



# Aspen Insurance Holdings Limited

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Chris O’Kane, Chief Executive Officer

Credit Suisse Insurance Conference

November 16, 2006

New York



# Safe Harbor Disclosure

## **Application of the Safe Harbor of the Private Securities Litigation Reform Act of 1995:**

*This presentation may contain, written or oral "forward-looking statements" within the meaning of the U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as "expect," "intend," "plan," "believe," "project," "anticipate," "seek," "will," "estimate," "may," "continue," and similar expressions of a future or forward-looking nature.*

*All forward-looking statements rely on a number of assumptions, estimates and data concerning future results and events and are subject to a number of uncertainties and other factors, many of which are outside the Company's control that could cause actual results to differ materially from such statements. The Company believes these factors include, but are not limited to: the number and type of insurance and reinsurance contracts that we write at the January 1st and other renewal periods in 2007; the premium rates available at the time of such renewals within our targeted business lines; the absence of large or unusually frequent loss events; the impact that our future operating results, capital position and rating agency and other considerations have on the execution of any capital management initiatives; the impact of any capital management activities on our financial condition; the impact of acts of terrorism and related legislation and acts of war; the possibility of greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events such as Hurricanes Katrina, Rita and Wilma, than our underwriting, reserving or investment practices have anticipated; evolving interpretive issues with respect to coverage as a result of Hurricanes Katrina, Rita and Wilma; the level of inflation in repair costs due to limited availability of labor and materials after catastrophes; the effectiveness of Aspen's loss limitation methods; changes in the availability, cost or quality of reinsurance or retrocessional coverage; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; loss of key personnel; a decline in our operating subsidiaries' ratings with Standard & Poor's, A.M. Best Company or Moody's Investors Service; changes in general economic conditions including inflation, foreign currency exchange rates, interest rates and other factors that could affect our investment portfolio; increased competition on the basis of pricing, capacity, coverage terms or other factors; decreased demand for Aspen's insurance or reinsurance products and cyclical downturn of the industry; changes in governmental regulations or tax laws in jurisdictions where Aspen conducts business; Aspen or its Bermudian subsidiary becoming subject to income taxes in the United States or the United Kingdom; the effect on insurance markets, business practices and relationships of ongoing litigation, investigations and regulatory activity by the New York State Attorney General's office and other authorities concerning contingent commission arrangements with brokers and bid solicitation activities; the total industry losses resulting from Hurricanes Katrina, Rita and Wilma and the actual number of Aspen's insureds incurring losses from these storms; and with respect to Hurricanes Katrina, Rita and Wilma, Aspen's reliance on loss reports received from cedants and loss adjustors, Aspen's reliance on industry loss estimates and those generated by modeling techniques, the impact of these storms on Aspen's reinsurers, any changes in Aspen's reinsurers' credit quality, the amount and timing of reinsurance recoverables and reimbursements actually received by Aspen from its reinsurers and the overall level of competition and the related demand and supply dynamics as contracts come up for renewal. Any ordinary share repurchases by Aspen are subject to rating agency considerations, the market price of its ordinary shares, Aspen's ongoing sources and uses of cash and the liquidity requirements of its insurance and reinsurance business. For a more detailed description of additional uncertainties and other factors that could impact the forward-looking statements in this release, please see the "Risk Factors" section in Aspen's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the U.S. Securities and Exchange Commission on March 6, 2006.*

# Agenda

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- Strategy and Approach
- Key Themes 2006 - 2007
- Market Conditions
- 2007 Outlook
- Conclusions

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## Strategy: Key Components

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Our strategy has 4 key components

1. 'Specialty' insurer and reinsurer
2. Diversified operating platform
3. Focus on book value growth per share, not top line
4. Enterprise Risk Management is our core strategic enabler



