

ASPEN INSURANCE HOLDINGS LTD

Form 10-Q

May 08, 2009

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

Form 10-Q

- þ** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2009
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934

Commission file number 001-31909

ASPEN INSURANCE HOLDINGS LIMITED
(Exact Name of Registrant as Specified in Its Charter)

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

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

Maxwell Roberts Building
1 Church Street
Hamilton, Bermuda
(Address of principal executive offices)

HM 11
(Zip Code)

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

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

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

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

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

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

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

As of May 1, 2009, there were 82,921,422 outstanding ordinary shares, with a par value of 0.15144558¢ per ordinary share, outstanding.

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****ASPEN INSURANCE HOLDINGS LIMITED****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	As at March 31, 2009 (Unaudited)	As at December 31, 2008
ASSETS		
Investments		
Fixed income maturities, available for sale at fair value (amortized cost \$4,382.9 and \$4,365.7)	\$ 4,453.6	\$ 4,433.1
Fixed income maturities, trading at fair value (amortized cost \$112.4 and \$nil)	113.0	
Other investments	290.9	286.9
Short-term investments, available for sale at fair value (amortized cost \$289.8 and \$224.9)	289.8	224.9
Short-term investments, trading at fair value (amortized cost \$2.0 and \$nil)	2.0	
Total investments	5,149.3	4,944.9
Cash and cash equivalents	913.2	809.1
Reinsurance recoverables		
Unpaid losses	297.9	283.3
Ceded unearned premiums	138.8	46.3
Receivables		
Underwriting premiums	793.6	677.5
Other	44.3	46.5
Funds withheld	71.9	85.0
Deferred policy acquisition costs	166.6	149.7
Derivatives at fair value	7.2	11.8
Receivable for securities sold	5.1	177.2
Office properties and equipment	27.0	33.8
Other assets	16.7	15.5
Intangible assets	8.2	8.2
Total assets	\$ 7,639.8	\$ 7,288.8

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS Continued**

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

	As at March 31, 2009 (Unaudited)	As at December 31, 2008
LIABILITIES		
Insurance reserves		
Losses and loss adjustment expenses	\$ 3,096.2	\$ 3,070.3
Unearned premiums	963.8	810.7
 Total insurance reserves	 4,060.0	 3,881.0
Payables		
Reinsurance premiums	197.1	103.0
Deferred taxation	57.5	63.6
Current taxation	27.1	9.0
Accrued expenses and other payables	206.7	192.5
Liabilities under derivative contracts	9.4	11.1
 Total payables	 497.8	 379.2
Long-term debt	249.6	249.5
 Total liabilities	 \$ 4,807.4	 \$ 4,509.7
 Commitments and contingent liabilities (see Note 11)		
 SHAREHOLDERS EQUITY		
Ordinary shares:82,762,673 shares of 0.15144558¢ each (2008 81,506,503)	\$ 0.1	0.1
Preference shares:		
4,600,000 5.625% shares of par value 0.15144558¢ each (2008 4,600,000)		
5,327,500 7.401% shares of par value 0.15144558¢ each (2008 8,000,000)		
Additional Paid-in Capital	1,749.9	1,754.8
Retained earnings	956.9	884.7
Accumulated other comprehensive income, net of taxes	125.5	139.5
 Total shareholders equity	 2,832.4	 2,779.1
 Total liabilities and shareholders equity	 \$ 7,639.8	 \$ 7,288.8

