

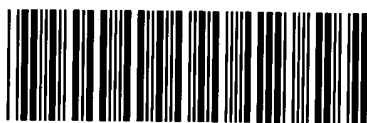


# **ASPEN INSURANCE UK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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## THE COMPANY

### Directors

Julian Cusack  
Karen Green  
Emil Issavi  
Mark Dean  
Helen Rose  
Dr. Karl Mayr  
Tim Leggett  
Peter Webster  
Gordon Ireland

Chairman, Non-Executive Director  
Director  
Director  
Director  
Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director

### Secretary

Helen Lipscomb

### Auditor

KPMG LLP  
15 Canada Square  
London E14 5GL

### Actuaries

PwC LLP  
7 More London Place  
London  
SE1 2RT

### Registered Office

30 Fenchurch Street  
London  
EC3M 3BD

Registered in England No. 1184193

### Legal Advisors

D Wilkie Farr & Gallagher LLP  
1 Ropemaker Street  
City Point  
London  
EC2Y 9HT

### Bankers

Deutsche Bank AG  
6 Bishopsgate  
London  
EC2N 4DA

## STRATEGIC REPORT

The directors present the Strategic Report for the year ended 31 December 2016.

### Overview

The financial results of Aspen Insurance UK Limited (the "Company" or "AIUK") reflect a net underwriting result that is broadly in line with our expectations for 2016.

The balance on the technical account for the year was a profit of \$162,418,000 (2015: \$104,963,000). This includes the impact of a one-off gain from the derecognition of the equalisation reserve in the year of \$150,381,000. This release occurred on 1 January 2016 as a consequence of the adoption of Solvency II.

Excluding this one-off gain the performance of the Company has deteriorated since the prior year resulting in a loss before tax and equalisation reserve release of \$13,461,000. This is due to a number of factors, including the impact of the deterioration of pound sterling to the US dollar lowering the value of the Company's sterling premium compared to the prior year, the occurrence of a number of large losses in the Reinsurance segment and the impact of the post year-end reduction in the Ogden discount rate applied for personal injury claims from 2.5% to -0.75%.

Gross written premiums have decreased over the period to \$1,469,399,000 (2015: \$1,523,417,000). Our ceded reinsurance premiums increased to \$929,767,000 (2015: \$906,233,000).

The Company's overall investment return was \$35,758,000 (2015: \$43,519,000). The decrease was caused by lower realised gains on fixed income assets, driven by interest rate volatility.

The Company is a direct subsidiary undertaking of Aspen European Holdings Limited ("AEHL"), a wholly owned subsidiary of Aspen Insurance Holdings Limited ("AIHL") incorporated in Bermuda ("the Group"), the Company's ultimate parent. AEHL's registered office is 30 Fenchurch Street, London, EC3M 3BD. During the year the Company has paid \$85,000,000 (2015: \$79,000,000) of dividends to its parent company.

For 2017 we will continue to focus on our chosen markets, seeking a positive return for our shareholder through focused underwriting and client service.

### Overview of the Business

The Company is authorised by the United Kingdom Prudential Regulation Authority to underwrite all eighteen classes of insurance and reinsurance business. The Company is rated A (Excellent) by AM Best.

An analysis of the technical account by segment for the years ended 31 December 2016 and 2015 is set out below.

	For the Year Ended 31 December 2016		
	Reinsurance	Insurance	Total
	(\$ in thousands)		
Gross written premiums	1,015,497	453,902	1,469,399
Gross earned premiums	961,145	477,458	1,438,603
Net earned premium	385,456	137,411	522,867
Net incurred claims	(214,410)	(75,039)	(289,449)
Expenses	(189,453)	(67,686)	(257,139)
Underwriting loss before investment income	(18,407)	(5,314)	(23,721)
Investment return			35,758
Equalisation provision			150,381
Balance on technical account			<b>162,418</b>
Net claims ratio	56%	55%	55%
Expense ratio	49%	49%	49%
Combined ratio	105%	104%	104%

For the Year Ended 31 December 2015			
	Reinsurance	Insurance	Total
	(\$ in thousands)		
Gross written premiums	1,075,717	447,700	1,523,417
Gross earned premiums	992,694	468,492	1,461,186
Net earned premium	415,729	131,434	547,163
Net incurred claims	(192,884)	(73,533)	(266,417)
Expenses	(185,786)	(46,162)	(231,948)
Underwriting profit before investment income	37,059	11,739	48,798
Investment return			43,519
Equalisation provision			12,646
Balance on technical account			<u>104,963</u>
Net claims ratio	46%	56%	49%
Expense ratio	45%	35%	42%
Combined ratio	91%	91%	91%

### Reinsurance Segment

Our reinsurance segment consists of property, casualty and specialty reinsurance. A more detailed analysis of the business written within these classes is as follows:

#### *Property Catastrophe Reinsurance*

Property catastrophe reinsurance is generally written on a treaty excess of loss basis where the Company provides protection to an insurer for an agreed portion of the total losses from a single event in excess of a specified loss amount. 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. 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 includes property, engineering and construction risks written on excess of loss and proportional treaties, facultative or single risk reinsurance. Risk excess of loss reinsurance provides coverage to a reinsured where it experiences a loss in excess of its retention level on a single "risk" basis. A "risk" in this context might mean the insurance coverage on one building or a group of buildings for 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.

