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

Form 10-Q

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

For the Period Ended March 31, 2010

or

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

Commission file number 001-31909

ASPEN INSURANCE HOLDINGS LIMITED

(Exact Name of Registrant as Specified in Its Charter)

Bermuda
(State or other jurisdiction of incorporation or organization)
Maxwell Roberts Building
1 Church Street
Hamilton, Bermuda
(Address of principal executive offices)

Not Applicable
(I.R.S. Employer Identification No.)
HM 11
(Zip Code)

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

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

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

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

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

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

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

As of May 4, 2010, there were 77,316,975 outstanding ordinary shares, with a par value of 0.15144558¢ per ordinary share, outstanding.

INDEX

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	2
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	2
<u>Condensed Consolidated Balance Sheets as at March 31, 2010 (Unaudited) and December 31, 2009</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations, for the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity, for the Three Months Ended March 31, 2010 and 2009</u>	5
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income, for the Three Months Ended March 31, 2010 and 2009</u>	6
<u>Unaudited Condensed Consolidated Statements of Cash Flows, for the Three Months Ended March 31, 2010 and 2009</u>	7
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	57
Item 4. <u>Controls and Procedures</u>	59
	PART II. OTHER INFORMATION
Item 1. <u>Legal Proceedings</u>	60
Item 1A. <u>Risk Factors</u>	60
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	60
Item 3. <u>Defaults Upon Senior Securities</u>	60
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	61
Item 5. <u>Other Information</u>	61
Item 6. <u>Exhibits</u>	61
<u>SIGNATURES</u>	62
<u>CERTIFICATIONS</u>	
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

PART I
FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ASPEN INSURANCE HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2010 (UNAUDITED) AND DECEMBER 31, 2009
(\$ in millions, except share and per share amounts)

	As at March 31, 2010 (Unaudited)	As at December 31, 2009
ASSETS		
Investments		
Fixed income maturities, available for sale at fair value (amortized cost — \$5,085.4 and \$5,064.3)	\$ 5,296.3	\$ 5,249.9
Fixed income maturities, trading at fair value (amortized cost — \$347.7 and \$332.5)	365.5	348.1
Other investments, equity method	27.5	27.3
Short-term investments, available for sale at fair value (amortized cost — \$251.8 and \$368.2)	251.8	368.2
Short-term investments, trading at fair value (amortized cost — \$0.1 and \$3.5)	0.1	3.5
Total investments	5,941.2	5,997.0
Cash and cash equivalents	701.4	748.4
Reinsurance recoverables		
Unpaid losses	262.9	321.5
Ceded unearned premiums	210.2	103.8
Receivables		
Underwriting premiums	914.0	708.3
Other	62.2	64.1
Funds withheld	73.6	85.1
Deferred policy acquisition costs	202.7	165.5
Derivatives at fair value	4.9	6.7
Receivable for securities sold	13.5	11.9
Office properties and equipment	27.6	27.5
Income tax receivable	6.3	—
Other assets	14.9	9.2
Intangible assets	12.0	8.2
Total assets	<u>\$ 8,447.4</u>	<u>\$ 8,257.2</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(\$ in millions, except share and per share amounts)

	As at March 31, 2010 (Unaudited)	As at December 31, 2009
LIABILITIES		
Insurance reserves		
Losses and loss adjustment expenses	\$ 3,452.0	\$ 3,331.1
Unearned premiums	1,107.8	907.6
Total insurance reserves	4,559.8	4,238.7
Payables		
Reinsurance premiums	193.2	110.8
Deferred taxation	83.7	83.9
Current taxation	—	10.3
Accrued expenses and other payables	213.5	249.3
Liabilities under derivative contracts	7.4	9.2
Total payables	497.8	463.5
Long-term debt	249.6	249.6
Total liabilities	\$ 5,307.2	\$ 4,951.8
Commitments and contingent liabilities (see Note 14)	—	—
SHAREHOLDERS' EQUITY		
Ordinary shares: 77,258,437 shares of 0.15144558¢ each (2009 — 83,327,594)	\$ 0.1	0.1
Preference shares:		
4,600,000 5.625% shares of par value 0.15144558¢ each (2009 — 4,600,000)	—	—
5,327,500 7.401% shares of par value 0.15144558¢ each (2009 — 5,327,500)	—	—
Additional paid-in capital	1,565.0	1,763.0
Retained earnings	1,285.8	1,285.0
Accumulated other comprehensive income, net of taxes	289.3	257.3
Total shareholders' equity	3,140.2	3,305.4
Total liabilities and shareholders' equity	\$ 8,447.4	\$ 8,257.2

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except share and per share amounts)

	Three Months Ended	
	March 31	
	2010	2009
Revenues		
Net earned premiums	\$ 467.6	\$ 447.3
Net investment income	59.4	59.2
Realized and unrealized investment gains (losses)	12.3	(12.2)
Change in fair value of derivatives	(2.0)	(2.0)
Total Revenues	<u>537.3</u>	<u>492.3</u>
Expenses		
Losses and loss adjustment expenses	378.8	250.8
Policy acquisition expenses	84.5	78.6
Operating and administrative expenses	52.5	48.5
Interest on long-term debt	3.8	3.9
Net foreign exchange (gains) losses	(1.5)	2.3
Other (income) expense	(1.1)	0.7
Total Expenses	<u>517.0</u>	<u>384.8</u>
Income from operations before income tax	20.3	107.5
Income tax (expense)	(2.0)	(16.1)
Net Income	<u>\$ 18.3</u>	<u>\$ 91.4</u>
Per Share Data		
Weighted average number of ordinary shares and share equivalents		
Basic	77,394,967	81,534,704
Diluted	80,638,650	83,571,852
Basic earnings per ordinary share adjusted for preference share dividend	<u>\$ 0.16</u>	<u>\$ 1.42</u>
Diluted earnings per ordinary share adjusted for preference share dividend	<u>\$ 0.16</u>	<u>\$ 1.39</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2010	2009
Ordinary shares		
Beginning and end of period	\$ 0.1	\$ 0.1
Preference shares		
Beginning and end of period	—	—
Additional paid-in capital		
Beginning of period	1,763.0	1,754.8
New shares issued	—	25.1
Ordinary shares repurchased and cancelled	(200.0)	—
Preference shares repurchased and cancelled	—	(34.1)
Share-based compensation	2.0	4.1
End of period	<u>1,565.0</u>	<u>1,749.9</u>
Retained earnings		
Beginning of period	1,285.0	884.7
Net income for the period	18.3	91.4
Dividends on ordinary and preference shares	(17.5)	(19.2)
End of period	<u>1,285.8</u>	<u>956.9</u>
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustments		
Beginning of period	103.4	87.6
Change for the period	10.0	(15.2)
End of period	<u>113.4</u>	<u>72.4</u>
Loss on derivatives		
Beginning and end of period	(1.2)	(1.4)
Unrealized appreciation/(depreciation) on investments		
Beginning of period	155.1	53.3
Change for the period	22.0	1.2
End of period	<u>177.1</u>	<u>54.5</u>
Total accumulated other comprehensive income	289.3	125.5
Total shareholders' equity	<u>\$3,140.2</u>	<u>\$2,832.4</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ASPEN INSURANCE HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in millions)

	Three Months Ended	
	March 31,	
	2010	2009
Net income	\$ 18.3	\$ 91.4
Other comprehensive income, net of taxes:		
Available for sale investments:		
Reclassification adjustment for net realized (gains) losses on investments included in net income	(8.6)	4.1
Change in net unrealized gains and losses on investments	30.6	(2.9)
Change in foreign currency translation adjustment	10.0	(15.2)
Other comprehensive income	32.0	(14.0)
Comprehensive income	\$ 50.3	\$ 77.4

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<u>Three Months Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows provided by operating activities:		
Net income	\$ 18.3	\$ 91.4
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	4.2	1.9
Share-based compensation expense	2.0	4.1
Net realized and unrealized (gains) losses	(12.1)	12.7
Other investment (gains)	(0.2)	(4.0)
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	82.6	46.9
Unearned premiums	192.6	153.1
Reinsurance recoverables:		
Unpaid losses	59.0	(14.6)
Ceded unearned premiums	(103.3)	(92.5)
Accrued investment income and other receivables	1.9	2.2
Deferred policy acquisition costs	(36.8)	(16.3)
Reinsurance premiums payables	78.3	93.5
Premiums receivable	(200.9)	(116.1)
Funds withheld	11.5	13.1
Deferred taxes	(5.2)	(6.1)
Income tax payable	(19.0)	18.0
Accrued expenses and other payables	(45.0)	5.2
Fair value of derivatives and settlement of liabilities under derivatives	—	2.9
Other assets	(5.1)	(1.2)
Net cash provided by operating activities	\$ 22.8	\$ 194.2

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<u>Three Months Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows used in investing activities:		
Purchases of fixed maturities	\$ (604.8)	\$ (650.8)
Proceeds from other investments sold	—	172.1
Proceeds from sales and maturities of fixed maturities	544.5	490.6
Net sales/(purchases) of short-term investments	129.0	(64.5)
Net change in payables for securities purchased	10.5	—
Payments for acquisitions net of cash acquired	(3.8)	—
Purchase of equipment	—	(0.6)
Net cash provided by/used in investing activities	<u>75.4</u>	<u>(53.2)</u>
Cash flows used in financing activities:		
Ordinary shares repurchased	(200.0)	—
Dividends paid on ordinary shares	(11.8)	(12.3)
Dividends paid on preference shares	(5.7)	(6.9)
Net cash used in financing activities	(217.5)	(19.2)
Effect of exchange rate movements	72.3	(17.7)
Increase/(decrease) in cash and cash equivalents	(47.0)	104.1
Cash and cash equivalents at beginning of period	748.4	809.1
Cash and cash equivalents at end of period	<u>\$ 701.4</u>	<u>\$ 913.2</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for income tax	18.8	6.0
Cash paid during the period for interest	7.5	7.5

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. History and Organization

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

2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its wholly-owned subsidiaries, which are collectively referred to herein as the “Company.” All intercompany transactions and balances have been eliminated on consolidation.

The balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2009 contained in Aspen’s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (File No. 001-31909).

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

New Accounting Pronouncements Adopted in 2010

In June 2009, the Financial Accounting Standards Board (“FASB”) issued revised guidance on the accounting for variable interest entities. The revised guidance which was issued as Statement No. 167, “*Amendments to FASB Interpretation No. 46R*” replaces the quantitative approach previously required for determining the primary beneficiary of a variable interest entity with an approach focused on the power to direct activities that significantly impact an entity’s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. It also requires ongoing assessment of whether an enterprise is a variable interest entity (“VIE”). The statement is effective for each annual reporting period that begins after November 15, 2009. In December 2009, the FASB issued Accounting Standards Update ASU 2009-17, which codifies SFAS No. 167. The Company does not expect that the provision of the new guidance will have a material impact on our consolidated financial statements.

In December 2009, the FASB issued new guidance on the accounting for the transfer of financial assets. The new guidance, which is now part of ASC 860 *Transfers and Servicing*, eliminates the concept of a qualifying special purpose entity and therefore any qualifying special purpose entities in existence before the effective date will need to be evaluated for consolidation. The criteria for reporting a transfer of financial assets has also changed. The guidance is effective on a prospective basis on January 1, 2010

and interim and annual periods thereafter. The Company does not expect that the provisions of the new guidance will have an impact on the Company's consolidated financial statements.

Accounting standards not yet adopted

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures About Fair Value Measurements*, which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. ASU 2010-6 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The Company does not expect the provision of the new guidance will have a material impact on our consolidated financial statements.

3. Acquisitions

On January 22, 2010, we entered into a sale and purchase agreement to purchase APJ Continuation Limited and its subsidiaries ("APJ") for \$4.8 million including tangible assets. The transaction closed on March 22, 2010. The business writes a specialist account of kidnap and ransom insurance which complements our existing political and financial risk line of business. The directors of Aspen Holdings have made a preliminary assessment of the fair value of the net tangible and financial assets acquired at \$1.0 million. An amount of \$3.8 million is the estimated intangible assets on acquisition. Mr. Villers, one of our executive officers, was previously a director of APJ and until closing, was a 30% shareholder.

On February 4, 2010, we entered into a stock purchase agreement to purchase a U.S. insurance company with licenses to write insurance business on an admitted basis in the U.S. We will pay an amount in cash equal to \$10.0 million plus the amount of the target company's closing surplus. The company is currently licensed to write business in 50 states and the District of Columbia. This transaction is subject to regulatory approval and other closing conditions.

4. Earnings Per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen's ordinary shares by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share are based on the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period of calculation using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2010 and 2009, respectively:

	Three Months Ended March 31,	
	2010	2009
(\$ in millions, except share and per share amounts)		
Earnings		
Basic		
Net income as reported	\$ 18.3	\$ 91.4
Preference dividends	(5.7)	(6.9)
Preference stock repurchase gain	—	31.5
Net income available to ordinary shareholders	12.6	116.0
Diluted		
Net income available to ordinary shareholders	12.6	116.0
Ordinary shares		
Basic		
Weighted average ordinary shares	77,394,967	81,534,704
Diluted		
Weighted average ordinary shares	77,394,967	81,534,704
Weighted average effect of dilutive securities	3,243,684	2,037,148
Total	80,638,651	83,571,852
Earnings per ordinary share		
Basic		
	\$ 0.16	\$ 1.42
Diluted		
	\$ 0.16	\$ 1.39

Ordinary Share Repurchases. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs & Co. ("Goldman Sachs") to repurchase \$200 million of our ordinary shares. During the first quarter of 2010, 6,474,425 ordinary shares were acquired and cancelled. The program is expected to be completed within ten months at which point additional shares may be retired. The repurchase was made under the terms of our share repurchase program authorized by the Board of Directors and announced on February 6, 2008 and will complete the full amount of that repurchase program.

Purchase of preference shares. On March 31, 2009, we purchased 2,672,500 of our 7.401% \$25 liquidation price preference shares (NYSE: AHL-PA) at a price of \$12.50 per share. The purchase resulted in a first quarter gain of approximately \$31.5 million, net of a non-cash charge of \$1.2 million reflecting the write off of the pro-rata portion of the original issuance costs of the 7.401% preference shares.

Dividends. On April 28, 2010, the Company's Board of Directors declared the following quarterly dividends:

	Dividend	Payable on:	Record Date:
Ordinary shares	\$ 0.15	May 28, 2010	May 13, 2010
5.625% preference shares	\$ 0.703125	July 1, 2010	June 15, 2010
7.401% preference shares	\$ 0.462563	July 1, 2010	June 15, 2010

5. Segment Reporting

On January 14, 2010, we announced a new organizational structure in accordance with which we now manage our insurance and reinsurance businesses as two underwriting segments, Aspen Insurance and Aspen Reinsurance, to enhance and better serve our global customer base. We have considered similarities in economic characteristics, products, customers, distribution, and the regulatory environment of our Company's operating segments to determine our reportable segments. As discussed above, as a result of our organizational changes, in 2010 we now manage our underwriting business in two operating segments: Insurance and Reinsurance.

Under the new organizational structure, our insurance segment is comprised primarily of the existing international insurance and U.S. insurance segments, with Rupert Villers acting as CEO of Aspen Insurance. William Murray continues to lead our U.S. Insurance business forming part of our newly established insurance segment. Our reinsurance segment is comprised of property reinsurance (catastrophe and other), casualty reinsurance and specialty reinsurance (a portion of the latter previously included in international insurance). The reinsurance segment is led by Brian Boornazian, CEO of Aspen Reinsurance and James Few, President of Aspen Reinsurance.

Information related to prior periods has been restated to conform to the current period presentation.

Reinsurance Segment. The reinsurance segment consists of four principal lines of business: property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance.

Property Catastrophe Reinsurance: Property catastrophe reinsurance is generally written on an excess of loss basis. Excess of loss reinsurance provides coverage to primary insurance companies when aggregate claims and claim expenses from a single occurrence from a covered peril exceed a certain amount specified in a particular contract. Under these contracts, we provide protection to an insurer for a portion of the total losses in excess of a specified loss amount, up to a maximum amount per loss specified in the contract. In the event of a loss, most contracts provide for coverage of a second occurrence following the payment of a premium to reinstate the coverage under the contract, which is referred to as a reinstatement premium. A loss from a single occurrence is limited to the initial policy limit and would not usually include the policy limit available following the payment of a reinstatement premium. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to selected regions or geographical areas.

Other Property Reinsurance: Other property reinsurance is written on both a treaty and facultative basis and consists of treaty risk excess, treaty pro rata, property facultative (U.S. and international) and our risk solutions business. Treaty risk excess of loss property treaty reinsurance provides coverage to a reinsured where it experiences a loss in excess of its retention level on a single "risk" basis, rather than to two or more risks in an insured event, as provided by catastrophe reinsurance. A "risk" in this context might mean the insurance coverage on one building or a group of buildings due to fire or explosion or the insurance coverage under a single policy which the reinsured treats as a single risk. This line of business is generally less exposed to accumulations of exposures and losses but can still be impacted by natural catastrophes, such as earthquakes and hurricanes.

Our treaty pro rata reinsurance product provides proportional coverage to the reinsured rather than excess of loss. We share original losses in the same proportion as our share of premium and policy amounts although this may be subject to event limits which restrict the amount we are required to pay if the loss events affect more than one reinsured policy. Pro rata contracts typically involve close client relationships and frequent auditing. Treaty pro rata business is written on an excess of loss basis for primary insurers in the U.S. as well as worldwide. This line has dual distribution with business written both directly and through brokers. The U.S. property facultative account is mostly written on a direct basis, whereas the international account is written both on a direct basis and through brokers. This line of business is not typically driven by natural perils. Our risk solutions business writes property insurance risks for a select group of U.S. program managers.