A Robust and Sustainable Business Model Intended to Deliver Consistent ROEs



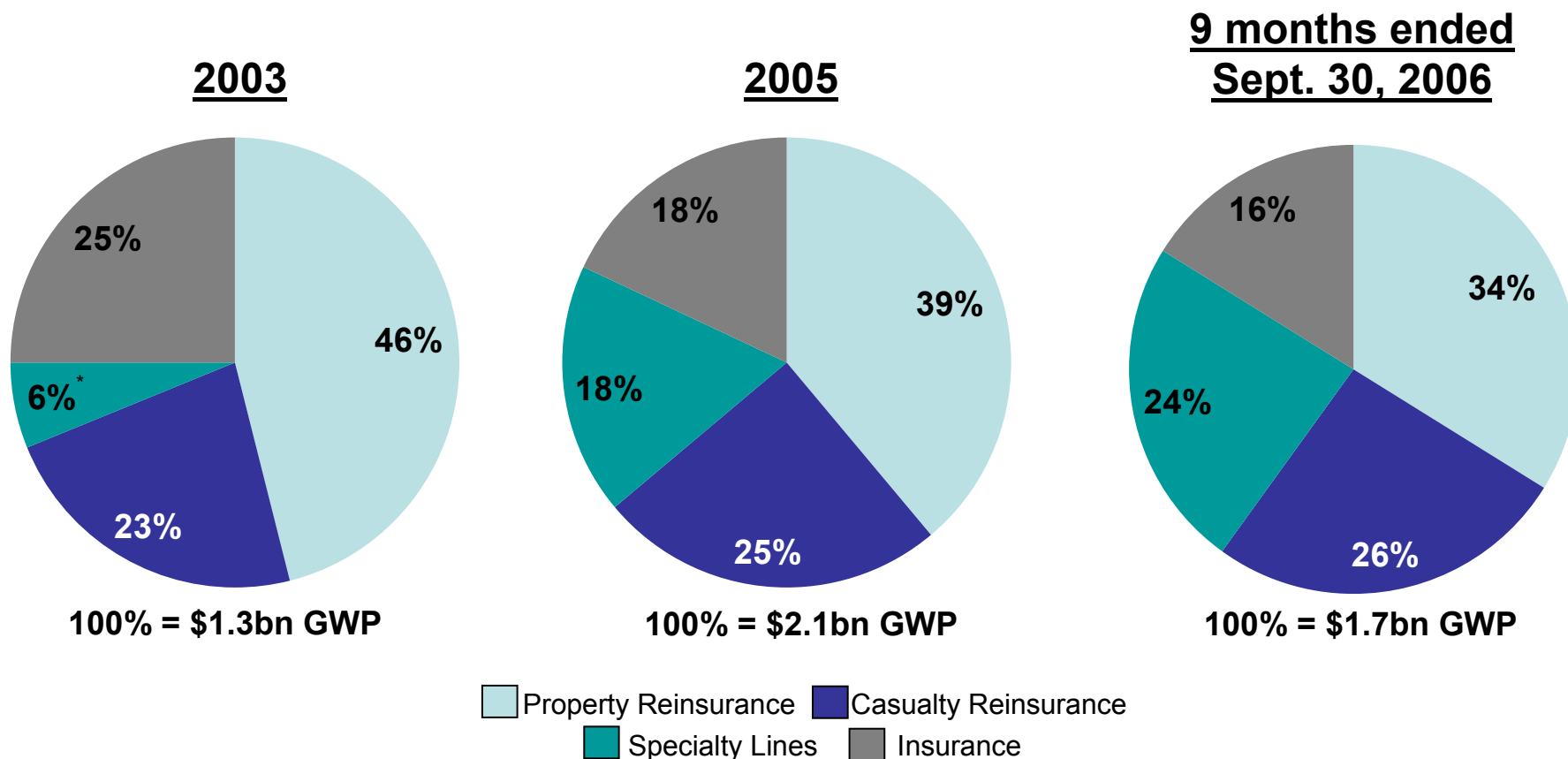
# 1. Why We Follow the Specialty Business Model

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- Believe that a specialist re/insurance business model is the right one because:
  - Complements our skill set
  - Supports a talent based approach
  - Allows us to leverage our trading relationships without being scale dependent
  
- Believe that careful diversification brings:
  - Reduced earnings volatility
  - Efficiency to capital usage
  - Reduced need to purchase retrocession



## 2. Increasing Diversification



Improved Spread of Risk

\* 2003 Specialty lines excludes QQS of Wellington Syndicate 2020



### 3. Core Beliefs about Growth

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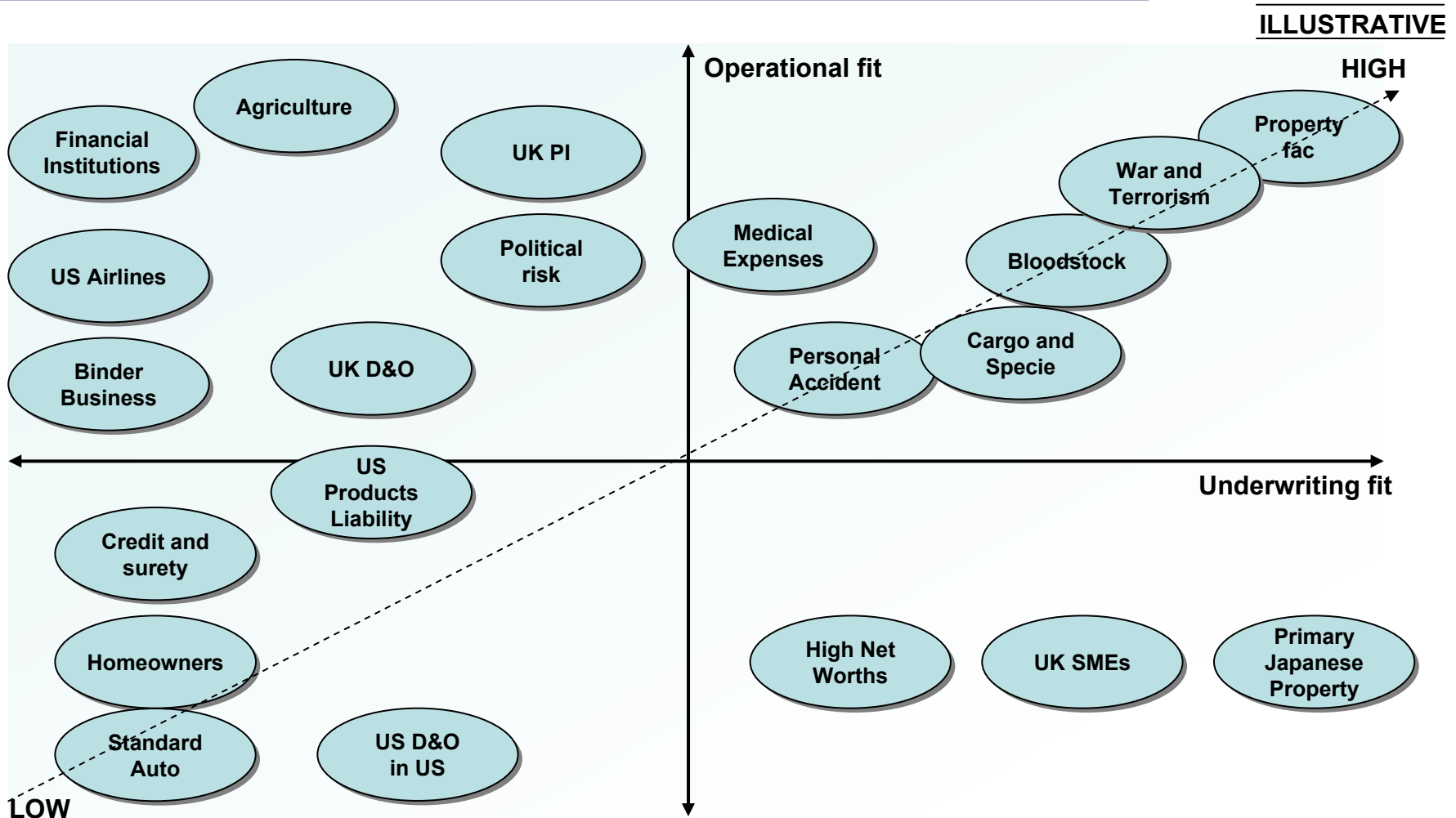
- GWP and / or capital may shrink before we grow, according to market conditions
- Growth must be profitable and increase book value per share
- Growth in new lines should meet two overarching sets of criteria
  - Underwriting fit
  - Operational fit



