

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**ASPEN SPECIALTY INSURANCE COMPANY
ROCKY HILL, CONNECTICUT**

**AS OF
DECEMBER 31, 2012**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Aspen Specialty Insurance Company

Rocky Hill, Connecticut

as of December 31, 2012, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 2nd day of June, 2014.



Adam Hamm
Insurance Commissioner

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Rocky Hill, Connecticut
March 31, 2014

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Aspen Specialty Insurance Company
Rocky Hill, Connecticut**

Aspen Specialty Insurance Company, hereinafter referred to as the "Company" or "ASIC", was last examined as of December 31, 2007, by the North Dakota Insurance Department. That examination represented a financial condition examination and covered the period from January 1, 2004, to December 31, 2007. The current examination was conducted at the Company's main administrative office located at 175 Capital Boulevard, Rocky Hill, Connecticut. The report of examination is herein respectfully submitted.

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners' (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions and, when applicable, to domestic state regulations.

Work papers provided by the Company's independent auditor, KPMG, L.L.P., were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work

papers have been relied upon and copied for inclusion into the working papers for this examination.

This exam was conducted concurrently with the Texas Department of Insurance with North Dakota serving as the lead state in the coordinated examination of the insurance companies that are part of Aspen U.S. Holdings, Inc. (Aspen Group) as shown below:

Aspen American Insurance Company (Texas)
Aspen Specialty Insurance Company (North Dakota)

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the 11 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2004, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

Effective August 1, 2013, N.D.C.C. § 26.1-44-03.2 was enacted to allow domestic insurers to become domestic surplus lines insurers. The Company requested approval to become a licensed domestic surplus lines insurer on July 31, 2013. Approval was given by the North Dakota Insurance Department on August 7, 2013.

HISTORY

General

The Company was originally incorporated on September 24, 1996, by The Insurance Corporation of New York under the name Dakota Specialty Insurance Company ("Dakota Specialty"). Dakota Specialty's ultimate parent holding company was acquired by Trenwick Group, Inc. on October 27, 1999. On September 5, 2003, the Company was acquired by Aspen U.S. Holdings, Inc. and renamed Aspen Specialty Insurance Company.

The Articles of Incorporation state that the Company was organized for the purpose of transacting the following lines of insurance: fire, miscellaneous property, water damage, collision, motor vehicle and aircraft, marine, marine protection and indemnity and such insurance as a domestic stock fire or marine insurance company is now permitted to transact or may hereafter be permitted to transact under the insurance laws of the State of North Dakota.

Capital Stock

The Articles of Incorporation provide that the authorized capital of the Company is \$1,000,000 consisting of 10,000 shares of common stock with a par value of \$100 per share.

The following exhibit reflects the activity in the capital structure as reported in the Company's Annual Statements for the years indicated.

Year	Shares Issued	Common Capital Stock	Gross Paid-In and Contributed Surplus
2007	10,000	\$4,200,000	\$141,231,813
2008	10,000	4,200,000	126,231,813
2009	10,000	4,200,000	141,231,813
2010	10,000	4,200,000	141,231,813
2011	10,000	4,200,000	176,231,813
2012	10,000	1,000,000*	224,431,813*

*See Articles of Incorporation and Bylaws under the Corporate Records section of this report for further details regarding the Company's common capital stock and gross paid-in and contributed surplus.

The Company's parent, Aspen U.S. Holdings, Inc. made an additional \$35,000,000 capital contribution in 2011 and \$45,000,000 in 2012.

Dividends to Stockholders

The Company's Board of Directors declared an \$8,000,000 dividend, which was paid to Aspen U.S. Holdings, Inc. on December 22, 2008.

During 2009, dividends in the amount of \$11,300,000 were paid to Aspen U.S. Holdings, Inc. The Board of Directors declared a \$7,950,000 dividend, which was paid on September 16, 2009, and a \$3,350,000 dividend, which was paid on December 18, 2009.