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

Specialty Reinsurance: Specialty reinsurance consists of credit and surety reinsurance, structured risks, agriculture reinsurance and specialty lines (marine, aviation, satellite). We entered the credit and surety reinsurance market for business incepting on and after January 1, 2009 with a new team hired to work in our Zurich office. This business consists of trade credit reinsurance, international surety reinsurance (mainly European, Japanese and Latin American risks and excluding the U.S.) and a political risks reinsurance portfolio. We also write structured reinsurance contracts. These contracts are tailored to individual client circumstances. We entered the agricultural reinsurance market in February 2010 with a new team working in our Zurich office. This business consists of European agriculture reinsurance primarily written on a treaty basis covering crop and multi-peril business. Our specialty line of business is composed principally of reinsurance treaties covering interests similar to those underwritten in marine, energy, liability and aviation insurance, as well as contingency, terrorism, nuclear, personal accident and crop reinsurance. We also write satellite insurance and reinsurance.

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

Property Insurance: Our property insurance line comprises U.K. commercial property and construction and U.S. commercial property (excess and surplus lines basis), written on a primary, quota share and facultative basis. The U.S. property team focuses on mercantile, manufacturing, municipal and commercial real estate business. The U.K. commercial property insurance team focuses on providing physical damage and business interruption coverage as a result of weather, fire, theft and other causes. Our client base is predominantly U.K. institutional property owners, middle market corporate and public sector clients.

Casualty Insurance: Our casualty insurance line comprises U.K. commercial liability, global excess casualty and U.S. casualty insurance (excess and surplus lines basis), written on a primary, quota share and facultative basis. We provide general liability, umbrella liability and certain Errors and Omissions ("E&O") insurance products. The U.K. commercial liability team focuses on providing employers' liability coverage and public liability coverage for insureds domiciled in the United Kingdom and Ireland. The global excess casualty line writes large, sophisticated and risk-managed insureds worldwide. Our U.S. casualty insurance team covers broad-based risks including general liability, commercial and residential construction liability, life science, railroads, trucking, product and public liability and associated types of cover found in general liability policies in the global insurance market. The team writes excess layers only, with 100% of layers or quota share as applicable, with a portion of the contracts being multi-year policies.

Marine, Energy and Transportation Insurance: Our marine, energy and transportation insurance comprises marine, energy and construction ("M.E.C.") liability, energy property, marine hull, specie, and aviation, written on a primary, quota share and facultative basis. The M.E.C. liability business includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs ("P&I Clubs"). It also provides cover for the liabilities of companies in the oil and gas sector, both onshore and offshore and in the power generation and U.S. home builders sectors. In the energy property line, we provide insurance cover against physical damage losses and Operators Extra Expenses ("OEE") for companies operating in the oil and gas exploration and production sector. The marine hull team writes insurance covering the risks of physical damage for ships (including war and associated perils) and related marine assets. The specie business line

focuses on the insurance of high value property items on an all risks basis. The team commenced underwriting in March 2009. Its portfolio embraces fine art, general and bank related specie, jewelers' block and armored car. The aviation team focuses on providing physical damage insurance to hulls and spares (including war and associated perils) and comprehensive legal liability for airlines, smaller operators of airline equipment, airports and associated business and non-critical component part manufacturers. We also provide hull deductible cover.

Financial and Professional Lines Insurance: Our financial and professional lines comprises financial institutions, professional liability (including management & technology liability), financial and political risks, written on a primary, quota share and facultative basis. Our financial institutions business consists of professional liability, crime insurance and directors' and officers' cover. From a geographical perspective, the largest sector of the account comprised risks headquartered in the U.K., the next largest contributors are from Australia and the U.S. and, of the remainder, the largest amounts of business are from institutions in Canada, Western Europe and Scandinavia. We write both primary and excess of loss coverage for all types of financial institutions including commercial and investment banks, asset managers, insurance companies, stockbrokers and insureds with hybrid business models. Our professional liability team writes an international portfolio of professional liability risks. The majority of our business emanates from the U.K. with some Australian and European business. We insure a wide range of professions including lawyers, surveyors, accountants, engineers, contractors and financial advisors. Risks are written on both a primary and excess of loss basis. We also write directors' and officers' insurance, technology-related policies in the areas of network privacy, misuse of data and cyber liability and warranty and indemnity insurance in connection with, or to facilitate, corporate transactions. Coverage is written on both a primary and excess basis. The financial and political risks team writes business covering the credit/default risk on a variety of project and trade transactions, as well as political risks, terrorism (including multi-year war on land cover) and kidnap and ransom ("K&R"). We write financial and political risks worldwide but with concentrations in a number of key countries, such as China, Egypt, Kazakhstan, Russia, South Korea, Switzerland, U.K. and Turkey.

Segment profit or loss for each of the Company's operating segments is measured by underwriting profit or loss. Underwriting profit or loss provides a basis for management to evaluate the segment's underwriting performance.

Non-underwriting Segment Disclosures: We have provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other includes net investment income, net realized and unrealized investment gains or losses, corporate expenses, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments.

[Table of Contents](#)

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of our business segments for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31, 2010		
	Reinsurance	Insurance	Total
	(\$ in millions)		
Underwriting revenues			
Gross written premiums	\$ 490.1	\$ 212.7	\$ 702.8
Net written premiums	461.3	118.8	580.1
Gross earned premiums	301.9	215.2	517.1
Net earned premiums	291.0	176.6	467.6
Underwriting Expenses			
Losses and loss expenses	256.8	122.0	378.8
Policy acquisition expenses	52.4	32.1	84.5
Operating and administrative expenses	22.3	20.4	42.7
Underwriting (loss) profit	(40.5)	2.1	(38.4)
Corporate expenses			(9.8)
Net investment income			59.4
Realized investment gains			12.3
Segment profit			\$ 23.5
Change in fair value of derivatives			(2.0)
Interest on long term debt			(3.8)
Net foreign exchange gains			1.5
Other income			1.1
Net income before tax			\$ 20.3
Net reserves for loss and loss adjustment expenses	\$ 2,161.7	\$1,027.4	\$3,189.1
Ratios			
Loss ratio	88.2%	69.1%	81.0%
Policy acquisition expense ratio	18.0%	18.2%	18.1%
Operating and administrative expense ratio	7.7%	11.6%	11.2%
Expense ratio	25.7%	29.8%	29.3%
Combined ratio	113.9%	98.9%	110.3%

	Three Months Ended March 31, 2009		
	<u>Reinsurance</u>	<u>Insurance</u>	<u>Total</u>
	(\$ in millions)		
Underwriting revenues			
Gross written premiums	\$ 452.8	\$ 184.0	\$ 636.8
Net written premiums	413.3	93.3	506.6
Gross earned premiums	287.7	205.5	493.2
Net earned premiums	275.2	172.1	447.3
Underwriting Expenses			
Losses and loss expenses	121.1	128.7	250.8
Policy acquisition expenses	51.4	27.2	78.6
Operating and administrative expenses	18.4	20.3	38.7
Underwriting (loss) profit	<u>83.3</u>	<u>(4.1)</u>	<u>79.2</u>
Corporate expenses			(9.8)
Net investment income			59.2
Realized investment gains			<u>(12.2)</u>
Segment profit			\$ 116.4
Change in fair value of derivatives			(2.0)
Interest on long term debt			(3.9)
Net foreign exchange gains			(2.3)
Other income			<u>(0.7)</u>
Net income before tax			<u>\$ 107.5</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 1,988.4</u>	<u>\$1,021.2</u>	<u>\$3,009.6</u>
Ratios			
Loss ratio	44.4%	74.8%	56.1%
Policy acquisition expense ratio	18.7%	15.8%	17.6%
Operating and administrative expense ratio	6.7%	11.8%	10.8%
Expense ratio	<u>25.4%</u>	<u>27.6%</u>	<u>28.4%</u>
Combined ratio	<u>69.8%</u>	<u>102.4%</u>	<u>84.5%</u>

6. Investments

Fixed Maturities — Available For Sale. The following presents the cost, gross unrealized gains and losses, and estimated fair value of available for sale investments in fixed maturities:

	As at March 31, 2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(\$ in millions)		
U.S. Government Securities	\$ 634.8	\$ 18.4	\$ (2.3)	\$ 650.9
U.S. Agency Securities	327.3	19.9	(0.1)	347.1
Municipal Securities	23.1	0.2	(0.2)	23.1
Corporate Securities	2,138.3	100.1	(1.3)	2,237.1
Foreign Government Securities	549.0	15.3	(0.9)	563.4
Asset-backed Securities	83.2	5.0	—	88.2
Non-agency Residential Mortgage-backed Securities	32.5	9.5	(0.1)	41.9
Non-agency Commercial Mortgage-backed Securities	167.4	6.9	(0.3)	174.0
Agency Mortgage-backed Securities	1,229.8	41.4	(0.6)	1,170.6
Total fixed income	<u>\$ 5,085.4</u>	<u>\$ 216.7</u>	<u>\$ (5.8)</u>	<u>\$ 5,296.3</u>
Short term Investments	251.8	—	—	251.8
Total	<u>\$ 5,337.2</u>	<u>\$ 216.7</u>	<u>\$ (5.8)</u>	<u>\$ 5,548.1</u>

	As at December 31, 2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(\$ in millions)		
U.S. Government Securities	\$ 492.1	\$ 17.4	\$ (2.0)	\$ 507.5
U.S. Agency Securities	368.6	20.7	(0.2)	389.1
Municipal Securities	20.0	—	(0.5)	19.5
Corporate Securities	2,178.1	90.3	(3.8)	2,264.6
Foreign Government Securities	509.9	13.9	(1.5)	522.3
Asset-backed Securities	110.0	5.1	—	115.1
Non-agency Residential Mortgage-backed Securities	34.2	8.6	(0.6)	42.2
Non-agency Commercial Mortgage-backed Securities	178.5	2.5	(1.0)	180.0
Agency Mortgage-backed Securities	1,172.9	40.2	(3.5)	1,209.6
Total fixed income	<u>5,064.3</u>	<u>198.7</u>	<u>(13.1)</u>	<u>5,249.9</u>
Short term Investments	368.2	—	—	368.2
Total	<u>\$ 5,432.5</u>	<u>\$ 198.7</u>	<u>\$ (13.1)</u>	<u>\$ 5,618.1</u>

[Table of Contents](#)

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

	Cost or Amortized Cost	Fair Value
	(\$ in millions)	
Due one year or less	\$ 339.7	\$ 345.3
Due after one year through five years	2,114.4	2,199.6
Due after five years through ten years	1,134.7	1,189.3
Due after ten years	83.7	87.4
Subtotal	3,672.5	3,821.6
Non-agency Residential Mortgage-backed Securities	32.5	41.9
Non-agency Commercial Mortgage-backed Securities	167.4	174.0
Agency Mortgage-backed Securities	1,129.8	1,170.6
Other asset-backed securities	83.2	88.2
Total	<u>\$ 5,085.4</u>	<u>\$ 5,296.3</u>

Fixed Maturities — Trading. The following table presents the cost, gross unrealized gains and losses, and estimated fair value of trading investments in fixed maturities:

	As at March 31, 2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(\$ in millions)			
U.S. Government Securities	\$ 7.3	\$ —	\$ (0.1)	\$ 7.2
U.S. Agency Securities	0.4	—	—	0.4
Municipal Securities	2.9	—	—	2.9
Corporate Securities	325.9	17.9	(0.3)	343.5
Foreign Government Securities	6.2	0.3	—	6.5
Asset Backed Securities	5.0	—	—	5.0
Total fixed income	<u>\$ 347.7</u>	<u>\$ 18.2</u>	<u>\$ (0.4)</u>	<u>\$ 365.5</u>

	As at December 31, 2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(\$ in millions)			
U.S. Government Securities	\$ 7.3	\$ —	\$ (0.8)	\$ 6.5
U.S. Agency Securities	0.4	—	—	0.4
Municipal Securities	1.8	—	—	1.8
Corporate Securities	313.2	16.6	(0.4)	329.4
Foreign Government Securities	4.8	0.2	—	5.0
Asset Backed Securities	5.0	—	—	5.0
Total fixed income	<u>\$ 332.5</u>	<u>\$ 16.8</u>	<u>\$ (1.2)</u>	<u>\$ 348.1</u>

[Table of Contents](#)

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

Gross unrealized loss. The following tables summarize as at March 31, 2010 and December 31, 2009, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position for our available for sale portfolio.

	As at March 31, 2010					
	0-12 months		Over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(\$ in millions)					
U.S. Government Securities	\$219.3	\$ (2.3)	\$ —	\$ —	\$219.3	\$ (2.3)
U.S. Agency Securities	11.9	(0.1)	—	—	11.9	(0.1)
Foreign Government Securities	92.5	(0.9)	1.0	—	93.5	(0.9)
Municipal Securities	13.6	(0.2)	—	—	13.6	(0.2)
Corporate Securities	239.9	(1.3)	12.8	—	252.7	(1.3)
Asset-backed Securities	0.4	—	—	—	0.4	—
Non-agency Residential Mortgage-backed Securities	—	—	0.8	(0.1)	0.8	(0.1)
Non-agency Commercial Mortgage-backed Securities	—	—	10.5	(0.3)	10.5	(0.3)
Agency Mortgage-backed Securities	183.9	(0.6)	1.1	—	185.0	(0.6)
Total	<u>\$761.5</u>	<u>\$ (5.4)</u>	<u>\$26.2</u>	<u>\$ (0.4)</u>	<u>\$787.7</u>	<u>\$ (5.8)</u>

	As at December 31, 2009					
	0-12 months		Over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(\$ in millions)					
U.S. Government Securities	\$121.2	\$ (2.0)	\$ —	\$ —	\$121.2	\$ (2.0)
U.S. Agency Securities	9.9	(0.2)	—	—	9.9	(0.2)
Municipal Securities	15.1	(0.5)	—	—	15.1	(0.5)
Foreign Government Securities	113.2	(1.5)	—	—	113.2	(1.5)
Corporate Securities	319.5	(3.6)	20.0	(0.2)	339.5	(3.8)
Asset-backed Securities	0.5	—	—	—	0.5	—
Agency Mortgage-backed Securities	307.5	(3.5)	1.2	—	308.7	(3.5)
Non-agency Residential Mortgage-backed Securities	—	—	6.5	(0.6)	6.5	(0.6)
Non-agency Commercial Mortgage-backed Securities	14.6	(0.1)	43.8	(0.9)	58.4	(1.0)
Total	<u>\$901.5</u>	<u>\$ (11.4)</u>	<u>\$71.5</u>	<u>\$ (1.7)</u>	<u>\$973.0</u>	<u>\$ (13.1)</u>

As at March 31, 2010, the Company held 207 fixed maturities (December 31, 2009 — 277 fixed maturities) in an unrealized loss position with a fair value of \$787.7 million (December 31, 2009 — \$973.0 million) and gross unrealized losses of \$5.8 million (December 31, 2009 — \$13.1 million). The Company believes that the gross unrealized losses are attributable to a combination of widening credit spreads and interest rate movements and has concluded that the period during which those investments will remain in an unrealized loss position is temporary.

Other-than-temporary impairments. The Company recorded other-than-temporary impairments for the three months ended March 31, 2010 of \$0.3 million (2009 — \$15.2 million). We review all of our investments in fixed maturities designated available for sale for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The process of determining whether a decline in value is “other-than-temporary” requires considerable judgment. As part of the assessment process we evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to that portion of the unrealized loss that is considered to be credit related. Non-credit related unrealized losses are included in other comprehensive income.

U.S. Government and Agency Securities. U.S. government and agency securities are composed of bonds issued by the U.S. Treasury, Government National Mortgage Association (“GNMA”) and government-sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and Federal Farm Credit Bank.

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

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

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

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

Mortgage-Backed Securities. Mortgage-backed securities are securities that represent ownership in a pool of mortgages. Both principal and income are backed by the group of mortgages in the pool.

Short-Term Investments. Short-term investments are both money market funds and investments in Treasury bills, discount notes and short coupon paper with a maturity of less than 90 days. The money market funds are rated “AAA” by Standard & Poor’s (“S&P”) and/or Moody’s Investor Service (“Moody’s”) and invest in a variety of short-term instruments such as commercial paper, certificates of deposit, floating rate notes and medium-term notes.

Other investments. On May 19, 2009, Aspen Holdings invested \$25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three months ended March 31, 2010, a fee of \$0.2 million (2009 — \$Nil) was payable to us.

The Company accounts for its investment in accordance with the equity method of accounting. Adjustments to the carrying value of this investment are made based on our share of capital including our share of income and expenses, which is provided in the quarterly management accounts of the partnership. The adjusted carrying value approximates fair value. In the three months ended March 31, 2010, our share of gains and losses increased the value of our investment by \$0.2 million (2009-\$Nil). The increase in value has been recognized in realized and unrealized gains and losses in the condensed consolidated statement of operations. For more information see Note 14(c).

[Table of Contents](#)

The Company's involvement with Cartesian Iris 2009A L.P. is limited to its investment in the partnership and it is not committed to making further investments in Cartesian Iris 2009A L.P.; accordingly, the carrying value of the investment represents the Company's maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

The following table sets out an analysis of investment purchases/(sales) and maturities:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
(\$ in millions)		
Purchase of fixed maturity investments	\$ 604.8	\$ 650.8
Proceeds from sales and maturities of fixed maturity investments	(544.5)	(490.6)
Proceeds from other investments sold	—	(172.1)
Net (sales)/purchases of short-term investments	(129.0)	64.5
Net (sales)/purchases	<u>\$ (68.7)</u>	<u>\$ 52.6</u>

The following is a summary of investment income:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
(\$ in millions)		
Fixed maturity investments — Available-for-sale	\$ 55.8	\$ 52.2
Fixed maturity investments — Trading portfolio	4.4	0.3
Short-term investments — Available-for-sale	0.2	0.8
Fixed term deposits (included in cash and cash equivalents)	0.8	3.6
Other investments	—	4.0
Total	\$ 61.2	\$ 60.9
Investments expenses	(1.8)	(1.7)
Net investment income	<u>\$ 59.4</u>	<u>\$ 59.2</u>

Included in net investment income are investment management fees of \$1.8 million for the three months ended March 31, 2010 and \$1.7 million for the three months ended March 31, 2009.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
(\$ in millions)		
Pre-tax realized and unrealized investment gains and losses included in income statement:		
Available-for-sale short-term investments and fixed maturities:		
Gross realized gains	\$ 9.3	\$ 5.0
Gross realized (losses)	(0.3)	(2.5)
Trading portfolio short-term investments & fixed maturities:		
Gross realized gains	2.0	—
Gross realized (losses)	(0.8)	—
Net change in gross unrealized gains	2.2	0.5
Impairments:		
Total other-than-temporary impairments	(0.3)	(15.2)
Equity accounted investments:		
Gross realized gains in Cartesian Iris	0.2	—
Total pre-tax realized and unrealized investment gains and losses included in income statement:	<u>\$ 12.3</u>	<u>\$ (12.2)</u>

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(\$ in millions)	
Change in available-for-sale unrealized gains/(losses):		
Fixed maturities	25.3	3.3
Total change in pre-tax available-for-sale unrealized gains/(losses)	25.3	3.3
Change in taxes	(3.3)	(2.1)
Total change in unrealized gains/(losses), net of taxes	\$ 22.0	\$ 1.2

7. Fair Value Measurements

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

We consider prices for actively traded Treasury securities to be derived based on quoted prices in active markets for identical assets, which are Level 1 inputs in the fair value hierarchy. We consider prices for other securities priced via vendors, indices, or broker-dealers 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.