Proportional treaty reinsurance provides proportional coverage to the reinsured, meaning that, subject to event limits where applicable and ceding commissions, the Company pays the same share of the covered original losses as it receives in premiums charged for the covered risks. Proportional contracts typically involve close client relationships which often include regular audits of the cedants' data.

In addition to writing property facultative on a direct basis, the Company wrote business through an affiliated broker Rock Re, a dedicated brokered property facultative unit which focuses on the North American brokered property facultative marketplace. As a result of such initiatives and a greater focus on regional U.S. business, increases in premium in other property business contributed meaningfully to the reinsurance segment.

#### *Casualty Reinsurance*

Casualty reinsurance is written on an excess of loss, proportional and facultative basis and consists of U.S. treaty, international treaty and casualty facultative reinsurance. The Company's U.S. treaty business comprises exposures to workers' compensation (including catastrophe), medical malpractice, general liability, auto liability, professional liability and excess liability including umbrella liability. The Company's 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 an excess of loss and proportional basis and consists of credit and surety reinsurance, agriculture reinsurance, mortgage insurance, mortgage reinsurance and other specialty lines. The Company's credit and surety reinsurance business consists of trade credit, surety (mainly European, Japanese and Latin American risks) and political risks. The Company's agricultural reinsurance business is primarily written on a treaty basis covering crop and multi-peril

business. Other specialty lines include reinsurance treaties and some insurance policies covering policyholders' interests in marine, energy, aviation liability, space, contingency, terrorism, nuclear and personal accident.

### **Insurance Segment**

The Company's insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. A more detailed analysis of the business written within these classes is as follows:

#### *Property and Casualty Insurance*

The Company's property and casualty insurance line comprises U.S. and U.K. commercial property and construction business, commercial liability, global excess casualty, environmental liability and programs business, written on a primary, excess, quota share, program and facultative basis.

Property insurance provides physical damage and business interruption coverage for losses arising from weather, fire, theft and other causes. The U.S. commercial property and construction team covers mercantile, manufacturing, municipal and commercial real estate business. The U.K. commercial and construction team's client base is predominantly U.K. institutional property owners, small and middle market corporates and public sector clients.

The Company's casualty insurance line comprises U.K. commercial liability, U.S. specialty casualty, global excess casualty and environmental liability, written on a primary, excess, quota share, program and facultative basis.

- Commercial liability is primarily written in the U.K. and provides employers' liability coverage and public liability coverage for insureds domiciled in the U.K. and Ireland.
- The global excess casualty line comprises large, sophisticated and risk-managed insureds worldwide and covers broad-based risks at high attachment points, 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. It also includes a portfolio of U.K. and other non-U.S. employers' liability and public liability coverage written through a managing general agent.
- The U.S. environmental account primarily provides contractors' pollution liability and pollution legal liability across industry segments that have environmental regulatory drivers and contractual requirements for coverage including: real estate and public entities, contractors and engineers, energy contractors and environmental contractors and consultants. The business is written in both the primary and excess insurance markets.

#### *Marine and Energy Insurance*

The Company's marine and energy insurance line comprises marine and energy liability, onshore energy physical damage, offshore energy physical damage written on a primary, excess, quota share, program and facultative basis.

- The marine and energy liability business based in the U.K. 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 liability cover globally (including the U.S.) for companies in the oil and gas sector, both onshore and offshore and in the power generation sector.
- Upstream Energy provides property damage and some liability insurance cover for companies operating in the oil and gas exploration and production sector.

#### *Financial and Professional Lines Insurance*

The Company's financial and professional lines comprise financial and corporate risks, accident and health, professional liability, credit and political risks, written on a primary, excess, quota share, program and facultative basis.

The corporate risks account comprises D&O insurance for commercial insureds located outside of the U.S and a worldwide book of representations and warranties and tax indemnity business.

