ASPEN INSURANCE HOLDINGS LTD
Form 10-Q
August 06, 2010

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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 Period Ended June 30, 2010
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	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
Maxwell Roberts Building	**HM 11**
1 Church Street	*(Zip Code)*
Hamilton, Bermuda	
(Address of principal executive offices)	

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 þ No o

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 o No o

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

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

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

As of August 5, 2010, there were 76,692,577 outstanding ordinary shares, with a par value of 0.15144558¢ per ordinary share, outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ASPEN INSURANCE HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009
($ in millions, except share and per share amounts)

	As at June 30, 2010 (Unaudited)	As at December 31, 2009
ASSETS		
Investments		
Fixed income maturities, available for sale at fair value (amortized cost $5,088.9 and $5,064.3)	$ 5,382.2	$ 5,249.9
Fixed income maturities, trading at fair value (amortized cost $352.2 and $332.5)	371.4	348.1
Other investments, equity method	27.8	27.3
Short-term investments, available for sale at fair value (amortized cost $301.8 and $368.2)	301.8	368.2
Short-term investments, trading at fair value (amortized cost $2.5 and $3.5)	2.5	3.5
Total investments	6,085.7	5,997.0
Cash and cash equivalents	726.1	748.4
Reinsurance recoverables		
Unpaid losses	247.6	321.5
Ceded unearned premiums	106.2	103.8
Receivables		
Underwriting premiums	981.0	708.3
Other	73.4	64.1
Funds withheld	83.5	85.1
Deferred policy acquisition costs	201.2	165.5
Derivatives at fair value	4.3	6.7
Receivable for securities sold	16.9	11.9
Office properties and equipment	28.4	27.5
Other assets	16.0	9.2
Intangible assets	11.5	8.2
Total assets	$ 8,581.8	$ 8,257.2

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009
($ in millions, except share and per share amounts)

	As at June 30, 2010 (Unaudited)	As at December 31, 2009
LIABILITIES		
Insurance reserves		
Losses and loss adjustment expenses	$ 3,485.7	$ 3,331.1
Unearned premiums	1,061.2	907.6
Total insurance reserves	4,546.9	4,238.7
Payables		
Reinsurance premiums	159.3	110.8
Deferred taxation	70.3	83.9
Current taxation	3.9	10.3
Accrued expenses and other payables	242.3	249.3
Liabilities under derivative contracts	5.6	9.2
Total payables	481.4	463.5
Long-term debt	249.6	249.6
Total liabilities	$ 5,277.9	$ 4,951.8
Commitments and contingent liabilities (see Note 14)		
SHAREHOLDERS EQUITY		
Ordinary shares: 76,700,990 shares of par value 0.15144558¢ each (2009 83,327,594)	$ 0.1	0.1
Preference shares:		
4,600,000 5.625% shares of par value 0.15144558¢ each (2009 4,600,000)		
5,327,500 7.401% shares of par value 0.15144558¢ each (2009 5,327,500)		
Additional paid-in capital	1,566.2	1,763.0
Retained earnings	1,377.3	1,285.0
Accumulated other comprehensive income, net of taxes	360.3	257.3
Total shareholders equity	3,303.9	3,305.4
Total liabilities and shareholders equity	$ 8,581.8	$ 8,257.2

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($ in millions, except share and per share amounts)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Net earned premiums	$ 479.9	$ 428.6	$ 947.5	$ 875.9
Net investment income	57.5	72.2	116.9	131.4
Realized and unrealized investment gains (losses)	5.7	4.8	18.0	(7.4)
Change in fair value of derivatives	(2.1)	(1.9)	(4.1)	(3.9)
Total Revenues	541.0	503.7	1,078.3	996.0
Expenses				
Losses and loss adjustment expenses	276.7	234.7	655.5	485.5
Policy acquisition expenses	77.8	80.8	162.3	159.4
Operating and administrative expenses	62.6	59.9	115.1	108.4
Interest on long-term debt	4.0	4.0	7.8	7.9
Net foreign exchange (gains) losses	2.6	(3.1)	1.1	(0.8)
Other (income) expenses	(3.7)	(2.6)	(4.8)	(1.9)
Total Expenses	420.0	373.7	937.0	758.5
Income from operations before income tax	121.0	130.0	141.3	237.5
Income tax (expense)	(12.1)	(19.6)	(14.1)	(35.7)
Net Income	$ 108.9	$ 110.4	$ 127.2	$ 201.8
Per Share Data				
Weighted average number of ordinary shares and share equivalents				
Basic	77,289,082	82,940,270	77,341,732	82,241,370
Diluted	80,727,255	85,646,132	80,706,276	84,612,770
Basic earnings per ordinary share adjusted for preference share dividend	$ 1.34	$ 1.26	$ 1.50	$ 2.68
Diluted earnings per ordinary share adjusted for preference share dividend	$ 1.28	$ 1.22	$ 1.43	$ 2.61

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

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

	Six Months Ended June 30	
	2010	**2009**
Ordinary shares		
Beginning and end of period	$ 0.1	$ 0.1
Preference shares		
Beginning and end of period		
Additional paid-in capital		
Beginning of period	1,763.0	1,754.8
New shares issued		25.1
Ordinary shares repurchased and cancelled	(200.0)	
Preference shares repurchased and cancelled		(34.1)
Share-based compensation	3.2	8.3
End of period	1,566.2	1,754.1
Retained earnings		
Beginning of period	1,285.0	884.7
Net income for the period	127.2	201.8
Dividends on ordinary and preference shares	(34.9)	(37.3)
End of period	1,377.3	1,049.2
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustments		
Beginning of period	103.4	87.6
Change for the period	3.1	(9.1)
End of period	106.5	78.5
Loss on derivatives		
Beginning of period	(1.2)	(1.4)
Reclassification to interest payable		0.1
End of period	(1.2)	(1.3)
Unrealized appreciation/(depreciation) on investments		
Beginning of period	155.1	53.3
Change for the period	99.9	38.6

End of period	255.0	91.9
Total accumulated other comprehensive income	360.3	169.1
Total shareholders equity	$ 3,303.9	$ 2,972.5

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 108.9	$ 110.4	$ 127.2	$ 201.8
Other comprehensive income, net of taxes:				
Available for sale investments:				
Reclassification adjustment for net realized losses (gains) on investments included in net income	0.2	6.3	(8.4)	10.4
Change in net unrealized gains and losses on investments	77.7	31.1	108.3	28.2
Amortization of loss on derivative contract		0.1		0.1
Change in foreign currency translation adjustment	(6.9)	6.1	3.1	(9.1)
Other comprehensive income	71.0	43.6	103.0	29.6
Comprehensive income	$ 179.9	$ 154.0	$ 230.2	$ 231.4

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

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

	Six Months Ended June 30	
	2010	**2009**
Cash flows provided by operating activities:		
Net income	$ 127.2	$ 201.8
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	9.2	4.0
Share-based compensation expense	3.2	8.3
Net realized and unrealized (gains) losses	(17.6)	7.4
Other investment (gains)	(0.4)	(20.2)
Loss on derivative contracts		0.1
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	222.9	118.3
Unearned premiums	168.9	228.9
Reinsurance recoverables:		
Unpaid losses	72.6	(43.4)
Ceded unearned premiums	(6.3)	(89.4)
Accrued investment income and other receivables	(9.3)	(4.6)
Deferred policy acquisition costs	(37.6)	(36.3)
Reinsurance premiums payables	45.2	64.7
Premiums receivable	(284.4)	(190.9)
Funds withheld	1.6	(2.5)
Deferred taxes	(8.0)	10.8
Income tax payable	(8.9)	15.0
Accrued expenses and other payables	(19.6)	27.2
Fair value of derivatives and settlement of liabilities under derivatives	(1.2)	3.0
Other assets	(9.6)	0.1
Net cash provided by operating activities	$ 247.9	$ 302.3

See accompanying notes to unaudited condensed consolidated financial statements.

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ASPEN INSURANCE HOLDINGS LIMITED

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

	Six Months Ended June 30 2010	2009
Cash flows used in investing activities:		
Purchases of fixed maturities	$ (785.9)	$ (1,373.1)
Proceeds from other investments sold		135.0
Proceeds from sales and maturities of fixed maturities	832.9	972.8
Net sales/(purchases) of short-term investments	(4.0)	(91.9)
Net change in payables for securities purchased	7.6	
Payments for acquisitions net of cash acquired	(3.4)	
Purchase of equipment	(6.5)	(2.5)
Net cash provided by/used in investing activities	40.7	(359.7)
Cash flows used in financing activities:		
Proceeds from the issuance of ordinary shares, net of issuance costs		25.1
Ordinary shares repurchased	(200.0)	
Costs from the redemption of preference shares		(34.1)
Dividends paid on ordinary shares	(23.5)	(24.6)
Dividends paid on preference shares	(11.4)	(12.7)
Net cash used in financing activities	(234.9)	(46.3)
Effect of exchange rate movements	(76.0)	12.9
Increase/(decrease) in cash and cash equivalents	(22.3)	(90.8)
Cash and cash equivalents at beginning of period	748.4	809.1
Cash and cash equivalents at end of period	$ 726.1	$ 718.3
Supplemental disclosure of cash flow information:		
Cash paid during the period for income tax	45.9	12.8
Cash paid during the period for interest	7.5	7.5

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. History and Organization

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

2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its wholly-owned subsidiaries, which are collectively referred to herein as the Company. All intercompany transactions and balances have been eliminated on consolidation.

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

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

New Accounting Pronouncements Adopted in 2010

In June 2009, the Financial Accounting Standards Board (FASB) issued revised guidance on the accounting for variable interest entities. The revised guidance which was issued as Statement No. 167, *Amendments to FASB Interpretation No. 46R* and subsequently codified as ASC 810 *Consolidation,* replaces the quantitative approach previously required for determining the primary beneficiary of a variable interest entity with an approach focused on the power to direct activities that significantly impact an entity s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. It also requires ongoing assessment of whether an enterprise is a variable interest entity (VIE). The statement is effective for each annual reporting period that begins after November 15, 2009. In December 2009, the FASB issued Accounting Standards Update ASU 2009-17, which codifies SFAS No. 167. The new guidance did not have a material impact on our consolidated financial statements.

In December 2009, the FASB issued new guidance on the accounting for the transfer of financial assets. The new guidance, which is now part of ASC 860 *Transfers and Servicing*, eliminates the concept

of a qualifying special purpose entity and therefore any qualifying special purpose entities in existence before the effective date will need to be evaluated for consolidation. The criteria for reporting a transfer of financial assets has also changed. The guidance is effective on a prospective basis on January 1, 2010 and interim and annual periods thereafter. The new guidance did not have a material impact on our unaudited consolidated financial statements.

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

3. Acquisitions

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

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4. Earnings Per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen s ordinary shares by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share are based on the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period of calculation using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009, respectively:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	($ in millions, except share and per share amounts)			
Earnings				
Basic				
Net income as reported	$ 108.9	$ 110.4	$ 127.2	$ 201.8
Preference dividends	(5.7)	(5.8)	(11.4)	(12.7)
Preference stock repurchase gain				31.5
Net income available to ordinary shareholders	103.2	104.6	115.8	220.6
Diluted				
Net income available to ordinary shareholders	103.2	104.6	115.8	220.6
Ordinary shares				
Basic				
Weighted average ordinary shares	77,289,082	82,940,270	77,341,732	82,241,370
Diluted				
Weighted average ordinary shares	77,289,082	82,940,270	77,341,732	82,241,370
Weighted average effect of dilutive securities	3,438,173	2,705,862	3,364,544	2,371,400
Total	80,727,255	85,646,132	80,706,276	84,612,770
Earnings per ordinary share				
Basic	$ 1.34	$ 1.26	$ 1.50	$ 2.68
Diluted	$ 1.28	$ 1.22	$ 1.43	$ 2.61

Ordinary Share Repurchases. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs & Co. (Goldman Sachs) to repurchase $200 million of our ordinary shares. The transaction was completed on May 21, 2010, when a total of 7,226,084 ordinary shares were received and cancelled during the first six months of 2010. The repurchase completes the share repurchase program authorized by the Board of Directors and announced on February 6, 2008. The purchase was funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to $400 million of ordinary shares. This share repurchase program was in addition to the completed accelerated share repurchase program entered into on January 5, 2010. The authorization covers the period to March 1, 2012.

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

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

	Dividend	Payable on:	Record Date:
Ordinary shares	$ 0.15	August 27, 2010	August 12, 2010
5.625% preference shares	$ 0.703125	October 1, 2010	September 15, 2010
7.401% preference shares	$ 0.462563	October 1, 2010	September 15, 2010

5. Segment Reporting

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

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

Segment profit or loss for each of the Company s operating segments is measured by underwriting profit or loss. Underwriting profit is the sum of net earned premiums, losses and loss expenses, policy acquisition expenses and operating and administrative expenses. Underwriting profit or loss provides a basis for management to evaluate the segment s underwriting performance.

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

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

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

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

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

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

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

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

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

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

Marine, Energy and Transportation Insurance: Our marine, energy and transportation insurance comprises marine, energy and construction (M.E.C.) liability, energy physical damage, marine hull, specie, and aviation, written on a primary, quota share and facultative basis. The M.E.C. liability business includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs (P&I Clubs). It also provides cover for the liabilities of companies in the oil and gas sector, both onshore and offshore and in the power generation and U.S. home builders sectors. In the energy physical damage line, we provide insurance cover against physical damage losses in addition to Operators Extra Expenses (OEE) for companies operating in the oil and gas exploration and production sector. The marine hull team writes insurance covering the risks of physical damage for ships (including war and associated perils) and related marine assets. The specie business line focuses on the insurance of high value property items on an all risks basis, including fine art, general and bank related specie, jewelers block and armored car. The aviation team focuses on providing physical damage insurance to hulls and spares (including war and associated perils) and comprehensive legal liability for airlines, smaller operators of airline equipment, airports and associated business and non-critical component part manufacturers. We also provide aviation hull deductible cover.

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

Non-underwriting Disclosures: We have provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other includes net investment income, net realized and unrealized investment gains or losses, corporate expenses, interest expense, net realized and

unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments.