We consider 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. There have been no changes in our use of valuation techniques during the year.

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

The following table presents the table within the fair value hierarchy at which the Company's financial assets are measured on a recurring basis at March 31, 2010.

	March 31, 2010		
	Level 1	Level 2	Level 3
	(\$ in millions)		
Fixed income maturities available for sale, at fair value	\$1,214.3	\$4,065.9	\$ 16.1
Short-term investments available for sale, at fair value	157.4	94.4	—
Fixed income maturities, trading at fair value	13.7	351.8	—
Short-term investments, trading at fair value	—	0.1	—
Derivatives at fair value	—	—	4.9
Total	\$1,385.4	\$4,512.2	\$ 21.0

	December 31, 2009		
	Level 1	Level 2 (S in millions)	Level 3
Fixed income maturities available for sale, at fair value	\$1,029.8	\$4,205.2	\$ 14.9
Short-term investments available for sale, at fair value	293.1	75.1	—
Fixed income maturities, trading at fair value	11.6	336.5	—
Short-term investments, trading at fair value	—	3.5	—
Derivatives at fair value	—	—	6.7
Total	<u>\$1,334.5</u>	<u>\$4,620.3</u>	<u>\$ 21.6</u>

Fixed income maturities classified as Level 3 include holdings where there are significant unobservable inputs in determining the assets' fair value and also securities of Lehman Brothers Holdings, Inc. ("Lehman Brothers"). Although the market value of Lehman Brothers bonds was based on broker dealer quoted prices, management believes that the valuation is based, in part, on market expectations of future recoveries out of bankruptcy proceedings, which involve significant unobservable inputs to the valuation. Derivatives at fair value consist of the credit insurance contract as described in Note 9.

The following table presents a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the three months ended March 31, 2010.

	Three Months Ended March 31, 2010		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
	(S in millions)		
Level 3 assets as of January 1, 2010	\$ 14.9	\$ 6.7	\$21.6
Total unrealized gains or (losses):			
Included in comprehensive income	1.2	—	1.2
Included in earnings	—	(1.8)	(1.8)
Level 3 assets as of March 31, 2010	<u>\$ 16.1</u>	<u>\$ 4.9</u>	<u>\$21.0</u>

The following table presents a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the three months ended March 31, 2009.

	Three Months Ended March 31, 2009		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
	(S in millions)		
Level 3 assets as of January 1, 2009	\$ 2.8	\$ 11.8	\$14.6
Total unrealized gains or (losses):			
Included in earnings	—	(1.9)	(1.9)
Settlements	—	(2.7)	(2.7)
Level 3 assets as of March 31, 2009	<u>\$ 2.8</u>	<u>\$ 7.2</u>	<u>\$10.0</u>

[Table of Contents](#)

The following table presents our liabilities within the fair value hierarchy at which the Company's financial liabilities are measured on a recurring basis at March 31, 2010 and December 31, 2009.

	March 31, 2010		
	Level 1	Level 2	Level 3
	(\$ in millions)		
Liabilities under derivative contracts:			
Credit insurance contract	\$ —	\$ —	\$ 7.4

	December 31, 2009		
	Level 1	Level 2	Level 3
	(\$ in millions)		
Liabilities under derivative contracts:			
Credit insurance contract	\$ —	\$ —	\$ 9.2

The following table presents a reconciliation of the beginning and ending balances for the liabilities under derivative contracts measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2010.

	Three Months Ended	Three Months Ended
	March 31, 2010	March 31, 2009
	(\$ in millions)	
Beginning Balance	\$ 9.2	\$ 11.1
Settlements	(1.8)	(1.7)
Ending Balance	\$ 7.4	\$ 9.4

8. Reinsurance

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

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

The largest concentration of reinsurance recoverables as at March 31, 2010, were with Lloyd's which is rated A (Excellent) by A.M. Best and A+ (Strong) by S&P and with Munich Re which is rated A+ (Superior) by A.M. Best and AA- (Very Strong) by S&P, for their financial strength. Balances with Lloyd's and Munich Re represented 30.5% and 11.4%, respectively, of reinsurance recoverables.

9. Derivative Contracts

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheet as at March 31, 2010:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Notional Amount (\$ in millions)	Asset Derivatives		Liability Derivatives	
		Balance Sheet		Balance Sheet	
		Location	Fair Value (\$ in millions)	Location	Fair Value (\$ in millions)
Credit insurance contract	\$ 452.4		\$ 4.9	Liabilities under derivatives	\$ 7.4
		Derivatives at fair value			

As at December 31, 2009:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Notional Amount (\$ in millions)	Asset Derivatives		Liability Derivatives	
		Balance Sheet		Balance Sheet	
		Location	Fair Value (\$ in millions)	Location	Fair Value (\$ in millions)
Credit insurance contract	\$ 452.4		\$ 6.7	Liabilities under derivatives	\$ 9.2
		Derivatives at fair value			

The following table provides the total unrealized and realized gains/(losses) recorded in earnings for the three months ended March 31, 2010 and 2009:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income	
		Three Months Ended	
		March 31, 2010	March 31, 2009
(\$ millions)			
Credit Insurance Contract	Change in Fair Value of Derivatives	\$ (2.0)	\$ (2.0)
Foreign Exchange Contract	Net Foreign Exchange Gains and Losses	\$ —	\$ (1.8)

Credit insurance contract. On November 28, 2006, the Company entered into a credit insurance contract which, subject to its terms, insures the Company against losses due to the inability of one or more of our reinsurance counterparties to meet their financial obligations to the Company.

The Company considers the contract to be a derivative instrument because the final settlement is expected to take place two years after expiry of cover and include an amount attributable to outstanding and IBNR claims which may not at that point in time be due and payable to the Company.

As a result of the application of derivative accounting guidance, the contract is treated as an asset or a liability and measured at the directors' estimate of its fair value. Changes in the estimated fair value from time to time will be included in the consolidated statement of operations.

The contract is for a maximum of five years and provides 90% cover for a named panel of reinsurers up to individual defined sub-limits. The contract does allow, subject to certain conditions, for substitution and replacement of panel members if the Company's panel of reinsurers changes. Payments are made on a quarterly basis throughout the period of the contract based on the aggregate limit, which was set initially at \$477 million but is subject to adjustment. The carrying value of the derivative is the Company's maximum exposure to loss.

Foreign exchange contract. The Company uses forward exchange contracts to manage foreign currency risk. A forward foreign currency exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. The foreign currency contracts are recorded as derivatives at fair value with changes recorded as a net foreign exchange gain or loss in the Company's statement of operations.

10. Reserves for Losses and Adjustment Expenses

The following table represents a reconciliation of beginning and ending consolidated loss and loss adjustment expenses ("LAE") reserves:

	As at March 31, 2010	As at December 31, 2009
	(\$ in millions)	
Provision for losses and LAE at start of year	\$ 3,331.1	\$ 3,070.3
Less reinsurance recoverable	(321.5)	(283.3)
Net loss and LAE at start of year	3,009.6	2,787.0
Net loss and LAE expenses disposed of	(32.7)	(10.0)
Provision for losses and LAE for claims incurred:		
Current year	391.7	1,032.5
Prior years	(12.9)	(84.4)
Total incurred	378.8	948.1
Losses and LAE payments for claims incurred:		
Current year	(11.1)	(131.6)
Prior years	(128.6)	(677.0)
Total paid	(139.7)	(808.6)
Foreign exchange (gains) losses	(26.9)	93.1
Net losses and LAE reserves at period end	3,189.1	3,009.6
Plus reinsurance recoverable on unpaid losses at period end	262.9	321.5
Loss and LAE reserves at March 31, 2010 and December 31, 2009	\$ 3,452.0	\$ 3,331.1

For the three months ended March 31, 2010, there were reserve releases of \$12.9 million compared to \$9.8 million for the three months ended March 31, 2009 in our estimate of the ultimate claims to be paid in respect of prior accident years.

The \$32.7 million loss reserve portfolio transfer in the three months ended March 31, 2010 relates to the commutation of structured contracts.

11. Capital Structure

The following table provides a summary of the Company's authorized and issued share capital at March 31, 2010 and December 31, 2009.

	As at March 31, 2010		As at December 31, 2009	
	Number	\$ in Thousands	Number	\$ in Thousands
Authorized Share Capital				
Ordinary shares 0.15144558¢ per share	969,629,030	\$ 1,469	969,629,030	\$ 1,469
Non-Voting shares 0.15144558¢ per share	6,787,880	10	6,787,880	10
Preference shares 0.15144558¢ per share	100,000,000	152	100,000,000	152
Issued Share Capital				
Issued ordinary shares of 0.15144558¢ per share	77,258,437	117	83,327,594	126
Issued preference shares of 0.15144558¢ each with a liquidation preference of \$50 per share	4,600,000	7	4,600,000	7
Issued preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	5,327,500	8	5,327,500	8
Total issued share capital		132		141
Additional paid-in capital (\$ in millions)		\$ 1,565.0		\$ 1,763.0

Additional paid-in capital includes the aggregate liquidation preferences of our preference shares of \$363.2 million (2009 — \$363.2 million) less issue costs of \$9.6 million (2009 — \$9.6 million).

Purchase of preference shares. On March 31, 2009, we purchased 2,672,500 of our 7.401% \$25 liquidation price preference shares (NYSE : AHL-PA) at a price of \$12.50 per share. For earnings per share purposes, the purchase resulted in a first quarter gain of approximately \$31.5 million, net of a non-cash charge of \$1.2 million reflecting the write off of the pro-rata portion of the original issuance costs of the 7.401% preference shares.

Ordinary Shares. The following table summarizes transactions in our ordinary shares during the three month period ended March 31, 2010.

	Number of Shares
Shares in issue at December 31, 2009	83,327,594
<i>Share transactions in the three months ended March 31, 2010:</i>	
Shares issued to the Names' trust upon exercise of investor options (refer to Note 12)	1,170
Shares issued to employees under the share incentive plan	404,098
Repurchase of shares from shareholders(1)	(6,474,425)
Shares in issue at March 31, 2010	77,258,437

(1) During the first quarter of 2010, 6,474,425 ordinary shares were acquired and cancelled. Further information related to the accelerated share repurchase program is described below:

Ordinary Share Repurchases. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase \$200 million of our ordinary shares. During the first quarter of 2010, 6,474,425 ordinary shares were acquired and cancelled. The program is expected to be completed within ten months at which point additional shares may be retired. The repurchase was made under the terms of our share repurchase program authorized by the Board of Directors and announced on February 6, 2008 and will complete the full amount of that repurchase program.

12. Share Based Payments

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

Investor Options. The investor options were issued on June 21, 2002 to Wellington Investment Holdings (Jersey) Limited (“Wellington Investment”) and members of Syndicate 2020 who were not corporate members of Syndicate 2020. The options conferred to the members of Syndicate 2020 are held for their benefit by Appleby Services (Bermuda) Ltd. (formerly Appleby Trust (Bermuda) Limited) (“Names’ Trustee”). The subscription price payable under the options is initially £10 and increases by 5% per annum, less any dividends paid. Option holders are not entitled to participate in any dividends prior to exercise and would not rank as a creditor in the event of liquidation. If not exercised, the options will expire on June 21, 2012. Wellington Investment exercised all of its options on March 28, 2007. During the three months ended March 31, 2010, the Names’ Trustee exercised 1,170 options on a cash and cashless basis (2009 — Nil).

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

Stock options are granted with an exercise price equivalent to the fair value of the share on the grant date. The weighted average value at grant date is determined using the Black-Scholes option pricing model. Stock options typically vest over a three-year period with a ten-year contract period (except for options granted in 2007 which have a 7-year exercise period) with vesting dependent on time and performance conditions established at the time of grant. No options were granted in the three months ended March 31, 2010 (2009 — Nil) and 374,961 options were exercised during the three months ended March 31, 2010 (2009 — Nil). Compensation costs charged against income in respect of employee options for the three months ended March 31, 2010 were \$0.3 million (2009 — \$0.6 million).

Restricted share units (“RSU’s”) to employees vest equally over a two or three-year period. Some of the grants vest at year-end, while some other grants vest on the anniversary of the date of grant or when the Compensation Committee of the Board agrees to deliver them. The fair value of the restricted share units is based on the closing price on the date of the grant. The fair value is expensed through the income statement evenly over the vesting period. During the three months ended March 31, 2010, the Company granted to employees 32,754 restricted share units (2009 — 39,376). In the case of non-employee directors, one-twelfth of the RSU’s vest on each one month anniversary of the date of grant, with 100% of the RSU’s becoming vested on the first anniversary of the date of grant. On February 9, 2010 (with a grant date of February 11, 2010), the Board of Directors approved a total of 28,640 RSU’s for the non-employee directors (April 29, 2009 — 25,316) and 17,902 RSU’s to the Chairman (April 29, 2009 — 8,439). Compensation costs charged against income in respect of restricted share units for the three months ended March 31, 2010 were \$0.8 million (2009 — \$0.6 million).

The fair value of performance share awards is based on the value of the average of the high and low of the share price on the date of the grant less a deduction for expected dividends which would not accrue during the vesting period. Performance shares vest over a three or four-year period with shares eligible for vesting dependent on the achievement of performance targets at the end of specified periods as established at the time of grant. Compensation costs charged against income in the three months ended March 31, 2010 in respect of performance shares was \$3.2 million (2009 — \$1.7 million).

On February 8, 2010, the Compensation Committee approved the grant of 720,098 performance shares with a grant date of February 11, 2010. The performance shares will be subject to a three-year vesting period with a separate annual Return on Equity (“ROE”) test for each year. One-third of the grant will be eligible for vesting each year based on the following formula, and will only be issuable at the end

of the three-year period. If the ROE achieved in any given year is less than 7%, then the portion of the performance shares subject to the vesting conditions in such year will be forfeited (i.e. 33.33% of the initial grant). If the ROE achieved in any given year is between 7% and 12%, then the percentage of the performance shares eligible for vesting in such year will be between 10% and 100% on a straight-line basis. If the ROE achieved in any given year is between 12% and 22%, then the percentage of the performance shares eligible for vesting in such year will be between 100% and 200% on a straight-line basis. Notwithstanding the vesting criteria for each given year, if in any given year, the shares eligible for vesting are greater than 100% for the portion of such year's grant (i.e. the ROE was greater than 12% in such year) and the average ROE over such year and the preceding year is less than 7%, then only 100% (and no more) of the shares that are eligible for vesting in such year shall vest. If the average ROE over the two years is greater than 7%, then there will be no diminution in vesting and the shares eligible for vesting in such year will vest in accordance with the vesting schedule without regard to the average ROE over the two-year period.

Employee Share Purchase Plans. On April 30, 2008, the shareholders of the Company approved the Employee Share Purchase Plan (the "ESPP"), the U.K. Sharesave Plan and the international plan, which are implemented by a series of consecutive offering periods as determined by the Board. In respect of the ESPP, employees can save up to \$500 per month over a two-year period, at the end of which they will be eligible to purchase Company shares at a discounted price. In respect of the U.K. Sharesave Plan, employees can save up to £250 per month over a three-year period, at the end of which they will be eligible to purchase Company shares at a discounted price. The purchase price will be eighty-five percent (85%) of the fair market value of a share on the offering date which may be adjusted upon changes in capitalization of the Company. No shares were issued under the plan during the three months ended March 31, 2010 (2009 — Nil). Compensation costs charged against income in the three months ended March 31, 2010 in respect of the ESPP was \$0.4 million (2009 — \$Nil million).

13. Intangible Assets

	Three Months to March 31, 2010			Three Months to March 31, 2009		
	Trade Mark	Insurance Licenses	Other	Trade Mark	Insurance Licenses	Other
Intangible Assets						
Beginning of the period	\$ 1.6	\$ 6.6	\$ —	\$ 1.6	\$ 6.6	\$ —
Cost in the period	—	—	3.8	—	—	—
End of the period	\$ 1.6	\$ 6.6	\$ 3.8	\$ 1.6	\$ 6.6	\$ —
Impairments						
Beginning of the period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cost in the period	—	—	—	—	—	—
End of the period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Amortization						
Beginning of the period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cost in the period	—	—	—	—	—	—
End of the period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net book value						
Beginning of the period	\$ 1.6	\$ 6.6	\$ —	\$ 1.6	\$ 6.6	\$ —
Cost in the period	—	—	3.8	—	—	—
End of the period	\$ 1.6	\$ 6.6	\$ 3.8	\$ 1.6	\$ 6.6	\$ —

On January 22, 2010, we entered into a sale and purchase agreement to purchase APJ and its subsidiaries for an aggregate consideration of \$4.8 million. The business writes a specialist account of kidnap and ransom insurance which will complement our existing political and financial risk line of business. The directors of Aspen Holdings have assessed the fair value of the net tangible and financial assets acquired at \$1.0 million. The \$3.8 million intangible asset represents our assessment of the value of renewal rights, distribution channels and employees associated with the business.

14. Commitments and Contingencies

(a) Restricted assets

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

The following table shows the forms of collateral or other security provided to policyholders as at March 31, 2010 and December 31, 2009.