- The Financial and Corporate risks account comprises D&O insurance for commercial insureds located outside of the U.S and a worldwide book of representations and warranties and tax indemnity business.
- The Company's professional liability business is written out of the U.S. (including Errors and Omissions ("E&O")), the U.K., Switzerland and Bermuda and is written on both a primary and excess of loss basis. The U.K. team focuses on risks in the U.K. with some Australian and Canadian business while the U.S. team focuses on the U.S. The Company insures a wide range of professions including lawyers, accountants, architects and engineers. This account also includes a portfolio of technology liability and data protection insurance. The data protection insurance covers firms for first party costs and third party liabilities associated with their breach of contractual or statutory data protection obligations.
- The credit and political risks team writes business covering the credit and contract frustration risks on a variety of trade and non-trade related transactions, as well as political risks (including multi-year war on land cover) and surety risks. The Company provides credit and political risks cover worldwide but with concentrations in a number of countries, such as China, Brazil, Russia, the Netherlands and the U.S.

- The Accident and Health team offers an extensive range of accident and health covers, including Individual and group PA/disability, Credit card, Evacuation/repatriation, War, Occupational accident, Medical expenses, Aviation PA, Sports PA/disability, Treaty reinsurance cat and risk excess, and Specialist products.

### Investments

The Company maintains all its investments in high quality fixed income securities, liquidity funds and equities. These investments, including liquidity funds, are currently managed by the following investment managers and custodians:

Alliance Capital Management L.P.	Citigroup Asset Management
Conning Asset Management Limited	Deutsche Investment Management Americas Inc.
Blackrock Financial Management, Inc	Goldman Sachs Asset Management L.P.
BNY Mellon Asset Servicing	UBS AG
Barclays Bank Plc	Manufacturers and Traders Trust Company

The Company uses derivative financial instruments to manage foreign exchange risk and asset and liability matching as part of our strategy of efficient portfolio management.

### Balance Sheet

The balance sheet of the Company shows total assets of \$6,025,705,000 (2015: \$5,951,158,000) and shareholder's equity of \$974,395,000 (2015: \$945,071,000). Of the total assets, \$2,641,953,000, i.e. 44% (2015: \$2,689,168,000 - 45%) is represented by financial investments.

### Enterprise Risk Management and Control Framework

The Board ensures that the company operates an effective risk management and control framework, which includes risk management, compliance and internal control systems. The company maintains appropriate policies, procedures and internal controls to support the risk and control framework.

### Principal Risks and Uncertainties

Risk management has been embedded in the management and culture of the Aspen Group since its formation in 2002. The Company, as an operating entity within the Aspen Group, benefits from the Group's established risk management practices.

The key risks for the Company are largely unchanged during the last year. The ongoing soft market conditions and its impact on the achievability of both top line and bottom line performance remain a key focus.

AIUK maintains a Risk Universe which defines the different types of risk that the Company faces and how they are monitored and measured. This framework has been applied and refined throughout the intervening years. The Company operates an integrated enterprise wide risk management strategy designed to deliver shareholder value in a sustainable and efficient manner while providing a high level of policyholder protection. During 2015 the Board implemented a Risk Committee to enhance the oversight of the Company's risk management process. The execution of the Company's integrated risk management strategy is based on:

- the establishment and maintenance of an internal control and risk management system based on a three lines of defence approach to the allocation of responsibilities between risk accepting units (first line), risk management activity and oversight from other central control functions (second line) and independent assurance (third line);
- identifying material risks to the achievement of the Company's objectives including emerging risks;
- the articulation at Group and Company level of our risk appetite and a consistent set of key risk limits for each material component of risk;
- measuring, monitoring, managing and reporting risk positions and trends;
- the use, subject to an understanding of its limitations, of the Internal Model to test strategic and tactical business decisions and to assess compliance with the Risk Appetite Statement and some risk limits; and
- stress and scenario testing, including reverse stress testing, designed to help the Company better understand and develop contingency plans for the likely effects of extreme events or combinations of events on capital adequacy and liquidity.

On 5 December 2015 the PRA approved the Company's Internal Model, which AIUK uses within its integrated risk management system, to calculate the SCR (the Solvency II Regulatory Capital Requirement).

In order to meet the expectations of its equity stakeholder, AIUK aims to maintain a level of profitability consistent with the Group return targets set out in the Group Risk Appetite statement, taking into account the contributions of other subsidiaries.

AIUK also aims to generate sufficient distributable income to allow it to contribute its share of funding for the debt and dividend obligations of the Aspen Group.

The AIUK risk appetite and risk management process is aimed at ensuring that these objectives are met.

The Risk Appetite statement approved by the Board articulates the Risk Appetite in terms of the following components:

<b>Risk Preferences</b>	a high level description of the types of risks AIUK prefers to assume and avoid within the context of our objectives
<b>Capital Constraint</b>	a minimum level of risk adjusted capital
<b>Volatility Constraint</b>	a basis for monitoring volatility of return

In addition to the high level Risk Appetite statement the Company has established a set of Key Risk Limits covering exposures to natural and man-made catastrophe events, market risks, credit risks and operational risks.