Focus is on Growth in Book Value Per Share, Not Top Line



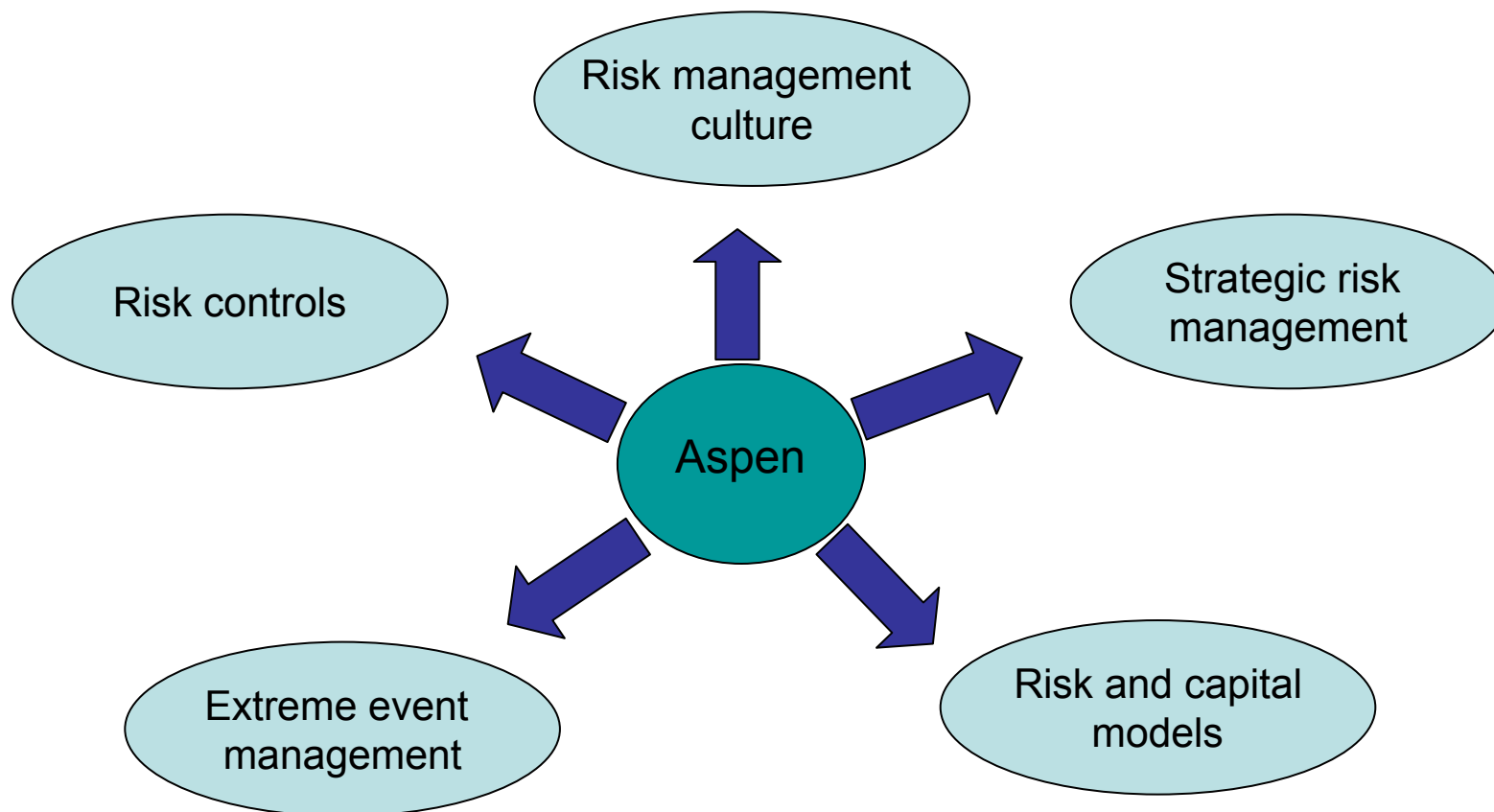
### 3. Approach to Growth - 'Palette' (lines we do not currently write)