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 June 30, 2010 and 2009:

	Three Months Ended June 30, 2010		
	Reinsurance	Insurance ($ in millions)	Total
Underwriting revenues			
Gross written premiums	$ 283.3	$ 262.1	$ 545.4
Net written premiums	279.1	259.7	538.8
Gross earned premiums	302.7	220.8	523.5
Net earned premiums	291.2	188.7	479.9
Underwriting Expenses			
Losses and loss expenses	146.4	130.3	276.7
Policy acquisition expenses	47.3	30.5	77.8
Operating and administrative expenses	30.1	21.9	52.0
Underwriting profit	67.4	6.0	73.4
Corporate expenses			(10.6)
Net investment income			57.5
Realized investment gains			5.7
Change in fair value of derivatives			(2.1)
Interest on long term debt			(4.0)
Net foreign exchange gains/(losses)			(2.6)
Other income			3.7
Net income before tax			$ 121.0
Net reserves for loss and loss adjustment expenses	$ 2,189.8	$ 1,048.3	$ 3,238.1
Ratios			
Loss ratio	50.3%	69.1%	57.7%
Policy acquisition expense ratio	16.2%	16.2%	16.2%
Operating and administrative expense ratio	10.3%	11.6%	13.0%
Expense ratio	26.5%	27.8%	29.2%
Combined ratio	76.8%	96.9%	86.9%

	Three Months Ended June 30, 2009		
	Reinsurance	Insurance	Total
		($ in millions)	
Underwriting revenues			
Gross written premiums	$ 257.4	$ 276.9	$ 534.3
Net written premiums	255.8	228.9	484.7
Gross earned premiums	268.8	222.5	491.3
Net earned premiums	255.5	173.1	428.6
Underwriting Expenses			
Losses and loss expenses	102.8	131.9	234.7
Policy acquisition expenses	51.8	29.0	80.8
Operating and administrative expenses	23.1	27.1	50.2
Underwriting profit/(loss)	77.8	(14.9)	62.9
Corporate expenses			(9.7)
Net investment income			72.2
Realized investment gains			4.8
Change in fair value of derivatives			(1.9)
Interest on long term debt			(4.0)
Net foreign exchange gains			3.1
Other income			2.6
Net income before tax			$ 130.0
Net reserves for loss and loss adjustment expenses	$ 1,917.4	$ 1,021.4	$ 2,938.8
Ratios			
Loss ratio	40.2%	76.2%	54.8%
Policy acquisition expense ratio	20.3%	16.8%	18.9%
Operating and administrative expense ratio	9.0%	15.7%	14.0%
Expense ratio	29.3%	32.5%	32.9%
Combined ratio	69.5%	108.7%	87.7%

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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 six months ended June 30, 2010 and 2009.

	Six Months Ended June 30, 2010		
	Reinsurance	Insurance	Total
		($ in millions)	
Underwriting revenues			
Gross written premiums	$ 773.4	$ 474.8	$ 1,248.2
Net written premiums	740.4	378.5	1,118.9
Gross earned premiums	604.6	436.0	1,040.6
Net earned premiums	582.2	365.3	947.5
Underwriting Expenses			
Losses and loss expenses	403.2	252.3	655.5
Policy acquisition expenses	99.7	62.6	162.3
Operating and administrative expenses	52.4	42.3	94.7
Underwriting profit	26.9	8.1	35.0
Corporate expenses			(20.4)
Net investment income			116.9
Realized investment gains			18.0
Change in fair value of derivatives			(4.1)
Interest on long term debt			(7.8)
Net foreign exchange (losses)/gains			(1.1)
Other income			4.8
Net income before tax			$ 141.3
Net reserves for loss and loss adjustment expenses	$ 2,189.8	$ 1,048.3	$ 3,238.1
Ratios			
Loss ratio	69.3%	69.1%	69.2%
Policy acquisition expense ratio	17.1%	17.1%	17.1%
Operating and administrative expense ratio	9.0%	11.6%	12.1%
Expense ratio	26.1%	28.7%	29.2%
Combined ratio	95.4%	97.8%	98.4%

	Six Months Ended June 30, 2009		
	Reinsurance	Insurance	Total
		($ in millions)	
Underwriting revenues			
Gross written premiums	$ 710.2	$ 460.9	$ 1,171.1
Net written premiums	669.1	322.2	991.3
Gross earned premiums	556.5	428.0	984.5
Net earned premiums	530.7	345.2	875.9
Underwriting Expenses			
Losses and loss expenses	224.9	260.6	485.5
Policy acquisition expenses	103.2	56.2	159.4
Operating and administrative expenses	41.5	47.4	88.9
Underwriting profit/(loss)	161.1	(19.0)	142.1
Corporate expenses			(19.5)
Net investment income			131.4
Realized investment (losses)/gains			(7.4)
Change in fair value of derivatives			(3.9)
Interest on long term debt			(7.9)
Net foreign exchange gains			0.8
Other income			1.9
Net income before tax			$ 237.5
Net reserves for loss and loss adjustment expenses	$ 1,917.4	$ 1,021.4	$ 2,938.8
Ratios			
Loss ratio	42.4%	75.5%	55.4%
Policy acquisition expense ratio	19.4%	16.3%	18.2%
Operating and administrative expense ratio	7.8%	13.7%	12.4%
Expense ratio	27.2%	30.0%	30.6%
Combined ratio	69.6%	105.5%	86.0%

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6. Investments

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

	As at June 30, 2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	($ in millions)			
U.S. Government Securities	$ 676.8	$ 37.6	$	$ 714.4
U.S. Agency Securities	318.9	27.4	(0.1)	346.2
Municipal Securities	32.3	0.8	(0.2)	32.9
Corporate Securities	2,195.1	129.4	(3.3)	2,321.2
Foreign Government Securities	520.7	21.9	(0.1)	542.5
Asset-backed Securities	72.3	5.5	(0.1)	77.7
Non-agency Residential Mortgage-backed Securities	31.3	9.4		40.7
Non-agency Commercial Mortgage-backed Securities	150.1	7.5	(0.3)	157.3
Agency Mortgage-backed Securities	1,091.4	57.9		1,149.3
Total fixed income	$ 5,088.9	$ 297.4	$ (4.1)	5,382.2
Short term Investments	301.8			301.8
Total	$ 5,390.7	$ 297.4	$ (4.1)	$ 5,684.0

	As at December 31, 2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	($ in millions)			
U.S. Government Securities	$ 492.1	$ 17.4	$ (2.0)	$ 507.5
U.S. Agency Securities	368.6	20.7	(0.2)	389.1
Municipal Securities	20.0		(0.5)	19.5
Corporate Securities	2,178.1	90.3	(3.8)	2,264.6
Foreign Government Securities	509.9	13.9	(1.5)	522.3
Asset-backed Securities	110.0	5.1		115.1
Non-agency Residential Mortgage-backed Securities	34.2	8.6	(0.6)	42.2
Non-agency Commercial Mortgage-backed Securities	178.5	2.5	(1.0)	180.0
Agency Mortgage-backed Securities	1,172.9	40.2	(3.5)	1,209.6

Total fixed income	5,064.3	198.7	(13.1)	5,249.9
Short term Investments	368.2			368.2
Total	$ 5,432.5	$ 198.7	$ (13.1)	$ 5,618.1

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The following table provides the contractual maturity distribution of our available for sale fixed income investments as of June 30, 2010. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	As at June 30, 2010	
	Cost or Amortized Cost	Fair Value
	($ in millions)	
Due one year or less	$ 328.7	$ 334.3
Due after one year through five years	2,149.9	2,253.2
Due after five years through ten years	1,175.3	1,270.9
Due after ten years	89.9	98.8
Subtotal	3,743.8	3,957.2
Non-agency Residential Mortgage-backed Securities	31.3	40.7
Non-agency Commercial Mortgage-backed Securities	150.1	157.3
Agency Mortgage-backed Securities	1,091.4	1,149.3
Other asset-backed securities	72.3	77.7
Total	$ 5,088.9	$ 5,382.2

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

	As at June 30, 2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	($ in millions)			
U.S. Government Securities	$ 24.8	$ 1.1	$	$ 25.9
U.S. Agency Securities	0.5			0.5
Municipal Securities	2.8	0.1		2.9
Corporate Securities	312.9	19.2	(1.5)	330.6
Foreign Government Securities	6.2	0.3		6.5
Asset Backed Securities	5.0			5.0
Total fixed income	$ 352.2	$ 20.7	$ (1.5)	$ 371.4

	As at December 31, 2009			
	Cost or	Gross	Gross	Estimated

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	($ in millions)			
U.S. Government Securities	$ 7.3	$	$ (0.8)	$ 6.5
U.S. Agency Securities	0.4			0.4
Municipal Securities	1.8			1.8
Corporate Securities	313.2	16.6	(0.4)	329.4
Foreign Government Securities	4.8	0.2		5.0
Asset Backed Securities	5.0			5.0
Total fixed income	$ 332.5	$ 16.8	$ (1.2)	$ 348.1

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

Gross unrealized loss. The following tables summarize as at June 30, 2010 and December 31, 2009, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position for our available for sale portfolio.

	As at June 30, 2010 ($ in millions)					
	0-12 months		Over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Government Securities	$ 15.8	$	$	$	$ 15.8	$
U.S. Agency Securities	3.9	(0.1)			3.9	(0.1)
Foreign Government Securities	25.7	(0.1)			25.7	(0.1)
Municipal Securities	10.8	(0.2)			10.8	(0.2)
Corporate Securities	100.8	(3.3)	5.4	(0.1)	106.2	(3.4)
Asset-backed Securities	0.3	(0.1)			0.3	(0.1)
Non-agency Residential Mortgage-backed Securities	0.2		0.6		0.8	
Non-agency Commercial Mortgage-backed Securities	8.5		3.3	(0.2)	11.8	(0.2)
Agency Mortgage-backed Securities	15.2		1.0		16.2	
Total	$ 181.2	$ (3.8)	$ 10.3	$ (0.3)	$ 191.5	$ (4.1)

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

Non-agency Commercial Mortgage-backed Securities												
Total	$	901.5	$	(11.4)	$	71.5	$	(1.7)	$	973.0	$	(13.1)

As at June 30, 2010, the Company held 100 fixed maturities (December 31, 2009 277 fixed maturities) in an unrealized loss position with a fair value of $191.5 million (December 31, 2009 $973.0 million) and gross unrealized losses of $4.1 million (December 31, 2009 $13.1 million). The Company believes that the gross unrealized losses are attributable to a combination of widening credit spreads and interest rate movements and has concluded that the period during which those investments will remain in an unrealized loss position is temporary.

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Other-than-temporary impairments. The Company recorded other-than-temporary impairments for the three and six months ended June 30, 2010 of $Nil (2009 $2.9 million) and $0.3 million (2009 $18.1 million), respectively. We review all of our investments in fixed maturities designated available for sale for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The process of determining whether a decline in value is other-than-temporary requires considerable judgment. As part of the assessment process we evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to that portion of the unrealized loss that is considered to be credit related. Non-credit related unrealized losses are included in other comprehensive income.

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

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

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

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

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

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

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

Other Investments. On May 19, 2009, Aspen Holdings invested $25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three and six months ended June 30, 2010, fees of $Nil (2009 $Nil) and $0.2 million (2009 $Nil), respectively, were payable to us.

The Company accounts for its investment in accordance with the equity method of accounting. Adjustments to the carrying value of this investment are made based on our share of capital including our share of income and expenses, which is provided in the quarterly management accounts of the partnership. The adjusted carrying value approximates fair value. In the three and six months ended June 30, 2010, our share of gains and losses increased the value of our investment by $0.3 million (2009 reduction of $0.3 million) and $0.5 million (2009 reduction of $0.3 million), respectively. The increase in value has been recognized in realized and unrealized gains and losses in the condensed consolidated statement of operations. For more information see Note 14(c).

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

On June 1, 2010, the majority of the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The remainder of the investment in Cartesian Iris 2009 A L.P. will mature in August, 2010 and will be reinvested in Cartesian Iris Offshore Fund L.P. The Company s involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company s maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	($ in millions)		($ in millions)	
Purchase of fixed maturity investments	$ 181.1	$ 722.3	$ 785.9	$ 1,373.1
(Proceeds) from sales and maturities of fixed maturity investments	(288.4)	(482.2)	(832.9)	(972.8)
Net purchases/(proceeds) from other investments sold		37.1		(135.0)
Net (sales)/purchases of short-term investments	133.0	27.4	4.0	91.9
Net (sales)/purchases	$ 25.7	$ 304.6	$ (43.0)	$ 357.2

Investment Income. The following is a summary of investment income:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	($ in millions)		($ in millions)	
Fixed maturity investments Available-for-sale	$ 53.8	$ 49.9	$ 109.6	$ 102.1
Fixed maturity investments Trading portfolio	4.4	1.0	8.8	1.3
Short-term investments Available-for-sale	0.5	5.6	0.7	6.4
Fixed term deposits (included in cash and cash equivalents)	0.5	1.1	1.3	4.7
Other investments		16.2		20.2

Total	$	59.2	$	73.8	$	120.4	$	134.7
Investments expenses		(1.7)		(1.6)		(3.5)		(3.3)
Net investment income	$	57.5	$	72.2	$	116.9	$	131.4

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	($ in millions)		($ in millions)	
Pre-tax realized and unrealized investment gains and losses included in income statement:				
Available-for-sale short-term investments and fixed maturities:				
Gross realized gains	$ 3.3	$ 11.9	$ 12.6	$ 16.9
Gross realized (losses)	(0.3)	(7.6)	(0.6)	(10.1)
Trading portfolio short-term investments and fixed maturities:				
Gross realized gains	1.4		3.4	
Gross realized (losses)	(0.3)		(1.1)	
Net change in gross unrealized gains	1.3	3.4	3.5	3.9
Impairments:				
Total other-than-temporary impairments		(2.9)	(0.3)	(18.1)
Equity accounted investments:				
Gross realized gains in Cartesian Iris	0.3		0.5	
Total pre-tax realized and unrealized investment gains and losses included in income statement:	$ 5.7	$ 4.8	$ 18.0	$ (7.4)
Change in available-for-sale unrealized gains/losses:				
Fixed maturities	82.4	41.7	107.7	45.0
Short-term investments		6.9		6.9
Total change in pre-tax available-for-sale unrealized gains/(losses)	82.4	48.6	107.7	51.9
Change in taxes	(4.5)	(11.2)	(7.8)	(13.3)
Total change in unrealized gains/(losses), net of taxes	$ 77.9	$ 37.4	$ 99.9	$ 38.6

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7. Fair Value Measurements

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

We consider prices for actively traded Treasury (U.S. Government and Foreign Government) securities to be derived based on quoted prices in active markets for identical assets, which are Level 1 inputs in the fair value hierarchy. We consider prices for other securities priced via vendors, indices, or broker-dealers to be derived based on inputs that are observable for the asset, either directly or indirectly, which are Level 2 inputs in the fair value hierarchy.

We consider securities, other financial instruments and derivative insurance contracts subject to fair value measurement whose valuation is derived by internal valuation models to be based largely on unobservable inputs, which are Level 3 inputs in the fair value hierarchy. There have been no changes in our use of valuation techniques during the year.

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

The following table presents our investments within the fair value hierarchy at which the Company s financial assets are measured on a recurring basis at June 30, 2010.

	June 30, 2010		
	Level 1	Level 2	Level 3
		($ in millions)	
Fixed income maturities available-for-sale, at fair value	$ 1,149.3	$ 4,218.2	$ 14.7
Short-term investments available-for-sale, at fair value	231.6	70.2	
Fixed income maturities, trading at fair value	30.4	341.0	
Short-term investments, trading at fair value	0.5	2.0	
Derivatives at fair value		1.2	3.1
Total	$ 1,411.8	$ 4,632.6	$ 17.8

In the current quarter, we have transferred $109.6 million of foreign government agency securities from Level 1 to Level 2 to bring our classification in line with the presentation for other government agency securities.

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

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

The following table presents a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2010.

