase authorization of \$500.0 million granted on February 7, 2013.

The amount outstanding under our senior notes, as at September 30, 2014, less amortization of expenses was \$549.1 million (December 31, 2013 — \$549.0 million). In addition to the senior debt issued by Aspen Holdings, we have also reported a liability of \$64.5 million associated with the loan notes issued by Silverton in December 2013 (December 31, 2013 — \$50.0 million). Management monitors the ratio of debt to total capital, with total capital being defined as shareholders’ equity plus outstanding debt. As at September 30, 2014, this ratio was 15.1% (December 31, 2013 — 15.4%). 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 28.8% as at September 30, 2014 (December 31, 2013 — 29.6%).

*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 \$3,444.5 million as at September 30, 2014 (December 31, 2013 — \$3,299.6 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 of 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, 2014, Aspen Holdings held \$144.6 million of cash and cash equivalents (December 31, 2013 — \$94.2 million) with the increase due to the receipt of dividend income from subsidiary companies less a total of \$120.9 million of ordinary share repurchases in the nine months ended September 30, 2014. Management considers the current cash and cash equivalents, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities, to be sufficient to appropriately satisfy the liquidity requirements of Aspen Holdings. Aspen Holdings' liquidity depends on dividends, capital distributions and interest payments from our Operating Subsidiaries. Aspen Holdings has recourse to the credit facility described under "Letter of Credit Facilities" below.

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. On October 21, 2013, and in line with usual market practice for regulated institutions, the Prudential Regulation Authority (the "PRA"), the regulatory agency which oversees the prudential regulation of insurance companies in the U.K. such as Aspen U.K., requested that it be afforded the opportunity to provide a prior "non-objection" to all future dividend payments made by Aspen U.K. For a further 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 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. For a more detailed discussion of our Operating Subsidiaries' ability to pay dividends, see Note 15 of the "Notes to the Audited Consolidated Financial Statements" in our 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

*Operating Subsidiaries.* As at September 30, 2014, the Operating Subsidiaries held \$1,262.1 million (December 31, 2013 — \$1,150.2 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 the 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, 2014 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.

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 in respect of these obligations and undertakings as at September 30, 2014 and December 31, 2013:

	<u>As at September 30, 2014</u>	<u>As at December 31, 2013</u>
	(\$ in millions, except percentages)	
Regulatory trusts and deposits:		
Affiliated transactions	\$ 741.4	\$ 685.8
Third party	2,146.1	2,236.4
Letters of credit / guarantees	776.4	830.4
Total restricted assets	<u>\$ 3,663.9</u>	<u>\$ 3,752.6</u>
Total as percent of cash and invested assets	<u>42.8%</u>	<u>45.5%</u>

For more information on these arrangements, see Note 19(a) of the "Notes to the Audited Consolidated Financial Statements" in our 2013 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, 2014.* Total net cash flow from operations for the nine months ended September 30, 2014 was \$476.3 million, an increase of \$43.3 million from the comparative period in 2013. The increase is mainly attributable to reduced claim payments made in the first nine months of 2014 in respect of 2013 losses compared to claim payments made in the first nine months of 2013 in respect of 2012 losses. For the nine months ended September 30, 2014, our cash flow from operations provided us with sufficient liquidity to meet our operating requirements.

*Letter of Credit Facilities.* On June 12, 2013, we and certain of our direct and indirect subsidiaries (collectively, the “Borrowers”) entered into an amended and restated credit agreement (the “credit agreement”) with various lenders and Barclays Bank PLC, as administrative agent, which amends and restates the credit agreement dated as of July 30, 2010 among us, certain of our subsidiaries, various lenders and Barclays Bank PLC, as administrative agent. The credit facility will be used primarily for letters of credit in connection with our insurance and reinsurance businesses to finance our working capital needs and those of our subsidiaries and for other general corporate purposes. Initial availability under the credit facility is \$200.0 million and we have the option (subject to obtaining commitments from acceptable lenders) to increase the facility by up to \$100.0 million. The facility will expire on June 12, 2017. As of September 30, 2014, no borrowings were outstanding under the credit facility. 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.

The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers under the Credit Agreement are based upon the credit ratings for the Company’s long-term unsecured senior debt by S&P and Moody’s. In addition, the fees for a letter of credit vary based upon whether the applicable Borrower has provided collateral (in the form of cash or qualifying debt securities) to secure its reimbursement obligations with respect to such letter of credit.

Under the credit facility, we must not permit (a) consolidated tangible net worth to be less than approximately \$2,428.6 million plus 50% of consolidated net income and 50% of aggregate net cash proceeds from the issuance by the Company of its capital stock, in each case after January 1, 2013, (b) the ratio of our total consolidated debt to the sum of such debt plus our consolidated tangible net worth to exceed 35% or (c) any material insurance subsidiary to have a financial strength rating of less than B++ from A.M. Best. In addition, the credit facility contains 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: incur indebtedness; 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; 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. In addition, the credit facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, bankruptcy or insolvency proceedings, change of control and cross-default to other debt agreements. Our credit facility also contains customary provisions in respect of successor companies resulting from mergers and acquisitions assuming obligations thereunder.

On June 30, 2014, Aspen Bermuda and Citi Europe replaced an existing letter of credit facility, dated July 30, 2012, in a maximum aggregate amount of up to \$950.0 million (the “LOC Facility”) comprised of two maturity tranches (Tranche I with a limit of \$650.0 million and Tranche II with a limit of \$300.0 million) which expired on its own terms on June 30, 2014. The LOC Facility was replaced with a new letter of credit facility in a maximum aggregate amount of up to \$575.0 million (the “New LOC Facility”). Under the New LOC Facility, which will expire on June 30, 2016, Aspen Bermuda will pay to Citi Europe (a) a letter of credit fee based on the available amounts of each letter of credit and (b) a commitment fee, which varies based upon usage, on the unutilized portion of the New LOC Facility. Aspen Bermuda will also pay interest on the amount drawn by any beneficiary under the New LOC Facility at a rate per annum of LIBOR plus 1% (plus reserve asset costs, if any) from the date of drawing until the date of reimbursement by Aspen Bermuda. The New LOC Facility is used to secure obligations of Aspen Bermuda to its policyholders. In addition to the New LOC Facility, we also use regulatory trusts to secure our obligations to policyholders.

The terms of a Pledge Agreement between Aspen Bermuda and Citi Europe (pursuant to an Assignment Agreement dated October 11, 2006) dated January 17, 2006, as amended, were also amended on June 30, 2014 to change the types of securities or other assets that are acceptable as collateral under the New LOC Facility. All other agreements relating to Aspen Bermuda’s LOC Facility, which now apply to the New LOC Facility with Citi Europe, as previously filed with the United States Securities and Exchange Commission, remain in full force and effect. As at September 30, 2014, we had \$437.7 million of outstanding collateralized letters of credit under the New LOC Facility (December 31, 2013 — \$516.8 million under the LOC Facility).

In addition, Aspen U.K. and Aspen Bermuda have a \$100.0 million secured letter of credit facility agreement with Barclays Bank PLC. As at September 30, 2014, we had \$12.3 million of outstanding collateralized letters of credit under this facility (December 31, 2013 — \$18.9 million).

## Contractual Obligations and Commitments

The following table summarizes our contractual obligations under long-term debt, operating leases (net of subleases) and reserves relating to insurance and reinsurance contracts as at September 30, 2014:

	2014	2015	2016	2017	2018	Later Years	Total
	(\$ in millions)						
Operating Lease Obligations	\$ 1.8	\$ 13.6	\$ 9.7	\$ 8.5	\$ 7.2	\$ 20.3	\$ 61.1
Long-Term Debt Obligations <sup>(1)</sup>	—	—	—	—	—	550.0	550.0
Reserves for losses and LAE <sup>(2)</sup>	412.6	1,266.2	849.9	594.6	421.4	1,243.4	4,788.1
Total	<u>\$ 414.4</u>	<u>\$ 1,279.8</u>	<u>\$ 859.6</u>	<u>\$ 603.1</u>	<u>\$ 428.6</u>	<u>\$ 1,813.7</u>	<u>\$ 5,399.2</u>

<sup>(1)</sup> The long-term debt obligations disclosed above do not include the \$32.3 million annual interest payments on our outstanding senior notes or dividends payable to holders of our preference shares or the loan notes issued by Silverton in the amount of \$50.0 million.

<sup>(2)</sup> 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 relatively short time in which we have operated (relevant in particular to longer-tail lines), 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 2013 Annual Report on Form 10-K under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Reserves for Losses and Loss Expenses” filed with the United States Securities and Exchange Commission.

Further information on operating leases is given in Item 2, “Properties” in our 2013 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 10 to our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2014 included 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. 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. As at September 30, 2014, we consider that although inflation is currently low, in the medium-term there is a risk that inflation, interest rates and bond yields may rise, resulting in a decrease in the market value of certain of our fixed interest investments.

## Cautionary Statement Regarding Forward-Looking Statements

This report 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 (the “Exchange Act”), 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,” “assume,” “objective,” “target,” “could,” “would,” “should,” “plan,” “estimate,” “project,” “outlook,” “trends,” “seek,” “will,” “may,” “aim,” “likely,” “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 2013 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission and other cautionary statements made in this report, as well as the factors set forth below, should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report.

All forward-looking statements rely on a number of assumptions, estimates and data concerning future results and events and are subject to a number of uncertainties and other factors, many of which are outside our control that could cause actual results to differ materially from such statements.

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, those set forth under “Risk Factors” in Item 1A of our Annual Report on Form 10-K filed with the United States Securities and Exchange Commission and the following:

- our ability to successfully implement steps to further optimize the business portfolio, ensure capital efficiency and enhance investment returns;
- 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 assumptions and uncertainties underlying reserve levels that may be impacted by future payments for settlements of claims and expenses or by other factors causing adverse or favorable development;
- the reliability of, and changes in assumptions to, natural and man-made catastrophe pricing, accumulation and estimated loss models;
- decreased demand for our insurance or reinsurance products and cyclical changes in the insurance and reinsurance industry;
- increased competition from existing insurers and reinsurers and from alternative capital providers and insurance-linked funds on the basis of pricing, capacity, coverage terms, new capital binding authorities to brokers, or other factors and the related demand and supply dynamics as contracts come up for renewal;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- changes in general economic conditions, including inflation, deflation, foreign currency exchange rates, interest rates and other factors that could affect our financial results;
- the risk of a material decline in the value or liquidity of all or parts of our investment portfolio;
- evolving issues with respect to interpretation of coverage after major loss events;
- our ability to adequately model and price the effects of climate cycles and climate change;
- any intervening legislative or governmental action and changing judicial interpretation and judgments on insurers’ liability to various risks;
- the effectiveness of our risk management loss limitation methods, including our reinsurance purchasing;
- changes in the total industry losses, or our share of total industry losses, resulting from past events such as the various catastrophes that occurred in 2014 and prior years and, with respect to such events, our reliance on loss reports received from cedants and loss adjusters, 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 one or more large losses from events other than natural catastrophes or by an unexpected accumulation of attritional losses and deterioration in loss estimates;
- the impact of acts of terrorism, acts of war and related legislation;
- any changes in our reinsurers’ credit quality and the amount and timing of reinsurance recoverables;

- the continuing and uncertain impact of the current depressed lower growth economic 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;
- a decline in our Operating Subsidiaries' ratings with S&P, A.M. Best or Moody's;
- the failure of our reinsurers, policyholders, brokers or other intermediaries to honor their payment obligations;
- 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;
- our reliance on the assessment and pricing of individual risks by third parties;
- our dependence on a few brokers for a large portion of our revenues;
- the persistence of heightened financial risks, including excess sovereign debt, the banking system and the Eurozone debt crisis;
- changes in our ability to exercise capital management initiatives (including our share repurchase program) or to arrange banking facilities as a result of prevailing market conditions or changes in our financial position;
- changes in government regulations or tax laws in jurisdictions where we conduct business;
- changes in accounting principles or policies or in the application of such accounting principles or policies;
- Aspen Holdings or Aspen Bermuda becoming subject to income taxes in the United States or the United Kingdom;
- loss of one or more of our senior underwriters or key personnel;
- our reliance on information technology and third-party service providers for our operations and systems; 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 rate changes described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook and Trends" reflect management's assessment of changes in exposure-adjusted rates on renewals only. This does not include contracts with fundamental changes to terms and conditions. The calculation involves a degree of judgment in relation to comparability of contracts in the different business lines. Due to changes in assumptions underlying the pricing of contracts, the trends in premium rates reflected in our outlook and trends may not be comparable over time. The future profitability of each business line is dependent upon many factors besides the trends in premium rates.