These are monitored and reported against to the Risk Committee on a quarterly basis.

The risks are defined in the Risk Universe at 3 levels:

- Main risk classification
- Risk category
- Risk sub category

The main risks faced by the Company are defined as follows:

Core risks - those risks inherent in the running of the Company's business are listed below:

- 1) Insurance risk: The risk that underwriting results vary from their expected amounts, including the risk that reserves established in respect of prior periods are understated.
- 2) Market risk: The risk of variation in the fair value of our investment portfolio, cash and cash equivalents and derivative contracts including the effect of changes in foreign currency exchange rates.

Non-core risks are all risks other than core risks. These are quantified as far as possible and, wherever practical, minimised or avoided. These are listed below:

- 3) Credit risk: The risk of diminution in the value of insurance and reinsurance receivables as a result of counter-party default.
- 4) Emerging Risk: The risk that events not previously identified emerge and impact the profitability and / or balance sheet of the Company.
- 5) Liquidity Risk: The risk that the Company is unable to make payments or provide collateral when required.
- 6) Operational Risk: The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- 7) Strategic Risk: The risk of adverse impact on shareholder value or income and capital of adverse business decisions, poor execution or failure to respond to market changes.
- 8) Regulatory Risk: The risk of non-compliance with regulatory requirements including ensuring AIUK understand and comply with changes to those requirements is managed as an operational risk. There is a residual risk that changes in regulation impact AIUK's ability to operate profitably in some jurisdictions or some lines of business.
- 9) Taxation Risk: The risk that we do not understand, plan for and manage AIUK's tax obligations is addressed as an operational risk. There is a residual risk that changes in taxation impact AIUK's ability to operate profitably in some jurisdictions or some lines of business.

Operational risk is the most complex of the non-core risk classifications because it includes multiple risk scenarios arising from multiple processes and circumstances. Because of this AIUK records identified operational risks and their related risk assessments, owners and identified controls in a separate 'Operational Risk Register' of the Company. The approach for the Company operational risk register is monitored via a quarterly review process.

An annual Own Risk and Solvency Assessment (ORSA) report is produced summarising all of the risk management activities during the year. This is presented to and approved by the Board.

## UK's decision to leave the EU

There is significant uncertainty surrounding the implementation and effect of the UK's decision to leave the EU ('Brexit') following the triggering of Article 50 of the Lisbon Treaty on 29 March 2017. Although the UK continues to be a full member



of the EU with access to the single market and is operating under the current passporting regime, Brexit has caused and is likely to cause increased economic volatility and market uncertainty globally, in particular volatility of currency exchange rates, interest rates and credit spreads. AIUK's risk management framework provides the mechanism for managing and mitigating these risks.

Depending on the terms of Brexit, the UK could also lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members. Gross written premiums in Western Europe (excluding UK) in AIUK were \$249m (17%) in 2016 made up of \$195m reinsurance business and \$54m insurance business. Contingency plans for Brexit have been drawn up. From a reinsurance perspective, AIUK considers that its ability to write cross-border reinsurance from other EU countries in the event of Brexit will be largely unaffected.

In addition, depending on the terms of Brexit, the UK's regulatory regime in terms of Solvency II regulation and governance could also diverge and no longer be equivalent. However in the light of recent equivalence rulings by the European Insurance and Occupational Pensions Authority ("EIOPA") it is unlikely the UK would be required to make major amendments to its Solvency II implementation if it wanted to achieve equivalence but it would potentially have to adopt any further EU insurance legislation without being able to influence its content.

AIUK consider that it is unlikely there will be any material near-term impacts from Brexit on AIUK's Solvency Capital Requirement ("SCR").

By order of the Board



Helen Rose  
Director  
17 May 2017

## DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 31 December 2016.

### Principal Activity

The principal activity of the Company continues to be the transacting of general insurance and reinsurance business in the UK, US and through branches in France, Switzerland, Ireland, Canada, Singapore, Australia, and Germany.

### Results and Dividends

The results for the year are set out in the accompanying Income Statement. The net profit for the year after tax is \$110,452,000 (2015: profit \$59,488,000), which includes a \$150,381,000 gain due to a release of the equalisation provision. The directors regard the current state of affairs of the Company and its future prospects as satisfactory. Dividends of \$85,000,000 (2015: \$79,000,000) were paid during the year to the Company's only shareholder AEHL.

### Financial Instruments

Details of financial instruments are provided in the Strategic Report.

### Directors and Directors' Interests

The directors of the Company at the date of this report are set out on page 3. Changes in directors during 2016 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
Gordon Ireland	30 March 2016	
Heidi Hutter		1 April 2016
Richard Bucknall		1 April 2016
Ann Haugh		31 October 2016

According to the Register of Directors' interests, no director had a disclosable interest in the shares of the Company, and no director had been granted or had exercised any right to subscribe for such shares during the period under review.