	Three Months Ended June 30, 2010		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
	($ in millions)		
Level 3 assets as of April 1, 2010	$ 16.1	$ 4.9	$ 21.0
Total unrealized gains or (losses):			
Included in comprehensive income	(1.4)		(1.4)
Included in earnings		(1.8)	(1.8)
Level 3 assets as of June 30, 2010	$ 14.7	$ 3.1	$ 17.8

	Six Months Ended June 30, 2010		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
	($ in millions)		
Level 3 assets as of January 1, 2010	$ 14.9	$ 6.7	$ 21.6
Total unrealized gains or (losses):			

Included in comprehensive income		(0.2)				(0.2)
Included in earnings				(3.6)		(3.6)
Level 3 assets as of June 30, 2010	$	14.7	$	3.1	$	17.8

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The following table presents a reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2009.

	Three Months Ended June 30, 2009		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
		($ in millions)	
Level 3 assets as of April 1, 2009	$ 10.5	$ 7.2	$ 17.7
Securities transferred in/(out) of Level 3	8.3		8.3
Total unrealized gains or (losses):			
Included in earnings		(1.8)	(1.8)
Included in comprehensive income	(0.5)		(0.5)
Level 3 assets as of June 30, 2009	$ 18.3	$ 5.4	$ 23.7

	Six Months Ended June 30, 2009		
	Fixed Maturity Investments	Derivatives at Fair Value	Total
		($ in millions)	
Level 3 assets as of January 1, 2009	$ 2.8	$ 11.8	$ 14.6
Securities transferred in/(out) of Level 3	14.0		14.0
Total unrealized gains or (losses):			
Included in earnings		(3.7)	(3.7)
Included in comprehensive income	1.5		1.5
Settlements		(2.7)	(2.7)
Level 3 assets as of June 30, 2009	$ 18.3	$ 5.4	$ 23.7

The following table presents our liabilities within the fair value hierarchy at which the Company s financial liabilities are measured on a recurring basis at June 30, 2010 and December 31, 2009.

	June 30, 2010		
	Level 1	Level 2	Level 3
		($ in millions)	
Liabilities under derivative contracts:			
Credit insurance contract	$	$	$ 5.6

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

The following table presents a reconciliation of the beginning and ending balances for the liabilities under derivative contracts measured at fair value on a recurring basis using Level 3 inputs during the three and six months ended June 30, 2010.

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	($ in millions)	
Beginning Balance	$ 7.4	$ 9.2
Settlements	(1.8)	(3.6)
Ending Balance	$ 5.6	$ 5.6

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The following table presents a reconciliation of the beginning and ending balances for the liabilities under derivative contracts measured at fair value on a recurring basis using Level 3 inputs during the three and six months ended June 30, 2009.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	($ in millions)	
Beginning Balance	$ 9.4	$ 11.1
Settlements	(1.7)	(3.4)
Ending Balance	$ 7.7	$ 7.7

8. Reinsurance

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

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

The largest concentrations of reinsurance recoverables as at June 30, 2010, were with Lloyd s on Lloyd s syndicates which are all rated A (Excellent) by A.M. Best and A+ (Strong) by S&P and with Munich Re which is rated A+ (Superior) by A.M. Best and AA- (Very Strong) by S&P, for their financial strength. Balances with Lloyd s and Munich Re represented 29.0% and 10.9%, respectively, of reinsurance recoverables.

9. Derivative Contracts

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheet as at June 30, 2010:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Notional Amount ($ in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value ($ in millions)	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value ($ in millions)
Credit insurance contract	$ 452.0	Derivatives at fair value	$ 3.1	Liabilities under derivatives	$ 5.6
Foreign exchange contract		Derivatives at fair value	$ 1.2		

As at December 31, 2009:

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

The following table provides the total unrealized and realized gains/(losses) recorded in earnings for the three and six months ended June 30, 2010 and 2009:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income Six Months Ended June 30, 2010 ($ millions)	June 30, 2009
Credit Insurance Contract	Change in Fair Value of Derivatives	$ (4.0)	$ (3.9)
Foreign Exchange Contract	Net Foreign Exchange Gains and Losses	$ 1.2	$ 1.8

Interest Rate Swap	Change in Fair Value of Derivatives	$	(0.1)	$	

Derivatives Not Designated as Hedging Instruments Under ASC 815	**Location of Gain/(Loss) Recognized in Income**	**Amount of Gain/(Loss) Recognized in Income Three Months Ended June 30, 2010**		**June 30, 2009**	
		($ millions)			
Credit Insurance Contract	Change in Fair Value of Derivatives	$	(2.0)	$	(1.9)
Foreign Exchange Contract	Net Foreign Exchange Gains and Losses	$	1.2	$	
Interest Rate Swap	Change in Fair Value of Derivatives	$	(0.1)	$	

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

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

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

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

Foreign exchange contract. The Company uses forward exchange contracts to manage foreign currency risk. A forward foreign currency exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. The foreign currency contracts are recorded as derivatives at fair value with changes recorded as a net foreign exchange gain or loss in the Company s statement of operations. As at June 30, 2010, the Company had forward contracts that were due to settle on July 7, 2010 and had a net unrealized foreign exchange gain of $1.2 million.

Interest rate swap. The Company selectively hedges its exposure in its investment portfolio to interest rates by entering into interest rate swaps with financial institution counterparties in the ordinary course of its investment activities. As at June 30, 2010, the Company held a standard fixed for floating interest rate swap with a notional amount of $5.0 million that is due to settle on June 4, 2013 and has a charge for the quarter of $0.1 million (2009 $Nil).

10. Reserves for Losses and Adjustment Expenses

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

	As at June 30, 2010	As at December 31, 2009
	($ in millions)	
Provision for losses and LAE at start of year	$ 3,331.1	$ 3,070.3
Less reinsurance recoverable	(321.5)	(283.3)
Net loss and LAE at start of year	3,009.6	2,787.0
Net loss and LAE expenses disposed of	(42.4)	(10.0)
Provision for losses and LAE for claims incurred:		
Current year	670.5	1,032.5
Prior years	(15.0)	(84.4)
Total incurred	655.5	948.1
Losses and LAE payments for claims incurred:		
Current year	(24.0)	(131.6)
Prior years	(286.0)	(677.0)

Total paid	(310.0)	(808.6)
Foreign exchange (gains) losses	(74.6)	93.1
Net losses and LAE reserves at period end	3,238.1	3,009.6
Plus reinsurance recoverable on unpaid losses at period end	247.6	321.5
Loss and LAE reserves at June 30, 2010 and December 31, 2009	$ 3,485.7	$ 3,331.1

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For the six months ended June 30, 2010, there were reserve releases of $15.0 million compared to $26.8 million for the six months ended June 30, 2009 in our estimate of the ultimate claims to be paid in respect of prior accident years.

The $42.4 million loss reserve portfolio transfer in the six months ended June 30, 2010 relates to the commutation of structured contracts.

11. Capital Structure

The following table provides a summary of the Company s authorized and issued share capital at June 30, 2010 and December 31, 2009.

	As at June 30, 2010		As at December 31, 2009	
	Number	$ in Thousands	Number	$ in Thousands
Authorized Share Capital				
Ordinary shares 0.15144558¢ per share	969,629,030	$ 1,469	969,629,030	$ 1,469
Non-Voting shares 0.15144558¢ per share	6,787,880	10	6,787,880	10
Preference shares 0.15144558¢ per share	100,000,000	152	100,000,000	152

	Number	$ in Thousands	Number	$ in Thousands
Issued Share Capital				
Issued ordinary shares of 0.15144558¢ per share	76,700,990	$ 116	83,327,594	$ 126
Issued preference shares of 0.15144558¢ each with a liquidation preference of $50 per share	4,600,000	7	4,600,000	7
Issued preference shares of 0.15144558¢ each with a liquidation preference of $25 per share	5,327,500	8	5,327,500	8
Total issued share capital		$ 131		$ 141

	$ in Millions	$ in Millions
Additional paid-in capital	$ 1,566.2	$ 1,763.0

Ordinary Shares. The following table summarizes transactions in our ordinary shares during the six month period ended June 30, 2010.

	Number of Shares

Shares in issue at December 31, 2009	83,327,594
Share transactions in the six months ended June 30, 2010:	
Shares issued to the Names trust upon exercise of investor options (refer to Note 12)	5,365
Shares issued to employees under the share incentive plan	594,115
Repurchase of shares from shareholders(1)	(7,226,084)
Shares in issue at June 30, 2010	76,700,990

(1) During 2010, 7,226,084 ordinary shares were acquired and cancelled. Further information related to the accelerated share repurchase program is described below.

Ordinary Share Repurchases. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase $200 million of our ordinary shares. The transaction was completed on May 21, 2010, when a total of 7,226,084 ordinary shares were received and cancelled during the first six months of 2010. The repurchase completes the share repurchase program authorized by the Board of Directors and announced on February 6, 2008. The purchase was funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to $400 million of ordinary shares. This share repurchase program was in addition to the completed accelerated share repurchase program entered into on January 5, 2010. The authorization covers the period to March 1, 2012.

On June 23, 2010, an agreement was signed to repurchase 10,835 shares from the Names Trustee. The shares were repurchased on July 7, 2010 and subsequently cancelled.

12. Share Based Payments

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

Investor Options. The investor options were issued on June 21, 2002 to Wellington Investment Holdings (Jersey) Limited (Wellington Investment) and members of Syndicate 2020 who were not corporate members of Syndicate 2020. The options conferred to the members of Syndicate 2020 are held for their benefit by Appleby Services (Bermuda) Ltd. (formerly Appleby Trust (Bermuda) Limited) (Names Trustee). The subscription price payable under the options is initially £10 and increases by 5% per annum, less any dividends paid. Option holders are not entitled to participate in any dividends prior to exercise and would not rank as a creditor in the event of liquidation. If not exercised, the options will expire on June 21, 2012. Wellington Investment exercised all of its options on March 28, 2007. During the three and six months ended June 30, 2010, the Names Trustee exercised 4,195 and 5,365 options on a cash and cashless basis, respectively (2009 Nil and 3,842 options).

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

Stock options are granted with an exercise price equivalent to the fair value of the share on the grant date. The weighted average value at grant date is determined using the Black-Scholes option pricing model. Stock options typically vest over a three-year period with a ten-year contract period (except for options granted in 2007 which have a 7-year exercise period) with vesting dependent on time and performance conditions established at the time of grant. No options were granted in the three and six months ended June 30, 2010 (2009 Nil); 146,850 options were exercised during the three months ended June 30, 2010 (2009 58,459); and 521,811 options were exercised during the six months ended June 30, 2010 (2009 58,459). Compensation costs charged against income in respect of employee options for the three and six months ended June 30, 2010 were a credit of $0.8 million and a credit of $0.5 million, respectively (2009 $0.5 million and $1.1 million).

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Restricted share units (RSU s) to employees vest equally over a two or three-year period. Some of the grants vest at year-end, while some other grants vest on the anniversary of the date of grant or when the Compensation Committee of the Board agrees to deliver them. The fair value of the restricted share units is based on the closing price on the date of the grant. The fair value is expensed through the income statement evenly over the vesting period. During the three and six months ended June 30, 2010, the Company granted to employees 75,701 and 108,455 restricted share units, respectively (2009 2,915 and 42,291). In the case of non-employee directors, one-twelfth of the RSU s vest on each one month anniversary of the date of grant, with 100% of the RSU s becoming vested on the first anniversary of the date of grant. On February 9, 2010 (with a grant date of February 11, 2010), the Board of Directors approved a total of 28,640 RSU s for the non-employee directors (April 29, 2009 25,316) and 17,902 RSU s to the Chairman (April 29, 2009 8,439). Compensation costs charged against income in respect of restricted share units for the three and six months ended June 30, 2010 were $0.8 million and $1.6 million, respectively (2009 $0.8 million and $1.4 million).

The fair value of performance share awards is based on the value of the average of the high and low of the share price on the date of the grant less a deduction for expected dividends which would not accrue during the vesting period. Performance shares vest over a three or four-year period with shares eligible for vesting dependent on the achievement of performance targets at the end of specified periods as established at the time of grant. Compensation costs charged against income in the three and six months ended June 30, 2010 in respect of performance shares were a credit of $0.9 million and a charge of $2.3 million, respectively (2009 $3.2 million and $6.4 million).

On February 8, 2010, the Compensation Committee approved the grant of 720,098 performance shares with a grant date of February 11, 2010. The performance shares will be subject to a three-year vesting period with a separate annual Return on Equity (ROE) test for each year. One-third of the grant will be eligible for vesting each year based on the following formula, and will only be issuable at the end of the three-year period. If the ROE achieved in any given year is less than 7%, then the portion of the performance shares subject to the vesting conditions in such year will be forfeited (i.e. 33.33% of the initial grant). If the ROE achieved in any given year is between 7% and 12%, then the percentage of the performance shares eligible for vesting in such year will be between 10% and 100% on a straight-line basis. If the ROE achieved in any given year is between 12% and 22%, then the percentage of the performance shares eligible for vesting in such year will be between 100% and 200% on a straight-line basis. Notwithstanding the vesting criteria for each given year, if in any given year, the shares eligible for vesting are greater than 100% for the portion of such year s grant (i.e. the ROE was greater than 12% in such year) and the average ROE over such year and the preceding year is less than 7%, then only 100% (and no more) of the shares that are eligible for vesting in such year shall vest. If the average ROE over the two years is greater than 7%, then there will be no diminution in vesting and the shares eligible for vesting in such year will vest in accordance with the vesting schedule without regard to the average ROE over the two-year period.

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

13. Intangible Assets

	Three Months to June 30, 2010			Three Months to June 30, 2009		
	Trade Mark	Insurance Licenses	Other	Trade Mark	Insurance Licenses	Other
Intangible Assets						
Beginning of the period	$ 1.6	$ 6.6	$ 3.6	$ 1.6	$ 6.6	$
Amortization			(0.3)			
End of the period	$ 1.6	$ 6.6	$ 3.3	$ 1.6	$ 6.6	$

	Six Months to June 30, 2010			Six Months to June 30, 2009		
	Trade Mark	Insurance Licenses	Other	Trade Mark	Insurance Licenses	Other
Intangible Assets						
Beginning of the period	$ 1.6	$ 6.6	$ 3.6	$ 1.6	$ 6.6	$
Amortization			(0.3)			
End of the period	$ 1.6	$ 6.6	$ 3.3	$ 1.6	$ 6.6	$

On January 22, 2010, we entered into a sale and purchase agreement to purchase APJ Continuation Limited and its subsidiaries (APJ) for an aggregate consideration of $4.8 million. The business writes a specialist account of K&R insurance which will complement our existing political and financial risk line of business. The directors of Aspen Holdings have assessed the fair value of the net tangible and financial assets acquired at $1.2 million. The $3.6 million intangible asset represents our assessment of the value of renewal rights, distribution channels and employees associated with the business.

14. Commitments and Contingencies

(a) Restricted assets

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

The following table shows the forms of collateral or other security provided to policyholders as at June 30, 2010 and December 31, 2009.