Board of Directors

The Bylaws provide that the number of directors shall consist of up to 10 members, a majority of which is required to transact business at any meeting of the Board of Directors. A regular meeting of the Board of Directors shall be held immediately after and at the same place as the regular meeting of the shareholders.

Directors serving at December 31, 2012, were as follows:

<u>Name</u>	<u>Business Affiliations</u>
Mario P. Vitale	President & Chief Executive Officer Aspen U.S. Holdings, Inc.
Jonathan M. Jones	EVP & Chief Financial Officer Aspen U.S. Holdings, Inc.
Michael R. Cain	Group General Counsel Aspen Insurance Holdings Limited
Robert H. Rheel	EVP Sales, Distribution & Marketing Aspen U.S. Holdings, Inc.
Bruce M. Eisler	EVP US Financial Products Aspen U.S. Holdings, Inc.
Jeffrey H. Bossart	EVP & Head of Claims Aspen U.S. Holdings, Inc.
Timothy P. Kenefick	EVP & Chief Actuary Aspen U.S. Holdings, Inc.
Brian J. Nolan	EVP & Chief Operating Officer Aspen U.S. Holdings, Inc.

Officers

The Bylaws provide that the elected officers of the Company shall be a Chief Executive Officer, President, Vice President, Secretary and Treasurer, all of whom shall hold their office for one year. Any two or more offices may be held by the same person.

The officers duly elected by the Board of Directors and holding office at December 31, 2012, were as follows:

<u>Officer</u>	<u>Title</u>
Mario P. Vitale	President and Chief Executive Officer
Peter C. Felix	Treasurer
Andrew Noga	Secretary

Committees

The Bylaws provide the Board of Directors may designate two or more persons to constitute an Executive Committee. The Bylaws also provide that the Board of Directors may designate other persons to constitute other committees as determined by the Board of Directors. The Company

does not have their own respective committees or subcommittees in existence at December 31, 2012. All additional committees are under the Company's ultimate parent, Aspen Insurance Holdings Limited.

Audit Committee

The Audit Committee of the Company's ultimate parent, Aspen Insurance Holdings, Limited (AIHL) is elected to serve as the Company's Audit Committee. The Audit Committee is made up of six individuals who are not management of the Company.

CORPORATE RECORDS

Articles of Incorporation

The Company's Articles of Incorporation were amended effective March 14, 2012, to change:

1. The name of the registered agent of the Company from Thomas O. Smith to CT Corporation System.
2. The Company's principal office location from Stamford, Connecticut, to Rocky Hill, Connecticut.
3. The par value of the Company's authorized and outstanding 10,000 shares of common stock from \$420 per share to \$100 per share.*
4. The purpose of the Corporation, which was replaced in its entirety with the following language:
 - a. To engage In the business of multiple line insurance of any and every kind and nature and to issue any and all forms of contracts or policies with respect to property, casualty, marine, transportation, surety, accident, health, workers compensation and employers liability insurance of any kind or nature and any other line of business for which it is or may become licensed;
 - b. To reinsure its risks in other companies, in whole or part, and to reinsure risks of other companies, in whole or in part; and
 - c. to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Act of North Dakota.

*At December 31, 2012, the Company reported a total of \$4,200,000 common capital stock in its annual statement. Per the amended Articles of Incorporation this amount should be \$1,000,000. See the Comments on Financial Statements section of this report for further details.

It is recommended that the Company properly report its common capital stock in the annual statement, and amend its stock certificate to reflect the correct par value per share.

Bylaws

The Company's Bylaws were amended effective March 14, 2012, to change:

1. The Company's principal office location from Boston, Massachusetts, to Rocky Hill, Connecticut.
2. The date on which the regular meeting of shareholders shall be held, from the first Monday of March to any date prior to April 30.
3. The minimum number of directors from three to one.
4. That any two or more offices may be held by the same person to any person may hold any number of offices.