Focus on Opportunities which Offer Best Fit with Our Underwriting and Operational Capabilities



## 4. Enterprise Risk Management



ERM Positioned as our Core Strategic Enabler

- Strategy and Approach
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## Key Strategic Themes 2006-2007

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### 3 Key Themes in 2006 / 2007

1. Improving absolute returns
2. Reducing volatility
3. Strengthening risk management



# 1. Improving Absolute Returns

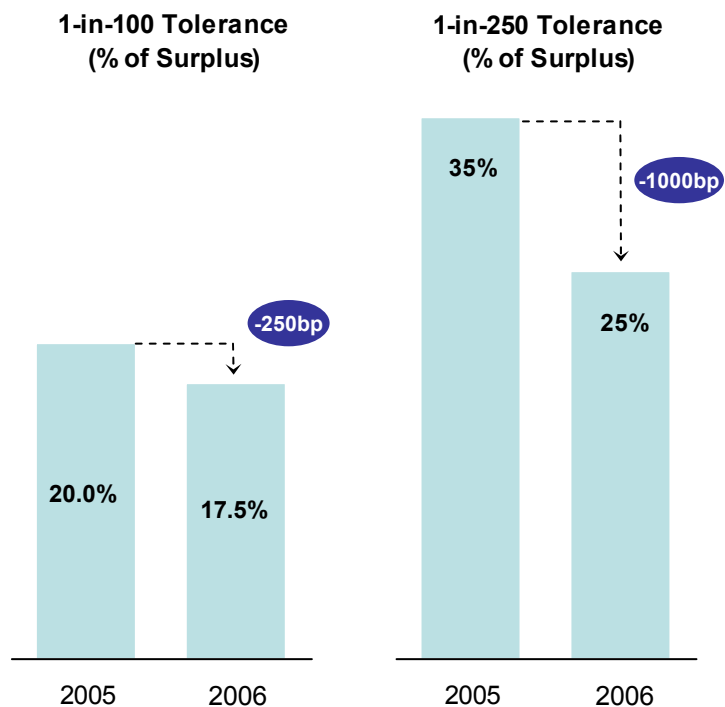
Lever	Outlook 2007	Expected impact on ROAE
Ceded premium	Significant reduction in retrocession purchased; risk tolerances unchanged	
Operating leverage	Reduction in GWP offset by reduction in ceded premium	
Combined Ratio	Market conditions expected to remain attractive in most lines	
Investment leverage	Increase due to growth in reserves	
Investment Return	Pick-up in yield	
Tax Rate	Re-distribution of income between operating companies to reduce average tax rate	
Financial Leverage	\$200m hybrid offering completed; authorisation for a \$300m share buy-back	

Targeted Management of Underlying Levers of ROE



## 2. Reducing Volatility – Reduced Risk Tolerance

### Single Zone Net Tolerances



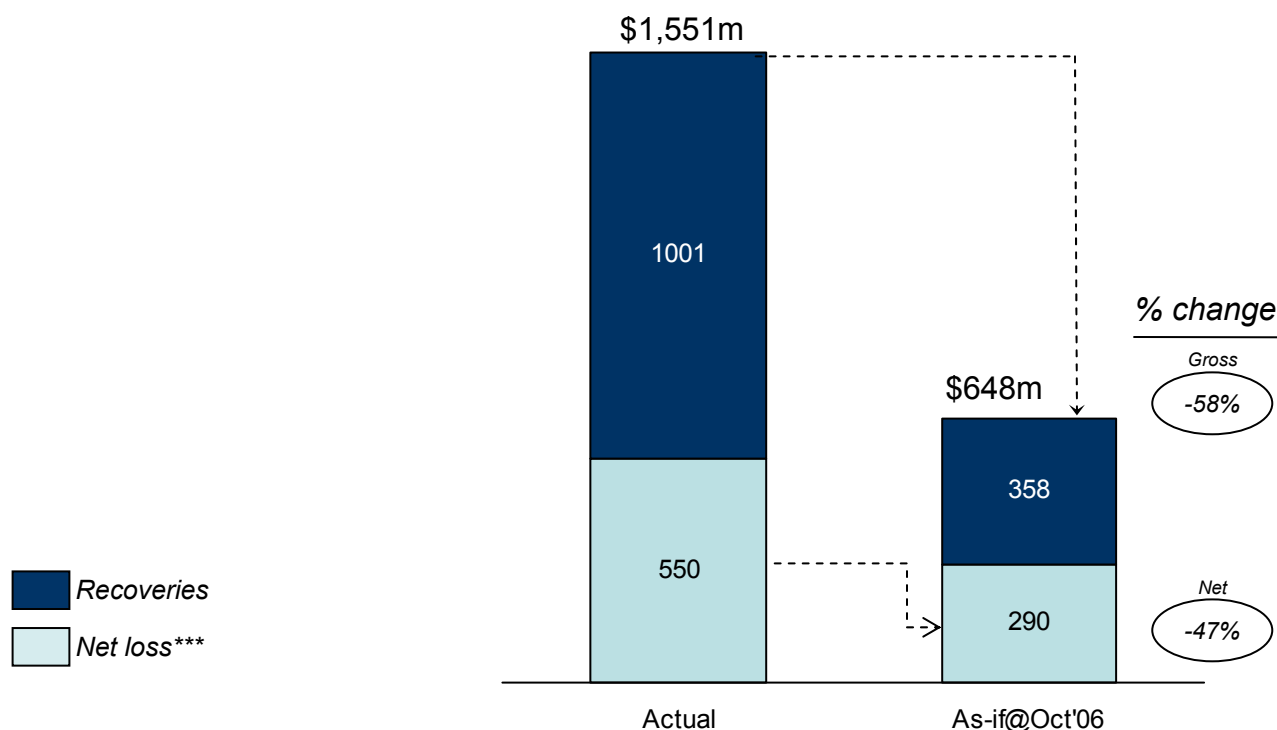
Significant Reduction in Risk Tolerances...