	<u>As at March 31,</u> <u>2010</u>	<u>As at December 31,</u> <u>2009</u>
	(\$ in millions, except percentages)	
Assets held in multi-beneficiary trusts	\$ 1,564.6	\$ 1,495.8
Assets held in single beneficiary trusts	56.1	55.7
Secured letters of credit(1)	598.0	528.3
Total	<u>\$ 2,218.7</u>	<u>\$ 2,079.8</u>
Total as % of cash and invested assets	<u>33.4%</u>	<u>30.8%</u>

(1) As of March 31, 2010, the Company had funds on deposit of \$591.0 million and £19.2 million (December 31, 2009 — \$667.1 million and £18.8 million) as collateral for the secured letters of credit.

On October 6, 2009, Aspen U.K. and Aspen Bermuda entered into a \$200 million secured letter of credit facility with Barclays Bank plc. All letters of credit issued under the facility will be used to support reinsurance obligations of the parties to the agreement and their respective subsidiaries. The Company had \$50.7 million of outstanding collateralized letter of credit under this facility at March 31, 2010.

On April 29, 2009, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated October 29, 2008 in a maximum aggregate amount of up to \$450 million with a new letter of credit facility in a maximum aggregate amount of up to \$550 million. As at March 31, 2010, we had \$382.8 million of outstanding collateralized letters of credit under this facility

Funds at Lloyd's. AUL operates in Lloyd's as the corporate member for Syndicate 4711. Lloyd's determines Syndicate 4711's required regulatory capital principally based on the syndicate's annual business plan. Such capital, called Funds at Lloyd's, comprises: cash, investments and a fully collateralized letter of credit. The amounts of cash, investments and letter of credit at March 31, 2010 amount to \$220.2 million (December 31, 2009 — \$219.8 million).

(b) Operating leases

Amounts outstanding under operating leases as of March 31, 2010 were:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u> (S in millions)	<u>2014</u>	<u>Later</u> <u>Years</u>	<u>Total</u>
Operating Lease Obligations	5.1	6.5	6.5	6.4	6.4	19.7	50.6

(c) Variable interest entities

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested \$25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three months ended March 31, 2010, a fee of \$0.2 million was payable to us. The Company's investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership.

The Company has determined that Cartesian Iris 2009A L.P. has the characteristics of a variable interest entity that are addressed by the guidance in ASC 810, *Consolidation*. Cartesian Iris 2009A L.P. is not consolidated by the Company. The Company has no decision-making power, those powers having been reserved for the general partner. The arrangement with Cartesian Iris 2009A L.P. is simply that of an investee to which the Company provides additional services.

The Company's involvement with Cartesian Iris 2009A L.P. is limited to its investment in the partnership and it is not committed to making further investments in Cartesian Iris 2009A L.P. or provide any other funding or guarantees; accordingly, the carrying value of the investment represents the Company's maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

15. Subsequent Events

On April 20, 2010, an explosion on the Deepwater Horizon rig caused substantial damage and resulted in a significant oil spill in the Gulf of Mexico. The Company is currently assessing its potential claims relating to these events, but information is not sufficient to arrive at reasonable estimates.

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 months ended March 31, 2010 and 2009. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this Form 10-Q and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2009, as well as the discussions of critical accounting policies, contained in our Financial Statements in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business and in "Outlook and Trends" below, includes forward-looking statements that involve risk and uncertainties. Please see the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in this report and the "Risk Factors" in Item 1A of our 2009 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.

Recent Developments

In April 2010, we opened an office in New York writing financial and professional liability insurance.

In May 2010, we opened offices in Cologne, Germany, initially focused on writing property facultative reinsurance in the region and in Miami writing property and casualty reinsurance business.

Overview

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

The most significant features of our results for the three months ended March 31, 2010 were:

- Net income after tax for the three months ended March 31, 2010 of \$18.3 million decreased by \$73.1 million from \$91.4 million for the same period last year, predominantly due to the impact of the losses from the Chilean earthquake;
- A combined ratio of 110.3% for the three months ended March 31, 2010 versus 84.5% for the three months ended March 31, 2009;
- First quarter net investment income of \$59.4 million was in line with the first quarter last year and was up 1.8% over the fourth quarter of 2009;
- Diluted earnings per ordinary share after preference share dividends of \$0.16 for the three months ended March 31, 2010 decreased by \$1.23 over the comparative period in 2009; and

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

Shareholders' equity and ordinary shares in issue as at March 31, 2010 and March 31, 2009 were:

	As at March 31, 2010	As at March 31, 2009
	(\$ in millions, except for share amounts)	
Total shareholders' equity	\$ 3,140.2	\$ 2,832.4
Preference shares less issue expenses	(353.6)	(353.6)
Net assets attributable to ordinary shareholders	<u>\$ 2,786.6</u>	<u>\$ 2,478.8</u>
Ordinary shares	77,258,437	82,762,673
Diluted ordinary shares	80,889,181	84,832,466

The following overview of our results for the three months ended March 31, 2010 and 2009 and of our financial condition at March 31, 2010, is intended to identify important trends and should be read in conjunction with the more detailed discussion further below.

Gross written premiums. Total gross written premiums increased by 10.4% to \$702.8 million in the first quarter of 2010 when compared to 2009 with the increase seen across both our reinsurance and insurance segments. The table below shows our gross written premiums for each segment for the three months ended March 31, 2010 and 2009, and the percentage change in gross written premiums for each segment.

Business Segment	For the Three Months Ended March 31, 2010		For the Three Months Ended March 31, 2009	
	(\$ in millions)	% increase/ (decrease)	(\$ in millions)	
Reinsurance	\$ 490.1	8.2%	\$ 452.8	
Insurance	212.7	15.6	184.0	
Total	\$ 702.8	10.4%	\$ 636.8	

The increase in gross written premiums in the first quarter of 2010 in our reinsurance segment is attributable mainly to additional catastrophe premium as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of year, in addition to \$10.2 million of reinstatement premiums from the Chilean earthquake and \$16.1 million of additional premiums from new teams (credit and surety, agriculture and risk solutions). Gross written premiums in the insurance segment have increased by 15.6% to \$212.7 million when compared to the first quarter of 2009 with additional contributions from the specie insurance class which commenced underwriting in the second quarter of 2009, as well as increases in U.K. commercial property, financial and professional, and marine, energy and construction liability products.

Reinsurance. Total reinsurance ceded for the quarter of \$122.7 million has decreased by \$7.5 million from the first quarter of 2009 mainly in the reinsurance segment where we have reduced our reliance on some industry loss warranties that we had in place in 2009.

Loss ratio. We monitor the ratio of losses and loss adjustment expenses to net earned premium (the “loss ratio”) as a measure of relative underwriting performance where a lower ratio represents a better result than a higher ratio. The loss ratios for our two business segments for the three months ended March 31, 2010 and 2009 were as follows:

Business Segment	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Reinsurance	88.2%	44.4%
Insurance	69.1%	74.8%
Total Loss Ratio	81.0%	56.1%

The loss ratio for the quarter of 81.0% has increased by 24.9 percentage points compared to the first quarter of 2009 mainly in our reinsurance segment due to \$122.4 million of losses resulting from the Chilean earthquake. In the first quarter of 2009, losses associated with catastrophic events were not significant at \$3.0 million associated with European windstorm Klaus. Reserve releases in the quarter were \$12.9 million compared with \$9.8 million in the first quarter of 2009.

The underlying changes in accident year loss ratios by segment are shown in the table below. The prior year claims adjustment in the table below reflects claims development and excludes premium adjustments. The current year claims adjustments represent significant loss events.

For the Three Months Ended March 31, 2010	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding Prior and Current Year Claims Adjustments
Reinsurance	88.2%	5.2%	(42.0)%	51.4%
Insurance	69.1%	(1.3)%	(0.1)%	67.7%
Total	81.0%	2.8%	(26.2)%	57.6%

For the Three Months Ended March 31, 2009	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding Prior and Current Year Claim Adjustments
Reinsurance	44.4%	5.7%	—%	50.1%
Insurance	74.8%	(3.5)%	—%	71.3%
Total	56.1%	2.2%	—%	58.3%

Reserve releases. The loss ratios take into account changes in our assessments of reserves for unpaid claims and loss adjustment expenses arising from earlier years. In the three months ended March 31, 2010 and 2009, we recorded a reduction in the level of reserves for prior years. The amounts of these reductions and their effect on the loss ratio in each period are shown in the following table:

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Reserve releases (\$ in millions)	\$ 12.9	\$ 9.8
% of net premiums earned	2.8%	2.2%

Reserve releases in the current quarter have increased by \$3.1 million due mainly to a reduction in reserve strengthening in the insurance segment compared to the first quarter in 2009. Reinsurance reserve releases were \$15.1 million due to favorable claims development in both our property and specialty reinsurance lines compared with \$15.8 million of reserve releases in the first quarter of 2009. Our insurance segment has seen net reserve strengthening of \$2.2 million as a result of adverse loss experience in global excess casualty line which was partially offset by reserve releases across many other lines of business, most notably in aviation. Further information relating to the movement of prior year reserves can be found below under “Reserves for Loss and Loss Adjustment Expenses.”

Expense ratio. We monitor the ratio of expenses to net earned premium (the “expense ratio”) as a measure of the cost effectiveness of our policy acquisition, operating and administrative processes. The table below presents the contribution of the policy acquisition expenses and operating and administrative expenses to the expense ratio and the total expense ratios for each of the three months ended March 31, 2010 and 2009:

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Policy acquisition expenses	18.1%	17.6%
Operating and administrative expenses	11.2%	10.8%
Expense ratio	29.3%	28.4%

The policy acquisition expense ratio of 18.1% for the quarter has increased marginally from 17.6% in the first quarter of 2009, due mainly to a commutation adjustment for a contract in our insurance segment.

The increase in the operating and administrative expense ratio to 11.2% from 10.8% in the first quarter of 2009 is due to costs associated with group reorganization in the first quarter of 2010 as we continued to invest in the development of the business.

Net investment income. Despite an increase in the investment portfolio of \$580.1 million, a lower interest rate environment produced a net investment income result of \$59.4 million in line with the same period last year (2009 — \$59.2 million). Investment income in the first quarter of 2009 benefited from \$4.0 million of gains from our investment in funds of hedge funds.

Change in fair value of derivatives. In the three months ended March 31, 2010, we recorded a reduction of \$2.0 million (2009 — \$2.0 million reduction) in the estimated fair value of our credit insurance contract including an interest expense charge of \$0.2 million (2009 — \$0.1 million). Further information on these contracts can be found in Note 9 to the financial statements.

Other revenues and expenses. Other revenues and expenses in the three months ended March 31, 2010 included \$1.5 million of foreign currency exchange gains (2009 — \$2.3 million gain) and \$12.3 million of realized and unrealized investment gains (2009 — \$12.2 million loss). Realized and unrealized losses included \$9.0 million (2009 — \$2.5 million) of net realized gains from the fixed income maturities available-for-sale portfolio, \$1.2 million (2009 — \$Nil) of net realized gains from our fixed income maturities trading portfolio, \$2.2 million (2009 — \$0.5 million) net unrealized gains from our fixed income maturities trading portfolio, a charge of \$0.3 million (2009 — \$15.2 million) for investments we believe to be other-than-temporarily impaired and \$0.2 million (2009 — \$Nil) representing our share of earnings from our investment in Cartesian Iris.

Taxes. The estimated effective rate of tax for the quarter is 9.9% (2009 — 15.0%). The reduction in the tax rate when compared to the first quarter of 2009 was due to the relative performance of our Bermuda, U.S. and U.K. operations and the distribution of losses from the Chilean earthquake around the Group. The effective tax rate for the year is subject to revision in future periods if circumstances change and in particular, depending on the relative claims experience of those parts of business underwritten in Bermuda where the rate of tax on corporate profits is zero while the U.K. corporate tax rate is 28% and the U.S. corporate tax rate is 35%.

Dividends. The dividend on our ordinary shares has been maintained at \$0.15 per ordinary share for the quarter.

Dividends paid on our preference shares in the three months ended March 31, 2010 were \$5.7 million (2009 — \$6.9 million). The reduction between the two periods is due to the repurchase and cancellation on March 31, 2009 of 2,672,500 of our 7.401% \$25 liquidation preference shares.

Shareholders' equity and financial leverage. Total shareholders' equity reduced by \$165.2 million to \$3,140.2 million for the three months ended March 31, 2010. The most significant movements were:

- the repurchase of ordinary shares through a \$200.0 million accelerated share repurchase;
- unrealized appreciation on investments, net of taxes, of \$22.0 million; and
- net retained income after tax for the period of \$0.8 million.

As at March 31, 2010, total ordinary shareholders' equity was \$2,786.6 million compared to \$2,951.8 million at December 31, 2009. The remainder of our total shareholders' equity, as at March 31, 2010, was funded by two classes of preference shares with a total value as measured by their respective liquidation preferences of \$353.6 million net of share issuance costs (December 31, 2009 — \$353.6 million).

The amount outstanding under our senior notes, less amortization of expenses, of \$249.6 million (December 31, 2009 — \$249.6 million) was the only material debt that we had outstanding as of March 31, 2010 and December 31, 2009.

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders' equity plus outstanding debt. At March 31, 2010, this ratio was 7.4% (December 31, 2009 — 7.0%).

Our preference shares are classified on our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Such securities are often referred to as 'hybrids' as they have certain attributes of both debt and equity. We also monitor the ratio of the total of debt and hybrids to total capital which was 17.8% as of March 31, 2010 (December 31, 2009 — 17.0%).

Capital Management. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase \$200 million of our ordinary shares. A total of 6.5 million ordinary shares were received and cancelled within the first quarter of 2010. We may be entitled to receive additional ordinary shares from Goldman Sachs based on the average of the daily market prices of our ordinary shares during the term of the agreement. The program is expected to be completed within ten months. The repurchase completes our share repurchase program authorized by the Board of Directors and announced on February 6, 2008. The purchase was funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to \$400 million of ordinary shares. The authorization covers the period to March 1, 2012.

Liquidity. Management monitors the liquidity of Aspen Holdings and of each of its Insurance Subsidiaries. With respect to Aspen Holdings, management monitors its ability to service debt, to finance dividend payments and to provide financial support to the Insurance Subsidiaries. As at March 31, 2010, Aspen Holdings held \$79.4 million (December 31, 2009 — \$33.5 million) in cash and cash equivalents which, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities, management considered sufficient to provide Aspen Holdings liquidity at such time.

At March 31, 2010, our subsidiaries held \$619.2 million (December 31, 2009 — \$701.5 million) in cash and cash equivalents that are readily realizable securities. Management monitors the value, currency and duration of the cash and investments within its Insurance 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 March 31, 2010 and for the foreseeable future.

As of March 31, 2010, we had in issue \$598.0 million in letters of credit to cedants, for which the Company had funds on deposit of \$620.1 million as collateral for the secured letters of credit. Further information relating to letters of credit is found below under “Liquidity.”

Outlook and Trends

Reinsurance: The January 1 renewals for our property reinsurance lines proved competitive due to increased supply and higher retentions. At that time we believed the market would soften further in 2010 and as a result we had deployed more of our catastrophe capacity than we had initially anticipated earlier in the year. Our predictions were correct and were reflected in the April 1 renewals. For the market as a whole, we estimate that rates have deteriorated by 5 to 10% since January 1, although we now anticipate increases on Latin American business given the Chilean earthquake.

Pricing in casualty reinsurance remains flat to slightly down depending on the line of business and geographical location. Overall, the rating environment within international treaty remains competitive with rates broadly flat, although higher increases are being seen on accounts with exposure to professional lines. We recorded an average increase of 5% on our renewal book but we did not renew or reduce our lines on a number of Lloyd's treaties which did not meet our hurdle rates. We continue to monitor terms and conditions very carefully, which are currently both stable and acceptable, however, we are mindful of inflationary pressures and possible changes in the legal environment, which may result in an unacceptable risk profile.

In respect of our specialty lines reinsurance, competition in trade credit reinsurance has recently increased reflecting the perception of an improved economic environment.

Insurance: In our insurance segment, premium growth has been strongest in property lines, which reflects some new business in the U.K. where pricing has been marginally better than expected. U.S. property insurance business written on an excess and surplus lines basis remains challenging with rate reductions of on average 2% on renewal business against the backdrop of a market environment where price declines of almost 10% are not uncommon.

In financial and professional lines insurance, we are seeing submission flow in our political risks account almost double as bank lending has resumed and global trade and industrial production have strengthened. We are still seeing rate increases in financial institutions business although this is slowing given the general perception of economic recovery. Our U.K. professional liability team has obtained average rate increases of approximately 9% on business renewed.

Within the marine, energy and transportation line, pricing has improved overall. In marine, energy and construction liability we have seen average increases in the range of 0 to 5%. Although relatively little airline business renews at this time of year, we have achieved rate increases of approximately 5% overall and are anticipating price increases in our aviation book for the remainder of the year. In offshore energy physical damage insurance, the losses associated with the explosion and sinking of the Deepwater Horizon drilling rig are difficult to quantify at this stage. However, the loss is a material one for the energy market and the timing just before the key May and June renewal dates for Gulf of Mexico exposed business is significant.

Elsewhere, within our casualty insurance lines, we are continuing to reposition our U.S. E&S casualty account and conditions are still testing in the U.K. liability account. We expect pricing in both the U.S. and U.K. in casualty insurance lines to remain soft to flat overall with some pockets of business expected to show improving price trends such as residential construction business in the U.S.

Application of Critical Accounting Policies

Our condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, which require management to make significant estimates and assumptions. We believe that some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to reserves for property and liability losses, premiums receivable in respect of assumed reinsurance, the fair value of derivatives and the value of investments, including the extent of any other-than-temporary impairment. For a detailed discussion of our critical accounting policies please refer to our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission and the notes to the financial statements contained in this report.

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

Results of Operations for the Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

The following is a discussion and analysis of our consolidated results of operations for the three months ended March 31, 2010 and 2009 starting with a discussion of segmental results and then summarizing our consolidated results under "Total Income Statement — First quarter" below.