Board of Directors, Shareholder, and Committee Minutes

The minutes of the Board of Directors, shareholder, and Aspen Insurance Holdings Limited Audit Committee meetings for the period under examination were read and found to be in compliance with the Bylaws, Articles of Incorporation and statutory requirements.

Investment transactions were ratified by the full board during its quarterly meetings in compliance with N.D. Admin. Code §45-03-12-05(4)(a).

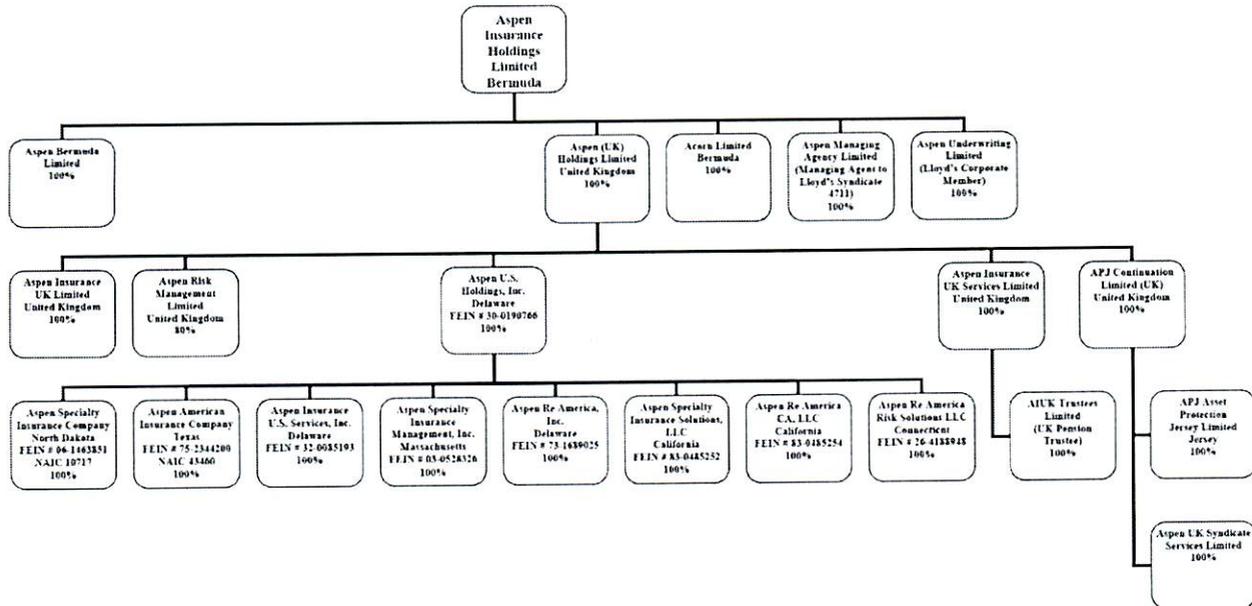
Conflict of Interest

All directors, officers and employees of Aspen Insurance Holdings Limited and its subsidiaries are subject to a formal written conflict of interest policy. The Company does not have an adequate process in place to ensure that signed conflict of interest statements are filed annually from all directors, officers, and key employees. A similar filing is required at the group level but not all key employees, officers and directors are required to submit this filing.

However, subsequent to the exam period, Aspen U.S. Holdings, Inc. annually distributes via email the Aspen Conflict of Interest policy, which is tracked electronically. The policy requires all employees to report all real or potential conflicts of interest to the Aspen General Counsel, the local Head of Aspen Human Resources or the local Head of Aspen Group Compliance. The email requires all US Aspen employees to electronically respond to questions related to conflicts of interest.

AFFILIATED COMPANIES

The Company is a member of the Aspen Group. The following chart depicts the members of the group at December 31, 2012.



Aspen Insurance Holdings Limited (AIHL) is the ultimate controlling entity in the holding company system. It was incorporated in Bermuda under the name of Exali Reinsurance Holdings on May 23, 2002. Exali subsequently changed its name to Aspen Insurance Holdings Limited on November 20, 2002. AIHL stock is publicly traded on the New York and Bermuda stock exchanges. At December 31, 2012, no entity held more than a 10 percent ownership interest in AIHL.

