ASPEN

Aspen Insurance Holdings Limited

Annual Report & Accounts

2005

Contents

Note on Forward-Looking Statements

This Annual Report 2005 contains, and the Company may from time to time make other verbal or written, forward-looking statements 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', 'intend' 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, including those set forth under 'Risk Factors' in our annual report on Form 10-K filed with the SEC, and the differences could be substantial. The risks, uncertainties and other cautionary statements made in this report 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 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 such 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 this paragraph. You should specifically consider the factors identified in this report and in our annual report on Form 10-K filed with the SEC which could cause actual results to differ before making an investment decision.

Aspen at a Glance

Financial Highlights

The following table contains selected historical financial information for the Company since inception. The summary income statement data for the period from our incorporation on May 23, 2002 to December 31, 2002 and for the twelve months ended December 31, 2003, 2004 and 2005 and the balance sheet data as of December 31, 2002, 2003, 2004 and 2005 are derived from our audited consolidated financial statements.

Summary Income Statement Data	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m	Period From May 23, 2002 to December 31, 2002 (1) US$m
Gross premiums written	2,092.5	1,586.2	1,306.8	374.8
Net premiums earned	1,508.4	1,232.8	812.3	120.3
Net Investment Income	121.3	68.3	29.6	8.5
Net Income/(loss)	(177.8)	195.1	152.1	28.6
Basic earnings per share **(US$)**	(2.40)	2.82	2.63	0.89
Fully diluted earnings per share **(US$)**	(2.40)	2.74	2.56	0.89
Basic weighted average shares outstanding **(m)**	74.0	69.2	57.8	32.4
Diluted weighted average shares outstanding **(m)**	74.0	71.1	59.5	32.4

Selected Ratios (based on US GAAP income statement data)	%	%	%	%
Loss ratio (on net premiums earned) (2)	90	59	53	64
Expense ratio (on net premiums earned) (3)	27	25	25	25
Combined Ratio (4)	117	84	78	89

Summary Balance Sheet Data	US$m	US$m	US$m	US$m
Cash and investments (5)	4,437.4	3,020.8	1,847.1	932.0
Total assets	6,537.8	3,943.1	2,578.5	1,211.8
Bank debt	-	-	40.0	-
Long-term debt	249.3	249.3	-	-
Total shareholders' equity	2,039.8	1,481.5	1,298.7	878.1

(1) The financial information for this period reflects our results for the period from May 23, 2002, the date of our formation, to December 31, 2002.
(2) The loss ratio is calculated by dividing losses and loss adjustment expenses by net premiums earned.
(3) The expense ratio is calculated by dividing acquisition expense and general and administrative expense by net premiums earned.
(4) The combined ratio is the sum of the loss ratio and the expense ratio.
(5) Investments include fixed maturities and short-term investments.

Aspen at a Glance

Per Share Data (based on US GAAP balance sheet data)	12 Months Ended December 31, 2005 US$	12 Months Ended December 31, 2004 US$	12 Months Ended December 31, 2003 US$	Period From May 23, 2002 to December 31, 2002 (1) US$
Book value per share (6)	19.39	21.37	18.77	15.44
Diluted book value per share (treasury stock method) (7)	18.81	20.79	18.17	15.44
Cash dividend declared per ordinary share	0.60	0.12	-	-

(1) The financial information for this period reflects our results for the period from May 23, 2002, the date of our formation, to December 31, 2002.
(6) Book value per share is based on total shareholders' equity, excluding preference shares, divided by the number of common shares outstanding of 58,876,360, 69,179,303, 69,315,099 and 95,209,008 at December 31, 2002, 2003, 2004 and 2005 respectively.
(7) Fully diluted book value per share is calculated based on total shareholders' equity, excluding preference shares, at December 31, 2002, 2003, 2004 and 2005, divided by the number of dilutive equivalent shares outstanding of 58,876,360, 71,481,906, 71,271,170 and 98,126,046 at December 31, 2002, 2003, 2004 and 2005, respectively. There were no dilutive options at December 31, 2002. At December 31, 2003, 2004, and 2005, there were 2,302,603, 1,956,071 and 2,917,038 dilutive options, respectively. Potentially dilutive shares outstanding are calculated using the treasury method.

Ratings Summary

Ratings by independent agencies are an important factor in establishing the competitive position of insurance and reinsurance companies and hence our ability to market and sell our products. As of February 28, 2006, our Insurance Subsidiaries* are rated as follows:

Aspen Insurance UK Limited ('Aspen Re')

Standard & Poor's	A	(Strong) (seventh highest of twenty-two levels)
A.M. Best	A	(Excellent) (third highest of fifteen levels)
Moody's	A2	(Good) (eighth highest of twenty-three levels)

Aspen Insurance Limited ('Aspen Bermuda')

Standard & Poor's	A	(Strong) (seventh highest of twenty-two levels)
A.M. Best	A-	(Excellent) (fourth highest of fifteen levels)
Moody's	A2	(Good) (eighth highest of twenty-three levels)

Aspen Specialty Insurance Company ('Aspen Specialty')

A.M. Best	A-	(Excellent) (fourth highest of fifteen levels)

* 'Insurance Subsidiaries' means Aspen Re, Aspen Bermuda and Aspen Specialty.

Aspen at a Glance

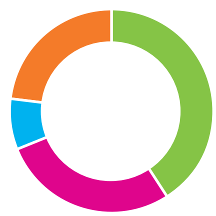
Business Overview

The Aspen Group is a major reinsurance and insurance provider to clients worldwide. We provide property and casualty reinsurance in the global market, as well as property and liability insurance principally in the UK and US, and specialty insurance and reinsurance worldwide, consisting mainly of marine and energy and aviation. We seek to differentiate ourselves by providing our customers with innovative and customized solutions to complex risks.

Aspen was established in May 2002, and listed on the New York Stock Exchange in December 2003.

2005 Gross Written Premiums

- Property Reinsurance 38.8%
- Casualty Reinsurance 25.2%
- Specialty Insurance and Reinsurance 17.6%
- Property and Casualty Insurance 18.4%



2004 Gross Written Premiums

- Property Reinsurance 40.9 %
- Casualty Reinsurance 28.2%
- Specialty Insurance and Reinsurance 7.9%
- Property and Casualty Insurance 23.0%

Business Lines

	Property Reinsurance	Casualty Reinsurance
How we organize ourselves	Property reinsurance in the global market conducted through Aspen Re in the UK and Aspen Bermuda. Our reinsurance intermediary, Aspen Re America, Inc., provides property reinsurance in the US exclusively on behalf of Aspen Re.	Casualty reinsurance in the global market conducted through Aspen Re in the UK and Aspen Bermuda. Our reinsurance intermediary, Aspen Re America, Inc., provides facultative casualty reinsurance in the US exclusively on behalf of Aspen Re.
Clients	P & C insurance companies.	P & C insurance companies.
Product Offering	■ Catastrophe treaty ■ Risk excess treaty ■ Proportional treaty ■ Facultative Treaty reinsurance contracts provide for automatic coverage of a type or category of risk underwritten by our ceding companies.	■ US treaty ■ Non-US treaty ■ Facultative

Aspen at a Glance

Business Lines

	Specialty Insurance and Reinsurance	Property and Casualty Insurance
How we organize ourselves	Specialty insurance and reinsurance, mainly consisting of marine and energy and aviation worldwide, conducted through Aspen Re in the UK.	Insurance operations conducted through Aspen Re in the UK and Aspen Specialty in the US.
Clients	**Insurance** **Aviation** Airlines, smaller operators of airline equipment, airports and associated businesses and non-critical component part manufacturers. **Marine and Energy** A diverse international client base ranging from single vessel owner operators to Fortune 500 multi-national corporations. **Reinsurance** A diverse international client base, ranging from small domestic mono-line insurers to multinational insurance companies. Focus is on structuring specialized reinsurance programs for these clients.	**UK** **UK Commercial Property** UK middle market corporate and public sector clients and property owners. **UK Liability** Manufacturing, servicing and contracting companies together with care home businesses. **US** Aspen Specialty's clients are mainly mercantile, habitational, manufacturing and commercial real estate companies on the property side and mercantile, habitational, manufacturing, commercial real estate companies and contractors on the casualty side.
Product Offering	■ Marine and energy insurance including coverage in respect of property damage to ships (hull), ship-owners' liability and offshore energy property risks ■ Non-marine specialty liability coverages ■ Aviation insurance focused on providing physical damage insurance to hulls and spares and comprehensive legal liability (including war and associated perils) ■ Specialty reinsurance, consisting of marine and aviation as well as terrorism, nuclear, personal accident, crop and satellite	■ UK commercial property insurance coverage with respect to losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes ■ US commercial property and casualty insurance, primarily written through the US wholesale surplus lines broker network ■ UK commercial liability insurance

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

The Board of Directors
Back row: Kamil Salame David Kelso Julian Avery Norman Rosenthal Heidi Hutter
Front row: Prakash Melwani Christopher O'Kane Paul Myners Julian Cusack Ian Cormack

The Year in Review

In our Annual Report last year, we commented that in 2004 we experienced a series of hurricanes resulting in the most costly year for catastrophe losses in US history. It is noteworthy that virtually the same words apply equally if not more to 2005. Based on industry estimates, the cost of Hurricanes Katrina, Rita and Wilma to the industry will amount to approximately US$80 billion, versus a figure of approximately US$30 billion for all the hurricanes that occurred in 2004. We would have to go back to the San Francisco earthquake of 1906 to find a catastrophe event which is of the same magnitude of cost as Hurricane Katrina in 2006 dollar terms (US$57 billion).

As a result, we sustained significant losses in 2005 from these events and recorded a net loss of US$178 million for the year, with our Property Reinsurance segment the main contributor. This is clearly disappointing. However, diversification has always been central to our strategy, and our remaining three segments - Property and Casualty Insurance, Specialty Insurance and Reinsurance and Casualty Reinsurance - returned satisfactory performances in 2005.

In 2006 we will continue to diversify our business with emphasis on our Specialty Insurance and Reinsurance and Casualty Reinsurance segments.

Property Reinsurance, however, will remain an integral part of our overall business and we will seek to capitalize on market opportunities in this segment if the pricing environment improves as the year evolves.

The events of 2004 and 2005 have served to reinforce our belief that **sustaining the right underwriting culture** is fundamental to our business. This encompasses both the setting of our risk appetite and the methodologies and processes we employ to support and optimize our underwriting activities.

Following the hurricanes of 2004 and 2005, we reviewed our underwriting

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

approach, and as a result have re-assessed and lowered our risk appetite. This should provide the basis for greater stability in our financial results over time. We are implementing a number of measures to strengthen our underwriting processes, many of which are already reflected in our systems and control procedures, and are re-shaping our organization to enhance our execution.

We believe that we are now well positioned to take advantage of the improved market conditions that we are currently seeing in a number of our business lines.

Financial and Operating Performance

As we have mentioned above, diversification has always been a core component of our strategy. One of the key benefits of this approach is the ability to increase or reduce the amount of capital that we allocate to each of our business segments, depending on prevailing market conditions. We monitor the performance of each of our business segments throughout the year and allocate capital accordingly to optimize returns across our portfolio.

Property Reinsurance (38.8% of 2005 GWP)

At the end of 2004, we decided to expand significantly our property reinsurance portfolio underwritten in Bermuda, and reduce the amount of business written in London. Our aim in making the change was to broaden our distribution base and increase fiscal flexibility. As a result we relocated a number of our underwriters to Bermuda - a move which was well received both by our clients and by our US brokers and enabled us to increase our premium writings for this account in 2005.

However, while our European and Japanese property reinsurance portfolios performed well in 2005, our overall results for this segment were adversely affected by Hurricanes Katrina, Rita and Wilma. As a result, our combined ratio for property reinsurance for the year was 172.0%, of which 104.2% is attributable to the hurricane losses.

Property reinsurance rates were flat in the early part of 2005, and prior to the hurricanes experienced in the fourth quarter, market expectations were that we would see rate declines of between 5% and 10% at the January 2006 renewals. After the hurricanes, market expectations changed dramatically with market commentators anticipating very significant increases for wind business.

These expectations have proven overly optimistic at the time of writing, with the exception being programs that were severely impacted by hurricane losses in 2005. We believe that rates are likely to firm during the remainder of this year following the release of the new proprietary vendor models in late Spring, which will assume increased frequency and severity of natural hazards, and as the implications of the new rating agency requirements and reduction in retrocessional capacity become increasingly felt.

In light of the evolving market conditions and the reduction in our risk tolerance, we expect that property reinsurance will decrease as a proportion of our overall portfolio in 2006 versus 2005.

Casualty Reinsurance (25.2% of 2005 GWP)

This segment remained broadly stable as a percentage of our total premium in 2005, with gross premiums written increasing by 18% and we recorded a modest increase in the combined ratio to 93.7%. The increase in gross premiums written resulted primarily from a number of new contracts written from Bermuda. Claims in this business segment take many years to materialize, and consequently this type of business has the ability to generate significant amounts of investment income. As a result, we would typically expect this segment to operate at a higher combined ratio than our property lines.

Our international casualty account comprises risks which are mainly located in the UK and Australia. Rates held up reasonably well in 2005, with the market remaining relatively disciplined overall. Workers' compensation and medical malpractice form the bulk of our US account and rates held up well in these lines over the year in contrast to other areas of the US casualty market.

Specialty Insurance and Reinsurance (17.6% of 2005 GWP)

This division comprises both reinsurance and insurance lines, and premium writings increased significantly in 2005 from US$125 million to US$368 million. This growth has primarily come from the insurance side, as a result of our hiring a marine

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

and energy insurance team in late 2004 and an aviation insurance team in early 2005. Both teams received a positive reception from the market.

Hurricanes Katrina and Rita had a major impact on the offshore energy insurance market, and our combined ratio in this segment for the year of 89.8% was achieved despite the unprecedented losses arising from these events. As a result, rates in this segment firmed considerably, and have continued to increase in 2006 to date.

Property and Casualty Insurance (18.4% of 2005 GWP)

This business segment comprises a number of insurance lines in both the UK and US. We built up our Boston-based excess and surplus lines insurer with the objective of accessing less volatile US risks. This reflects our experience that the larger and more catastrophe-driven risks tend to be exported to Bermuda and London, while the more benign risks are underwritten from within the US. This unit recorded a gross loss for the year as a result of the hurricanes, but the impact at the net level was minimized through the purchase of specific reinsurance cover.

In the UK market, we experienced strong competition in our property and casualty insurance lines and both teams were able to maintain underwriting discipline and recorded strong performances. Competition in our UK employers' and public liability account has been particularly fierce, with a number of new players entering the market and companies who had been dormant reasserting themselves.

We have produced excellent results since the Company's inception in this line and are confident that the team will be able to continue to maintain acceptable margins.

One way to understand our underwriting performance is to look at it in the context of the performance of our peers.

The table below compares the combined ratios achieved by Aspen and all other Bermudian-headquartered, US-listed property and casualty insurers and reinsurers since 2003, which was our first full year of operation and the year of our initial public offering on the NYSE.

	2003	2004	2005
Aspen combined ratio	78.0	83.4	117.2
All other combined ratio	79.3	91.6	142.9
Aspen Ranking*	6/14	3/14	7/14

Combined Ratio. This measures losses, loss adjustment expenses and expenses as a percentage of net earned premiums.
*6/14 = 6th out of 14.

Our underwriting results have been in the middle or upper quartile of our peer group. The combined ratios for each segment are set out in the table below.

	2003	2004	2005
Property Reinsurance	70.2%	86.2%	172.0%
Casualty Reinsurance	93.0%	91.5%	93.7%
Specialty Insurance and Reinsurance	80.7%	59.7%	89.8%
Property and Casualty Insurance	76.7%	78.6%	85.1%

As this table shows, all our business segments have produced positive underwriting returns in each of the past three years, with the exception of Property Reinsurance in 2005, which incurred a net loss as a result of the hurricanes in 2005.

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

The higher combined ratios for our Casualty Reinsurance segment are consistent with our expectations for this class of business. Our Specialty Insurance and Reinsurance segment had the highest rate of growth during the year, with net premiums earned rising to more than double their level in 2004.

Approximately 60% of our property and casualty insurance premiums in 2005 related to our UK business, which, as mentioned above, has performed very well. However, the overall performance of this segment during the year was impacted by the hurricane losses we sustained on our US business.

Sustaining the Right Underwriting Culture

Our experience in 2004 and 2005 has led us to pose some searching questions about our business and key priorities. We are using the answers to re-shape our strategy and set our corporate agenda for 2006 and beyond. Our top areas of focus for 2006 are:

1. **Volatility Management**

   Designing and implementing a superior framework for quantifying and better managing the level of volatility in our business.

2. **Enhance our Execution Framework**

   Making a major investment in leading edge accumulation control technology and introducing the Aspen Scorecard as our principal tool for monitoring progress against our strategic agenda.

3. **Risk Management**

   Further strengthening our risk management framework and underwriting control infrastructure.

4. **Knowledge Management**

   Establishing a group-wide 'R&D' function and processes to ensure that knowledge within the organization is captured, disseminated appropriately and acted on.

By managing each of the areas above, we believe that we are **sustaining the right underwriting culture** - and one that is well-suited to the changing marketplace in which we are operating. This, more than anything else, gives us confidence for the future of Aspen.

Progress on Strategy

The cornerstone of our strategy is to grow our business or, when conditions dictate, to shrink it, consistent with maintaining an acceptable underwriting margin and remaining within our stated risk tolerances and volatility constraints. Our execution framework has four key components: underwriting excellence, operational effectiveness, talent management and what we refer to as 'nimbleness' or, to put it another way, the ability to redeploy our capital flexibly and opportunistically to reflect changing market conditions.

Underwriting Excellence

For most of our relatively short history as a business, our underwriting performance has been in the top tier relative to our peers. This was not the case in 2005, largely due to the performance of our Property Reinsurance segment. As a result of the four hurricanes of 2004, we began to question if the catastrophe pricing models then in use were understating the true exposure in commercial risks. The extent of this was clearly evidenced by the events of the second half of 2005. Since then we have made a number of major adjustments to our pricing model to correct for the increased vulnerability in commercial structures and varying levels of post loss demand surge and to address the apparent increasing frequency and severity of hurricanes and change in 'preferred hurricane tracks'.

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

Operational Effectiveness

For any business, efficient information systems provide the foundation for operational effectiveness, and we made good progress in this regard in 2005. As our business has matured, we have transitioned our operating platform from an outsourced service provider, Wellington Underwriting plc, to an in-house model. In 2005, as part of the final stage of this process, we completed a major investment in our IT infrastructure and implemented a new underwriting platform, and a new accounting system.

We have also relocated both our London staff in July 2005 and our Bermuda team in February 2006 into larger offices, reflecting the recent growth both in our underwriting operations and support services.

Talent Management

We are keenly aware that, by its nature, Aspen is a talent-based business. With this in mind, we seek to hire the highest quality people from both within and outside the industry, where appropriate.

However, this is the first step in a broader process and we have focused on creating an environment in which talented people want to work. We have made investing in the training, development and sharing of our people's technical and professional knowledge a priority, and are seeking to build on this through a clear focus on executive and management development.

We have grown rapidly since we launched our business in 2002. As a result, we strengthened our management team significantly in 2005, with several key appointments including a Chief Risk Officer, Head of Strategy, Head of Human Resources and Head of Claims.

Nimbleness

In a highly cyclical business such as insurance/reinsurance, it is important to remain alert to changing market circumstances, and to respond quickly to new opportunities that fall within the scope of our underwriting skills and potential threats. An example of this is offshore energy insurance. In 2004, the year of Hurricane Ivan, which was then the largest offshore energy physical damage loss in history, we wrote only US$2.8 million of insurance premium in this area. In 2005, by which time rates had risen significantly, we increased our premium writings to US$37.4 million. This account was subsequently affected by both Hurricanes Katrina and Rita, and has seen a number of fundamental changes to both pricing and terms and conditions, especially in the Gulf of Mexico. As a result, we expect to write approximately US$100 million of premium in this line of business in 2006. We protect this account by reinsurance with a retention of US$10 million.

Conversely, where we do not believe that we can make an adequate return, we have discontinued those lines of business. For example, in 2005, we stopped underwriting US property facultative business from London, because we were not satisfied that this market would properly recognize and price for wind and flood risk. We also closed a small unit in Bermuda specializing in property retrocession covers, because of the high capital requirements for this line of business.

Investments

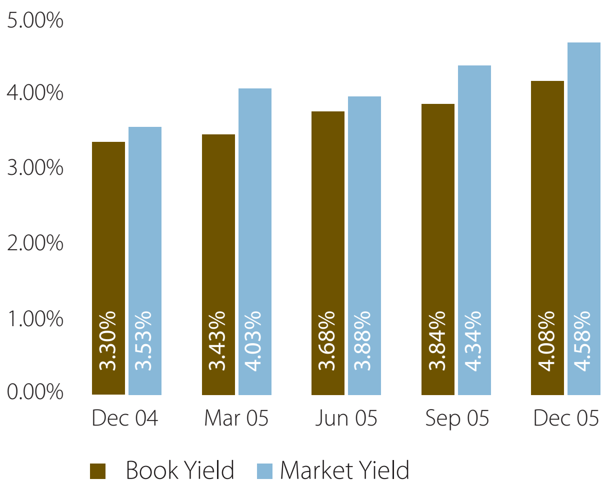
The contribution to earnings from investment income has grown steadily since our formation, and we expect this to continue in keeping with our view that investment return is one of the principal determinants of financial performance. There are two routes by which this can be achieved. The first is by improving our investment leverage* - and this has increased from 1.33x in 2003 to 2.13x in 2005 - and the second through the return achieved on our investment portfolio. Our invested assets have grown from US$2.74 billion in 2004 to US$3.69 billion in 2005 and our book yield has improved from 3.30% to 4.08%.

Although investments are managed as a key contributor to earnings, we are also mindful of the need to preserve our invested assets and maintain sufficient liquidity for the prompt payment of claims. Our investments are currently composed of a diversified portfolio of highly-rated and liquid fixed income securities, which we manage on a total return basis. We also manage carefully the duration of our fixed income portfolio. In 2005, we continued our strategy of gradually extending our portfolio duration as interest rates rose. This resulted in our fixed income portfolio duration increasing from 2.16 years as of December 31, 2004, to 2.87 years as of December 31, 2005. This change resulted in the book yield rising by 78 basis points during 2005, from 3.30% to 4.08%. We continually monitor market developments in interest rates with a view to further extending the duration of our portfolio if appropriate.

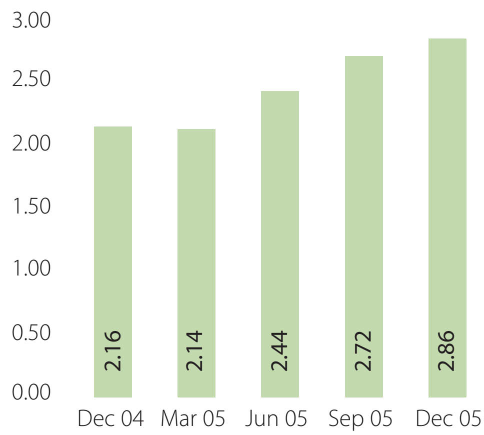
* The ratio of average amortized cost of investments to average equity.

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer

Yields



Duration



During the second half of 2005 we conducted an in-depth review of our asset allocation strategy. As a result, we have implemented a two-year plan to invest up to 15% of our investment portfolio in non-fixed income securities. As a first step, we have decided to invest US$150 million of our assets in two low-volatility hedge fund of funds by the end of the first quarter of 2006. We will also continue to monitor credit spreads and look to diversify portfolio credit risk when appropriate.

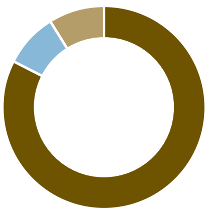
Capital Management and Liquidity

Our aim is to hold only the amount of equity required to support the amount of business which we write, subject to our return requirements, risk appetite and risk management framework, and we will seek to raise equity from time to time if market conditions are sufficiently attractive to justify doing so. By the same token, when there is insufficient business available that meets our quality thresholds, we will seek to return capital to our shareholders rather than accept risks that do not meet our return targets. In addition we need to ensure that our insurance subsidiaries have sufficient capital to meet our financial strength ratings objectives.

Another element of our capital management approach is that we seek to structure our balance sheet as efficiently as possible in terms of the relative mix of common equity, hybrid capital and debt, to optimize our return on equity.

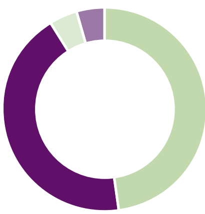
In 2005, we raised US$596 million of common equity and US$194 million of hybrid capital in the form of Perpetual Preferred Income Equity Replacement Securities ('Perpetual PIERS'). By hybrid capital, we mean capital raised by financial instruments with some equity characteristics (e.g., no fixed maturity) and some debt-like features (e.g., fixed quarterly interest or dividend payments). Depending on its terms, hybrid capital is accorded more or less 'equity credit' by the rating agencies in assessing our financial strength. Our preference shares are classified as equity in our balance sheet.

Letter from the Chairman, Chief Executive Officer and Chief Financial Officer



Consolidated Group Equity and Long-Term Debt (US$ billions)

- Common Shareholders' Equity 1.9
- Long-Term Debt 0.2
- Preference Shares 0.2



Analysis by Entity (US$ billions)

- Aspen Bermuda 1.1
- Aspen Re 1.0
- Aspen Specialty 0.1
- Capital retained by Aspen Holdings 0.1

We will continue to look for opportunities to optimize our capital structure as appropriate.

We protect our capital base mainly through the purchase of reinsurance cover. As a result of the hurricanes in 2004 and particularly 2005, we had reinsurance recoverables of US$1.193 billion as at December 31, 2005. We will continue to monitor these recoverables closely for credit quality. We have also purchased a collateralized three-year catastrophe risk transfer derivative, which is valued at fair value on our balance sheet. Our income statement for the year includes other income of US$19.4 million to reflect an increase in the fair value of our catastrophe derivative.

We also have committed arrangements in place with various lending banks for revolving credit and the issuance of letters of credit to our cedants. At the end of 2005 we had letters of credit totalling more than US$400 million outstanding, mainly as a result of our liabilities to US insurance companies following the hurricane losses of 2005. In addition, we had over US$1 billion in cash and securities in a multi-beneficiary fund, which are held in trust for US cedants. We are currently satisfied that we have sufficient liquidity to operate our business for the foreseeable future. Our cash and invested assets at December 31, 2005 had a total market value of US$4.4 billion, up from US$3.0 billion at the end of 2004.

Risk Management

We believe that risk management is everyone's job at Aspen. This reflects the fact that, at root, understanding and quantifying risk is an integral part of every aspect of our business. The ability to set parameters around and retain the appropriate level of risk is key to managing and growing our business.

In 2004, we decided that a more structured approach to risk management was required. Following the arrival of our Chief Risk Officer, Oliver Peterken, in March 2005, we combined Internal Audit, Compliance and Risk Management under the CRO, who reports directly to our Group CEO. Our approach to enterprise risk management is discussed in further detail on page 16.

As we have outlined above, our responses to the events of 2005 have included adopting an enhanced approach to controlling catastrophe accumulations. For 2006, we are developing a new combined perils tolerance on a probabilistic annual aggregate basis. In addition, we have

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reduced our first event tolerances from 20% and 35% of surplus at the 100- and 250-year levels, to 17.5% and 25% respectively.

Communication

Like the rest of the insurance industry, we have seen a number of profound changes during the past five years - including Sarbanes-Oxley, lawsuits over alleged bid-rigging, widespread re-evaluation of catastrophe risk, rapid evolution in rating agency models and the advent of global terrorism. We believe it is very important to keep the owners and potential buyers of our shares as fully informed regarding these types of developments as possible. In our most recent earnings calls we have sought to provide a higher level of detail - not just about developments at Aspen, but also about our perspective on how we understand and respond to broader industry events that may affect us. In light of the positive response to this change, we will continue to seek out and implement new and better ways to improve the quality and efficiency of our communications to shareholders.

The Aspen Culture

The 'Aspen Spirit' is a statement of who we are, why we are different, what we believe, how we behave and how we succeed. The Aspen Spirit is reproduced in full on page 18 and reflects our belief that we need to have a clear sense of purpose within the business and a framework within which we operate. Our objective is to bring together the right people to create a company that our customers and shareholders recognize as consistently offering the highest standards in technical excellence, fair dealing and risk management.

These values were developed as the business established itself, and are reinforced through our hiring and performance management processes.

The Current Marketplace and Outlook

At the time of writing, we are not convinced that the industry has fully factored in the increased level of risk inherent in property insurance and reinsurance, despite the events of 2004 and 2005. Our pricing models assume that we have entered a period of increased hurricane frequency and severity with the magnitude of ensuing losses likely to increase significantly, coupled with increased economic activity and population shifts in those regions of the world which are more exposed to natural hazards, in particular in the US.

At the reinsurance level, we believe that prices now reflect some of this increased hazard potential but there is significant scope for improvement during the remainder of 2006. Insurance lines in the US often suffer from a 'regulatory lag', as it takes time for primary carriers to obtain permission for the necessary rate increases. As a result, we expect the correction in insurance pricing to continue into 2007. At Aspen, we have significantly reduced our exposure in the early part of 2006, thereby positioning ourselves to benefit more fully from the price increases we expect to achieve later in the year.

An additional complicating factor in property lines is that the market may shift capital away from property and towards casualty, in a bid to achieve diversification and reduced volatility. We are mindful of the potential downward pressure on casualty rates that this might imply, and while we currently expect our casualty writings in 2006 to yield broadly similar premium levels to 2005, we will reduce our writings in this area if this potential downward pressure materializes.

Conclusion

We would like to thank our shareholders for their support and our colleagues for their dedication and achievements in what has been an extraordinarily difficult and disappointing year.

Paul Myners, Chairman

Christopher O'Kane, CEO

Julian Cusack, CFO

An Interview with the Chief Executive Officer

Sustaining the Right Underwriting Culture

Christopher O'Kane, Chief Executive Officer, answers questions about Aspen's track record since the Company's foundation in 2002, the rationale behind some of the recent changes to the business, and our strategy for the future.