Underwriting Results by Operating Segments

We are organized into two business segments: Reinsurance and Insurance. We have considered similarities in economic characteristics, products, customers, distribution, and the regulatory environment of our operating segments to determine our reportable segments.

We historically have managed our business in four segments: property reinsurance, casualty reinsurance, international insurance and U.S. insurance. On January 14, 2010, we announced a new organizational structure where we intend to manage our insurance and reinsurance businesses as two underwriting segments, Aspen Insurance and Aspen Reinsurance, to enhance and better serve our global customer base. We have considered similarities in economic characteristics, products, customers, distribution, and the regulatory environment of our Company's operating segments and quantitative thresholds to determine our reportable segments. As a result of our organizational changes, in 2010 we now manage our underwriting business in two operating segments: Insurance and Reinsurance. The reinsurance segment consists of four principal lines of business: property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance. The insurance segment consists of property insurance, casualty insurance, marine, energy and transportation insurance and financial and professional lines insurance.

Management measures segment results on the basis of the combined ratio, which is obtained by dividing the sum of the losses and loss expenses, acquisition expenses and operating and administrative expenses by net premiums earned. Other than corporate expenses, indirect operating and administrative expenses are allocated to segments based on each segment's proportional share of gross earned premiums. As a relatively new company, our historical combined ratio may not be indicative of future underwriting performance.

We have provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other income includes net investment income, net realized and unrealized investment gains or losses, corporate expense, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments. Please refer to the tables in Note 5 in our unaudited financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the three months ended March 31, 2010 and 2009. The contributions of each segment to gross written premiums in the three months ended March 31, 2010 and 2009 were as follows:

Business Segment	Gross Written Premiums	
	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
	% of total gross written premiums	
Reinsurance	69.7%	71.1%
Insurance	30.3%	28.9%
Total	100.0%	100.0%

Business Segment	Gross Written Premiums	
	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
	(\$ in millions)	
Reinsurance	\$ 490.1	\$ 452.8
Insurance	212.7	184.0
Total	\$ 702.8	\$ 636.8

Reinsurance

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

Gross written premiums. Gross written premiums in our reinsurance segment increased by 8.2% compared to the three months ended March 31, 2009. The increase in gross written premiums is attributable mainly to additional catastrophe premium as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of the year, in addition to \$10.2 million of reinstatement premiums from the Chilean earthquake and \$16.0 million of additional premiums from new teams (credit and surety, agriculture and risk solutions).

The table below shows our gross written premiums for each line of business for the three months ended March 31, 2010 and 2009, and the percentage change in gross written premiums for each such line:

Lines of Business	Gross Written Premiums			
	For the Three Months Ended March 31, 2010		For the Three Months Ended March 31, 2009	
	(\$ in millions)	% increase/ (decrease)	(\$ in millions)	
Property catastrophe reinsurance	\$ 146.2	25.3%	\$ 116.7	
Other property reinsurance	73.7	(17.0)	88.8	
Casualty reinsurance	174.5	(0.7)	175.8	
Specialty reinsurance	95.7	33.8	71.5	
Total	\$ 490.1	8.2%	\$ 452.8	

Losses and loss adjustment expenses. The net loss ratio for the three months ended March 31, 2010 was 88.2% compared to 44.4% in the equivalent period in 2009. The increase in the loss ratio is attributable to gross losses of \$122.2 million (\$112.0 million net of reinstatement premiums) relating to the earthquake in Chile compared to an absence of significant catastrophe-related losses in the first quarter of 2009. Net favorable reserve development was \$15.1 million (2009 — \$15.8 million) due to favorable claims development in both our property and specialty reinsurance lines.

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

Policy acquisition, operating and administrative expenses. The policy and administration expense ratio of 25.7% of net premiums earned for the three months ended March 31, 2010 was in line with the same period in 2009. The increase in operating and administrative expenses of \$3.9 million from the first quarter of 2009 is attributable mainly to an increase in general expenses as we continue to invest in the development of the business.

Insurance

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

Gross written premiums. Overall premiums have increased 15.6% to \$212.7 for the quarter from \$184.0 million in the equivalent period in 2009. The increase in gross written premium is attributable to both property insurance lines and marine, energy and transport lines where we have seen opportunities to write new business that met our profitability requirements and benefited from better rates. U.S. casualty insurance was one of the few business lines which saw a reduction in premiums as we restructure this account.

The table below shows our gross written premiums for each line of business for the three months ended March 31, 2010 and 2009, and the percentage change in gross written premiums for each line:

Lines of Business	Gross Written Premiums		
	For the Three Months Ended March 31, 2010		For the Three Months Ended March 31, 2009
	(\$ in millions)	% increase/ (decrease)	(\$ in millions)
Property insurance	\$ 36.7	45.1%	\$ 25.3
Casualty insurance	37.2	(11.8)	42.2
Marine, energy and transportation insurance	110.6	17.5	94.1
Financial and professional lines insurance	28.2	25.9	22.4
Total	\$ 212.7	15.6%	\$ 184.0

Losses and loss adjustment expenses. The loss ratio for the quarter was 69.1% compared to 74.8% for the three months ended March 31, 2009. The three months ended March 31, 2010 were not impacted by any large catastrophic events while the first quarter of 2009 included increases in current year loss reserves for lines of business exposed to the global financial crisis. Prior year reserve strengthening was \$2.2 million compared to \$6.0 million in the three months ended March 31, 2009.

Policy acquisition, operating and administrative expenses. Policy acquisition expenses were \$32.1 million for the three months ended March 31, 2010 equivalent to 18.2% of net premiums earned (2009 — \$27.2 million or 15.8% of net earned premium), with the increase due mainly to a ceding commission for U.S. property insurance. Operating and administrative expenses of \$20.4 million in the first quarter of 2010 are in line with the comparative period in 2009.

Total Income Statement — First quarter

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

Gross written premiums. Gross written premiums for the first quarter of 2010 have increased by 10.4% to \$702.8 million when compared to the first quarter of 2009 due to moderate increases in both the reinsurance and insurance segments. The reinsurance segment has benefited principally from \$10.2 million of reinstatement premiums from the Chilean earthquake, an additional \$16.1 million from new teams (credit and surety, agriculture and risk solutions) and additional catastrophe premium in this quarter as we deployed our catastrophe capacity earlier in the year. Gross written premiums in the insurance segment have increased by 15.6% to \$212.7 million when compared to the first quarter of 2009 with additional contributions from the specie class of business which commenced underwriting after the first quarter of 2009, U.K. commercial property, financial and professional lines and marine liability where we saw opportunities to write business that met our profitability requirements.

Reinsurance ceded. Total reinsurance ceded for the quarter of \$122.7 million has decreased by \$7.5 million from the first quarter of 2009 due mainly to the reinsurance segment where we have reduced our reliance on some industry loss warranties that we had in place in 2009.

Gross premiums earned. Gross premiums earned reflect the portion of gross premiums written which are recorded as revenues over the policy periods of the risks we write. The earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the reporting date. Gross premiums earned in the first quarter of 2010 increased by 4.8% compared to the first quarter of 2009 reflecting the higher written premium in the current period and the \$10.2 million of reinstatement premiums from the Chilean earthquake.

Net premiums earned. Net premiums earned have increased by \$20.3 million or 4.5% in the first quarter of 2010 compared to 2009 which is consistent with the increase in gross earned premiums.

Losses and loss adjustment expenses. The increase in losses and loss adjustment expenses resulted from the Chilean earthquake. Reserve releases were \$3.1 million higher in the current quarter due generally to favorable development across most lines.

The underlying changes in accident year loss ratios by segment are shown in the table below. The prior year claims adjustment in the table below reflects claims development and excludes premium adjustments.

The current year claims adjustments represent significant loss events.

For the Three Months Ended March 31, 2010	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding
				Prior and Current Year Claims Adjustments
Reinsurance	88.2%	5.2%	(42.0)%	51.4%
Insurance	69.1%	(1.3)%	(0.1)%	67.7%
Total	81.0%	2.8%	(26.2)%	57.6%

For the Three Months Ended March 31, 2009	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding
				Prior and Current Year Claims Adjustments
Reinsurance	44.4%	5.7%	—%	50.1%
Insurance	74.8%	(3.5)%	—%	71.3%
Total	56.1%	2.2%	—%	58.3%

Expenses. We monitor the ratio of expenses to gross earned premium (the “gross expense ratio”) as a measure of the cost effectiveness of our policy acquisition, operating and administrative processes. The table below presents the contribution of the policy acquisition expenses and operating and administrative expenses to the expense ratio and the total expense ratios for the three months ended March 31, 2010 and 2009. We also show the effect of reinsurance which impacts on the reported net expense ratio by expressing the expenses as a proportion of net earned premiums.

	Expense Ratios	
	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Policy acquisition expenses	16.3%	15.9%
Operating and administrative expenses	10.2%	9.8%
Gross expense ratio	26.5%	25.7%
Effect of reinsurance	2.8%	2.7%
Total net expense ratio	29.3%	28.4%

Changes in the acquisition and operating and administrative ratios to gross earned premiums and the impact of reinsurance on net earned premiums by segment for each of the three months ended March 31, 2010 and 2009 are shown in the following table:

Ratios Based on Gross Earned Premium	For the Three Months Ended March 31, 2010			For the Three Months Ended March 31, 2009		
	Reinsurance	Insurance	Total	Reinsurance	Insurance	Total
Policy acquisition expense ratio	17.4%	14.9%	16.3%	17.9%	13.2%	15.9%
Operating and administrative expense ratio	7.4	9.5	10.2	6.4	9.9	9.8
Gross expense ratio	24.8	24.4	26.5	24.3	23.1	25.7
Effect of reinsurance	0.9	5.4	2.8	1.1	4.5	2.7
Total net expense ratio	25.7%	29.8%	29.3%	25.4%	27.6%	28.4%

The policy acquisition ratio, gross of the effect of reinsurance, has increased marginally to 16.3% for the three months ended March 31, 2010 from 15.9% for the comparative period in 2009. The first quarter of 2009 included an adjustment to brokerage in the casualty reinsurance lines which contributed to a lower expense figure in that period. The increase was also due to changes in business mix in the insurance segment which changed the relative contributions from business lines which have different average acquisition costs.

Between the two periods, we have experienced a \$4.0 million increase in our operating and administrative expenses. The increase is due mainly to staff and reorganization costs as we continue to invest in the development of our business.

Net investment income. Despite an increase in cash and invested assets of \$580.1 million, a lower interest rate environment produced a net investment income result of \$59.4 million in line with the same period last year (2009 — \$59.2 million). Investment income in the first quarter of 2009 benefited from \$4.0 million of gains from our investment in funds of hedge funds. Book yield on our fixed income portfolio of 4.2% is broadly in line with the fourth quarter of 2009, however, it has decreased from 4.4% in the first quarter of 2009 due mainly to the decrease in interest rates. The portfolio duration remain unchanged from the end of 2009 at 3.3 years. This compares with 2.9 years in the first quarter of 2009. The average credit quality of our fixed income portfolio is “AA+”, with 73% (2009 — 79%) of the portfolio being rated “AA” or higher.

Change in fair value of derivatives. In the three months ended March 31, 2010, we recorded a reduction of \$2.0 million (2009 — \$2.0 million) in the estimated fair value of our credit insurance contract including \$0.2 million (2009 — \$0.1 million) of interest expense. Further information on these contracts can be found in Note 9 to the financial statements.

Other-than-temporary impairments. We review all of our fixed maturities for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro economic conditions. The process of determining whether a decline in value is “other-than-temporary” requires considerable judgment. As part of the assessment process we also evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to the portion of the unrealized loss that is considered credit-related. Non-credit related unrealized losses are included in other comprehensive income. The realized investments losses in the first quarter of 2010 include a \$0.3 million charge for investments we believe to be other-than-temporarily impaired (2009 — \$15.2 million). Other-than-temporary impairment losses of \$0.3 million for the quarter and \$15.2 million for the first quarter 2009 were credit related and therefore are included in the income statement.

Income before tax. In the first quarter of 2010, income before tax was \$20.3 million and comprised \$48.2 million of underwriting loss, \$59.4 million in net investment income, \$13.8 million of net realized and unrealized investment and foreign exchange gains, \$3.8 million of interest expense and \$0.9 million of other expenses. In the first quarter of 2009, income before tax was \$107.5 million which comprised \$69.4 million of underwriting profits, \$59.2 million in net investment income, \$14.5 million of net foreign exchange and investment losses, \$2.7 million of other expenses and \$3.9 million of interest expense. Our underwriting loss in the first quarter of 2010 was mainly due to \$112.2 million of losses (net of reinstatements) associated with the Chilean earthquake. The change in net foreign exchange and investment gains when compared to the first quarter of 2009 was due predominantly to the reduction in charges relating to other-than-temporary impairments of \$0.3 million (2009 — \$15.2 million).

Income tax expense. Income tax expense for the three months ended March 31, 2010 was \$2.0 million. Our effective consolidated tax rate for the three months ended March 31, 2010 was 9.9% (2009 — 15.0%). The charge represents an estimate of the tax rate which will apply to our pre-tax income for 2010. As discussed in the “Overview” above, the effective tax rate for the year may be subject to revision.

Net income after tax. Net income after tax for the three months ended March 31, 2010 was \$18.3 million, equivalent to \$0.16 basic earnings per ordinary share adjusted for the \$5.7 million preference share dividends and \$0.16 fully diluted earnings per ordinary share adjusted for the preference share dividends on the basis of the weighted average number of ordinary shares in issue during the three months ended March 31, 2010. The net income for the three months ended March 31, 2009 was \$91.4 million equivalent to basic earnings per ordinary share of \$1.42 adjusted for the \$6.9 million preference share dividend and fully diluted earnings per share of \$1.39.

Reserves for Losses and Loss Adjustment Expenses

As of March 31, 2010, we had total net loss and loss adjustment expense reserves of \$3,189.1 million (December 31, 2009 — \$3,009.6 million). This amount represented our best estimate of the ultimate liability for payment of losses and loss adjustment expenses. Of the total gross reserves for unpaid losses of \$3,452.0 million at the balance sheet date of March 31, 2010, a total of \$2,100.8 million or 60.9% represented IBNR claims (December 31, 2009 — \$3,331.1 million and 58.4%, respectively). The following tables analyze gross and net loss and loss adjustment expense reserves by segment.

Business Segment	As at March 31, 2010		
	Gross	Reinsurance Recoverable (\$ in millions)	Net
Reinsurance	\$2,237.8	\$ (76.1)	\$2,161.7
Insurance	1,214.2	(186.8)	1,027.4
Total losses and loss expense reserves	<u>\$3,452.0</u>	<u>\$ (262.9)</u>	<u>\$3,189.1</u>

Business Segment	As at December 31, 2009		
	Gross	Reinsurance	
		Recoverable(1)	Net
(\$ in millions)			
Reinsurance	\$2,069.4	\$ (81.0)	\$1,988.4
Insurance	1,261.7	(240.5)	1,021.2
Total losses and loss expense reserves	\$3,331.1	\$ (321.5)	\$3,009.6

The reduction in reinsurance recoverables in the quarter is due to settlements in our insurance segment related mainly to losses from Hurricane Ike and the explosion at the Buncefield oil storage facility.

For the three months ended March 31, 2010, there was a reduction of our estimate of the ultimate net claims to be paid in respect of prior accident years of \$12.9 million. An analysis of this reduction by business segment is as follows for each of the three months ended March 31, 2010 and 2009:

Business Segment	For the Three Months Ended		
	March 31, 2010	March 31, 2009	
	(\$ in millions)		
Reinsurance	\$ 15.1	\$	15.8
Insurance	(2.2)		(6.0)
Total losses and loss expense reserves reductions	\$ 12.9	\$	9.8

The key elements which gave rise to the net favorable development during the three months ended March 31, 2010 were as follows:

Reinsurance. The reserve releases in the current quarter were spread across all four of our reinsurance lines, with the most significant releases coming from our specialty reinsurance and property reinsurance lines. Specialty reinsurance experienced a \$5.6 million release while property facultative experienced a \$2.9 million release.

Insurance. Most areas in the insurance segment were either flat or showed reserve releases. However, the most significant movements included excess casualty which saw pharmaceutical and transport reserves increase by \$12.9 million, offset by \$8.9 million of reserve releases in aviation.

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

For a more detailed description see “Management’s Discussion and Analysis — Critical Accounting Policies” and “Management’s Discussion and Analysis — Reserves for Losses and Loss Adjustment Expenses,” included in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Balance Sheet***Total cash and investments***

At March 31, 2010 and December 31, 2009, total cash and investments, including accrued interest receivable, were \$6.7 billion and \$6.8 billion, respectively. The composition of our investment portfolio is summarized below:

	As at March 31, 2010		As at December 31, 2009	
	Estimated Fair Value	Percentage of Fixed Income Portfolio	Estimated Fair Value	Percentage of Fixed Income Portfolio
Marketable Securities — Available for Sale				
U.S. Government Securities	\$ 650.9	9.7%	\$ 507.5	7.4%
U.S. Government Agency Securities	347.1	5.2%	389.1	5.7%
Municipal Securities	23.1	0.3%	19.5	0.3%
Corporate Securities	2,237.1	33.3%	2,264.6	33.2%
Foreign Government Securities	563.4	8.4%	522.3	7.7%
Asset-backed Securities	88.2	1.3%	115.1	1.7%
Mortgage-backed Securities	1,386.5	20.7%	1,431.8	21.0%
Total Fixed Income — Available for Sale	5,296.3	78.9%	5,249.9	77.0%
Marketable Securities — Trading				
Corporate Securities	343.5	5.1%	329.4	4.8%
U.S. Government Securities	7.2	0.1%	6.5	0.1%
Municipal Securities	2.9	—	1.8	—
U.S. Government Agency Securities	0.4	—	0.4	—
Asset-backed Securities	5.0	0.1%	5.0	0.1%
Foreign Government Securities	6.5	0.1%	5.0	0.1%
Total Fixed Income — Trading	365.5	5.4%	348.1	5.1%
Total Other Investments	27.5	0.4%	27.3	0.4%
Total Short-term Investments — Available for Sale	251.8	3.8%	368.2	5.4%
Total Short-term Investments — Trading	0.1	—	3.5	0.1%
Total Cash and Cash Equivalents	701.4	10.5%	748.4	11.0%
Total Receivable for Securities Sold	13.5	0.2%	11.9	0.2%
Total Accrued Interest Receivable	53.3	0.8%	54.6	0.8%
Total Cash and Investments	\$ 6,709.4	100.0%	\$ 6,811.9	100.0%

Fixed maturities. At March 31, 2010, the average credit quality of our fixed income portfolio is “AA+,” with 95% of the portfolio being rated “A” or higher. At December 31, 2009, the average credit quality of our fixed income portfolio was “AA+,” with 95% of the portfolio being rated “A” or higher. Our fixed income portfolio duration has remained stable at 3.3 years as at December 31, 2009 and as at March 31, 2010.