Aspen Bermuda Limited fka Aspen Insurance Limited – A Bermuda domiciled insurance corporation created in 2002.

Aspen (UK) Holdings Limited – A United Kingdom holding company created in 2002 for UK and Bermuda affiliates as well as Aspen U.S. Holdings, Inc.

Aspen Insurance UK Limited – A London based insurance entity and the primary operating company in the Aspen Group of Companies. It was originally incorporated under the name The City Fire Office Limited in 1974, renamed The City Fire Insurance Company Limited in 1980 and was acquired by AHL on June 24, 2002, and renamed Wellington Reinsurance Limited. On March 4, 2003, the Company was renamed Aspen Insurance UK Limited.

Aspen Insurance UK Services Limited – A service company that, since 2002, provides employment services to Aspen Insurance UK Ltd. and Aspen Insurance Holdings Limited.

Aspen U.S. Holdings, Inc. - A Delaware domiciled holding company formed in 2003 to hold U.S. operating companies.

Aspen Insurance U.S. Services Inc. – A service company created in 2003 and domiciled in Delaware. It provides employment and administrative services to all U.S. operations and entities within the Aspen Group.

Aspen Specialty Insurance Management, Inc. – A surplus lines producer and brokerage company created in 2003 and domiciled in Massachusetts. It was created to ensure that there was a business entity licensed as a producer within the Aspen Group for U.S. business.

Aspen American Insurance Company – A Texas domiciled company writing admitted business. On August 16, 2010, Aspen U.S. Holdings, Inc. purchased FFG Insurance Company from National Indemnity Insurance Company. On September 23, 2010, the name of FFG Insurance Company was changed to Aspen American Insurance Company.

INTERCOMPANY AGREEMENTS

Aspen Insurance U.S. Services Inc. (AIUSS), an affiliate, provides administrative and management services to the Company through an administrative service agreement dated November 18, 2004. AIUSS provides staff, equipment, facilities, and other resources necessary to perform all functions for the operation of the Company, including accounting, actuarial, tax, employment and general administrative services, information technology, legal, compliance, internal audit, marketing and promotion, underwriting and reinsurance, and claims. AIUSS may subdelegate its duties to third parties with the approval of the Company's Board of Directors. The North Dakota Insurance Department approved an amendment to the Company's administrative services agreement effective July 1, 2012, which capped the Company's expense allocations at 15% or actual, whichever is less. During the years ended December 31, 2012 and 2011, the Company reimbursed AIUSS \$26.6 million and \$34 million, respectively.

The Company entered into a service agreement effective January 1, 2005, with its international affiliates Aspen Insurance UK Limited, Aspen Bermuda Limited, and Aspen Insurance Holdings Limited who provides investment services, audit and IT support to the Company at cost plus seven percent.

On March 1, 2006, an affiliate, Aspen U.S. Holdings, Inc. and its direct subsidiaries, including the Company, entered into a tax sharing agreement in which a consolidated tax return is filed with the Internal Revenue Service.

Binding authority agreements were made with two affiliated surplus lines brokers, Aspen Specialty Insurance Management Co. (ASIM) and Aspen Specialty Insurance Solutions, LLC (ASIS) effective July 1, 2012. These affiliates provide the Company with underwriting services such as policy and endorsement issuance, underwriting, compliance review, quoting, binding, rating and premium collection and servicing for excess and surplus lines business. The fee paid by the Company to ASIM and ASIS is the lesser of 15 percent of earned premium, net of reinsurance ceded to unaffiliated reinsurers, or the actual cost incurred by ASIM and ASIS.

On January 1, 2012, the Company entered into an outwards reinsurance sharing agreement with affiliates Aspen Insurance UK Limited, Aspen Bermuda Limited, Aspen American Insurance Company and Aspen Managing Agency Limited to allocate reinsurance premium among the affiliates in connection with the multiple reinsurance agreements between the affiliates, as cedents, and nonaffiliated reinsurers.