1. How would you summarize Aspen's strategic progress to date?

Last year's underwriting performance aside, I believe we have made reasonable progress thus far. Four years ago we set out to build a specialty insurer and reinsurer with a clear value proposition for our targeted customers - and we have succeeded in this. We also made a commitment towards diversification by product line, by geography and by peril. Again, we have delivered. Finally, our gross written premium exceeded US$2 billion for the first time in 2005.

Building on this progress to date, I think the challenges ahead include a need to sharpen our focus, enhance the type and mix of product for our customers, and continue to build out our operating infrastructure and control systems in line with the growing scale, reach and complexity of our business.

2. You have been saying quite a lot about volatility recently. Why do you regard it as important?

In a business as notoriously unpredictable as property and casualty insurance, one of the major challenges is to maintain a relatively stable return on equity (ROE) throughout the cycle. The successful companies will be those who excel in this regard. We have sought to manage volatility in our lines of business through risk selection, accumulation control and the purchase of reinsurance. In addition, we have committed significant actuarial resource to calibrating and hence managing volatility more effectively through the use of Dynamic Financial Analysis modelling. We are aiming to be in a position to say, for any given return on equity expectation, that we have a clear and measurable confidence in achieving a result within a reasonable range around that figure. Of course, in order to do this, we also need to ascertain the expected volatility of investment returns, financial risk (tax, balance sheet efficiency) and operational risk. Most of this work has already been done.

This enables us to set more effectively three key performance metrics for each line of underwriting business - namely planned gross premiums, maximum expected combined ratio, and a third metric to which both of the first two will be subject, a maximum permitted level of volatility.

3. What is the Aspen Scorecard, and how will it help the business to manage performance more effectively?

The Aspen Scorecard will be our version of the well-known and widely-used 'balanced scorecard' technique. As we map out our strategy for the next three to five years, it is clear that we need to develop hard and robust measures to track our progress towards our key goals.

On the financial side, the main drivers of performance are underwriting returns, investment leverage and returns, operating leverage, and balance sheet efficiency. While a lot of insurance companies are very good at tracking and measuring these key drivers on a lagging basis, we are focusing our efforts on developing leading indicators of performance for them.

4. What are the most important things that you learned from the events of 2005?

Without a doubt, the main lesson from last year's hurricane season, and indeed from that of 2004, is that a unit of wind exposure carries more risk than previously recognized by Aspen or by insurance and reinsurance businesses in general. It is now

An Interview with the Chief Executive Officer

fairly well known and accepted that we are in a period, likely to last between five and 20 years, during which hurricanes will occur with greater frequency - the last 11 years have been the most active on record. A further concern also arises from the potential for some of these hurricanes to achieve the highest and most damaging category five status, or, given short-term shifts in weather patterns, to affect areas less well prepared to cope with hurricane risk.

Those are the lessons for the industry. The question for Aspen is, given what we now know, how can we do things better in the future and ensure that we continue to sustain the right underwriting culture - one that includes a firm but responsive control environment drawing on ideas and concepts learned from the external scientific and academic communities - and combines this environment with an ability to bring to bear the best technical insights, and to share knowledge and information seamlessly across our business.

5. You have recently created a new board committee focusing on risk management. How will this help Aspen run its business better in the future?

Previously, our audit committee examined risk management issues as well as carrying out the classic core functions around ensuring the adequacy of the financial control environment and overseeing the integrity of financial reporting. However, recognizing that underwriting risk is the main risk for any insurance business, we wanted to give risk a higher profile at board level. This was why we created our new Risk Committee.

6. Aspen's Chief Operating Officer will shortly assume the position of Director of R&D and Business Change. What is the thinking behind this new role?

I have long felt that the insurance industry is relatively poor at learning from its own mistakes. At Aspen we feel that we should not wait to learn from our own or others' mistakes, but that we should develop a more anticipatory and proactive approach instead. Sarah Davies' new role symbolizes the very high importance we are attaching to this.

There are three elements to this agenda. The first is to ensure we bring the best ideas, best practice and latest insights - whatever they may be - into Aspen. The second is to enable knowledge located in one part of our group to be captured and disseminated throughout the organization appropriately. The third element, and perhaps the most important of all, is to create an environment where insights are not neglected, but where they are acted upon to change and improve the way we do business.

7. What is your view of the current risk/reward relationship and degree of volatility in the market?

The disastrous casualty years from 1997 to 2001 clearly demonstrated the volatility of casualty lines and in 2002 and 2003 the market made significant strides in pricing risks more appropriately, and in achieving better terms and conditions for doing so. Since 2003, many casualty lines have offered a fair measure of reward for the risk accepted. But there are some worrying signs that a number of the lessons learned in 1997-2001 may be starting to fade from the industry's collective memory.

Catastrophe exposed property lines have not yet sufficiently re-priced for the increased volatility demonstrated in 2004 and 2005. The process is ongoing, and we expect the risk/reward relationship to achieve equilibrium later this year or in 2007. One consequence of this shift - which we believe will be enduring - is that each unit of risk now needs to be covered by an increased amount of capital. The need to maintain adequate returns to shareholders while coming to terms with this new reality is very much at the forefront of the minds of everyone in the senior management team at Aspen.

Perhaps the key lesson for casualty lines from 1997 to 2001, and for property in 2004 and 2005, is heightened awareness of the dangers inherent in the 'tail' of the loss distribution curve. It is not enough to make adequate returns in years of 'normal' loss - we and our peers in the industry have to get smarter at limiting downside risk in years when extreme events occur. As we move forward, this is also at the top of Aspen's management action agenda.

An Interview with the Chief Risk Officer

The Business of Managing Risk

At root, Aspen is in the risk business - a fact that puts our Chief Risk Officer at the heart of everything we do. Oliver Peterken discusses his role in the business and how the events of 2005 have influenced his and Aspen's view of risk.

1. What is the role of the Chief Risk Officer?

The Chief Risk Officer's primary function is to ensure that Aspen has an effective risk management framework - meaning one that achieves the right balance between Aspen's strategic positioning as a risk taker, and its need to optimize the balance between risk and reward. This involves a combination of controlling our risk and ensuring that our risk appetite is appropriate, while at the same time facilitating our risk acceptance processes. In the final analysis, we are a trading organization and we create shareholder value by finding risks, appropriately pricing them, and then managing these risks as part of a diversified portfolio.

2. How does Aspen define its risk appetite?

We set a catastrophe risk appetite at group level covering all the various natural and other quantifiable hazards in the zones in which we write risks. This group-level appetite describes our attitude towards catastrophe risk across an entire year. Once we have set this risk appetite, we then allocate it across individual peril zones, such as US hurricane risk, Californian or Japanese earthquake risk, and so on.

To manage our underwriting teams, we define our appetite in terms of the level of surplus we are prepared to lose at the level of once in 100 years and once in 250 years. These equate to exceedance probabilities of 1% and 0.4%. We have reconsidered our overall risk appetite, and - in light of recent events - are reducing it. Whereas in 2005 we had a tolerance at the 1% level of 20% of our surplus, in 2006 we have reduced this to 17.5%. And at the 0.4% level we have reduced our tolerance from 35% to 25%.

3. What is the role of enterprise risk management at Aspen?

Because we are a risk-taking business, we have to manage our risk across the whole enterprise. We do this by applying a group-wide risk capital model which enables us to identify the amount of risk capital required by each of our underwriting lines, and also by our non-underwriting exposures such as credit, investment and operational risk. This enables us to ensure that we allocate sufficient capital to the risk profile facing us as a group, and to do so in the optimal fashion for our shareholders.

As our business plans develop and as market opportunities arise, the fact that we have this comprehensive risk capital model means we are able to make sure that our risk capital reflects changes in circumstances on a continuing basis. The model is dynamic rather than static. For example, we now consider US catastrophe reinsurance to be riskier than in previous years, and our risk capital allocation reflects this shift in outlook. Our enterprise risk management is at the heart of our business planning, because we use it to determine capital allocated to each underwriting segment, and that in turn shapes our marketing and underwriting activities. At the enterprise level we also use our approach to risk capital to ensure we are optimizing our asset/liability mix.

4. Describe Aspen's approach to risk management. What is Aspen's risk culture?

Our approach involves applying four risk management principles. The first is openness, which means ensuring that all risk taking decisions are fully reported and fully recorded. The second is accountability, so those who accept risk on Aspen's behalf are accountable for the outcome. The third is discipline, meaning that all our risk taking decisions must contribute to our strategic objectives and comply with our procedures and policies. And the fourth is oversight, with all risk taking decisions being subject to independent scrutiny and review. The key for Aspen is to have a risk culture that captures these principles, enabling us to control and manage risk while also being dynamic, flexible and responsive.

An Interview with the Chief Risk Officer

5. How do you control underwriting risk at Aspen?

We approach this challenge by making sure that we have a control framework in place that successfully achieves a number of objectives. The primary objective is to ensure that the risks Aspen accepts are consistent with, and do not exceed, our stated risk appetite. We achieve this by monitoring and controlling our accumulations of different exposures. We also set out to ensure that the way we underwrite business is appropriately controlled. This involves having an underwriting control framework where we define for each underwriting unit a series of controls over business acceptance, pricing, terms and conditions, and so on.

At the same time we operate a risk strategy including three lines of defense. The first is our business and underwriting teams; the second is made up of the Chief Risk Officer and the Risk Management function; and the third consists of Internal Audit and the Audit Committee. We have also recently established a board Risk Committee which will further enhance our third line of defense.

In combination, these three elements underpin a strategy and framework that enable us to control a very diverse range of risk classes. The most important thing about the framework is that it must enable us to strike the right balance between control, risk management, and allowing our underwriting teams to be innovative, dynamic and responsive to client needs. This framework also needs to allow for the fact that this balance varies depending on the nature of the risk and the particular product that we are underwriting.

6. What impact will climate change have on Aspen's business?

The twin challenges that climate change raises for Aspen are the need for us to make sense of the science, and then to apply that science to our business proposition. The scientific debate around climate change is having a huge effect on the insurance and reinsurance industry, but not everyone has yet fully appreciated the scale of the potential impact on their business. The underlying problem here is how to understand and interpret the huge variability in weather year on year and month on month. It simply cannot yet be proven whether the large number of US hurricanes in 2005 was related to climate change, and the current scientific evidence is open to various interpretations.

Given this background, Aspen is focusing on ensuring that we are at the forefront of global thinking on identifying and interpreting the scientific evidence as it is published, and also - even more importantly - on making sure that we have the business systems in place to respond to the findings when we have them. This approach is already influencing the way we do business. For example, we believe that in the next five to 20 years we will see a higher frequency of US hurricanes than in the recent past, and that climate change will increase flood risks, particularly in Europe. We are reorientating our capital allocation, underwriting and pricing to reflect these views.

7. What are the implications of the new rating agency models?

We need to be authorized by the regulators in each market where we operate, and to have a financial strength rating that is appropriate for the business we are seeking to write. The rating agencies have an absolutely key role in determining the attractiveness of Aspen to our clients. Following the events of 2005, the rating agencies have fundamentally reviewed how they evaluate reinsurers, and Aspen has taken the necessary steps to ensure that we meet their new requirements, including raising additional capital. Our success in doing so was confirmed by the fact that we maintained all our ratings following very rigorous reviews by the agencies.

In combination, our belief that we have entered a period of higher hurricane frequency and the rating agencies' increased capital requirements have led us to change our thinking about where we can add the most value in the property catastrophe reinsurance market. Whereas one could previously approach the entire market with a common offering, these two changes now require market participants to have a deeper understanding of the opportunities, and a much more sophisticated ability to price and control these risks, than was the case in the past.

the Aspen spirit

An appropriate sense of urgency

Who we are

We are a group of professionals who have chosen to concentrate on global specialty insurance and reinsurance.

Why we are different

In an industry not renowned for recruiting or developing the best talent, Aspen stands out for its commitment to excellence in its people. Our core objective is to bring together the most talented and principled individuals, to create a company recognized both by customers and shareholders as consistently meeting the highest standards of technical excellence and fair dealing.

To achieve this, Aspen recruits the highest-quality people and gives them the training and the tools they need to fulfil their potential and excel in their chosen field. In our recruitment, we also strive to reflect the fact that we face a myriad of opportunities and challenges as we operate around the world. So we seek a diversity of talent, skills and perspectives to help us exploit our opportunities and overcome our challenges.

What we believe

The key to our success lies in having the best people and enabling them to work together. Aspen is committed to treating its people fairly, and offers a competitive reward structure reflecting the fact that teamwork fuels our performance. While we recognize the vital importance of the right work/life/family balance, once we get to the workplace we have no time or room for those who put their own personal interests ahead of those of our business and customers.

How we behave

Our values are demonstrated most effectively in our relationships with each other and with our customers. We treat all our colleagues and clients as we would hope to be treated ourselves. Our customers will reward us by bringing, returning and renewing profitable business because they find that our behavior - more than that of any of our competitors - embodies the highest standards of consistency, professionalism, integrity, responsiveness and customer care.

The passion and commitment that we bring to our work should be reflected in everything we do. When we get it right, Aspen people go home feeling fulfilled. As do our customers.

How we succeed

We will succeed as a business when every single decision is taken with a sense of the goals of our company as a whole. This requires every decision to be made with rigor - first analyzing the issues at hand, then drawing on all our resources, and finally making the right call. Once a decision has been taken we will all execute it just as if it were our own personal one. Our customers will recognize the quality of our service by providing appropriate returns; and all of us will share in the wealth we create collectively for our shareholders.

We will always strive to be the best. But we will do so while recognizing that new or other ways can be better, meaning we will always be open to change.

Getting things done quickly that can or should be done quickly is a quality we value. Aspen people will, like the company as a whole, proceed with an appropriate sense of urgency - but never at the expense of our quality or integrity.

Consolidated Statements of Operations

For the 12 Months Ended December 31, 2005, 2004 and 2003

Revenues	Notes	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Net premiums earned (includes US$(33.6) million in 2005, US$(96.0) million in 2004 and US$(126.1) million in 2003 from related parties)	16	1,508.4	1,232.8	812.3
Net investment income (includes US$nil million in 2005, US$0.9 million in 2004 and US$3.5 million in 2003 from related parties)	4	121.3	68.3	29.6
Change in fair value of derivatives	5	19.4	(4.0)	-
Total Revenues		**1,649.1**	**1,297.1**	**841.9**
Expenses				
Insurance losses and loss adjustment expenses (includes reinsurance recoverables of US$99.7 million in 2005, US$43.1 million in 2004 and US$86.6 million in 2003 from related parties)	6,16	(1,358.5)	(723.6)	(428.4)
Policy acquisition expenses (includes US$4.2 million in 2005, US$28.7 million in 2004 and US$24.4 million in 2003 from related parties)		(283.2)	(212.0)	(152.3)
Operating and administrative expenses (includes US$5.2 million in 2005, US$7.1 million in 2004 and US$6.6 million in 2003 from related parties)		(125.9)	(93.0)	(53.3)
Interest on long-term debt		(16.2)	(6.9)	(0.4)
Realized investment losses	4	(4.4)	(3.5)	(2.4)
Realized exchange gains/(losses)		(18.2)	5.1	1.5
Other expenses		(3.1)	-	-
Total Expenses		**(1,809.5)**	**(1,033.9)**	**(635.3)**
Income/(loss) from operations before income tax		(160.4)	263.2	206.6
Income tax expense	7	(17.4)	(68.1)	(54.5)
Net Income/(Loss)		**(177.8)**	**195.1**	**152.1**
Per Share Data		**No.**	No.	No.
Weighted average number of ordinary share and share equivalents				
Basic		74,020,302	69,204,658	57,751,852
Diluted		74,020,302	71,121,568	59,491,760
Earnings/(Loss) Per Ordinary Share		**US$**	US$	US$
Basic	2	(2.40)	2.82	2.63
Diluted	2	(2.40)	2.74	2.56

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As of December 31, 2005 and 2004

Assets	Notes	December 31, 2005 US$m	December 31, 2004 US$m
Investments:			
Fixed income maturities		3,046.1	2,207.2
Short-term investments		643.0	528.7
Total Investments	3	3,689.1	2,735.9
Cash and cash equivalents		748.3	284.9
Reinsurance recoverables:			
Unpaid losses (includes US$172.4 million in 2005 and US$30.8 million in 2004 from related parties)	6	1,192.7	197.7
Ceded unearned premiums (includes US$9.1 million in 2005 and US$21.6 million in 2004 from related parties)		72.7	40.4
Receivables:			
Underwriting premiums (includes US$nil million in 2005 and US$153.0 million in 2004 from related parties)		541.4	494.2
Other (includes US$nil million in 2005 and US$5.7 million in 2004 from related parties)		65.9	39.2
Deferred policy acquisition costs (includes US$nil million in 2005 and US$4.1 million in 2004 from related parties)		156.2	115.6
Derivatives at fair value		40.5	23.6
Office properties and equipment		22.8	5.0
Intangible assets	13	8.2	6.6
Total Assets		6,537.8	3,943.1

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As of December 31, 2005 and 2004
(in US$ millions, except share and per share amounts)

Liabilities	Notes	December 31, 2005 US$m	December 31, 2004 US$m
Insurance reserves:			
▪ Losses and loss adjustment expenses (includes US$76.4 million in 2005 and US$78.8 million in 2004 from related parties)	6	3,041.6	1,277.9
▪ Unearned premiums (includes US$nil million in 2005 and US$2.8 million in 2004 from related parties)		868.0	714.0
Total Insurance Reserves		3,909.6	1,991.9
Payables:			
▪ Reinsurance premiums (includes US$34.4 million in 2005 and US$41.2 million in 2004 from related parties)		155.0	54.2
▪ Deferred income taxes	8	32.7	27.0
▪ Current income taxes		-	30.7
▪ Accrued expenses and other payables (includes US$2.3 million in 2005 and US$3.1 million in 2004 from related parties)		139.4	84.3
Liabilities under derivative contracts		12.0	24.2
Total Payables		339.1	220.4
Long-term debt	19	249.3	249.3
Total Liabilities		4,498.0	2,461.6

Shareholders' Equity			
Ordinary shares - 95,209,008 ordinary shares of 0.15144558¢ each (2004 - 69,315,099)	9	0.1	0.1
Additional paid-in capital	9	1,693.2	1,096.0
Preference shares - 4,000,000 preference shares of US$50 each	9	193.8	-
Retained earnings		144.2	367.5
Accumulated other comprehensive income, net of taxes		8.5	17.9
Total Shareholders' Equity		2,039.8	1,481.5
Total Liabilities and Shareholders' Equity		6,537.8	3,943.1

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For The 12 Months Ended December 31, 2005, 2004 and 2003

Shareholders' Equity	**12 Months Ended December 31, 2005 US$m**	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Ordinary shares:			
Beginning of year	1,096.1	1,090.8	836.9
New shares issued	596.4	0.1	246.4
Shares repurchased	(1.9)	-	-
New share issue costs	(0.7)	-	-
Share-based compensation	3.4	5.2	7.5
End of Year	1,693.3	1,096.1	1,090.8
Preference shares:			
Beginning of year	-	-	-
New preference shares issued	194.5	-	-
New preference shares issue costs	(0.7)	-	-
End of Year	193.8	-	-
Retained earnings:			
Beginning of year	367.5	180.7	28.6
Net income/(loss) for the year	(177.8)	195.1	152.1
Payment of dividends	(45.5)	(8.3)	-
End of Year	144.2	367.5	180.7
Accumulated Other Comprehensive Income			
Cumulative foreign currency translation adjustments			
Unrealized gains on foreign currency translation net of taxes:			
Beginning of year	27.9	27.8	12.0
Change for the year	14.9	0.1	15.8
End of Year	42.8	27.9	27.8
Gain/(Loss) on derivatives:			
Beginning of year	(2.2)	-	-
Change for year	-	(2.3)	-
Reclassification to interest expense	0.2	0.1	-
End of Year	(2.0)	(2.2)	-
Unrealized appreciation/(depreciation) on investments, net of taxes:			
Beginning of year	(7.8)	(0.6)	0.6
Change for the year	(30.3)	(7.8)	(1.2)
Reclassification to net realized (gains)/losses	5.8	0.6	-
End of Year	(32.3)	(7.8)	(0.6)
Total Accumulated Other Comprehensive Income	8.5	17.9	27.2
Total Shareholders' Equity	2,039.8	1,481.5	1,298.7

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the 12 Months Ended December 31, 2005, 2004 and 2003

	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Net income/(loss)	(177.8)	195.1	152.1
Other comprehensive income/(loss), net of taxes:			
▪ Change in gains/(losses) on foreign currency translation	14.9	0.1	15.8
▪ Loss on derivatives	-	(2.3)	-
▪ Loss on derivatives reclassified to interest expense	0.2	0.1	-
▪ Reclassification adjustment for net realized (gains)/losses included in net income	5.8	0.6	-
▪ Change in unrealized gains/(losses) on investments	(30.3)	(7.8)	(1.2)
▪ Other comprehensive income/(loss)	(9.4)	(9.3)	14.6
Comprehensive Income/(Loss)	**(187.2)**	**185.8**	**166.7**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the 12 Months Ended December 31, 2005, 2004 and 2003

Operating Activities	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Net income/(loss)	(177.8)	195.1	152.1
Adjustments:			
■ Depreciation and amortization of premium or discount on investments	15.5	12.2	5.0
■ Share-based compensation expense	3.4	5.2	7.5
Changes in insurance reserves:			
■ Losses and loss adjustment expenses (includes US$2.4 million in 2005, US$67.5 million in 2004 and US$84.1 million in 2003 from related parties)	1,842.9	709.7	443.8
■ Unearned premiums (includes US$2.8 million in 2005, US$71.9 million in 2004 and US$(29.9) million in 2003 from related parties)	174.1	116.8	319.0
Changes in reinsurance balances:			
■ Reinsurance recoverables (includes US$(141.6) million in 2005, US$(3.9) million in 2004 and US$16.5 million in 2003 from related parties)	(1,011.5)	(150.4)	(15.4)
■ Ceded unearned premiums (includes US$12.5 million in 2005, US$14.5 million in 2004 and US$23.3 million in 2003 from related parties)	(31.7)	9.6	(38.5)
Changes in accrued investment income and other receivables	(7.7)	2.2	(40.0)
Changes in deferred policy acquisition costs (includes US$4.1 million in 2005, US$7.7 million in 2004 and US$(2.1) million in 2003 from related parties)	(47.5)	(17.3)	(50.7)
Changes in reinsurance premiums payable (includes US$(6.8) million in 2005, US$(8.1) million in 2004 and US$49.3 million in 2003 from related parties)	100.8	(6.8)	56.1
Changes in premiums receivable (includes US$(153.0) million in 2005, US$(68.9) million in 2004 and US$70.5 million in 2003 from related parties)	(54.6)	23.2	(261.2)
Changes in accrued expenses and other payables (includes US$(0.8) million in 2005, US$(8.9) million in 2004 and US$10.5 million in 2003 from related parties)	12.3	61.8	58.9
Change in fair value of derivatives and settlement of liabilities under derivative contracts	(29.1)	-	-
Net Cash Generated by Operating Activities	**789.1**	**961.3**	**636.6**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the 12 Months Ended December 31, 2005, 2004 and 2003

Investing Activities	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Purchases of fixed maturities	(3,292.2)	(5,220.4)	(1,903.3)
Proceeds from sales and maturities of fixed maturities	2,364.6	4,060.6	943.5
Net (purchases)/sales of short-term investments	(114.2)	55.5	263.4
Purchase of intangible assets	(1.6)	(4.6)	(0.3)
Purchase of equipment	(17.8)	-	-
Payments for acquisitions net of cash acquired	-	-	(6.6)
Net Cash Used in Investing Activities	**(1,061.2)**	**(1,108.9)**	**(703.3)**

Financing Activities			
Proceeds from the issuance of ordinary shares, net of issuance costs	595.7	0.2	246.4
Ordinary shares repurchased	(1.9)	(0.1)	-
Proceeds from the issuance of preference shares, net of issuance costs	193.8	-	-
Dividends paid	(45.5)	(8.3)	-
Gain/(loss) on derivatives	-	(2.3)	-
Proceeds from long-term debt	-	249.3	-
(Repayment), receipt of bank debt	-	(40.0)	40.0
Net Cash Generated by Financing Activities	**742.1**	**198.8**	**286.4**
Effect of exchange rate movements on cash and cash equivalents	(6.6)	2.9	1.5
Increase in cash and cash equivalents	463.4	54.1	221.2
Cash and cash equivalents at beginning of year	284.9	230.8	9.6
Cash and Cash Equivalents at End of Year	**748.3**	**284.9**	**230.8**
Supplemental disclosure of cash flow information: Cash paid during the period for income tax	56.1	47.9	24.8
Cash paid for interest	11.1	0.2	-

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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 operating insurance and reinsurance subsidiaries are Aspen Insurance UK Limited ('Aspen Re'), Aspen Insurance Limited ('Aspen Bermuda') and Aspen Specialty Insurance Company ('Aspen Specialty'). The other direct and indirect subsidiaries of Aspen Holdings are Aspen (UK) Holdings Limited ('Aspen UK Holdings'), Aspen Insurance UK Services Limited ('Aspen UK Services'), AIUK Trustees Limited ('AIUK Trustees'), Aspen US Holdings, Inc. ('Aspen US Holdings'), Aspen Specialty Insurance Management Inc. ('Aspen Management'), Aspen Re America, Inc. ('Aspen Re America'), Aspen Insurance US Services Inc. ('Aspen US Services'). Aspen UK Services and Aspen US Services provide services to Aspen Holdings and its subsidiaries in their capacity as employers of directors and staff of Aspen Re, Aspen Specialty and Aspen Re America.

The Consolidated Financial Statements of Aspen Holdings are prepared in accordance with United States Generally Accepted Accounting Principles ('US GAAP'). The financial statements are presented on a consolidated basis including the transactions of all operating subsidiaries. Transactions between Aspen Holdings and its subsidiaries are eliminated within the consolidated financial statements.

Use of Estimates

Estimates and assumptions are made by the directors and these have an effect on the amounts reported within the consolidated financial statements. The most significant estimates relate to the reserves for property and liability losses, premiums receivable in respect of assumed premiums and the fair value of derivatives. These estimates are regularly reviewed and adjustments made as necessary, but actual results could turn out significantly different from those expected when the estimates were made.

We continue to substantially rely on estimates to project our total retained and gross losses from Hurricanes Katrina, Rita and Wilma as we have received a limited number of actual reported claims. In addition to being limited in number, the preliminary notifications submitted by our insurance clients are also subject to significant change depending on actual claims received from their insureds. Actual losses may vary materially from these estimates.

Our estimates are uncertain because of the extremely complex and unique causation and coverage issues associated with the unprecedented nature of these events, including the attribution of losses to wind or flood damage or other perils such as fire, business interruption or riot and civil commotion. In addition, these estimates may vary due to potential legal and regulatory developments related to allocation of losses, as well as inflation in repair costs due to the limited availability of labor and materials due in part to the size and proximity in time and distance of the three hurricanes. We expect that these issues may be subject to litigation by state attorneys general and private parties and will not be resolved for a considerable period of time.

Notes to the Consolidated Financial Statements

Accounting for Underwriting Operations

Premiums Earned

Premiums are recognized as revenues proportionately over the coverage period. Premiums earned are recorded in the statement of operations, net of the cost of purchased reinsurance. Premiums not yet recognized as revenue are recorded in the consolidated balance sheet as unearned premiums, gross of any ceded unearned premiums. Written and earned premiums, and the related costs, which have not yet been reported to the Company are estimated and accrued. Due to the time lag inherent in reporting of premiums by cedants, such estimated premiums written and earned, as well as related costs, may be significant. Differences between such estimates and actual amounts will be recorded in the period in which the actual amounts are determined.

We exercise judgment in determining the adjustment premiums, which represent a small portion of total premiums receivable. Commission is charged as a fixed percentage of premium per contract and is adjusted in line with adjustments in premium. The proportion of adjustable premiums included in the premium estimates varies between business lines with the largest adjustment premiums associated with property reinsurance business and the smallest with property and liability insurance.

Premiums on proportional treaty type contracts are generally not reported to the Company until after the reinsurance coverage is in force. As a result, an estimate of these 'pipeline' premiums is recorded. The Company estimates pipeline premiums based on estimates of ultimate premium, calculated unearned premium and premiums reported from ceding companies. The Company estimates commissions, losses and loss adjustment expenses related to these premiums.

Reinstatement premiums and additional premiums on excess of loss contracts are provided for based on experience under such contracts. Reinstatement premiums are the premiums charged for the restoration of the reinsurance limit of an excess of loss contract to its full amount after payment by the reinsurer of losses as a result of an occurrence. These premiums relate to the future coverage obtained during the remainder of the initial policy term. Additional premiums are premiums charged after coverage has expired, related to experience during the policy term. An allowance for uncollectible premiums is established for possible non-payment of such amounts due, as deemed necessary.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. Reinsurance contracts that operate on a 'losses occurring during' basis are accounted for in full over the period of coverage whilst 'risk attaching during' policies are expensed using the same ratio as the underlying premiums on a daily pro rata basis.

Insurance Losses and Loss Adjustment Expenses

Losses represent the amount paid or expected to be paid to claimants in respect of events that have occurred on or before the balance sheet date. The costs of investigating, resolving and processing these claims are known as loss adjustment expenses ('LAE'). The statement of operations records these losses net of reinsurance, meaning that gross losses and loss adjustment expenses incurred are reduced by the amounts recovered or expected to be recovered under reinsurance contracts.

Notes to the Consolidated Financial Statements

Reinsurance

Written premiums, earned premiums, incurred claims and LAE and policy acquisition costs all reflect the net effect of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the Company's acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance arises from contracts under which other insurance companies agreed to share certain risks with this Company.

Reinsurance accounting is followed when risk transfer requirements have been met and significant insurance risk is transferred.

Reinsurance does not isolate the Company from its obligations to policyholders. In the event a reinsurer fails to meet their obligations the Company's obligations remain.

The Company regularly evaluates the financial condition of its reinsurers and monitors the concentration of credit risk to minimize its exposure to financial loss from reinsurers' insolvency. Where it is considered required, appropriate provision is made for balances deemed irrecoverable from reinsurers.