### Directors' and Officers' Liability Insurance

The Company has maintained insurance to cover directors' and officers' liability as defined by section 236 of the Companies Act 2006.

### Employees

The Company has no employees of its own. All of the personnel employed in the Company's business are employed by Aspen Insurance UK Services Limited ("AIUKS").

AIUKS encourages its employees to develop their full potential by providing opportunities for training and professional development. Such opportunities, as well as career development and promotion, are equally available to disabled employees, whether newly recruited or existing employees who become disabled whilst in AIUKS's employment.

AIUKS's equal opportunities policy aims to ensure that no potential or existing employee receives less favourable treatment because of his / her sex, actual or perceived sexual orientation, gender (including gender reassignment), marital or family state, age, ethnic origin, disability, race, colour, nationality, national origin, creed, political affiliation, part-time status, or any other condition, unless it can be shown to be legally justifiable.

### Going Concern

The directors confirm that they are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Charitable and Political Donations

The Company made charitable donations during the year of \$545,223 (2015: \$751,526). The donations were to organisations engaged in cancer research, children with disability, providing food to the underprivileged, ex-service men and women with disabilities and to a community project in Uganda. There were no political donations made during the year.

### **Future Developments**

The directors aim to continue with the current strategic plan and consider that 2017 will show a small improvement in revenue.

### **Events Since the Reporting Date**

On 27 February 2017, the Lord Chancellor announced a reduction in the Ogden discount rate applied for personal injury claims from 2.5% to -0.75%. In line with market practice, AIUK has adjusted its reported insurance reserves as at 31 December 2016 for the effect of the change. The impact to AIUK is a \$11,308,000 reduction in profit after tax.

The tangible fixed assets of AIUK were sold to Aspen Insurance UK Services Limited, a fellow group subsidiary, in April 2017. The estimated financial effect of this transaction is an initial pre-tax loss of \$13m.

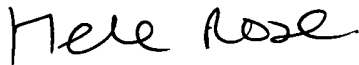
### **Statement of Disclosure of Information to Auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By Order of the Board



Helen Rose  
Director  
17 May 2017

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASPEN INSURANCE UK LIMITED**

We have audited the financial statements of Aspen Insurance UK Limited for the year ended 31 December 2016 set out on pages 14 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Timothy Butchart (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
Canary Wharf  
London  
E14 5GL  
17 May 2017

**Income Statement: Technical Account - General Business**

	Notes	For the Year Ended 31 December	
		2016	2015
		(\$ in thousands)	
Gross premiums written	3	1,469,399	1,523,417
Outward reinsurance premiums		(929,767)	(906,233)
Net premiums written		539,632	617,184
Change in gross provision for unearned premiums	19	(30,796)	(62,231)
Change in provision for unearned premiums reinsurers' share	19	14,031	(7,790)
Earned premiums net of reinsurance		522,867	547,163
Allocated investment return transferred from the non-technical account		35,758	43,519
Total technical income		558,625	590,682
Claims incurred net of reinsurance			
<i>Claims paid</i>			
Gross amount		(727,673)	(704,975)
Reinsurers' share		406,863	390,467
		(320,810)	(314,508)
<i>Change in the provision for claims</i>			
Gross amount	19	(101,806)	2,469
Reinsurers' share	19	133,167	45,622
Claims incurred net of reinsurance	4	(289,449)	(266,417)
Net operating expenses	6	(257,139)	(231,948)
Change in equalisation provision	20	150,381	12,646
Total claims and expenses		(396,207)	(485,719)
Balance on the technical account - General business		<b>162,418</b>	<b>104,963</b>

The results for the years ended 31 December 2016 and 2015 are derived from continuing operations.

## Income Statement: Non-Technical Account

	Notes	For the Year Ended 31 December	
		2016	2015
		(\$ in thousands)	
Balance on technical account general business		162,418	104,963
Investment income	7	49,932	53,053
Realised gains on investments	7	2,159	13,833
Unrealised losses on investments	7	(14,841)	(22,239)
Investment expenses and charges	7	(1,492)	(1,128)
Allocated investment return transferred to the general business technical account	7	(35,758)	(43,519)
Other charges	5	(25,498)	(28,908)
Profit on ordinary activities before tax	8	136,920	76,055
Tax on profit on ordinary activities	10a	(26,468)	(16,567)
Profit for the financial year		<u>110,452</u>	<u>59,488</u>

The results for the years ended 31 December 2016 and 2015 are derived from continuing operations.