	As at June 30, 2010	As at December 31, 2009
	($ in millions, except percentages)	
Assets held in multi-beneficiary trusts	$ 1,630.5	$ 1,495.8
Assets held in single-beneficiary trusts	57.5	55.7
Secured letters of credit(1)	507.5	528.3
Total	$ 2,195.5	$ 2,079.8
Total as % of cash and invested assets	32.2%	30.8%

(1) As of June 30, 2010, the Company had funds on deposit of $695.6 million and £19.2 million (December 31, 2009 $667.1 million and £18.8 million) as collateral for the secured letters of credit.

On October 6, 2009, Aspen U.K. and Aspen Bermuda entered into a $200 million secured letter of credit facility with Barclays Bank plc. All letters of credit issued under the facility will be used to support reinsurance obligations of the parties to the agreement and their respective subsidiaries. The Company had $46.0 million of outstanding collateralized letters of credit under this facility at June 30, 2010.

On April 29, 2009, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated October 29, 2008 in a maximum aggregate amount of up to $450 million with a new letter of credit facility in a maximum aggregate amount of up to $550 million. The Company had $368.6 million of outstanding collateralized letter of credit under this facility at June 30, 2010.

Funds at Lloyd s. AUL operates in Lloyd s as the corporate member for Syndicate 4711. Lloyd s determines Syndicate 4711 s required regulatory capital principally based on the syndicate s annual business plan. Such capital, called Funds at Lloyd s, comprises: cash, investments and a fully collateralized letter of credit. The amounts of cash, investments and letter of credit at June 30, 2010 amount to $220.1 million (December 31, 2009 $219.8 million).

(b) Operating leases

Amounts outstanding under operating leases net of subleases as of June 30, 2010 were:

	2010	2011	2012	2013	2014	Later Years	Total
				($ in millions)			
Operating Lease Obligations	4.2	6.9	6.0	5.9	5.9	18.4	47.3

(c) Variable interest entities

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested $25.0 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three and six months ended June 30, 2010, fees of $Nil and $0.2 million, respectively, were payable to us. The Company s investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership.

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

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

On June 1, 2010, the majority of the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The remainder of the investment in Cartesian Iris 2009 A L.P. will mature in August, 2010 and will be reinvested in Cartesian Iris Offshore Fund L.P. The Company s involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company s maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2010 and 2009. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this Form 10-Q and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2009, as well as the discussions of critical accounting policies, contained in our Financial Statements in our 2009 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business and in Outlook and Trends below, includes forward-looking statements that involve risk and uncertainties. Please see the section captioned Cautionary Statement Regarding Forward-Looking Statements in this report and the Risk Factors in Item 1A of our 2009 Annual Report on Form 10-K for more information on factors that could cause actual results to differ materially from the results described in or implied by any forward-looking statements contained in this discussion and analysis.

Recent Developments

On June 16, 2010, we appointed two new underwriters to launch a new, wide range of insurance and risk management products for selected brokers and their clients in the U.K. They will write business for Aspen U.K. through a number of regional offices in the U.K. and offer a broad range of property, casualty and specialty products. They intend to offer products to a panel of carefully selected brokers in early 2011. The new company, Aspen Risk Management Limited, will be 80% owned by Aspen U.K. Holdings and 20% owned by certain directors and executives of Aspen Risk Management Limited. The share allocation is subject to adjustment based on the financial performance of the company.

On June 23, 2010, an agreement was signed to repurchase 10,835 shares from the Names Trustee. The shares were repurchased on July 7, 2010 and subsequently cancelled.

On July 29, 2010, in our earnings announcement, we refined our loss estimates in relation to the Deepwater Horizon event. We have booked a net loss after tax and reinstatements of $18.6 million, split $9.9 million for the insurance segment and $8.7 million for the reinsurance segment. This estimate supplants our previous announcement on June 10, 2010 that our loss from this event net of tax and reinsurance premiums would be unlikely to exceed $25 million.

On July 29, 2010, we entered into a second interest rate swap with a notional amount of $100.0 million that is due to settle on July 29, 2015. The swap is part of the Company s ordinary course of investment activities to hedge its exposure to interest rates.

On July 30, 2010, Aspen Holdings and six of its wholly-owned (directly or indirectly) subsidiaries entered into a $280 million revolving credit agreement with various lenders and Barclays Bank plc, as administrative agent and letter of credit issuer, as described on our current report on Form 8-K filed on August 4, 2010. This replaces a $450 million revolving credit facility, which would have expired on August 2, 2010, but was terminated upon the effectiveness of the new credit agreement.

During the quarter, we have continued to develop our U.S. Insurance operations with the recruitment of a Management Liability underwriting team and senior appointments to key operations positions.

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Overview

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

The most significant features of our results for the three and six months ended June 30, 2010 were:

Diluted book value per share of $36.96, up 21.3% over the end of the second quarter of 2009 and up 6.8% from the end of the first quarter in 2010;

Diluted earnings per share of $1.28 for the quarter, up from $1.22 for the second quarter of 2009;

Second quarter net income after tax of $108.9 million, down marginally from $110.4 million in the same quarter last year;

Annualized net income return on equity of 16.4% for the second quarter and 9.0% for the first half of 2010; and

Completed the accelerated share repurchase transaction on May 21, 2010, resulting in the repurchase and cancellation of 7,226,084 shares during the first half of 2010.

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

Shareholders equity and ordinary shares in issue as at June 30, 2010 and June 30, 2009 were:

	As at June 30, 2010	As at June 30, 2009
	($ in millions, except for share amounts)	
Total shareholders equity	$ 3,303.9	$ 2,972.5
Preference shares less issue expenses	(353.6)	(353.6)
Net assets attributable to ordinary shareholders	$ 2,950.3	$ 2,618.9
Ordinary shares	76,700,990	83,021,860
Diluted ordinary shares	79,830,836	85,985,112

The following overview of our results for the three months ended June 30, 2010 and 2009 and of our financial condition at June 30, 2010, is intended to identify important trends and should be read in conjunction with the more detailed discussion further below.

Gross written premiums. Total gross written premiums increased by 2.1% to $545.4 million in the second quarter of 2010 when compared to 2009 with the increase attributable to growth in our reinsurance segment with offsetting reductions in our insurance segment. The table below shows our gross written premiums for each segment for the three months ended June 30, 2010 and 2009, and the percentage change in gross written premiums for each segment.

Business Segment	**For the Three Months Ended June 30, 2010**		**For the Three Months Ended June 30, 2009**
	($ in millions)	**% increase/ (decrease)**	**($ in millions)**
Reinsurance	$ 283.3	10.1%	$ 257.4
Insurance	262.1	(5.3)%	276.9
Total	$ 545.4	2.1%	$ 534.3

The increase in gross written premiums in the second quarter of 2010 in our reinsurance segment is attributable mainly to additional catastrophe premium as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of the year, and also due to the addition of $20.4 million of incremental premiums from newly established teams which include credit and surety and agriculture written in our Zurich office. Gross written premiums in the insurance segment have decreased by 5.3% to $262.1 million when compared to the second quarter of 2009 with lower contributions from the marine, energy and transportation lines and casualty insurance.

Reinsurance. Total reinsurance ceded for the quarter of $6.6 million has decreased by $43.0 million from the second quarter of 2009 mainly in the insurance segment where we purchased reinsurance for our financial and professional lines earlier in 2010 in addition to a downward ceded premium adjustment for our marine, energy and transportation lines as we have reduced gross exposures in the Gulf of Mexico.

Loss ratio. We monitor the ratio of losses and loss adjustment expenses to net earned premium (the loss ratio) as a measure of relative underwriting performance where a lower ratio represents a better result than a higher ratio. The loss ratios for our two business segments for the three months ended June 30, 2010 and 2009 were as follows:

Business Segment	**For the Three Months Ended June 30, 2010**	**For the Three Months Ended June 30, 2009**
Reinsurance	50.3%	40.2%
Insurance	69.1%	76.2%
Total Loss Ratio	57.7%	54.8%

The loss ratio for the quarter of 57.7% has increased by 2.9 percentage points compared to the second quarter of 2009. The increase is due mainly to lower reserve releases in the current quarter of $2.1 million compared with $16.9 million in the second quarter of 2009. Reserve releases in our reinsurance segment reduced from $32.1 million in the second quarter of 2009 to $11.1 million in the current period, with the $21.0 million reduction increasing the current year loss ratio by 7.2 percentage points. The insurance segment had a $9.0 million reserve strengthening this quarter compared to a $15.2 million strengthening in the second quarter of 2009. The $6.2 million variance had the effect of a 3.3 point reduction on the insurance segment loss ratio in the second quarter of 2010.

We have presented loss ratios excluding the impact from prior year reserve adjustments and catastrophic losses to aid in the analysis of the underlying performance of our segments. The underlying changes in accident year loss ratios by segment are shown in the table below. The prior year claims adjustment in the table below reflects claims development and excludes premium adjustments. The current year claims adjustments represent significant loss events.

	Prior Year	**Accident Year Loss Ratio Excluding Prior and**

For the Three Months Ended June 30, 2010	Total Loss Ratio	Claims Adjustment	Current Year Claims Adjustment	Current Year Claims Adjustments
Reinsurance	50.3%	3.8%	(1.0)%	53.1%
Insurance	69.1%	(4.8)%	%	64.3%
Total	57.7%	0.4%	(0.6)%	57.5%

For the Three Months Ended June 30, 2009	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding Prior and Current Year Claims Adjustments
Reinsurance	40.2%	12.6%	%	52.8%
Insurance	76.2%	(8.8)%	%	67.4%
Total	54.8%	2.2%	%	57.0%

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Reserve releases. The loss ratios take into account changes in our assessments of reserves for unpaid claims and loss adjustment expenses arising from earlier years. In the three months ended June 30, 2010 and 2009, we recorded a reduction in the level of reserves for prior years. The amounts of these reductions and their effect on the loss ratio in each period are shown in the following table:

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009
Reserve releases ($ in millions)	$ 2.1	$ 16.9
% of net premiums earned	0.4%	3.9%

Reserve releases in the current quarter have decreased by $14.8 million due mainly to lower reserve releases from the reinsurance segment compared to the second quarter in 2009 and in particular property catastrophe and U.S. casualty reinsurance with some reserve strengthening for specialty reinsurance. The insurance reserve strengthening of $9.0 million due to adverse development in both our professional liability and U.S. casualty business lines compares favorably with a $15.2 million reserve increase in the second quarter of 2009. Further information relating to the movement of prior year reserves can be found below under Reserves for Loss and Loss Adjustment Expenses.

Expense ratio. We monitor the ratio of expenses to net earned premium (the expense ratio) as a measure of the cost effectiveness of our policy acquisition, operating and administrative processes. The table below presents the contribution of the policy acquisition expenses and operating and administrative expenses to the expense ratio and the total expense ratios for each of the three months ended June 30, 2010 and 2009:

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009
Policy acquisition expenses	16.2%	18.9%
Operating and administrative expenses	13.0%	14.0%
Expense ratio	29.2%	32.9%

The policy acquisition expense ratio of 16.2% for the quarter has reduced from 18.9% in the second quarter of 2009. The decrease is due to a combination of reduced profit related commissions and the mix of business including more property catastrophe reinsurance which has lower acquisition expenses.

Although operating and administrative expenses have increased to $52.0 million for the quarter compared with $50.2 million in the second quarter of 2009, the operating and administrative expense ratio, as a percentage of net earned premium, has decreased from 14.0% to 13.0% for the same period. The reduction in the operating and administrative expense ratio is due to higher gross earned premiums in our reinsurance segment and lower ceded earned premium in the insurance segment.

Net investment income. Net investment income for the quarter of $57.5 million has decreased from $72.2 million in the second quarter of 2009. The comparative quarter included $16.2 million of gains from our investments in funds of hedge funds, in which the Company no longer invests.

Change in fair value of derivatives. In the three months ended June 30, 2010, we recorded a reduction of $2.0 million (2009 $2.0 million reduction) in the estimated fair value of our credit insurance contract including an interest expense charge of $0.2 million (2009 $0.2 million) and a charge of $0.1 million (2009 $Nil) for the interest rate swap. Further information on these contracts can be found in Note 9 to the financial statements.

Other revenues and expenses. Other revenues and expenses in the three months ended June 30, 2010 included $2.6 million of foreign currency exchange losses (2009 $3.1 million gain) and $5.7 million of realized and unrealized investment gains (2009 $4.8 million gain). Realized and unrealized losses included $3.0 million (2009 $4.3 million) of net realized gains from the fixed income maturities available-for-sale portfolio, $1.1 million (2009 $Nil) of net realized gains from our fixed income maturities trading portfolio, $1.3 million (2009 $3.4 million) net unrealized gains from our fixed income maturities trading portfolio, a charge of $Nil (2009 $2.9 million) for investments we believe to be other-than-temporarily impaired and $0.3 million (2009 $Nil) representing our share of earnings from our investment in Cartesian Iris.

Taxes. The estimated effective rate of tax for the quarter is 10.0% (2009 15.1%). The reduction in the tax rate when compared to the second quarter of 2009 was due to the relative performance of our Bermuda, U.S. and U.K. operations and the distribution of losses from the Chilean earthquake around the Group. The effective tax rate for the year is subject to revision in future periods if circumstances change and in particular, depending on the relative claims experience of those parts of business underwritten in Bermuda where the rate of tax on corporate profits is zero while the U.K. corporate tax rate is 28% and the U.S. corporate tax rate is 35%.

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

Dividends paid on our preference shares in the three months ended June 30, 2010 were $5.7 million (2009 $5.8 million). The reduction between the two periods is due to the repurchase and cancellation on March 31, 2009 of 2,672,500 of our 7.401% $25 liquidation preference shares.

Shareholders equity and financial leverage. Total shareholders equity increased by $163.7 million to $3,303.9 million for the three months ended June 30, 2010. The most significant movements were:

- unrealized appreciation on investments, net of taxes, of $77.9 million; and

- net retained income after tax for the period of $91.5 million.

As at June 30, 2010, total ordinary shareholders equity was $2,950.3 million compared to $2,951.8 million at December 31, 2009. The remainder of our total shareholders equity, as at June 30, 2010, was funded by two classes of preference shares with a total value as measured by their respective liquidation preferences of $353.6 million net of share issuance costs (December 31, 2009 $353.6 million).

The amount outstanding under our senior notes, less amortization of expenses, of $249.6 million (December 31, 2009 $249.6 million) was the only material debt that we had outstanding as of June 30, 2010 and December 31, 2009.

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders equity plus outstanding debt. At June 30, 2010, this ratio was 7.0% (December 31, 2009 7.0%).

Our preference shares are classified on our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Such securities are often referred to as hybrids as they have certain attributes of both debt and equity. We also monitor the ratio of the total of debt and hybrids to total capital which was 17.0% as of June 30, 2010 (December 31, 2009 17.0%)

Capital Management. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase $200 million of our ordinary shares. This transaction was completed on May 21, 2010 resulting in the repurchase and cancellation of 7,226,084 ordinary shares in the first half of 2010. The repurchase completes the share repurchase program authorized by the Board of Directors and announced on February 6, 2008. The purchase was funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to $400 million of ordinary shares. The authorization covers the period to March 1, 2012. This authorization is in addition to the accelerated share repurchase completed on May 21, 2010.