Insurance Reserves

Insurance reserves are established for the total unpaid cost of claims and LAE, which cover events that have occurred by the balance sheet date. These reserves also reflect the Company's estimates of the total cost of claims incurred but not yet reported to it ('IBNR'). Claim reserves are reduced for estimated amounts of salvage and subrogation recoveries. Estimated amounts recoverable from reinsurers on unpaid losses and LAE are reflected as assets.

For reported claims, reserves are established on a case-by-case basis within the parameters of coverage provided in the insurance policy or reinsurance agreement. For IBNR claims, reserves are estimated using established actuarial methods. Both case and IBNR reserve estimates consider such variables as past loss experience, changes in legislative conditions, changes in judicial interpretation of legal liability policy coverages, and inflation.

Because many of the coverages underwritten involve claims that may not be ultimately settled for many years after they are incurred, subjective judgments as to the ultimate exposure to losses are an integral and necessary component of the loss reserving process. Reserves are established by the selection of a 'best estimate' from within a range of estimates. The Company regularly reviews its reserves, using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and prevailing economic, social and legal factors. Reserves established in prior periods are adjusted as claim experience develops and new information becomes available.

Adjustments to previously estimated reserves are reflected in the financial results of the period in which the adjustments are made.

Whilst the reported reserves make a reasonable provision for unpaid claim and LAE obligations, it should be noted that the process of estimating required reserves does, by its very nature, involve considerable uncertainty. The level of uncertainty can be influenced by factors such as the existence of coverage with long duration payment patterns and changes in claims handling practices, as well as the factors noted above.

Notes to the Consolidated Financial Statements

Ultimate actual payments for claims and LAE could turn out to be significantly different from our estimates.

Policy Acquisition Expenses

The costs directly related to writing an insurance policy are referred to as policy acquisition expenses and consist of commissions, premium taxes and other direct underwriting expenses, primarily underwriters' salaries. Although these expenses are incurred when a policy is issued they are deferred and amortized over the same period as the corresponding premiums are recorded as revenues.

On a regular basis a recoverability analysis is performed of the deferred policy acquisition costs in relation to the expected recognition of revenues, including anticipated investment income, and reflect adjustments, if any, as period costs. Should the analysis indicate that the acquisition costs are unrecoverable, further analyses are performed to determine if a reserve is required to provide for losses which may exceed the related unearned premium.

Accounting for Investments

Fixed Income Maturities

The fixed maturity portfolio comprises high-quality, corporate bonds and US, UK and other government securities. The entire fixed maturity investment portfolio is classified as available for sale. Accordingly, that portfolio is carried on the consolidated balance sheet at estimated fair value. Fair values are based on quoted market prices from a third-party pricing service.

Mortgage and Asset-Backed Securities

The mortgage and assets backed security portfolio is classified as available for sale. Accordingly, that portfolio is carried on the consolidated balance sheet at estimated fair value. Fair values are based on quoted market prices from a third party pricing service.

Short-Term Investments

Short-term investments include highly liquid debt instruments and commercial paper and are held as part of the investment portfolio of the Company.

Realized Investment Gains and Losses

The cost of each individual investment is recorded so that when an investment is sold the resulting gain or loss can be identified and recorded in the statement of operations.

Unrealized Gains or Losses on Investments

For investments carried at estimated fair value, the difference between amortized cost and fair value, net of deferred taxes, is recorded as part of shareholders' equity. This difference is referred to as unrealized gains or losses on investments. The change in unrealized gains or losses, net of taxes, during the year is a component of other comprehensive income.

Other than Temporary Impairment of Investments

The difference between the cost and the estimated fair market value of all investments is monitored to determine whether any investment has experienced a decline in value that is believed to be other than temporary. This assessment considers factors such as the period during which there has been a decline in value, the type of investment, the period over which the investment will be held and the potential for the investment value to recover. If the Company determines that the impairment is other than temporary, the value of the investment is written down and the loss is recorded in the statement of operations as a realized investment loss.

Notes to the Consolidated Financial Statements

Investment Income

Investment income is recognized when earned and includes income together with amortization of premium and accretion of discount on fixed maturity investments.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and with banks.

Derivative Financial Instruments

In accordance with Statement of Financial Accounting Standards ('SFAS') No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' all derivatives are recorded on the consolidated balance sheet at fair value. The accounting for the gain or loss due to the changes in the fair value of these instruments is dependent on whether the derivative qualifies as a hedge. If the derivative does not qualify as a hedge, the gains or losses are reported in earnings when they occur. If the derivative does qualify as a hedge, the accounting varies based on the type of risk being hedged (as described in Note 5).

Intangible Assets

Acquired insurance licenses are held in the consolidated balance sheet at cost. This intangible asset is not currently being amortized as the directors believe that these will have an indefinite life.

On April 5, 2005 we acquired license to use the 'Aspen' trademark in the UK. The consideration paid of approximately US$1.6 million has been capitalized and recognized as an intangible asset in the Company's accounts and will be amortized on a straight line basis over the useful economic life of the trademark which is considered to be 99 years.

The directors test for impairment of intangible assets annually or when events or changes in circumstances indicate that the asset might be impaired.

Office Properties and Equipment

Office equipment is carried at depreciated cost. These assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Computer equipment and software is depreciated over three years with depreciation for software commencing on the date the software is brought into use. Leasehold improvements, furniture and fittings are depreciated over four years.

Foreign Currency Translation

The reporting currency of the Company is the US Dollar. The functional currencies of the Company's operations are US Dollars for the US and Bermudian companies and US Dollars and British Pounds for Aspen Re. Transactions in currencies other than the functional currency of a company are measured in the functional currency of that operations segment at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are remeasured at the exchange rate prevailing at the balance sheet date. Any resulting foreign exchange gains or losses are reflected in the statement of operations.

Assets and liabilities of Aspen Re British Pound functional currency operations are then translated into US Dollars at the exchange rate prevailing at the balance sheet date. Income and expenses of this operations segment are translated at the average exchange rate for the period. 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 year, net of tax, is a component of other comprehensive income.

Earnings Per Share

Basic earnings per share is determined by dividing income/loss available to shareholders by the weighted average number of ordinary shares

Notes to the Consolidated Financial Statements

outstanding during the period. Diluted earnings per share reflects the effect on earnings and average number of shares outstanding associated with dilutive securities.

Income Tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When the Company does not believe that, on the basis of available information, it is more likely than not that the deferred tax asset will be recovered, it recognizes a valuation allowance against its deferred tax assets. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Perpetual Preferred Income Equity Replacement Securities

On December 12, 2005, the Company issued a new class of Preference Shares which we refer to as Perpetual Preferred Income Equity Replacement Securities ('Perpetual PIERS'). The Company has no obligation to pay interest on these securities but they do carry an entitlement to dividends payable at the discretion of the Board of Directors. The Perpetual PIERS are therefore accounted for as equity instruments and included within total shareholders' equity.

Stock-Based Employee Compensation

The Company operates a share and option-based employee compensation plan, the terms and conditions of which are documented in note 12. The Company has adopted the provisions of SFAS 123, 'Accounting for Stock-Based Compensation' for all awards granted to its employees. The cost of the options, based on their fair value at date of grant, is recognized over the period that the options vest.

Related Party Transactions

The following summarizes the related party transactions of the Company.

Wellington Underwriting plc ('Wellington')

Wellington Investment Holdings (Jersey) Limited ('Wellington Investment'), an affiliate of Wellington, held at December 31, 2005 approximately 4.0% (16.2% at December 31, 2004) of the ordinary shares of Aspen Holdings and was represented on the Board of Directors of Aspen Holdings. In addition, Wellington Investment holds 3,781,120 options to subscribe for ordinary shares of Aspen Holdings, as noted below and in note 12. On December 12, 2005, Wellington Investment sold 6,000,000 ordinary shares in Aspen Insurance Holdings Limited in a public share offering.

Aspen Re had a number of arrangements with Wellington. These arrangements can be summarized as follows:

Quota Share Arrangements

For 2003, the Company entered into a 7.5% quota share agreement directly with the Society of Lloyd's Syndicate 2020 ('Syndicate 2020'). The written premiums for 2003 under this contract were US$78.4 million. The Company had an option, but no contractual obligation, to assume up to a 20% quota share of Syndicate 2020's business for subsequent years, while Syndicate 2020 had an option, but no contractual obligation, to assume up to a 20% quota share of Aspen Re's business for subsequent years. These options were not exercised in 2004 or 2005 and have now lapsed.

Provision of Services

In 2002 the Company entered into a contract for the provision of services by a subsidiary company of Wellington to the Company.

These services include accounting, actuarial, operations, risk management and technical support. This agreement was perpetual but could be terminated by either party upon the occurrence of certain circumstances, such as the inability to pay debts or upon an Initial Public Offering, and, after an initial period of three years, may be terminated by either party upon 18 months' prior notice. The Company can also terminate specific services if it undertakes those services itself and does not contract those services to a third party. During 2003 the Company took over responsibility for accounting, actuarial, operations and risk management services. The provision of services under the service agreement has therefore reduced to IT technical support for 2004 and 2005. The provision of these services is covered by a detailed service level agreement and is priced on an actual cost basis. The cost of these services in 2005 was US$5.2 million (in 2004: US$7.1 million and in 2003: US$6.6 million), and the amount due to Wellington at December 31, 2005 was US$2.3 million (2004: US$2.1 million).

Wellington Options

As disclosed in note 12, the Company granted options to subscribe to its shares to Wellington and to a trust established for the benefit of the unaligned members of Syndicate 2020 in consideration for the transfer of an underwriting team from Wellington, the right to seek to renew certain business written by Syndicate 2020, an agreement in which Wellington agrees not to compete with Aspen Re through March 31, 2004, the use of the Wellington name and logo and the provision of certain outsourced services to the Company. These options have been recorded at a value of nil, equal to the transferor's historical cost basis of the assets transferred to the Company.

Shares Issued to Employees

Shares in Aspen Holdings have been issued to the employees of Aspen Holdings and its subsidiaries in the period. These amounts and the consideration received by the Company are disclosed in note 9.

Montpelier Re Holdings Limited

A subsidiary of Aspen Holdings entered into a multi-year proportional reinsurance contracts with effect from January 1, 2003 with a subsidiary of Montpelier Re Holdings Limited ('Montpelier Re'). In addition, Montpelier Re participated on a number of layers of our 2005 outward reinsurance program. Reinsurance premiums ceded under these contracts in the twelve months ended December 31, 2005 were US$37.9 million (2004 - US$36.9 million, 2003 - US$66.0 million). The amount payable by the Company in respect of these transactions was US$66.6 million as at December 31, 2005, (US$41.2 million - 2004, US$49.3 million - 2003). These arrangements were not renewed for 2006.

Montpelier Re owned approximately 6% and nil% of the issued share capital of Aspen Holdings as of December 31, 2004 and December 31, 2005, respectively.

Notes to the Consolidated Financial Statements

2. Earnings Per Ordinary Share

For the 12 Months Ended December 31, 2005, 2004, and 2003

Earnings	**12 Months Ended December 31, 2005 US$m**	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Basic:			
Net Income/(Loss) as reported and available to ordinary shareholders	(177.8)	195.1	152.1
Diluted:			
Net Income/(Loss) as reported and available to ordinary shareholders	(177.8)	195.1	152.1
Ordinary Shares	**No.**	No.	No.
Basic:			
Weighted average ordinary shares	74,020,302	69,204,658	57,751,852
Diluted:			
Weighted average ordinary shares	74,020,302	69,204,658	57,751,852
Weighted average effect of dilutive securities	-	1,916,910	1,739,908
Total	**74,020,302**	**71,121,568**	**59,491,760**
Earnings/(Loss) Per Ordinary Share	**US$**	US$	US$
Basic	(2.40)	2.82	2.63
Diluted	(2.40)	2.74	2.56

The basic and diluted earnings per share for 2005 are the same, as the inclusion of dilutive securities in a loss making year would be anti-dilutive.

Notes to the Consolidated Financial Statements

3. Investments

The following presents the cost, gross unrealized gains and losses, and estimated fair value of investments in fixed maturities and other investments.

As at December 31, 2005

Investment (excluding cash)	Cost or Amortized Cost US$m	Gross Unrealized Gains US$m	Gross Unrealized Losses US$m	Estimated Fair Value US$m
Fixed income investments:				
US government securities	1,249.0	0.7	(21.7)	1,228.0
US government agency securities	138.0	-	(2.2)	135.8
Corporate securities	861.4	1.0	(10.1)	852.3
Foreign government	268.8	2.0	(0.3)	270.5
Municipals	3.6	-	-	3.6
Asset-backed securities	208.2	-	(4.0)	204.2
Mortgage-backed securities	356.7	0.3	(5.3)	351.7
Total fixed income	3,085.7	4.0	(43.6)	3,046.1
Short-term investments	643.5	1.0	(1.5)	643.0
Total	**3,729.2**	**5.0**	**(45.1)**	**3,689.1**

As at December 31, 2004

Investment (excluding cash)	Cost or Amortized Cost US$m	Gross Unrealized Gains US$m	Gross Unrealized Losses US$m	Estimated Fair Value US$m
Fixed income investments:				
US government securities	880.0	0.5	(5.4)	875.1
US government agency securities	137.5	0.2	(0.5)	137.2
Corporate securities	551.6	0.7	(3.1)	549.2
Foreign government	233.0	1.5	(0.3)	234.2
Municipals	3.6	-	-	3.6
Asset-backed securities	225.0	-	(2.1)	222.9
Mortgage-backed securities	185.6	0.1	(0.7)	185.0
Total fixed income	2,216.3	3.0	(12.1)	2,207.2
Short-term investments	528.5	0.8	(0.6)	528.7
Total	**2,744.8**	**3.8**	**(12.7)**	**2,735.9**

Notes to the Consolidated Financial Statements

3. Investments (continued)

The following table summarizes, for all securities in an unrealized loss position at December 31, 2005, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position.

	0-12 Months		Over 12 Months		Total	
	Fair Value US$m	Gross Unrealized Loss US$m	Fair Value US$m	Gross Unrealized Loss US$m	Fair Value US$m	Gross Unrealized Loss US$m
US government and agency securities	252.1	(4.4)	916.8	(19.6)	1,168.9	(24.0)
Corporate securities	475.5	(3.1)	626.2	(8.4)	1,101.7	(11.5)
Mortgage and asset-backed securities	218.3	(3.6)	299.9	(5.6)	518.2	(9.2)
Foreign government	-	-	273.7	(0.4)	273.7	(0.4)
Total	**945.9**	**(11.1)**	**2,116.6**	**(34.0)**	**3,062.5**	**(45.1)**

The Company believes that the gross unrealized losses are the result of interest rate movements and intends to hold such investments until the carrying value is recovered. As a result the Company has not recorded any other-than-temporary impairments in 2005 and 2004.

The following table presents the breakdown of investment maturities by year to stated maturity. Actual maturities may differ from those stated as a result of calls and prepayments.

	As at December 31, 2005			As at December 31, 2004		
Maturity and Ratings (excluding cash)	Amortized Cost US$m	Fair Market Value US$m	Average Ratings by Maturity	Amortized Cost US$m	Fair market Value US$m	Average Ratings by Maturity
Due in one year or less	121.3	121.0	AA-	107.3	106.9	AAA
Due after one year through five years	1,843.9	1,818.4	AAA	1,662.8	1,656.6	AAA
Due after five years through ten years	555.6	550.8	AA+	35.6	35.8	AA+
Subtotal	2,520.8	2,490.2		1,805.7	1,799.3	
Mortgage and asset-backed securities	564.9	555.9	AAA	410.6	407.9	AAA
Short-term investments	643.5	643.0	AAA	528.5	528.7	AAA
Total	**3,729.2**	**3,689.1**		**2,744.8**	**2,735.9**	

Notes to the Consolidated Financial Statements

4. Investment Transactions

The following table sets out an analysis of investment purchases sales and maturities.

	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Purchase of fixed maturity investments	3,292.2	5,220.4	1,903.3
Proceeds from sales and maturities of fixed maturity investments	(2,364.6)	(4,060.6)	(943.5)
Net purchases/(sales) of short-term investments	114.2	(55.5)	(263.4)
Net Purchases	**1,041.8**	**1,104.3**	**696.4**

The following is a summary of investment income.

	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Fixed maturities	96.2	46.0	16.7
Short-term investments	25.1	22.3	12.9
Net Investment Income	**121.3**	**68.3**	**29.6**

Included in net investment income are investment management fees of US$3.6 million for the twelve months ended December 31, 2005, US$1.8 million for the twelve months ended December 31, 2004 and US$0.3 million for the twelve months ended December 31, 2003.

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

Pre-Tax Realized Investment Gains and Losses	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Short-term investments and fixed maturities:			
■ Gross realized gains	4.5	2.8	0.6
■ Gross realized losses	(8.9)	(6.3)	(3.0)
Total Pre-Tax Realized Investment Gains and Losses	**(4.4)**	**(3.5)**	**(2.4)**
Change in Unrealized Gains and Losses			
Fixed maturities	(30.5)	(8.4)	(0.5)
Short-term investments	(0.7)	0.1	(0.9)
Total change in pre-tax unrealized gains and losses	(31.2)	(8.3)	(1.4)
Change in taxes	6.7	1.1	0.2
Total Change in Unrealized Gains and Losses, Net of Tax	**(24.5)**	**(7.2)**	**(1.2)**

Notes to the Consolidated Financial Statements

5. Derivative Financial Instruments

Derivative financial instruments include futures, forward, swap and option contracts and other financial instruments with similar characteristics.

Catastrophe Swap

On August 17, 2004, Aspen Bermuda entered into a risk transfer swap ('cat swap') with a non-insurance counterparty. The cat swap is for a three-year term during which Aspen Bermuda will make 'quarterly payments' or spread, applied to an initial notional amount (US$100 million). In return Aspen Bermuda will receive payments of up to US$100 million in total if there are hurricanes making landfall in Florida and causing damage in excess of US$39 billion or earthquakes in California causing insured damage in excess of US$23 billion.

This cat swap falls within the scope of SFAS 133 'Accounting for Derivative Instruments and Hedging Activities', as amended ('SFAS 133') and is therefore measured in the balance sheet at fair value with any changes in the fair value shown on the consolidated statement of operations.

The determination of whether or not we are entitled to a recovery depends on estimates of insured damage published by Property Claims Services ('PCS'). The amount of any recovery due increases on a linear basis from US$0 to US$100 million depending on the PCS estimate with the full amount of US$100 million receivable at or above US$47 billion for a hurricane event or US$29 billion for an earthquake event. If a recovery becomes due then the future payments under the contract may be reduced. As we provided in full for these future payments when the contract commenced any actual or projected reduction in this liability is also reflected as a gain in the statement of operations. The latest estimate of the insured loss arising from Hurricane Katrina published by PCS on December 6, 2005 was US$38.1 billion. Based on the record of increasing PCS estimates following previous natural catastrophe losses in the United States, we expect that future estimates by PCS of this loss will increase. We have taken this and the illiquid nature of the catastrophe risk transfer swap market into account in our valuation of this contract as at December 31, 2005. As there is no quoted market value available for this derivative, the fair value is determined by management using internal models taking into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The amount recognized could be materially different from the amount realized in actual payments to us made under the contract.

Interest Rate Swap

On July 7, 2004 the Company entered into a forward starting interest rate swap ('swap'). The swap was designated as a cash flow hedge of a forecast transaction as it was intended to hedge against the variability of the Company's interest payments under the Company's then proposed debt issuance which was completed in August 2004.

The swap falls within the scope of SFAS 133 and was measured at fair value with changes to fair value being included in other comprehensive income as hedge accounting was appropriate and there was no ineffective portion.

The swap was unwound as the Company issued the 10-year notes in August 2004. The realized loss of US$2.3 million recorded in accumulated other comprehensive income will be reclassified to earnings as interest expense using the level yield method over the term of the debt. In the twelve months ended December 31, 2005, US$0.2 million was reclassified to earnings and in the twelve months ended December 31, 2004 US$0.1 million was reclassified to earnings.

Notes to the Consolidated Financial Statements

6. 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 December 31, 2005, 2004, and 2003.

Reserves for Losses and Loss Adjustment Expenses	December 31, 2005 US$m	December 31, 2004 US$m	December 31, 2003 US$m
Provision for losses and LAE at start of year	1,277.9	525.8	93.9
Less reinsurance recoverable	(197.7)	(43.6)	(12.5)
Net Loss and LAE at Start of Year	**1,080.2**	**482.2**	**81.4**
Loss reserve portfolio transfer	26.2	-	-
Losses and LAE reserves of subsidiary at date of acquisition	-	-	22.4
Less reinsurance recoverable	-	-	(15.9)
Net Loss and LAE Reserves of Subsidiary at Date of Acquisition	**-**	**-**	**6.5**
Provision for losses and LAE for claims incurred:			
Current year	1,409.1	785.6	438.0
Prior years	(50.6)	(62.0)	(9.6)
Total Incurred	**1,358.5**	**723.6**	**428.4**
Losses and LAE payments for claims incurred:			
Current year	(152.2)	(76.6)	(44.9)
Prior years	(399.7)	(88.0)	(9.0)
Total Paid	**(551.9)**	**(164.6)**	**(53.9)**
Foreign exchange (gains)/losses	(64.1)	39.0	19.8
Net losses and LAE reserves at period end	1,848.9	1,080.2	482.2
Plus reinsurance recoverables on unpaid losses at end of period	1,192.7	197.7	43.6
Loss and LAE Reserves at December 31, 2005, 2004 and 2003	**3,041.6**	**1,277.9**	**525.8**

For the twelve months ended December 31, 2005, there was a reduction of US$50.6 million in our estimate of the ultimate claims to be paid in respect of prior accident years which is discussed in more detail in 'Management's Discussion and Analysis of Financial Condition and Results of Operations.'

The loss reserve portfolio transfer represents loss reserves assumed from Wellington Underwriting Agencies Limited's Syndicate 2020 through a quota share arrangement relating to the proportion of an account which did not already cede to us in previous quota shares. The portfolio transfer represents the provisions maintained by Syndicate 2020 for UK employers' liability and public liability business written into the 2002 underwriting year by the liability insurance underwriters who joined the Company prior to the establishment of Aspen Re.

Notes to the Consolidated Financial Statements

7. Income Taxes

Aspen Holdings and Aspen Bermuda are incorporated under the laws of Bermuda. Under current Bermudian law, they are not taxed on any Bermuda income or capital gains taxes and they have received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains being imposed, they will be exempt from those taxes until 2016. The Company's US operating companies are subject to United States corporate tax at a rate of the 35 percent. Under current United Kingdom law, Aspen Re is taxed at the UK corporate tax rate of 30 percent.

Total income tax for the twelve months ended December 31, 2005, December 31, 2004 and December 31, 2003 is allocated as follows:

	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Result from operations	17.4	68.1	54.5
Other comprehensive income/(loss)	(6.7)	(4.6)	3.3
Total Income Tax	**10.7**	**63.5**	**57.8**

Income/(loss) before tax and income tax expense attributable to that income consists of:

			12 Months Ended December 31, 2005	
	Income Before Tax US$m	**Current Income Taxes US$m**	**Deferred Income Taxes US$m**	**Total Income Taxes US$m**
US	5.1	(1.1)	2.0	0.9
Non-US	(165.5)	12.3	4.2	16.5
Total	**(160.4)**	**11.2**	**6.2**	**17.4**

			12 Months Ended December 31, 2004	
	Income Before Tax US$m	Current Income Taxes US$m	Deferred Income Taxes US$m	Total Income Taxes US$m
US	(5.9)	-	(1.3)	(1.3)
Non-US	269.1	61.6	7.8	69.4
Total	**263.2**	**61.6**	**6.5**	**68.1**

			12 Months Ended December 31, 2003	
	Income Before Tax US$m	Current Income Taxes US$m	Deferred Income Taxes US$m	Total Income Taxes US$m
US	(2.1)	-	(0.7)	(0.7)
Non-US	208.7	42.8	12.4	55.2
Total	**206.6**	**42.8**	**11.7**	**54.5**

Notes to the Consolidated Financial Statements

The weighted average expected tax provision has been calculated using the pre-tax accounting income/loss in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The reconciliation between the provision for income taxes and the expected tax at the weighted average rate provision is provided below.

Income Tax Reconciliation	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Expected tax provision at weighted average rate	9.7	62.6	56.5
Prior year adjustment	8.2	3.6	(0.3)
Other	(0.5)	1.9	(1.7)
Total Income Tax Expense	**17.4**	**68.1**	**54.5**

The prior year tax charge results from additional tax payable following the closure of the 2002 and 2003 Aspen Re tax computations and primarily as a result of adjustments to the 2004 intra group commission charged between Aspen Bermuda and Aspen Re.

8. Deferred Taxation

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are presented in the following table.

Deferred Tax Liabilities	As at December 31, 2005 US$m	As at December 31, 2004 US$m
Insurance reserves	(36.2)	(29.1)
Intangible assets	(0.6)	(0.6)
Deferred policy acquisition costs	(3.3)	(2.6)
Deferred Tax Liabilities	**(40.1)**	**(32.3)**
Deferred Tax Assets		
Share options	3.4	2.7
Operating loss carry forward	-	2.0
Unrealized losses on investments	1.2	-
Insurance reserves	5.3	2.6
Deferred Tax Assets	**9.9**	**7.3**
Disclosed as:		
Other receivables	2.5	2.0
Deferred income taxes	(32.7)	(27.0)
Net Deferred Tax Liability	**(30.2)**	**(25.0)**

Notes to the Consolidated Financial Statements

8. Deferred Taxation (continued)

Deferred tax liabilities and assets represent the tax effect of temporary differences between the value of assets and liabilities for financial statement purposes and such values as measured by UK and US tax laws and regulations. Deferred tax assets and liabilities from the same tax jurisdiction have been netted off resulting in assets and liabilities being recorded under the other receivable and deferred income taxes captions on the balance sheet.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and operating losses become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At December 31, 2004, the Company had net operating loss carryforwards for US Federal income tax purposes of US$5.7 million which were available to offset future US Federal taxable income. In 2005 these losses were fully utilized against profits reported by Aspen Specialty.

9. Capital Structure

The Company's authorized and issued share capital at December 31, 2005 was as set out below.

Authorized Share Capital	**No.**	**US$000**
Authorized share capital:		
Ordinary shares 0.15144558¢ per share	969,629,030	1,469
Non-voting shares 0.15144558¢ per share	6,787,880	10
Preference shares 0.15144558¢ per share	100,000,000	152
Issued share capital:		
Issued ordinary shares of 0.15144558¢ per share	95,209,008	144
Additional paid-in capital	-	1,676,930
Share-Based Compensation		16,180
Issued Ordinary Shares	95,209,008	1,693,254
Issued Preference Shares (Perpetual PIERS)	4,000,000	193,800
		1,887,054

Notes to the Consolidated Financial Statements

Ordinary Shares

During 2003, the Company issued 12,302,943 ordinary shares. On February 11, 2003, 43,420 ordinary shares were issued to employees of the Company and its subsidiaries for a total consideration of US$707,746. On August 13, 2003, the Company issued 4,340 ordinary shares to employees of the Company and its subsidiaries for a total consideration of US$67,461. On December 9 and 17, 2003, the Company issued 126,706 and 25,877 ordinary shares respectively to Appleby Trust (Bermuda) Limited, formerly Harrington Trust Limited (the 'Names' Trustee') in connection with the exercise of share options. The total consideration for these shares was US$1,622,591. On December 12, 2003, the Company completed an initial public offering of 12,102,600 ordinary shares for an aggregate consideration of US$244.0 million, net of US$28.3 million issuing expenses. The net proceeds of the offering were used to provide initial or additional capital to our subsidiaries and to repay a portion of our revolving credit facility.

During 2004, the Company issued 135,796 ordinary shares. On March 11, 2004, we repurchased 5,000 ordinary shares from one of our previous employees. On October 15, 2004, we issued 135,321 ordinary shares to the Names' Trustee in connection with the exercise of Investor Options. On October 31,2004, we issued 5,475 ordinary shares to a previous employee who exercised his vested options.

During 2005, the Company issued 25,893,909 ordinary shares. On March 14, 2005, and March 31, 2005, the Company issued 14,172 and 660 shares respectively to two of our previous employees. On July 1, 2005, we issued 12,555 ordinary shares to employees in connection with the conversion of RSUs.

On October 11, 2005 we issued 17,551,558 ordinary shares through a public offering. On October 17, 2005, November 15, 2005 and December 15, 2005, we issued 40,381, 11,194 and 5,407 respectively to the Names' Trustee in connection with the exercise of Investor Options.

On December 12, 2005 we issued 8,333,333 shares through a public offering.

On December 28, 2005 we repurchased 75,805 ordinary shares from the Names' Trustee for US$1.9 million. The shares were cancelled after the repurchase.

Preference Shares

During 2005, the Company also issued 4,000,000 Perpetual Preferred Income Equity Replacement Securities ('Perpetual PIERS'), Each Perpetual PIERS has a liquidation preference of US$50 and will receive dividends on a non-cumulative basis only when declared by our Board of Directors at an annual rate of 5.625% of the US$50 Liquidation Preference of each Perpetual PIERS. Each Perpetual PIERS is convertible at the holder's option at any time, initially based on a conversion rate of 1.7077 ordinary shares per US$50 Liquidation Preference, into one Perpetual Preference share and a number of ordinary shares based on the average of twenty daily share prices of the ordinary Shares adjusted by the conversion rate. We raised proceeds of US$193.8 million net of total costs of US$6.2 million.

In January 2006 an additional 600,000 Perpetual PIERS were issued following the exercise of an over-allotment option by the underwriters of the initial Perpetual PIERS issue.

Notes to the Consolidated Financial Statements

10. Statutory Requirements and Dividends Restrictions

As a holding company, Aspen Holdings relies on dividends from its insurance subsidiaries to provide cash flow to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends, if any, to our shareholders. The Company's insurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, including Bermuda, the United Kingdom and the United States, and are subject to regulatory restrictions, the failure to comply with which could significantly limit their ability to declare and pay dividends.

Aspen Bermuda's ability to pay dividends and make capital distributions is subject to certain regulatory restrictions based principally on the amount of Aspen Bermuda's premiums written and net reserves for losses and loss expenses.