# Reducing Volatility – Improved Risk Profile

2005 Hurricanes\*: Actual Losses vs. As if @ Oct'06 - Gross Loss and Net of Recoveries\*\*

\$ millions and % change



...Resulting in Significant Reduction in Gross and Net Exposure

Notes:

(\*) Katrina, Rita, Wilma

(\*\*) Losses and recoveries: before inwards and outwards reinstatement premium, additional premium (AP) and tax

(\*\*\*) Hurricane Katrina: both Actual recoveries and As-if recoveries include \$25m recoveries from Cat Swap

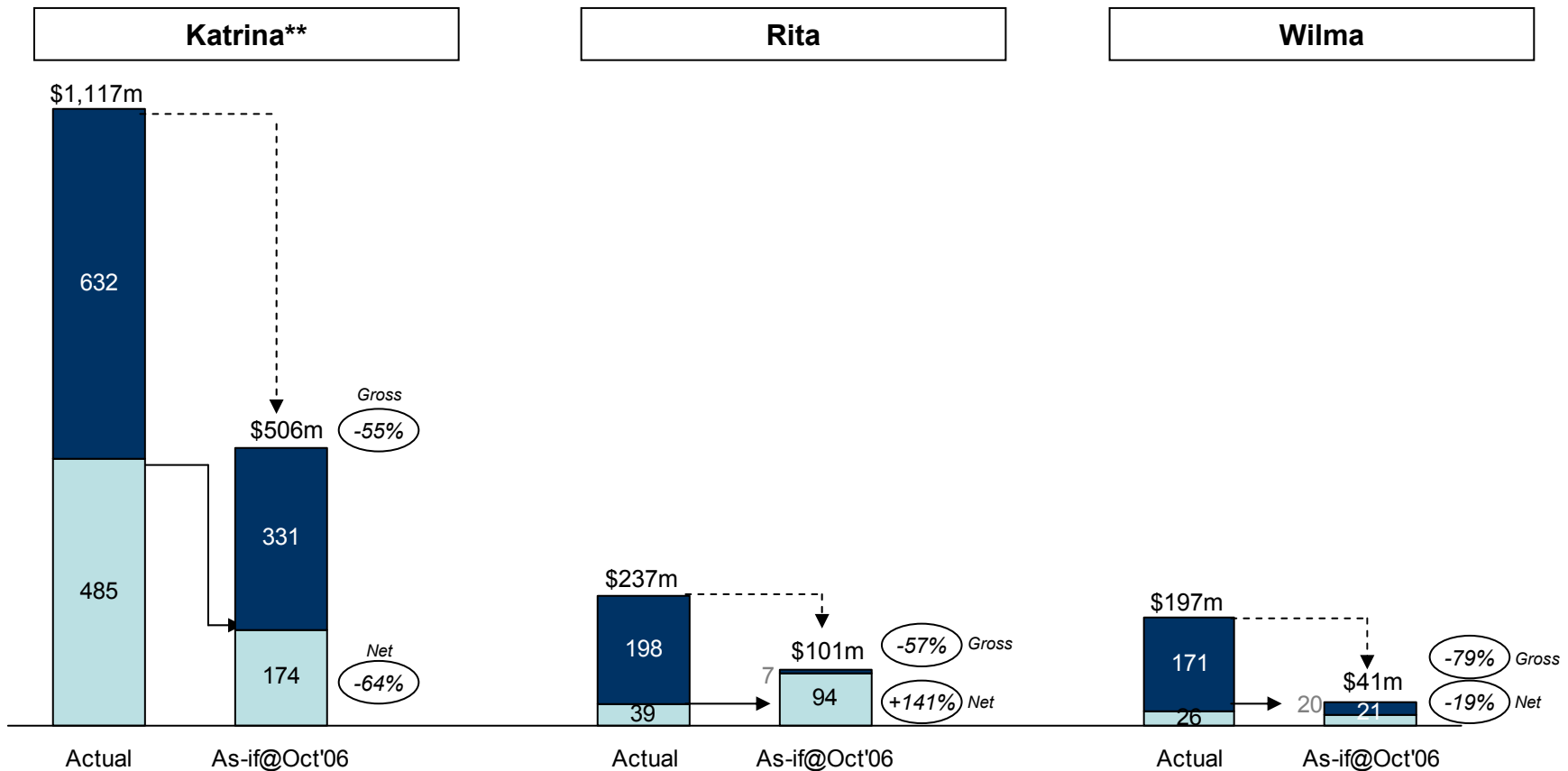
# 2005 Hurricanes: Actual Losses vs. As-If @ Oct'06