Mortgage-Backed Securities. The following tables summaries the fair value of our mortgage-backed securities (“MBS”) by rating and class at March 31, 2010:

	AAA	AA and Below	Total
Agency	\$1,170.6	\$ —	\$1,170.6
Non-agency Commercial	4.8	37.1	41.9
Non-agency Residential	149.7	24.3	174.0
Total Mortgage-backed Securities	\$1,325.1	\$ 61.4	\$1,386.5

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

Alternative-A securities. We define Alternative-A (“alt-A”) mortgages as those considered less risky than sub-prime mortgages, but with lower credit quality than prime mortgages. At March 31, 2010, we had \$9.2 million invested in alt-A securities (December 31, 2009 — \$9.3 million).

Sub-prime securities. We define sub-prime related investments as those supported by, or contain, sub-prime collateral based on creditworthiness. We do not invest directly in sub-prime related securities.

Other investments. Other investments as at March 31, 2010 and December 31, 2009 are as follows:

	March 31, 2010		December 31, 2009	
	Cost	Carrying Value	Cost	Carrying Value
	(\$ in millions)			
Cartesian Iris 2009A L.P.	\$25.0	\$ 27.5	\$25.0	\$ 27.3
Total other investments	\$25.0	\$ 27.5	\$25.0	\$ 27.3

Investment funds. Investment funds have historically represented our investments in funds of hedge funds which were recorded using the equity method of accounting. Our active investments and other obligations with the funds ceased at June 30, 2009. At March 31, 2010, the carrying value of the receivable was \$11.6 million and represents our maximum exposure to loss at the balance sheet date. The outstanding balance is expected to be received subsequent to the completion of the audited financial statement for the funds.

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested \$25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three months ended March 31, 2010, a fee of \$0.2 million was payable to us. The Company’s investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership.

Valuation of Investments

Valuation of Fixed Income and Short Term Available for Sale Investments and Fixed Income and Short-Term Trading Investments. We use quoted values and other data provided by internationally recognized independent pricing sources as inputs into our process for determining the fair value of our fixed income investments. Where multiple quotes or prices are obtained, a price source hierarchy is maintained in order to determine which price source provides the fair value (i.e., a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy prioritizes pricing services based on availability and reliability and assigns the highest priority to index providers.

We consider prices for actively traded Treasury securities to be derived based on quoted prices in active markets for identical assets, which are Level 1 inputs in the fair value hierarchy. We consider prices for other securities priced via vendors, indices, or broker-dealers 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.

We consider 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. There have been no changes in our use of valuation techniques during the year.

Pricing Services and Index Providers. Pricing services provide pricing for less complex, liquid securities based on market quotations in active markets. For securities that do not trade on a listed exchange, these pricing services may use matrix pricing consisting of observable market inputs to estimate the fair value of a security. These observable market inputs include: reported trades, benchmark yields, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic factors. Additionally, pricing services may use a valuation model such as an option adjusted spread model commonly used for estimating fair values of mortgage-backed and asset-backed securities.

Broker-Dealers. For the most part, we obtain quotes directly from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services or index providers. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance on newly issued securities. They may also establish pricing through observing secondary trading of similar securities. Quotes from broker-dealers are non-binding.

To validate the techniques or models used by third-party pricing sources, we review process, in conjunction with the processes completed by the third-party accounting service provider, 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);
- initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and
- comparison of the fair value estimates to its knowledge of the current market.

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

At March 31, 2010, we obtained an average of 3.2 quotes per investment, compared to 3.4 quotes at December 31, 2009. Pricing sources used in pricing our fixed income investments at March 31, 2010 and December 31, 2009, respectively, were as follows:

	As at March 31, 2010	As at December 31, 2009
Index providers	82.2%	81.5%
Pricing services	14.3%	13.2%
Broker-dealers	3.5%	5.3%
Total	100.0%	100.0%

Valuation of Other Investments. The value of our investments in funds of hedge funds was based upon monthly net asset values reported by the underlying funds to our funds of hedge fund managers. The financial statements of our funds of hedge funds were subject to annual audits evaluating the net asset positions of the underlying investments.

The value of our investment in Cartesian Iris 2009A L.P. is based on our shares of the capital position of the partnership which includes income and expenses reported by the limited partnership as provided in its quarterly management accounts. Cartesian Iris 2009A L.P. is subject to annual audit

evaluating the financial statements of the partnership. We periodically review the management accounts of Cartesian Iris 2009A L.P. and evaluate the reasonableness of the valuation of our investment.

Guaranteed Investments. The following table presents the breakdown of investments which are guaranteed by mono-line insurers (“Wrapped Credit” disclosure) and those that have explicit government guarantees. The standalone rating is determined as the senior unsecured debt rating of the issuer. Where the credit ratings were split between the three main rating agencies (S&P’s, Moody’s, and Fitch), the lowest rating was used.

Rating With Guarantee	As at March 31, 2010		Rating With Guarantee	As at December 31, 2009	
	Rating without Guarantee	Market Value		Rating without Guarantee	Market Value
(\$ in millions)					
AAA	AAA	\$ 98.0	AAA	AAA	\$ 141.9
	AA	16.4		AA	16.2
	AA-	3.0		AA-	3.0
	A+	38.5		A+	69.8
	A	33.9		A	34.1
	A-	92.0		A-	107.0
	BBB+	13.9		BBB+	7.7
	BBB-	21.9		BBB-	20.9
AA+	AA+	14.1	AA+	AA+	15.0
	AA	28.1		AA	27.8
	A	18.2		A	17.3
AA	AA	3.2	AA	AA	3.2
AA-	AA-	3.1	AA-	AA-	—
BBB-	BBB-	0.1	BBB-	BBB-	0.1
		<u>\$387.4</u>			<u>\$ 464.0</u>

Our exposure to mono-line insurers was limited to 1 municipal holding (2009 — 1 holding) as at March 31, 2010 with a market value of \$0.1 million (2009 — \$0.1 million). Our exposure to other third-party guaranteed debt is primarily to investments backed by the Federal Depository Insurance Corporation (FDIC) and non-U.S. government guaranteed issuers.

Other-than-temporary impairment. We review all of our fixed maturities for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The process of determining whether a decline in value is “other-than-temporary” requires considerable judgment. As part of the assessment process we also evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to that portion of the unrealized loss that is considered to be credit related. Non-credit related unrealized losses are included in other comprehensive income.

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

Capital Management

On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase \$200 million of our ordinary shares. An amount of 6.5 million ordinary shares were retired in the quarter. We may be entitled to receive additional ordinary shares from Goldman Sachs based on the average of the daily market prices of our ordinary shares during the term of the agreement. The program is expected to be completed within ten months. The repurchase was made under the terms of our share repurchase program authorized by the Board of Directors and announced on February 6, 2008 and will complete the full amount of that program. The purchase has been funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to \$400 million of ordinary shares. The authorization covers the period to March 1, 2012.

On March 31, 2009, we repurchased and cancelled 2.7 million of our 7.401% \$25 liquidation value preference shares (NYSE : AHL-PA) at a price of \$12.50 per share. The repurchase resulted in a first quarter gain attributable to ordinary shareholders of approximately \$31.5 million which was not recognized in the income statement but was included in the calculation of earnings per share.

The following table shows our capital structure at March 31, 2010 compared to December 31, 2009.

	As at March 31, 2010	As at December 31, 2009
	(\$ in millions)	
Share capital, additional paid-in capital and retained income and accumulated other comprehensive income attributable to ordinary shareholders	\$ 2,786.6	\$ 2,951.8
Preference shares (liquidation preference less issue expenses)	353.6	353.6
Long-term debt	249.6	249.6
Total capital	<u>\$ 3,389.8</u>	<u>\$ 3,555.0</u>

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders' equity plus outstanding debt. At March 31, 2010, this ratio was 7.4% (December 31, 2009 — 7.0%).

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 17.8% as of March 31, 2010 (December 31, 2009 — 17.0%).

Access to capital. Our business operations are in part dependent on our financial strength and the market's perception thereof, as measured by shareholders' equity, which was \$3,140.2 million at March 31, 2010 (December 31, 2009 — \$3,305.4 million). We believe our financial strength provides us with the flexibility and capacity to obtain funds through debt or equity financing. Our continuing ability to access the capital markets is dependent on, among other things, our operating results, market conditions and our perceived financial strength. We regularly monitor our capital and financial position, as well as investment and securities market conditions, both in general and with respect to Aspen Holdings' securities. Our ordinary shares and all our preference shares are listed on the New York Stock Exchange.

Liquidity

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. Management monitors the liquidity of Aspen Holdings and of each of its Insurance 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 Insurance Subsidiaries.

As at March 31, 2010, Aspen Holdings held \$79.4 million (December 31, 2009 — \$33.5 million) in cash and cash equivalents which management considers sufficient to provide Aspen Holdings liquidity at such time, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities. Holding company liquidity depends on dividends, capital distributions and interest payments from our Insurance Subsidiaries.

In the three months ended March 31, 2010, Aspen U.K. Holdings paid Aspen Holdings interest of \$9.1 million (2009 — \$9.1 million) from Aspen U.K. Holdings in respect of an intercompany loan.

The ability of our Insurance Subsidiaries to pay us dividends or other distributions is subject to the laws and regulations applicable to each jurisdiction, as well as the Insurance Subsidiaries' need to maintain capital requirements adequate to maintain their insurance and reinsurance operations and their financial strength ratings issued by independent rating agencies. For a discussion of the various restrictions on our ability and our Insurance Subsidiaries' ability to pay dividends, see Part I, Item 1 "Business — Regulatory Matters" in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. Also for a more detailed discussion of our Insurance Subsidiaries' ability to pay dividends see Note 14 of our annual financial statements in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Insurance subsidiaries. As of March 31, 2010, the Insurance Subsidiaries held approximately \$619.2 million (December 31, 2009 — \$701.5 million) in cash and short-term investments that are readily realizable securities. Management monitors the value, currency and duration of cash and investments held by its Insurance 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 March 31, 2010 and for the foreseeable future.

On an ongoing basis, our Insurance 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 Insurance Subsidiaries is also affected by the terms of our contractual obligations to policyholders and by undertakings to certain regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. The following table shows the forms of collateral or other security provided to policyholders as at March 31, 2010 and December 31, 2009:

	As at March 31, 2010	As at December 31, 2009
	(\$ in millions except percentages)	
Assets held in multi-beneficiary trusts	\$ 1,564.6	\$ 1,495.8
Assets held in single beneficiary trusts	56.1	55.7
Secured letters of credit (1)	598.0	528.3
Total	<u>\$ 2,218.7</u>	<u>\$ 2,079.8</u>
Total as % of cash and invested assets	<u>33.4%</u>	<u>30.8%</u>

(1) As of March 31, 2010, the Company had funds on deposit of \$591.0 million and £19.2 million (December 31, 2009 — \$667.1 million and £25.3 million) as collateral for the secured letters of credit.

For more information see Note 14(c) and our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Consolidated cash flows for the three months ended March 31, 2010. Total net cash flow from operations from December 31, 2009 through March 31, 2010 was \$22.8 million, a reduction of \$180.4 million over the comparative period. The reduction was due mainly to lower premium receipts and from increases in net claims settlements. For the three months ended March 31, 2010, our cash flow from operations provided us with sufficient liquidity to meet our operating requirements. On March 5, 2010, we paid a dividend of \$0.15 per ordinary share to shareholders of record on February 22, 2010. On April 1, 2010, dividends totaling \$3.2 million on our Perpetual Preferred Income Equity Replacement Securities (“Perpetual PIERS”) were paid to our dividend disbursing agent, for payment to our Perpetual PIERS holders of record on March 15, 2010. On April 1, 2010, dividends totaling \$2.5 million on our Perpetual Non-Cumulative Preference Shares (“Perpetual Preference Shares”) were paid to our dividend disbursing agent, for payment to our Perpetual Preference Share holders of record on March 15, 2010.

Credit Facility. On August 2, 2005, we entered into a five-year \$400 million revolving credit facility pursuant to a credit agreement dated as of August 2, 2005 (the “credit facilities”) by and among the Company, certain of our direct and indirect subsidiaries, including the Insurance Subsidiaries (collectively, the “Borrowers”) the lenders party thereto, Barclays Bank plc, as administrative agent and letter of credit issuer, Bank of America, N.A. and Calyon, New York Branch, as co-syndication agents, Credit Suisse, Cayman Islands Branch and Deutsche Bank AG, New York Branch, as co-documentation agents and The Bank of New York, as collateral agent. On September 1, 2006, the aggregate limit available under the credit facility was increased to \$450 million.

The facility can be used by any of the Borrowers to provide funding for our Insurance Subsidiaries, to finance the working capital needs of the Company and our subsidiaries and for general corporate purposes of the Company and our subsidiaries. The revolving credit facility provides for a \$250 million sub-facility for collateralized letters of credit. The facility will expire on August 2, 2010 and prior to the facility’s expiration, we intend to enter into a new facility. As of March 31, 2010, no borrowings were outstanding under the credit facilities. The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers increase based on the consolidated leverage ratio of the Company.

Under the credit facilities, we must maintain at all times a consolidated tangible net worth of not less than approximately \$1.1 billion plus 50% of consolidated net income and 50% of aggregate net cash proceeds from the issuance by the Company of its capital stock, each as accrued from January 1, 2005. On June 28, 2007, we amended the credit agreement to permit dividend payments on existing and future hybrid capital notwithstanding a default or an event of default under the credit agreement. On April 13, 2006, the agreement was amended to remove any downward adjustment on maintaining the Company’s consolidated tangible net worth in the event of a net loss. The Company must also not permit its consolidated leverage ratio of total consolidated debt to consolidated tangible net worth to exceed 35%.

In addition, the credit facilities contain other customary affirmative and negative covenants as well as certain customary events of default, including with respect to a change in control. The various affirmative and negative covenants, include, among others, covenants that, subject to important exceptions, restrict the ability of the Company and its subsidiaries to: create or permit liens on assets; engage in mergers or consolidations; dispose of assets; pay dividends or other distributions, purchase or redeem the Company's equity securities or those of its subsidiaries and make other restricted payments; permit the rating of any insurance subsidiary to fall below A.M. Best financial strength rating of B++ or S&P's financial strength rating of A-; make certain investments; agree with others to limit the ability of the Company's subsidiaries to pay dividends or other restricted payments or to make loans or transfer assets to the Company or another of its subsidiaries. The credit facilities also include covenants that restrict the ability of our subsidiaries to incur indebtedness and guarantee obligations.

On April 29, 2009, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated October 29, 2008 in a maximum aggregate amount of up to \$450 million with a new letter of credit facility in a maximum aggregate amount of up to \$550 million. As at March 31, 2010, we had \$382.8 million of outstanding collateralized letters of credit under this facility.

On October 6, 2009, Aspen U.K. and Aspen Bermuda entered into a \$200 million secured letter of credit facility with Barclays Bank plc, which is described on our current report on Form 8-K filed on October 7, 2009. As at March 31, 2010, we had \$50.7 million of outstanding collateralized letters of credit under this facility compared to \$53.8 million at the end of 2009.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations (other than our obligations to employees, our Perpetual PIERS and our Perpetual Preference Shares) under long-term debt, operating leases and reserves relating to insurance and reinsurance contracts as of March 31, 2010:

	2010	2011	2012	2013	2014	Later Years	Total
	(\$ in millions)						
Operating Lease Obligations	\$ 5.1	\$ 6.5	\$ 6.5	\$ 6.4	\$ 6.4	\$ 19.7	\$ 50.6
Long-Term Debt Obligations (1)	—	—	—	—	\$249.6	—	\$ 249.6
Reserves for Losses and loss adjustment expenses (2)	\$780.3	\$765.5	\$485.6	\$327.1	\$234.3	\$859.2	\$3,452.0

- (1) The long-term debt obligations disclosed above do not include the \$15 million annual interest payments on our outstanding senior notes.
- (2) In estimating the time intervals into which payments of our reserves for losses and loss adjustment expenses fall, as set out above, we have utilized actuarially assessed payment patterns. By the nature of the insurance and reinsurance contracts under which these liabilities are assumed, there can be no certainty that actual payments will fall in the periods shown and there could be a material acceleration or deceleration of claims payments depending on factors outside our control. This uncertainty is heightened by the short time in which we have operated, thereby providing limited Company-specific claims loss payment patterns. The total amount of payments in respect of our reserves, as well as the timing of such payments, may differ materially from our current estimates for the reasons set out in our 2009 Annual Report on Form 10-K under "— Critical Accounting Policies — Reserves for Losses and Loss Expenses."

Further information on operating leases is given in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

For a discussion of derivative instruments we have entered into, please see Note 9 to our unaudited condensed consolidated financial statements for the three months ended March 31, 2010 included elsewhere in this report.

Off-Balance Sheet Arrangements

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested \$25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three months ended March 31, 2010, a fee of \$0.2 million was payable to us. The Company's investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership. For more information please see Notes 6 and 14(c) to the unaudited condensed consolidated financial statements for the three months ended March 31, 2010 included elsewhere in this report.