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. All forward-looking statements 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, we partially mitigate our 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, 2014, our fixed income portfolio had an approximate duration of 3.51 years excluding the impact of interest rate swaps. The table below depicts interest rate change scenarios and the effects on our interest rate sensitive invested assets:

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

Movement in Rates in Basis Points	-100	-50	—	50	100
	(\$ in millions, except percentages)				
Market value \$ in millions	6,949.5	6,831.6	6,713.8	6,596.0	6,478.2
Gain/(loss) \$ in millions	235.7	117.8	—	(117.8)	(235.6)
Percentage of portfolio	3.5%	1.8%	—%	(1.8)%	(3.5)%

*Equity risk.* We have invested in equity securities which had a fair market value of \$647.0 million as at September 30, 2014, equivalent to 7.6% of the total of investments, cash and cash equivalents at that date (December 31, 2013 — \$460.4 million, 5.6%). 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 at September 30, 2014, 78.4% (December 31, 2013 — 82.1%) of our cash, cash equivalents and investments were held in U.S. Dollars, 8.7% (December 31, 2013 — 7.6%) were in British Pounds and 13.0% (December 31, 2013 — 10.3%) were in other currencies. For the nine months ended September 30, 2014, 18.0% (December 31, 2013 — 16.4%) 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 2014.

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, 2014 would have impacted our net reportable British Pound net assets by approximately \$3 million for the nine months ended September 30, 2014 (September 30, 2013 — approximately \$10 million).

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 foreign exchange contracts from time to time. A foreign 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 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 contracts are recognized in the statement of operations as changes in fair value of derivatives. For the nine months ended September 30, 2014, the impact of foreign currency contracts on net income was a loss of \$4.5 million (2013 — loss of \$3.7 million).

*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 predominantly 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, 2014, the average rating of fixed income securities in our investment portfolio was "AA-" (December 31, 2013 — "AA-"). We also have credit risk through exposure to our interest rate swap counterparties who are Goldman Sachs Group (senior unsecured rating of "Baa1" by Moody's and "A-" by S&P) and Crédit Agricole CIB (senior unsecured rating of "A2" by Moody's and 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.

#### **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 three and nine months ended September 30, 2014. Based upon that evaluation, the Company's management is not aware of any change in its internal control over financial reporting that occurred during three and nine months ended September 30, 2014 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 also subject to litigation and arbitration in the ordinary course of our business. 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.

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, 2013. 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**

The following table provides information about purchases by the Company during the quarter ended September 30, 2014 of the Company’s equity securities.

	Total Number of Shares (or Units) Purchased	Weighted Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (\$ in millions)
July 1, 2014 to July 31, 2014	—	\$ —	—	\$ 193.3
August 1, 2014 to August 31, 2014	818,896	\$ 42.21	818,896	\$ 158.7
September 1, 2014 to September 30, 2014	1,301,729	\$ 42.61	1,301,729	\$ 103.2
Total <sup>(1)</sup>	<u>2,120,625</u>	\$ 42.46	<u>2,120,625</u>	\$ 103.2

(1) During the third quarter of 2014, we repurchased 2,120,625 million ordinary shares in the open market under a Rule 10b5-1 plan at an average price of \$42.46 per share for a total cost of \$90.0 million. We had \$103.2 million remaining under our current share buyback authorization at September 30, 2014.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

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:

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.1	Amended 2008 Sharesave Scheme, filed with this report.
10.2	Amended and Restated Aspen Insurance U.S. Services Inc. Nonqualified Deferred Compensation Plan, filed with this report.
10.3	Letter of Credit Facility, dated June 30, 2014, between Aspen Bermuda Limited and Citibank Europe plc (incorporated herein by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed on July 3, 2014).
10.4	Pledge Agreement Amendment, dated June 30, 2014, between Aspen Bermuda Limited and Citibank Europe plc (incorporated herein by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed on July 3, 2014).
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 John Worth, 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 John Worth, 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	The following financial information from Aspen Insurance Holdings Limited's quarterly report on Form 10-Q for the quarter and nine months ended September 30, 2014 formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013; (ii) Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iii) Unaudited Condensed Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2014 and 2013; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013; and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.*

\* As provided in Rule 406T of Regulation S-T, this information is "furnished" herewith and not "filed" for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Exchange Act. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act unless Aspen Holdings specifically incorporates it by reference.

## 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, 2014

By: /s/ Christopher O'Kane

Christopher O'Kane

Chief Executive Officer

Date: November 7, 2014

By: /s/ John Worth

John Worth

Chief Financial Officer

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## Section 2: EX-10.1 (EXHIBIT)

**Exhibit 10.1**

**DATED 22 July 2014**

**RULES OF THE ASPEN INSURANCE  
HOLDINGS LIMITED  
AMENDED 2008 SHARES AVE SCHEME**



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### **RULES OF THE ASPEN INSURANCE HOLDINGS LIMITED** **AMENDED 2008 SHARES AVE SCHEME**

#### 1. **INTERPRETATION**

1.1 The following definitions and rules of interpretation apply to these Rules:

**2014 Amendment Date:** 22 July 2014

**Adoption Date:** the date of the adoption of the Scheme by the Company;

**Associate:** has the meaning given to "associate" in paragraph 14 of Schedule 3;

**Associated Company:** has the meaning given in paragraph 47 of Schedule 3, which may be summarised, as at the 2014 Amendment Date, as providing that a company is an associated company of another at any time if:

- (a) at that time, one has control of the other, or both are under the control of the same person or persons; or
- (b) at any time in the previous year, one had control of the other, or both were under the control of the same person or persons.

In this definition, "control" has the meaning given in sections 450 and 451 of the CTA 2010. Note that "associated company" has a different meaning in rule 7.3.

**Auditors:** the auditors of the Company, or, if the Company does not have auditors, the Company's accountants at the

relevant time (acting as experts and not as arbitrators).

**Board:** the board of directors of the Company or a committee of directors appointed by that board to carry out any of its functions under the Scheme.

**Bonus Date:** whichever of the following applies:

- (a) where the relevant Savings Arrangement provides for the payment of a maximum bonus, the earliest date on which the maximum bonus is payable; or
- (b) in any other case, the earliest date on which a bonus is payable under the relevant Savings Arrangement.

**Company:** Aspen Insurance Holdings Limited incorporated and registered in Bermuda;

**Constituent Company:** any of the following:

- (a) the Company; and
- (b) any Eligible Company nominated by the Board to be a Constituent Company at the relevant time.

**Continuous Service:** the period of continuous service of an employee or director with any Constituent Company (including service with that company before it became a Constituent Company).

If an employee or director has been absent from service with a relevant company for any reason (while remaining an employee or director of that company), or by reason of maternity leave, and has since returned to service with a relevant company, that period of absence shall be deemed to form part of that person's Continuous Service.

Any period of service during which a person served as a director shall only count towards Continuous Service if the director was required during that period to devote at least 25 hours per week (excluding meal breaks) to his duties;

**Control:** has the meaning given in section 719 of ITEPA 2003. **Controlled** shall be interpreted accordingly. Note that "control" and "controlled" have a different meaning in the definition of "Associated Company" and in rule 7.3 and rule 7.6;

**CTA 2010 :** the Corporation Tax Act 2010;

**Date of Grant:** the date on which an Option is, was, or is to be granted under the Scheme;

**Dealing Day:** a day on which the investment exchange on which Shares are listed and/or traded is open for the transaction of business;

**Eligible Company:** any company of which the Company has Control;

**Eligible Employee:** any employee or director of a Constituent Company:

- (a) who, if a director of a Constituent Company, is required to devote at least 25 hours per week (excluding meal breaks) to his duties;
- (b) who, on the relevant Date of Grant, will have Continuous Service equal to or greater than 3 months or any other minimum period which may be specified by the Board under rule 2.4(g) on or before the relevant Invitation Date;
- (c) whose earnings from office or employment are (or would be if there were any) general earnings to which section 15 ITEPA 2003 applies (earnings for a year when the employee is resident in the UK); and
- (d) who has not given or received notice to terminate his employment (and/or office, if any) which will have the effect

that he will no longer be an employee or full-time director of any Constituent Company on the relevant Date of Grant;

**Exercise Price:** the price (which shall be in pounds sterling) at which each Share subject to an Option may be acquired on the exercise of that Option, which (subject to rule 11):

- (a) if Shares are to be newly issued to satisfy the exercise of the Option, may not be less than the nominal value of a Share;
- (b) may not be less than 80 per cent of the Market Value of a Share on the relevant Invitation Date;

**Existing Option:** an option or any other right to acquire or receive Shares granted under any Share Incentive Scheme (including the Scheme), which remains capable of exercise, or in the case of options or rights that do not require exercise, remains capable of satisfaction;

**Grantor:** the person granting an Option, which may be:

- (a) the Company; or
- (b) the trustees of an employee benefit trust authorised by the Board to grant Options at the relevant time; or
- (c) any other person so authorised;

**HMRC:** HM Revenue & Customs;

**Invitation Date:** a date on which invitations to apply for Options are, were, or are to be issued under the Scheme;

**ITEPA 2003:** the Income Tax (Earnings and Pensions) Act 2003;

**Key Feature:** any provision of the Scheme which is necessary to meet the requirements of Schedule 3;

**Market Value:** whichever of the following applies:

- (a) on any day:
  - (i) before any applicable regulations for the determination of market value are made under section 272(3) and 272(4) of the Taxation of Chargeable Gains Act 1992 (as amended by Schedule 26 of the Finance Act 2007); and
  - (ii) on any day while the relevant shares are listed on the New York Stock Exchange, at the discretion of the Board, either:
    - (iii) the middle market quotation for a share on the New York Stock Exchange on the last Dealing Day before that day; or
    - (iv) the average of the middle market quotations on the New York Stock Exchange for a share for the three immediately preceding Dealing Days;

in either case converted into Pounds Sterling at the noon buying rate in New York City for cable transfers payable in Pounds Sterling as certified for customs purposes by the Federal Reserve Bank for that day; or

- (b) on any day:
  - (i) while the relevant shares are listed on the New York Stock Exchange or listed on any recognised stock exchange (as defined in section 1005 of the Income Taxes Act 2007, as amended by Schedule 26 to the

Finance Act 2007); and

- (ii) when regulations for the determination of market value made under section 272(3) and 272(4) of the Taxation of Chargeable Gains Act 1992 (as amended by Schedule 26 to the Finance Act 2007) (**Valuation Regulations**) apply in respect of the relevant shares,

the value determined using a method approved by the Board which HMRC agrees is compatible with the Valuation Regulations; or

- (c) on any day when neither paragraph (a) nor paragraph (b) of this definition applies, the market value of a share, determined under the applicable provisions of Part VIII of the Taxation of Chargeable Gains Act 1992, as agreed with HMRC Shares and Assets Valuation (before the relevant Date of Grant, and, if possible, before the relevant Invitation Date, where Market Value on an Invitation Date is being determined for the purpose of setting the Exercise Price);

If shares are subject to Relevant Restriction, Market Value shall be determined as if they were not subject to a Relevant Restriction;

**Model Code:** the model code set out in the Listing Rules issued by the Financial Services Authority acting as the United Kingdom Listing Authority (or any successor body carrying out the same functions), as it is in force at the relevant time;

**Option:** a right to acquire Shares granted under the Scheme which has neither lapsed nor been fully exercised;

**Option Certificate:** a certificate setting out the terms of an Option, issued under rule 4.6;

**Option Holder:** an individual who holds an Option or, where applicable, his personal representatives;

**Redundancy:** has the meaning given by the Employment Rights Act 1996 or the Employment Rights (Northern Ireland) Order 1996;

**Relevant Restriction:** any provision included in any contract, agreement, arrangement or condition to which any of sections 423(2), 423(3) and 423(4) of ITEPA 2003 would apply if references in those sections to employment-related securities were references to Shares;

**Repaid Amount:** The amount actually received by way of repayments of contributions and payments of bonus or interest (if any) under the Savings Arrangement linked to the relevant Option. The Repaid Amount shall be taken to exclude the amount of:

- (a) any bonus or interest, if, for the relevant Option, the Repayment is **not** to be taken to include a bonus under rule 4.3;
- (b) any contribution paid directly to the savings provider by the Option Holder, other than any contribution made:
  - (iii) under special arrangements relating to absence from the Option Holder's office or employment; or
  - (iv) after cessation of the Option Holder's relevant office or employment, in the same monthly amount and at the same interval as contributions made previously by deduction from the Option Holder's pay under the Scheme; and
- (c) any contribution made in advance, if the due date of payment for that contribution under the Savings Arrangement falls or would have fallen more than one month after the date on which the Repaid Amount was paid to the Option Holder;

**Repayment:** whichever of the following applies:

- (a) in relation to any Option for which repayment under the linked Savings Arrangement shall be taken as including a bonus, the aggregate of:
  - (v) the maximum amount of the contributions repayable under the Savings Arrangement; and
  - (vi) the amount of any bonus and/or interest payable under the Savings Arrangement at the Bonus Date; and
- (b) in relation to any Option for which repayment under the linked Savings Arrangement shall be taken as not including a bonus, the maximum amount of the contributions repayable under the Savings Arrangement;