## Gross Loss and Net of Recoveries\* – Katrina, Rita and Wilma

\$ millions and % change

Recoveries   
Net loss



(\*) Losses and recoveries: before inwards and outwards reinstatement premium, additional premium and tax  
 (\*\*) Hurricane Katrina: both Actual recoveries and As-if recoveries include \$25m recoveries from Cat Swap



### 3. Strengthening Risk Management – Managing Volatility of Results

Risk Type	Risk management policy	Risk Type
<b>Core risks</b>	Optimize risk- return	Underwriting Investment Strategic
<b>Non – core risks</b>	Minimize risk	Credit Liquidity Operational Group / regulatory / reputational



# Improved Earnings with Reduced Volatility

	Item	Metric
Underwriting	Property / Specialty Lines – NWP* Property / Specialty Lines – CR** Casualty – CR**	40% - 60% of total 81% - 85% 92% - 97%
Investment	Portfolio minimum Investment leverage	85% fixed income 2.5x - 2.7x
Operational/ Financial Leverage	Operating leverage Financial leverage	0.85 - 0.95 Ratio of debt and preference shares to total capital ≤ 25%
Risk Tolerance	1-in-100 year tolerance 1-in-250 year tolerance	17.5% of surplus*** 25% of surplus***

Identified Specific Targets for Risk and Return







\* Net Written Premiums











\*\* Combined Ratio







\*\*\* 2006 Target – changed from 1-in-100 20% and 1-in-250 35% in 2005




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# Market Conditions 2007 Outlook – Property and Specialty Lines

Property Reinsurance		
Line	Outlook '07	Trend
Catastrophe Treaty		
Pro Rata		
Risk Excess Treaty		







Specialty lines		
Line	Outlook '07	Trend
Aviation		
Marine Hull		
Offshore Energy Physical Damage		
Marine & Energy Liability		
Specialty Reinsurance		





Insurance		
Line	Outlook '07	Trend
UK Property		
E&S Property		
International Property Fac.		




-  = Absolute rate levels attractive
-  = Absolute rate levels mixed
-  = Absolute rate levels very challenging




-  = 12 month rate trend positive
-  = 12 month rate trend neutral
-  = 12 month rate trend downwards

# Market Conditions 2007 Outlook – Casualty Lines

Casualty Reinsurance		
Line	Outlook '07	Trend
International Casualty		
US Casualty		
Casualty Facultative		

Insurance		
Line	Outlook '07	Trend
UK Liability		
E&S Casualty		

-  = Absolute rate levels attractive
-  = Absolute rate levels mixed
-  = Absolute rate levels very challenging

-  = 12 month rate trend positive
-  = 12 month rate trend neutral
-  = 12 month rate trend downwards