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Liquidity. Management monitors the liquidity of Aspen Holdings and of each of its Insurance Subsidiaries. With respect to Aspen Holdings, management monitors its ability to service debt, to finance dividend payments and to provide financial support to the Insurance Subsidiaries. As at June 30, 2010, Aspen Holdings held $60.2 million (December 31, 2009 $33.5 million) in cash and cash equivalents which, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities, management considered sufficient to provide Aspen Holdings liquidity at such time.

At June 30, 2010, our subsidiaries held $652.0 million (December 31, 2009 $701.5 million) in cash and cash equivalents that are readily realizable securities. Management monitors the value, currency and duration of the cash and investments within its Insurance Subsidiaries to ensure that they are able to meet their insurance and other liabilities as they become due and was satisfied that there was a comfortable margin of liquidity as at June 30, 2010 and for the foreseeable future.

As of June 30, 2010, we had in issue $507.5 million in letters of credit to cedants, for which the Company had funds on deposit of $724.5 million as collateral for the secured letters of credit. Further information relating to letters of credit is found below under Liquidity.

Outlook and Trends

Reinsurance: Property reinsurance rates have continued to soften and we have seen clients retaining higher levels of risk than we had anticipated in both the catastrophe and risk excess markets. Renewal rates for expiring premiums have fallen versus last year and were down approximately 10% versus January 1. Following the earthquake in Chile, we have seen rates on catastrophe reinsurance business in Chile rise between 40% and 70%. We have seen single digit rate reductions on our risk excess book, reflecting strong competition in Europe and the U.S. On the facultative side, we have also experienced reductions in demand and rate exacerbated by new market entrants who have increased supply. Within our specialty reinsurance area, our Zurich-based credit, surety and political risk reinsurance business rates were up 4%, but less marked than initially expected given increased competition. Elsewhere, we are experiencing single digit declines on space and aviation reinsurance.

The casualty reinsurance environment remains challenging with continued rate pressure on original business. We expect this trend to be maintained for the remainder of 2010. In the second quarter, U.S. casualty reinsurance rates were flat overall with greatest pressure in the E&S primary and umbrella markets. Activity within our international casualty reinsurance line is dominated by the Australian renewals at this time of year where pricing was broadly stable. Terms and conditions are beginning to come under pressure but we believe are still acceptable.

Insurance: Market conditions are challenging in most lines of business in both the U.S. and U.K. markets. However, in the second quarter, we recorded an average increase of 1% on our renewal book. Marine hull saw rate increases of 6% on average with pricing remaining flat on non-loss incurring business. Within our marine, energy and construction liability account, we experienced average rate increases of 3% with the impact of the Deepwater Horizon loss yet to be felt. Strong competition in the U.S. and Bermuda has pushed renewal rates down on average 2% in our excess casualty account. We saw modest increases of 2% on our aviation book and in our U.K. commercial property account. Within U.K. employers liability insurance, rates fell by on average 3% with market conditions expected to remain testing in the foreseeable future. Within our financial and professional lines, conditions in financial and political risk insurance have remained relatively attractive and we have experienced a meaningful pick-up in demand as some competitors scaled back their activities in this area. Rate increases on our financial institutions book were lower than we had anticipated at around 1% increase reflecting increased competition and the continued perceived economic recovery. Within our U.S. insurance business, E&S property experienced a 3% rate decrease with terms and conditions under pressure. In E&S casualty, we saw expiring premium renewed with an average rate increase of 1% in a very competitive market.

Application of Critical Accounting Policies

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

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

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Results of Operations for the Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

The following is a discussion and analysis of our consolidated results of operations for the three months ended June 30, 2010 and 2009 starting with a discussion of segmental results and then summarizing our consolidated results under Total Income Statement Second quarter below.

Underwriting Results by Operating Segments

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

We historically have managed our business in four segments: property reinsurance, casualty reinsurance, international insurance and U.S. insurance. On January 14, 2010, we announced a new organizational structure where we intend to manage our insurance and reinsurance businesses as two underwriting segments, Aspen Insurance and Aspen Reinsurance, to enhance and better serve our global customer base. As a result of our organizational changes, in 2010 we now manage our underwriting business in two operating segments: Insurance and Reinsurance. The reinsurance segment consists of four principal lines of business: property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance. The insurance segment consists of property insurance, casualty insurance, marine, energy and transportation insurance and financial and professional lines insurance.

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

We have provided additional disclosures for corporate and other (non-underwriting) income and expenses. Corporate and other income includes net investment income, net realized and unrealized investment gains or losses, corporate expense, interest expense, net realized and unrealized foreign exchange gains or losses and income taxes, which are not allocated to the underwriting segments. Please refer to the tables in Note 5 in our unaudited financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the three months ended June 30, 2010 and 2009. The contributions of each segment to gross written premiums in the three months ended June 30, 2010 and 2009 were as follows:

	Gross Written Premiums	
Business Segment	**For the Three Months Ended June 30, 2010**	**For the Three Months Ended June 30, 2009**
	% of total gross written premiums	
Reinsurance	51.9%	48.2%
Insurance	48.1%	51.8%
Total	100.0%	100.0%

Business Segment	Gross Written Premiums For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009
	($ in millions)	
Reinsurance	$ 283.3	$ 257.4
Insurance	262.1	276.9
Total	$ 545.4	$ 534.3

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Reinsurance

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

Gross written premiums. Gross written premiums in our reinsurance segment increased by 10.1% compared to the three months ended June 30, 2009. The increase in gross written premiums is attributable mainly to additional catastrophe premium as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of the year and an increase in specialty reinsurance premiums due to the contribution from our new credit and surety and agriculture teams.

The table below shows our gross written premiums for each line of business for the three months ended June 30, 2010 and 2009, and the percentage change in gross written premiums for each such line:

	Gross Written Premiums		
Lines of Business	**For the Three Months Ended June 30, 2010**		**For the Three Months Ended June 30, 2009**
	($ in millions)	**% increase/ (decrease)**	**($ in millions)**
Property catastrophe reinsurance	$ 91.2	16.2%	$ 78.5
Other property reinsurance	80.7	(5.9)	85.8
Casualty reinsurance	51.5	10.3	46.7
Specialty reinsurance	59.9	29.1	46.4
Total	$ 283.3	10.1%	$ 257.4

Losses and loss adjustment expenses. The net loss ratio for the three months ended June 30, 2010 was 50.3% compared to 40.2% in the equivalent period in 2009. The increase in the loss ratio is attributable mainly to the reduction in the reserve release which reduced from $32.1 million in the second quarter of 2009 to $11.1 million in the current period which effectively increased the loss ratio by 7.2 percentage points. The reduction was due to a $4.9 million reserve strengthening in our specialty reinsurance business line. Reserve releases in the second quarter of 2009 were higher than usual as the period benefited from a reduction in loss estimates from Hurricane Ike.

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

Policy acquisition, operating and administrative expenses. Policy acquisition expense were $47.3 million for the three months ended June 30, 2010 equivalent to 16.2% of net premiums earned (2009 $51.8 million or 20.3% of net premiums earned). The reduction is mainly due to lower profit related commissions for casualty reinsurance and higher earned premium from property catastrophe which has lower brokerage and has provided a greater contribution to the total. An increase in operating and administrative expenses of $7.0 million from the second quarter of 2009 is attributable mainly to an increase in general expenses as we continue to invest in the development of the business with new offices and new teams.

Insurance

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

Gross written premiums. Overall premiums have reduced by 5.3% to $262.1 million for the quarter from $276.9 million in the equivalent period in 2009. The reduction in gross written premium is attributable to our marine, energy and transport lines where we have declined business that did not meet our profitability requirements and higher client retention in some classes. Increases in property insurance and financial and professional lines are due to new business opportunities in U.K. property and improving conditions in financial and professional lines.

The table below shows our gross written premiums for each line of business for the three months ended June 30, 2010 and 2009, and the percentage change in gross written premiums for each line:

	Gross Written Premiums		
Lines of Business	**For the Three Months Ended June 30, 2010**		**For the Three Months Ended June 30, 2009**
	($ in millions)	**% increase/ (decrease)**	**($ in millions)**
Property insurance	$ 69.3	26.2%	$ 54.9
Casualty insurance	44.7	(15.5)	52.9
Marine, energy and transportation insurance	118.1	(21.0)	149.4
Financial and professional lines insurance	30.0	52.3	19.7
Total	$ 262.1	(5.3)%	$ 276.9

Losses and loss adjustment expenses. The loss ratio for the quarter was 69.1% compared to 76.2% for the three months ended June 30, 2009. Losses for the three months ended June 30, 2010 include $10.7 million of net losses from the Deepwater Horizon oil rig spill and $8.8 million of losses, net of reinstatements, from the Libyan air crash while the second quarter of 2009 included increases in loss reserves for lines of business exposed to the global financial crisis and adverse claims experience in our U.S. casualty insurance line. Prior year reserve strengthening was $9.0 million compared to a strengthening of $15.2 million in the three months ended June 30, 2009. The strengthening in 2010 was largely due to $10.7 million of strengthening in our financial and professional lines due to U.K. exposure to liability claims against independent financial advisors and real estate valuation claims and $5.6 million in U.S. casualty for exposures to nursing homes and California contractors.

Policy acquisition, operating and administrative expenses. Policy acquisition expenses of $30.5 million for the three months ended June 30, 2010 equivalent to 16.2% of net premiums earned (2009 $29.0 million or 16.8% of net earned premium) were broadly in line with those in the second quarter of 2009. Operating and administrative expenses of $21.9 million in the second quarter of 2010 are $5.2 million less than in the comparative period in 2009 due to the prior year including reorganization costs from our U.S. operations and an allocation of Lloyd s start-up costs.

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Total Income Statement   Second quarter

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

Gross written premiums. Total gross written premiums increased by 2.1% to $545.4 million in the second quarter of 2010 when compared to 2009 with the increase arising from our reinsurance segment. The increase in gross written premium in our reinsurance segment is attributable mainly to property catastrophe as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of year, in addition to $20.4 million of incremental premiums from new teams in specialty reinsurance (credit and surety and agriculture). Gross written premiums in the insurance segment have decreased by 5.3% to $262.1 million when compared to the second quarter of 2009 with lower contributions from casualty insurance, where market conditions are challenging, and marine, energy and transportation lines, where we have reduced our exposure to Gulf of Mexico business in our energy book.

Reinsurance. Total reinsurance ceded for the quarter of $6.6 million has decreased by $43.0 million from the second quarter of 2009 mainly in the insurance segment where we purchased reinsurance for our financial and professional lines earlier in 2010 in addition to a downward ceded premium adjustment for our marine, energy and transportation lines as we have reduced gross exposures in the Gulf of Mexico.

Gross premiums earned. Gross premiums earned reflect the portion of gross premiums written which are recorded as revenues over the policy periods of the risks we write. The earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the reporting date. Gross premiums earned in the second quarter of 2010 increased by 6.6% compared to the second quarter of 2009 as a result of the increase in gross written premiums and favorable prior year premium adjustments.

Net premiums earned. Net premiums earned have increased by $51.3 million or 12.0% in the second quarter of 2010 compared to 2009 which is consistent with the increase in gross earned premiums and lower reinsurance ceded for the quarter primarily in the insurance segment.

Losses and loss adjustment expenses. The loss ratio for the quarter has increased by 2.9 percentage points compared to the second quarter of 2009 mainly due to lower reserve releases in the current quarter compared to the second quarter of 2009. Reserve releases in our reinsurance segment reduced from $32.1 million in the second quarter of 2009 to $11.1 million in the current period. The insurance segment had a $9.0 million reserve strengthening this quarter compared to a $15.2 million strengthening in the second quarter of 2009.

We have presented loss ratios excluding the impact from prior year reserve adjustments and catastrophic losses to aid in the analysis of the underlying performance of our segments. The underlying changes in accident year loss ratios by segment are shown in the table below. The prior year claims adjustment in the table below reflects claims development and excludes premium adjustments.

The current year claims adjustments represent catastrophic loss events.

Accident Year Loss Ratio Excluding Prior and

For the Three Months Ended June 30, 2010	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Current Year Claims Adjustments
Reinsurance	50.3%	3.8%	(1.0)%	53.1%
Insurance	69.1%	(4.8)%	%	64.3%
Total	57.7%	0.4%	(0.6)%	57.5%

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For the Three Months Ended June 30, 2009	Total Loss Ratio	Prior Year Claims Adjustment	Current Year Claims Adjustment	Accident Year Loss Ratio Excluding Prior and Current Year Claims Adjustments
Reinsurance	40.2%	12.6%	%	52.8%
Insurance	76.2%	(8.8)%	%	67.4%
Total	54.8%	3.9%	%	58.7%

Expenses. We monitor the ratio of expenses to gross earned premium (the gross expense ratio) as a measure of the cost effectiveness of our policy acquisition, operating and administrative processes. The table below presents the contribution of the policy acquisition expenses and operating and administrative expenses to the expense ratio and the total expense ratios for the three months ended June 30, 2010 and 2009. We also show the effect of reinsurance which impacts on the reported net expense ratio by expressing the expenses as a proportion of net earned premiums.

	Expense Ratios	
	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009
Policy acquisition expenses	14.9%	16.4%
Operating and administrative expenses	12.0%	12.2%
Gross expense ratio	26.9%	28.6%
Effect of reinsurance	2.3%	4.3%
Total net expense ratio	29.2%	32.9%

Changes in the acquisition and operating and administrative ratios to gross earned premiums and the impact of reinsurance on net earned premiums by segment for each of the three months ended June 30, 2010 and 2009 are shown in the following table:

Ratios Based on Gross Earned Premium	For the Three Months Ended June 30, 2010			For the Three Months Ended June 30, 2009		
	Reinsurance	Insurance	Total	Reinsurance	Insurance	Total
Policy acquisition expense ratio	15.6%	13.8%	14.9%	19.3%	13.0%	16.4%
	9.9	9.9	12.0%	8.6	12.2	12.2%

Operating and administrative expense ratio						
Gross expense ratio	25.5	23.7	26.9%	27.9	25.2	28.6%
Effect of reinsurance	1.0	4.1	2.3%	1.4	7.3	4.3%
Total net expense ratio	26.5%	27.8%	29.2%	29.3%	32.5%	32.9%

The policy acquisition expense ratio of 16.2% for the quarter has reduced from 18.9% in the second quarter of 2009. The decrease is due to a combination of reduced profit related commissions and the mix of business including more property catastrophe reinsurance which has lower acquisition expenses.

Although operating and administrative expenses have increased to $52.0 million for the quarter compared with $50.2 million in the second quarter of 2009, the operating and administrative expense ratio, as a percentage of net earned premium, has decreased from 14.0% to 13.0% for the same period. The reduction in the operating and administrative expense ratio is due to higher gross earned premiums in our reinsurance segment and lower ceded earned premiums in our insurance segment.

Net investment income. Net investment income for the quarter of $57.5 million has decreased from $72.2 million in the second quarter of 2009. The comparative quarter included $16.2 million of gains from our investments in funds of hedge funds, in which the Company no longer invests.