**Retirement:** ceasing employment with the intention of retiring;

**Rollover Period:** any period during which Options may be exchanged for options over shares in another company (under paragraph 38 of Schedule 3, rule 10.7 and rule 10.8);

**Savings Arrangement:** a certified savings arrangement (as defined in section 703 of the Income Tax (Trading and Other Income) Act 2005) that is nominated by an officer of HMRC for the purposes of Schedule 3;

**Schedule 3:** Schedule 3 to ITEPA 2003;

**Scheme:** the employee share option scheme constituted and governed by these rules, as amended from time to time;

**Scheme-related Employment:** the office or employment by virtue of which any person is or was eligible to become an Option Holder;

**Share Incentive Scheme:** any arrangement to provide employees and/or directors with shares;

**Shares:** ordinary shares in the Company (subject to rule 11) that (subject to rule 10.5) meet the requirements of paragraphs 18 to 20 and paragraph 22 of Schedule 3;

**TUPE Regulations:** the Transfer of Undertakings (Protection of Employment) Regulations 2006.

- 1.2 Headings shall not affect the interpretation of these rules.
- 1.3 A reference to one gender in these rules shall include a reference to the other.
- 1.4 Words in the singular in these rules shall include the plural and vice versa.
- 1.5 A reference to a statute or a statutory provision in these rules is a reference to it as in force at the relevant time, taking account of any amendment, extension or re-enactment, and includes any subordinate legislation in force and made under it.
- 2. **INVITATIONS TO APPLY FOR OPTIONS AND APPLICATIONS FOR OPTIONS**
  - 2.1 Subject to the limitations and conditions of this Scheme, the Board may issue invitations to apply for Options at any time.
  - 2.2 On each occasion that the Board decides to issue invitations to apply for Options, the Board shall determine (in its absolute discretion):
    - (a) whether or not Repayments will be taken to include a bonus for Options granted as a result of the invitations. If the Board determines that Repayments will be taken to include a bonus, that determination may be subject to alteration if applications are scaled down under rule 3;
    - (b) whether to invite applications for three year Options or five year Options (or Options of such other standard periods as may be available under the HM Treasury specifications for Savings Arrangement in force at the relevant time), or to offer those receiving invitations a choice between those Option periods;

- (c) the minimum monthly contribution to be made to a Savings Arrangement linked to any Option granted as a result of the invitations, being an amount which is neither:
  - (i) less than £5 (or such other minimum as may be specified in the HM Treasury specifications for Savings Arrangements in force at the relevant time); nor
  - (ii) more than £10 (or such other amount as may be specified in paragraph 25(3)(b) of Schedule 3 at the relevant time);
- (d) whether to impose a limit on the number of Shares that may be made subject to Options granted as a result of the invitations and if so:
  - (i) what that limit will be; and
  - (ii) whether the threshold value for the purposes of scaling down under rule 3(d), will be £5 or some other value within the range of £40 to £200 specified by the Board under this rule 2.4(d).

In making their decisions under this rule 2.2(d), the Board shall consider the constraints imposed by rule 5 and any plans to make further invitations under the Scheme or to make future awards under any other Share Incentive Scheme that is subject to a limit similar to rule 5; and

- (e) whether to specify a minimum period of Continuous Service different from the default period of 3 months for the purposes of defining who will be an Eligible Employee. Any such period may not be longer than five years (or such other maximum period as may be specified in paragraph 6(2)(b) of Schedule 3 at the relevant time).

2.3 On each occasion that the Board decides to issue invitations to apply for Options, those invitations:

- (a) shall be in a form approved by the Board;
- (b) shall be sent to all Eligible Employees;
- (c) at the discretion of the Board, may also be sent to any other employee (including any employee who is also a director) of a Constituent Company;
- (d) shall comply with rule 2.4;
- (e) shall be accompanied by invitations to apply to enter into appropriate Savings Arrangements with a Savings Arrangement provider selected by the Board; and
- (f) shall include a statement that:
  - (i) each invitation is subject to these rules, the relevant Savings Arrangement prospectus, Schedule 3 and any other legislation applying to SAYE option schemes meeting the requirements of Schedule 3; and
  - (ii) those provisions shall prevail over any conflicting statement.

2.4 Each invitation shall set out (without limitation):

- (a) the minimum monthly contribution determined by the Board under rule 2.2(c);
- (b) the Exercise Price for Options granted as a result of the invitations, or the method by which that Exercise Price will be notified to those receiving invitations;

- (c) whether Repayments will be taken to include a bonus (subject to rule 3);
- (d) any limit on the number of Shares that may be placed under Option as a result of the invitations specified under rule, and, if there is such a limit:
  - (i) that applications will be scaled down in accordance with rule 3 if applications are received in excess of that limit; and
  - (ii) the amount of the threshold value for the purposes of scaling down under rule 3(d), if a value other than £5 is specified by the Board under rule 2.2(d);
- (e) whether applications may be made for three year Options or five year Options (or Options of such other standard periods as may be available under the HM Treasury Savings Arrangement specifications in force at the relevant time) or any specified combination of Option periods (subject to rule 3);
- (f) that, to be considered for the grant of Options, completed applications should be received by the Board, or any person nominated to receive applications on behalf of the Board, by 5 pm on the day falling 14 days after the Invitation Date; and
- (g) any minimum period of Continuous Service which applies for the purpose of determining who is an Eligible Employee on the Invitation Date.

2.5 Any accidental failure or omission to deliver an invitation to any Eligible Employee shall not invalidate the grant of Options.

2.6 Each application for an Option:

- (a) shall be in a form approved by the Board;
- (b) shall state the period of the Option applied for (subject to possible amendment to a shorter Option period under rule 3);
- (c) shall incorporate or be accompanied by a duly completed application form to enter into a Savings Arrangement with a Savings Arrangement provider selected by the Board, in which the applicant agrees to make a monthly contribution of a specified amount (subject to possible amendment to a lesser amount under rule 3) which shall be:
  - (iii) a multiple of £1;
  - (iv) not less than the minimum determined under rule 2.2(c) and
  - (v) when aggregated with contributions made by the applicant under any other Savings Arrangements linked to SAYE option schemes meeting the requirements of Schedule 3, not more than £500 (or such other amount as may be specified by paragraph 25(3)(a) of Schedule 3 at the relevant time),

over the necessary savings period given the period of the Option applied for (subject to possible amendment to a shorter Option period under rule 3);

- (d) if a limit has been specified under rule 2.2(d), shall include a statement that, if applications are scaled down under rule 3, the applicant agrees that his application shall be amended or withdrawn in accordance with the operation of rule 3;
- (e) shall authorise and instruct the Board or any person authorised by the Board to:
  - (i) deduct from the applicant's pay the appropriate monthly contributions; and

(ii) pay those deductions to the relevant Savings Arrangement provider to meet the applicant's obligations, under any Savings Arrangement entered into by the applicant as a result of the application;

(f) shall include the applicant's agreement to be bound by the terms of this Scheme; and

(g) shall state that:

(i) the application is subject to these rules, the relevant Savings Arrangement prospectus, Schedule 3 and any other legislation applying to SAYE option schemes meeting the requirements of Schedule 3; and

(ii) those provisions shall prevail over any conflicting statement.

2.7 The Repayment under a Savings Arrangement shall, as nearly as possible, equal the amount required to be paid to exercise the linked Option in full. Therefore, each application shall be treated as being for an Option over the largest whole number of Shares which can be acquired at the relevant Exercise Price with the Repayment under the linked Savings Arrangement (following adjustment of the application under rule 3, if relevant).

### 3. SCALING DOWN

If:

(f) the Board has specified a limit under rule 2.2(d) for a particular set of invitations; and

(g) in response to those invitations the Board receives applications for Options over a total number of Shares which exceeds that limit,

the methods of scaling down set out below shall be considered in turn. Each method shall be applied independently, rather than cumulatively with the preceding methods in the list. Scaling down shall be undertaken by the first of the following methods which will ensure that the limit will not be exceeded:

if:

(vi) Repayments will be taken to include a bonus; and

(vii) the relevant invitations offered a choice of Option periods including (but not restricted to) any period relating to Savings Arrangements under which a maximum bonus is payable,

any application for a Savings Arrangement under which a maximum bonus is payable shall be taken instead to be an application for the most similar type of Savings Arrangement under which the bonus is that payable on the first date on which a bonus may be paid;

(h) the amount by which the monthly savings contribution specified in each application exceeds either:

(i) if no other threshold value has been specified by the Board under rule 2.2(d), £100; or

(ii) if one has been specified, the threshold value specified by the Board under rule 2.2(d)

shall be reduced pro rata;

(i) if:

(iii) Repayments will be taken to include a bonus; and

(iv) the relevant invitations offered a choice of Option periods including (but not restricted to) any period

relating to Savings Arrangements under which a maximum bonus is payable,

a combination of the methods in rule 3(c) and rule 3(d);

(j) if Repayments would otherwise have been taken to include a bonus for Options granted as a result of the relevant invitations, the method in rule 3(d) but with Repayments **not** taken to include a bonus;

(k) the amount by which the monthly savings contribution specified in each application exceeds the minimum specified under rule 2.2(c) for the relevant invitations shall be reduced pro rata;

(l) if:

(i) Repayments will be taken to include a bonus; and

(ii) the relevant invitations offered a choice of Option periods including (but not restricted to) any period relating to Savings Arrangements under which a maximum bonus is payable,

a combination of the methods in rule 3(c) and rule 3(g);

(m) if Repayments would otherwise have been taken to include a bonus for Options granted as a result of the relevant invitations, the method in rule 3(g) but with Repayments **not** taken to include a bonus; and

(n) if scaling down cannot be effected either by the method in rule 3(i), or, if Repayments are not to be taken to include a bonus, by the method in rule 3(g):

(i) some applicants would not be granted Options following scaling down using the method in this rule 3.1(j);

(ii) the Board, in its absolute discretion, may determine not to continue with the scaling down operation and that no Options shall be granted as a result of the relevant invitations; and

(iii) if the Board decides to continue the scaling down operation, applicants shall be selected by lot, and each selected applicant shall be taken to apply for an Option of the shortest period offered in the relevant invitations, based on a monthly savings contribution of the minimum specified under rule 2.3(c) for the relevant invitations.

#### 4. **GRANT OF OPTIONS**

4.1 Subject to the other provisions of this Scheme, Options may be granted as a result of each set of invitations made under the Scheme. If Options are granted, an Option shall be granted to each person who made a valid application and who is an employee or director of a Constituent Company on the Date of Grant.

4.2 Each Option shall be granted over the number of Shares determined for the relevant application under rule 2.7.

4.3 Whether or not Repayments will be taken to include any bonus will be determined at the time of grant of each Option in accordance with:

(a) the determination of the Board under rule 2.2(a); and

(b) the effects of rule 3, if the relevant applications were scaled down.

4.4 Options shall be granted:

(h) unless applications were scaled down under rule 3, **not later** than 30 days after the earliest date by reference to which Market Value was determined for the purpose of setting the Exercise Price; and

- (i) if applications were scaled down under rule 3, **not later** than 42 days after the earliest date by reference to which Market Value was determined for the purpose of setting the Exercise Price.

4.5 Options may not be granted:

- (a) at any time when that grant would be prohibited by, or in breach of, any:
  - (iii) law; or
  - (iv) regulation with the force of law; or
  - (v) rule of an investment exchange on which Shares are listed or traded, or any other non-statutory rule with a purpose similar to any part of the Model Code that binds the Company or with which the Board wishes to comply; or
- (b) after the tenth anniversary of the Adoption Date.

4.6 Options shall be granted by the Grantor executing a deed in a form approved by the Board. A single deed of grant may be executed in favour of any number of Option Holders. Each Option Holder shall be issued with an Option Certificate (in a form approved by the Board) as soon as possible after the Date of Grant as evidence of the grant of the relevant Option. Each Option Certificate shall set out (without limitation):

- (a) the Date of Grant of the Option;
- (b) the number and class of the Shares over which the Option is granted;
- (c) the Exercise Price;
- (d) the date after which the Option may be exercised, unless an earlier event occurs to cause the Option to lapse or to become exercisable. This date shall be the Bonus Date of the Savings Arrangement linked to the Option;
- (e) the date when the Option will lapse, assuming that the Option is not exercised earlier, no event occurs to cause the Option to lapse earlier and rule 7.7 does not then apply to the Option. This date shall be the date falling six months after the Bonus Date of the Savings Arrangement linked to the Option;
- (f) a statement specifying whether or not the Shares are subject to any Relevant Restriction and, if so, details of the Relevant Restriction or Restrictions;
- (g) a statement that:
  - (i) the Option is subject to these rules, Schedule 3 and any other legislation applying to SAYE option schemes meeting the requirements of Schedule 3; and
  - (ii) those provisions shall prevail over any conflicting statement relating to the Option's terms; and
- (h) a summary of the following:
  - (iv) rule 6.1 and rule 6.2(j);
  - (v) rule 7.11; and
  - (vi) rule 9.