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three Months Ended March 31,	
	2009	2008
Revenues		
Net earned premiums	\$ 447.3	\$ 391.6
Net investment income	59.2	39.1
Realized investment (losses) gains	(12.2)	1.0
Change in fair value of derivatives	(2.0)	(2.2)
Total Revenues	492.3	429.5
Expenses		
Losses and loss adjustment expenses	250.8	207.2
Policy acquisition expenses	78.6	76.4
Operating and administrative expenses	48.5	50.8
Interest on long-term debt	3.9	3.9
Net foreign exchange gains (losses)	2.3	(4.3)
Other (income) expenses	0.7	
Total Expenses	384.8	334.0
Income from operations before income tax	107.5	95.5
Income tax expense	(16.1)	(14.3)
Net Income	\$ 91.4	\$ 81.2
Per Share Data		
Weighted average number of ordinary shares and share equivalents		
Basic	81,534,704	85,510,759
Diluted	83,571,852	87,956,836
Basic earnings per ordinary share adjusted for preference share dividend and in 2009 preferred shares repurchase gain of \$0.39 per share	\$ 1.42	\$ 0.87
Diluted earnings per ordinary share adjusted for preference share dividend and in 2009 preferred shares repurchase gain of \$0.38 per share	\$ 1.39	\$ 0.85

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED**

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

	Three Months Ended March 31,	
	2009	2008
Ordinary shares		
Beginning and end of period	\$ 0.1	\$ 0.1
Preference shares		
Beginning and end of period		
Additional paid-in capital		
Beginning of period	1,754.8	1,846.1
New shares issued	25.1	
Preference shares repurchased and cancelled	(34.1)	
Share-based compensation	4.1	3.4
End of period	1,749.9	1,849.5
Retained earnings		
Beginning of period	884.7	858.8
Net income for the period	91.4	81.2
Dividends on ordinary and preference shares	(19.2)	(19.8)
End of period	956.9	920.2
Accumulated Other Comprehensive Income:		
Cumulative foreign currency translation adjustments		
Beginning of period	87.6	80.2
Change for the period	(15.2)	5.4
End of period	72.4	85.6
Loss on derivatives		
Beginning and end of period	(1.4)	(1.6)
Unrealized appreciation/(depreciation) on investments:		
Beginning of period	53.3	34.0
Change for the period	1.2	34.9
End of period	54.5	68.9
Total accumulated other comprehensive income	125.5	152.9

Total Shareholders' Equity	\$ 2,832.4	\$ 2,922.7
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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	2008
Net income	\$ 91.4	\$ 81.2
Other comprehensive income, net of taxes:		
Available for sale investments		
Reclassification adjustment for net realized loss (gain) on investments included in net income	4.1	(0.8)
Change in net unrealized gains and losses on investments	(2.9)	35.7
Change in foreign currency translation adjustment	(15.2)	5.4
Other comprehensive income	(14.0)	40.3
Comprehensive income	\$ 77.4	\$ 121.5

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2009	2008
Cash flows provided by operating activities:		
Net income	\$ 91.4	\$ 81.2
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1.9	2.9
Share-based compensation expense	4.1	3.4
Net realized (gains) losses	12.7	(1.0)
Other investments (gains) losses	(4.0)	16.9
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	46.9	(6.6)
Unearned premiums	153.1	172.6
Reinsurance recoverables:		
Unpaid losses	(14.6)	28.7
Ceded unearned premiums	(92.5)	(44.8)
Accrued investment income and other receivables	2.2	9.5
Deferred policy acquisition costs	(16.3)	(17.7)
Reinsurance premiums payables	93.5	57.9
Premiums receivable	(116.1)	(113.9)
Funds withheld	13.1	4.5
Deferred taxes	(6.1)	10.2
Income tax payable	18.0	(16.1)
Accrued expenses and other payables	5.2	(20.5)
Fair value of derivatives and settlement of liabilities under derivatives	2.9	0.2
Other assets	(1.2)	(3.9)
Net cash provided by operating activities	\$ 194.2	\$ 163.5

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS Continued**
(\$ in millions)

	Three Months Ended	
	March 31,	
	2009	2008
Cash flows used in investing activities:		
Purchases of fixed maturities	\$ (650.8)	\$ (509.6)
Proceeds from sales and maturities of fixed maturities	490.6	473.8
Net sales of short-term investments	(64.5)	(35.0)
Proceeds from other investments sold	172.1	
Purchase of equipment	(0.6)	(2.7)
Net cash used in investing activities	(53.2)	(73.5)
Cash flows used in financing activities:		
Dividends paid on ordinary shares	(12.3)	(12.9)
Dividends paid on preference shares	(6.9)	(6.9)
Net cash used in financing activities	(19.2)	(19.8)
Effect of exchange rate movements on cash and cash equivalents	(17.7)	(25.9)
Increase/(decrease) in cash and cash equivalents	104.1	44.3
Cash and cash equivalents at beginning of period	809.1	651.4
Cash and cash equivalents at end of period	\$ 913.2	\$ 695.7
Supplemental disclosure of cash flow information:		
Cash paid during the period for income tax	6.0	28.9
Cash paid during the period for interest	7.5	7.5