## Statement of Comprehensive Income

	Notes	For the Year Ended 31 December	
		2016	2015
		(\$ in thousands)	
Profit for the financial year		110,452	59,488
Profit/(loss) on foreign exchange translation	11	3,872	(37,662)
Total comprehensive income for the year		<u>114,324</u>	<u>21,826</u>


## Statement of Changes in Equity

	Called up share capital	Capital contribution reserve	Profit and loss account	Total
2016				
	(\$ in thousands)			
Opening shareholder's equity	614,900	470,000	(139,829)	945,071
Total comprehensive income for the year	—	—	114,324	114,324
Dividends paid	—	—	(85,000)	(85,000)
Closing shareholder's equity	<u>614,900</u>	<u>470,000</u>	<u>(110,505)</u>	<u>974,395</u>
2015				
	(\$ in thousands)			
Opening shareholder's equity	614,900	470,000	(82,655)	1,002,245
Total comprehensive income for the year	—	—	21,826	21,826
Dividends paid	—	—	(79,000)	(79,000)
Closing shareholder's equity	<u>614,900</u>	<u>470,000</u>	<u>(139,829)</u>	<u>945,071</u>

## Balance Sheet

		For the Year Ended 31 December	
	Notes	2016	2015
		(\$ in thousands)	
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	13	2,641,953	2,689,168
Deposits with ceding undertakings		13,832	10,258
<b>Reinsurers' shares of technical provisions</b>			
Provision for unearned premiums	19	84,666	70,919
Claims outstanding	19	2,049,000	1,917,757
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		128,147	118,077
Debtors arising out of reinsurance operations		679,215	598,235
Other debtors	14	98,632	173,601
<b>Other assets</b>			
Tangible fixed assets	12	72,798	59,516
Cash at bank and in hand		70,569	116,107
<b>Prepayments and accrued income</b>			
Accrued interest and rent		13,727	15,754
Deferred acquisition costs	18	173,166	181,766
<b>Total Assets</b>		<b>6,025,705</b>	<b>5,951,158</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	22	614,900	614,900
Capital contribution reserve	27	470,000	470,000
Profit and loss account		(110,505)	(139,829)
<b>Shareholder's equity</b>		<b>974,395</b>	<b>945,071</b>
<b>Technical provisions</b>			
Provision for unearned premiums	19	734,717	705,365
Claims outstanding	19	3,342,005	3,319,377
Equalisation provision	20	—	150,381
<b>Creditors</b>			
Creditors arising out of reinsurance operations	15	787,215	636,456
Other creditors including taxation and social security	16	99,200	101,778
<b>Accruals and deferred income</b>		<b>88,173</b>	<b>92,730</b>
<b>Total Liabilities</b>		<b>5,051,310</b>	<b>5,006,087</b>
<b>Total Equity and Liabilities</b>		<b>6,025,705</b>	<b>5,951,158</b>

These financial statements were approved by the Board of Directors on 17 May 2017 and signed on its behalf:



Helen Rose  
Director



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. Accounting Policies

#### 1.1 Statement of Compliance

Aspen Insurance UK Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The Registered Office is 30 Fenchurch Street, London EC3M 3BD.

These financial statements were prepared in accordance with Financial Reporting Standard 102 ("FRS 102") and Financial Reporting Standard 103 ("FRS 103"), being applicable UK GAAP accounting standards and in accordance with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

These financial statements are prepared under historical cost convention except for certain financial instruments which are measured at fair value.

#### 1.2 Basis of Preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 17 May 2017.

The presentation currency of these financial statements is US dollars. All amounts in the financial statements have been rounded to the nearest \$1,000.

As permitted by FRS 103 the Company continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

The Company's ultimate parent undertaking, Aspen Insurance Holdings Limited ("AIHL") includes the Company in its consolidated financial statements. The consolidated financial statements of AIHL are prepared in accordance with US GAAP, available to the public and may be obtained from 141 Front Street, Hamilton, Bermuda. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes;
- Requirements of Related Party Disclosures;
- Key Management Personnel compensation;
- Certain disclosures required by FRS 102.26 Share Based Payments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 1.3 Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates. The following are the Company's key sources of estimation uncertainty:

##### *Insurance contract technical provisions*

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR) for both gross claims outstanding and reinsurance recoveries. It can take a significant period of time before the ultimate claims cost can be established with certainty, and for some types of policies IBNR claims form the majority of the liability in the statement of financial position. The estimation of IBNR is discussed further under section 1.4.1 - Insurance Contracts: Technical Provisions.

##### *Estimates of future premiums*

For certain insurance contracts, premium is initially written based on estimates of ultimate premiums. Estimates are derived from underwriter experience, historical data and broker estimation. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

## *Taxation*

The company establishes provisions based on reasonable estimates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

## **1.4 Significant Accounting Policies**

### **1.4.1 Insurance contracts**

#### **Gross Premiums**

Gross written premiums comprise total premiums receivable for the whole period of cover entered into in the reporting period plus any adjustments to such premiums receivable in respect of business written in prior reporting periods. All premiums are shown gross of commissions payable to intermediaries and exclusive of taxes and levies.