The Company entered into a deed of guaranty agreement with affiliate, Aspen Bermuda Limited (ABL) effective January 1, 2009. ABL covers potential nonpayment of the Company's third-party reinsurers.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under a fidelity bond coverage issued to the Company's ultimate parent, AIHL, which provides \$10,000,000 of coverage for employee dishonesty. The amount of coverage meets the minimum amount recommended in the NAIC *Examiners Handbook*.

The Company has other types of insurance coverage including Professional Liability, Directors and Officers Liability, Automobile, Employment Practices Liability, Workers' Compensation, and Commercial Excess & Umbrella Liability which were considered adequate.

PENSION AND INSURANCE PLANS

The Company has no employees. Aspen Insurance U.S. Services Inc. provides administrative and management services to the Company.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2012:

Location	Type of Asset	Statement Value	Fair Value
Massachusetts	Bond	\$ 699,891	\$ 703,171
New Mexico	Bond	99,984	100,453
New York	Bond	2,500,892	2,696,000
North Dakota*	Bond	2,499,610	2,511,325
Oklahoma	Bond	299,953	301,359
South Carolina	Bond	120,043	129,408
		\$6,220,373	\$6,441,716

* Held for the benefit of all policyholders.

TERRITORY AND PLAN OF OPERATION

The Company voluntarily ceased writing new business for all states except Massachusetts effective January 1, 2008, and in Massachusetts effective March 1, 2008. All new and renewal business until April 1, 2009, was written through Aspen Insurance UK Limited, an affiliate of the Company. The Company returned to writing business on April 1, 2009, and currently cedes 85 percent of its business to Aspen Bermuda Limited, a Bermuda affiliate, in order to maintain an A.M. Best group rating of A.

At December 31, 2012, the Company was licensed and qualified to transact business in the State of North Dakota. Effective August 7, 2013, the Company became a domestic surplus lines company in North Dakota pursuant to N.D.C.C. § 26.1-44-03.2.

At December 31, 2012, the Company was operating on an excess and surplus lines basis in 48 states and in the District of Columbia. The majority of direct written business includes the following lines of business: fire, allied lines & other liability – occurrence & claims-made.

GROWTH OF COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2012	2011	2010	2009	2008
Direct	\$250,264,875	\$184,999,971	\$157,903,656	\$75,966,313	\$1,655,361
Assumed	10,807,568	8,322,919	1,885,277	1,755,535	3,452,038
Ceded	231,883,030	162,422,089	145,965,615	69,267,295	2,093,734
Net Written Premiums	\$29,189,413	\$30,900,801	\$13,823,318	\$8,454,554	\$3,013,665
Surplus	101,160,795	77,064,593	74,897,280	88,455,071	115,037,824
Premium-to-Surplus Ratio	29%	40%	18%	10%	3%

The Company's net premium written has grown 869 percent over the exam period while the premium to surplus ratio has increased due to increased premiums written. The Company cedes 85 percent of business written to affiliate, Aspen Bermuda Limited.

LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2012	2011	2010	2009	2008
Loss reserves	\$20,811,431	\$22,154,110	\$22,957,363	\$30,441,475	\$56,295,784
LAE reserves	8,928,405	9,224,411	8,438,684	6,930,949	6,960,677
Total Reserves	\$29,739,836	\$31,378,521	\$31,396,047	\$37,372,424	\$63,256,461
Losses and LAE Incurred	\$21,411,838	\$24,091,047	\$15,429,175	\$501,179	\$21,553,501
Losses and Loss expenses incurred to premiums earned	85.0%	95.1%	155.7%	49.8%	47.7%

The Company's loss ratio has been decreasing since it resumed operations in April 2009, but it is still elevated.

REINSURANCE

A summary of the Company's assumed and ceded reinsurance agreements in effect at December 31, 2012, are provided as follows.