Pricing Under Pressure but still Adequate

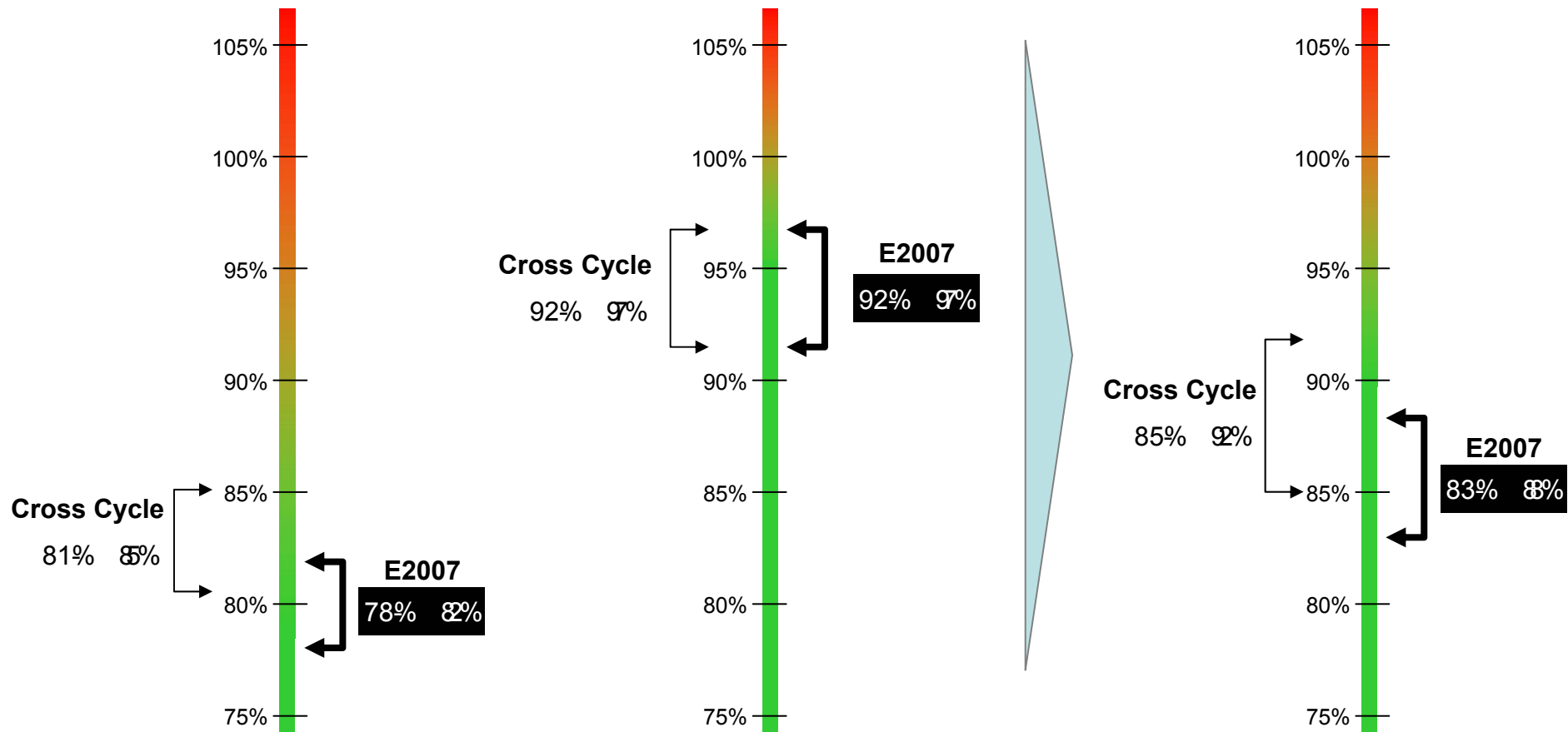
# Target Combined Ratio: Cross Cycle vs. 2007 Outlook



## Property and Specialty Lines

## Casualty Lines

## Overall





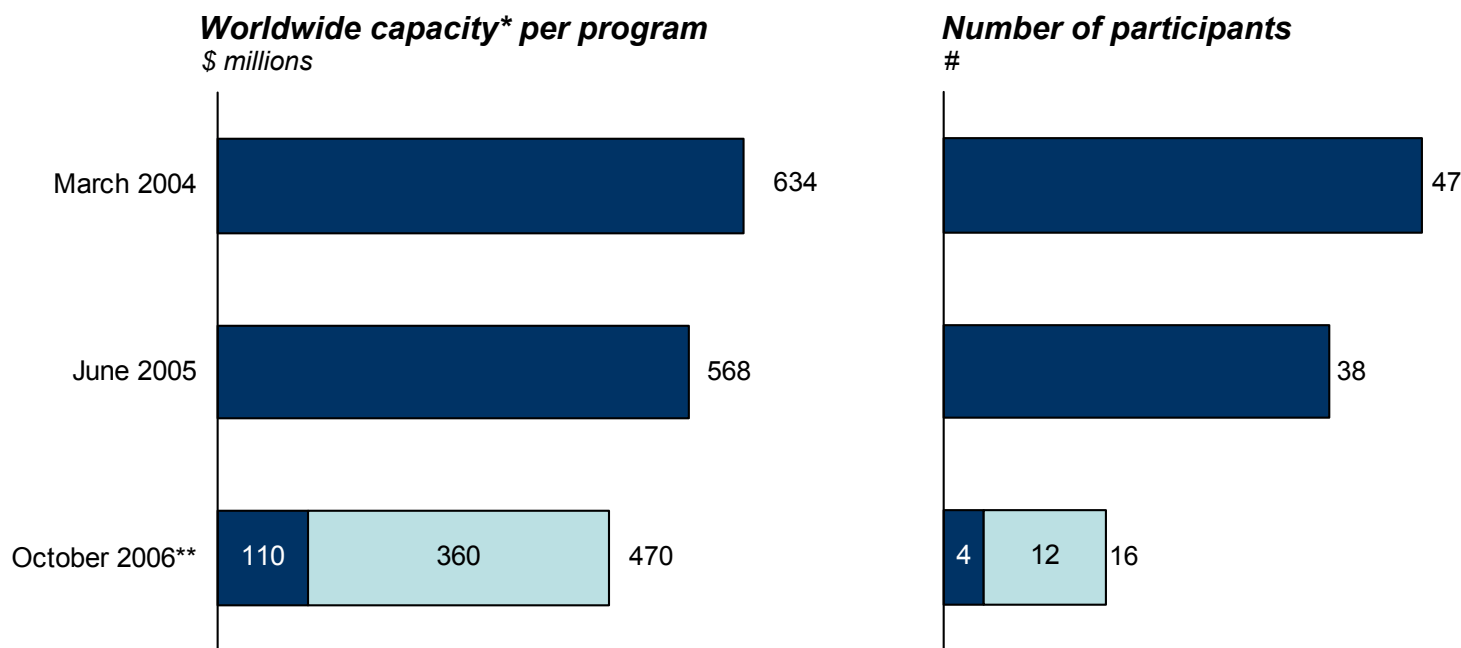
Expected Market Conditions in 2007 Supportive of Continuing Strong Underwriting Performance