Under the jurisdiction of the Financial Services Authority ('FSA'), Aspen Re must maintain a margin of solvency at all times, which is determined based on the type and amount of insurance business written. The UK regulatory requirements impose no explicit restrictions on Aspen Re's ability to pay a dividend, but Aspen Re would have to notify the FSA 28 days prior to any proposed dividend payment.

Aspen Specialty is subject to regulation by the State of North Dakota Insurance Department regarding payment of dividends and capital distributions.

Statutory capital and surplus as reported to the relevant regulatory authorities for the principal operating subsidiaries of the Company as of December 31, 2005 is as follows:

	US US$m	Bermuda US$m	UK US$m
Required statutory capital and surplus	14.5	340.6	202.1
Actual statutory capital and surplus	113.4	957.1	886.4

As of December 31, 2005, there are no statutory restrictions on the payment of dividends from retained earnings by the Company as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of the Company in all jurisdictions.

11. Retirement Plans

The Company operates defined contribution retirement plans for the majority of its employees at varying rates of their salaries, up to a maximum of 20%. Total contributions by the Company to the retirement plan were US$3.4 million in the twelve months ended December 31, 2005, US$2.2 million in the twelve months ended December 31, 2004 and US$1.4 million in the twelve months ended December 31, 2003.

Notes to the Consolidated Financial Statements

12. Share Options and Other Equity Incentives

The Company has issued options under two schemes: investor options and employee options.

Investor Options

The investor options were issued on June 21, 2002 in consideration for the transfer of an underwriting team from Wellington, the right to seek to renew certain business written by Syndicate 2020, an agreement in which Wellington agrees not to compete with Aspen Re through March 31, 2004, the use of the Wellington name and logo and the provision of certain outsourced services to the Company, and confer the option to subscribe for up to 6,787,880 ordinary shares of Aspen Holdings to Wellington and members of Syndicate 2020 who are not corporate members of Wellington. 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. The options were exercisable on the initial public offering of the ordinary shares in the United States on December 3, 2003. If not exercised, the options will expire after a period of ten years.

In connection with our initial public offering, the Names' Trustee exercised 440,144 Names' Options on both a cash and cashless basis, pursuant to which 152,583 ordinary shares were issued. On October 15, 2004, the Names' Trustee exercised 856,218 Names' Options on both a cash and cashless basis pursuant to which 135,321 ordinary shares were issued. In the twelve months ended December 31, 2005, the Names' Trustee exercised a total of 303,321 options on a cash and cashless basis, pursuant to which 56,982 ordinary shares were issued. At December 31, 2005 the Names' Trustee held 1,407,077 Names' Options.

Notes to the Consolidated Financial Statements

The following table summarizes information about investor options outstanding at December 31, 2005, 2004 and 2003 to purchase ordinary shares.

	Options		12 Months Ended December 31, 2005	
Option Holder	Outstanding	Exercisable	Price(1)	Expirations
Wellington Investment	3,781,120	3,781,120	£10	June 21, 2012
Names' Trustee	1,407,077	1,407,077	£10	June 21, 2012
	5,188,197	**5,188,197**		

	Options		12 Months Ended December 31, 2004	
Option Holder	Outstanding	Exercisable	Price(1)	Expirations
Wellington Investment	3,781,120	3,781,120	£10	June 21, 2012
Names' Trustee	1,710,398	1,710,398	£10	June 21, 2012
	5,491,518	**5,491,518**		

	Options		12 Months Ended December 31, 2003	
Option Holder	Outstanding	Exercisable	Price(1)	Expirations
Wellington Investment	3,781,120	3,781,120	£10	June 21, 2012
Names' Trustee	2,566,616	2,566,616	£10	June 21, 2012
	6,347,736	**6,347,736**		

(1) To be increased by 5% per annum from June 21, 2002 to date of exercise, less the amount of any prior dividend or distribution per share.

Notes to the Consolidated Financial Statements

Employee Options

Employee options and other awards are granted under the Aspen 2003 Share Incentive Plan, as amended (the 'Share Incentive Plan'). The following table summarizes information about employee options outstanding to purchase ordinary shares at December 31, 2005. The 2005 options were granted on March 3, 2005, April 15, 2005 and June 15, 2005.

	Options			
Option Holder	Outstanding	Exercisable	Exercise Price US$	Weighted Average Fair Value at Grant Date US$
Employees - 2003 Options	3,718,026	2,454,241	16.20	5.31
Employees - 2004 Option grants	257,487	85,829	24.44	5.74
Employees - 2005 Options grants March 3	512,172		25.88	5.31
Employees - 2005 Options grants April 15	11,867		25.28	5.05
Employees - 2005 Options grants June 15	1,842		26.46	5.50

The Company follows SFAS No. 123, 'Accounting for Stock Based Compensation,' which sets out the method of accounting for share-based compensation plans. The Company has also assessed the impact of adopting SFAS No. 123R 'Share-Based Payment' and considers the impact of implementing the standard not to be significant.

On August 20, 2003 the Company granted 3,884,030 options to employees under the Aspen Insurance Holdings Limited 2003 Share Incentive Plan (the 'Share Incentive Plan'). The initial grant options have a term of ten years and an exercise price of US$16.20 per share. Sixty-five percent of the initial grant options are subject to time-based vesting with 20% vesting upon grant and 20% vesting on each December 31 of the calendar years 2003, 2004, 2005 and 2006. The remaining 35% of the initial grant options are subject to performance-based vesting. Of the initial grant options, 145,696 were forfeited by employees who left the Company and 20,307 were exercised as follows: On October 31, 2004, upon receipt of US$88,695, 5,475 options were converted to ordinary shares. On March 14, 2005, upon receipt of US$229,602, 14,172 options were converted to ordinary shares. On March 31, 2005 an additional 660 options were converted, on a cashless basis, to 660 ordinary shares. When options are converted new shares are issued as the Company does not hold treasury shares. In addition to the initial grant of 3,884,030 options, 500,113 options, 95,850 restricted share units and 150,074 performance share awards were granted during the course of 2004 and in 2005, 525,881 options, 48,913 restricted share units and 131,227 performance shares. The 2004 options vest over a three-year period with vesting subject to the achievement of Company performance targets. The options lapse if the criteria are not met. As at December 31, 2004 not all performance targets were met and 242,626 options were cancelled. The 2005 options vest over a three-year period with vesting subject to the achievement of performance targets. The options lapse if the criteria are not met. As at December 31, 2005 the performance targets were not met and all 525,881 options were cancelled.

Compensation cost charged against income for 2003 employee options was US$2.5 million for the twelve months ended December 31, 2005 (2004 - US$3.2 million). The per share weighted average fair value at grant date of the share options granted under the Share Incentive Plan is US$5.31. This amount was estimated on the date of the grant using a modified Black-Scholes option pricing model under the following assumptions: risk-free interest rate of 4.70%; dividend yield of 0.6%; expected life of seven years; share price volatility of zero (as the minimum value method was utilized because the Company was unlisted on the date that the options were issued); and foreign currency volatility of 9.40% (as the exercise price was in British Pounds and the share price of the

Notes to the Consolidated Financial Statements

Company is in US Dollars). A further US$6.7 million charge for 2003 options will be recognized by December 31, 2009.

Compensation cost charged against income for 2004 option grants was US$0.5 million for the twelve months ended December 31, 2005 (2004 - US$0.5 million).

A further US$0.5 million charge for 2004 options will be recognized in the twelve months that will end on December 31, 2006. The per share weighted average fair value at grant date of the share options granted under the Share Incentive Plan is US$5.74. This amount was estimated on the date of the grant using a modified Black-Scholes option pricing model under the following assumptions: risk-free interest rate of 3.57%; dividend yield of 0.5%; expected life of 5 years; and share price volatility of 19.68% (share price volatility for this and subsequent option valuations was based on the quoted beta factors for the Company).

Compensation cost charged against income for 2005 option grants was US$nil million for the twelve months ended December 31, 2005, as performance targets were not met. The per share weighted average fair values at grant date of the share options granted under the Share Incentive Plan were US$5.31, US$5.05 and US$5.50. These amounts were estimated on the dates of the grant using a modified Black-Scholes option pricing model under the following assumptions:

	Grant Date		
	March 3, 2005	April 15, 2005	June 15, 2005
Risk free interest rate	4.00%	2.78%	3.12%
Dividend yield	2.3%	2.3%	2.3%
Expected life	5 years	5 years	5 years
Share price volatility	22.25%	24.45%	24.73%

The total tax benefit recognized by the Company in the twelve months ended December 31, 2005 was US$0.3 million.

Restricted Share Units

A total of 95,850 restricted share units were granted in 2004, and 48,913 in 2005, 37,666 of the share units granted in 2004 vest, subject to the participants continued employment, in tranches with one-third of the units vesting on each of December 31, 2004, December 31, 2005 and December 31, 2006. The remaining 58,184 units granted in 2004 vest in tranches with one-third vesting on the anniversary of the grant in 2005, 2006 and 2007. Out of the 48,913 units granted in 2005, 12,889 vest in tranches of one-third on the anniversary of the grant with 36,024 vesting in tranches of one-third on each of December 31, 2005, December 31, 2006 and December 31, 2007.

Vesting of a participant's units may be accelerated, however, if the participant's employment with the Company and its subsidiaries is terminated without cause (as defined in such participants' award agreement), or, with respect to one of the participants, by the participant with good reason (as defined in such participants' award agreement). Compensation cost charged against income was US$1.2 million for twelve months ended December 2005 and US$0.5 million for the twelve months ended December 2004.

Participants generally will not be entitled to any rights of a holder of ordinary shares, including the right to vote, unless and until their units vest and ordinary shares are issued; provided, however, that participants will be entitled to receive dividend equivalents with respect to their units. Dividend equivalents will be denominated in cash and paid in cash if and when the underlying units vest. Participants will be paid one ordinary share for each unit that vests as soon as practicable following the vesting date. Participants may, however, elect to defer the receipt of any ordinary shares upon the vesting of units, in which case payment will not be made until such time or times as the participant may elect. Payment of deferred share units would be in ordinary shares with any cash dividend equivalents credited with respect to such deferred share units paid in cash.

Notes to the Consolidated Financial Statements

Performance Shares

On December 22, 2004, 150,074 performance shares were granted under the Share Incentive Plan. The grant of shares is based on the achievement of company performance targets. As at December 31, 2004, all targets had not been met and 24,267 share grants were cancelled.

During 2005, 131,227 performance shares were granted under the Share Incentive Plan. The grant of shares is based on the achievement of company performance targets. As at December 31, 2005, all targets had not been met and 43,742 share grants were cancelled.

Due to writing back part of the accrual for the 2004 performance shares awards the compensation cost charged against income was US$(0.7) million for the twelve months ended December 31, 2005 and US$1.0 million for the twelve months ended December 31, 2004.

13. Intangible Assets

	As at December 31, 2005 US$m		As at December 31, 2004 US$m		As at December 31, 2003 US$m	
Intangible Assets	Trademark	Insurance Licenses	Trademark	Insurance Licenses	Trademark	Insurance Licenses
Beginning of year	-	6.6	-	6.6	-	2.0
Cost in year	1.6	-	-	-	-	4.6
End of Year	1.6	6.6	-	6.6	-	6.6
Impairments						
Beginning of year	-	-	-	-	-	-
Change in year	-	-	-	-	-	-
End of Year	-	-	-	-	-	-
Amortization						
Beginning of year	-	-	-	-	-	-
Change in year	-	-	-	-	-	-
End of Year	-	-	-	-	-	-
Net Book Value						
Beginning of year	-	6.6	-	6.6	-	2.0
Movement in year	1.6	-	-	-	-	4.6
End of Year	1.6	6.6	-	6.6	-	6.6

License to use the 'Aspen' Trademark. On April 5, 2005, Aspen signed an agreement with Aspen (Actuaries and Pension Consultants) Plc to acquire the right to use the Aspen trademark for a period of 99 years in the United Kingdom. The consideration paid was approximately US$1.6 million. The consideration paid has been capitalized and recognized as an intangible asset on the Company's balance sheet and will be amortized on a straight line basis over the useful economic life of the trademark which is considered to be 99 years.

Notes to the Consolidated Financial Statements

14. Commitments and Contingencies

We are obliged by the terms of our contractual obligations to US policyholders and by undertakings to certain US regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. Our current arrangements with our bankers for the issue of letters of credit require us to provide cash collateral for the full amount of all secured and undrawn letters of credit that are outstanding. We monitor the proportion of our otherwise liquid assets that are committed to trust funds or to the collateralization of letters of credit. As at December 31, 2005 and 2004, these funds amounted to approximately 32% of the US$4.4 billion and approximately 20% of the US$3.0 billion of cash and investments held by the Company, respectively. We do not consider that this unduly restricts our liquidity at this time.

In the normal course of business, letters of credit are issued as collateral on behalf of the business, as required within our reinsurance operations. As of December 31, 2005 and December 31, 2004, US Dollar denominated letters of credit with an aggregate amount of US$411.0 million and US$48.4 million respectively were outstanding. In addition UK sterling denominated letters of credit with an aggregate amount of £63.9 million as of December 2005 and £47.4 million as of December 2004 were outstanding. As at December 31, 2005 the Company had funds on deposit of US$121.3 million and £65.1 million (December 31, 2004 - US$54.5 million and £52.1 million) as collateral for the letters of credit. A US$400.0 million credit facility was established in 2005 to enable the Company to issue unsecured letters of credit and meet short-term funding requirements. The loan agreement is discussed in more detail in Note 19.

Under the framework agreement dated May 28, 2002 among Wellington and its affiliates, Aspen UK Services and Aspen Holdings, Aspen Re would need to provide a letter of credit with respect to any quota share reinsurance it provides to Syndicate 2020 if Aspen Re's insurer financial strength or similar rating is downgraded below 'A' by either S&P and A.M. Best or such lower rating (not being lower than 'A-') acceptable to Lloyd's from time to time.

For its US reinsurance activities, Aspen Re has established and must retain a multi-beneficiary US trust fund for the benefit of its US cedants so that they are able to take financial statement credit without the need to post cedent-specific security. The minimum trust fund amount is US$20 million plus a minimum amount equal to 100% of Aspen Re's US reinsurance liabilities, which were US$954.9 million at December 31, 2005 and US$385.6 million at December 31, 2004. At December 31, 2005 the total value of assets held in the trust was US$1,041.9 million (2004 - US$368.6 million). Aspen Re has established a US surplus lines trust fund with a US bank to secure US surplus lines policies. The initial minimum trust fund amount is US$5.4 million. The balance held in the trust at December 31, 2005 was US$8.1 million with US$5.5 million held at December 31, 2004. Aspen Re has established a Canadian trust fund with a Canadian bank to secure a Canadian insurance license. The initial minimum trust fund amount and balance at December 31, 2003 was CAN$25.0 million. As at December 31, 2004 the balance held in trust was CAN$55.0 million. Aspen Specialty has a total of US$7.4 million (US$4.7 million: December 31, 2003) on deposit with seven US States in order to satisfy state regulations for writing business there.

Amounts outstanding under operating leases as of December 31, 2005 were:

Operating Leases	Due In 2006 US$m	Due In 2007 US$m	Due In 2008 US$m	Due In 2009 US$m	Due In 2010 US$m	Later Years US$m	Total US$m
Operating lease obligations	2.7	2.1	6.2	6.0	6.0	42.0	65.0

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We currently rent office space in Hamilton, Bermuda for our holding company and Bermuda operations. We have entered into an agreement to lease three floors comprising a total of approximately 15,000 square feet. The term of the rental lease agreement will be for six years, and we have agreed to pay approximately US$1 million per year in rent for the three floors for the first three years and services charges of approximately US$180,000 are payable per annum. We moved into these new premises on January 30, 2006.

For our UK-based reinsurance and insurance operations, on October 19, 2004, Aspen Re entered into a heads of terms agreement for leases (and on April 1, 2005, Aspen Re signed an agreement for underleases) with B.L.C.T. (29038) Limited (the landlord), Tamagon Limited and Cleartest Limited in connection with leasing office space in London of approximately a total of 49,500 square feet covering three floors. The lease for each floor runs for 15 years. Service charges of approximately £0.5 million per annum are payable from this date, and are subject to increase. It is expected that we will begin to pay the yearly basic rent of approximately £2.7 million per annum 36 months after the relevant date of practical completion of the landlord's works. The landlord's works were completed in November 2004. The basic annual rent for each of the leases will each be subject to five-yearly upwards-only rent reviews. There are no contractual provisions in any of the leases allowing us to terminate any of the leases prior to expiration of the 15-year contractual terms. We moved into our new premises in July 2005. We terminated our sublease for our prior premises with ACE Global Markets Ltd. effective July 31, 2005. We believe that our office space is sufficient for us to conduct our operations for the foreseeable future.

We also license office space within the Lloyd's building on the basis of a renewable twelve-month lease. In addition, we lease office space in Boston, Massachusetts, Marlton, New Jersey and Rocky Hill, Connecticut as well as other states in the United States in connection with our US operations.

For all leases, all rent incentives, including reduced-rent and rent-free periods, are spread on a straight-line basis over the term of the lease.

15. Reinsurance Ceded

The primary purpose of the ceded reinsurance program is to protect the Company from potential losses in excess of what the Company is prepared to accept. It is expected that the companies to which reinsurance has been ceded will honor their obligations. In the event that these companies are unable to honor their obligations to the Company, the Company will pay these amounts. Appropriate provision is made for possible non-payment of amounts due to the Company.

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 concentrations of reinsurance recoverables as at December 31, 2005, was with Montpelier Re which is rated A- (Excellent) by A.M. Best and A- (Strong) by Standard & Poor's and with National Indemnity which is rated A++ (Superior) by A.M. Best and AAA (Extremely Strong) by Standard & Poor's, for their financial strength. Balances with Montpelier Re and National Indemnity represented 13.6% and 13.4%, respectively, of reinsurance recoverables. As at December 31, 2005, we also have reinsurance recoverables from PX Re of US$72.5 million, against which we have received a cash advance of US$12.2 million. PX Re was downgraded to B+ by A.M. Best in February 2006. The Company has not included any provision for bad or doubtful debts against this amount as we consider that the amount will be fully recoverable, following a review by management.

The largest concentration of reinsurance recoverables as at December 31, 2004, excluding related party quota share arrangements, was with Renaissance Re which is rated A+ (Superior) by A.M. Best, the second highest of fifteen rating levels, and

Notes to the Consolidated Financial Statements

A+ by Standard & Poor's, the fifth highest of twenty-one rating levels for its financial strength. Balances with Renaissance Re represented 9.6% of reinsurance recoverables and 0.0% of ceded unearned premiums.

The largest concentration of reinsurance recoverables as at December 31, 2003, excluding related party quota share arrangements, was with Munchener Ruckversicherungs-Gesellschaft, Germany, which is rated A+ (Superior) by A.M. Best, the second highest of fifteen rating levels, and A+ by Standard & Poor's, the fifth highest of twenty-one rating levels for its financial strength. Balances with Munchener Ruckversicherungs-Gesellschaft represented 3.6% of reinsurance recoverables.

The effect of assumed and ceded reinsurance on premiums written, premiums earned and insurance losses and loss adjustment expenses is as follows:

Premiums Written	**12 Months Ended December 31, 2005 US$m**	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Direct	649.6	408.5	304.9
Assumed	1,443.0	1,177.7	1,001.9
Ceded	(441.0)	(228.6)	(214.0)
Net Premiums Written	**1,651.6**	**1,357.6**	**1,092.8**
Premiums Earned			
Direct	569.6	358.4	240.6
Assumed	1,363.0	1,110.6	747.2
Ceded	(424.2)	(236.2)	(175.5)
Net Premiums Earned	**1,508.4**	**1,232.8**	**812.3**
Insurance Losses and Loss Adjustment Expenses			
Direct	650.0	197.8	126.1
Assumed	1,779.6	677.2	317.7
Ceded	(1,071.1)	(151.4)	(15.4)
Net Insurance Losses and Loss Adjustment Expenses	**1,358.5**	**723.6**	**428.4**

Notes to the Consolidated Financial Statements

16. Segment Information

The Company has four reportable segments: Property Reinsurance, Casualty Reinsurance, Specialty Insurance and Reinsurance, and Property and Casualty Insurance. The directors have determined these segments by reference to the organization structure of the business and the different services provided by the segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Results are analyzed separately for each of our segments. Underwriting assets are reviewed in total by the directors for the purpose of decision-making.

Geographical Areas

The following summary presents financial data of the Company's operations based on the location of our policyholders.

Net Earned Premiums	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
UK	299.6	368.6	316.5
US	761.4	498.1	299.1
Non-US or Non-UK	447.4	366.1	196.7
Net Premiums Earned	1,508.4	1,232.8	812.3

Notes to the Consolidated Financial Statements

16. Segment Information (continued)

The summary below presents revenues and pre-tax income from operations for the reportable segments.

	12 Months Ended December 31, 2005					
	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Unallocated US$m	Total US$m
Gross premiums written	813.2	526.7	368.3	384.3		2,092.5
Net premiums written	523.4	508.9	317.7	301.6		1,651.6
Gross premiums earned	763.2	488.1	278.8	402.5		1,932.6
Net premiums earned	497.3	470.6	232.9	307.6		1,508.4
Net investment income					121.3	121.3
Change in fair value of derivatives					19.4	19.4
Total Revenues	**497.3**	**470.6**	**232.9**	**307.6**	**140.7**	**1,649.1**
Expenses						
Losses and loss expenses	(700.8)	(328.3)	(148.5)	(180.9)		(1,358.5)
Policy acquisition, operating and administrative expenses	(154.7)	(112.8)	(60.6)	(81.0)		(409.1)
Interest on long-term debt					(16.2)	(16.2)
Realized investment gains/(losses)					(4.4)	(4.4)
Realized exchange gains/(losses)					(18.2)	(18.2)
Other expenses					(3.1)	(3.1)
Total Expenses	**(855.5)**	**(441.1)**	**(209.1)**	**(261.9)**	**(41.9)**	**(1,809.5)**
Net Income/(Loss) before Tax	**(358.2)**	**29.5**	**23.8**	**45.7**	**98.8**	**(160.4)**
Net Reserves for Loss and Loss Adjustment Expenses	**599.8**	**674.8**	**207.2**	**367.1**		**1,848.9**
Ratios	%	%	%	%		%
Loss ratio	140.9	69.7	63.8	58.8		90.1
Expense ratio	31.1	24.0	26.0	26.3		27.1
Combined ratio	172.0	93.7	89.8	85.1		117.2

Notes to the Consolidated Financial Statements

12 Months Ended December 31, 2004

	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Unallocated US$m	Total US$m
Gross premiums written	649.3	446.7	125.3	364.9		1,586.2
Net premiums written	499.9	436.7	109.0	312.0		1,357.6
Gross premiums earned	630.1	363.3	128.0	347.6		1,469.0
Net premiums earned	469.6	353.1	113.6	296.5		1,232.8
Net investment income					68.3	68.3
Change in fair value of derivatives					(4.0)	(4.0)
Total Revenues	**469.6**	**353.1**	**113.6**	**296.5**	**64.3**	**1,297.1**
Expenses						
Losses and loss expenses	(262.5)	(252.2)	(45.5)	(163.4)		(723.6)
Policy acquisition, operating and administrative expenses	(142.2)	(70.9)	(22.3)	(69.6)		(305.0)
Interest on long-term debt					(6.9)	(6.9)
Realized investment gains/(losses)					(3.5)	(3.5)
Realized exchange gains/losses					5.1	5.1
Total Expenses	**(404.7)**	**(323.1)**	**(67.8)**	**(233.0)**	**(5.3)**	**(1,033.9)**
Net Income/(Loss) before Tax	**64.9**	**30.0**	**45.8**	**63.5**	**59.0**	**263.2**
Net Reserves for Loss and Loss Adjustment Expenses	**222.9**	**373.2**	**157.9**	**326.2**		**1,080.2**
Ratios	%	%	%	%		%
Loss ratio	55.9	71.4	40.1	55.1		58.7
Expense ratio	30.3	20.1	19.6	23.5		24.7
Combined ratio	86.2	91.5	59.7	78.6		83.4

Notes to the Consolidated Financial Statements

16. Segment Information (continued)

12 Months Ended December 31, 2003

	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Unallocated US$m	Total US$m
Gross premiums written	558.2	292.3	151.4	304.9		1,306.8
Net premiums written	400.0	280.3	140.7	271.8		1,092.8
Gross premiums earned	437.2	168.0	142.0	240.6		987.8
Net premiums earned	309.1	158.8	128.7	215.7		812.3
Net investment income					29.6	29.6
Total Revenues	**309.1**	**158.8**	**128.7**	**215.7**	**29.6**	**841.9**
Expenses						
Losses and loss expenses	(106.7)	(115.8)	(80.5)	(125.4)		(428.4)
Policy acquisition, operating and administrative expenses	(110.3)	(31.9)	(23.4)	(40.0)		(205.6)
Interest on long-term debt					(0.4)	(0.4)
Realized investment gains/(losses)					(2.4)	(2.4)
Realized exchange gains/(losses)					1.5	1.5
Total Expenses	**(217.0)**	**(147.7)**	**(103.9)**	**(165.4)**	**(1.3)**	**(635.3)**
Net Income/(Loss) before Tax	**92.1**	**11.1**	**24.8**	**50.3**	**28.3**	**206.6**
Net Reserves for Loss and Loss Adjustment Expenses	**95.3**	**125.6**	**94.0**	**167.3**		**482.2**
Ratios	%	%	%	%		%
Loss ratio	34.5	72.9	62.5	58.1		52.7
Expense ratio	35.7	20.1	18.2	18.6		25.3
Combined ratio	70.2	93.0	80.7	76.7		78.0

Notes to the Consolidated Financial Statements

17. Other Comprehensive Income

Other comprehensive income is defined as any change in the Company's equity from transactions and other events originating from non-owner sources. These changes comprise our reported adjustments, net of taxes.
The following table sets out the components of the Company's accumulated other comprehensive income.

	As at December 31, 2005		
Accumulated Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	5.0	(1.2)	3.8
Unrealized losses on investments	(45.1)	9.0	(36.1)
Loss on derivatives	(2.0)	-	(2.0)
Change in currency translation	42.8	-	42.8
Total Other Comprehensive Income/(Loss)	0.7	7.8	8.5

	As at December 31, 2004		
Accumulated Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	3.8	(0.5)	3.3
Unrealized losses on investments	(12.7)	1.6	(11.1)
Loss on derivatives	(2.2)	-	(2.2)
Change in currency translation	27.9	-	27.9
Total Other Comprehensive Income/(Loss)	16.8	1.1	17.9

	As at December 31, 2003		
Accumulated Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	2.3	(0.8)	1.5
Unrealized losses on investments	(2.9)	0.8	(2.1)
Change in currency translation	31.3	(3.5)	27.8
Total Other Comprehensive Income/(Loss)	30.7	(3.5)	27.2

Notes to the Consolidated Financial Statements

17. Other Comprehensive Income (continued)

The following table sets out the components of the Company's other comprehensive income, for the following periods:

	For the 12 Months Ended December 31, 2005		
Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	1.2	(0.7)	0.5
Unrealized losses on investments	(32.4)	7.4	(25.0)
Loss on derivatives	0.2	-	0.2
Change in currency translation	14.9	-	14.9
Total Other Comprehensive Income/(Loss)	**(16.1)**	**6.7**	**(9.4)**

	For the 12 Months Ended December 31, 2004		
Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	1.5	0.3	1.8
Unrealized losses on investments	(9.8)	0.8	(9.0)
Loss on derivatives	(2.2)	-	(2.2)
Change in currency translation	(3.4)	3.5	0.1
Total Other Comprehensive Income/(Loss)	**(13.9)**	**4.6**	**(9.3)**

	For the 12 Months Ended December 31, 2003		
Other Comprehensive Income/(Loss)	Pre-Tax US$m	Income Tax Effect US$m	After Tax US$m
Unrealized gains on investments	(0.7)	0.2	(0.5)
Unrealized losses on investments	(0.7)	-	(0.7)
Change in currency translation	19.3	(3.5)	15.8
Total Other Comprehensive Income/(Loss)	**17.9**	**(3.3)**	**14.6**

Notes to the Consolidated Financial Statements

18. Supplemental Disclosure of Cash Flow Information

On September 5, 2003 the Company purchased all of the capital stock of Dakota Specialty Insurance Company for US$20.9 million. In conjunction with the acquisition, liabilities were assumed as follows:

Non-Cash Investing and Financing Activities	US$m
Fair value of assets acquired, including cash of US$14.3 million	43.1
Cash paid for the capital stock	(20.9)
Liabilities Assumed	22.2

19. Credit Facility and Senior Notes

On August 2, 2005, the Company entered into a five-year revolving credit facility with a syndicate of commercial banks under which it may, subject to the terms of the credit agreements, borrow up to US$400 million or issue letters of credit with an aggregate value of up to US$400 million. The facility will be used by any of the Borrowers (as defined in the agreement) to provide funding for the insurance subsidiaries of the Company, to finance the working capital needs of the Company and its subsidiaries and for general corporate purposes of the Company and its subsidiaries. The revolving credit facility provides for a US$250 million subfacility for collateralized letters of credit or up to US$400 million of unsecured letters of credit. As of December 31, 2005, letters of credit totaling US$309.4 million have been issued under this facility. The facility will expire on August 2, 2010.

The agreement replaces the Company's US$150 million three-year credit agreement dated August 26, 2003, which would have expired on August 29, 2006, and the US$50 million 364-day credit agreement, dated as of August 26, 2003, both of which were terminated as of August 2, 2005 upon the effectiveness of the Agreement.

Under the agreement, the Company must maintain at all times a consolidated tangible net worth of not less than approximately US$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. 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 agreement contains other customary affirmative and negative covenants as well as certain customary events of default, including with respect to a change in control. Under our credit facilities, we would be in default if Aspen Re's or Aspen Bermuda's insurer financial strength ratings fall below 'B++' by A.M. Best or 'A-' by S&P.

Prior to entering into the US$400 million credit facility, the Company had a US$150 million facility against which funds were drawn. On October 15, 2003, we drew down US$90 million on the three-year credit facility. Of these borrowings, US$83.9 million was used to provide part of the initial capital to Aspen Specialty and the balance was used to provide working capital to Aspen Holdings. The initial interest rate is three-month LIBOR plus 42.5 basis points. A facility fee, currently calculated at a rate of 17.5 basis points on the average daily amount of the commitment of each lender, is paid to each lender quarterly in arrears. On December 15, 2003, US$50 million of the outstanding loan was repaid following receipt of funds from the initial public offering.