Assumed

The Company has a 100% quota share contract with Aspen Insurance UK Limited, in which US property and casualty surplus lines business written by Aspen Specialty Insurance Management Company is ceded to the Company in exchange for a one percent fronting fee.

Ceded

The Company cedes 85 percent of its business on a quota share basis to Aspen Bermuda Limited fka Aspen Insurance Limited (ABL), a Bermuda affiliate of the Company, as part of the arrangement for the Company to receive an A.M. Best rating of A.

Credit for reinsurance was obtained by a Letter of Credit (LOC) ABL provided to the Company. Effective December 31, 2012, the companies replaced the LOC with a Trust Agreement.

The Company entered into an adverse development cover with affiliate, Aspen Bermuda Limited effective January 1, 2009, which covers potential adverse development of the Company's booked/estimated reserves on business written prior to December 31, 2008.

In addition, the Company has an Outwards Reinsurance Sharing Agreement effective January 1, 2012, with affiliated companies in which the affiliates will enter into certain external reinsurance agreements if beneficial to all the parties.

The Company protects its surplus using a per risk excess and catastrophe program which consisted of the following layers at December 31, 2012:

- \$5 million excess of \$5 million
- \$15 million excess of \$10 million
- \$65 million excess of \$35 million

The Company has a Deed of Guaranty with affiliate, Aspen Bermuda Limited effective January 1, 2009, which covers any nonpayment of the Company's third-party reinsurer balances.

The reinsurance agreements contain the insolvency clause required by N.D.C.C. § 26.1-02-21. The agreements also contained all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's

2012 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by KPMG, L.L.P. (KPMG), an outside firm of independent certified public accountants. KPMG's work papers were made available to the Examiners and were used to extent deemed appropriate for this examination.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2012
Statement of Income, Year Ended December 31, 2012
Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

**Aspen Specialty Insurance Company
Statement of Assets
December 31, 2012**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$112,513,640		\$112,513,640
Cash	(3,968,125)		(3,968,125)
Cash Equivalents	48,753,085		48,753,085
Short-Term Investments	18,544,011		18,544,011
Receivable for Securities	6		6
Investment Income Due and Accrued	883,689		883,689
Premiums and Considerations: Uncollected Premiums and Agents' Balances in Course of Collection	25,730,298	\$ 375,522	25,354,776
Amounts Recoverable from Reinsurers	16,543,318		16,543,318
Receivables from parent, subsidiaries and affiliates	25,828,955		25,828,955
Aggregate write-ins for other than invested assets:			
TPA Loss Funding	3,920,525	3,920,525	0
Prepaid Expenses	300,000	300,000	0
Totals	<u>\$249,049,402</u>	<u>\$4,596,047</u>	<u>\$244,453,355</u>

**Aspen Specialty Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2012**

Losses		\$ 20,811,431
Loss Adjustment Expenses		8,928,405
Commissions Payable, Contingent Commissions and Other Similar Charges		2,733,934
Other Expenses		200,000
Taxes, Licenses and Fees		1,045,650
Unearned Premiums		22,306,927
Ceded Reinsurance Premiums Payable		64,330,688
Funds Held by Company		7,678
Remittances and Items not Allocated		1,100,077
Provision for Reinsurance		1,939,597
Payable to Parent, Subsidiaries and Affiliates		<u>19,888,173</u>
Total Liabilities		\$143,292,560
Common Capital Stock	\$ 1,000,000	
Gross Paid In and Contributed Surplus	224,431,813	
Unassigned Funds (Surplus)	<u>(124,271,018)</u>	
Surplus as Regards Policyholders		<u>101,160,795</u>
Total		<u>\$244,453,355</u>

**Aspen Specialty Insurance Company
Statement of Income
Ended December 31, 2012**

UNDERWRITING INCOME

Premiums Earned		\$25,176,285
Deductions:		
Losses Incurred	\$11,515,104	
Loss Expenses Incurred	9,896,734	
Other Underwriting Expenses Incurred	<u>27,896,263</u>	
Total Underwriting Deductions		<u>49,308,101</u>
Net Underwriting Gain or (Loss)		\$(24,131,816)