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. History and Organization

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

2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its wholly-owned subsidiaries, which are collectively referred to herein as the Company. All intercompany transactions and balances have been eliminated on consolidation.

The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008 contained in Aspen s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (File No. 001-31909).

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

New Accounting Pronouncements Adopted in 2009

In April 2009, the FASB issued FSP FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP provides additional guidance when the volume or level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. If a reporting entity elects to early adopt either FSP FAS 115-2 and FAS 124-2 or FSP FAS 107-1 and APB 28-1 (see below) the reporting entity also is required to adopt early FSP FAS 157-4. The Company adopted the provisions of FSP FAS 157-4 during the first quarter of 2009. For more information see Note 5 to the financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. (FSP FAS 115-2 and FAS 124-2). This proposal amends the other than temporary guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

statements. For debt securities where the amortized cost is greater than the fair market value the company shall assess if the impairment is other than temporary. If a company intends to sell a security (that is, it has decided to sell the security) or it is more likely than not that it will be required to sell a security prior to recovery of its cost basis, a security would be written down to fair value with the full charge recorded in earnings. If a company does not intend to sell a security and it is not more likely than not that it will be required to sell the security prior to recovery, the amount of other than temporary impairment related to credit losses would be recognized in earnings. Any remaining difference between the fair value and the cost basis would be recognized as part of other comprehensive income.

On May 23, 2008, the Financial Accounting Standards Board (FASB) issued Statement No. 163, *Accounting For Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60* (FAS 163). The statement requires an insurance enterprise to recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. The statement also clarifies how Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. It is effective for fiscal years beginning after December 15, 2008, and all interim periods within the fiscal year except for some disclosures about the insurance enterprise's risk management activities. The adoption of FAS 163 did not have any impact on the Company's consolidated financial statements as of and for the three months ended March 31, 2009.

On March 8, 2008, the FASB issued Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB statement 133* (FAS 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Company adopted the disclosures required by FAS 161 in the first quarter of fiscal 2009. Since FAS 161 only required additional disclosure, the adoption did not impact the Company's consolidated results of operations, financial condition or cash flows.

Accounting standards not yet adopted

In March 2009, the FASB released Proposed Staff Position FAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). This proposal amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company will adopt FSP FAS 107-1 and APB 28-1 and provide the additional disclosure requirements for second quarter 2009.

3. Earnings Per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen's ordinary shares by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share are based on the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period of calculation using the treasury stock method. The

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2009 and 2008, respectively:

	Three Months Ended March 31,	
	2009	2008
	(\$ in millions, except share and per share amounts)	
Earnings		
Basic		
Net income as reported	\$ 91.4	\$ 81.2
Preference dividends	(6.9)	(6.9)
Preference stock repurchase gain	31.5	
Net income available to ordinary shareholders	116.0	74.3
Diluted		
Net income available to ordinary shareholders	116.0	74.3
Ordinary shares		
Basic		
Weighted average ordinary shares	81,534,704	85,510,759
Diluted		
Weighted average ordinary shares	81,534,704	85,510,759
Weighted average effect of dilutive securities	2,037,148	2,446,077
Total	83,571,852	87,956,836
Earnings per ordinary share		
Basic		
	\$ 1.42	\$ 0.87
Diluted		
	\$ 1.39	\$ 0.85

Purchase of preference shares. On March 31, 2009, we purchased 2,672,500 of our 7.401% \$25 liquidation price preference shares (NYSE : AHL-PA) at a price of \$12.50 per share. Under FASB-EITF Issue D-42, *The Effect on the Calculation of Earnings Per Share for Redemption or Induced Conversion of Preferred Stock* for earnings per share purposes, the purchase resulted in a first quarter gain of approximately \$31.5 million, net of a non-cash charge of \$1.2 million reflecting the write off of the pro-rata portion of the original issuance costs of the 7.401% preference shares.