We repaid the US$40 million outstanding balance on October 12, 2004 from the proceeds of our issuance on August 16, 2004 of US$250 million in aggregate principal amount of 6.00% Senior Notes due 2014.

Notes to the Consolidated Financial Statements

19. Credit Facility and Senior Notes (continued)

On August 16, 2004, we closed our offering of US$250 million in aggregate principal amount of 6.00% Senior Notes due 2014 (the 'Senior Notes') under Rule 144A and Regulation S under the Securities Act of 1933. We also have granted and agreed certain customary exchange and shelf registration rights (the 'Notes Registration Rights Agreement') to noteholders under the terms of the Senior Notes. The gross proceeds from the Senior Notes offering were US$249.3 million. The remainder of the net proceeds has been contributed to Aspen Bermuda in order to increase its capital and surplus, and consequently, their respective underwriting capacity.

Subject to certain exceptions, so long as any of the Senior Notes remain outstanding, we have agreed that neither we nor any of our subsidiaries will (i) create a lien on any shares of capital stock of any designated subsidiary (currently Aspen Re and Aspen Bermuda, as defined in the Indenture), or (ii) issue, sell, assign, transfer or otherwise dispose of any shares of capital stock of any designated subsidiary. Certain events will constitute an event of default under the Indenture, including default in payment at maturity of any of our other indebtedness in excess of US$50 million.

Under the Notes Registration Rights Agreement, we agreed to file a registration statement for the Senior Notes within 150 days after the issue date of the Senior Notes. The Senior Notes were registered on January 13, 2005.

The following table summarizes our contractual obligations under long term debts as of December 31, 2005.

	Due In				
Contractual Obligations	Less Than 1 Year US$m	1-3 Years US$m	3-4 Years US$m	4-5 Years US$m	Greater Than 5 Years US$m
6.00% Senior Notes due 2014	-	-	-	-	250

The long-term debt obligation disclosed above does not include the US$15 million annual interest payable on the Senior Notes.

Notes to the Consolidated Financial Statements

20. Unaudited Quarterly Financial Data

The following is a summary of the quarterly financial data for the three years ended December 31, 2005.

	12 Months Ended December 31, 2005				
	Quarter Ended March 31, 2005	Quarter Ended June 30, 2005	Quarter Ended September 30, 2005	Quarter Ended December 31, 2005	Full Year
Gross written premium	804.1	549.4	494.0	245.0	2,092.5
Gross earned premium	433.7	458.3	524.6	516.0	1,932.6
Net earned premium	378.7	395.0	379.4	355.3	1,508.4
Net investment income	25.5	27.1	29.4	39.3	121.3
Net realized investment gains/(losses)	(0.9)	0.9	(1.4)	(3.0)	(4.4)
Other income-fair value of derivatives	(1.1)	(3.3)	(4.8)	25.5	16.3
Total Revenues	402.2	419.7	402.6	417.1	1,641.6
Insurance losses and loss adjustment expenses	(207.4)	(195.9)	(683.0)	(272.2)	(1,358.5)
Policy acquisition, operating and admin expenses	(99.6)	(106.8)	(102.6)	(100.1)	(409.1)
Interest on long-term debt	(4.0)	(3.9)	(4.3)	(4.0)	(16.2)
Realized exchange gains/(losses)	(1.3)	(3.5)	(3.9)	(9.5)	(18.2)
Total Expenses	(312.3)	(310.1)	(793.8)	(385.8)	(1,802.0)
Income/(loss) before tax	89.9	109.6	(391.2)	31.3	(160.4)
Income tax/credits	(19.8)	(25.8)	29.2	(1.0)	(17.4)
Net Income/(Loss) after Tax	70.1	83.8	(362.0)	30.3	(177.8)
Ordinary Shares	No.	No.	No.	No.	No.
Basic:					
■ Weighted average ordinary shares	69,330,495	69,342,486	69,343,435	87,755,442	74,020,302
Diluted:					
■ Weighted average ordinary shares	69,330,495	69,342,486	69,343,435	87,755,442	74,020,302
■ Weighted average effect of dilutive securities	2,378,513	2,834,092	-	2,917,038	-
Total	71,709,008	72,176,578	69,343,435	90,679,480	74,020,302
Earnings/(Loss) Per Ordinary Share	US$	US$	US$	US$	US$
Basic	1.01	1.21	(5.22)	0.34	(2.40)
Diluted	0.98	1.16	(5.22)	0.33	(2.40)

Notes to the Consolidated Financial Statements

20. Unaudited Quarterly Financial Data (continued)

	12 Months Ended December 31, 2004				
	Quarter Ended March 31, 2004	Quarter Ended June 30, 2004	Quarter Ended September 30, 2004	Quarter Ended December 31, 2004	Full Year
Gross written premium	640.2	380.4	349.4	216.2	1,586.2
Gross earned premium	358.0	374.1	361.1	375.8	1,469.0
Net earned premium	305.8	327.0	293.4	306.6	1,232.8
Net investment income	12.0	14.9	19.4	22.0	68.3
Net realized investment gains/(losses)	(0.3)	(4.0)	1.9	(1.1)	(3.5)
Total Revenues	**317.5**	**337.9**	**314.7**	**327.5**	**1,297.6**
Insurance losses and loss adjustment expenses	(124.1)	(139.4)	(303.2)	(156.9)	(723.6)
Policy acquisition, operating and admin expenses	(77.1)	(91.3)	(66.5)	(70.1)	(305.0)
Interest expense	(0.4)	(0.1)	(2.7)	(3.7)	(6.9)
Other income/(expense)	-	-	(2.1)	(1.9)	(4.0)
Realized exchange gains/(losses)	(0.8)	0.1	1.4	4.4	5.1
Total Expenses	**(202.4)**	**(230.7)**	**(373.1)**	**(228.2)**	**(1,034.4)**
Income/(loss) before tax	115.1	107.2	(58.4)	99.3	263.2
Income tax/credits	(30.1)	(26.3)	15.4	(27.1)	(68.1)
Net Income/(Loss) after Tax	**85.0**	**80.9**	**(43.0)**	**72.2**	**195.1**
Ordinary Shares	No.	No.	No.	No.	No.
Basic:					
Weighted average ordinary shares	69,178,203	69,174,303	69,174,303	69,291,191	69,204,658
Diluted:					
Weighted average ordinary shares	69,178,203	69,174,303	69,174,303	69,291,191	69,204,658
Weighted average effect of dilutive securities	2,842,475	2,755,325	-	1,954,553	1,916,910
Total	**72,020,678**	**71,929,628**	**69,174,303**	**71,245,744**	**71,121,568**
Earnings/(Loss) Per Ordinary Share	US$	US$	US$	US$	US$
Basic	**1.23**	**1.17**	**(0.62)**	**1.04**	**2.82**
Diluted	**1.18**	**1.13**	**(0.62)**	**1.01**	**2.74**

Notes to the Consolidated Financial Statements

	12 Months Ended December 31, 2003				
	Quarter Ended March 31, 2003	Quarter Ended June 30, 2003	Quarter Ended September 30, 2003	Quarter Ended December 31, 2003	Full Year
Gross written premium	577.7	252.3	331.7	145.1	1,306.8
Gross earned premium	161.4	245.0	260.5	320.9	987.8
Net earned premium	121.6	210.7	206.7	273.3	812.3
Net investment income	4.9	5.8	6.0	12.9	29.6
Net realized investment gains/(losses)	-	-	(1.8)	(0.6)	(2.4)
Total Revenues	**126.5**	**216.5**	**210.9**	**285.6**	**839.5**
Losses and loss adjustment expenses	(70.7)	(95.2)	(110.5)	(152.0)	(428.4)
Policy acquisition, operating and admin expenses	(33.7)	(51.9)	(55.2)	(64.8)	(205.6)
Interest expense	-	-	-	(0.4)	(0.4)
Realized exchange gains/(losses)	-	-	-	1.5	1.5
Other income/(expense)	0.2	(0.2)	0.1	(0.1)	-
Total Expenses	**(104.2)**	**(147.3)**	**(165.6)**	**(215.8)**	**(632.9)**
Income/(loss) before tax	22.3	69.2	45.3	69.8	206.6
Income tax/credits	(7.1)	(19.3)	(12.8)	(15.3)	(54.5)
Net Income/(Loss) after Tax	**15.2**	**49.9**	**32.5**	**54.5**	**152.1**
Ordinary Shares	No.	No.	No.	No.	No.
Basic:					
■ Weighted average ordinary shares	56,919,780	56,919,780	56,922,022	60,410,838	57,751,852
Diluted:					
■ Weighted average ordinary shares	56,919,780	56,919,780	56,922,022	60,410,838	57,751,852
■ Weighted average effect of dilutive securities	-	-	358,679	1,640,010	1,739,908
Total	56,919,780	56,919,780	57,280,701	62,050,848	59,491,760
Earnings/(Loss) Per Ordinary Share	US$	US$	US$	US$	US$
Basic	0.27	0.88	0.57	0.90	2.63
Diluted	0.27	0.88	0.57	0.88	2.56

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of Aspen Insurance Holdings Limited:

We have audited the accompanying consolidated balance sheets of Aspen Insurance Holdings Limited and subsidiaries (the 'Company') as of December 31, 2005 and 2004, and the related consolidated statement of operations, shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aspen Insurance Holdings Limited and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with US generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Aspen Insurance Holdings Limited's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO'), and our report dated March 6, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG Audit Plc

KPMG Audit Plc
London, United Kingdom
March 6, 2006

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and as contemplated by Section 404 of the Sarbanes-Oxley Act. Our internal control system was designed 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. All internal control systems, no matter how well designed, have inherent limitations. These limitations include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of error or mistake. Therefore, any internal control system can provide only reasonable assurance and may not prevent or detect all misstatements or omissions.
In addition, our evaluation of effectiveness is as of a particular point in time and there can be no assurance that any system will succeed in achieving its goals under all future conditions.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.
In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.
Based on our assessment in accordance with the criteria, we believe that our internal control over financial reporting is effective as of December 31, 2005.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by KPMG Audit Plc, an independent registered public accounting firm, who also audited our consolidated financial statements. KPMG Audit Plc's attestation report on management's assessment of internal control over financial reporting appears on the following page.

Attestation Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Aspen Insurance Holdings Limited:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Aspen Insurance Holdings Limited maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005 and our report dated March 6, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG Audit Plc

KPMG Audit Plc
London, United Kingdom
March 6, 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of the results of our operations for the twelve months ended December 31, 2005, 2004 and 2003 and of our financial condition at December 31, 2005. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and accompanying notes included in this report. This discussion contains forward-looking statements that involve risks and uncertainties and that are not historical facts, including statements about our beliefs and expectations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and in the 'Forward-Looking Statements' on page I of this report.

Aspen's Year in Review

For much of the insurance and reinsurance sector, 2005 was dominated by the combined impacts of Hurricanes Katrina, Rita and Wilma. These events caused us to re-evaluate the ways in which we manage our property reinsurance portfolio, including assumptions, such as the future frequency and severity of Atlantic hurricanes, used in our modeling techniques for both pricing and exposure management. Following our review, we decided to reduce our overall exposure in peak zones. The financial impact of the 2005 hurricane losses on Aspen is discussed further below.

The losses incurred from the 2005 hurricanes, together with consequential changes in the measurement of capital adequacy by the rating agencies and an improving market outlook led us to raise additional equity capital. In total, including an over-allotment option exercised in January 2006, we received net proceeds of approximately US$819 million after expenses. From these proceeds we contributed US$560 million as additional equity capital to Aspen Bermuda prior to the year-end. We also contributed US$15 million dollars to Aspen Specialty. In January 2006, we contributed US$150 million to Aspen Re. The balance of the capital raised, amounting to approximately US$94 million is currently being held in Aspen Holdings. Taking into account these capital injections, both Aspen Re and Aspen Bermuda now have net assets of just over US$1 billion. Aspen Specialty has surplus of approximately US$110 million dollars on a US GAAP basis.

We continued to grow in 2005, both in our number of employees, which increased by approximately 38% over 2004, and in our gross written premiums, which increased by 31.9%. In the fourth quarter of 2004, we took steps to enhance our presence in Bermuda by transferring the majority of our London-based property reinsurance underwriting team to Bermuda. In 2005, we also expanded our underwriting capacity in the United States.

Financial Overview

The following overview of our 2003, 2004 and 2005 operating results and financial condition is intended to identify important themes and should be read in conjunction with the more detailed discussion further below.

Our losses before taxation from Hurricanes Katrina, Rita and Wilma as of December 31, 2005 were US$594.6 million net of reinsurance and taking into account additional premiums receivable and payable. After allowing for tax and our estimate of the fair value of a potential recovery from our derivative catastrophe risk contract, this results in a net impact on our income after tax of US$507 million. These losses severely impacted our results for the year, including as follows:

- an increase in our combined ratio from 83.4% in 2004 to 117.2% in 2005;
- a net loss of US$177.8 million compared to net income of US$195.1 million in 2004; and
- a significant increase in our reinsurance recoverables from US$197.7 million in 2004 to US$1,192.7 million in 2005.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The increases in gross premiums written in each of our segments for the twelve months ended December 31, 2005 and 2004 are as follows:

Gross Premiums Written	For the 12 Months Ended December 31, 2005 US$m	% Increase	For the 12 Months Ended December 31, 2004 US$m	% Increase	For the 12 Months Ended December 31, 2003 US$m
Property Reinsurance	813.2	25.2	649.3	16.3	558.2
Casualty Reinsurance	526.7	17.9	446.7	52.8	292.3
Specialty Insurance and Reinsurance	368.3	193.9	125.3	(17.2)	151.4
Property and Casualty Insurance	384.3	5.3	364.9	19.7	304.9
Total	**2,092.5**	**31.9**	**1,586.2**	**21.4**	**1,306.8**

Each year we arrange reinsurance in respect of certain of our exposures, and the amounts paid and payable under these arrangements are shown as reinsurance ceded and deducted in calculating net written premiums. As a result of the hurricanes in 2005, we expect to make significant recoveries. Under the terms of our reinsurance contracts we are also obligated to make certain additional payments, usually in the form of reinstatement premiums, which are a feature of these contracts related to the reinsurers' obligations to provide recoveries in respect of more than one loss. The amount of the additional payment obligations arising as a result of the 2005 hurricanes was US$149.7 million or 7.2% of the gross written premiums for the year, whereas in 2004, we had reinstatement premiums of US$22.9 million or 1.4% of gross premiums written. We had no significant reinstatement premiums in 2003.

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 four business segments for the twelve months ended December 31, 2005, 2004 and 2003 were as follows:

Loss Ratios	For the 12 Months Ended December 31, 2005 %	For the 12 Months Ended December 31, 2004 %	For the 12 Months Ended December 31, 2003 %
Property Reinsurance	140.9	55.9	34.5
Casualty Reinsurance	69.7	71.4	72.9
Specialty Insurance and Reinsurance	63.8	40.1	62.5
Property and Casualty Insurance	58.8	55.1	58.1
Total	**90.1**	**58.7**	**52.7**

The most significant impact of the 2005 hurricanes was on the loss ratio for the property reinsurance segment.

The loss ratios take into account any changes in our assessments of reserves for unpaid claims and loss adjustment expenses arising from earlier years. In each of the years ended December 31, 2005, 2004 and 2003, 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 year is shown in the following table.

	For the 12 Months Ended December 31, 2005	For the 12 Months Ended December 31, 2004	For the 12 Months Ended December 31, 2003
Reserve releases (US$m)	50.6	62.0	9.6
Percentage of net premiums earned	3.4	5.0	1.2

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Further information relating to the release of reserves can be found under 'Critical Accounting Policies' below.

We monitor the ratio of expenses to net earned premium (the 'expense ratio') as a measure of the cost effectiveness of our business 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 years ended December 31, 2005, 2004 and 2003.

Expense Ratios	For the 12 Months Ended December 31, 2005 %	For the 12 Months Ended December 31, 2004 %	For the 12 Months Ended December 31, 2003 %
Policy acquisition expenses	18.8	17.2	18.7
Operating and administrative expenses	8.3	7.5	6.6
Expense ratio	27.1	24.7	25.3

The increase in expense ratio by 2.4% in 2005 was mainly due to the effect of reinstatement premiums reducing net earned premiums by US$71.3 million which has the effect of increasing the expense ratio by 1.2%. The remaining increase was due to a number of factors including higher acquisition costs on new lines of business and increases in staff costs to support the new business lines.

In 2005, we generated net investment income of US$121.3 million, which significantly increased from US$68.3 million in 2004 and US$29.6 million in 2003. The increase in our net investment income is attributable to a combination of increasing cash and investment balances and rising book yields on cash and fixed income securities.

Other revenues and expenses in 2005 included an unrealized gain of US$19.4 million on our catastrophe risk transfer swap, realized losses on investments and foreign currency of US$22.6 million and interest payable of US$16.2 million. For more information on the catastrophe risk transfer swap, see below '- Critical Accounting Policies-Risk Transfer Swap.'

We incurred a tax expense in 2005 of US$17.4 million because Aspen Re was profitable in 2005 notwithstanding our hurricane losses.

Beginning in the first quarter of 2005, we increased our quarterly dividends from US$0.03 to US$0.15 per ordinary share, and we paid such dividends on our outstanding shares in each quarter, notwithstanding our losses from the 2005 hurricanes.

Total shareholders' equity increased from US$1,481.5 million at the end of 2004 to US$2,039.8 million as of December 31, 2005. The most significant movements were:

- capital increase in 2005 of approximately US$790 million after expenses as a result of our issuance and sale of:
  (1) 17,551,558 ordinary shares in our public offering in October 2005;
  (2) 8,333,333 ordinary shares in our public offering in December 2005; and
  (3) 4,000,000 Perpetual PIERS in our public offering in December 2005;
- net losses for the year of US$177.8 million;
- dividend payments totaling US$45.5 million in 2005;
- an increase in unrealized gains in foreign currency translation and derivatives accounted for as Other Comprehensive Income of US$15.1 million; and
- an increase in unrealized losses on investments of US$30.3 million.

The amounts outstanding under our senior notes were the only material debt that we had outstanding as of December 31, 2005. Management monitors the ratio of debt to total capital, with total capital being defined as shareholders' equity plus outstanding debt. At December 31, 2005, this ratio was 10.9%, compared to 14.4% as of December 31, 2004 and 3.0% as of December 31, 2003. Management considers this to be well under the level at which it would expect rating agencies or customers to be concerned about excessive financial leverage.

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Our Perpetual PIERS 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 and this stands at 19.4% as of December 31, 2005 (2004-14.4%; 2003-3.0%).

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. During 2005, Aspen Holdings received US$17.0 million in dividends from Aspen (UK) Holdings and US$26.0 million in interest payments under our intercompany loan. As at December 31, 2005, Aspen Holdings held US$203.7 million in cash and cash equivalents which, taken together with our credit facilities, management considered sufficient to provide us liquidity at such time.

At December 31, 2005, the Insurance Subsidiaries held US$1,181.2 million in cash and short-term investments 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 December 31, 2005 and for the foreseeable future.

As of December 31, 2005, we had issued US$411.0 million and £63.9 million in letters of credit to cedants, of which US$121.3 million and £65.1 million were collateralized. Our reinsurance receivables increased substantially, and as of December 31, 2005, we had US$1,192.7 million in reinsurance receivables. Our premium receivables have increased by £47.2 million due to increases in total business written and the timing of reinstatement premiums following the 2005 hurricanes.

Market Conditions, Rate Trends and Developments in 2006

Overall, at January 1, 2006, we increased prices in three out of four of our business segments in line with our expectations. Property reinsurance is the exception where we expect the best pricing to become prevalent ahead of the mid-year renewals or even into 2007. Overall we estimate that we achieved an 11% rate increase across the part of our portfolio that renewed at January 1 on a premium weighted basis.

Specialty Insurance and Reinsurance

In our Specialty Insurance and Reinsurance segment, prices increased by 18% on average for business written in January. This segment is expected to increase to in excess of 20% of our gross premium earned in 2006. The most rapidly improving class is, as we expected, our offshore energy physical damage account. While we achieved rate increases outside the Gulf of Mexico of about 20% on average, the actual rates increased by approximately four and a half to more than six times for risks situated in the Gulf of Mexico. In addition to these rate increases there has also been a dramatic reduction in aggregate limits for named windstorms in the Gulf of Mexico. As a result, the rate for each unit of exposure underwritten has increased significantly. Partly as a consequence of the hardening energy market, we have also achieved increases in our marine liability lines of about 15% and marine hull has also performed well with increases of about 4%.

There is little renewal activity during the first two months of the year with respect to the aviation insurance class of business. The airports and non-critical products business we did write at January 1 increased by between 5% and 10%.

Casualty Reinsurance

A significant proportion of this business incepts at January 1 and overall we achieved an average rate increase of 3%. Our Casualty Reinsurance segment is expected to represent approximately 25% of our gross earned premium in 2006. Rates have held up well on the international account and better than expected increases in our US casualty lines. Our international casualty reinsurance account experienced a modest 1% average rate increase in the Australian, Canadian and London markets. Our US casualty reinsurance book has seen price increases of 5% on average with workers' compensation reinsurance programs renewing close to expiring prices and medical malpractice reinsurance programs renewing at a nearly 6% increase. US casualty facultative reinsurance business has seen rates firm or slightly increase.

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Property and Casualty Insurance

Our insurance segment is expected to comprise approximately 18% of our anticipated planned gross earned premiums in 2006. Our insurance account does not typically experience a great deal of renewal business during January with the first major insurance renewal date expected at the end of March. UK commercial property insurance rates have come under some pressure, decreasing approximately 4% in our book which has been much better than the market as a whole. UK liability insurance saw average rate reductions on renewed business of approximately 7%. Our US excess and surplus property lines business has seen catastrophe-exposed business increase by 24% in December and we expect further increases as the year progresses. Casualty excess and surplus rates, on the other hand, continue to register modest single digit reductions.

Property Reinsurance

The property reinsurance market is still coming to terms with the impact of the 2004 and 2005 hurricane seasons. We expect the proportion of gross earned premiums in this segment in relation to the whole business to decrease in 2006. In respect of January 1 renewals, prices increased varying significantly, from less than 15% to highs of over 100% depending upon loss experience, terms, data quality and the nature of the original business. The upper limit of rate increases was achieved on programs covering commercial exposures which had sustained hurricane losses in 2005. We expected that this phenomenon would have a knock-on effect to pricing for US regional programs and this occurred although with more muted price increases of 10% to 15%. Rate increases in Europe were driven mainly by losses from European floods with loss affected programs seeing increases of 15% to 30% and programs without losses experiencing single digit percentage increases. During the second quarter of this year we expect a sharp correction in market pricing. We believe there will be four drivers of this. First, new versions of catastrophe models expected to be released by the vendors will demand more price per unit of risk. Second, many sellers of reinsurance will recognize that a unit of risk carries more exposure than they thought and we expect that they will become more risk averse, i.e. accept less risk despite higher prices. Third, the buyers of reinsurance will find that they need to buy more dollars of protection for the same amount of exposure to meet both the demands of the new pricing models as well as the constraints placed on them by the new rating agency models. Finally, retrocession cover, which at times has effectively operated as a 'disguised subsidy' to reinsurance pricing, will become scarcer and more expensive and hence will have the opposite effect and thereby drive prices up still further.

Reinsurance Ceded

For 2006, we placed in excess of US$400 million dollars of reinsurance and retrocessional cover for a reasonable increase over last year's cost given current market conditions. We will continue to review the market for opportunities, and depending on price and availability we may buy further cover.

Business Developments

We have hired a new team operating within Aspen Re which writes international property facultative reinsurance business. This account will be developed during 2006 once the whole team is in place.

Revenues from Insurance and Reinsurance Contracts

We derive our revenues primarily from our insurance and reinsurance contracts. These revenues are included in our statement of operations after taking into account amounts payable to our reinsurers.

The amount of net premiums included as revenue in any reporting period depends on:

- the amount and type of contracts written and the premiums we are able to charge to policyholders, which are influenced by multiple factors, including prevailing market prices;
- the amount and type of reinsurance ceded and the reinsurance premiums payable;
- the distribution of the renewal dates of the business we write, which is fairly evenly distributed through the year for our insurance business but is concentrated at the beginning of quarters (particularly January 1st) for our reinsurance business; and
- the length of time over which the premiums receivable are earned and reinsurance premiums are expensed.

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Other Revenues

Revenues also include investment income and realized investment gains offset by realized investment losses. Investment income is derived from holdings of cash and money market deposits and from fixed income investments. Realized investment gains and losses are derived from the sale of fixed income investments, all of which are held as marketable securities available for sale. These securities are carried at fair market value and any resulting unrealized gains and losses are not included as revenue in our statement of operations but are included in comprehensive income as a separate component of shareholders' equity.

Expenses

Our expenses are classified under four headings as set out below.

Losses and Loss Adjustment Expenses

These expenses include claims paid and payable under our insurance and reinsurance contracts and the internal and external costs of settling these claims ('loss adjustment expenses').

The amount of these expenses is a function of the amount and type of insurance and reinsurance contracts we write and, with respect to reinsurance contracts, of the loss experience of the clients we reinsure. The amount of the expense is reduced to the extent that we can make recoveries from our reinsurers.

The amount reported under this heading in any period includes payments in that period plus the change in the value of the reserves for unpaid losses and loss adjustment expenses between the beginning and the end of the period.

Our method for setting the reserves for unpaid losses and loss adjustment expenses at the end of any period is discussed below under '-Critical Accounting Policies.'

Policy Acquisition Expenses

Policy acquisition expenses consist principally of commissions and similar charges payable to brokers, other intermediaries and ceding companies, many of which represent a percentage of premiums receivable by us together with staff costs directly attributable to underwriting. The amount of expenses varies according to the amount and types of contracts written.

Operating and Administrative Expenses

These expenses consist primarily of staff compensation, payroll taxes, accommodation costs, information technology and other operating expenses and professional fees. This heading also includes depreciation of tangible assets. Staff compensation includes salaries, bonuses, share-related compensation and benefits such as medical insurance and pension contributions.

Income Tax Expense

This expense primarily represents corporation tax paid or payable by our UK operating company.

Critical Accounting Policies

Our consolidated financial statements contain certain amounts that are inherently subjective in nature and require management to make assumptions and best estimates to determine the reported values.

We believe that the following critical accounting policies affect the more significant estimates used in the preparation of our consolidated financial statements. A statement of all the significant accounting policies we use to prepare our financial statements is included in the notes to the financial statements. If factors cause actual events to differ from the assumptions used in applying the accounting policy and calculating financial results, there could be a material adverse effect on our results of operations, financial condition and liquidity.

Written Premiums

Written premiums are comprised of the estimated premiums on contracts of insurance and reinsurance entered into in the reporting period, except in the case of proportional reinsurance contracts, where written premium relates only to our proportional share of premiums due on contracts entered into by the ceding company prior to the end of the reporting period.

All premium estimates are reviewed regularly, comparing actual reported premiums to expected ultimate premiums along with a review of the collectability of premiums receivable. Based on management's review, the appropriateness of the premium estimates is evaluated, and any adjustments to these estimates are recorded in the periods in which they become known. Adjustments to original premium estimates could be material and these adjustments may directly and significantly impact

Management's Discussion and Analysis of Financial Condition and Results of Operations

earnings in the period they are determined because the subject premium may be fully or substantially earned.

We refer to premiums receivable which are not fixed at the inception of the contract as adjustment premiums. The key factors in estimating adjustment premiums receivable are past underwriting experience, broker analysis and actuarial projections (in respect of treaty business). They are most significant in relation to reinsurance contracts. Differing considerations apply to non-proportional and proportional treaties as follows.

We exercise judgment in determining the adjustment premiums, which represent a small portion of total premiums receivable. Commission is charged as a fixed percentage of premium per contract and is adjusted in line with adjustments in premium. The proportion of adjustable premiums included in the premium estimates varies between business lines with the largest adjustment premiums associated with property reinsurance business and the smallest with property and liability insurance.

Non-Proportional Treaties

A large number of the contracts we write are written on a non-proportional or excess of loss treaty basis. As the ultimate level of business written by each cedant can only be estimated at the time the reinsurance is placed, the reinsurance contracts generally stipulate a minimum and deposit premium payable under the contract with an adjustable premium based on variables such as: the number of contracts covered by the reinsurance; the total premium received by the cedant; and the nature of the exposures assumed. Minimum and deposit premiums generally cover the majority of premiums due under such treaty reinsurance contracts and the adjustable portion of the premium is usually a small portion of the total premium receivable. For excess of loss contracts, the minimum and deposit premium, as defined in the contract, is generally considered to be the best estimate of the contract's written premium at inception. Accordingly, this is the amount we generally record as written premium in the period the underlying risks incept. During the life of a contract, notifications from cedants and brokers may affect the estimate of ultimate premium and result in either increases or reductions in reported revenue. Changes in estimated adjustable premiums will have less of an impact on short term liquidity as the payment of adjustment premiums generally occurs after the expiration of a contract.

Reinstatement premiums are accrued as provided for in the provisions of assumed reinsurance contracts, based on loss experience under such contracts. Reinstatement premiums are the premiums charged for the restoration of the reinsurance limit of an excess of loss contract to its full amount after payment by the reinsurer of losses as a result of an occurrence. These premiums relate to the future coverage obtained during the remainder of the initial policy term.

Proportional Treaties ('treaty pro-rata')

Estimates of premiums assumed under treaty pro-rata reinsurance contracts are recorded in the period in which the underlying risks are expected to incept and are based on information provided by brokers and ceding companies and estimates of the underlying economic conditions at the time the risk is underwritten. We estimate premium receivable initially and update our estimates regularly throughout the contract term based on treaty statements received from the ceding company.

The reported gross written premiums for treaty pro rata business includes estimates of premiums due to the Company but not yet reported by the cedant because of time delays between contracts being written by our cedants and the submission of treaty statements to the Company. This additional premium is normally described as pipeline premium. Treaty statements disclose information on the underlying contracts of insurance written by our cedants and are generally submitted on a monthly or quarterly basis, from 30 to 90 days in arrears. In order to report all risks incepting prior to a period end, the Company will estimate the premiums written between the last submitted treaty statement and the period end.