4.7 No amount shall be paid for the grant of an Option.

## 5. OVERALL LIMITS ON GRANTS

5.1 The definition in this rule 5.1 applies in this rule 5:

**Dilutive Shares:** On any date, all shares of the Company which:

- (h) have been issued, or transferred out of treasury, on the exercise of options granted, and in satisfaction of any other awards made, under any Share Incentive Scheme (including the Scheme) in the shorter of:
  - (i) the ten years ending on (and including) that date; and
  - (ii) the period since such shares were first admitted to trading on New York Stock Exchange;
- (i) remain capable of issue, or transfer out of treasury, under any Existing Options.

5.2 While the Company is bound by any undertaking or agreement that this should be the case, no Option shall be granted under rule 4 if that grant would result in the total number of Dilutive Shares exceeding 10% of the issued share capital of the Company.

## 6. LAPSE OF OPTIONS

6.1 Options may not be transferred or assigned or have any charge or other security interest created over them. An Option shall lapse if the relevant Option Holder (or his personal representatives) attempts to do any of those things. But, a transfer to an Option Holder's personal representatives on the death of the Option Holder will not cause an Option to lapse.

6.2 An Option shall lapse on the earliest of the following:

- (j) any attempted action by the Option Holder (or his personal representatives) falling within rule 6.1;
- (k) the date on which the Option shall lapse, as specified in the Option Certificate, if the Option Holder is alive at that time;
- (l) when the Option Holder's Scheme-related Employment ceases, if:
  - (i) the Option may not be exercised after that cessation under any part of rule 7; and
  - (ii) the Option Holder is alive immediately after that time.

This rule 6.2(c) is subject to rule 7.6;

- (m) either:
  - (i) the seventh occasion on which the Option Holder omits to make a payment under the Savings Arrangement linked to the Option; or
  - (ii) the giving of notice by the Option Holder to terminate the Savings Arrangement,  
if that takes place before the Bonus Date of the Savings Arrangement, unless that non-payment or notice arises:
    - (iii) when the Option may be exercised under rule 7.3 or rule 7.4 or rule 7.5; or
    - (iv) on or after the Option Holder's death; or

- (v) when the Option may be exercised or exchanged under any part of rule 10;
- (n) at the end of any period during which the Option may be exercised under any part of rule 7 other than rule 7.7, unless that period ended on the Option Holder's death;
- (o) if the Option Holder has died:
  - (i) if the Option Holder died before the Bonus Date of the Savings Arrangement linked to the relevant Option, the date falling 12 months after the date of death;
  - (ii) if the Option Holder died on or within six months after the Bonus Date of the Savings Arrangement linked to the relevant Option, the date falling 12 months after that Bonus Date;
- (p) if any part of rule 10 applies, the time specified for the lapse of the Option under that part of rule 10;
- (q) if rule 7.1(f) applies, the time specified in rule 7.1(f); and
- (r) the bankruptcy of the Option Holder.

## 7. EXERCISE OF OPTIONS

### 7.1 No Option may be exercised:

- (s) when the Option Holder is not an employee or director of a Constituent Company, except as permitted by any provision of this Scheme other than any part of rule 10. If the Option Holder is not an employee or director of a Constituent Company, an Option may be exercised under any part of rule 10 only if exercise is also permitted at that time under any provision of this Scheme other than rule 10; or
- (t) earlier than the Bonus Date of the Savings Arrangement linked to that Option, except as permitted by any provision of this Scheme; or
- (u) later than six months after the Bonus Date of the Savings Arrangement linked to that Option, except as permitted under rule 7.7; or
- (v) when prohibited by or in breach of any law or regulation with the force of law; or
- (w) when prohibited by or in breach of any rule of an investment exchange on which Shares are listed or traded, or any provision of a personal dealing code adopted by the Company, or any other non-statutory rule with a similar purpose to any part of the Model Code that binds the Company; or
- (x) more than once. If an Option is exercised in part only, the unexercised part of the Option shall lapse immediately after the exercise.

### 7.2 An Option Holder who is a director or employee of:

- (c) a Constituent Company; or
- (d) any Associated Company of the Company which is not a Constituent Company;
- (e) may exercise an Option at any time during the period starting with the Bonus Date of the Savings Arrangement linked to that Option and ending on the earlier to occur of:
  - (f) the date falling six months after the Bonus Date of the Savings Arrangement linked to that Option; and

(g) the Option Holder's death.

7.3 This rule 7.3 is subject to rule 7.6 and applies to any Options held by an Option Holder who has ceased to hold his Scheme-related Employment:

- (i) because of injury; or
- (j) because of disability; or
- (k) because of Redundancy; or
- (l) because of retirement; or
- (m) because of a relevant transfer within the meaning of the TUPE Regulations; or
- (n) if the Option Holder holds office or is employed in a company which is an associated company (as defined in paragraph 35(4) of Schedule 3, and not the meaning given to Associated Company in rule 1.1) of the Company, because that company ceases to be an associated company (as so defined) of the Company by reason of a change of control (as determined in accordance with sections 450 and 451 of the CTA 2010, and not the meaning given to Control in rule 1.1).

An Option to which this rule 7.3 applies may be exercised at any time in the period starting immediately after the date on which the Scheme-related Employment ceased and ending on the earliest to occur of:

- (o) the date falling six months after the date on which the Scheme-related Employment ceased;
- (p) the date falling six months after the Bonus Date of the Savings Arrangement linked to that Option; and
- (q) the Option Holder's death.

7.4 This rule 7.4 is subject to rule 7.6 and applies to Options:

- (a) held by any Option Holder who has ceased to hold his Scheme-related Employment because of any reason other than:
  - (iii) any reason listed in rule 7.3; or
  - (iv) misconduct; and
- (b) which were granted more than three years before the date on which the Option Holder's Scheme-related Employment ceased.

An Option to which this rule 7.5 applies may be exercised at any time in the period starting immediately after the date on which the Scheme-related Employment ceased and ending on the earliest to occur of:

- (c) the date falling six months after the date on which the Scheme-related Employment ceased;
- (d) the date falling six months after the Bonus Date of the Savings Arrangement linked to that Option; and
- (e) the Option Holder's death.

The Board must interpret "misconduct" in rule 7.4(a)(ii) in a manner that is fair and reasonable.

7.5 This rule 7.5 is subject to rule 7.6 and applies to any Options held by an Option Holder who has ceased to hold his Scheme-related Employment only because it related to a business or part of a business which was transferred to a person other than an Associated Company of the Company, where the transfer is not a relevant transfer within the meaning of the TUPE Regulations, if the Option Holder has ceased to hold the office or employment which was (before the date of cessation of the Scheme-related employment) the Scheme-related employment (the **post-transfer employment**) for a reason falling within any of rule 7.3(a), rule 7.3(b), rule 7.3(c), rule 7.3(d) or rule 7.3 (e) or rule 7.3(f).

An Option to which this rule 7.5 applies may be exercised at any time in the period starting immediately after the date on which the post-transfer employment ceased and ending on the earliest to occur of:

- (a) the date falling six months after the date on which the post-transfer employment ceased;
- (b) the date falling six months after the Bonus Date of the Savings Arrangement linked to that Option; and
- (c) the Option Holder's death.

7.6 No Option Holder shall be treated as ceasing to hold Scheme-related Employment under any of rule 6.2(c), rule 7.3 or rule 7.4, or rule 7.5 until that Option Holder ceases to hold any office or employment with:

- (a) the Company; or
- (b) any Eligible Company or other company which is controlled by the Company; or
- (c) any company which:
  - (iii) controls the Company; or
  - (iv) is controlled by a person or persons who also control the Company.

In this rule 7.6, "control" has the meaning given in sections 450 and 451 of CTA 2010 (and not the meaning given to Control in rule 1.1).

7.7 This rule 7.7 applies to Options which were held by any Option Holder at the time of his death whether or not those Options were capable of exercise under any other provision of the Scheme at the time of death.

An Option to which this rule 7.7 applies may be exercised by the Option Holder's personal representatives at any time in the period starting immediately after the date of death and ending:

- (a) if the Option Holder died before the Bonus Date of the Savings Arrangement linked to that Option, the date falling 12 months after the date of death; or
- (b) if the Option Holder died on or within six months after the Bonus Date of the Savings Arrangement linked to that Option, the date falling 12 months after that Bonus Date.

7.8 If a Repaid Amount is insufficient to exercise the Option linked to the relevant Savings Arrangement in full:

- (a) the aggregate Exercise Price paid to exercise the Option may not exceed the Repaid Amount; and
- (b) the number of Shares acquired on exercise of the Option may not exceed the number obtained by dividing the Repaid Amount by the Exercise Price for the Option and, if the result of that division is not a whole number, rounding it down to the nearest whole number.

## 8. MANNER OF EXERCISE OF OPTIONS

- 8.1 An Option shall be exercised by the Option Holder giving a written exercise notice to the Grantor, which shall:
- (h) set out the number of Shares over which the Option Holder wishes to exercise the Option. If that number exceeds the number over which the Option may be validly exercised at the time (in particular, without limitation, under rule 7.8):
    - (iii) the Option shall be treated as exercised only in respect of that lesser number; and
    - (iv) any excess amount paid to exercise the Option or meet any Tax Liability shall be refunded;
  - (i) be made using a form approved by the Board; and
  - (j) be accompanied by the relevant Option Certificate. If an Option Certificate has been lost, the relevant Option may still be exercised, but the Grantor may make it a condition of exercise that the Option Holder shall enter into a formal acknowledgement that the Option Certificate is lost and a binding undertaking to return it for cancellation if recovered at a later date.

8.2 Any exercise notice shall be accompanied by payment of an amount equal to the Exercise Price multiplied by the number of Shares specified in the notice. If the Savings Arrangement provider permits, payment under rule 8.2 may take the form of a valid direction to the Savings Arrangement provider to repay to the Grantor the whole amount due to the Option Holder under the Savings Arrangement linked to the relevant Option. If payment is made in this way, the Grantor shall pay to the Option Holder any amount by which the payment received by the Grantor from the Savings Arrangement provider exceeds the aggregate Exercise Price payable on the exercise of the Option.

8.3 Any exercise notice shall be invalid:

- (f) to the extent that it is inconsistent with the Option Holder's rights under these rules and the relevant Option; or
- (g) if any of the requirements of rule 8.1 or rule 8.2 are not met; or
- (h) if any payment referred to in rule 8.2 is made by a cheque that is not honoured on first presentation or in any other manner which fails to transfer the expected value to the Grantor.

The Grantor may permit the Option Holder to correct any defect referred to in rule 8.3(b) or rule 8.3(c) (but shall not be obliged to do so). The date of any corrected exercise notice shall be the date of the correction rather than the original notice date for all other purposes of the Scheme.

8.4 Shares shall be allotted and issued (or transferred, as appropriate) within 30 days after a valid Option exercise, subject to the other rules of this Scheme.

8.5 Except for any rights determined by reference to a date before the date of allotment, Shares allotted and issued in satisfaction of the exercise of an Option shall rank equally in all respects with the other shares of the same class in issue at the date of allotment.

8.6 Shares transferred in satisfaction of the exercise of an Option shall be transferred free of any lien, charge or other security interest, and with all rights attaching to them, other than any rights determined by reference to a date before the date of transfer.

8.7 If the Shares are listed or traded on any stock exchange, the Company shall apply to the appropriate body for any newly issued Shares allotted on exercise of an Option to be listed or admitted to trading on that exchange.

## 9. **RELATIONSHIP WITH EMPLOYMENT CONTRACT**

9.1 The rights and obligations of any Option Holder under the terms of his office or employment with any company shall not be affected by being an Option Holder.

- 9.2 The value of any benefit realised under the Scheme by Option Holders shall not be taken into account in determining any pension or similar entitlements.
- 9.3 Option Holders and the directors and employees of Constituent Companies and Associated Companies of the Company (past and present) shall have no rights to compensation or damages on account of any loss in respect of Options or the Scheme where such loss arises (or is claimed to arise), in whole or in part, from termination of office or employment with any company. This exclusion of liability shall apply however termination of office or employment, or the giving of notice, is caused and however compensation or damages may be claimed.
- 9.4 Option Holders and the directors and employees of Constituent Companies and Associated Companies of the Company (past and present) shall have no rights to compensation or damages on account of any loss in respect of Options or the Scheme where such loss arises (or is claimed to arise), in whole or in part, from:
- (d) any company ceasing to be a Constituent Company; or
  - (e) any company ceasing to be an Associated Company of the Company; or
  - (f) the transfer of any business from a Constituent Company to any person which is neither a Constituent Company nor an Associated Company of the Company; or
  - (g) the transfer of any business from a Constituent Company to an Associated Company of the Company which is not a Constituent Company; or
  - (h) any change to invitations made under the Scheme, including any variation of their terms or timing, or their complete suspension or termination; or
  - (i) the lapse of any Option; or
  - (j) any failure by the Board to nominate an Eligible Company to be a Constituent Company; or
  - (k) any failure by the Board to make an invitation to apply for an Option to any person who is not at the relevant time an Eligible Employee, where it is in the Board's discretion to do so.