Effects of Inflation

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

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains, and the Company may from time to time make other verbal or written, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including statements regarding our capital needs, business strategy, expectations and intentions. Statements that use the terms "believe," "do not believe," "anticipate," "expect," "plan," "estimate," "project," "seek," "will," "may," "aim," "continue," "intend," "guidance" and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and because our business is subject to numerous risks, uncertainties and other factors, our actual results could differ materially from those anticipated in the forward-looking statements. The risks, uncertainties and other factors set forth in the Company's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission and other cautionary statements made in this report, as well as the following factors, should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report.

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

- the possibility of greater frequency or severity of claims and loss activity, including as a result of natural or man-made (including economic and political risks) catastrophic or material loss events, than our underwriting, reserving, reinsurance purchasing or investment practices have anticipated;
- the reliability of, and changes in assumptions to, natural and man-made catastrophe pricing, accumulation and estimated loss models;
- evolving issues with respect to interpretation of coverage after major loss events;
- the effectiveness of our loss limitation methods;
- changes in the total industry losses, or our share of total industry losses, resulting from past events such as the Chilean Earthquake, Hurricanes Ike and Gustav and, with respect to such events, our reliance on loss reports received from cedants and loss adjustors, our reliance on industry loss estimates and those generated by modeling techniques, changes in rulings on flood damage or other exclusions as a result of prevailing lawsuits and case law;
- the impact of acts of terrorism and related legislation and acts of war;
- decreased demand for our insurance or reinsurance products and cyclical changes in the insurance and reinsurance sectors;
- any changes in our reinsurers' credit quality and the amount and timing of reinsurance recoverables;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- the continuing and uncertain impact of the current depressed 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;
- changes in insurance and reinsurance market conditions;
- increased competition on the basis of pricing, capacity, coverage terms or other factors and the related demand and supply dynamics as contracts come up for renewal;
- a decline in our operating subsidiaries' ratings with S&P, A.M. Best or Moody's;
- our ability to execute our business plan to enter new markets, introduce new products and develop new distribution channels, including their integration into our existing operations;

[Table of Contents](#)

- changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect our investment portfolio;
- the risk of a material decline in the value or liquidity of all or parts of our investment portfolio;
- changes in our ability to exercise capital management initiatives or to arrange banking facilities as a result of prevailing market changes or changes in our financial position;
- changes in government regulations or tax laws in jurisdictions where we conduct business;
- Aspen Holdings or Aspen Bermuda becoming subject to income taxes in the United States or the United Kingdom;
- loss of key personnel; and
- increased counterparty risk due to the credit impairment of financial institutions.

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

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

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by the points made above. You should specifically consider the factors identified in this report which could cause actual results to differ before making an investment decision.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk. Our investment portfolio consists primarily of fixed income securities. Accordingly, our primary market risk exposure is to changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of our fixed-income portfolio falls, and the converse is also true. Our strategy for managing interest rate risk includes maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value.

As at March 31, 2010, our fixed income portfolio had an approximate duration of 3.3 years. The table below depicts interest rate change scenarios and the effect on our interest-rate sensitive invested assets:

Movement in Rates in Basis Points	Effect of Changes in Interest Rates on Portfolio Given a Parallel Shift in the Yield Curve				
	-100	-50	0	50	100
	(\$ in millions, except percentages)				
Market value \$ in millions	\$6,124.7	\$6,039.8	\$5,941.2	\$5,842.5	\$5,743.8
Gain/(loss) \$ in millions	183.5	98.6	—	(98.7)	(197.4)
Percentage of portfolio	3.27%	1.64%	—%	(1.64)%	(3.27)%

Equity risk. We had invested in two funds of hedge funds where the underlying hedge funds consisted of diverse strategies and securities. In February 2009, we gave notice to redeem our remaining investments in funds of hedge funds with effect on June 30, 2009, which would reduce our exposure to equity risk. As the notices of redemption have taken effect, we are no longer exposed to changes in the net asset value of the funds.

Foreign currency risk. Our reporting currency is the U.S. Dollar. The functional currencies of our segments are U.S. Dollars, British Pounds, Euros, Canadian Dollars, Swiss Francs, Australian Dollars and Singaporean Dollars. As of March 31, 2010, approximately 83% of our cash, cash equivalents and investments were held in U.S. Dollars, approximately 8% were in British Pounds and approximately 10% were in other currencies. For the three months ended March 31, 2010, approximately 24% 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 2010. 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 March 31, 2010, would have impacted reported net comprehensive income by approximately \$25.2 million for the three months ended March 31, 2010. We manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with investments that are denominated in these currencies. This may involve the use of forward exchange contracts from time to time. A forward exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allows us to establish a rate of exchange for a future point in time. All realized gains and losses on foreign exchange forward contracts are recognized in the Statements of Operations. There were no outstanding foreign currency contracts at March 31, 2010 or at March 31, 2009.

Credit risk. We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories, business

[Table of Contents](#)

sectors and any one issuer. As at March 31, 2010 and December 31, 2009, the average rating of fixed income securities in our investment portfolio was "AA+".

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.

We have also entered into a credit insurance contract which, subject to its terms, insures us against losses due to the inability of one or more of our reinsurance counterparties to meet their financial obligations to the Company. Payments are made on a quarterly basis throughout the period of the contract based on the aggregate limit, which was set initially at \$477 million but is subject to adjustment. The carrying value of the derivative is the Company's maximum exposure to loss.

See Note 9 to the unaudited financial statements for the three months ended March 31, 2010 above.

The table below shows our reinsurance recoverables as of March 31, 2010 and December 31, 2009, and our reinsurers' ratings.

A.M. Best	As at	As at
	March 31, 2010 (\$ in millions)	December 31, 2009 (\$ in millions)
A++	\$ 9.9	\$ 13.2
A+	66.6	57.0
A	159.2	226.2
A-	20.8	21.3
Fully collateralized	—	0.5
Not rated	6.4	3.3
Total	\$ 262.9	\$ 321.5

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the design and operation of the Company's disclosure controls and procedures as of the end of the period of this report. Our management does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. As a result of the inherent limitations in a cost-effective control system, misstatement due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure requirements are met. Based on the evaluation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed in the reports filed or submitted to the Commission under the Exchange Act by the Company is recorded, processed, summarized and reported in a timely fashion, and is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2010. Based upon that evaluation, the Company's management is not aware of any change in its internal control over financial reporting that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, 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 Insurance 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 US, 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 Insurance 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 or business as a whole.

As reported in our annual report on Form 10-K for the year ended December 31, 2009, on February 1, 2010, Liberty Mutual Group, Inc. and several of its affiliated companies (collectively “Liberty”) had filed a complaint in the Supreme Court of the State of New York, County of New York, against us and several employees of Aspen Specialty Insurance Company (who had previously been employed by Liberty), which alleged among other things that the employees, who all work in the area of specialty professional underwriting, unlawfully conspired to breach duties of loyalty owed to Liberty and to misappropriate Liberty’s trade secrets and goodwill in anticipation of their coming to work for Aspen. On March 27, 2010, the matter was amicably settled between us and Liberty to our mutual satisfaction.

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, 2009. However, also please refer to the “Cautionary Statement Regarding Forward-Looking Statements” provided elsewhere in this report.

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

In connection with the options held by the Names’ Trustee as described further in Note 12 to our financial statements, the Names’ Trustee may exercise the options on a monthly basis. The options were exercised on a cashless basis at the exercise price as described in Note 10 to our unaudited condensed consolidated financial statements. As a result, we issued the following unregistered shares to the Names’ Trustee and its beneficiaries as described below.

<u>Date Issued</u>	<u>Number of Shares Issued</u>
March 15, 2010	1,170

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submissions of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
10.1	Form of 2010 Performance Share Award Agreement.
10.2	Appointment letter between Glyn Jones and Aspen Insurance Holdings Limited, dated May 6, 2010.
10.3	Aspen Insurance Holdings Limited Revised 2008 Sharesave Scheme.
10.4	Amendment No. 2 to Brian Boomazian's Employment Agreement, dated February 11, 2010 (incorporated herein by reference to exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on February 26, 2010).
10.5	Supplemental Confirmation, dated as of January 5, 2010, between the Company and Goldman, Sachs & Co. relating to a collared accelerated stock buyback (incorporated herein by reference to exhibit 10.67 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on February 26, 2010).
31.1	Officer Certification of Christopher O'Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
31.2	Officer Certification of Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
32.1	Officer Certification of Christopher O'Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, and Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, submitted with this report.

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: May 7, 2010

By: /s/ Christopher O’Kane
Christopher O’Kane
Chief Executive Officer

Date: May 7, 2010

By: /s/ Richard Houghton
Richard Houghton
Chief Financial Officer

ASPEN INSURANCE HOLDINGS LIMITED
PERFORMANCE SHARE AWARD AGREEMENT

THIS AGREEMENT (the "Agreement"), is made effective as of the 11th day of February, 2010 (hereinafter called the "Date of Grant"), between Aspen Insurance Holdings Limited, a Bermuda corporation (hereinafter called the "Company"), and _____ (hereinafter called the "Participant"):

RECITALS:

WHEREAS, the Company has adopted the Aspen Insurance Holdings 2003 Share Incentive Plan, as amended from time to time (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant the performance shares provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Performance Shares. The Company hereby awards to the Participant _____ Shares, payment of which is dependent upon the performance of the Company as described in Section 2 of this Agreement (the "Performance Shares").
 2. Vesting. The Performance Shares shall vest and become payable only to the extent that the Return on Equity (calculated as described in Section 2(a) below, the "ROE") and the service requirements described below are achieved.
 - (a) For purposes of this Agreement, "ROE" shall be equal to net income determined under United States Generally Accepted Accounting Principles ("US GAAP") after deduction of the cost of all Awards granted under the Plan as a percentage of weighted average shareholders' equity, which shall be determined by the Board based on the Company's audited financials under US GAAP.
 - (b) For purposes of this Agreement, "2010 ROE" shall be equal to the Company's actual ROE for the fiscal year ended December 31, 2010 (the "2010 Fiscal Year").
 - (c) For purposes of this Agreement, "2011 ROE" shall be equal to the Company's actual ROE for the fiscal year ended December 31, 2011 (the "2011 Fiscal Year").
 - (d) For purposes of this Agreement, "2012 ROE" shall be equal to the Company's actual ROE for the fiscal year ended December 31, 2012 (the "2012 Fiscal Year").
 - (e) Subject to the Participant's continued Employment with the Company (which Employment shall not include the performance of services under a notice of
-

termination or resignation), a maximum of one-third (1/3) of the Performance Shares awarded hereunder (the “2010 ROE Award”) shall be eligible for vesting (“Eligible Shares”) upon the later of (i) the date the Company’s outside auditors complete the audit of the Company’s financial statements containing the information necessary to compute the Company’s ROE for the 2010 Fiscal Year or (ii) the date such ROE is approved by the Board of Directors or an authorized committee thereof, but only to the extent provided below:

2010 ROE	Percentage of Eligible Shares
< 7%	0%
7%	10%
12%	100%
≥ 22%	200%

Interim percentages to be pro-rated.

Notwithstanding the foregoing, if the Company’s actual ROE for the 2010 Fiscal Year is (i) less than 7%, then none of the Performance Shares subject to the 2010 ROE Award shall be Eligible Shares, (ii) greater than 12% and the average ROE over the 2010 Fiscal Year and the immediately preceding fiscal year is less than 7%, then the Percentage of Eligible Shares shall be 100%; or (iii) greater than 12% and the average ROE over the 2010 Fiscal Year and the immediately preceding fiscal year is 7% or greater, then the Percentage of Eligible Shares shall be in accordance with the table above.

- (f) Subject to the Participant’s continued Employment with the Company (which Employment shall not include the performance of services under a notice of termination or resignation), a maximum of one-third (1/3) of the Performance Shares awarded hereunder (the “2011 ROE Award”) shall become Eligible Shares upon the later of (i) the date the Company’s outside auditors complete the audit of the Company’s financial statements containing the information necessary to compute the Company’s ROE for the 2011 Fiscal Year or (ii) the date such ROE is approved by the Board of Directors or an authorized committee thereof, but only to the extent provided below:

2011 ROE	Percentage of Eligible Shares
< 7%	0%
7%	10%
12%	100%
≥ 22%	200%

Interim percentages to be pro-rated.

Notwithstanding the foregoing, if the Company's actual ROE for the 2011 Fiscal Year is (i) less than 7%, then none of the Performance Shares subject to the 2011 ROE Award shall be Eligible Shares, (ii) greater than 12% and the average ROE over the 2011 Fiscal Year and the 2010 Fiscal Year is less than 7%, then the Percentage of Eligible Shares shall be 100%; or (iii) greater than 12% and the average ROE over the 2011 Fiscal Year and the 2010 Fiscal Year is 7% or greater, then the Percentage of Eligible Shares shall be in accordance with the table above.

- (g) Subject to the Participant's continued Employment with the Company (which Employment shall not include the performance of services under a notice of termination or resignation), a maximum of one-third (1/3) of the Performance Shares awarded hereunder (the "2012 ROE Award") shall become Eligible Shares upon the later of (i) the date the Company's outside auditors complete the audit of the Company's financial statements containing the information necessary to compute the Company's ROE for the 2012 Fiscal Year or (ii) the date such ROE is approved by the Board of Directors or an authorized committee thereof, but only to the extent provided below:

2012 ROE	Percentage of Eligible Shares
< 7%	0%
7%	10%
12%	100%
≥ 22%	200%

Interim percentages to be pro-rated.

Notwithstanding the foregoing, if the Company's actual ROE for the 2012 Fiscal Year is (i) less than 7%, then none of the Performance Shares subject to the 2012 ROE Award shall be Eligible Shares, (ii) greater than 12% and the average ROE over the 2012 Fiscal Year and the 2011 Fiscal Year is less than 7%, then the Percentage of Eligible Shares shall be 100%; or (iii) greater than 12% and the average ROE over the 2012 Fiscal Year and the 2011 Fiscal Year is 7% or greater, then the Percentage of Eligible Shares shall be in accordance with the table above.

- (h) Subject to the Participant's continued Employment with the Company (which Employment shall not include the performance of services under a notice of termination or resignation), all Eligible Shares shall become vested upon the later of (i) the date the Company's outside auditors complete the audit of the Company's financial statements containing the information necessary to compute the Company's ROE for the 2012 Fiscal Year or (ii) the date such ROE is approved by the Board of Directors or an authorized committee thereof.
- (i) In connection with any event described in Section 10(a) of the Plan or in the event of a change in applicable accounting rules, the Committee shall make such adjustments in the terms of the Performance Shares as it shall determine shall be necessary to equitably reflect such event in order to prevent dilution or

enlargement of the potential benefits of the Performance Shares. The Committee's determination as to any such adjustment shall be final.

- (j) If the Participant's Employment with the Company is terminated for any reason, the Performance Shares shall, to the extent not then vested, be canceled by the Company without consideration.
- (k) Any Performance Shares that do not become Eligible Shares by reason of the Company's failure to achieve an ROE as set forth above shall immediately be forfeited without consideration.
- (l) Notwithstanding anything to the contrary contained herein, in the event that the Participant's Employment with the Company is terminated (i) due to the Participant's death or (ii) by the Company due to the Participant's Disability, all Eligible Shares shall vest in full on the date of such termination of Employment. For the avoidance of doubt, any Performance Shares that have not become Eligible Shares on or before the date of such termination of Employment shall be forfeited on such date without consideration. For purposes of this Agreement, "Disability" shall mean the inability of a Participant to perform in all material respects his or her duties and responsibilities to the Company, or any Affiliate of the Company, by reason of a physical or mental disability or infirmity which inability is reasonably expected to be permanent and has continued (i) for a period of six consecutive months or (ii) such shorter period as the Committee may determine in good faith. The Disability determination shall be in the sole discretion of the Committee and a Participant (or his or her representative) shall furnish the Committee with medical evidence documenting the Participant's disability or infirmity, which is reasonably satisfactory to the Committee.

3. Payment.

- (a) The Company shall deliver to the Participant one Share for each vested Performance Share. Any fractional share will be rounded down to the nearest whole Share and the remainder forfeited.
 - (b) Except as otherwise provided in the Plan, vested Performance Shares shall be paid to the Participant as soon as practicable after the date such Performance Shares become vested, but in no event later than the fifteenth (15th) day of the third (3rd) month following the end of the fiscal year in which the Performance Shares become vested.
 - (c) When Performance Shares are paid, the Company shall issue certificates in the Participant's name for such. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.
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4. No Right to Continued Employment. The granting of the Performance Shares evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.
 5. Legend on Certificates. The certificates representing the Shares paid in settlement of Performance Shares shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the U.S. Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
 6. Transferability. The Performance Shares may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. For avoidance of doubt, Shares issued to the Participant in payment of vested Performance Shares pursuant to Section 3 hereof shall not be subject to any of the foregoing transferability restrictions.
 7. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold, any applicable withholding taxes in respect of Performance Shares and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.
 8. Securities Laws. Upon the acquisition of any Shares pursuant to settlement of Performance Shares, the Participant will make or enter into such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws or with this Agreement.
 9. Bermuda Government Regulations. No Shares shall be issued pursuant to this Agreement unless and until all relevant licenses, permissions and authorizations required to be granted by the Government of Bermuda, or by any authority or agency thereof, shall have been duly received.
 10. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.
 11. Choice of Law. **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF BERMUDA, without regard to conflicts of laws principles.**
-

12. Performance Shares Subject to the Plan. By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Performance Shares are subject to the Plan (including without limitation the arbitration provision), and the terms and provisions of the Plan, as it may be amended from time to time, are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.
13. Rights as a Shareholder. The Participant shall have no rights as a shareholder, and shall not receive dividends, with respect to any Performance Shares until the Performance Shares have been paid out and Share certificates have been issued to the Participant.
14. Fiscal Year. If the Company's fiscal year is changed to other than a calendar year, the references to calendar year in this Agreement shall be adjusted to appropriately reflect the change.
15. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

ASPEN INSURANCE HOLDINGS LIMITED

By:



AGREED AND ACKNOWLEDGED AS
OF THE DATE FIRST ABOVE WRITTEN:

Participant



6 May 2010

Glyn Jones
[Address]

Dear Glyn

Further to the meetings of the Board of Directors of Aspen Insurance Holdings Limited (the "Company") held on 9th February and 28th April 2010, I am writing to confirm the revised arrangements for your compensation for serving as Chairman of the Board and as a Director of the Company.