The segment for which treaty pro rata is most relevant is our property reinsurance segment in which we wrote US$168.1 million in gross written premium in 2005 or 20.7% of our property reinsurance segment, of which US$49.2 million was estimated, and US$118.9 million was reported by the cedants. We estimate that the impact of a US$1 million change in our estimated gross premiums written in our property treaty pro rata business would have an impact of US$466,000 on our net income before tax for our property reinsurance segment, excluding the impact of

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fixed costs such as reinsurance premiums and operating expenses.

The most likely drivers of change in the estimates in decreasing order of magnitude are:

- changes in the renewal rate or rate of new business acceptances by the cedant insurance companies leading to lower or greater volumes of ceded premiums than our estimate, which could result from changes in the relevant primary market that could affect more than one of our cedants or could be a consequence of changes in marketing strategy or risk appetite by a particular cedant;
- changes in the rates being charged by cedants; and
- differences between the pattern of inception dates assumed in our estimate and the actual pattern of inception dates.

We anticipate that ultimate premiums might reasonably be expected to vary by up to 5% as a result of variations in one or more of the assumptions described above, although larger variations are possible. Based on gross written premiums of US$168.1 million in our property reinsurance treaty pro rata account as of December 31, 2005, a variation of 5% could increase or reduce net income before taxation by approximately US$4 million.

Earned Premiums and Premiums Receivable

Premiums are recognized as earned evenly over the policy periods using the daily pro rata method.

The premium related to the unexpired portion of each policy at the end of the reporting period is included in the balance sheet as unearned premiums.

Premiums receivable are recorded as amounts due less any required provision for doubtful accounts. A significant portion of amounts included as premiums receivable, which represent estimated premiums written, net of commissions, is not currently due based on the terms of the underlying contracts. In determining whether or not any bad debt provision is necessary, we consider the financial security of the policyholder, past payment history and any collateral held. We have not made a provision for doubtful accounts in relation to assumed premium estimates as adjustable premiums are considered to be inseparable from minimum and deposit premiums. In addition, based on the above process, management believes that the premium estimates included in premiums receivable will be collectible and, therefore, we have not maintained a bad debt provision for doubtful accounts on the premiums at December 31, 2005.

Risk Transfer Swap

Our catastrophe risk transfer swap falls under the requirement of Statement of Financial Accounting Standards ('SFAS') No. 133 'Accounting for Derivative Instruments and Hedging Activities', as amended ('SFAS 133') and is therefore recorded in the balance sheet at fair value with any changes in the fair value shown on the consolidated statements of operations. This contract requires us to make quarterly payments in return for which we are entitled to receive a total of up to US$100 million on the occurrence of hurricanes making landfall in Florida and causing insured damage in excess of US$39 billion or earthquakes in California causing insured damage in excess of US$23 billion. The determination of whether or not we are entitled to a recovery depends on estimates of insured damage published by Property Claims Services ('PCS'). The amount of any recovery due increases on a linear basis from US$0 to US$100 million depending on the PCS estimate with the full amount of US$100 million receivable at or above US$47 billion for a hurricane event or US$29 billion for an earthquake event. If a recovery becomes due then the future payments under the contract may be reduced. As we provided in full for these future payments when the contract commenced any actual or projected reduction in this liability is also reflected as a gain in the statement of operations. The latest

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estimate of the insured loss arising from Hurricane Katrina published by PCS on December 6, 2005 was US$38.1 billion. Based on the record of increasing PCS estimates following previous natural catastrophe losses in the United States, we expect that future estimates by PCS of this loss will increase. We have taken this and the illiquid nature of the catastrophe risk transfer swap market into account in our valuation of this contract as at December 31, 2005. As there is no quoted market value available for this derivative, the fair value is determined by management using internal models taking into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The amount recognized could be materially different from the amount realized in actual payments to us made under the contract.

Reserves for Losses and Loss Expenses

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of IBNR claims. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Estimated amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are calculated to arrive at a net claims reserve. As required under US GAAP, no provision is made for our exposure to natural or man-made catastrophes other than for events occurring before the balance sheet date.

Reserves by Segment

The following presents our loss reserves by business segment as at December 31, 2005 and 2004.

	As at December 31, 2005			As at December 31, 2004		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Property Reinsurance	1,266.7	(666.9)	599.8	341.2	(118.3)	222.9
Casualty Reinsurance	683.4	(8.6)	674.8	377.8	(4.6)	373.2
Specialty Insurance and Reinsurance	526.5	(319.3)	207.2	187.1	(29.2)	157.9
Property and Casualty Insurance	565.0	(197.9)	367.1	371.8	(45.6)	326.2
Total Losses and Loss Expense Reserves	**3,041.6**	**(1,192.7)**	**1,848.9**	**1,277.9**	**(197.7)**	**1,080.2**

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The gross reserves may be further analysed between outstanding or reported claims and IBNR as at December 31, 2005 and 2004, as follows:

As at December 31, 2005

	Gross Outstandings US$m	Gross IBNR US$m	Gross Reserve US$m	% IBNR
Property Reinsurance	791.0	475.7	1,266.7	37.6
Casualty Reinsurance	122.0	561.4	683.4	81.8
Specialty Insurance and Reinsurance	227.7	298.8	526.5	57.1
Property and Casualty Insurance	325.0	240.0	565.0	42.5
Total Losses and Loss Expense Reserves	**1,465.7**	**1,575.9**	**3,041.6**	**51.8**

As at December 31, 2004

	Gross Outstandings US$m	Gross IBNR US$m	Gross Reserve US$m	% IBNR
Property Reinsurance	181.1	160.1	341.2	46.9
Casualty Reinsurance	58.6	319.2	377.8	84.5
Specialty Insurance and Reinsurance	35.8	151.3	187.1	80.9
Property and Casualty Insurance	194.2	177.6	371.8	45.1
Total Losses and Loss Expense Reserves	**469.7**	**808.2**	**1,277.9**	**63.2**

Gross reserves for our property reinsurance lines were US$1,266.7 million in 2005 compared to US$341.2 million in 2004, of which 37.6% and 46.9% were IBNR for 2005 and 2004, respectively. The increase in property reserves was due to the recognition of US$1,018.0 million of losses associated with the 2005 hurricanes. IBNR has reduced as a percentage of total reserves as the majority of 2005 hurricane losses have been recorded in outstandings and due to 2004 hurricane losses moving from IBNR to case reserves. In addition, the property reinsurance segment was affected by material claims incurred during 2004 from Hurricanes Charley, Frances, Ivan and Jeanne and by Typhoon Songda totalling US$298.7 million.

Gross reserves for our casualty reinsurance segment were US$683.4 million in 2005 compared to US$377.8 million in 2004, of which 81.8% and 84.5% were IBNR for 2005 and 2004, respectively. The increase in reserves was due to the reinsurance portfolio maturing as a book of business. 2005 was only the third full year of operation for the Company, and an increase in reserves would be expected as reserves build up over time, particularly in this longer tail business.

Gross reserves for our specialty insurance and reinsurance segment were US$526.5 million in 2005 compared to US$187.1 million in 2004, of which 57.1% and 80.9% were IBNR for 2005 and 2004, respectively. The significant increase in reserves was due to the recognition of reserves for the new marine and aviation business written combined with US$266.7 million of 2005 hurricane losses in this segment.

Gross reserves for our property and casualty insurance segment were US$565.0 million in 2005 compared to US$371.8 million in 2004, of which 42.5% and 45.1% were IBNR for 2005 and 2004, respectively. The change in reserves was due to the insurance portfolio maturing and an increase in reserves would be expected as reserves build up over time, particularly in the longer-tail liability business lines. In addition, the property line recognized losses of US$158.3 million following the 2005 hurricanes.

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Reserving Approach

We take all reasonable steps to ensure that we have appropriate information regarding our claims exposures. However, given the uncertainty in establishing claims liabilities, it is likely that the final outcome will prove to be different from the original provision established. Prior to the selection by management of our best estimate of our reserves, our actuary employs a number of techniques to establish a range of estimates (the 'actuarial range').

Full policy information is recorded at the time of underwriting and includes inception and expiry dates, attachment points and limits and our share of the risk. Claims information received typically includes the loss date, details of the claim, the recommended reserve and reports from the loss adjusters dealing with the claim. In respect of pro rata treaties we receive regular statements (bordereaux) which detail for each cedant the earned and unearned premium and summary paid and loss reserves, with large losses separately identified. Reinsurance claims are subject to a longer time lag both in their reporting and in their time to final settlement. The time lag is a factor which is included in the projections to ultimate claims within the actuarial analyses and helps to explain why in general a higher proportion of the initial reinsurance reserves are represented by IBNR than for insurance reserves for business in the same class.

For reported claims, reserves are established on a case by case basis within the parameters of coverage provided in the insurance policy or reinsurance agreement. In estimating the cost of these claims, we consider circumstances related to the claims as reported, any information available from cedants and loss adjustors and information on the cost of settling claims with similar characteristics in previous periods. In addition, for significant events such as the hurricanes in 2005, for example, the detailed analysis of our potential exposures included information obtained directly from cedants which has yet to be processed through market systems enabling us to reduce the time lag between a significant event occurring and establishing case reserves. This additional information is also incorporated into the analysis used to determine the actuarial IBNR. Reinsurance intermediaries are used to assist in obtaining and validating information from cedants but we establish all reserves. In addition, we may engage loss adjusters and perform on site cedant audits to validate the information provided. Disputes do occur with cedants, but the number and frequency are generally low. In the event of a dispute, intermediaries are used to try to resolve the dispute. If a resolution cannot be reached, then the contracts typically provide for binding arbitration. To date, there are no material disputes with cedants.

For IBNR claims that are statistically determined, reserves are estimated using established actuarial methods including available historical data. Both case and IBNR reserve estimates consider such variables as past loss experience, changes in legislative conditions and changes in judicial interpretation of legal liability policy coverages and inflation. Historical loss information is included in selecting our best estimates of the reserves for each line of business. We take into account the quality of the historical information available and where appropriate historical trends are used to validate information received from cedants.

For classes of business where early claims experience may not provide a sound statistical basis to estimate the loss reserves, our approach is to establish an initial expected loss and loss expense ratio. This is based on one or more of (a) an analysis of our own claims experience to date on our portfolio, (b) market benchmark data, (c) a contract by contract analysis, and (d) an analysis of a portfolio of similar business written by Syndicate 2020, as available, adjusted by an index reflecting how insurance rates, terms and conditions have changed. This initial expected loss and loss expense ratio is then modified in light of the actual experience to date measured against the expected experience. Loss reserves for known catastrophic events are based upon a detailed analysis of our reported losses and potential exposures conducted in conjunction with our underwriters.

Reinsurance recoveries in respect of estimated IBNR claims are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of our reinsurance program over time. An assessment is also made of the collectability of reinsurance recoveries taking into account market data on the financial strength of each of the reinsurance companies.

Because many of the coverages underwritten involve claims that may not be ultimately settled for many years after they are incurred, subjective

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judgments as to the ultimate exposure to losses are an integral and necessary component of the loss reserving process. We review regularly our reserves, using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and prevailing economic, social and legal factors. Reserves established in prior periods are adjusted as claims experience develops and new information becomes available.

The actuarial range is not intended to include the minimum or maximum amount that the claims may ultimately settle at, but is designed to provide management with a range from which it is reasonable to select a single best estimate for inclusion in our financial statements taking into account the impact that all the factors affecting the reserves may have.

While the reported reserves make a reasonable provision for unpaid loss and loss adjustment expense obligations, we note that the process of estimating required reserves does, by its very nature, involve uncertainty and therefore the ultimate claims may fall outside this range. The level of uncertainty can be influenced by such factors as the existence of coverage with long duration payment patterns and changes in claims handling practices, as well as the factors described above.

In determining the range of net reserves, we estimate recoveries due under our proportional and excess of loss reinsurance programs. For the period ended December 31, 2005, there was a strong correlation between the gross and net reserve ranges as the majority of recoveries were from our proportional reinsurance programs and so movements in gross reserves resulted in an equivalent movement in the net reserves. For excess of loss recoveries, if the upper and lower estimates of gross losses are contained within our reinsurance program then there will be minimal movement in the net losses; if gross losses were to reduce to a level below the attachment point of the excess of loss program then movements in gross losses would be replicated as movements in the net loss. The net actuarial range for reserves for losses and loss expenses established at December 31, 2005 was between US$1,604 million and US$1,956 million. The actual net reserves established as at December 31, 2005 were US$1,848.9 million.

The following table sets out the actuarial range of gross reserves for each of our segments and compares it to management's selected best estimate for the twelve months ended December 31, 2005 and 2004.

	As at December 31, 2005		
Gross Reserves	Management's Selected Reserve US$m	Lower End of Actuarial Range US$m	Upper End of Actuarial Range US$m
Property Reinsurance	1,266.7	1,209.6	1,447.8
Casualty Reinsurance	683.4	498.5	698.0
Specialty Insurance and Reinsurance	565.0	458.4	617.3
Property and Casualty Insurance	526.5	489.7	599.1
Potential variation	-	83.2	(162.0)
Total Gross Losses and Loss Expense Reserves	3,041.6	2,739.4	3,200.2

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The range for 2005 has been set on a different basis than in 2004 when it was bounded at the lower end by the minimum value of potential best estimates based on standard actuarial methods and the upper end was set at the level which reflected specific reasonably likely causes of more adverse outcomes.

For 2005, the actuarial range has been set to include a wider range of possible outcomes which includes possible outcomes that we consider possible but less likely. The amounts shown for the lower and upper ends of the actuarial range are different from the sums of the corresponding amounts for the four segments due to variation, which takes into account the fact that at the higher end of the actuarial range we do not expect all segments to deteriorate at the same time (hence the variation credit) and, conversely, at the lower end of the actuarial range not all segments will improve simultaneously (hence the debit).

In selecting our best estimates of the reserves for each line of business we take into account all of the factors set out above, and in particular the quality of the historical information we have on which to establish our reserves and the degree of estimation where information is received from cedants on an underwriting year basis and needs to be converted to an accident year basis. In addition, consideration is given to the point estimate produced by our independent consulting actuaries, which was towards the upper end of the range for the year ended December 31, 2005.

Loss reserves presented on an 'underwriting year' basis represent claims related to all policies incepting in a given year. In contrast, 'accident year' loss reserves represent claims for events that occurred during a given calendar year, regardless of when the policy was written. Loss reserves on an underwriting year basis may include claims from different accident years. For example, a policy written during 2004 may have losses in accident year 2004 and in accident year 2005. Therefore, underwriting year data as of a particular evaluation date is less mature than accident year data.

Estimates of IBNR are generally subject to a greater degree of uncertainty than estimates of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims often may not be apparent to the insured until many years after the event giving rise to the claims has happened. Lines of business where the IBNR proportion of the total reserve is high, such as liability insurance, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

Lines of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility between initial estimates and final outcomes. For reinsurance lines of business, a higher proportion of initial reserves is statistically based IBNR due to longer reporting delays between the original loss and the time when reinsurers are aware of the extent of the losses. For insurance business, notifications are received earlier and closer to the date of original loss notification. This delay in reinsurance lines explains why there is a higher degree of uncertainty in reinsurance than direct loss reserves. Delays in receiving information from cedants are an expected part of normal business operations and are included within the statistical estimate of IBNR to the extent that current levels of backlog are consistent with historical data. Currently, there are no processing backlogs which would materially affect our financial statements.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in our processes which might accelerate or slow down the development and/or recording of paid or incurred claims;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business; and
- the impact of large losses.

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The higher degree of uncertainty associated with reserves for reinsurance business is associated with the assumptions used in deriving the IBNR. Where it is based on an analysis of past loss experience, then the principal assumption is that past patterns of development will be repeated on current business. The process of extrapolation is by necessity one involving subjective judgment because the actuary has to take into account the impact of the changing business mix as well as changes in legislative conditions, changes in judicial interpretation of legal liability policy coverages and inflation. These factors are incorporated in the recommended reserve range from which management selects its best point estimate. As at December 31, 2005, a 5% change in the net reserve for IBNR losses would equate to a change of approximately US$44.5 million in loss reserves which would represent 27.7% of net income before income tax for the twelve months ended December 31, 2005. As at December 31, 2004, a 5% change in the net reserve for IBNR losses would equate to a change of approximately US$30.6 million in loss reserves which would represent 11.6% of net income before income tax for the twelve months ended December 31, 2004.

Prior Year Loss Reserves

In the twelve months ended December 31, 2005, 2004 and 2003, there was a reduction of our estimate of the ultimate claims to be paid. An analysis of this reduction by segment is as follows:

	12 Months Ended December 31, 2005 US$m	12 Months Ended December 31, 2004 US$m	12 Months Ended December 31, 2003 US$m
Property Reinsurance	(13.9)	17.1	3.8
Casualty Reinsurance	10.9	(0.6)	0.4
Specialty Insurance and Reinsurance	27.4	18.1	4.2
Property and Casualty Insurance	26.2	27.4	1.2
Total Reduction in Prior Year Loss Reserves	**50.6**	**62.0**	**9.6**

For the Twelve Months Ended December 31, 2005

The analysis of the development by each segment is as follows:

Property Reinsurance

The net reserves of the Property Reinsurance segment as at December 31, 2004 were US$222.9 million which included specific case reserves in relation to Hurricanes Charley, Frances, Ivan and Jeanne and Typhoon Sondga. Further claims information received in relation to Hurricane Ivan and Typhoon Songda windstorms has given rise to a US$7.8 million increase in reserves in the period. In addition, further claims notifications in respect of certain treaty risk excess contracts received during the twelve months to December 31, 2005 highlighted deterioration in claims development resulting in a strengthening in claims reserves of US$6.1 million.

Casualty Reinsurance

As at December 31, 2004 the Casualty Reinsurance segment held net claims reserves of US$ 373.2 million. Favorable trends in claims development in the Non-US casualty and US casualty lines have seen claims develop at a slower than expected rate, and led to a release of prior year net reserves of US$10.9 million. Most of the release in respect of the US casualty lines relates to workers' compensation catastrophe excess of loss contracts which have a short reporting period.

Specialty Insurance and Reinsurance

As at December 31, 2004 the Specialty segment held net claims reserves of US$157.9 million, partly derived through the Wellington quota share arrangements. These have developed better than anticipated resulting in a release of US$7.2 million. A better than expected development from the

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2004 windstorms saw a favorable development of US$1.3 million, while a significantly lower than anticipated development of IBNR claims, particularly in the specialty reinsurance lines led to a favorable development of US$18.9 million.

Property and Casualty Insurance

The net reserves of the Insurance segment as at December 31, 2004 were US$ 326.2 million. Development in the shorter-tail property insurance lines has seen a lower claim development than had been expected and the liability insurance class has to date seen a lower level of incurred claims than projected giving rise to a release in net reserves of US$26.2 million across these two classes.

For the Twelve Months Ended December 31, 2004

The analysis of the favorable development by each segment is as follows:

Property Reinsurance

The net reserves of the Property Reinsurance segment as at December 31, 2003 were US$95.3 million, which included specific case reserves in relation to brush fires in the United States, Hurricanes Fabian and Isabel and a Phillips factory loss in Normandy, France. Further claims information received during the twelve months ended December 31, 2004 highlighted a lower severity of these reported claims than was originally anticipated and gave rise to a US$17.1 million reduction in reserves in the period.

Casualty Reinsurance

The net reserves of the Casualty Reinsurance segment as at December 31, 2003 were US$125.6 million. We do not receive notice of most of the claims in this segment until a considerable time has passed, however incurred claims development in the twelve months ended December 31, 2004 resulted in a small increase in the projected loss ratio for this class of business giving rise to a strengthening of reserves of US$0.6 million.

Specialty Insurance and Reinsurance

The net reserves of the Specialty segment as at December 31, 2003 were US$94.0 million, largely derived through the Wellington quota share arrangements. Premium and claims information received from the cedant during the twelve months ended December 31, 2004 enabled the Company to refine its accident year assessment. Further information received concerning the development of reserves acquired on the acquisition of City Fire (now renamed Aspen Re) has also contributed to the overall release in reserves of US$18.1 million.

Property and Casualty Insurance

The net reserves of the commercial property line of business as at December 31, 2003 were US$40.5 million. Better than expected development in incurred claims during 2004 and the short-tail nature of this class of business has enabled us to refine our accident year assessment. This has given rise to a release in net reserves of US$13.8 million. The net reserves of the commercial liability line of business as at December 31, 2003, were US$126.8 million. During 2004, development of incurred claims has been slower than previously expected resulting in a reduction in the projected loss ratio suggested by the actuarial projection at December 31, 2004. This has resulted in a release in net reserves of US$13.6 million in the period.

For the Twelve Months Ended December 31, 2003

The analysis of the favorable development on a segmental basis for the period is as follows:

Property Reinsurance

The net reserves of the Property Reinsurance segment as at December 31, 2002 were US$24 million, of which US$9 million related to the Wellington quota share arrangements. Premiums and claims information received from Lloyd's Syndicates 3030 ('Syndicate 3030') and Syndicate 2020 (together, the 'Syndicates') and other cedants during the twelve months ended December 31, 2003, has indicated both a reduction in the 2002 underwriting year loss ratio and also an improvement in the accident year loss ratio for 2002. This resulted from a lower development of the severity of reported claims than is often observed in this segment and gave rise to a US$3.8 million reduction in reserves.

Casualty Reinsurance

The net reserves of the Casualty Reinsurance segment as at December 31, 2002 were US$10 million. Although we do not receive notice of most of the claims in this segment until a considerable time has passed, some claims have a shorter notification period due to some of the more catastrophic

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elements of the business. The development of incurred losses in the twelve months subsequent to December 31, 2002 has enabled a small reduction in the projected loss ratio for this business from that suggested by the actuarial projection at December 31, 2002, giving rise to the reduction in reserves of US$0.4 million.

Specialty Insurance and Reinsurance

The net reserves of the Specialty segment as at December 31, 2002 were US$30.9 million. All of the specialty business as at December 31, 2002 was derived through the Wellington quota share arrangements. The reserves established as at December 31, 2002 were based upon the cedants' underwriting year estimates. Management assessed these estimates and, with the data provided, determined the accident year loss ratio. Premiums and claims information received from the cedant during the twelve months ended December 31, 2003 has enabled us to refine our accident year assessment. This has resulted in a release in reserves of US$4.2 million.

Property and Casualty Insurance

The net reserves of the Property Insurance line of business as at December 31, 2002 were US$2.4 million. This account had only two years of Syndicates history prior to its being written by us. The reserves established as at December 31, 2002 were partly based upon the historical performance experienced in those two years. During the course of 2003, the historical information improved due in particular to the settlement of one claim significantly below its case reserve. This improvement enabled us to reassess the likely level of IBNR claims in respect of the 2002 accident year, resulting in a reduction in reserves of US$1.2 million.

Other than the matters described above, 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, 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.

Results of Operations

Our financial statements are prepared in accordance with US GAAP. The discussions that follow include tables and discussions relating to our consolidated income statement and our segmental operating results for the twelve months ended December 31, 2005, 2004 and 2003.

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Consolidated Income Statement

Revenues	For the 12 Months Ended December 31, 2005 US$m	For the 12 Months Ended December 31, 2004 US$m	For the 12 Months Ended December 31, 2003 US$m
Gross premiums written	2,092.5	1,586.2	1,306.8
Net premiums written	1,651.6	1,357.6	1,092.8
Gross premiums earned	1,932.6	1,469.0	987.8
Net premiums earned	1,508.4	1,232.8	812.3
Net investment income	121.3	68.3	29.6
Change in fair value of derivatives	19.4	(4.0)	-
Total Revenues	**1,649.1**	**1,297.1**	**841.9**

Expenses			
Insurance losses and loss adjustment expenses	(1,358.5)	(723.6)	(428.4)
Policy acquisition expenses	(283.2)	(212.0)	(152.3)
Operating and administration expenses	(125.9)	(93.0)	(53.3)
Interest on long-term debt	(16.2)	(6.9)	(0.4)
Realized investment (losses)	(4.4)	(3.5)	(2.4)
Realized exchange gains/(losses)	(18.2)	5.1	1.5
Other expenses	(3.1)	-	-
Total Expenses	**(1,809.5)**	**(1,033.9)**	**(635.3)**
Income/(loss) from operations before income tax	(160.4)	263.2	206.6
Income tax (expense)/benefit	(17.4)	(68.1)	(54.5)
Net Income/(Loss)	**(177.8)**	**195.1**	**152.1**

Ratios	%	%	%
Loss ratio	90.1	58.7	52.7
Expense ratio	27.1	24.7	25.3
Combined ratio	117.2	83.4	78.0

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Gross Premiums Written

Gross premiums written increased by 31.9% in 2005 compared to 2004. This was largely due to the growth in our marine and energy and aviation insurance lines which increased by 508% and property reinsurance which increased by 25.2%. The increase in property reinsurance included US$71.0 million attributable to inwards reinstatement premium from the 2005 hurricanes (2004-US$16.7 million; 2003-nil). Gross premiums written increased by 21.4% in 2004 compared to 2003. The increases included US$154.5 million from net new business and rate increases in casualty reinsurance, US$47.1 million from new property reinsurance business written through Aspen Re America, US$43.6 million from our new marine lines of business and US$60.3 million of new business written by Aspen Specialty and reported under property insurance (US$30.0 million) and liability insurance (US$30.3 million).

Net Premiums Written

Net premiums written increased by approximately 22% in 2005 compared to 2004, at a slightly slower pace than the growth in 2004 of approximately 24%. Each year we arrange reinsurance in respect of certain of our exposures and the amounts paid and payable under these arrangements are shown as reinsurance ceded and deducted in arriving at net premiums written. As a result of the hurricanes in 2005 we expect to make significant recoveries. Under the terms of the reinsurance contracts we are also obligated to make certain additional payments usually in the form of reinstatement premiums which are a feature of these contracts related to the reinsurers' obligations to provide recoveries in respect of more than one loss. The amount of the additional payment obligations arising as a result of the 2005 hurricanes was US$149.7 million or 7.2% of the gross premiums written for the year, whereas in 2004, we had reinstatement premiums of US$22.9 million or 1.4% of gross premiums written.

The growth rate in net premiums written is less than the growth rate in our gross premiums written largely due to our outwards reinstatement premiums of US$149.7 million as a result of the 2005 hurricanes being greater than our inwards reinstatement premiums of US$78.7 million.

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. Therefore, the earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the balance sheet date. Gross premiums earned in 2005 increased by 31.6% compared to 2004, and represented 92.4% of gross premiums written in the year. The growth in gross premiums earned is primarily as a result of the new business written in our marine and aviation insurance lines, which increased by US$156.3 million, as 2005 was the first full year writing these lines of business. The ratios of gross premiums earned to gross premiums written in 2005 and 2004 were substantially the same. Gross premiums earned increased significantly in 2004 by 48.7% compared to 2003 as a result of growth in gross written premiums.

Net Premiums Earned

Net premiums earned increased by 22.4% in 2005 compared to 2004 and by 51.8% in 2004 compared to 2003. The increases for each of our segments were as follows:

Net Premiums Earned	For the 12 Months Ended December 31, 2005 US$m	% Increase	For the 12 Months Ended December 31, 2004 US$m	% Increase	For the 12 Months Ended December 31, 2003 US$m
Property Reinsurance	497.3	5.9	469.6	51.9	309.1
Casualty Reinsurance	470.6	33.3	353.1	122.4	158.8
Specialty Insurance and Reinsurance	232.9	105.0	113.6	(11.7)	128.7
Property and Casualty Insurance	307.6	3.7	296.5	37.5	215.7
Total	**1,508.4**	**22.4**	**1,232.8**	**51.8**	**812.3**

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The largest percentage increase in 2005 relates to new marine and aviation insurance business written in our specialty segment and increases in our casualty reinsurance account, driven primarily by US$55.7 million of structured risks written in the year. The net premiums earned in 2005 represented 91.3% of net premiums written (2004-90.8%; 2003-74.3%).

Insurance Losses and Loss Adjustment Expenses

Our losses and loss adjustment expenses increased significantly year-on-year (2005-87.7% increase; 2004-68.9% increase), mainly as a result of our hurricane losses in both 2004 (US$196.1 million net of reinsurance from Hurricanes Charley, Frances, Ivan, Jeanne and Typhoon Songda) and 2005 (US$594.6 million net of reinsurance from Hurricanes Katrina, Rita and Wilma and before potential receipts under our cat swap) and our growth in gross premiums written. Our insurance losses and loss adjustment expenses included paid claims of US$551.9 million in 2005, US$164.6 million in 2004, and US$53.9 million in 2003.

Policy Acquisition Expenses

Policy acquisition expenses increased by 33.6% in 2005 compared to 2004, and represented 14.7% of gross premiums earned, whereas in 2004, policy acquisition expenses increased by 39.2% compared to 2003, and represented 14.4% of gross premiums earned for the twelve months ended December 31, 2004. The increase in expenses in 2005 was due to the growth in premiums written and earned.

Operating and Administrative Expenses

Operating and administrative expenses increased by 35.4% in 2005 compared to 2004 and increased by 74.5% in 2004 compared to 2003. Operating and administrative expenses as a percentage of gross premiums earned were 6.5% in 2005, 6.3% in 2004 and 5.4% in 2003, representing increases broadly in line with the growth of our business. The main components of increasing expenditure have been staff costs, accommodation costs and costs associated with the development of our information technology. The increase in 2004 represented higher staffing levels as new business lines were introduced, and in addition full year costs for Aspen Specialty and Aspen Re America were incurred.

Net Investment Income

Net investment income consists primarily of interest on fixed income securities and is stated after deduction of expenses relating to the management of our investments. Net investment income increased substantially in 2005 by 77.6% compared to 2004, and in 2004 increased by 130.7% compared to 2003. The increases have been driven by rising interest rates and increases in our total cash and investment balances by 46.9% in 2005 and 63.5% in 2004. The increase in cash and investment balances in 2005 includes approximately US$790 million after expenses in respect of the issuance of new ordinary shares and Perpetual PIERS (2004-US$249 million in respect of issuance of long-term debt).