This exclusion of liability shall apply however the relevant circumstances are caused, and however compensation or damages may be claimed.

- 9.5 Each Eligible Employee and each employee of a Constituent Company shall have no right to receive Options, whether or not he has previously been granted any.

## 10. TAKEOVERS AND LIQUIDATIONS

- 10.1 If any person (in this rule 10.1, the **Controller**) obtains Control of the Company as a result of:
- (i) making a general offer (regardless of whether the general offer is made to different shareholders by different means) to acquire the whole of the issued share capital of the Company (except for any capital already held by the Controller or any person connected (as defined by section 718 of ITEPA 2003) with the Controller) which is made on a condition such that, if it is satisfied, the person making the offer will have Control of the Company; or
  - (j) making a general offer (regardless of whether the general offer is made to different shareholders by different means) to acquire all the shares in the Company (except for any shares already held by the Controller or any person connected (as defined by section 718 of ITEPA 2003) with the Controller) which are of the same class as the Shares,

then any Option may (subject to rule 7.1, rule 10.5, rule 10.6, rule 10.7 and rule 10.14) be exercised within six months after the time when the Controller has obtained Control of the Company and (if relevant) any condition subject to which the offer is made has been satisfied. Any Option to which this rule 10.1 applies shall lapse at the end of that period, unless before then it is exercised or released under rule 10.7.

10.2 Unless the relevant compromise or arrangement makes provision for the replacement of Options or the compensation of Option Holders which the Auditors have certified in writing to be fair and reasonable, any Option may (subject to rule 7.1, rule 10.5, rule 10.6, rule 10.7 and rule 10.14) be exercised within six months of the date of the court sanctioning a compromise or arrangement (under section 899 of the Companies Act 2006) that is applicable to or affects:

- (d) all the ordinary share capital of the Company or all the shares of the same class as the shares to which the Option relates; or
- (e) all the shares, or all the shares of that same class, which are held by a class of shareholders identified otherwise than by reference to their employments or directorships or their participation in a share option scheme that meets the requirements of Schedule 3.

Any Option to which this rule 10.2 applies shall lapse at the end of that period, unless before then it is exercised or released under rule 10.7.

10.3 If shareholders in the Company become bound by a non-UK company reorganisation arrangement (as defined by paragraph 47A of Schedule 3) that is applicable to or affects:

- (l) all the ordinary share capital of the Company or all the shares of the same class as the shares to which the Option relates; or
- (m) all the shares, or all the shares of that same class, which are held by a class of shareholders identified otherwise than by reference to their employments or directorships or their participation in a share option scheme that meets the requirements of Schedule 3,

then any Option may (subject to rule 7.1, 10.5, 10.6, 10.7 and 10.14) be exercised within six months after the time when the shareholders covered by the non-UK company reorganisation arrangement become so bound. Any Option to which this rule 10.3 applies shall lapse at the end of that period, unless before then it is exercised or released under rule 10.7.

10.4 If any person becomes bound or entitled to acquire Shares under sections 979 to 982 or 983 to 985 of the Companies Act 2006 (or overseas legislation that HMRC agrees is comparable at that time), any Option may be exercised at any time as that person remains so bound or entitled, subject to rule 7.1, rule 10.5, rule 10.6, rule 10.7 and rule 10.14.

10.5 If a person obtains Control of the Company as specified in rule 10.1 or as a result of an event specified in rule 10.2 or rule 10.3 or if a person who is bound or entitled to acquire Shares as mentioned in rule 10.4 obtains Control of the Company, and, as a result, Shares no longer satisfy the requirements of Part 4 of Schedule 3, any Option may, notwithstanding that Shares no longer satisfy the requirements of Part 4 of Schedule 3, be exercised, within the period of 20 days following the relevant obtaining of Control, under and otherwise in accordance with rule 10.1 or rule 10.2 or rule 10.3 or rule 10.4 (as the case may be), provided that no Option may be exercised outside the 6 month period mentioned in rule 10.1 or rule 10.2 or rule 10.3 or at a time not covered by rule 10.4, as the case may be. If the Option is not exercised, the Option shall lapse (to the extent that it has not already lapsed under rule 10.1, rule 10.2 or rule 10.3) on the expiry of 20 days following the relevant obtaining of Control.

10.6 If the Board reasonably expects an event within rule 10.1 or rule 10.2 or rule 10.3 or rule 10.4 to occur, the Board may make arrangements permitting Options to be exercised for a period of 20 days ending with such event. If an Option is exercised pursuant to this rule 10.6, it will be treated as having been exercised in accordance with rule 10.1 or rule 10.2 or rule 10.3 or rule 10.4 as the case may be. If the Board makes arrangement for the exercise of Options pursuant to this rule 10.6, and the relevant event does not occur within 20 days of the purported exercise, the Option shall be treated as not having been exercised.

10.7 If, as a result of:

- (a) an event specified in rule 10.1(a); or
- (b) an event specified in rule 10.1(b); or
- (c) the court sanctioning a compromise or arrangement under section 899 of the Companies Act 2006 (including an event specified in rule 10.2); or
- (d) an event specified in rule 10.3;

a company has obtained Control of the Company, or if a company has become bound or entitled as specified in rule 10.4, each Option Holder may, by agreement with that company (**Acquiring Company**) within the Rollover Period, release each Option (**Old Option**) for a replacement option (**New Option**). A New Option shall:

- (e) be over shares which satisfy the requirements of paragraphs 18 to 20 and paragraph 22 of Schedule 3 in the Acquiring Company (or some other company falling within paragraph 39(2)(b) of Schedule 3);
- (f) be a right to acquire such number of those shares as have, immediately after grant of the New Option, a total Market Value that is substantially the same as the total Market Value of the shares subject to the Old Option immediately before its release;
- (g) have an exercise price per share such that the total price payable on complete exercise of the New Option is substantially the same as the total price which would have been payable on complete exercise of the Old Option; and
- (h) subject to rule 10.14, be on terms otherwise identical to the Old Option immediately before the Old Option's release.

and, for the purposes of this rule 10.7, the Market Value of any Shares shall be determined using a methodology agreed by HMRC.

10.8 Any **Rollover Period** shall have the same duration as the applicable period defined in paragraph 38(3) of Schedule 3, which may be summarised (as at the 2014 Amendment Date) as:

- (a) for the purposes of rule 10.1, six months beginning with the time the Acquiring Company obtains Control and any condition of the relevant offer is met;
- (b) for the purposes of rule 10.2 and rule 10.7(c), six months beginning with the time when the court sanctions the relevant compromise or arrangement;
- (c) for the purposes of rule 10.3, six months beginning with the date on which the non-UK company reorganisation arrangement becomes binding on the shareholders covered by it;
- (d) for the purposes of rule 10.4, while the Acquiring Company is bound or entitled as specified in that rule; and
- (e) for the purposes of rule 10.7, as determined by reference to whichever of rule 10.1, rule 10.7(c), rule 10.3 or rule 10.4 applies.

10.9 Any New Option granted under rule 10.7 shall be treated as having been acquired at the same time as the relevant Old Option for all other purposes of the Scheme.

10.10 The Scheme shall be interpreted in relation to any New Options as if references to:

- (a) the **Company** (except for those in the definitions of Constituent Company and Eligible Company) were references

to the Acquiring Company (or to any other company whose shares are subject to the New Options, as the context may require); and

(b) the **Shares** were references to the shares subject to the New Options.

- 10.11 The Company will remain the scheme organiser of the Scheme (as defined in paragraph 2(2) of Schedule 3) following the release of Options and the grant of New Options under rule 10.7.
- 10.12 The Acquiring Company shall issue (or procure the issue of) an Option Certificate for each New Option.
- 10.13 In this rule 10 (other than rule 10.7), a person shall be deemed to have obtained Control of a company if he, and others acting with him, have obtained Control of it together.
- 10.14 An event causing the grant of New Options shall not trigger the exercise of those New Options under rule 10.1, rule 10.2, rule 10.3, rule 10.4 or rule 10.5.
- 10.15 If the Company passes a resolution for voluntary winding up, any Option may be exercised within six weeks after the resolution is passed, failing which it shall lapse at the end of that period.
- 10.16 The Board shall notify Option Holders (and Grantors other than the Company) of any event that is relevant to Options under this rule 10 within a reasonable period after the Board becomes aware of it.

## 11. **VARIATION OF SHARE CAPITAL**

If there is any variation of the share capital of the Company (whether that variation is a capitalisation issue (other than a scrip dividend), rights issue, consolidation, subdivision or reduction of capital or otherwise), the number and description of Shares subject to each Option and/or the Exercise Price of each Option shall be adjusted in a manner the Board deems appropriate provided that:

- (f) the total Market Value of Shares subject to the Option must be substantially the same immediately after the adjustment or adjustments as what it was immediately before the adjustment or adjustments and the total amount payable on the exercise of the Option immediately after the adjustment or adjustments must be substantially the same as what it was immediately before the adjustment or adjustments;
- (g) No adjustment may be made which would result in the requirements of Schedule 3 not being met in relation to the Option..

## 12. **NOTICES**

- 12.1 Any notice or other communication required or made in connection with any Option or otherwise under this Scheme shall be in writing and shall be:
- (n) delivered personally; or
- (o) sent by pre-paid first-class post; or
- (p) sent by recorded delivery post; or
- (q) sent by commercial courier; or
- (r) sent by fax (but fax communications shall only be treated as validly sent if an appropriate report of successful transmission has been recorded by the sender's fax system); or
- (s) sent by e-mail (but e-mail communications shall only be treated as validly sent if an appropriate report of receipt has been returned to the sender by the e-mail system).

12.2 Communications made in accordance with rule 11.1 shall be addressed to the parties interested in the Scheme as specified below:

- (c) in the case of communications to any Eligible Employee or Option Holder, to:
  - (v) his work address; or
  - (vi) his home address, meaning that most recently notified to the sender; or
  - (vii) his work fax number; or
  - (viii) if one has been notified to the sender, his private fax number; or
  - (ix) his work e-mail address; or
  - (x) if one has been notified to the sender, his private e-mail address; and
- (d) in the case of communications to an Option Holder who has died (where the sender has notice of the death), to:
  - (vii) the Option Holder's home address, meaning that most recently notified to the sender; or
  - (viii) any address or fax number (marked for the attention of any specified person) or any e-mail address that the Option Holder's personal representatives have notified to the Company (and any relevant Grantor other than the Company) for such communications; and
- (e) in the case of communications to the Company, to:
  - (i) its registered office, marked for the attention of any specified person, and notified by the Company to the sender; or
  - (ii) any other address (marked for the attention of any specified person) that may have been notified by the Company to the sender; or
  - (iii) any fax number (marked for the attention of any specified person) that may have been notified by the Company to the sender; or
  - (iv) any e-mail address that may have been notified by the Company to the sender; and
- (f) in the case of communications to any Grantor other than the Company, to:
  - (iii) any address (marked for the attention of any specified person) that may have been notified by the Grantor to the sender; or
  - (iv) any fax number (marked for the attention of any specified person) that may have been notified by the Grantor to the sender; or
  - (v) any e-mail address that may have been notified by the Grantor to the sender.

12.3 Communications made to any Eligible Employee, Option Holder or Option Holder's personal representatives shall be deemed to have been duly received:

- (c) if delivered personally, when left at the relevant address; or
- (d) if sent by pre-paid first-class post or recorded delivery post, at 12 noon on the second business day after posting;

or

- (e) if sent by commercial courier, at the time specified on the signed delivery receipt;
- (f) if sent by fax, at the time of transmission; or
- (g) if sent by e-mail, at the time specified in the relevant report of receipt returned to the sender.

12.4 Communications sent to the Company or any other Grantor shall:

- (a) be duly made only if actually received in accordance with this rule 12; and
- (b) shall be treated as made at the time they are received for all purposes of the Scheme.

12.5 This rule 12 shall not apply to the service of any proceedings or other documents in any legal action.

### 13. **ADMINISTRATION AND AMENDMENT**

13.1 The Scheme shall be administered under the direction of the Board.

13.2 The Board may amend the Scheme from time to time, but:

- (h) while the Company is subject to any requirement, or bound by any agreement, that this should be the case, no amendment may be made without the prior approval of the Company in general meeting if it would:
  - (iii) make the terms on which Options may be granted materially more generous; or
  - (iv) increase the limit specified in rule 5; or
  - (v) expand the class of potential Option Holders; or
  - (vi) change rule 12 to the benefit of Option Holders,

unless it is a minor amendment to benefit the administration of the scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Option Holders or for the Company or any Eligible Company; and

- (i) no amendment to a Key Feature may be made if amending that Key Feature would result in the Scheme no longer being an SAYE option scheme that meets the requirements of Schedule 3.

13.3 The cost of establishing and operating the Scheme shall be borne by the Constituent Companies in proportions determined by the Board.