The terms of this letter will serve as an amendment the letter between you and the Company dated 19 April 2007 (the "Letter of Appointment"), the terms of which remain in full force and effect subject to the changes noted below.

With effect from 10th February 2010, it is agreed as follows:

1. The first sentence of paragraph 4.1 of the Letter of Appointment will be deleted in its entirety and replaced with the following:
"You will normally be required to provide your services as Chairman for an average of approximately 70 days per annum."
2. You will no longer be eligible for an annual bonus. Accordingly, paragraph 5.2 of the Letter of Appointment will be deleted in its entirety and replaced with the phrase "[Paragraph omitted]"
3. The current paragraph 5.3 of the Letter of Appointment will be deleted in its entirety and replaced with the following:
"5.3 For each year in which you serve as Chairman, you will be considered for an annual grant of Restricted Stock Units, subject to and in accordance with the rules of the Aspen Insurance Holdings Limited 2006 Stock Incentive Plan for Non-Employee Directors Share Incentive Plan, as amended from time to time (the "Plan"). For the year from 9 February 2010 to 8 February 2011 this will be an award of Restricted Stock Units to the value of \$500,000. The value of the Restricted Stock Award made to you in future

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years will be assessed by the Board annually based on the performance of the Company and your actual time commitment to the Company during the previous year, but in no event will be less than \$200,000 per annum. All Restricted Stock Units granted to you will vest over a 12 month period, with 1/12th vesting on each month following the date of grant. Please see the rules of the Plan for more details”

Please sign and return a copy of this letter in order to indicate your acceptance of its terms.

Yours sincerely,

Chris O’Kane
for and on behalf of
Aspen Insurance Holdings Limited

I hereby agree to the terms of the above letter as an amendment to the terms of my Letter of Appointment dated 19 April 2007.

Glyn Jones

Date

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

TABLE OF CONTENTS

1. INTERPRETATION	1
2. INVITATIONS TO APPLY FOR OPTIONS AND APPLICATIONS FOR OPTIONS	7
3. SCALING DOWN	11
4. GRANT OF OPTIONS	13
5. OVERALL LIMITS ON GRANTS	15
6. LAPSE OF OPTIONS	16
7. EXERCISE OF OPTIONS	17
8. MANNER OF EXERCISE OF OPTIONS	22
9. RELATIONSHIP WITH EMPLOYMENT CONTRACT	24
10. TAKEOVERS AND LIQUIDATIONS	25
11. VARIATION OF SHARE CAPITAL	27
12. NOTICES	28
13. ADMINISTRATION AND AMENDMENT	30

RULES OF THE ASPEN INSURANCE HOLDINGS LIMITED
2008 SHARESAVE SCHEME

Established by resolution of the shareholders of the Company on 30 April 2008.

Approved by HM Revenue & Customs on 5 September 2008 under number SRS102954/AJS.

1. INTERPRETATION

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

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

Approval Date: the date of the approval of the Scheme by HMRC under Schedule 3;

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 Adoption 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 section 416(2) to (6) of the Income and Corporation Taxes Act 1988.

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 7.7;

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 does not have a Material Interest (either on his own or together with one or more of his Associates), and has not had such an interest at any time in the 12 months up to the Date of Grant on which any relevant Options may be granted;
 - (b) who has no Associate or Associates which has or (taken together) have a Material Interest, or had such an interest at any time in the 12 months up to the Date of Grant on which any relevant Options may be granted;
-

- (c) who, if a director of a Constituent Company, is required to devote at least 25 hours per week (excluding meal breaks) to his duties;
- (d) 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;
- (e) 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 those general earnings are (or would be if there are any) earnings for a tax year in which the individual is ordinarily resident in the UK; and
- (f) 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
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- (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);

Material Interest: has the meaning given in paragraph 12 of Schedule 3;

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;

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:
 - (i) under special arrangements relating to absence from the Option Holder's office or employment; or
 - (ii) 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
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- (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:
- (i) the maximum amount of the contributions repayable under the Savings Arrangement; and
 - (ii) 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 10.4 and rule 10.5);

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

Schedule 3: Schedule 3 to ITEPA 2003, which provides for the approval of SAYE option schemes by HMRC;

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 meet the requirements of paragraphs 18 to 22 of Schedule 3;

Specified Age: 65, which shall be the specified age for the purposes of the Scheme, under paragraph 31 of Schedule 3.

- 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. The Board should note that (as at the Adoption Date) a seven year Option will be over the same number of Shares as a five year Option with the same monthly savings, if Repayments are not taken as including a bonus;
 - (b) whether to invite applications for three year Options, five year Options or seven 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 two or more of 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);
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- (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 6 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 who:
 - (i) does not have a Material Interest (either on his own or together with one or more of his Associates), and has not had such an interest at any time in the 12 months up to the Date of Grant on which Options may be granted as a result of those invitations; and
 - (ii) has no Associate or Associates which has or (taken together) have a Material Interest, or had such an interest at any time in the 12 months up to the Date of Grant on which Options may be granted as a result of those invitations;
 - (d) shall comply with rule 2.4;
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- (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 approved under 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, five year Options or seven 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.
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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:
 - (i) a multiple of £1;
 - (ii) not less than the minimum determined under rule 2.2(c) and
 - (iii) when aggregated with contributions made by the applicant under any other Savings Arrangements linked to SAYE option schemes approved under Schedule 3, not more than £250 (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,
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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 approved under 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:

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

- (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,
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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. As at the Adoption Date, this would affect only applications for seven year Options, which would be scaled down to applications for five year Options as a result;

- (c) 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;
 - (d) 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(d);
 - (e) 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;
 - (f) 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;
 - (g) 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);
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- (h) 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
- (i) 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:
 - (a) is an employee or director of a Constituent Company on the Date of Grant;
 - (b) does not have a Material Interest (either on his own or together with one or more of his Associates), and has not had such an interest at any time in the 12 months up to the Date of Grant; and
 - (c) has no Associate or Associates which has or (taken together) have a Material Interest, or had such an interest at any time in the 12 months up to 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
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- (b) the effects of rule 3, if the relevant applications were scaled down.
- 4.4 Options shall be granted:
- (a) 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
 - (b) 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; and
 - (c) while the Company is bound by any undertaking or agreement that this should be the case, **not later** than 42 days after the Approval Date.
- 4.5 Options may not be granted:
- (a) at any time when that grant would be prohibited by, or in breach of, any:
 - (i) law; or
 - (ii) regulation with the force of law; or
 - (iii) 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) before the Approval Date; or
 - (c) 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;
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- (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 7.9 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 that:
 - (i) the Option is subject to these rules, Schedule 3 and any other legislation applying to SAYE option schemes approved under Schedule 3; and
 - (ii) those provisions shall prevail over any conflicting statement relating to the Option's terms; and
- (g) a summary of the following:
 - (i) rule 6.1 and rule 6.2(j);
 - (ii) rule 7.11; and
 - (iii) 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:

- (a) 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;
 - (b) remain capable of issue, or transfer out of treasury, under any Existing Options.
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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:

- (a) any attempted action by the Option Holder (or his personal representatives) falling within rule 6.1;
- (b) the date on which the Option shall lapse, as specified in the Option Certificate, if the Option Holder is alive at that time;
- (c) 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 7.7;

- (d) 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 rule 7.6; or
 - (iv) on or after the Option Holder's death; or
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- (v) when the Option may be exercised or exchanged under any part of rule 11; or
- (vi) when the Option may be exercised under rule 7.8;
- (e) at the end of the period during which the Option may be exercised under rule 7.8, if the Option has not been exercised and during that period an event occurred which falls within rule 6.2(c)(i) or rule 6.2(c)(ii), unless that period ended on the Option Holder's death;
- (f) at the end of any period during which the Option may be exercised under any part of rule 7 other than rule 7.8 and rule 7.9, unless that period ended on the Option Holder's death;
- (g) 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;
- (h) if any part of rule 10 applies, the time specified for the lapse of the Option under that part of rule 10;
- (i) if rule 7.1(h) applies, the time specified in rule 7.1(h); and
- (j) the bankruptcy of the Option Holder.

7. EXERCISE OF OPTIONS

7.1 No Option may be exercised:

- (a) when the Option Holder has a Material Interest (either on his own or together with one or more of his Associates), or has had such an interest at any time in the preceding 12 months; or
 - (b) when any Associate or Associates of the Option Holder has or (taken together) have a Material Interest, or had such an interest at any time in the preceding 12 months; or
 - (c) 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
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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

- (d) earlier than the Bonus Date of the Savings Arrangement linked to that Option, except as permitted by any provision of this Scheme; or
- (e) later than six months after the Bonus Date of the Savings Arrangement linked to that Option, except as permitted under rule 7.9; or
- (f) when prohibited by or in breach of any law or regulation with the force of law; or
- (g) 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
- (h) 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:

- (a) a Constituent Company; or
- (b) any Associated Company of the Company which is not a Constituent Company;
- (c) 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:
 - (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.

7.3 This rule 7.3 is subject to rule 7.7 and applies to any Options held by an Option Holder who has ceased to hold his Scheme-related Employment:

- (a) because of injury; or
 - (b) because of disability; or
 - (c) because of Redundancy; or
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(d) because of Retirement on reaching the Specified Age; or

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:

(e) the date falling six months after the date on which the Scheme-related Employment ceased;

(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.

7.4 This rule 7.4 is subject to rule 7.7 and applies to Options held by any Option Holder who has ceased to hold his Scheme-related Employment because of Retirement on reaching any age (other than the Specified Age) at which he is bound to retire in accordance with the terms of his contract of employment.

In this rule 7.4, "any age (other than the Specified Age) at which he is bound to retire in accordance with the terms of his contract of employment" means any age (other than the Specified Age) at which, if the relevant Option Holder were to be dismissed by his employer, it would be possible for retirement to be the reason (or a reason) for that dismissal under section 98 of the Employment Rights Act 1996.

An Option to which this rule 7.4 applies may be exercised at any time in the period starting immediately after the date of Retirement and ending on the earliest to occur of:

(a) the date falling six months after the date of Retirement;

(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.

7.5 This rule 7.5 is subject to rule 7.7 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:

(i) any reason listed in rule 7.3; or

(ii) the reason set out in rule 7.4; or

(iii) 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.

7.6 This rule 7.6 is subject to rule 7.7 and applies to any Options held by an Option Holder who has ceased to hold his Scheme-related Employment:

(a) only because it was in a company which has ceased to be an Eligible Company; or

(b) 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,

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 7.4.

An Option to which this rule 7.6 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:

(c) the date falling six months after the date on which the post-transfer 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.

7.7 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 or rule 7.6 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:
 - (i) controls the Company; or
 - (ii) is controlled by a person or persons who also control the Company.

In this rule 7.7, "control" has the meaning given in section 416(2) to (6) of the Income and Corporation Taxes Act 1988.

7.8 This rule 7.8 applies to Options held by any Option Holder who:

- (a) has reached the Specified Age; and
- (b) continued to hold his Scheme-related Employment after the date on which he reached the Specified Age.

An Option to which this rule 7.8 applies may be exercised at any time in the period starting immediately after the date on which the Option Holder reached the Specified Age and ending on the earliest to occur of:

- (c) the date falling six months after the date on which the Option Holder reached the Specified Age;
- (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.

7.9 This rule 7.9 applies to Options which were held by any Option Holder at the time of his death if, at that time:

- (a) the Option Holder did not have a Material Interest (either on his own or together with one or more of his Associates), and had not had such an interest at any time in the preceding 12 months; and
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- (b) no Associate or Associates of the Option Holder had (individually or taken together) a Material Interest, or had such an interest at any time in the preceding 12 months; and

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 7.9 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:

- (c) 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
- (d) 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.

7.10 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:

- (a) 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 7.10):
 - (i) the Option shall be treated as exercised only in respect of that lesser number; and
 - (ii) any excess amount paid to exercise the Option or meet any Tax Liability shall be refunded;
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- (b) be made using a form approved by the Board; and
 - (c) 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:
- (a) to the extent that it is inconsistent with the Option Holder's rights under these rules and the relevant Option; or
 - (b) if any of the requirements of rule 8. or rule 8.2 are not met; or
 - (c) 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
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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:

- (a) any company ceasing to be a Constituent Company; or
 - (b) any company ceasing to be an Associated Company of the Company; or
 - (c) 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
 - (d) the transfer of any business from a Constituent Company to an Associated Company of the Company which is not a Constituent Company; or
 - (e) any change to invitations made under the Scheme, including any variation of their terms or timing, or their complete suspension or termination; or
 - (f) the lapse of any Option; or
 - (g) any failure by the Board to nominate an Eligible Company to be a Constituent Company; or
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- (h) 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:

- (a) making a general offer to acquire the whole of the issued share capital of the Company which is made on a condition such that, if it is satisfied, the person making the offer will have Control of the Company; or
- (b) making a general offer to acquire all the shares in the Company which are of the same class as the Shares,

then any Option may (subject to rule 7.1, rule 10.4 and rule 10.11) 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 10.4.

- 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 be exercised within six months of the date of the court sanctioning a compromise or arrangement for the reconstruction or amalgamation of the Company, under section 425 of the Companies Act 1985 (section 899 of the Companies Act 2006 when it comes into force) (or overseas legislation that HMRC agrees is comparable at that time), subject to rule 7.1, rule 10.4 and rule 10.11. 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 10.4.

- 10.3 Any Option may be exercised during the period commencing when any person becomes bound or entitled to acquire Shares under sections 979 to 982 of the Companies Act 2006 (or overseas legislation that HMRC agrees is comparable at that time) and continuing for as long as that person remains so bound or entitled, subject to rule 7.1, rule 10.4 and rule 10.11.
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10.4 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 425 of the Companies Act 1985 (section 899 of the Companies Act 2006 when comes into force) (including an event specified in rule 10.2), a company has obtained Control of the Company, or if a company has become bound or entitled as specified in rule 10.3, 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:
 - (d) be over shares which satisfy the requirements of paragraphs 18 to 22 of Schedule 3 in the Acquiring Company (or some other company falling within paragraph 39(2)(b) of Schedule 3);
 - (e) be a right to acquire such number of those shares as have, immediately after grant of the New Option, a total Market Value equal to the total Market Value of the shares subject to the Old Option immediately before its release;
 - (f) have an exercise price per share such that the total price payable on complete exercise of the New Option equals the total price which would have been payable on complete exercise of the Old Option; and
 - (g) subject to rule 10.11, be on terms otherwise identical to the Old Option immediately before the Old Option's release.

10.5 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 Adoption 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 10.4(c), six months beginning with the time when the court sanctions the relevant compromise or arrangement;
 - (c) for the purposes of rule 10.3, while the Acquiring Company is bound or entitled as specified in that rule; and
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- (d) for the purposes of rule 10.4, as determined by reference to whichever of rule 10.1, rule 10.4(c) or rule 10.3 applies.
- 10.6 Any New Option granted under rule 10.4 shall be treated as having been acquired at the same time as the relevant Old Option for all other purposes of the Scheme.
- 10.7 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.
- 10.8 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 10.4.
- 10.9 The Acquiring Company shall issue (or procure the issue of) an Option Certificate for each New Option.
- 10.10 In this rule 10 (other than rule 10.4), 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.
- 10.11 An event causing the grant of New Options shall not trigger the exercise of those New Options under rule 10.1, rule 10.2 or rule 10.3.
- 10.12 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.
- 10.13 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,

while the Scheme is approved under Schedule 3, no such adjustment shall be made without HMRC's prior approval.

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:

- (a) delivered personally; or
- (b) sent by pre-paid first-class post; or
- (c) sent by recorded delivery post; or
- (d) sent by commercial courier; or
- (e) 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
- (f) 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:

- (a) in the case of communications to any Eligible Employee or Option Holder, to:
 - (i) his work address; or
 - (ii) his home address, meaning that most recently notified to the sender; or
 - (iii) his work fax number; or
 - (iv) if one has been notified to the sender, his private fax number; or
 - (v) his work e-mail address; or
 - (vi) if one has been notified to the sender, his private e-mail address; and
 - (b) in the case of communications to an Option Holder who has died (where the sender has notice of the death), to:
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- (i) the Option Holder's home address, meaning that most recently notified to the sender; or
 - (ii) 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
- (c) 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
- (d) in the case of communications to any Grantor other than the Company, to:
- (i) any address (marked for the attention of any specified person) that may have been notified by the Grantor to the sender; or
 - (ii) any fax number (marked for the attention of any specified person) that may have been notified by the Grantor to the sender; or
 - (iii) 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:
- (a) if delivered personally, when left at the relevant address; or
 - (b) if sent by pre-paid first-class post or recorded delivery post, at 12 noon on the second business day after posting; or
 - (c) if sent by commercial courier, at the time specified on the signed delivery receipt;
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- (d) if sent by fax, at the time of transmission; or
- (e) 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:

- (a) 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:

- (i) make the terms on which Options may be granted materially more generous; or
- (ii) increase the limit specified in rule 5; or
- (iii) expand the class of potential Option Holders; or
- (iv) 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

- (b) while the Scheme is approved under Schedule 3, no amendment to a Key Feature shall have effect until approved by HMRC.

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:
- (a) 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
 - (b) arrangements are in place for any third party to transfer issued Shares,
 - (c) 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:
- (a) keep sufficient issued Shares available; and/or
 - (b) hold sufficient enforceable rights to subscribe for Shares, or to acquire issued Shares,
 - (c) 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.

CERTIFICATIONS

I, Christopher O’Kane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 7, 2010

By: /s/ Christopher O’Kane
Name: Christopher O’Kane
Title: Chief Executive Officer

CERTIFICATIONS

I, Richard Houghton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2010

By: /s/ Richard Houghton

Name: Richard Houghton
Title: Chief Financial Officer

**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 March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher O'Kane as Chief Executive Officer of the Company and Richard Houghton as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2010

By: /s/ Christopher O'Kane
Name: Christopher O'Kane
Title: Chief Executive Officer

Date: May 7, 2010

By: /s/ Richard Houghton
Name: Richard Houghton
Title: Chief Financial Officer

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