On April 29, 2009, the Company's Board of Directors declared the following quarterly dividends:

	Dividend	Payable on:	Record Date:
Ordinary shares	\$ 0.15	May 28, 2009	May 13, 2009
5.625% preference shares	\$ 0.703125	July 1, 2009	June 15, 2009
7.401% preference shares	\$ 0.462563	July 1, 2009	June 15, 2009

4. Segment Reporting

The Company is organized into four business segments: Property Reinsurance, Casualty Reinsurance, International Insurance, and U.S. Insurance. These segments form the basis of how the Company monitors the performance of its operations.

Property Reinsurance. Our property reinsurance segment is written on both a treaty and facultative basis and consists of the following principal lines of business: treaty catastrophe, treaty risk excess, treaty

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ASPEN INSURANCE HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pro rata, and property facultative. Treaty reinsurance contracts provide for automatic coverage of a type or category of risk underwritten by our ceding clients. We also write some structured reinsurance contracts out of Aspen Bermuda. These contracts are tailored to the individual client circumstances and although written by a single team are accounted for within the business segment that best reflects the economic characteristics of the contract. We also include within this segment some credit, surety and political risk reinsurance contracts written by the Zurich branch of Aspen U.K. This portfolio is written principally on a treaty basis.

Casualty Reinsurance. Our casualty reinsurance segment is written on both a treaty and facultative basis and consists of the following principal lines of business: U.S. treaty, international treaty, and casualty facultative. The casualty treaty reinsurance we write includes excess of loss and pro rata reinsurance which are applied to portfolios of primary insurance policies. Our excess of loss positions comes most commonly from layered reinsurance structures with underlying ceding company retentions. We also write some structured reinsurance contracts.

International Insurance. Our international insurance segment consists of the following principal lines of business: U.K. commercial property (including construction), U.K. commercial liability, excess casualty, professional liability, marine hull, energy property damage, marine, energy and construction liability, non-marine transportation liability, aviation, financial institutions, management and technology liability, financial and political risk insurance and specialty reinsurance written principally by Aspen U.K. and our Lloyd's operations, Syndicate 4711. Specialty reinsurance consists of marine and aviation reinsurance as well as terrorism, nuclear, personal accident, crop and satellite. Our international insurance lines are written on a primary, quota share and facultative basis and our specialty reinsurance is written on both a treaty pro rata and excess of loss basis.

U.S. Insurance. Our U.S. insurance segment consists of property and casualty insurance written on an excess and surplus lines basis.

We do not allocate our assets by segment as we evaluate underwriting results of each segment separately from the results of our investment portfolio. Segment profit or loss for each of the Company's operating segments is measured by underwriting profit or loss. Underwriting profit or loss provides a basis for management to evaluate the segment's underwriting performance.