# Retro Market - Capacity

## Trend in Worldwide Capacity Per Program and Number of Participants

Traditional   
Pillared 



Traditional Retro Market Capacity Contracted Significantly

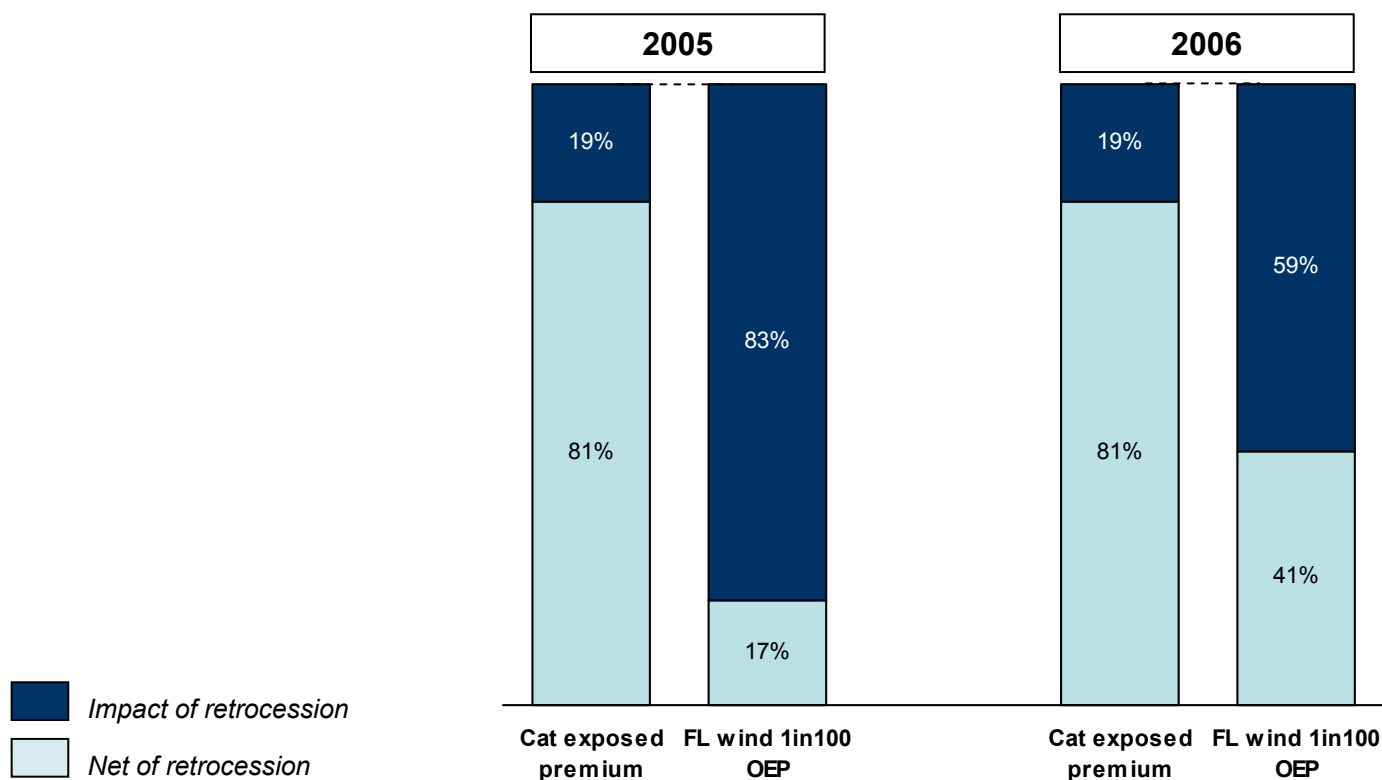
\* Excludes Berkshire Hathaway  
\*\* Includes new capacity not yet finalised  
Source: Guy Carpenter



# Retro Market - Economics

## Retrocession Economics – 2005 vs. 2006

Retro spend, as % of premium vs. % reduction achieved in 1 in 100yr wind OEP



... Making Retro Purchasing Significantly Less Economic Than Before



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## Initial Outlook for 2007

'07 Outlook based on Public Guidance

\$ Millions

GWP	\$1.9 billion $\pm$ 5%
% premium ceded	6 – 10% of GWP
Combined Ratio	83 – 88%* (incl. approx 10 pts cat load at mid-point of range)
Investment Income	\$230 – 250 million
Tax Rate	16 to 19%

Implied ROE of 16 – 20%

\* Assumes no major losses or prior year reserve movements

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## Conclusions

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- Robust business model
- Market conditions still very attractive in 2007
- Strengthened risk management and significantly reduced exposures
- Targeted management of underlying drivers of ROE to improve returns
- Renewed focus on targeted organic growth opportunities



Enhanced Returns with Lower Volatility