Change in fair value of derivatives. In the three months ended June 30, 2010, we recorded a reduction of $2.0 million (2009 $2.0 million) in the estimated fair value of our credit insurance contract including $0.2 million (2009 $0.2 million) of interest expense and a charge of $0.1 million (2009 $Nil) for the interest rate swap. Further information on these contracts can be found in Note 9 to the financial statements.

Other-than-temporary impairments. We review all of our fixed maturities for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro economic conditions. The process of determining whether a decline in value is other-than-temporary requires considerable judgment. As part of the assessment process we also evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to the portion of the unrealized loss that is considered credit-related. Non-credit related unrealized losses are included in other comprehensive income. The realized investments losses in the second quarter of 2010 did not include a charge for investments we believe to be other-than-temporarily impaired (2009 $2.9 million).

Income before tax. In the second quarter of 2010, income before tax was $121.0 million and comprised $62.8 million of underwriting income, $57.5 million in net investment income, $3.1 million of net realized and unrealized investment and foreign exchange gains, $4.0 million of interest expense and $1.6 million of other expenses. In the second quarter of 2009, income before tax was $130.0 million which comprised $53.2 million of underwriting profits, $72.2 million in net investment income, $7.9 million of net foreign exchange and investment losses, $0.7 million of other income and $4.0 million of interest expense.

Income tax expense. Income tax expense for the three months ended June 30, 2010 was $12.1 million. Our effective consolidated tax rate for the three months ended June 30, 2010 was 10.0% (2009 15.1%). The charge represents an estimate of the tax rate which will apply to our pre-tax income for 2010. As discussed in the Overview above, the effective tax rate for the year may be subject to revision.

Net income after tax. Net income after tax for the three months ended June 30, 2010 was $108.9 million, equivalent to $1.34 basic earnings per ordinary share adjusted for the $5.7 million preference share dividends and $1.28 fully diluted earnings per ordinary share adjusted for the preference share dividends on the basis of the weighted average number of ordinary shares in issue during the three months ended June 30, 2010. The net income for the three months ended June 30, 2009 was $110.4 million equivalent to basic earnings per ordinary share of $1.26 adjusted for the $5.8 million preference share dividend and fully diluted earnings per share of $1.22.

Results of Operations for the Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

The following is a discussion and analysis of our consolidated results of operations for the six months ended June 30, 2010 and 2009 starting with a discussion of segmental results and then summarizing our consolidated results under Total Income Statement Half Year below.

Underwriting Results by Operating Segments

Please refer to the tables in Note 5 in our unaudited financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the six months ended June 30, 2010 and 2009. The contributions of each segment to gross written premiums in the six months ended June 30, 2010 and 2009 were as follows:

Business Segment	Gross Written Premiums For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
	% of total gross written premiums	
Reinsurance	62.0%	60.6%
Insurance	38.0%	39.4%
Total	100.0%	100.0%

Business Segment	Gross Written Premiums For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
	($ in millions)	
Reinsurance	$ 773.4	$ 710.2
Insurance	474.8	460.9
Total	$ 1,248.2	$ 1,171.1

Reinsurance

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

Gross written premiums. Gross written premiums in our reinsurance segment increased by 8.9% compared to the six months ended June 30, 2009. The increase in gross written premiums is attributable mainly to additional catastrophe premium as we have deployed more of our catastrophe capacity earlier in the year on the basis that we expected catastrophe prices to decrease during the remainder of the year. Gross written premiums have also increased due to $13.2 million of reinstatement premiums from the Chilean earthquake and $30.8 million of additional specialty reinsurance premiums from our new credit and surety and agriculture teams.

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The table below shows our gross written premiums for each line of business for the six months ended June 30, 2010 and 2009, and the percentage change in gross written premiums for each such line:

	Gross Written Premiums		
Lines of Business	**For the Six Months Ended June 30, 2010**		**For the Six Months Ended June 30, 2009**
	($ in millions)	**% increase/ (decrease)**	**($ in millions)**
Property catastrophe reinsurance	$ 237.4	21.6%	$ 195.3
Other property reinsurance	154.4	(11.6)	174.7
Casualty reinsurance	226.0	1.6	222.5
Specialty reinsurance	155.6	32.0	117.9
Total	$ 773.4	8.9%	$ 710.4

Losses and loss adjustment expenses. The net loss ratio for the six months ended June 30, 2010 was 69.3% compared to 42.4% in the equivalent period in 2009. The increase in the loss ratio is attributable to gross losses of $125.2 million ($112.0 million net of reinstatement premiums) relating to the earthquake in Chile compared to an absence of significant catastrophe-related losses in the comparable period of 2009. Net favorable reserve development of $26.2 million (2009 $48.0 million) was due mainly to favorable claims development in most lines.

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

Policy acquisition, operating and administrative expenses. The policy acquisition expense ratio of 17.1% of net premiums earned for the six months ended June 30, 2010 was 2.3 percentage points below the same period in 2009 due to lower profit related commissions. The increase in operating and administrative expenses of $10.9 million from the same period of 2009 is attributable mainly to an increase in general expenses as we continue to invest in the development of the business and establish our new credit and surety and agriculture lines.

Insurance

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

Gross written premiums. Overall premiums have increased 3.0% to $474.8 million for the six months ended June 30, 2010 from $460.9 million in the equivalent period in 2009. The increase in gross written premium is attributable to both property insurance lines and financial and professional business where we saw opportunities to write business that met our profitability requirements. This has compensated for difficult trading conditions in our casualty insurance and marine, energy and transportation lines.

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The table below shows our gross written premiums for each line of business for the six months ended June 30, 2010 and 2009, and the percentage change in gross written premiums for each line:

Lines of Business	Gross Written Premiums For the Six Months Ended June 30, 2010 ($ in millions)	% increase/ (decrease)	For the Six Months Ended June 30, 2009 ($ in millions)
Property insurance	$ 106.0	32.3%	$ 80.1
Casualty insurance	81.9	(13.9)	95.1
Marine, energy and transportation insurance	228.7	(6.1)	243.5
Financial and professional lines insurance	58.2	38.2	42.1
Total	$ 474.8	3.0%	$ 460.9

Losses and loss adjustment expenses. The loss ratio for the six months ended June 30, 2010 was 69.1% compared to 75.5% for the six months ended June 30, 2009. Losses for the six months ended June 30, 2010 included $10.7 million for the Deepwater Horizon oil spill while the same period in 2009 included increases in current year loss reserves for lines of business exposed to the global financial crisis. Prior year reserve strengthening was $11.2 million compared to $21.2 million in the six months ended June 30, 2009.

Policy acquisition, operating and administrative expenses. Policy acquisition expenses were $62.6 million for the six months ended June 30, 2010 equivalent to 17.1% of net premiums earned (2009 $56.2 million or 16.3% of net earned premium), with the increase due mainly to a reduction in ceding commission income for U.S. property insurance following the cancellation of a reinsurance quota share. Operating and administrative expenses of $42.3 million in the first half of 2010 are $5.1 million less than the comparative period in 2009 due to the prior year including reorganization costs from our U.S. operations and an allocation of Lloyd s start-up costs.

Total Income Statement Half Year

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

Gross written premiums. Gross written premiums for the first six months of 2010 have increased by 6.6% to $1,248.2 million when compared to the same period of 2009 due mainly to increases in the reinsurance segment. Gross written premiums in the reinsurance segment include $13.2 million of reinstatement premiums from the Chilean earthquake, an additional $36.4 million from new teams (credit and surety and agriculture) and additional property catastrophe premium as we deployed more of our catastrophe capacity earlier in the year. Gross written premiums in the insurance segment have increased by 3.0% to $474.8 million when compared to the same period of 2009 with additional contributions from property insurance and financial and professional lines where we saw opportunities to write business that met our profitability requirements compensating for reductions in casualty and marine, energy and transportation.

Reinsurance ceded. Total reinsurance ceded of $129.3 million has decreased by $50.5 million from the first six months of 2009, due mainly to the insurance segment where we purchased reinsurance for our financial and professional lines earlier in 2010 in addition to a downward ceded premium adjustment within our marine, energy and transportation lines and reduced exposures and higher retentions.

Gross premiums earned. Gross premiums earned reflect the portion of gross premiums written which are recorded as revenues over the policy periods of the risks we write. The earned premium recorded in any year includes premium from policies incepting in prior years and excludes premium to be earned subsequent to the reporting date. Gross premiums earned in the first half of 2010 increased by

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5.7% compared to the same period of 2009 reflecting the higher written premium in the current period and the $13.2 million of reinstatement premiums from the Chilean earthquake.

Net premiums earned. Net premiums earned have increased by $71.6 million or 8.2% in the first six months of 2010 compared to 2009 which is consistent with the increase in gross earned premiums and the reduction in the cost of our reinsurance purchased.

Losses and loss adjustment expenses. Losses and loss adjustment expenses have increased from $485.5 million in 2009 to $655.5 million in 2010 primarily due to $125.4 million of losses from the Chilean earthquake. Reserve releases were $14.8 million lower in the current period due to adverse development impacting specialty reinsurance, professional lines and U.S. casualty insurance.

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

The current year claims adjustments represent catastrophic loss events.

For the Six Months Ended June 30, 2010	**Total Loss Ratio**	**Prior Year Claims Adjustment**	**Current Year Claims Adjustment**	**Accident Year Loss Ratio Excluding Prior and Current Year Claims Adjustments**
Reinsurance	69.3%	4.5%	(21.6)%	52.2%
Insurance	69.1%	(3.1)%	%	66.0%
Total	69.2%	1.6%	(13.3)%	57.5%

For the Six Months Ended June 30, 2009	**Total Loss Ratio**	**Prior Year Claims Adjustment**	**Current Year Claims Adjustment**	**Accident Year Loss Ratio Excluding Prior and Current Year Claims Adjustments**
Reinsurance	42.4%	9.0%	%	51.4%
Insurance	75.5%	(6.1)%	%	69.4%
Total	55.4%	2.2%	%	57.6%

Expenses. We monitor the ratio of expenses to gross earned premium (the gross expense ratio) as a measure of the cost effectiveness of our policy acquisition, operating and administrative processes. The table below presents the contribution of the policy acquisition expenses and operating and administrative expenses to the expense ratio and the total expense ratios for the three months ended June 30, 2010 and 2009. We also show the effect of reinsurance which impacts on the reported net expense ratio by expressing the expenses as a proportion of net earned premiums.

	Expense Ratios	
	For the Six Months Ended June 30, 2010	**For the Six Months Ended June 30, 2009**
Policy acquisition expenses	15.6%	16.2%
Operating and administrative expenses	11.1%	11.0%
Gross expense ratio	26.7%	27.2%
Effect of reinsurance	2.5%	3.4%
Total net expense ratio	29.2%	30.6%

Changes in the acquisition and operating and administrative ratios to gross earned premiums and the impact of reinsurance on net earned premiums by segment for each of the three months ended June 30, 2010 and 2009 are shown in the following table:

Ratios Based on Gross Earned Premium	For the Six Months Ended June 30, 2010			For the Six Months Ended June 30, 2009		
	Reinsurance	Insurance	Total	Reinsurance	Insurance	Total
Policy acquisition expense ratio	16.5%	14.4%	15.6%	18.5%	13.1%	16.2%
Operating and administrative expense ratio	8.7	9.7	11.1	7.5	11.1	11.0
Gross expense ratio	25.2	24.1	26.7	26.0	24.2	27.2
Effect of reinsurance	0.9	4.6	2.5	1.2	5.8	3.4
Total net expense ratio	26.1%	28.7%	29.2%	27.2%	30.0%	30.6%

The policy acquisition ratio, gross of the effect of reinsurance, has reduced marginally to 15.6% for the six months ended June 30, 2010 from 16.2% for the comparative period in 2009. The current year includes a reduction in profit related commissions in the casualty reinsurance business line which contributed to a lower expense figure in that period. The increase in acquisition costs for the insurance is due to changes in business mix which changed the relative contributions from business lines which have different average acquisition costs. Overall operating costs have remained consistent as a percentage of gross earned premiums when compared to last year.

Between the two periods, we have experienced a $5.8 million increase in our operating and administrative expenses. The increase is due mainly to staff and reorganization costs as we continue to invest in the development of our business.

Net investment income. Net investment income of $116.9 million is down from $131.4 million last year as the first half of 2009 benefited from a positive return from our investment in funds of hedge funds and higher book yields. Book yield on our fixed income portfolio of 4.1% is broadly in line with the first quarter of 2010; however, it has decreased from 4.4% in the second quarter of 2009 due mainly to the persisting low interest rate environment. The portfolio duration has decreased to 3.0 years from 3.3 years at the end of 2009. This compares with 3.2 years in the second quarter of 2009. The average credit quality of our fixed income portfolio is AA+ , with 72% (2009 72%) of the portfolio being rated AA or higher.

Change in fair value of derivatives. In the six months ended June 30, 2010, we recorded a reduction of $4.0 million (2009 $3.9 million) in the estimated fair value of our credit insurance contract including $0.4 million (2009 $0.2 million) of interest expense and a charge of $0.1 million (2009 $Nil) for the interest rate swap. Further information on these contracts can be found in Note 9 to the financial statements.

Other-than-temporary impairments. We review all of our fixed maturities for potential impairment each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro economic conditions. The process of determining whether a decline in value is other-than-temporary requires considerable judgment. As part of the assessment process we also evaluate whether it is more likely than not that we will sell any fixed maturity security in an unrealized loss position before its market value recovers to amortized cost. Once a security has been identified as other-than-temporarily impaired, the amount of any impairment included in net income is determined by reference to the portion of the unrealized loss that is considered credit-related. Non-credit related unrealized losses are included in other comprehensive income. The realized investments losses for the first six months of 2010 include a $0.3 million charge for investments we believe to be other-than-temporarily impaired (2009 $18.1 million). These losses were credit related and therefore are included in the income statement.

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Income before tax. In the first half of 2010, income before tax was $141.3 million and comprised $14.6 million of underwriting income, $116.9 million in net investment income, $16.9 million of net realized and unrealized investment and foreign exchange gains, $7.8 million of interest expense and $0.7 million of other income. In the first half of 2009, income before tax was $237.5 million which comprised $122.6 million of underwriting profits, $131.4 million in net investment income, $6.6 million of net foreign exchange and investment losses, $2.0 million of other expenses and $7.9 million of interest expense. Our decrease in underwriting income in 2010 was mainly due to $112.2 million of losses (net of reinstatements) associated with the Chilean earthquake. The change in net foreign exchange and investment gains when compared to the second quarter of 2009 was due predominantly to the reduction in charges relating to other-than-temporary impairments of $0.3 million (2009 $18.1 million).

Income tax expense. Income tax expense for the six months ended June 30, 2010 was $14.1 million. Our effective consolidated tax rate for the six months ended June 30, 2010 was 10.0% (2009 15.0%). The charge represents an estimate of the tax rate which will apply to our pre-tax income for 2010. As discussed in the Overview above, the effective tax rate for the year may be subject to revision.