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of our business segments for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31, 2009					Investing	Total
	Property Reinsurance	Casualty Reinsurance	International Insurance	U.S. Insurance			
	(\$ in millions, except percentages)						
Gross written premiums	\$ 220.5	\$ 186.8	\$ 194.7	\$ 34.8	\$	\$ 636.8	
Net written premiums	182.1	185.8	124.8	13.9		506.6	
Gross earned premiums	150.9	110.0	198.8	33.5		493.2	
Net earned premiums	139.1	109.5	175.0	23.7		447.3	
Losses and loss expenses	40.2	72.2	127.0	11.4		250.8	
Policy acquisition expenses	24.8	21.9	28.0	3.9		78.6	
Operating and administrative expenses	15.2	9.0	18.6	5.7		48.5	
Underwriting profit	58.9	6.4	1.4	2.7		69.4	
Net investment income					59.2	59.2	
Realized investment (losses)					(12.2)	(12.2)	
Segment profit	\$ 58.9	\$ 6.4	\$ 1.4	\$ 2.7	\$ 47.0	\$ 116.4	
Change in fair value of derivatives						(2.0)	
Interest on long term debt						(3.9)	
Realized exchange (losses)						(2.3)	
Other income						(0.7)	
Net income before tax						\$ 107.5	
Net reserves for loss and loss adjustment expenses	\$ 402.8	\$ 1,322.9	\$ 950.4	\$ 122.2		\$ 2,798.3	
Ratios							
Loss ratio	28.9%	65.9%	72.6%	48.1%		56.1%	
Policy acquisition expense ratio	17.8%	20.0%	16.0%	16.5%		17.6%	
Operating and administration expense ratio	10.9%	8.2%	10.6%	24.1%		10.8%	
Expense ratio	28.7%	28.2%	26.6%	40.6%		28.4%	

Combined ratio	57.6%	94.1%	99.2%	88.7%	84.5%
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Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Months Ended March 31, 2008					
	Property Reinsurance	Casualty Reinsurance	International Insurance	U.S. Insurance	Investing	Total
	(\$ in millions, except percentages)					
Gross written premiums	\$ 184.2	\$ 182.1	\$ 199.3	\$ 30.6	\$	\$ 596.2
Net written premiums	175.4	180.0	142.0	22.2		519.6
Gross earned premiums	140.3	95.7	165.3	26.0		427.3
Net premiums earned	127.0	94.7	150.2	19.7		391.6
Losses and loss expenses	38.0	61.5	97.7	10.0		207.2
Policy acquisition expenses	25.9	17.7	28.0	4.8		76.4
Operating and administrative expenses	16.6	10.7	17.9	5.6		50.8
Underwriting profit/(loss)	46.5	4.8	6.6	(0.7)		57.2
Net investment income					39.1	39.1
Realized investment					1.0	1.0
Segment profit/(loss)	\$ 46.5	\$ 4.8	\$ 6.6	\$ (0.7)	\$ 40.1	\$ 97.3
Change in fair value of derivatives						(2.2)
Interest on long term debt						(3.9)
Realized exchange gains						4.3
Net income before tax						\$ 95.5
Net reserves for loss and loss adjustment expenses	\$ 424.7	\$ 1,302.5	\$ 883.9	\$ 63.2		\$ 2,674.3
Ratios						
Loss ratio	29.9%	64.9%	65.0%	50.8%		52.9%
Policy acquisition expense ratio	20.4%	18.7%	18.6%	24.3%		19.5%
Operating and administration expense ratio	13.1%	11.3%	11.9%	28.4%		13.0%
Expense ratio	33.5%	30.0%	30.5%	52.7%		32.5%
Combined ratio	63.4%	94.9%	95.5%	103.6%		85.4%

Table of Contents**ASPEN INSURANCE HOLDINGS LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Investments**

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

	Cost or Amortized Cost	As at March 31, 2009		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(\$ in millions)		
U.S. Government Securities	\$ 623.6	\$ 41.5	\$	\$ 665.1
U.S. Agency Securities	367.9	27.9	(0.3)	395.5
Municipal Securities	7.7	0.4		8.1
Corporate Securities	1,567.9	32.5	(49.8)	1,550.6
Foreign Government	328.9	20.8		349.7
Asset-backed Securities	179.2	1.1	(2.3)	178.0
Non-agency Residential Mortgage-backed Securities	61.9		(11.3)	50.6
Non-agency Commercial Mortgage-backed Securities	252.5	0.3	(31.3)	221.5
Agency Mortgage-backed Securities	993.3	41.3	(0.1)	1,034.5
Total fixed income	\$ 4,382.9	\$ 165.8	\$ (95.1)	\$ 4,453.6