#### **Reinsurance Premiums**

Reinsurance premiums relating to reinsurance placed by the Company are accounted for using the same accounting methodology used for inwards premiums.

#### **Acquisition Costs**

Acquisition costs represent commission brokerage, profit commission and other variable costs that relate directly to the securing of new contracts and renewal of existing contracts. They are generally deferred over the period in which the related premiums are earned.

#### **Claims**

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

#### **Technical Provisions**

Technical provisions comprise claims outstanding, provisions for unearned premiums, provisions for unexpired risk and equalisation provisions.

#### *Claims provision*

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability is not discounted for the time value of money.

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported to the Company, at the reporting date (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these claims, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the class and the extent of the development of each accident year. The main projection methodologies that are used are:

- Initial expected loss ratio ("IELR") method: This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each accident year.
- Bornhuetter-Ferguson ("BF") method: The BF method uses as a starting point an assumed IELR and blends in the loss ratio implied by the claims experience to date by using benchmark loss development patterns on paid claims data ("Paid BF") or reported claims data ("Reported BF").
- Loss development ("Chain Ladder"): This method uses actual loss data and the historical development profiles on older accident years to project more recent, less developed years to their ultimate position.
- Exposure-based method: This method is used for specific large typically catastrophic events such as a major hurricane. All exposure is identified and we work with known market information and information from our cedants to determine a percentage of the exposure to be taken as the ultimate loss.

In addition to these methodologies, our actuaries may use other approaches depending upon the characteristics of the line of business and available data.

#### *Provisions for unearned premiums*

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date computed separately for each insurance contract. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unearned premiums are deemed monetary items and are valued using the closing rate.

#### *Unexpired risks*

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

#### *Equalisation provision*

The equalisation reserve maintained in respect of general business by the company was previously required in accordance with the rules in section 1.4 of the Prudential Sourcebook for Insurers under Part 10 of the Financial Services and Markets Act 2000. Following the introduction of Solvency II from 1/1/2016 this is no longer required by the regulations and the liability has therefore been derecognised.

#### *Deferred acquisition costs*

Acquisition costs arising from the conclusion of insurance contracts are deferred commensurate with the unearned premium provision.

Deferred acquisition costs are deemed to be monetary items and are valued using the closing rate.

#### *Reinsurance assets*

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

#### *Insurance receivables*

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

#### *Insurance payables*

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

### **1.4.2 Financial Instruments**

As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments to account for all of its financial instruments.

The Company classifies its financial assets into the following categories: Equity instruments and other variable-yield securities and units in unit trusts - at fair value through profit or loss and Deposits with credit institutions - loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

#### ***Financial assets at fair value through profit or loss***

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's entity's key management personnel. The Company's investment strategy is to invest in listed and unlisted fixed interest rate debt securities, and derivatives designated upon initial recognition at fair value through profit or loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values of financial instruments that are not traded in an active market (for example over-the-counter derivatives), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take between market participants.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the Income Statement within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

### ***Impairment of financial assets***

For financial assets not at fair value through profit or loss, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

### ***Financial liabilities***

Other financial liabilities relate to derivatives which are designated at fair value through profit and loss, and classified in accruals and deferred Income. Creditors are also financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest rate method. For short term creditors (due within one year), no discounting is applied.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

### ***Investment return***

Investment return comprises all investment income (which includes the interest income for financial assets carried at amortised cost, using the effective interest method), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable on financial liabilities carried at amortised cost, using the effective interest method.

Dividends are recognised when the investments to which they relate are declared 'ex-dividend' and include the imputed tax. Interest income is recognised on a time proportionate basis taking into account effective interest method.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair

value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account.

#### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

#### *1.4.3 Foreign currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the operating branch operates:

- The US Dollar is the functional currency and presentational currency of the Company; and
- The Company also operates through a number of discrete overseas branches in Europe, Australia, Singapore and Canada that have separate functional currencies.

Transactions in foreign currencies are translated to the functional currency of the operating segment at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies at the balance sheet date are retranslated to the functional currency of the operating segment at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the non-technical profit and loss account.

#### *Foreign operations*

The results and financial position of the overseas branches are translated from functional currency into the presentational currency of US Dollars as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date;
- Income and expenses are translated at the average rate of exchange during the year; and

All resulting exchange differences are recognised in other comprehensive income and accumulated in equity.