During 2005, we continued our strategy of gradually extending portfolio duration as interest rates and bond yields rose during the year. As a result, our aggregate portfolio book yield increased from 3.30% as of December 31, 2004 to 4.08% as of December 31, 2005. The aggregate portfolio duration increased from 1.76 years at December 31, 2004 to 2.20 years at December 31, 2005. Our fixed income portfolio duration increased from 2.20 years as of December 31, 2004 to 2.90 years as of December 31, 2005. The increase in duration resulted in greater exposure to interest rate risk as discussed below.

Unrealized Gains on Derivatives

This arose from an increase in the estimated fair value of a catastrophe risk transfer swap contract entered into for a three-year period in August 2004. This contract requires us to make quarterly payments in return for which we are entitled to receive a total of up to US$100 million on the occurrence of hurricanes making landfall in Florida and causing damage in excess of US$39 billion or an earthquakes in California causing insured damage in excess of US$23 billion. The determination of whether or not we are entitled to a recovery under the contract depends on estimates of insured damage published by PCS. The latest estimate of the insured loss arising from Hurricane Katrina published by PCS on December 6, 2005 was US$38.1 billion. Based on the record of increasing PCS estimates following previous natural catastrophe losses in the United States, we expect that future estimates by PCS of this loss will increase. We have taken this and the illiquid nature of the catastrophe risk transfer swap market into account in our valuation of this contract as at December 31, 2005. See above '-Critical Accounting Policies-Risk Transfer Swap'.

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Income/(Loss) before Tax

In 2005, we incurred losses before tax of US$160.4 million. The principal source of loss in 2005 was underwriting losses of US$358.2 million in our property reinsurance segment resulting from the 2005 hurricanes. Our underwriting losses were offset by US$121.3 million in respect of net investment income and a US$19.4 million net unrealized gain on derivatives. We also incurred losses of US$18.2 million from the sale or revaluation of foreign currencies and US$4.4 million from the sale of investments. Income before tax in 2004 was US$263.2 million (2003-US$206.6 million), which included underwriting income of US$204.2 million (2003-US$178.3 million) and net investment income of US$68.3 million (2003-US$29.6 million).

Income Tax Expense

Income tax expense decreased to US$17.4 million in 2005 from US$68.1 million in 2004 and US$54.5 million in 2003. Even though in 2005 we had net losses before tax of US$160.4 million, we still incurred a tax expense because Aspen Re was profitable in 2005. Our tax rate in 2005 was (10.8)%, and is not indicative of future tax rates as 2005 was a loss-making year. Our consolidated tax rate for 2004 was 25.9%, whereas in 2003 it was 26.4%. The tax rate decreased in 2004 due to a greater proportion of the Company's profit being derived from our Bermudian operations.

Net Income/(Loss)

In 2005, we had a net loss of US$177.8 million, equivalent to a loss of US$2.40 per share-based on the weighted average number of shares in issue during the period. Because of the losses in the year the diluted loss per share is the same as the basic loss per share. This compares to a net income of US$195.1 million in 2004, equivalent to US$2.82 earnings per basic share and US$2.74 fully diluted earnings per share, and net income of US$152.1 million in 2003, equivalent to US$2.63 earnings per basic share and US$2.56 fully diluted earnings per share on the basis of the weighted average number of shares in issue during the period.

Underwriting Results by Operating Segments

Our business segments are based on how we monitor the performance of our underwriting operations. 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 which cannot be attributed directly to any one segment by net premiums earned. As a relatively new company, our historical combined ratio may not be indicative of future underwriting performance. We do not manage our assets by segment; accordingly, investment income and total assets are not allocated to the individual segments. Operating and administrative expenses are allocated to segments based on each segment's proportional share of gross premiums written.

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The following tables summarize gross and net premiums written and earned, underwriting results, and combined ratios and reserves for each of our four business segments for the twelve months ended December 31, 2005, 2004 and 2003.

	12 Months Ended December 31, 2005				
	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Total US$m
Gross premiums written	813.2	526.7	368.3	384.3	2,092.5
Net premiums written	523.4	508.9	317.7	301.6	1,651.6
Gross premiums earned	763.2	488.1	278.8	402.5	1,932.6
Net premiums earned	497.3	470.6	232.9	307.6	1,508.4
Expenses					
Losses and loss expenses	(700.8)	(328.3)	(148.5)	(180.9)	(1,358.5)
Policy acquisition, operating and administrative expenses	(154.7)	(112.8)	(60.6)	(81.0)	(409.1)
Underwriting Profit (Loss)	**(358.2)**	**29.5**	**23.8**	**45.7**	**(259.2)**
Net reserves for loss and loss adjustment expenses	599.8	674.8	207.2	367.1	1,848.9
Ratios	%	%	%	%	%
Loss ratio	140.9	69.7	63.8	58.8	90.1
Expense ratio	31.1	24.0	26.0	26.3	27.1
Combined ratio	172.0	93.7	89.8	85.1	117.2

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	12 Months Ended December 31, 2004				
	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Total US$m
Gross premiums written	649.3	446.7	125.3	364.9	1,586.2
Net premiums written	499.9	436.7	109.0	312.0	1,357.6
Gross premiums earned	630.1	363.3	128.0	347.6	1,469.0
Net premiums earned	469.6	353.1	113.6	296.5	1,232.8
Expenses					
Losses and loss expenses	(262.5)	(252.2)	(45.5)	(163.4)	(723.6)
Policy acquisition, operating and administrative expenses	(142.2)	(70.9)	(22.3)	(69.6)	(305.0)
Underwriting Profit (Loss)	**64.9**	**30.0**	**45.8**	**63.5**	**204.2**
Net reserves for loss and loss adjustment expenses	222.9	373.2	157.9	326.2	1,080.2
Ratios	%	%	%	%	%
Loss ratio	55.9	71.4	40.1	55.1	58.7
Expense ratio	30.3	20.1	19.6	23.5	24.7
Combined ratio	86.2	91.5	59.7	78.6	83.4

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12 Months Ended December 31, 2003	Property Reinsurance US$m	Casualty Reinsurance US$m	Specialty Insurance & Reinsurance US$m	Property & Casualty Insurance US$m	Total US$m
Gross premiums written	558.2	292.3	151.4	304.9	1,306.8
Net premiums written	400.0	280.3	140.7	271.8	1,092.8
Gross premiums earned	437.2	168.0	142.0	240.6	987.8
Net premiums earned	309.1	158.8	128.7	215.7	812.3
Expenses					
Losses and loss expenses	(106.7)	(115.8)	(80.5)	(125.4)	(428.4)
Policy acquisition, operating and administrative expenses	(110.3)	(31.9)	(23.4)	(40.0)	(205.6)
Underwriting Profit (Loss)	**92.1**	**11.1**	**24.8**	**50.3**	**178.3**
Net reserves for loss and loss adjustment expenses	95.3	125.6	94.0	167.3	482.2
Ratios	%	%	%	%	%
Loss ratio	34.5	72.9	62.5	58.1	52.7
Expense ratio	35.7	20.1	18.2	18.6	25.3
Combined ratio	70.2	93.0	80.7	76.7	78.0

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Property Reinsurance

In 2005, we wrote property reinsurance on both a treaty and facultative basis. The property treaty reinsurance we write includes catastrophe, including a small retrocession account, risk excess and pro rata.

Gross Premiums Written

Gross premiums written in this segment increased by 25.2% compared to 2004. The table below shows our gross premiums written for each line of business for each of 2005, 2004 and 2003, and the percentage increase in gross premiums written for each line.

Gross Premiums Written	For the 12 Months Ended December 31, 2005 US$m	For the 12 Months Ended December 31, 2005 % Increase	For the 12 Months Ended December 31, 2004 US$m	For the 12 Months Ended December 31, 2004 % Increase	For the 12 Months Ended December 31, 2003 US$m
Treaty Catastrophe	373.3	38.9	268.7	16.8	230.0
Treaty Risk Excess	263.8	8.0	244.3	7.9	226.4
Treaty Pro Rata	168.1	29.4	129.9	114.7	60.5
Property Facultative	8.0	25.0	6.4	(84.5)	41.3
Total	**813.2**	**25.2**	**649.3**	**16.3**	**558.2**

The increases in respect of catastrophe and risk excess of loss treaties include reinstatement premiums and other similar revenues, totaling US$71.0 million and US$14.7 million arising as a result of the hurricane losses in 2005 and 2004 respectively. The annual increases in risk excess and proportional treaties include US$74.6 million in 2005 (2004-US$47.1 million) in respect of business produced by Aspen Re America. The increase in proportional treaty also includes the property component of our reinsurance of a quota share of a participant in Lloyd's Syndicate 958 (managed by Omega Underwriting Agents). In 2004, gross premiums written increased by 16.3% compared to 2003. The increases in 2004 included US$47.1 million from new property reinsurance business written through Aspen Re America, which consisted mostly of risk excess, treaty catastrophe and treaty pro rata.

Reinsurance Ceded

In 2005, we paid or provided for US$116.5 million of additional ceded premiums to reinstate reinsurance protections following the 2005 hurricanes (2004-US$104.4 million; 2003-US$9.0 million).

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Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses increased by 167.0% in 2005 compared to 2004. The losses of US$700.8 million in 2005 (2004-US$262.5 million; 2003-US$106.7 million) include the following losses:

Property Reinsurance Losses	**For the 12 Months Ended December 31, 2005 US$m**	For the 12 Months Ended December 31, 2004 US$m	For the 12 Months Ended December 31, 2003 US$m
Hurricane Katrina	**427.5**	-	-
Hurricane Rita	**43.5**	-	-
Hurricane Wilma	**15.8**	-	-
Refinery fire	**16.8**	-	-
Print works fire	**11.5**	-	-
2004 Windstorms and Typhoon Songda	**-**	179.7	-
California brush fires	**-**	-	15.3
Phillips factory fire	**-**	-	16.2

The balance of losses, excluding the losses described above, were US$185.7 million in 2005 (2004-US$82.8 million; 2003-US$75.2 million) representing 37.3% of net premiums earned (2004-17.6%, 2003 -24.3%). In 2005, we also recorded a US$13.9 million reserve strengthening which represented 2.8% of net premiums, earned whereas in 2004, we recognized a US$17.1 million reserve release and in 2003, a US$3.8 million reserve release (3.6% and 1.2% of net earned premiums respectively). In 2004, we experienced a very low level of reported losses, whereas in 2005, we suffered from a higher than expected level of attritional losses.

As a result of the 2005 hurricanes, our loss ratio in this segment increased significantly to 140.9% as net premiums earned in the year were substantially less than the losses incurred. Losses and loss adjustment expenses for 2005 are stated after deduction of US$605.0 million in reinsurance recoveries received or receivable (2004-US$104.4 million, 2003-US$9.0 million). Any failure to collect these amounts as a result of the inability of our reinsures to pay or as a result of disputes which are not resolved in our favor could result in charges in future years.

Policy Acquisition, Operating and Administrative Expenses

Total expenses in 2005 increased by 8.8%, mainly as a result of additional acquisition costs on the increased level of business written. Total expenses in 2004 increased by 28.9%. Expenses as a percentage of gross premiums earned were 20.3% in 2005 (2004-22.6%, 2003-25.2%). The decrease in the percentage of expenses to gross premiums earned is attributable to two principal factors: (1) in 2005, gross premiums earned increased by US$69.3 million due to reinstatement premiums, which typically do not incur commission charges; and (2) as other business lines developed, a greater amount of central administrative expenses was allocated to the other segments.

Casualty Reinsurance

Our Casualty Reinsurance segment is written mainly on a treaty basis with a small proportion of facultative risks. The casualty treaty reinsurance is primarily written on an excess of loss basis and includes coverage for claims arising from automobile accidents, employers' liability, professional indemnity and other third party liabilities. It is written in respect of cedants located mainly in the United States, the United Kingdom, Europe and Australia. The casualty facultative business covers United States umbrella, workers' compensation and general liability business.

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Gross Premiums Written

Gross premiums written increased by 17.9% in 2005 compared to 2004. The table below shows our gross premiums written for each line of business for each of 2005, 2004 and 2003, and the percentage increase in gross premiums written for each line.

	For the 12 Months Ended December 31, 2005		For the 12 Months Ended December 31, 2004		For the 12 Months Ended December 31, 2003
Gross Premiums Written	US$m	% Increase	US$m	% Increase	US$m
US Treaty	304.8	37.0	222.5	106.8	107.6
Non-US Treaty	196.1	8.1	181.4	24.9	145.3
Casualty Facultative	25.8	(39.7)	42.8	8.6	39.4
Total	**526.7**	**17.9**	**446.7**	**52.8**	**292.3**

The increase in US treaty includes US$55.4 million in respect of three contracts written by our structured risk team. In 2004, the gross premiums written increased by 52.8% compared to 2003. We saw an increase of US$154.4 million in 2004 largely due to increases in US casualty, although US auto liability business written through WU Inc. in 2003 was discontinued in 2004 and we are no longer writing automobile reinsurance of this type.

Losses and Loss Adjustment Expenses

Our losses and loss adjustment expenses increased by US$76.1 million from US$252.2 million in 2004, which was in line with the increase in the gross premiums earned. The substantial increase in loss expenses in 2004 was primarily due to the increase in business written in 2004 compared to 2003. Our loss ratio in this segment was profitable for the year, and continues to improve year-on-year (2005-69.7%; 2004-71.4%; 2003-72.9%).

The loss ratio for 2005 benefited from a prior year reserve release of US$13.9 million as discussed above under ' - Critical Accounting Policies - Prior year loss reserves.'

Policy Acquisition, Operating and Administrative Expenses

Total expenses increased by 59.1% in 2005 and the expense ratio for 2005 increased by approximately 3.9%. Because US treaty is making up a greater proportion of the business written year-on-year in this segment and as it incurs higher commission rates than other lines of business, the average expense ratio has increased. Also, our structured risks written in this segment incur higher acquisition costs. In addition, a greater proportion of central administrative costs were allocated to this segment commensurate with the proportional increase of the business written by this segment. The expense ratio was the same in both 2004 and 2003.

Specialty Insurance and Reinsurance

Our Specialty Insurance segment includes marine and energy and aviation insurance written by Aspen Re. Our specialty reinsurance lines of business include aviation, marine and other specialty reinsurance.

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The following tables summarize gross and net premiums written and earned, underwriting results and combined ratios for Specialty Insurance and Specialty Reinsurance separately for the twelve months ended December 31, 2005, 2004 and 2003.

	12 Months Ended December 31, 2005		
	Specialty Insurance US$m	Specialty Reinsurance US$m	Total US$m
Gross premiums written	265.2	103.1	368.3
Net premiums written	221.0	96.7	317.7
Gross premiums earned	167.1	111.7	278.8
Net premiums earned	132.1	100.8	232.9
Losses and loss adjustment expenses	(100.5)	48.0	(148.5)
Policy acquisition, operating and administration expenses	(37.7)	(22.9)	(60.6)
Underwriting Profit (Loss)	**(6.1)**	**29.9**	**23.8**
Ratios	%	%	%
Loss ratio	76.1	47.6	63.8
Expense ratio	28.5	22.7	26.0
Combined ratio	104.6	70.3	89.8

	12 Months Ended December 31, 2004		
	Specialty Insurance US$m	Specialty Reinsurance US$m	Total US$m
Gross premiums written	43.6	81.7	125.3
Net premiums written	36.5	72.5	109.0
Gross premiums earned	10.8	117.2	128.0
Net premiums earned	9.0	104.6	113.6
Losses and loss adjustment expenses	(7.1)	(38.4)	(45.5)
Policy acquisition, operating and administration expenses	(2.3)	(20.0)	(22.3)
Underwriting Profit (Loss)	**(0.4)**	**46.2**	**45.8**
Ratios	%	%	%
Loss ratio	78.9	36.7	40.1
Expense ratio	25.5	19.1	19.6
Combined ratio	104.4	55.8	59.7

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	12 Months Ended December 31, 2003		
	Specialty Insurance US$m	Specialty Reinsurance US$m	Total US$m
Gross premiums written	-	151.4	151.4
Net premiums written	-	140.7	140.7
Gross premiums earned	-	142.0	142.0
Net premiums earned	-	128.7	128.7
Losses and loss adjustment expenses	-	(80.5)	(80.5)
Policy acquisition, operating and administration expenses	-	(23.4)	(23.4)
Underwriting Profit (Loss)	**-**	**24.8**	**24.8**

Ratios	%	%	%
Loss ratio	-	62.5	62.5
Expense ratio	-	18.2	18.2
Combined ratio	-	80.7	80.7

Gross Premiums Written

Gross premiums written increased significantly in 2005 by 193.9% in the period. The table below shows our gross premiums written for each line of business for each of 2005, 2004 and 2003, and the percentage increase in gross premiums written for each line.

	For the 12 Months Ended December 31, 2005		For the 12 Months Ended December 31, 2004		For the 12 Months Ended December 31, 2003
Gross Premiums Written	**US$m**	**% Increase**	US$m	% Increase	US$m
Marine and Specialty Liability Insurance	122.4	200.0	40.8	-	-
Marine and Energy Property Insurance	110.8	3,857.1	2.8	-	-
Aviation Insurance	52.4	-	-	-	-
Specialty Reinsurance	82.7	1.2	81.7	(46.0)	151.4
Total	**368.3**	**193.9**	**125.3**	**(17.2)**	**151.4**

Specialty Insurance increased by US$221.6 million in 2005 and represented 72.0% of the gross premiums written in this segment. In 2004, our specialty insurance lines represented 34.8% of this segment as we began writing marine and energy insurance in the final quarter of 2004 and did not write any aviation insurance in that period. In 2004, our specialty reinsurance line of business decreased by US$69.7 million as we did not continue into 2004 our quota share reinsurance of Syndicate 2020, which accounted for US$78.4 million in 2003.

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Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses increased by US$103.0 million in 2005 compared to 2004. The increase in loss expenses was attributable to the growth of the specialty insurance lines in this segment. In addition, we also incurred the following large losses in 2005. We did not incur any significant large losses in 2003 and 2004.

Losses	For the 12 Months Ended December 31, 2005 US$m
2005 Hurricanes	22.8
UK Fire & Explosion	18.8
Aviation losses	16.2

The loss ratio for 2005 increased substantially compared to 2004, as a result of the 2005 hurricane losses and marine and aviation insurance business being reserved at a generally higher rate than our specialty reinsurance lines. However, the year also benefited from a release of US$27.4 million from prior year reserves as discussed above under '- Critical Accounting Policies - Prior Year Loss Reserves.'

For 2004, the loss expenses had decreased significantly by 43.5% compared to 2003 due to an US$18.1 million reserve release being recognized in that year.

Policy Acquisition, Operating and Administration Expenses

Total expenses increased by US$38.3 million or 171.7% in 2005, mostly attributed to the first full year of underwriting by our specialty insurance lines. The higher expense ratio for specialty insurance business is due to the higher acquisition costs associated with this business. Total expenses did not change significantly between 2003 and 2004.

Property and Casualty Insurance

We write both commercial property and commercial liability insurance. Our commercial property line of business is primarily composed of UK commercial property insurance and US excess and surplus lines property business written through Aspen Specialty. Our commercial liability line of business consists of UK employers' and public liability insurance, and casualty insurance in the US on a surplus lines basis.

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The following table summarizes gross and net written premiums and earned, underwriting results and combined ratios for each of the lines of business within our Insurance segment for the twelve months ended December 31, 2005, 2004 and 2003.

	12 Months Ended December 31, 2005		
	Property Insurance US$m	Casualty Insurance US$m	Total US$m
Gross premiums written	138.3	246.0	384.3
Net premiums written	79.5	222.1	301.6
Gross premiums earned	127.4	275.1	402.5
Net premiums earned	71.2	236.4	307.6
Losses and loss adjustment expenses	(40.8)	(140.1)	(180.9)
Policy acquisition, operating and administration expenses	(25.7)	(55.3)	(81.0)
Underwriting Profit (Loss)	**4.7**	**41.0**	**45.7**
Ratios	%	%	%
Loss ratio	57.3	59.3	58.8
Expense ratio	36.1	23.4	26.3
Combined ratio	93.4	82.7	85.1

	12 Months Ended December 31, 2004		
	Property Insurance US$m	Casualty Insurance US$m	Total US$m
Gross premiums written	122.1	242.8	364.9
Net premiums written	93.0	219.0	312.0
Gross premiums earned	98.0	249.6	347.6
Net premiums earned	73.8	222.7	296.5
Losses and loss adjustment expenses	(38.5)	(124.9)	(163.4)
Policy acquisition, operating and administration expenses	(22.1)	(47.5)	(69.6)
Underwriting Profit (Loss)	**13.2**	**50.3**	**63.5**
Ratios	%	%	%
Loss ratio	52.2	56.1	55.1
Expense ratio	29.9	21.3	23.5
Combined ratio	82.1	77.4	78.6

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	12 Months Ended December 31, 2003		
	Property Insurance US$m	Casualty Insurance US$m	Total US$m
Gross premiums written	81.7	223.2	304.9
Net premiums written	75.7	196.1	271.8
Gross premiums earned	72.0	168.6	240.6
Net premiums earned	61.9	153.8	215.7
Losses and loss adjustment expenses	(26.8)	(98.6)	(125.4)
Policy acquisition, operating and administration expenses	(15.7)	(24.3)	(40.0)
Underwriting Profit (Loss)	**19.4**	**30.9**	**50.3**

Ratios	%	%	%
Loss ratio	43.3	64.1	58.1
Expense ratio	26.0	15.8	18.6
Combined ratio	68.7	79.9	76.7

Gross Premiums Written

Gross premiums written in this segment increased by 5.3% in 2005 compared to 2004, whereas in 2004, the gross premiums written increased by 19.7% compared to 2003. The table below shows our gross premiums written for each line of business for each of 2005, 2004 and 2003, and the percentage increase in gross premiums written for each line.

	For the 12 Months Ended December 31, 2005		For the 12 Months Ended December 31, 2004		For the 12 Months Ended December 31, 2003
Gross Premiums Written	US$m	% Increase	US$m	% Increase	US$m
UK Commercial Property	61.0	(12.9)	70.0	(10.7)	78.4
US Commercial Property	67.0	65.8	40.4	-	-
Worldwide Property	10.3	(12.0)	11.7	254.5	3.3
UK Commercial Liability	171.2	(19.4)	212.4	(4.8)	223.2
US Commercial Liability	74.8	146.1	30.4	-	-
Total	**384.3**	**5.3**	**364.9**	**19.7**	**304.9**

In 2005, we increased our US surplus lines in both property (2005-US$67.0 million; 2004-US$40.4 million) and casualty (2005-US$74.8 million; 2004-US$30.3 million). We wrote less UK liability business than in 2004 as rates have dropped. The increase in 2004 was primarily due to the first full year of premiums from Aspen Specialty, which wrote both property and casualty insurance in the United States.

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Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses increased by 10.7% in 2005 due to both the increase in business written in this segment and losses associated with the 2005 hurricanes of US$13.7 million. However, the year also benefited from a release of US$26.2 million of prior year reserves in the period largely due to slower than expected development of incurred claims, as further described above under '- Critical Accounting Policies - Prior Year Loss Reserves.'

Loss expenses increased by 30.3% in 2004 compared to 2003. The only material claim incurred during 2004 arose from a factory fire in Suffolk, UK (US$14.4 million).

Policy Acquisition, Operating and Administrative Expenses

Total expenses in 2005 increased by 16.4% compared to 2004, largely as a result of increases in gross premiums earned in this segment. Total expenses increased by 74.0% in 2004 compared to 2003, which was due to the set up costs associated with the establishment of our US insurance operations, and the relatively low contribution to earned premiums from these operations during this early stage of development. Additionally, the worldwide property team's costs were recorded in 2004. Neither of these had costs in 2003. The expense ratio increased slightly in 2005 by 2.9%. The rate of increase in expenses was consistent with the rate of increase in gross premiums earned which was 15.8% in 2005. The expense ratio increased by 5.3% in 2004 compared to 2003 due to a greater proportion of commercial property business, which attracts higher brokerage rates, being written in 2004 when compared with 2003.

Liquidity and Capital Resources

As a holding company, our assets primarily consist of our share ownership in our subsidiaries as well as cash balances and investment assets. In addition to net investment income, our cash flows depend on dividend and interest payments from our Insurance Subsidiaries. As of December 31, 2005, the maximum amount of distributions that our Insurance Subsidiaries could have paid to us under applicable laws and regulations without prior regulatory approval was approximately US$151.1 million.

The ability of our Insurance Subsidiaries to pay us dividends or other distributions are 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. As of December 31, 2005, Aspen Bermuda has an accumulated deficit and therefore could not pay a dividend or make a distribution based upon the Bermuda Insurance Act of 1978 ('Insurance Act') and the Bermuda Companies Act regulations. As of December 31, 2005, Aspen Re could pay a dividend totaling approximately US$139.8 million without prior regulatory approval based upon the FSA and the Bermuda Companies Act regulations. Aspen Specialty could pay a dividend without regulatory approval of approximately US$11.3 million.

In 2005, Aspen (UK) Holdings paid us a dividend of US$17.0 million. No other dividends were paid to us in 2005. We also received interest of US$26.0 million from Aspen (UK) Holdings in respect of an intercompany loan.

Management monitors the liquidity of Aspen Holdings and of each of its Insurance Subsidiaries. In relation to Aspen Holdings, we monitor its ability to service debt, to finance dividend payments to shareholders and holders of our Perpetual PIERS and to provide financial support to the Insurance Subsidiaries. In 2004, our Board of Directors authorized a quarterly dividend payment of US$0.03 per ordinary share per fiscal quarter. In 2005, we increased our quarterly dividend payments to US$0.15 per share.

As at December 31, 2005 and 2004, Aspen Holdings held US$203.7 million and US$19.9 million, respectively, in cash and cash equivalents which management considers sufficient to provide us liquidity at such time. Operating cash flow, borrowing, the issuance of 4,000,000 Perpetual PIERS and the issuance of an additional 25,884,891 ordinary shares for cash in our public offering increased the total cash and cash equivalents held by the Company by US$183.8 million during the twelve months ended December 31, 2005. During 2005, we were able to meet all of our obligations on our dividend payments to our ordinary shareholders and our interest payments on the holders of our senior notes, with our net cash flow and dividends received.

With respect to our Insurance Subsidiaries, one of our responsibilities is to ensure that we have funds readily available to settle claims.

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As of December 31, 2005, the Insurance Subsidiaries held approximately US$1,181.0 million in cash and short-term investments that are readily realizable securities. In addition, we maintain credit facilities. 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 December 31, 2005 and for the foreseeable future.

Our aggregate invested assets as of December 31, 2005 totaled US$3.69 billion compared to aggregate invested assets of US$2.74 billion as of December 31, 2004. The increase in invested assets since December 31, 2004 resulted from capital raisings, collections of premiums on insurance policies and reinsurance contracts and investment income, offset by policy acquisition expenses paid, reinsurance premiums paid, payment of losses and loss adjustment expenses, operating and administrative expenses paid and repayment of short-term borrowings.

Cash Flows for the Twelve Months Ended December 31, 2005

Our total net cash flow from operating activities in 2005 was US$789.1 million, a reduction of 17.9% from 2004. This decrease was mainly due to claims paid of US$551.9 million (an increase of 235% over 2004) in the period which were mostly in relation to the 2004 and 2005 hurricanes. In 2005, we paid dividends on our ordinary shares totaling US$45.5 million and raised approximately US$790 million after expenses from our issuance of 25,884,891 ordinary shares and 4,000,000 Perpetual PIERS. As at December 31, 2005, we had a consolidated cash balance of US$748.3 million, which we consider to be sufficient to meet our current operating requirements.

Cash Flows for the Twelve Months Ended December 31, 2004

Total net cash flow from operating activities in 2004 was approximately US$961.3 million, an increase of US$324.7 million from 2003. For the twelve months ended December 31, 2004, our cash flows from operations provided us with sufficient liquidity to meet our operating requirements. We paid net claims of US$164.6 million in 2004 and made net investments in the amount of US$1,104.3 million in market securities during the period. We paid dividends of US$8.3 million, and raised US$249.3 million from our senior notes offering. At December 31, 2004, we had a cash balance of US$284.9 million.

Cash Flows for the Twelve Months Ended December 31, 2003

In 2003, we generated net cash from operating activities of US$636.6 million, primarily relating to premiums and investment income received offset by reinsurance premiums payable. We paid claims of US$53.9 million in the period. We made net investments in the amount of US$696.4 million in market securities during the period. Cash and cash equivalents increased from US$9.6 million at the beginning of the period to US$230.8 million at the end of the period.

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. Our liquidity depends on operating, investing and financing cash flows, described as follows. 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 and taxes and to purchase new investments. We may also use cash to pay for any authorized share repurchases and dividends.

Our cash flows from operations represent the difference between premiums collected and the losses and loss adjustment expenses paid, underwriting and other expenses paid. The potential for a large claim under one of our reinsurance contracts 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 within a comfortable margin for error. 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Aspen Bermuda is subject to and at December 31, 2005 met the solvency requirements of the Insurance Act. Aspen Bermuda's statutory capital and surplus was US$957.1 million at December 31, 2005 and US$632.7 million at December 31, 2004. Its capital and surplus as measured under US GAAP was US$1,026.0 million at December 31, 2005 (2004 - US$658.8 million).

Aspen Re is regulated by the FSA and is subject to the FSA's Handbook of Rules and Guidance with respect to solvency requirements. Aspen Re has maintained the required margin of solvency throughout 2005 and 2004 and the value of its shareholders' equity as of December 31, 2005 and 2004 was US$886.4 million and US$870.9 million respectively as measured under US GAAP.

Aspen Specialty is regulated by the North Dakota insurance laws and is subject to risk-based capital regulations. Aspen Specialty's statutory capital and surplus was US$113.4 million at December 31, 2005 and US$101.5 million at December 31, 2004. Its capital and surplus as measured under US GAAP was US$131.0 million at December 31, 2005 (2004 - US$113.9 million).