	Cost or Amortized Cost	As at December 31, 2008		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(\$ in millions)		
U.S. Government Securities	\$ 601.3	\$ 49.9	\$ (0.5)	\$ 650.7
U.S. Agency Securities	356.6	36.7	(0.2)	393.1
Municipal Securities	7.7	0.3		8.0
Corporate Securities	1,426.0	29.0	(30.5)	1,424.5
Foreign Government	363.6	20.9		384.5
Asset-backed Securities	218.1		(12.6)	205.5
Non-agency Residential Mortgage-backed Securities	80.0	0.4	(24.1)	56.3
Non-agency Commercial Mortgage-backed Securities	253.9		(34.7)	219.2
Agency Mortgage-backed Securities	1,058.5	33.2	(0.4)	1,091.3
Total fixed income	\$ 4,365.7	\$ 170.4	\$ (103.0)	4,433.1

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

	Cost or Amortized Cost	As at March 31, 2009		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(\$ in millions)		
Corporate Securities	\$ 111.5	\$ 0.8	\$ (0.4)	\$ 111.9
Foreign Government	0.9	0.2		1.1
Total fixed income	\$ 112.4	\$ 1.0	\$ (0.4)	\$ 113.0

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Gross unrealized loss. The following tables summarize as at March 31, 2009 and December 31, 2008, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position for our available for sale portfolio.

	0-12 months		As at March 31, 2009 Over 12 months		Total	
	Fair value	Gross Unrealized loss	Fair value	Gross Unrealized loss	Fair value	Gross Unrealized loss
	(\$ in millions)					
U.S. Agency Securities	\$ 11.3	\$ (0.3)	\$	\$	\$ 11.3	\$ (0.3)
Corporate Securities	411.8	(30.7)	146.3	(19.1)	558.1	(49.8)
Asset-backed Securities	51.8	(2.0)	9.1	(0.3)	60.9	(2.3)
Non-agency Residential Mortgage-backed Securities	17.3	(7.0)	33.3	(4.3)	50.6	(11.3)
Non-agency Commercial Mortgage-backed Securities	115.9	(5.5)	95.0	(25.9)	210.9	(31.4)
Total	\$ 608.1	\$ (45.5)	\$ 283.7	\$ (49.6)	\$ 891.8	\$ (95.1)

	0-12 months		As at December 31, 2008 Over 12 months		Total	
	Fair value	Gross Unrealized loss	Fair value	Gross Unrealized loss	Fair value	Gross Unrealized loss
	(\$ in millions)					
U.S. Government Securities	\$ 7.4	\$ (0.4)	\$ 1.0	\$ (0.1)	\$ 8.4	\$ (0.5)
U.S. Agency Securities	11.4	(0.2)			11.4	(0.2)
Corporate Securities	326.8	(19.0)	192.0	(11.5)	518.8	(30.5)
Asset-backed Securities	190.4	(11.1)	15.0	(1.5)	205.4	(12.6)
Non-agency Residential Mortgage-backed Securities	55.9	(24.0)	0.4	(0.1)	56.3	(24.1)
Non-agency Commercial Mortgage-backed Securities	114.2	(7.2)	105.0	(27.5)	219.2	(34.7)
Agency Mortgage-backed Securities	42.3	(0.4)			42.3	(0.4)
Total	\$ 748.4	\$ (62.3)	\$ 313.4	\$ (40.7)	\$ 1,061.8	\$ (103.0)

As at March 31, 2009, the Company held 517 fixed maturities (December 31, 2008 634 fixed maturities) in an unrealized loss position with a fair value of \$891.8 million (2008 \$1,061.8 million) and gross unrealized losses of \$95.1 million (2008 \$103.0 million). The Company believes that the gross unrealized losses are attributable mainly to a combination of widening credit spreads and interest rate movements and has concluded that the recovery period of those investments in an unrealized loss position is temporary. In addition, the unrealized losses are not a result of structural or collateral issues.

Other-than-temporary impairments. The Company recorded other-than-temporary impairments for the three months ended March 31, 2009 of \$15.2 million (December 31, 2008 \$59.6 million). We review all of our investments in fixed maturities designated available for sale for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The process of determining whether a decline in value is other-than-temporary requires considerable judgment. As part of the assessment process we evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position until its

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market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to that portion of the unrealized loss that is considered to be credit related. Non-credit related unrealized losses are included in other comprehensive income.