INVESTMENT INCOME

Net Investment Income Earned	\$ 4,299,971	
Net Realized Capital Gains or Losses	<u>763,806</u>	
Net Investment Gain or (Loss)		<u>5,063,777</u>

OTHER INCOME

Net Loss from Agents' or Premium Balances Charged Off		<u>(66,976)</u>
Net Income Before Federal Income Taxes		\$(19,135,015)
Federal Income Taxes Incurred		<u>3,839</u>
Net Income		<u>\$ (19,138,854)</u>

Aspen Specialty Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 2008, Through December 31, 2012

	2012	2011	2010	2009	2008
Capital and Surplus, December 31, Previous Year	\$77,064,593	\$74,897,280	\$88,455,071	\$115,037,825	\$103,210,291
Net Income	(19,138,854)	(33,208,513)	(18,038,285)	(8,666,964)	22,802,758
Change in Net Deferred Income Tax	0	(12,330,327)	5,500,221	1,753,393	(5,416,374)
Change in Nonadmitted Assets	(780,056)	10,897,373	(2,577,843)	(4,807,074)	4,219,097
Change in Provision for Reinsurance	(984,888)	1,808,780	1,558,116	(3,562,109)	316,347
Paid In Surplus	45,000,000	35,000,000	0	0	0
Dividends to Stockholders	0	0	0	(11,300,000)	(8,000,000)
Prior period adjustment	0	0	0	0	(2,094,295)
Net Change in Capital and Surplus for the Year	\$24,096,202	\$2,167,313	\$(13,557,791)	\$(26,582,755)	\$11,827,533
Capital and Surplus, December 31, Current Year	\$101,160,795	\$77,064,593	\$74,897,280	\$88,455,071	\$115,037,824

COMMENTS ON FINANCIAL STATEMENTS

Surplus as Regards Policyholders

The Company reported a total of \$4,200,000 Common Capital Stock in the annual statement. The Company's Articles of Incorporation state that the amount of authorized capital stock is \$1,000,000 consisting of 10,000 shares of common stock with a par value of \$100 per share.

When the Company amended its Articles of Incorporation on March 14, 2012, the capital in excess of par created was not transferred to Gross Paid In and Contributed Surplus as required by SSAP No. 72. The adjustment to correct this error is shown below:

	<u>Per Company</u>	<u>Per Exam</u>	<u>Difference</u>
Common Capital Stock	\$ 4,400,000	\$ 1,000,000	\$(3,200,000)
Gross Paid In and Contributed Surplus	221,231,813	224,431,813	3,200,000
Unassigned Funds (Surplus)	(124,271,018)	(124,271,018)	0
Surplus as Regards Policyholders	<u>\$ 101,160,795</u>	<u>\$ 101,160,795</u>	<u>\$ 0</u>

CONCLUSION

The financial condition of the Company, as of December 31, 2012, as determined by this examination is summarized as follows:

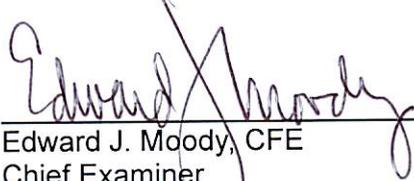
Admitted Assets		<u>\$244,453,355</u>
Total Liabilities	\$143,292,560	
Surplus as Regards Policyholders	<u>101,160,795</u>	
Liabilities, Surplus, and Other Funds		<u>\$244,453,355</u>

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased \$6,941,514, its total liabilities have increased \$1,650,254, and its surplus as regards policyholders has increased \$5,291,260.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Mary Raps, Colton Schulz, and Mike Andring, FCAS, MAAA, of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,



Edward J. Moody, CFE
Chief Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company properly report its common capital stock in the annual statement, and amend its stock certificate to reflect the correct par value per share.