We are obliged by the terms of our contractual obligations to US policyholders and by undertakings to certain US regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. Our current arrangements with our bankers for the issue of letters of credit require us to provide cash collateral for the full amount of all secured and undrawn letters of credit that are outstanding. We monitor the proportion of our otherwise liquid assets that are committed to trust funds or to the collateralization of letters of credit. As at December 31, 2005 and 2004, these funds amounted to approximately 32% of the US$4.4 billion and approximately 20% of the US$3.0 billion of cash and investments held by the Company, respectively. We do not consider that this unduly restricts our liquidity at this time.

For these purposes, we have specifically established facilities for the issuance of letters of credit in the amount of US$50 million with Citibank, N.A. and can also issue secured and unsecured letters of credit under our US$400 million credit facility. As of December 31, 2005 and December 31, 2004, letters of credit totaling US$411.0 million and US$48.4 million, respectively, had been issued. In addition, in 2002, Barclays Bank plc issued letters of credit totaling £47.4 million to policyholders of the Company which remained in place as of December 31, 2005. At that date we provided US$121.3 million and £65.1 million as collateral for the letters of credit issued on our behalf with the balance of the letters of credit having been issued on an unsecured basis.

On June 23, 2003, we established a trust fund at the Bank of New York which is used as an alternative to letters of credit to satisfy the obligations of Aspen Re to provide security to certain US-domiciled cedants. As of December 31, 2005 and December 31, 2004, the balances on this fund were US$1,072.9 million and US$415.9 million, respectively. On July 16, 2003 we established an additional trust fund at the Bank of New York, with a balance of US$5.4 million, which served a similar purpose with respect to certain US insurance clients of Aspen Re for whom we provide surplus lines insurance. As at December 31, 2005, the balance in the trust was US$8.1 million.

Aspen Re has established a Canadian trust fund with a Canadian bank to secure a Canadian insurance license. The initial minimum trust fund amount was CAN$25 million and the balance at December 31, 2005 was CAN$100.5 million. In addition, Aspen Specialty has a total of US$7.0 million (US$7.4 million December 31, 2004) on deposit with certain US states in order to satisfy state regulations for writing business there.

In December 2005, Aspen Bermuda set up a Regulation 114 trust fund to collateralize its obligations to an individual US cedant. The balance on this fund at December 31, 2005 was US$48.3 million.

Credit Facility

On August 2, 2005, we entered into a five-year US$400 million revolving credit facility pursuant to a credit agreement dated as of August 2, 2005

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(the 'credit facilities') by and among the Company, certain of our direct and indirect 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. The credit facilities replace our US$150 million three-year credit agreement dated August 26, 2003, which would have expired on August 29, 2006, and our US$50 million 364-day credit agreement, dated as of August 26, 2003, both of which were terminated as of August 2, 2005.

The facility can be used by any of the Borrowers to provide funding for the insurance subsidiaries of the Company, 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 US$250 million subfacility for collateralized letters of credit. The facility will expire on August 2, 2010. As of December 31, 2005, no borrowings were outstanding under the credit facilities, though we had US$93.7 million and US$317.2 million of outstanding collateralized and uncollateralized letters of credit, respectively. 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 US$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. We must also not permit our consolidated leverage ratio of total consolidated debt to consolidated tangible net worth to exceed 35%. In addition, 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 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.

Capital Resources

On February 4, 2005, we filed a universal shelf registration statement on Form F-3 with the SEC for the issuance and sale of up to US$500 million of debt and/or equity securities from time to time. The registration statement was declared effective on March 3, 2005 and is expected to allow us access to the public capital markets to the extent the need arises. Also included in the registration statement were 52,998,036 ordinary shares which may be offered for sale by our shareholders. We will not receive any proceeds from sales by our shareholders but may have to pay related expenses.

On October 24, 2005, we filed a shelf registration statement on Form F-3 with the SEC for the issuance and sale of up to US$903,685,834 amount of our securities. Also included in the registration statement were an additional 40,230 ordinary shares which may be offered for sale by our shareholders. Under the Securities Act, the prospectus included in that registration statement was a combined prospectus and also related to US$96,314,166 aggregate amount of securities registered and remaining unsold by us and 39,204,755 ordinary shares registered and remaining unsold by the selling shareholders under our registration statement described above.

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In 2005 and January 2006, we issued and sold the following securities in public offerings under our registration statements described above:

- on October 11, 2005, we issued 17,551,558 ordinary shares which generated US$400 million in net proceeds;
- on December 12, 2005, we issued 8,333,333 ordinary shares which generated approximately US$195 million in net proceeds; and
- on December 12, 2005 and January 10, 2006, we issued 4,000,000 and 600,000, respectively, of our Perpetual PIERS. These sales generated approximately US$223 million in net proceeds.

The proceeds from these offerings were used for general corporate purposes, to support the operations of our Insurance Subsidiaries and to strengthen our balance sheet capital position.

Our business operations are in part dependent on our financial strength and the market's perception thereof, as measured by shareholders' equity, which was US$2,039.8 million and US$1,481.5 million at December 31, 2005 and 2004, respectively. We believe our financial strength provides us with the flexibility and capacity to obtain funds through debt or equity financing. Our ability to access the capital markets is dependent on, among other things, market conditions and our perceived financial strength. We continuously monitor our capital and financial position, as well as investment and security market conditions, both in general and with respect to Aspen Holdings' securities. We have accessed both the debt and equity markets from time to time.

We have no material commitments for capital expenditures as at December 31, 2005.

The following table summarizes our contractual obligations other than our obligations to employees, under long-term debt, our Perpetual PIERS, operating leases and reserves relating to insurance and reinsurance contracts as of December 31, 2005.

Contractual Obligations and Commitments

Payments due by period

Contractual Basis	Total US$	Less Than 1 Year US$	1-3 Years US$	3-5 Years US$	More Than 5 Years US$
Operating lease obligations	65.0	2.7	8.3	12.0	42.0
Long-term debt obligations (1)	250.0	-	-	-	250.0
Reserves for Losses and loss adjustment expenses (2)	3,041.6	1,241.8	1,143.5	337.5	318.8

(1) The long term debt obligations disclosed above does not include the US$15 million annual interest payable 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 above under '-Critical Accounting Policies-Reserves for Losses and Loss Expenses.'

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We have entered into a lease for three floors comprising a total of approximately 15,000 square feet in Hamilton, Bermuda for our holding company and Bermuda operations. The term of the rental lease agreement is for six years, and we have agreed to pay approximately a total of US$1 million per year in rent for the three floors for the first three years and annual service charges of US$180,000 per year. We moved into these new premises on January 30, 2006.

On April 1, 2005, Aspen Re signed an agreement for underleases for office space in London of approximately a total of 49,500 square feet covering three floors. The term of each lease for each floor commenced in November 2004 and runs for 15 years. Service charges of approximately £0.5 million per annum are payable from this date, and are subject to increase. It is expected that we will begin to pay the yearly basic rent of approximately £2.7 million per annum 36 months after the relevant date of practical completion of the landlord's works. The basic annual rent for each of the leases will each be subject to five-yearly upwards-only rent reviews. There are no contractual provisions in any of the leases allowing us to terminate any of the leases prior to expiration of the 15-year contractual terms. We also license office space within the Lloyd's building on the basis of a renewable twelve-month lease. In addition, we lease office space in Boston, Massachusetts, Marlton, New Jersey and Rocky Hill, Connecticut as well as other states in the United States in connection with our US operations.

For a discussion of derivative instruments we have entered into, please see note 5 to our audited financial statements for the twelve months ended December 31, 2005 included elsewhere in this report.

Off-Balance Sheet Arrangements

We are not party to any transaction, agreement or other contractual arrangement to which an affiliated entity unconsolidated with us is a party that management believes is reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Changes in and Disagreements with Accountants

There have been no changes in or disagreements with accountants regarding accounting and financial disclosure for the period covered by this report.

Quantitative and Qualitative Disclosures about Market Risk

We believe that we are principally exposed to three types of market risk: interest rate risk, foreign currency risk and credit risk.

Interest Rate Risk

Our investment portfolio consists 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. We expect to manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity taking into account the anticipated cash outflow characteristics of Aspen Re's, Aspen Bermuda's and Aspen Specialty's insurance and reinsurance liabilities.

Our strategy for managing interest rate risk also includes maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. A significant portion of the investment portfolio matures each year, allowing for reinvestment at current market rates. The portfolio is actively managed and trades are made to balance our exposure to interest rates.

As at December 31, 2005, our fixed income portfolio had an approximate duration of 2.9 years. The table below depicts interest rate change scenarios and the effect on our interest-rate sensitive invested assets.

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

Movement in Rates in Basis Points	-100	-50	0	50	100
Market Value (US$ thousands)	3,788,678	3,738,712	3,689,100	3,640,043	3,591,697
Gain/Loss (US$ thousands)	99,578	49,612	0	(49,057)	(97,403)
Percentage of Portfolio (%)	2.70	1.34	0	(1.33)	(2.64)

Foreign Currency Risk

Our reporting currency is the US Dollar. The functional currencies of our segments are US Dollars and British Pounds. As of December 31, 2005, approximately 78% of our cash and investments were held in US Dollars, approximately 15% were in British Pounds and approximately 7% were in currencies other than the US Dollar and the British Pound. For the twelve months ended December 31, 2005, 9% of our gross premiums were written in currencies other than the US Dollar and the British Pound and we expect that a similar proportion will be written in currencies other than the US Dollar and the British Pound in 2006. Other foreign currency amounts are remeasured 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 US Dollars. The unrealized gain or loss from this translation, net of tax, is recorded as part of ordinary shareholders' equity. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of comprehensive income. Both the remeasurement 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 properly managed or

Quantitative and Qualitative Disclosures about Market Risk

otherwise 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 US Dollars as at December 31, 2005, would have impacted reported net comprehensive income by approximately US$10.0 million.

We will attempt to 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 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. All realized gains and losses and unrealized gains and losses on foreign currency forward contracts are recognized in the statement of operations. There were no outstanding forward contracts as at December 31, 2005.

Credit Risk

We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories, business sectors and any one issuer. As at December 31, 2005, the average rate of fixed income securities in our investment portfolio was 'AAA.' In addition, we are exposed to the credit risk of our insurance and reinsurance brokers to whom we make claims payments for insureds and our reinsureds, 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.

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 loss, for the development of inflationary pressures in a local economy as the demand for services such as construction typically surges. We believe this has had and will continue to have a significant impact on the cost of claims arising from the 2004 and 2005 hurricanes and we seek to have sought to take this into account when setting reserves for these events. 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 liability business in the United States, the United Kingdom and Australia, where claims inflation has grown particularly strong in recent years. 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 retained 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 take this into account in our pricing and reserving of casualty business.

NYSE Corporate Governance

Differences between NYSE Corporate Governance Rules and the Company's Corporate Governance Practices

The Company currently qualifies as a foreign private issuer, and as such is not required to meet all of the NYSE Corporate Governance Standards. The following discusses the differences between the NYSE Corporate Governance Standards and the Company's corporate governance practices.

The NYSE Corporate Governance Standards require that all members of compensation committees and nominating and corporate governance committees be independent. As of the date of this report, all members of the Compensation Committee are independent and all but one member of our Corporate Governance and Nominating Committee are independent. As described above, Mr Myners, our Chairman, a member and Chairman of the Corporate Governance and Nominating Committee, is not deemed to be an independent director due to his greater level of involvement in the management of the Company and his greater compensation as Chairman of the Company which is different from the standard director compensation.

The NYSE Corporate Governance Standards require chief executive officers of US domestic issuers to certify to the NYSE that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. Because as a foreign private issuer we are not subject to the NYSE Corporate Governance Standards applicable to US domestic issuers, the Company need not make such certification.

We have filed our certifications under Section 302 of the Sarbanes-Oxley Act of 2002, as an exhibit to our Annual Report on Form 10-K for the twelve months ended December 31, 2005, which was filed with the Securities and Exchange Commission on March 06, 2006.

As of February 13, 2006, there were 111 holders of record of our ordinary shares, not including beneficial owners of ordinary shares registered in nominee or street name. Mellon Investor Services LLC acts as our transfer agent, registrar and dividend disbursing agent for our ordinary shares.

Non-GAAP and GAAP Financial Measures

Operating Income Reconciliation and Other Non-GAAP and GAAP Financial Measures

In presenting the Company's results, management has included and discussed certain 'non-GAAP financial measures', as such term is defined in Regulation G. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the Company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the Company's business. However, these measures should not be viewed as a substitute for those determined in accordance with GAAP.

The reconciliation of such non-GAAP financial measures to their respective most directly comparable GAAP financial measures in accordance with Regulation G is included below.

	12 Months Ended December 31, 2005 US$	12 Months Ended December 31, 2004 US$
Net income/(loss) after tax	(177.8)	195.1
Add (deduct) after tax income/(loss):		
■ Net exchange (gains) losses	18.2	(5.1)
■ Net realized (gains) losses on investments	3.2	2.6
Operating Income/(Loss)	**(156.4)**	**192.6**
Weighted Average Ordinary Shares Outstanding	**No.(m)**	**No.(m)**
Basic	74.0	69.2
Diluted	74.0	71.1
Basic Per Share Data	**US$**	US$
Net income/(loss)	(2.40)	2.82
Add (deduct) after tax income/(loss):		
■ Net exchange (gains) losses	0.25	(0.07)
■ Net realized (gains) losses on investments	0.04	0.04
Operating Income/(Loss)	**(2.11)**	**2.78**
Diluted Per Share Data	**US$**	US$
Net income/(loss)	(2.40)	2.74
Add (deduct) after tax income/(loss):		
■ Net exchange (gains) losses	0.25	(0.07)
■ Net realized (gains) losses on investments	0.04	0.04
Operating Income/(Loss)	**(2.11)**	**2.71**
Book Value Per Share		
Net Assets (excluding intangible assets and Perpetual PIERS) **(US$m)**	1,837.8	1,474.9
Number of share in issue at the end of the period **(number in millions)**	95,209,008	69,315,099
Diluted number of share in issue at the end of the period **(number in millions)**	98,126,046	71,271,170
Book value per share **(US$)**	19.30	21.28
Diluted book value per share **(US$)**	18.73	20.69

Non-GAAP and GAAP Financial Measures

Operating Income (a non-GAAP financial measure)

Operating income is an internal performance measure used by the Company in the management of its operations and represents after-tax operational results excluding, as applicable, after-tax net realized capital gains or losses and after-tax net foreign exchange gains or losses. The Company excludes after tax net realized capital gains or losses and after-tax net foreign exchange gains or losses from its calculation of operating income because the amount of these gains or losses is heavily influenced by, and fluctuates in part, according to the availability of market opportunities. The Company believes these amounts are largely independent of its business and underwriting process and including them distorts the analysis of trends in its operations. In addition to presenting net income determined in accordance with GAAP, the Company believes that showing operating income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results of operations in a manner similar to how management analyzes the Company's underlying business performance. Operating income should not be viewed as a substitute for GAAP net income.

Annualized Operating Return on Average Equity (ROAE) (a non-GAAP financial measure)

Annualized Operating Return on Average Equity is calculated using 1) operating income, as defined above and 2) excludes from average equity, the average after tax unrealized appreciation or depreciation on investments and the average after tax unrealized foreign exchange gains or losses. Unrealized appreciation (depreciation) on investments is primarily the result of interest rate movements and the resultant impact on fixed income securities, and unrealized appreciation (depreciation) is the result of exchange rate movements between the US Dollar and the British Pound. Unrealized appreciation (depreciation) on investments is primarily the result of interest rate movements and the resultant impact on fixed income securities, and unrealized appreciation (depreciation) on foreign exchange is the result of exchange rate movements between the US Dollar and the British Pound. Such appreciation (depreciation) is not related to management actions or operational performance (nor is it likely to be realized). Therefore the Company believes that excluding these unrealized appreciations (depreciations) provides a more consistent and useful measurement of operating performance, which supplements GAAP information. Average equity is calculated as the arithmetic average on a monthly basis for the stated periods. The Company presents ROAE as a measure that is commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of its financial information.

Book Value Per Share

Book value per share represents the net assets (excluding intangible assets and Perpetual PIERS) at the end of the period divided by the number of shares in issue at the end of the period.

Diluted Book Value Per Ordinary Share (a non-GAAP financial measure)

The Company has included diluted book value per ordinary share because it takes into account the effect of dilutive securities; therefore, the Company believes it is a better measure of calculating shareholder returns than book value per share.

Market Value

The market value of the Company relates to the number of shares in issue multiplied by the share price of those shares on the new York Stock Exchange on 15 February 2005.

Underwriting Ratios (are GAAP financial measures)

Aspen Insurance Holdings Limited, along with others in the industry, uses underwriting ratios as measures of performance. The loss ratio is the ratio of net claims and claims adjustment expense to net premiums earned. The acquisition expense ratio is the ratio of underwriting expenses (commissions; premium taxes, licenses and fees; as well as other underwriting expenses) to net premiums earned. The general and administrative expense ratio is the ratio of general and administrative expenses to net premiums earned. The combined ratio is the sum of the loss ratio, the acquisition expense ratio and the general and administrative expense ratio. These ratios are relative measurements that describe for every $100 of net premiums earned or written, the cost of losses and expenses, respectively. The combined ratio presents the total cost per $100 of earned premium. A combined ratio below 100% demonstrates underwriting profit; a combined ratio above 100% demonstrates underwriting loss.

Underwriting Ratios Excluding Impact of Hurricanes and Windstorms (are non-GAAP financial measures)

In these ratios, the Company excludes the impact of Hurricanes Katrina, Rita and Wilma (in relation to the 2005 financial year figures) and Hurricanes Charley, Frances, Ivan and Jeanne and Typhoon Songda (in relation to the 2004 comparative figures) from net premiums earned and losses and loss expenses in order to calculate loss ratio and expense ratios excluding the impact of these events. The underwriting ratios excluding the impact of the hurricanes and windstorms are derived by adjusting the net premiums earned and the losses and loss expenses for the period by the impact of the hurricanes and windstorms in the period as shown and calculating loss ratio and expense ratio using these derived balances. In addition to presenting underwriting ratios determined in accordance with GAAP, the Company believes that showing non-GAAP underwriting ratios enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results of operations in a manner similar to how management analyzes the Company's underlying business performance without these events.

In addition, the Company believes that such users wish to have such non-GAAP ratios, as well as the GAAP-based ratios, to compare the performance of the Company's underlying business lines without regard to the impact of these major catastrophes. GAAP combined ratios differ from statutory combined ratios primarily due to the deferral of certain third party acquisition expenses for GAAP reporting purposes and the use of net premiums earned rather than net premiums written in the denominator when calculating the acquisition expense and the general and administrative expense ratios.

Directors and Officers

Board of Directors

Class I with Terms Ending in 2008	Position
Christopher O'Kane	Chief Executive Officer of the Company and Aspen Re and Chairman of Aspen Bermuda
Heidi Hutter (1)(2)(5)	Director
David Kelso (1)(3)(5)	Director

Class II with Terms Ending in 2006	Position
Paul Myners (3)(4)	Chairman of the Company and Aspen Re
Julian Cusack (3)(5)	Chief Financial Officer of the Company and Chief Executive Officer of Aspen Bermuda
Norman L. Rosenthal (1)(4)	Director

Class III with Terms Ending in 2007	Position
Julian Avery (2)(4)	Director
Ian Cormack (1)	Director
Prakash Melwani (2)(3)(4)	Director
Kamil Salame (2)(3)(5)	Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Investment Committee
(4) Member of the Corporate Governance and Nominating Committee
(5) Member of the Risk Committee

Directors and Officers

Management Team	Position
Christopher O'Kane	Chief Executive Officer of Aspen Holdings and Aspen Re and Chairman of Aspen Bermuda
Julian Cusack	Chief Financial Officer of Aspen Holdings and Chief Executive Officer of Aspen Bermuda
Ian Beaton	Head of Insurance
Nick Bonnar	Head of Specialty
Brian Boornazian	President, Aspen Re America
Ian Campbell	Chief Financial Officer, Aspen Re
David Curtin	General Counsel
Sarah Davies	Chief Operating Officer
James Few	Chief Underwriting Officer of Aspen Bermuda, Head of Property Reinsurance
Karen Green	Head of Strategy
David May	Head of Casualty Reinsurance, Chief Casualty Officer
Oliver Peterken	Chief Risk Officer
Chris Woodman	Head of Human Resources

Audit Committee

Ian Cormack
Heidi Hutter
David Kelso
Norman Rosenthal

The Audit Committee has general responsibility for the oversight and surveillance of our accounting, reporting and financial control practices. The Audit Committee annually reviews the qualifications of the independent auditors, makes recommendations to the Board of Directors as to their selection and reviews the plan, fees and results of their audit. Mr Cormack is Chairman of the Audit Committee. The Audit Committee held five meetings during 2005. The Board of Directors considers David Kelso to be our 'audit committee financial expert' as defined in the applicable regulations.

Directors and Officers

Compensation Committee

Julian Avery

Heidi Hutter

Prakash Melwani

Kamil Salame

The Compensation Committee oversees our compensation and benefit policies and programs, including administration of our annual bonus awards and long-term incentive plans. It determines compensation of the Company's Chief Executive Officer, executive directors and key employees. Mr Melwani is Chairman of the Compensation Committee. The Compensation Committee held four meetings during 2005.

Investment Committee

Julian Cusack

David Kelso

Prakash Melwani

Paul Myners

Kamil Salame

The Investment Committee is an advisory committee to the Board of Directors which formulates our investment policy and oversees all of our significant investing activities. Mr Myners is Chairman of the Investment Committee. The Investment Committee held four meetings during 2005.

Corporate Governance and Nominating Committee

Julian Avery

Prakash Melwani

Paul Myners

Norman Rosenthal

The Corporate Governance and Nominating Committee, among other things, establishes the Board of Directors' criteria for selecting new directors and oversees the evaluation of the Board of Directors and management. The Corporate Governance and Nominating Committee held four meetings during 2005. On February 28, 2006, Dr Rosenthal resigned as Chairman of the Corporate Governance and Nominating Committee. Mr Myners was elected as member and Chairman of this committee.

Risk Committee

Julian Cusack

Heidi Hutter

David Kelso

Kamil Salame

The Board of Directors approved the formation of this new committee of our board in 2006. The Risk Committee's responsibilities include the establishment of our risk management strategy, approval of our risk management framework, methodologies and policies, and review of our approach for determining and measuring our risk tolerances. Ms Hutter will be the Chairman of the Risk Committee.

Glossary of Selected Insurance and Reinsurance Terms

Acquisition Costs

Expenses incurred by an insurer or reinsurer in the process of writing new or renewal business, including commissions, administrative and other general costs attributable to underwriting operations.

Broker

An intermediary who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services provided.

Capacity

The percentage of surplus or the dollar amount of exposure that an insurer or reinsurer is willing to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business.

Casualty Insurance or Reinsurance

Primarily concerned with the losses caused by injuries to third persons i.e. not the insured, or to property owned by third persons and the legal liability imposed on the insured resulting therefrom.

Catastrophe

A severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war or terrorism and political instability.

Cedent

A ceding insurer or reinsurer. A ceding insurer underwrites and issues an original, primary policy to an insured and contractually transfers (cedes) a portion of the risk to a reinsurer. A ceding reinsurer transfers (cedes) a portion of the underlying reinsurance to a retrocessionaire.

Combined Ratio

The sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit whereas a ratio over 100% is indicative of a loss.

Employers' Liability

Insurance of employers pursuant to their obligations under the UK's Employers' Liability Act 1969 to obtain insurance in respect of their liability to their employees for bodily injury or disease arising out of and in the course of their employment.

Excess of Loss

A form of reinsurance under which recoveries are available when a given loss exceeds the cedent's retention defined in the agreement.

Expense Ratio

Financial ratio calculated by dividing acquisition expenses and general and administrative expenses by net premium earned.

Exposure

The possibility of loss. A unit of measure of the amount of risk a company assumes.

Facultative Reinsurance

The reinsurance of all or a portion of the insurance provided by a single policy. Each policy reinsured is separately negotiated.

Fidelity Business

A type of insurance in which an employer is insured against loss arising from the dishonest acts of his or her employees.

Incurred but not Reported ('IBNR') Reserves

Estimated losses and loss expenses that have been incurred but not yet reported to the insurer or reinsurer.

Layer

A horizontal segment of the liability insured, e.g. the second US$100,000 of a US$500,000 liability is the first layer if the cedent retains US$100,000 but a higher layer if the cedant retains a lesser amount.

Lead Reinsurer

The reinsurer that negotiates the terms, conditions and premium rates and the first signatory on the slip; reinsurers that subsequently sign on to the slip under those terms and conditions are considered following reinsurers.

Letter of Credit

A financial guaranty issued by a bank that permits the party to which it is issued to draw funds from the bank in the event of a valid unpaid claim against the other party. They are often required by US regulators for

Glossary of Selected Insurance and Reinsurance Terms

so-called non-admitted or alien (overseas domiciled) insurers and reinsurers.

- **Liability Insurance**

  A term commonly used in the UK for casualty insurance.

- **Long Tail Liability**

  Refers to claims that do not proceed to final settlement for some time (often 10 years or more) for example, asbestos liability where manifestation of the disease and determination of the liability does not occur until years later.

- **Losses and Loss Adjustment Expense (LAE)**

  The expense of settling claims, including legal and other fees, and the portion of general expenses allocated to claim settlement costs.

- **Loss Ratio**

  The financial ratio calculated by dividing net losses and loss expenses by net premiums earned. They can be calculated on an accident year, calendar year or underwriting year basis.

- **Premium (written/unearned/earned)**

  Written premium is premium registered on the books of an insurer or reinsurer at the time a policy is issued and paid for. Premium for a future exposure period is said to be unearned premium. Earned premium is income for the accounting period while unearned premium will be income in a future accounting period. Earned premiums are recognized as revenues under US GAAP.

- **Property Insurance or Reinsurance**

  Insurance or reinsurance that provides coverage to a person with an insurable interest in tangible property for that person's property loss, damage or loss of use.

- **Proportional or Pro Rata Reinsurance**

  Reinsurance whereby the reinsurer shares losses in the same proportion as its shares of premiums and policy amounts.

- **Quota Share**

  A form of proportional reinsurance indemnifying the insurance company against a fixed percentage of each and every risk falling within its retention.

- **Rate**

  The amount charged per unit of insurance and reinsurance.

- **Reserves**

  Liabilities established by insurers and reinsurers to reflect the estimated cost of claim payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written.

- **Retention**

  The amount of exposure a policy holder retains on any one risk or group of risks.

- **Retrocessional Coverage**

  A transaction whereby a reinsurer cedes to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer assumed. The transfer is known as a retrocession.

- **Treaty or Treaty Reinsurance**

  The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a 'treaty') between a primary insurer or other reinsured and a reinsurer.

- **Underwriter**

  An individual who examines the acceptability of an insurance or reinsurance risk and determines the premium and specific terms and conditions for that risk.

- **US GAAP**

  United States Generally Accepted Accounting Principles as defined by the American Institute of Certified Public Accountants or statement of the Financial Accounting Standards Board. US GAAP is the method used by the Company for reporting to shareholders.

- **Worker's Compensation**

  A system (established under state and federal laws) under which employers provide insurance for benefit payments to their employees for work-related injuries, deaths and diseases, regardless of fault.

Contacts

Aspen Insurance Holdings Limited
Aspen Insurance Limited
Maxwell Roberts Building
1 Church Street
Hamilton HM11
Bermuda
T +1 441 295 8201
F +1 441 295 1829
E info@aspen.bm
W aspen.bm

Aspen Insurance UK Limited
30 Fenchurch Street
London EC3M 3BD
UK
T +44 (0)20 7184 8000
F +44 (0)20 7184 8500
E info@aspen-re.com
W aspen-re.com
W aspeninsurance.co.uk

Aspen Specialty Insurance Company
99 High Street
Boston
Massachusetts 02110
USA
T +1 617 531 5100
F +1 617 531 5114
E info@aspenspecialty.com
W aspenspecialty.com

Aspen Specialty Insurance Company
Northsight Financial Center
14500 N Northsight Blvd
Suite 208
Scottsdale
Arizona 85260
USA
T +1 480 612 8800
F +1 480 612 8810
E info@aspenspecialty.com
W aspenspecialty.com

Aspen Specialty Insurance Company
1125 Sanctuary Parkway
Suite 140
Alpharetta
Georgia 30004
USA
T +1 678 250 5400
F +1 678 250 5410
E info@aspenspecialty.com
W aspenspecialty.com

Aspen Re America, Inc.
175 Capital Boulevard
Suite 300
Rocky Hill
Connecticut 06067
USA
T +1 860 258 3500
F +1 860 571 0520
E info@aspen-re.com
W aspen-re.com

Aspen Re America, Inc.
5 Greentree Centre
Suite 216
Marlton
New Jersey 08053
USA
T +1 856 810 8880
F +1 856 810 8881
E info@aspen-re.com
W aspen-re.com

Aspen Re America, Inc.
Oakbrook Terrace Tower
One Tower Lane
Suite 1700
Oakbrook Terrace
Illinois 60181
USA
T +1 630 928 3720
F +1 630 928 3722
E info@aspen-re.com
W aspen-re.com

The Maitland Consultancy Limited
Orion House
5 Upper St Martin's Lane
London WC2H 9EA
UK
T +44 (0)20 7379 5151
F +44 (0)20 7379 6161
E info@maitland.co.uk
W maitland.co.uk

The Abernathy MacGregor Group, Inc.
501 Madison Avenue
13th Floor
New York
NY 10022
USA
T +1 212 371 5999
F +1 212 371 7097
E cct@abmac.com
W abmac.com

Noah Fields
Head of Investor Relations
Aspen Insurance Limited
Maxwell Roberts Building
1 Church Street
Hamilton HM11
Bermuda
T + 1 441 295 8201
F + 1 441 295 1829
E info@aspen.bm
W aspen.bm

This annual report contains summary information from our annual report on Form 10-K for the 12 months ended December 31, 2005, filed with the Securities and Exchange Commission on March 06, 2006. You may request a copy of our annual report on Form 10-K by writing or telephoning us at our contact information listed above. You may also access our annual report on Form 10-K on our website at www.aspen.bm or on the website of the Securities and Exchange Commission at www.sec.gov

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Aspen Insurance Holdings Limited
Maxwell Roberts Building
1 Church Street
Hamilton HM 11
Bermuda

T + 1 441 295 8201
F + 1 441 295 1829
E info@aspen.bm
W aspen.bm