Other investments. Other investments represent the Company's investments in funds of hedge funds which are recorded using the equity method of accounting. Adjustments to the carrying value of these investments are made based on the net asset values reported by the fund managers, which result in a carrying value that approximates fair value. Realized and unrealized gains of \$4.0 million (March 31, 2008 losses of \$16.9 million) have been recognized through the statement of operations in the three months ended March 31, 2009. The Company invested \$150.0 million in the share capital of two funds in 2006, a further \$247.5 million in one of these funds and \$112.5 million in the share capital of a third fund in 2007. In 2008, the Company sold share capital in the funds that cost \$198.6 million for proceeds of \$177.2 million realizing a loss of \$21.4 million. In February 2009, the Company gave notice of redemption in respect of the remaining investments in the funds of hedge funds; the earliest date at which these notices will take effect is June 30, 2009.

The Company's involvement with the funds is limited to the making and holding of these investments and it is not committed to making further investments in the funds; accordingly, the carrying value of the investments represents the Company's maximum exposure to loss as a result of its involvement with the funds at each balance sheet date.

Other investments as at March 31, 2009 and December 31, 2008 are as follows:

	March 31, 2009		December 31, 2008	
	Cost	Fair Value	Cost	Fair Value
	(\$ in millions)			
Investment funds	\$ 311.3	\$ 290.9	\$ 311.3	\$ 286.9

Classification within the fair value hierarchy under SFAS 157. In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157). From January 1, 2008, the Company adopted SFAS 157.

Under SFAS 157, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy in SFAS 157 prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels, which are described in detail below.

The Company considers prices for actively traded Treasury securities to be derived based on quoted prices in active markets for identical assets (Level 1 inputs as defined in SFAS 157). The Company considers prices for other securities priced via vendors, indices, or broker-dealers to be derived based on inputs that are observable for the asset, either directly or indirectly (Level 2 inputs as defined in SFAS 157).

The Company considers securities, other financial instruments and derivative insurance contracts subject to fair value measurement whose valuation is derived by internal valuation models to be based largely on unobservable inputs (Level 3 inputs as defined in SFAS 157). There have been no changes in the Company's use of valuation techniques

since its adoption of SFAS 157.

Our fixed income securities are traded on the over-the-counter market, based on prices provided by one or more market makers in each security. Securities such as U.S. Government, U.S. Agency, Foreign Government and investment grade corporate bonds have multiple market makers in addition to readily observable market value indicators such as expected credit spread, except for Treasury securities, over the yield curve. We use a variety of pricing sources to value our fixed income securities including those

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securities that have pay down/prepay features such as mortgage-backed securities and asset-backed securities in order to ensure fair and accurate pricing. The fair value estimates of the investment grade securities in our portfolio do not use significant unobservable inputs or modeling techniques.

The Company's assets subject to SFAS 157 are allocated between Levels 1, 2 and 3 as follows:

	March 31, 2009		
	Level 1	Level 2	Level 3
	(\$ in millions)		
Fixed income maturities available for sale, at fair value	\$ 1,015.0	\$ 3,428.1	\$ 10.5
Short-term investments available for sale, at fair value	217.3	72.5	
Fixed income maturities, trading at fair value	1.1	111.9	
Short-term investments, trading at fair value		2.0	
Derivatives at fair value			7.2
Total	\$ 1,233.4	\$ 3,614.5	\$ 17.7

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

	Three Months Ended	
	March 31, 2009	
	(\$ in millions)	
Beginning Balance	\$	11.8
Total unrealized gains or (losses):		
Included in earnings		(1.9)
Settlements		(2.7)
Ending Balance	\$	7.2

The Company's liabilities subject to FAS 157 are allocated between Levels 1, 2 and 3 as follows:

	March 31, 2009		
	Level 1	Level 2	Level 3
	(\$ in millions)		

Liabilities under derivatives contracts			\$	9.4
Total		\$	\$	\$ 9.4