13.4 The Company shall ensure that at all times:

- (i) the Company has sufficient authorised and unissued or treasury Shares available, taking into account any other obligations of the Company to issue Shares and to transfer Shares from treasury; and/or
- (j) arrangements are in place for any third party to transfer issued Shares,
- (k) to satisfy the exercise of all Options of which the Company is the Grantor.

13.5 Each Grantor other than the Company shall at all times:

- (f) keep sufficient issued Shares available; and/or
  - (g) hold sufficient enforceable rights to subscribe for Shares, or to acquire issued Shares,
  - (h) to satisfy the exercise of all Options granted by that Grantor.
- 13.6 The Board shall determine any question of interpretation and settle any dispute arising under the Scheme (other than any requiring determination by the Auditors). In doing so, the Board shall exercise its discretion in a manner which is fair and reasonable. In such matters the Board's decision shall be final.
- 13.7 The Company and any other Grantor shall not be obliged to notify any Option Holder if an Option is due to lapse.
- 13.8 The Company and any other Grantor shall not be obliged to provide Option Holders with copies of any materials sent to the holders of Shares.
- 13.9 The rules of the Scheme shall be governed by, and interpreted in accordance with, the laws of England. The courts of England and Wales shall have exclusive jurisdiction over:
- (a) the rules of the Scheme; and
  - (b) all Options.

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## Section 3: EX-10.2 (EXHIBIT)

Exhibit 10.2

**ASPEN INSURANCE U.S. SERVICES INC.  
NONQUALIFIED DEFERRED COMPENSATION PLAN**

**AMENDED AND RESTATED EFFECTIVE AUGUST 1, 2014**

*This document is drafted with the intent that it comply with Internal Revenue Code Section 409A and regulations promulgated thereunder. NFP Executive Benefits has provided you this specimen document strictly in its capacity as an employee benefits consulting firm and plan record keeper. NFP Executive Benefits does NOT provide legal, tax or accounting consultation or advice. It is NFP Executive Benefits' recommendation that you seek appropriately specialized professional consultation regarding the information and/or material contained herein.*

**ASPEN INSURANCE U.S. SERVICES INC.  
Nonqualified Deferred Compensation Plan**

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**ASPEN INSURANCE U.S. SERVICES INC.  
Nonqualified Deferred Compensation Plan**

WHEREAS, Aspen Insurance U.S. Services Inc., and its affiliates and subsidiaries (the "Employer"), adopted the Aspen Insurance U. S. Services, Inc. Deferred Compensation Plan ("Prior Plan") on January 8, 2013 with an effective date of January 1, 2012;

WHEREAS, the Employer desires to change certain provisions of the Prior Plan effective July 1, 2014 as amended and restated effective August 1, 2014; and

WHEREAS, Section 9.1 of the Prior Plan provides Employer with the authority to amend and modify the Plan, subject to non-applicable restrictions;

NOW THEREFORE, the Employer hereby amends and restates the Prior Plan as the Aspen Insurance U.S. Services Inc. Nonqualified Deferred Compensation Plan ("Plan"). This Plan is an unfunded arrangement and is intended to be exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended. It is intended to comply with Internal Revenue Code Section 409A.

**Article 1 Definitions**

**1.1 Account**

The sum of all the bookkeeping sub-accounts as may be established for each Participant as provided in Section 5.1 hereof.

**1.2 Administrator**

The Employer or individuals or an administrative committee appointed by the Board shall serve as the Administrator of the Plan. The Administrator shall serve as the agent for the Employer with respect to the Trust.

**1.3 Board**

The Board of Directors of the Employer.

**1.4 Bonus**

Compensation which is designated as such by the Employer and which relates to services performed during an incentive period by an Eligible Employee in addition to his or her Salary, including any pretax elective deferrals from said Bonus to any Employer sponsored plan that includes amounts deferred under a Deferral Election or any elective deferral as defined in Code Section 402(g)(3) or any amount contributed or deferred at the election of the Eligible Employee in accordance with Code Section 125 or 132(f)(4).

**1.5 Change-in-Control**

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, a "Change-in-Control" of the Employer (which, for purpose of this Section 1.5 shall mean ABC Company but not any of its affiliates or subsidiaries) shall mean the first to occur of any of the following:

(a) the date that any one person or persons acting as a group acquires ownership of Employer stock constituting more than fifty percent (50%) of the total fair market value or total voting power of the Employer;

(b) the date that any one person or persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of the stock of the Employer possessing thirty percent (30%) or more of the total voting power of the stock of the Employer;

(c) the date that any one person or persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Employer that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Employer immediately prior to such acquisition; or

(d) the date that a majority of members of the Employer's Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or elections.

**1.6 Code**

The Internal Revenue Code of 1986, as amended.

**1.7 Compensation**

The Participant's earned income, consisting of Salary and Bonus.

### **1.8 Deferrals**

The portion of Compensation that a Participant elects to defer in accordance with Section 3.1 hereof.

### **1.9 Deferral Election**

The separate agreement, submitted to the Administrator, by which an Eligible Employee agrees to participate in the Plan and make Deferrals thereto.

### **1.10 Disability**

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, a Participant shall be considered to have incurred a Disability if: (i) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (ii) the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant's Employer; or (iii) determined to be totally disabled by the Social Security Administration.

### **1.11 Effective Date**

July 1, 2014.

### **1.12 Eligible Employee**

An Employee shall be considered an Eligible Employee if such Employee is a member of a "select group of management or highly compensated employees," within the meaning of Sections 201, 301 and 401 of ERISA, and is designated as an Eligible Employee by the Administrator. The Administrator may at any time, in its sole discretion, change the eligible criteria for an Eligible Employee or determine that one or more Participants will cease to be an Eligible Employee. The designation of an Employee as an Eligible Employee in any year shall not confer upon such Employee any right to be designated as an Eligible Employee in any future Plan Year.

### **1.13 Employee**

Any person employed by the Employer.

### **1.14 Employer**

Aspen Insurance U.S. Services Inc. and its subsidiaries and affiliates.

### **1.15 Employer Discretionary Contribution**

A discretionary contribution made by the Employer that is credited to one or more Participant's Accounts in accordance with the terms of Section 3.7 hereof.

### **1.16 Employer Matching Contribution**

A contribution made by the Employer that is credited to one or more Participant's Accounts in accordance with the terms of Section 3.6 hereof.

### **1.17 ERISA**

The Employee Retirement Income Security Act of 1974, as amended.

### **1.18 Investment Fund**

Each investment(s) which serves as a means to measure value, increases or decreases with respect to a Participant's Accounts.

### **1.19 Participant**

An Eligible Employee who is a Participant as provided in Article 2.

### **1.20 Plan Year**

For the initial Plan Year, Effective Date through December 31, 2014. For each year thereafter, January 1 through December 31.

### **1.21 Retirement**

Retirement shall mean a Participant's Separation from Service from the Employer for reasons other than death or Disability, on or after the earlier of the Participant's attainment of sixty-five (65) years of age or the attainment of age fifty-five (55) with at least ten (10) Years of Service with the Employer.

### **1.22 Salary**

An Eligible Employee's base salary earned during a Plan Year, including any pretax elective deferrals from said Salary to any Employer sponsored plan that includes amounts deferred under a Deferral Election or any elective deferral as defined in Code Section 402(g)(3) or any amount contributed or deferred at the election of the Eligible Employee in accordance with Code Section 125 or 132(f) (4).

### **1.23 Separation from Service**

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, a Participant shall incur a Separation from Service with the Service Recipient due to death, retirement or other termination of employment with the Service Recipient unless the employment relationship is treated as continuing intact while the individual is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the individual retains a right to reemployment with the Service Recipient under an applicable statute or by contract. Upon a sale or other disposition of the assets of the Employer to an unrelated purchaser, the Administrator reserves the right, to the extent permitted by Code section 409A to determine whether Participants providing services to the purchaser after and in connection with the purchase transaction have experienced a Separation from Service.

### **1.24 Service Recipient**

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, Service Recipient shall mean the Employer or person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Code Section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code Section 414(c) (employees of partnerships, proprietorships, etc., under common control).

### **1.25 Trust**

The agreement between the Employer and the Trustee under which the assets of the Plan are held, administered and managed, which shall conform to the terms of Rev. Proc. 92-64.

### **1.26 Trustee**

The person or entity appointed as trustee under the terms of the Trust or such other successor that shall become trustee pursuant to the terms of the Plan.

### **1.27 Years of Service**

A Participant's "Years of Service" shall be measured by employment during a twelve (12) month period commencing with the Participant's date of hire and anniversaries thereof.

## **Article 2 Participation**

### **2.1 Commencement of Participation**

Each Eligible Employee shall become a Participant at the earlier of the date on which his or her Deferral Election first becomes effective or the date on which an Employer Discretionary Contribution is first credited to his or her Account.

### **2.2 Loss of Eligible Employee Status**

A Participant who is no longer an Eligible Employee shall not be permitted to submit a Deferral Election and all Deferrals for such Participant shall cease as of the end of the Plan Year in which such Participant is determined to no longer be an Eligible Employee. Amounts credited to the Account of a Participant who is no longer an Eligible Employee shall continue to be held pursuant to the terms of the Plan and shall be distributed as provided in Article 6.

## **Article 3 Contributions**

### **3.1 Deferral Elections - General**

A Participant's Deferral Election for a Plan Year is irrevocable for that applicable Plan Year; provided, however that a cessation of Deferrals shall be allowed if required by the terms of the Employer's qualified 401(k) plan in order for the Participant to obtain a hardship withdrawal from the 401(k) plan, or if required under Section 6.10 (Unforeseeable Emergency) of this Plan. Such amounts deferred under the Plan shall not be made available to such Participant, except as provided in Article 6, and shall reduce such Participant's Compensation from the Employer in accordance with the provisions of the applicable Deferral Election; provided, however, that all such amounts shall be subject to the rights of the general creditors of the Employer as provided in Article 8. The Deferral Election, in addition to the requirements set forth below, must designate: (i) the amount of Compensation to be deferred, (ii) the time of the distribution, and (iii) the form of the distribution.

### **3.2 Time of Election**

A Deferral Election shall be void if it is not made in a timely manner as follows:

(a) A Deferral Election with respect to any Compensation must be submitted to the Administrator before the beginning of the calendar year during which the amount to be deferred will be earned. As of December 31 of each calendar year, said Deferral Election is irrevocable for the calendar year.

(b) Notwithstanding the foregoing and in the discretion of the Employer, in a year in which an Employee is first eligible to participate, and provided that such Employee is not eligible to participate in any other similar account balance arrangement subject to Code Section 409A, such Deferral Election shall be submitted within thirty (30) days after the date on which an Employee is first eligible to participate, and such Deferral Election shall apply to Compensation to be earned during the remainder of the calendar year after such election is made.

### **3.3 Distribution Elections**

At the time a Participant makes a Deferral Election, he or she must also elect the time and form of the distribution by establishing one or more In-Service Account or Separation Account(s) as provided in Sections 5.1 and 6.1. If the Participant fails to properly designate the time and form of a distribution, the Participant's Account shall be designated as a Separation Account and shall be paid in a lump sum.

### **3.4 Additional Requirements**

The Deferral Election, subject to the limitations set forth in Sections 3.1 and 3.2 hereof, shall comply with the following additional requirements, or as otherwise required by the Administrator in its sole discretion:

(a) Deferrals may be made in whole percentages or stated dollar amounts as determined by the Administrator.

(b) The maximum amount that may be deferred each Plan Year is fifty percent (50%) of the Participant's Salary and Commissions, and one-hundred percent (100%) of the Participant's Bonus and Performance-based Compensation, net of applicable taxes.

(c) The distribution year for an In-Service Account must be at least three (3) Plan Years after the Plan Year in which such Deferral is credited to an In-Service subaccount.

### **3.5 Cancellation of Deferral Election due to Disability**

Notwithstanding anything to the contrary, if a Participant incurs a disability as defined in this Section 3.5, said Participant may file an election to stop Deferrals as of the date the election is received by the Administrator, provided that such cancellation occurs by the later of the end of the calendar year or the 15th day of the third month following the date the Participant incurs a disability. Disability for purposes of this Section 3.5 only means that a Participant incurs a medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months, as determined by the Administrator in its sole discretion.

### **3.6 Matching Contribution**

The Employer may also credit to the Account of each Participant who makes Deferrals a Matching Contribution in an amount equal to a percentage of the Deferrals contributed by the Participant, with such percentage determined annually by the Employer, in its sole discretion. Such Matching Contribution shall be credited to such sub-account as may be elected by the Participant for his or her Salary Deferrals, or if no Salary Deferrals, then for Bonus Deferrals in accordance with Section 5.1 and procedures established by the Plan Administrator.