Net income after tax. Net income after tax for the six months ended June 30, 2010 was $127.2 million, equivalent to $1.50 basic earnings per ordinary share adjusted for the $11.4 million preference share dividends and $1.43 fully diluted earnings per ordinary share adjusted for the preference share dividends on the basis of the weighted average number of ordinary shares in issue during the six months ended June 30, 2010. The net income for the six months ended June 30, 2009 was $201.8 million equivalent to basic earnings per ordinary share of $2.68 adjusted for the $12.7 million preference share dividend and fully diluted earnings per share of $2.61.

Reserves for Losses and Loss Adjustment Expenses

As of June 30, 2010, we had total net loss and loss adjustment expense reserves of $3,238.1 million (December 31, 2009 $3,009.6 million). This amount represented our best estimate of the ultimate liability for payment of losses and loss adjustment expenses. Of the total gross reserves for unpaid losses of $3,485.7 million at the balance sheet date of June 30, 2010, a total of $2,144.0 million or 61.5% represented IBNR claims (December 31, 2009 $3,331.1 million and 58.4%, respectively). The following tables analyze gross and net loss and loss adjustment expense reserves by segment.

	As at June 30, 2010		
Business Segment	**Gross**	**Reinsurance Recoverable**	**Net**
		($ in millions)	
Reinsurance	$ 2,244.6	$ (54.8)	$ 2,189.8
Insurance	1,241.1	(192.8)	1,048.3
Total losses and loss expense reserves	$ 3,485.7	$ (247.6)	$ 3,238.1

	As at December 31, 2009		
Business Segment	**Gross**	**Reinsurance Recoverable**	**Net**
		($ in millions)	

Reinsurance	$ 2,069.4	$ (81.0)	$ 1,988.4
Insurance	1,261.7	(240.5)	1,021.2
Total losses and loss expense reserves	$ 3,331.1	$ (321.5)	$ 3,009.6

The reduction in reinsurance recoverables in the quarter is due to settlements in our insurance segment related mainly to losses from Hurricane Ike.

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For the six months ended June 30, 2010, there was a reduction of our estimate of the ultimate net claims to be paid in respect of prior accident years of $15.0 million. An analysis of this reduction by business segment is as follows for each of the three and six months ended June 30, 2010 and 2009:

Business Segment	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
	($ in millions)		($ in millions)	
Reinsurance	$ 11.1	$ 32.1	$ 26.2	$ 48.0
Insurance	(9.0)	(15.2)	(11.2)	(21.2)
Total Losses and loss expense reserves reductions	$ 2.1	$ 16.9	$ 15.0	$ 26.8

The key elements which gave rise to the net favorable development during the three months ended June 30, 2010 were as follows:

Reinsurance. The reserve release in the current quarter was spread across three out of four of our reinsurance lines, with the most significant releases coming from our property catastrophe reinsurance and property reinsurance lines.

Insurance. Most areas in the insurance segment experienced minimal reserve movement with the exception of a $10.7 million reserve strengthening in our financial and professional lines division due to U.K. business exposure to liability claims against independent financial advisors and real estate valuation claims and $5.6 million in U.S. casualty for exposures to nursing homes and California contractors.

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

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

Balance Sheet

Total cash and investments

At June 30, 2010 and December 31, 2009, total cash and investments, including accrued interest receivable, were $6.9 billion and $6.8 billion, respectively. The composition of our investment portfolio is summarized below:

	As at June 30, 2010		As at December 31, 2009	
	Estimated Fair Value	Percentage of Fixed Income Portfolio	Estimated Fair Value	Percentage of Fixed Income Portfolio
Marketable Securities Available for Sale				
U.S. Government Securities	$ 714.4	10.4%	$ 507.5	7.4%
U.S. Government Agency Securities	346.2	5.0%	389.1	5.7%
Municipal Securities	32.9	0.5%	19.5	0.3%
Corporate Securities	2,321.2	33.7%	2,264.6	33.2%
Foreign Government Securities	542.5	7.9%	522.3	7.7%
Asset-backed Securities	77.7	1.1%	115.1	1.7%
Mortgage-backed Securities	1,347.3	19.6%	1,431.8	21.0%
Total Fixed Income Available for Sale	**5,382.2**	**78.2%**	**5,249.9**	**77.0%**
Marketable Securities Trading				
U.S. Government Securities	25.9	0.4%	6.5	0.1%
U.S. Government Agency Securities	0.5		0.4	
Municipal Securities	2.9	0.1%	1.8	
Corporate Securities	330.6	4.8%	329.4	4.8%
Foreign Government Securities	6.5	0.1%	5.0	0.1%
Asset-backed Securities	5.0	0.1%	5.0	0.1%
Total Fixed Income Trading	**371.4**	**5.5%**	**348.1**	**5.1%**
Total Other Investments	27.8	0.4%	27.3	0.4%
Total Short-term Investments Available-for-Sale	301.8	4.4%	368.2	5.4%
Total Short-term Investments Trading	2.5		3.5	0.1%
Total Cash and Cash Equivalents	726.1	10.5%	748.4	11.0%
Total Receivable for Securities Sold	16.9	0.2%	11.9	0.2%
Total Accrued Interest Receivable	54.5	0.8%	54.6	0.8%
Total Cash and Investments	**$ 6,883.2**	**100.0%**	**$ 6,811.9**	**100.0%**

Fixed maturities. At June 30, 2010, the average credit quality of our fixed income portfolio is AA+, with 96% of the portfolio being rated A or higher. At December 31, 2009, the average credit quality of our fixed income portfolio was AA+, with 95% of the portfolio being rated A or higher. Our fixed income portfolio duration has decreased as at June 30, 2010 to 3.0 years from 3.3 years as at December 31, 2009 as we have taken a more defensive duration stance in light of prevailing interest rates.

Mortgage-Backed Securities. The following table summarizes the fair value of our mortgage-backed securities (MBS) by rating and class at June 30, 2010:

	AAA	AA and Below	Total
Agency	$ 1,149.3	$	$ 1,149.3
Non-agency Residential	4.7	36.0	40.7
Non-agency Commercial	132.5	24.8	157.3
Total Mortgage-backed Securities	**$ 1,286.5**	**$ 60.8**	**$ 1,347.3**

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

Alternative-A securities. We define Alternative-A (alt-A) mortgages as those considered less risky than sub-prime mortgages, but with lower credit quality than prime mortgages. At June 30, 2010, we had $8.9 million invested in alt-A securities (December 31, 2009 $9.3 million).

Other investments. Other investments as at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		December 31, 2009	
	Cost	Carrying Value	Cost	Carrying Value
	($ in millions)			
Cartesian Iris 2009A L.P.	$ 25.0	$ 27.8	$ 25.0	$ 27.3
Total other investments	$ 25.0	$ 27.8	$ 25.0	$ 27.3

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested $25.0 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three and six months ended June 30, 2010, fees of $Nil and $0.2 million, respectively, were payable to us. The Company s investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership.

On June 1, 2010, the majority of the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The remainder of the investment in Cartesian Iris 2009 A L.P. will mature in August, 2010 and will be reinvested in Cartesian Iris Offshore Fund L.P. The Company s involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company s maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

Investment funds. Investment funds have historically represented our investments in funds of hedge funds which were recorded using the equity method of accounting. Our active investments and other obligations with the funds ceased at June 30, 2009. At June 30, 2010, the carrying value of the receivable was $11.6 million and represents our maximum exposure to loss at the balance sheet date. The outstanding balance was received in the third quarter of 2010.

Valuation of Investments

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

We consider prices for actively traded Treasury securities to be derived based on quoted prices in active markets for identical assets, which are Level 1 inputs in the fair value hierarchy. We consider prices for other securities priced via vendors, indices, or broker-dealers to be derived based on inputs that are observable for the asset, either directly or indirectly, which are Level 2 inputs in the fair value hierarchy.

We consider securities, other financial instruments and derivative insurance contracts subject to fair value measurement whose valuation is derived by internal valuation models to be based largely on unobservable inputs, which are Level 3 inputs in the fair value hierarchy. There have been no changes in our use of valuation techniques during the year.

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

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

To validate the techniques or models used by third-party pricing sources, we review process, in conjunction with the processes completed by the third-party accounting service provider, include, but are not limited to:

- quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated);
- initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and
- comparison of the fair value estimates to its knowledge of the current market.

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

At June 30, 2010, we obtained an average of 3.2 quotes per investment, compared to 3.4 quotes at December 31, 2009. Pricing sources used in pricing our fixed income investments at June 30, 2010 and December 31, 2009, respectively, were as follows:

	As at June 30, 2010	**As at December 31, 2009**
Index providers	83.1%	81.5%
Pricing services	13.5%	13.2%
Broker-dealers	3.4%	5.3%

Total	100.0%	100.0%

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

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

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

As at June 30, 2010			As at December 31, 2009		
Rating With Guarantee	**Rating without Guarantee**	**Market Value ($ in millions)**	**Rating With Guarantee**	**Rating without Guarantee**	**Market Value ($ in millions)**
AAA	AAA	$ 97.9	AAA	AAA	$ 141.9
	AA	16.4		AA	16.2
	AA−	3.0		AA−	3.0
	A+	38.5		A+	69.8
	A	33.9		A	34.1
	A−	92.0		A−	107.0
	BBB+	13.9		BBB+	7.7
	BBB	3.1			
	BBB−	21.9		BBB−	20.9
AA+	AA+	14.1	AA+	AA+	15.0
	AA	28.1		AA	27.8
	A	18.2		A	17.3
AA	AA	3.2	AA	AA	3.2
AA−	AA−	3.1	AA−	AA−	
BBB−	BBB−	0.1	BBB−	BBB−	0.1
		$ 387.4			$ 464.0

Our exposure to mono-line insurers was limited to 1 municipal holding (2009 1 municipal holding) as at June 30, 2010 with a market value of $0.1 million (2009 $0.1 million). Our exposure to other third-party guaranteed debt is primarily to investments backed by the Federal Depository Insurance Corporation (FDIC) and non-U.S. government guaranteed issuers.

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

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

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Capital Management

Capital Management. On January 5, 2010, we entered into an accelerated share repurchase program with Goldman Sachs to repurchase $200 million of our ordinary shares. This transaction was completed on May 21, 2010 resulting in the repurchase and cancellation of 7,226,084 ordinary shares in the first half of 2010. The repurchase completes the share repurchase program authorized by the Board of Directors and announced on February 6, 2008. The purchase was funded with cash available and the sale of investment assets.

On February 9, 2010, our Board of Directors authorized a new repurchase program for up to $400 million of ordinary shares. The authorization covers the period to March 1, 2012. This authorization is in addition to the accelerated share repurchase completed on May 21, 2010.

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

The following table shows our capital structure at June 30, 2010 compared to December 31, 2009.

	As at June 30, 2010	As at December 31, 2009
	($ in millions)	
Share capital, additional paid-in capital and retained income and accumulated other comprehensive income attributable to ordinary shareholders	$ 2,950.3	$ 2,951.8
Preference shares (liquidation preference less issue expenses)	353.6	353.6
Long-term debt	249.6	249.6
Total capital	$ 3,553.5	$ 3,555.0

Management monitors the ratio of debt to total capital, with total capital being defined as shareholders equity plus outstanding debt. At June 30, 2010, this ratio was 7.0% (December 31, 2009 7.0%).

Our preference shares are classified in our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Such securities are often referred to as hybrids as they have certain attributes of both debt and equity. We also monitor the ratio of the total of debt and hybrids to total capital which was 17.0% as of June 30, 2010 (December 31, 2009 17.0%).

Access to capital. Our business operations are in part dependent on our financial strength and the market s perception thereof, as measured by shareholders equity, which was $3,303.9 million at June 30, 2010 (December 31, 2009 $3,305.4 million). We believe our financial strength provides us with the flexibility and capacity to obtain funds through debt or equity financing. Our continuing ability to access the capital markets is dependent on, among other things, our operating results, market conditions and our perceived financial strength. We regularly monitor our capital and financial position, as well as investment and securities market conditions, both in general and with respect to Aspen Holdings securities. Our ordinary shares and all our preference shares are listed on the New York Stock Exchange.

Liquidity

Liquidity is a measure of a company s ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. Management monitors the liquidity of Aspen Holdings and of each of its Insurance Subsidiaries and arranges credit facilities to enhance short-term liquidity resources on a stand-by basis.

Holding company. We monitor the ability of Aspen Holdings to service debt, to finance dividend payments to ordinary and preference shareholders and to provide financial support to the Insurance Subsidiaries.

As at June 30, 2010, Aspen Holdings held $60.2 million (December 31, 2009 $33.5 million) in cash and cash equivalents which management considers sufficient to provide Aspen Holdings liquidity at such time, taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities. Holding company liquidity depends on dividends, capital distributions and interest payments from our Insurance Subsidiaries.

In the six months ended June 30, 2010, Aspen U.K. Holdings paid Aspen Holdings interest of $18.3 million (2009 $18.3 million) in respect of an intercompany loan.

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

Insurance subsidiaries. As of June 30, 2010, the Insurance Subsidiaries held approximately $652.0 million (December 31, 2009 $701.5 million) in cash and short-term investments that are readily realizable securities. Management monitors the value, currency and duration of cash and investments held by its Insurance Subsidiaries to ensure that they are able to meet their insurance and other liabilities as they become due and was satisfied that there was a comfortable margin of liquidity as at June 30, 2010 and for the foreseeable future.

On an ongoing basis, our Insurance Subsidiaries sources of funds primarily consist of premiums written, investment income and proceeds from sales and redemptions of investments.

Cash is used primarily to pay reinsurance premiums, losses and loss adjustment expenses, brokerage commissions, general and administrative expenses, taxes, interest and dividends and to purchase new investments.

The potential for individual large claims and for accumulations of claims from single events means that substantial and unpredictable payments may need to be made within relatively short periods of time.

We manage these risks by making regular forecasts of the timing and amount of expected cash outflows and ensuring that we maintain sufficient balances in cash and short-term investments to meet these estimates. Notwithstanding this policy, if our cash flow forecast is incorrect, we could be forced to liquidate investments prior to maturity, potentially at a significant loss.

The liquidity of our Insurance Subsidiaries is also affected by the terms of our contractual obligations to policyholders and by undertakings to certain regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. The following table shows the forms of collateral or other security provided to policyholders as at June 30, 2010 and December 31, 2009:

	As at June 30, 2010	As at December 31, 2009
	($ in millions except percentages)	
Assets held in multi-beneficiary trusts	$ 1,630.5	$ 1,495.8
Assets held in single beneficiary trusts	57.5	55.7
Secured letters of credit(1)	507.5	528.3
Total	$ 2,195.5	$ 2,079.8
Total as % of cash and invested assets	32.2%	30.8%

(1) As of June 30, 2010, the Company had funds on deposit of $695.6 million and £19.2 million (December 31, 2009 $667.1 million and £25.3 million) as collateral for the secured letters of credit.

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

Consolidated cash flows for the six months ended June 30, 2010. Total net cash flow from operations from December 31, 2009 through June 30, 2010 was $247.9 million, a reduction of $54.4 million over the comparative period. The reduction was due mainly to lower premium receipts and from increases in net claims settlements. For the six months ended June 30, 2010, our cash flow from operations provided us with sufficient liquidity to meet our operating requirements. On May 28, 2010, we paid a dividend of $0.15 per ordinary share to shareholders of record on May 13, 2010. On July 1, 2010, dividends totaling $3.2 million on our Perpetual Preferred Income Equity Replacement Securities (Perpetual PIERS) were paid to our dividend disbursing agent, for payment to our Perpetual PIERS holders of record on June 15, 2010. On July 1, 2010, dividends totaling $2.5 million on our Perpetual Non-Cumulative Preference Shares (Perpetual Preference Shares) were paid to our dividend disbursing agent, for payment to our Perpetual Preference Share holders of record on June 15, 2010.

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

The facility can be used by any of the Borrowers to provide funding for our Insurance Subsidiaries, to finance the working capital needs of the Company and our subsidiaries and for general corporate purposes of the Company and our subsidiaries. The revolving credit facility provides for a $250 million sub-facility for collateralized letters of credit. The facility will expire on August 2, 2010 and prior to the facility s expiration, we intend to enter into a new facility. As of June 30, 2010, no borrowings were outstanding under the credit facilities. The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers increase based on the consolidated leverage ratio of the Company.

Under the credit facilities, we must maintain at all times a consolidated tangible net worth of not less than approximately $1.1 billion plus 50% of consolidated net income and 50% of aggregate net cash proceeds from the issuance by the Company of its capital stock, each as accrued from January 1, 2005. On June 28, 2007, we amended the credit agreement to permit dividend payments on existing and future hybrid capital notwithstanding a default or an event of default under the credit agreement. On April 13, 2006, the agreement was amended to remove any downward adjustment on maintaining the Company s consolidated tangible net worth in the event of a net loss. The Company must also not permit its consolidated leverage ratio of total consolidated debt to consolidated tangible net worth to exceed 35%. In addition, the credit facilities contain other customary affirmative and negative covenants as well as certain customary events of default, including with respect to a change in control. The various affirmative and negative covenants, include, among others, covenants that, subject to important exceptions, restrict the ability of the Company and its subsidiaries to; create or permit liens on assets; engage in mergers or consolidations; dispose of assets; pay dividends or other distributions, purchase or redeem the Company s equity securities or those of its subsidiaries and make other restricted payments; permit the rating of any insurance subsidiary to fall below A.M. Best financial strength rating of B++ or S&P s financial strength rating of A-; make certain investments; agree with others to limit the ability of the Company s subsidiaries to pay dividends or other restricted payments or to make loans or transfer assets to the Company or another of its subsidiaries. The credit facilities also include covenants that restrict the ability of our subsidiaries to incur indebtedness and guarantee obligations.

On July 30, 2010, we entered into a new three-year $280 million revolving credit facility to replace a $450 million revolving credit facility, which would have expired on August 2, 2010, but was terminated upon the effectiveness of the new credit agreement. The new facility is described in detail in our current report on Form 8-K, filed on August 4, 2010.

On April 29, 2009, Aspen Bermuda replaced its existing letter of credit facility with Citibank Europe dated October 29, 2008 in a maximum aggregate amount of up to $450 million with a new letter of credit facility in a maximum aggregate amount of up to $550 million. As at June 30, 2010, we had $368.6 million of outstanding collateralized letters of credit under this facility.

On October 6, 2009, Aspen U.K. and Aspen Bermuda entered into a $200 million secured letter of credit facility with Barclays Bank plc, which is described on our current report on Form 8-K filed on October 7, 2009. As at June 30, 2010, we had $46.0 million of outstanding collateralized letters of credit under this facility compared to $53.8 million at the end of 2009.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations (other than our obligations to employees, our Perpetual PIERS and our Perpetual Preference Shares) under long-term debt, operating leases (net of subleases) and reserves relating to insurance and reinsurance contracts as of June 30, 2010:

	2010	**2011**	**2012**	**2013**	**2014**	**Later Years**	**Total**
				($ in millions)			
Operating Lease Obligations	$ 4.3	$ 6.9	$ 6.0	$ 5.9	$ 5.9	$ 18.4	$ 47.3
Long-Term Debt Obligations(1)					$ 249.6		$ 249.6
Reserves for Losses and loss adjustment expenses(2)	$ 595.3	$ 908.1	$ 543.9	$ 354.1	$ 245.7	$ 838.6	$ 3,485.7

(1) The long-term debt obligations disclosed above do not include the $15 million annual interest payments on our outstanding senior notes.

(2) In estimating the time intervals into which payments of our reserves for losses and loss adjustment expenses fall, as set out above, we have utilized actuarially assessed payment patterns. By the nature of the insurance and reinsurance contracts under which these liabilities are assumed, there can be no certainty that actual payments will fall in the periods shown and there could be a material acceleration or deceleration of claims payments depending on factors outside our control. This uncertainty is heightened by the short time in which we have operated, thereby providing limited Company-specific claims loss payment patterns. The total amount of payments in respect of our reserves, as well as the timing of such payments, may differ materially from our current estimates for the reasons set out in our 2009 Annual Report on Form 10-K under Critical Accounting Policies Reserves for Losses and Loss Expenses.

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

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For a discussion of derivative instruments we have entered into, please see Note 9 to our unaudited condensed consolidated financial statements for the three months ended June 30, 2010 included elsewhere in this report.

Off-Balance Sheet Arrangements

Cartesian Iris 2009A L.P. As disclosed in Note 6, on May 19, 2009, Aspen Holdings invested $25 million in Cartesian Iris 2009A L.P. through our wholly-owned subsidiary, Acorn Limited. Cartesian Iris 2009A L.P. is a Delaware Limited Partnership formed to provide capital to Iris Re, a newly formed Class 3 Bermudian reinsurer focusing on insurance-linked securities. In addition to returns on our investment, we provide services on risk selection, pricing and portfolio design in return for a percentage of profits from Iris Re. In the three and six months ended June 30, 2010, fees of $Nil and $0.2 million, respectively, were payable to us. The Company s investment in Cartesian Iris 2009A L.P. represents 31.25% of the equity invested in the partnership. For more information please see Notes 6 and 14(c) to the unaudited condensed consolidated financial statements for the three months ended June 30, 2010 included elsewhere in this report.

On June 1, 2010, the majority of the investment in Cartesian Iris 2009A L.P. matured and was reinvested in the Cartesian Iris Offshore Fund L.P. The remainder of the investment in Cartesian Iris 2009 A L.P. will mature in August, 2010 and will be reinvested in Cartesian Iris Offshore Fund L.P. The Company s involvement with Cartesian Iris Offshore Fund L.P. is limited to its investment in the fund, and it is not committed to making further investments in Cartesian Iris Offshore Fund L.P.; accordingly, the carrying value of the investment represents the Company s maximum exposure to a loss as a result of its involvement with the partnership at each balance sheet date.

Effects of Inflation

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

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

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

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

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Cautionary Statement Regarding Forward-Looking Statements

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

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

- the possibility of greater frequency or severity of claims and loss activity, including as a result of natural or man-made (including economic and political risks) catastrophic or material loss events, than our underwriting, reserving, reinsurance purchasing or investment practices have anticipated;

- the reliability of, and changes in assumptions to, natural and man-made catastrophe pricing, accumulation and estimated loss models;

- evolving issues with respect to interpretation of coverage after major loss events, and any intervening legislative or governmental action;

- the effectiveness of our loss limitation methods;

- changes in the total industry losses, or our share of total industry losses, resulting from past events such as the Chilean Earthquake, Hurricanes Ike and Gustav, Deepwater Horizon and, with respect to such events, our reliance on loss reports received from cedants and loss adjustors, our reliance on industry loss estimates and those generated by modeling techniques, changes in rulings on flood damage or other exclusions as a result of prevailing lawsuits and case law;

- the impact of acts of terrorism and acts of war and related legislation;

- decreased demand for our insurance or reinsurance products and cyclical changes in the insurance and reinsurance sectors;

- any changes in our reinsurers credit quality and the amount and timing of reinsurance recoverables;

- changes in the availability, cost or quality of reinsurance or retrocessional coverage;

- the continuing and uncertain impact of the current depressed lower growth environment in many of the countries in which we operate;

- the level of inflation in repair costs due to limited availability of labor and materials after catastrophes;

changes in insurance and reinsurance market conditions;

increased competition on the basis of pricing, capacity, coverage terms or other factors and the related demand and supply dynamics as contracts come up for renewal;

a decline in our operating subsidiaries ratings with S&P, A.M. Best or Moody s;

our ability to execute our business plan to enter new markets, introduce new products and develop new distribution channels, including their integration into our existing operations;

changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect our investment portfolio;

the risk of a material decline in the value or liquidity of all or parts of our investment portfolio;

changes in our ability to exercise capital management initiatives or to arrange banking facilities as a result of prevailing market changes or changes in our financial position;

changes in government regulations or tax laws in jurisdictions where we conduct business;

Aspen Holdings or Aspen Bermuda becoming subject to income taxes in the United States or the United Kingdom;

loss of key personnel; and

increased counterparty risk due to the credit impairment of financial institutions.

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk. Our investment portfolio consists primarily of fixed income securities. Accordingly, our primary market risk exposure is to changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of our fixed-income portfolio falls, and the converse is also true. Our strategy for managing interest rate risk includes maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. The Company selectively hedges its exposure to interest rates by entering into interest rate swaps with financial institution counterparties in the ordinary course of its investment activities.

As at June 30, 2010, our fixed income portfolio had an approximate duration of 3.0 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
		($ in millions, except percentages)			
Market value $ in millions	$ 6,228.6	$ 6,153.7	$ 6,057.9	$ 5,962.1	$ 5,866.2
Gain/(loss) $ in millions	170.7	95.8		(95.8)	(191.7)
Percentage of portfolio	2.82%	1.58%	%	(1.58)%	(3.16)%

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

Foreign currency risk. Our reporting currency is the U.S. Dollar. The functional currencies of our segments are U.S. Dollars, British Pounds, Euros, Canadian Dollars, Swiss Francs, Australian Dollars and Singaporean Dollars. As of June 30, 2010, approximately 83% of our cash, cash equivalents and investments were held in U.S. Dollars, approximately 8% were in British Pounds and approximately 9% were in other currencies. For the six months ended June 30, 2010, approximately 21% of our gross premiums were written in currencies other than the U.S. Dollar and the British Pound and we expect that a similar proportion will be written in currencies other than the U.S. Dollar and the British Pound in the remainder of 2010. Other foreign currency amounts are re-measured to the appropriate functional currency and the resulting foreign exchange gains or losses are reflected in the statement of operations. Functional currency amounts of assets and liabilities are then translated into U.S. Dollars. The unrealized gain or loss from this translation, net of tax, is recorded as part of shareholders equity. The change in unrealized foreign currency translation gain or loss during the period, net of tax, is a component of comprehensive income. Both the re-measurement and translation are calculated using current exchange rates for the balance sheets and average exchange rates for the statement of operations. We may experience exchange losses to the extent our foreign currency exposure is not hedged, which in turn would adversely affect our results of operations and financial condition. Management estimates that a 10% change in the exchange rate between British Pounds and U.S. Dollars as at June 30, 2010, would have impacted reported net comprehensive income by approximately $31.6 million for the six months ended June 30, 2010. We manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with investments that are denominated in these currencies. This may involve the use of forward exchange contracts from time to time. A forward exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. All realized gains and losses on foreign exchange forward contracts are recognized in the Statements of Operations. There were no outstanding foreign currency contracts at June 30, 2010 or at June 30, 2009.

Credit risk. We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories, business sectors and any one issuer. As at June 30, 2010 and December 31, 2009, the average rating of fixed income securities in our investment portfolio was AA+ .

In addition, we are exposed to the credit risk of our insurance and reinsurance brokers to whom we make claims payments for our policyholders, as well as to the credit risk of our reinsurers and retrocessionaires who assume business from us. Other than fully collateralized reinsurance the substantial majority of our reinsurers have a rating of A (Excellent), the third highest of fifteen rating levels, or better by A.M. Best and the minimum rating of any of our material reinsurers is A− (Excellent), the fourth highest of fifteen rating levels, by A.M. Best.

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

See Note 9 to the unaudited financial statements for the three months ended June 30, 2010 above.

The table below shows our reinsurance recoverables as of June 30, 2010 and December 31, 2009, and our reinsurers ratings.

A.M. Best	**As at June 30, 2010 ($ in millions)**		**As at December 31, 2009 ($ in millions)**	
A++	$	12.7	$	13.2
A+		59.7		57.0
A		151.5		226.2
A−		16.4		21.3
Fully collateralized				0.5
Not rated		7.3		3.3
Total	$	247.6	$	321.5

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

The Company s management has performed an evaluation, with the participation of the Company s Chief Executive Officer and the Company s Chief Financial Officer, of changes in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2010. Based upon that evaluation, the Company s management is not aware of any change in its internal control over financial reporting that occurred during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

In common with the rest of the insurance and reinsurance industry, we are subject to litigation and arbitration in the ordinary course of our business. Such legal proceedings can arise from our underwriting or general business activities. The latter would include commercial contractual disputes or employment matters. Our Insurance Subsidiaries are regularly engaged in the investigation, conduct and defense of disputes, or potential disputes, resulting from questions of insurance or reinsurance coverage or claims activities. Pursuant to our insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. In some jurisdictions, noticeably the U.S., a failure to deal with such disputes or potential disputes in an appropriate manner could result in an award of bad faith punitive damages against our Insurance Subsidiaries.

While any legal or arbitration proceedings contain an element of uncertainty, we do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

We are not currently involved in any material pending litigation or arbitration proceedings.

Item 1A. Risk Factors

There have been no significant changes in the Company s risk factors as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. However, also please refer to the Cautionary Statement Regarding Forward-Looking Statements provided elsewhere in this report.

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

In connection with the options held by the Names Trustee as described further in Note 12 to our financial statements, the Names Trustee may exercise the options on a monthly basis. The options were exercised on a cashless basis at the exercise price as described in Note 11 to our unaudited condensed consolidated financial statements. As a result, we issued the following unregistered shares to the Names Trustee and its beneficiaries as described below.

Date Issued	**Number of Shares Issued**
May 17, 2010	2,258
June 18, 2010	1,937

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

Additionally, on June 23, 2010, an agreement was signed to repurchase 10,835 shares from the Names Trustee. The shares were repurchased on July 7, 2010 and subsequently cancelled.

Item 3. Defaults Upon Senior Securities

None.

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Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Description
31.1	Officer Certification of Christopher O Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
31.2	Officer Certification of Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.
32.1	Officer Certification of Christopher O Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, and Richard Houghton, Chief Financial Officer of Aspen Insurance Holdings Limited, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, submitted with this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASPEN INSURANCE HOLDINGS LIMITED

(Registrant)

Date: August 6, 2010

By: /s/ Christopher O Kane

Christopher O Kane
Chief Executive Officer

Date: August 6, 2010

By: /s/ Richard Houghton

Richard Houghton
Chief Financial Officer

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