### **3.7 Employer Discretionary Contribution**

The Employer may make discretionary contributions to some or all Participants' Accounts in such amount and in such manner as may be determined by the Employer. Such Employer Discretionary Contribution, at the option of the Employer, shall be credited to such sub-account as may be elected by the Participant in accordance with Sections 3.1 and 5.1 and procedures established by the Administrator. In the event no such election is made by the Participant or if Employer desires to direct Employer Discretionary Contributions to a particular Participant sub-account, the Employer, in its sole discretion, may determine which sub-account will be credited with such Employer Discretionary Contribution. In the event the Employer does not designate which Participant sub-account shall be credited, such Employer Discretionary Contribution shall be credited to a lump-sum Separation/Retirement sub-account.

## **Article 4 Vesting**

### **4.1 Vesting of Deferrals**

A Participant shall be one-hundred percent (100%) vested in his or her Account attributable to Deferrals and any earning or losses on the investment of such Deferrals.

### **4.2 Vesting of Matching Contributions**

Except as otherwise provided herein, a Participant shall have a vested right to the portion of his or her Account attributable to Matching Contribution(s) and any earnings or losses on the investment of such Matching Contribution(s) according to such vesting schedule as the Employer shall determine at the time an Matching Contribution is made.

### **4.3 Vesting of Employer Discretionary Contributions**

A Participant shall have a vested right to the portion of his or her Account attributable to Employer Discretionary Contribution(s) and any earnings or losses on the investment of such Employer Discretionary Contribution(s) according to such vesting schedule as the Employer shall determine at the time an Employer Discretionary Contribution is made.

### **4.4 Vesting due to Certain Events**

(a) A Participant who incurs a Disability shall be fully vested in the amounts credited to his or her Account as of the date of Disability.

(b) Upon a Participant's death, the Participant shall be fully vested in the amounts credited to his or her Account.

(c) A Participant who incurs a Separation from Service due to Retirement shall be fully vested in the amounts credited to his or her Account as of the date of Retirement.

(d) Upon a Change-in-Control, all Participants shall be fully vested in the amounts credited to their Accounts as of the date of the Change-in-Control.

#### **4.5 Amounts Not Vested**

Any amounts credited to a Participant's Account that are not vested at the time of a distribution event shall be forfeited.

#### **4.6 Forfeitures**

At the discretion of the Employer, any forfeitures from a Participant's Account (i) may continue to be held in the Trust, may be separately invested, and may be used to reduce succeeding Deferrals and any Employer Contributions, or (ii) may be returned to the Employer as soon as administratively feasible.

Alt: Any forfeitures from a Participant's Account shall continue to be held in the Trust, shall be separately invested and shall be used to reduce succeeding Deferrals, Employer Matching Contributions, or Employer Discretionary Contributions until such forfeitures have been entirely so applied. If no further Contributions will be made, then such forfeitures shall be returned to the Employer.

### **Article 5 Accounts**

#### **5.1 Accounts**

The Administrator shall establish and maintain a bookkeeping account in the name of each Participant. The Administrator shall also establish sub-accounts as provided in subsection (a) and (b), below, as elected by the Participant pursuant to Article 3. A Participant may have a maximum of ten (10) sub-accounts at any time.

(a) A Participant may establish one or more Retirement Account ("Retirement sub-account") by designating as such on the Participant's Deferral Election. Each Participant's Retirement sub-account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Employer Matching Contributions allocable thereto, any Employer Discretionary Contributions, and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Retirement sub-account shall be reduced by any distributions made plus any federal and state tax withholding, and any social security withholding tax as may be required by law.

(b) A Participant may elect to establish one or more In-Service Account ("In-Service sub-account") by designating as such in the Participant's Deferral Election the year in which payment shall be made. Each Participant's In-Service sub-account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Employer Matching Contributions allocable thereto, any Employer Discretionary Contributions and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's In-Service sub-account shall be reduced by any distributions made plus any federal and state tax withholding and any social security withholding tax as may be required by law.

#### **5.2 Investments, Gains and Losses**

(a) A Participant may direct that his or her Retirement sub-accounts and or In-Service sub-accounts established pursuant to Section 5.1 may be valued as if they were invested in one or more Investment Funds as selected by the Employer in multiples of one percent (1%). The Employer may from time to time, at the discretion of the Administrator, change the Investment Funds for purposes of this Plan.

(b) The Administrator shall adjust the amounts credited to each Participant's Account to reflect Deferrals, Employer Matching Contributions, any Employer Discretionary Contributions, investment experience, distributions and any other appropriate adjustments. Such adjustments shall be made as frequently as is administratively feasible.

(c) A Participant may change his or her selection of Investment Funds no more than six (6) times each Plan Year with respect to his or her Account or sub-accounts by filing a new election in accordance with procedures established by the Administrator. An election shall be effective as soon as administratively feasible following the date the change is submitted on a form prescribed by the Administrator.

(d) Notwithstanding the Participant's ability to designate the Investment Fund in which his or her deferred Compensation shall be deemed invested, the Employer shall have no obligation to invest any funds in accordance with the Participant's election. Participants' Accounts shall merely be bookkeeping entries on the Employer's books, and no Participant shall obtain any property right or interest in any Investment Fund.

### **Article 6 Distributions**

#### **6.1 Distribution Election**

Each Participant shall designate in his or her Deferral Election the form and timing of his or her distribution by indicating the

type of sub-account as described under Section 5.1, and by designating the form in which payments shall be made from the choices available under Section 6.2 and 6.3 hereof. Notwithstanding anything to the contrary contained herein provided, no acceleration of the time or schedule of payments under the Plan shall occur except as permitted under both this Plan and Code Section 409A.

### **6.2 Distributions upon an In-Service Account Triggering Date**

In-Service sub-account distributions shall occur as soon as administratively feasible but no later than ninety (90) days following June 1 of the calendar year designated by the Participant on a properly submitted Deferral Election and is payable in a lump-sum payment.

### **6.3 Distributions upon Retirement**

If the Participant has a Separation from Service due to Retirement, the Participant's Retirement sub-account(s) shall be distributed as soon as administratively feasible, but no earlier than six (6) months and no later than eight (8) months following Participant's Retirement.

Distribution shall be made either in a lump-sum payment or in substantially equal annual installments, as defined in Section 6.4 below, over a period of up to ten (10) years as elected by the Participant. If the Participant fails to designate the form of the distribution, the sub-account shall be paid in a lump-sum payment. If distributions are to be made in annual installments, the second installment and all those thereafter will be made on the applicable anniversaries of the date on which the Participant's initial installment was payable. If a Participant has any In-Service sub-accounts at the time of his or her Retirement, said sub-accounts shall be distributed in a lump sum as soon as administratively feasible but no earlier than six (6) months and no later than eight (8) months following Participant's Retirement.

### **6.4 Substantially Equal Annual Installments**

(a) The amount of the substantially equal payments shall be determined by multiplying the Participant's Account or sub-account by a fraction, the denominator of which in the first year of payment equals the number of years over which benefits are to be paid, and the numerator of which is one (1). The amounts of the payments for each succeeding year shall be determined by multiplying the Participant's Account or sub-account as of the applicable anniversary of the payout by a fraction, the denominator of which equals the number of remaining years over which benefits are to be paid, and the numerator of which is one (1). Installment payments made pursuant to this Section 6.4 shall be made as soon as administratively feasible but no later than ninety (90) days following the anniversary of the distribution event, subject to Section 6.11 (Distributions to Specified Employees).

(b) For purposes of the Plan pursuant to Code Section 409A and regulations thereunder, a series of annual installments from a particular subaccount shall be considered a single payment.

### **6.5 Distributions due to other Separation from Service**

Upon a Participant's Separation from Service for any reason other than Retirement, death or Disability, all vested amounts credited to his or her Account shall be paid to the Participant in a lump-sum no earlier six (6) months following the Participant's Separation from Service and no later than eight/nine months after such date.

### **6.6 Distributions due to Disability**

Upon a Participant's Disability, all amounts credited to his or her Account shall be paid to the Participant in a lump sum as soon as administratively feasible but no later than ninety (90) days following the date of Disability.

### **6.7 Distributions upon Death**

Upon the death of a Participant, all amounts credited to his or her Account shall be paid, as soon as administratively feasible but no later than ninety (90) days following Participant's date of death, to his or her beneficiary or beneficiaries, as determined under Article 7 hereof, in a lump sum.

### **6.8 Changes to Distribution Elections**

A Participant will be permitted to elect to change the form or timing of the distribution of the balance of his or her one or more sub-accounts within his or her Account to the extent permitted and in accordance with the requirements of Code Section 409A(a)(4)(C), including the requirement that (i) a redeferral election may not take effect until at least twelve (12) months after such election is filed with the Employer, (ii) an election to further defer a distribution (other than a distribution upon death, Disability or an unforeseeable emergency) must result in the first distribution subject to the election being made at least five (5) years after the previously elected date of distribution, and (iii) any redeferral election affecting a distribution at a fixed date must be filed with the Employer at least twelve (12) months before the first scheduled payment under the previous fixed date distribution election.

### **6.9 Acceleration or Delay in Payments**

To the extent permitted by Code Section 409A, and notwithstanding any provision of the Plan to the contrary, the Administrator, in its sole discretion, may elect to (i) accelerate the time or form of payment of a benefit owed to a Participant hereunder in accordance with the terms and subject to the conditions of Treasury Regulations Section 1.409A-3(j)(4), or (ii) delay the time of payment of a benefit owed to a Participant hereunder in accordance with the terms and subject to the conditions of Treasury Regulations Section 1.409A-2(b) (7). By way of example, and at the sole discretion of the Administrator, if a Participant's entire Account balance is less than the applicable Code Section 402(g) annual limit, the Employer may distribute the Participant's Account in a lump sum provided that the distribution results in the termination of the participant's entire interest in the Plan, subject to the plan aggregation rules of Code Section

409A and regulations thereunder. By way of example, the Administrator may permit such acceleration of the time or schedule of a payment under the arrangement to an individual other than a Participant as may be necessary to fulfill a domestic relations order (as defined in Code Section 414(p)(1)(B)).

#### **6.10 Unforeseeable Emergency**

The Administrator may permit an early distribution of part or all of any deferred amounts; provided, however, that such distribution shall be made only if the Administrator, in its sole discretion, determines that the Participant, or the Participant's beneficiary, has experienced an Unforeseeable Emergency. An Unforeseeable Emergency is defined as a severe financial hardship resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant's property due to casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. If an Unforeseeable Emergency is determined to exist, a distribution may not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship). Upon a distribution to a Participant under this Section 6.10, the Participant's Deferrals shall cease and no further Deferrals shall be made for such Participant for the remainder of the Plan Year and one (1) subsequent Plan Year.

#### **6.11 Minimum Distribution**

Notwithstanding any provision to the contrary, if the balance of a Participant's Account or sub-account at the time of a distribution event is \$25,000 or less, then the Participant shall be paid his or her Account or sub-account as a single lump sum.

#### **6.12 Form of Payment**

All distributions shall be made in the form of cash.

#### **6.13 Distributions upon a Change-in-Control**

Notwithstanding any distribution election to the contrary, if a Change-in-Control occurs and a Participant incurs a Separation from Service during the period beginning on the date of the Change-in-Control and ending on the second anniversary of the Change-in-Control, then the remaining amount of the Participant's vested Account shall be paid to the Participant or his or her beneficiary in a single lump-sum payment as soon as administratively possible, but no later than ninety (90) days, following such Change-in-Control.

### **Article 7 Beneficiaries**

#### **7.1 Beneficiaries**

Each Participant may from time to time designate one or more persons (who may be any one or more members of such person's family or other persons, administrators, trusts, foundations or other entities) as his or her beneficiary under the Plan. Such designation shall be made in a form prescribed by the Administrator. Each Participant may at any time and from time to time, change any previous beneficiary designation, without notice to or consent of any previously designated beneficiary, by amending his or her previous designation in a form prescribed by the Administrator. If the beneficiary does not survive the Participant (or is otherwise unavailable to receive payment), or if no beneficiary is validly designated then the amounts payable under this Plan shall be paid to the Participant's estate. If more than one person is the beneficiary of a deceased Participant, each such person shall receive a pro rata share of any death benefit payable unless otherwise designated in the applicable form. If a beneficiary who is receiving benefits dies, all benefits that were payable to such beneficiary shall then be payable to the estate of that beneficiary.

#### **7.2 Lost Beneficiary**

All Participants and beneficiaries shall have the obligation to keep the Administrator informed of their current address until such time as all benefits due have been paid. If a Participant or beneficiary cannot be located by the Administrator exercising due diligence, then, in its sole discretion, the Administrator may presume that the Participant or beneficiary is deceased for purposes of the Plan and all unpaid amounts (net of due diligence expenses) owed to the Participant or beneficiary shall be paid accordingly or, if a beneficiary cannot be so located, then such amounts may be forfeited. Any such presumption of death shall be final, conclusive and binding on all parties.

### **Article 8 Funding**

#### **8.1 Prohibition against Funding**

Should any investment be acquired in connection with the liabilities assumed under this Plan, it is expressly understood and agreed that the Participants and beneficiaries shall not have any right with respect to, or claim against, such assets nor shall any such purchase be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Participants, their beneficiaries or any other person. Any such assets shall be and remain a part of the general, unpledged, unrestricted assets of the Employer, subject to the claims of its general creditors. It is the express intention of the parties hereto that this arrangement shall be unfunded for tax purposes and for purposes of Title I of the ERISA. Each Participant and beneficiary shall be required to look to the provisions of this Plan and to the Employer itself for enforcement of any and all benefits due under this Plan, and to the extent any such

person acquires a right to receive payment under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer. The Employer or the Trust shall be designated the owner and beneficiary of any investment acquired in connection with its obligation under this Plan.

### **8.2 Deposits in Trust**

Notwithstanding Section 8.1, or any other provision of this Plan to the contrary, the Employer may deposit into the Trust any amounts it deems appropriate to pay the benefits under this Plan. The amounts so deposited may include all contributions made pursuant to a Deferral Election by a Participant, all Employer Matching Contributions and any Employer Discretionary Contributions.

### **8.3 Withholding of Employee Contributions**

The Administrator is authorized to make any and all necessary arrangements with the Employer in order to withhold the Participant's Deferrals under Section 3.1 hereof from his or her Compensation. The Administrator shall determine the amount and timing of such withholding.

## **Article 9 Claims Administration**

### **9.1 General**

If a Participant, beneficiary or his or her representative is denied all or a portion of an expected Plan benefit for any reason and the Participant, beneficiary or his or her representative desires to dispute the decision of the Administrator, he or she must file a written notification of his or her claim with the Administrator.

### **9.2 Claims Procedure**

Upon receipt of any written claim for benefits, the Administrator shall be notified and shall give due consideration to the claim presented. If any Participant or beneficiary claims to be entitled to benefits under the Plan and the Administrator determines that the claim should be denied in whole or in part, the Administrator shall, in writing, notify such claimant within ninety (90) days (forty-five (45) days if the claim is on account of Disability) of receipt of the claim that the claim has been denied. The Administrator may extend the period of time for making a determination with respect to any claim for a period of up to ninety (90) days (thirty (30) days if claim is on account of Disability), provided that the Administrator determines that such an extension is necessary because of special circumstances and notifies the claimant, prior to the expiration of the initial ninety (90) day (or forty-five (45) day) period, of the circumstances requiring the extension of time and the date by which the Plan expects to render a decision. If the claim is denied to any extent by the Administrator, the Administrator shall furnish the claimant with a written notice setting forth:

- (a) the specific reason or reasons for denial of the claim;
- (b) a specific reference to the Plan provisions on which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) an explanation of the provisions of this Article.

Under no circumstances shall any failure by the Administrator to comply with the provisions of this Section 9.2 be considered to constitute an allowance of the claimant's claim.

### **9.3 Right of Appeal**

A claimant who has a claim denied wholly or partially under Section 9.2 may appeal to the Administrator for reconsideration of that claim. A request for reconsideration under this Section must be filed by written notice within sixty (60) days (one-hundred and eighty (180) days if the claim is on account of Disability) after receipt by the claimant of the notice of denial under Section 9.2.

### **9.4 Review of Appeal**

Upon receipt of an appeal the Administrator shall promptly take action to give due consideration to the appeal. Such consideration may include a hearing of the parties involved, if the Administrator feels such a hearing is necessary. In preparing for this appeal, the claimant shall be given the right to review pertinent documents and the right to submit in writing a statement of issues and comments. After consideration of the merits of the appeal, the Administrator shall issue a written decision, which shall be binding on all parties. The decision shall specifically state its reasons and pertinent Plan provisions on which it relies. The Administrator's decision shall be issued within sixty (60) days (forty-five (45) days if the claim is on account of Disability) after the appeal is filed, except that the Administrator may extend the period of time for making a determination with respect to any claim for a period of up one-hundred and twenty (120) days (ninety (90) days if the claim is on account of Disability), provided that the Administrator determines that such an extension is necessary because of special circumstances and notifies the claimant, prior to the expiration of the initial one-hundred and twenty (120) day (or, if the claim is on account of Disability, initial ninety (90) day) period, of the circumstances requiring the extension of time and the date by which the Plan expects to render a decision. Under no circumstances shall any failure by the Administrator to comply with the provisions of this Section 9.4 be considered to constitute an allowance of the claimant's claim. In the case of a claim on account of Disability: (i) the review of the denied claim shall be conducted by an employee who is neither the individual who made the initial determination or a subordinate of such person; and (ii) no deference shall be given to the initial determination. For issues involving medical judgment, the employee must consult with an independent health care professional who may not be the health care professional who rendered the initial claim.

## **9.5 Designation**

The Administrator may designate any other person of its choosing to make any determination otherwise required under this Article. Any person so designated shall have the same authority and discretion granted to the Administrator hereunder.

## **Article 10 General Provisions**

### **10.1 Administrator**

(a) The Administrator is expressly empowered to limit the amount of Compensation that may be deferred; to deposit amounts into the Trust in accordance with Section 8.2 hereof; to interpret the Plan, and to determine all questions arising in the administration, interpretation and application of the Plan; to employ actuaries, accountants, counsel, and other persons it deems necessary in connection with the administration of the Plan; to request any information from the Employer it deems necessary to determine whether the Employer would be considered insolvent or subject to a proceeding in bankruptcy; and to take all other necessary and proper actions to fulfill its duties as Administrator.

(b) The Administrator shall not be liable for any actions by it hereunder, unless due to its own negligence, willful misconduct or lack of good faith.

(c) The Administrator shall be indemnified and saved harmless by the Employer from and against all personal liability to which it may be subject by reason of any act done or omitted to be done in its official capacity as Administrator in good faith in the administration of the Plan and Trust, including all expenses reasonably incurred in its defense in the event the Employer fails to provide such defense upon the request of the Administrator. The Administrator is relieved of all responsibility in connection with its duties hereunder to the fullest extent permitted by law, short of breach of duty to the beneficiaries.

### **10.2 No Assignment**

Benefits or payments under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's beneficiary, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish the same shall not be valid, nor shall any such benefit or payment be in any way liable for or subject to the debts, contracts, liabilities, engagement or torts of any Participant or beneficiary, or any other person entitled to such benefit or payment pursuant to the terms of this Plan, except to such extent as may be required by law. If any Participant or beneficiary or any other person entitled to a benefit or payment pursuant to the terms of this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish any benefit or payment under this Plan, in whole or in part, or if any attempt is made to subject any such benefit or payment, in whole or in part, to the debts, contracts, liabilities, engagements or torts of the Participant or beneficiary or any other person entitled to any such benefit or payment pursuant to the terms of this Plan, then such benefit or payment, in the discretion of the Administrator, shall cease and terminate with respect to such Participant or beneficiary, or any other such person.

### **10.3 No Employment Rights**

Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Employer, or give a Participant or beneficiary, or any other person, any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge to the same extent as if this Plan had never been adopted.

### **10.4 Incompetence**

If the Administrator determines that any person to whom a benefit is payable under this Plan is incompetent by reason of physical or mental disability, the Administrator shall have the power to cause the payments becoming due to such person to be made to another for his or her benefit without responsibility of the Administrator or the Employer to see to the application of such payments. Any payment made pursuant to such power shall, as to such payment, operate as a complete discharge of the Employer, the Administrator and the Trustee.

### **10.5 Identity**

If, at any time, any doubt exists as to the identity of any person entitled to any payment hereunder or the amount or time of such payment, the Administrator shall be entitled to hold such sum until such identity or amount or time is determined or until an order of a court of competent jurisdiction is obtained. The Administrator shall also be entitled to pay such sum into court in accordance with the appropriate rules of law. Any expenses incurred by the Employer, Administrator, and Trust incident to such proceeding or litigation shall be charged against the Account of the affected Participant.

### **10.6 Other Benefits**

The benefits of each Participant or beneficiary hereunder shall be in addition to any benefits paid or payable to or on account of the Participant or beneficiary under any other pension, disability, annuity or retirement plan or policy whatsoever.

### **10.7 Expenses**

All expenses incurred in the administration of the Plan, whether incurred by the Employer or the Plan, shall be paid by the

Employer.

#### **10.8 Insolvency**

Should the Employer be considered insolvent (as defined by the Trust), the Employer, through its Board and chief executive officer, shall give immediate written notice of such to the Administrator of the Plan and the Trustee. Upon receipt of such notice, the Administrator or Trustee shall cease to make any payments to Participants who were Employees of the Employer or their beneficiaries and shall hold any and all assets attributable to the Employer for the benefit of the general creditors of the Employer.

#### **10.9 Amendment or Modification**

The Employer may, at any time, in its sole discretion, amend or modify the Plan in whole or in part, except that no such amendment or modification shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that such amendment or modification complies with Code Section 409A and related regulations thereunder.

#### **10.10 Plan Suspension**

The Employer further reserves the right to suspend the Plan in whole or in part, except that no such suspension shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that the distribution of the vested Participant Accounts shall not be accelerated but shall be paid at such time and in such manner as determined under the terms of the Plan immediately prior to suspension as if the Plan had not been suspended.

#### **10.11 Plan Termination**

The Employer further reserves the right to terminate the Plan in whole or in part, in the following manner, except that no such termination shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that such termination complies with Code Section 409A and related regulations thereunder:

(a) The Employer, in its sole discretion, may terminate the Plan and distribute all vested Participants' Accounts no earlier than twelve (12) calendar months from the date of the Plan termination and no later than twenty-four (24) calendar months from the date of the Plan termination, provided however that all other similar arrangements are also terminated by the Employer for any affected Participant and no other similar arrangements are adopted by the Employer for any affected Participant within a three (3) year period from the date of termination; or

(b) The Employer may decide, in its sole discretion, to terminate the Plan in the event of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court, provided that the Participants vested Account balances are distributed to Participants and are included in the Participants' gross income in the latest of: (i) the calendar year in which the termination occurs; (ii) the calendar year in which the amounts deferred are no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which payment is administratively practicable.

#### **10.12 Plan Termination due to a Change-in-Control**

The Employer may decide, in its discretion, to terminate the Plan in the event of a Change-in-Control and distribute all vested Participants Account balances no earlier than thirty (30) days prior to the Change-in-Control and no later than twelve (12) months after the effective date of the Change-in-Control, provided however that the Employer terminates all other similar arrangements for any affected Participant.

#### **10.13 Construction**

All questions of interpretation, construction or application arising under or concerning the terms of this Plan shall be decided by the Administrator, in its sole and final discretion, whose decision shall be final, binding and conclusive upon all persons.

#### **10.14 Governing Law**

This Plan shall be governed by, construed and administered in accordance with the applicable provisions of ERISA, Code Section 409A, and any other applicable federal law, provided, however, that to the extent not preempted by federal law this Plan shall be governed by, construed and administered under the laws of the State of Delaware, other than its laws respecting choice of law.

#### **10.15 Severability**

If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provision of this Plan and this Plan shall be construed and enforced as if such provision had not been included therein. If the inclusion of any Employee (or Employees) as a Participant under this Plan would cause the Plan to fail to comply with the requirements of sections 201 (2), 301(a)(3) and 401(a)(1) of ERISA, then the Plan shall be severed with respect to such Employee or Employees, who shall be considered to be participating in a separate arrangement.

#### **10.16 Headings**

The Article headings contained herein are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of this Plan nor in any way shall they affect this Plan or the construction of any provision thereof.

#### **10.17 Terms**

Capitalized terms shall have meanings as defined herein. Singular nouns shall be read as plural, masculine pronouns shall be

read as feminine, and vice versa, as appropriate.

#### 10.18 Code Section 409A Fail Safe Provision

If any provision of this Plan violates Code Section 409A, the regulations promulgated thereunder, regulatory interpretations, announcements or mandatory judicial precedent construing Code Section 409A (collectively "Applicable Law"), then such provision shall be void and have no effect. At all times, this Plan shall be interpreted in such manner that it complies with Applicable Law.

IN WITNESS WHEREOF, Aspen Insurance U.S. Services Inc. has caused this instrument to be executed by its duly authorized officer, effective as of this 1st day of August, 2014.

Aspen Insurance U.S. Services Inc.

By: /s/ Mark Jones  
Mark Jones

Title: Chief Financial Officer

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## Section 4: EX-31.1 (EXHIBIT)

**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 officer 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 fiscal 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.

By: /s/ Christopher O'Kane

Name: Christopher O'Kane

Title: Chief Executive Officer

Date: November 7, 2014

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## Section 5: EX-31.2 (EXHIBIT)

**Exhibit 31.2**

### CERTIFICATIONS

I, John Worth, 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 officer 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 fiscal 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.

By: /s/ John Worth

Name: John Worth

Title: Chief Financial Officer

Date: November 7, 2014

## Section 6: EX-32.1 (EXHIBIT)

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, 2014 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 John Worth 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, as amended; 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, 2014

By: /s/ Christopher O'Kane

Name: Christopher O'Kane

Title: Chief Executive Officer

Date: November 7, 2014

By: /s/ John Worth

Name: John Worth

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.