#### *1.4.4 Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the Income Statement at rates calculated to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- |  |   |
|--|---|
| • Furniture, fittings and office equipment | 25% per annum                                 |
| • Hardware and Software <sup>(1)</sup>     | 33.3% per annum                               |
| • Underwriting Platform, Subscribe         | 20% per annum                                 |
| • Leasehold improvement                    | Lesser of 15 years or remaining life of lease |

<sup>(1)</sup> Depreciation for software commences on the date that the software is brought into use.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### *1.4.5 Employee benefits*

##### *Defined contribution plans and other long term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement in the periods during which services are rendered by employees.

#### *Share-based payment transactions*

Directors and certain senior personnel (mainly employed by fellow subsidiary AIUKS) receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity related instruments in Aspen Insurance Holdings Limited ("AIHL"), the Company's ultimate parent company.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense (calculated using the Black-Scholes option pricing model methodology) over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are met. When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the Income Statement for the award is expensed immediately.

Share based payments are recognised as an expense in the financial statements of AIHL, with a corresponding increase to reserves for share related awards accounted for as equity settled. AIHL recharges the share option at 100% of the fair value at the date of grant, when the Company settles the obligation with AIHL. Direct taxes on all share related awards are recognised in the balance sheet, as an accrual, at the expected future tax rate payable by the Company.

#### **1.4.6 Operating leases**

Payments (excluding costs for services and insurance) made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease on a straight line basis.

#### **1.4.7 Dividends**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholder. Interim dividends are deducted from equity when they are paid.

#### **1.4.8 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in branch to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### **1.5 Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

## 2. Risk and Capital Management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are insurance risk, market risk (including interest rate risk and currency risk) credit risk, and liquidity risk.

### *(a) Risk Governance and Risk Management Strategy*

The Board of Directors of the Company ("the Board") considers effective identification, measurement, monitoring, management and reporting of the risks facing our business to be key elements of its responsibilities. The Board ensures that the company operates an effective risk management and control framework which includes risk management, compliance and internal control systems. The Board uses a Risk sub-committee to support the oversight of the Company's risk management processes.

The Company, as an operating entity within the Aspen Group, benefits from the Group's established risk management practices. The Group's risk management policies are established to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Further details on the Group wide risk management strategy can be found in the consolidated financial statements of AIHL which are available to the public.

### *(b) Capital Management Objective, Policies and Approach*

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholder and policyholders, meets regulatory capital requirements and supports the Company's aim of maintaining a single 'A' rating.

As part of its risk appetite AIUK defines the amount of capital required to meet its internal risk appetite, regulatory and rating agency requirements and commercial constraints.

The Risk Appetite Statement is approved by the AIUK Board. It articulates the Risk Appetite in terms of the following components:

- Risk Preferences: a high level description of the types of risks Aspen prefer to assume and avoid within the context of its objectives.
- Capital Constraint: a minimum level of risk adjusted capital.
- Volatility: a measure of the likelihood of a reduction in capital from its current level to below the rating agency requirement.

The company met its capital requirements on all three bases throughout 2016.

### *(c) Insurance Risk*

Insurance risk is defined as the risk that underwriting results vary from their expected amounts, including the risk that reserves established in respect of prior periods are understated.

Insurance risk includes the following:

- (a) Underwriting risk: The variation of accident year technical result from its expected value. Underwriting risk can be further split into sub-categories including:
  - Catastrophe accumulation risk: The risk that losses from natural catastrophes exceed expected levels.
  - Pricing calibration risk: The risk that actual technical results differ from expected values as a result of invalid assumptions, methodology or parameters used in the pricing process.
  - Large claims risk: The risk that losses from a single man-made event, or group of related events, exceed the expected levels.
  - Attritional risk: The risk that the total of all losses other than catastrophe and large losses exceeds the expected level.
  - Reinsurance mitigation risk: The risk that gross losses are not reduced by reinsurance recoveries to the extent expected.
- (b) Reserving risk: The variation in policyholder reserves for prior accident years.

#### *Processes for addressing and monitoring risk*

AIUK model their exposure to underwriting and reserving risks using the Internal Model to measure the associated capital requirements on both the Solvency II SCR regulatory basis and an internal basis. The internal basis uses a US GAAP balance



sheet and measures the capital required to write one year's business to ultimate using a TVaR99 (Tail Value at Risk the mean of the worst 1% of simulations) metric. Modelling of insurance risk exposure is the key process for monitoring and managing insurance risk.

The Reserving policy and Aspen Group Underwriting Risk Policy evidence how Aspen manages the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.

The Underwriting Risk Policy requires and defines the use of Aspen Underwriting Principles ("AUPs") for each underwriting team, and similarly the Group Pricing Standard establishes the requirements that must be addressed by the Pricing Policy Document ("PPD") for each portfolio. AUPs set out a series of key principles translated into specific guidelines, requirements, processes and management controls, the compliance of which is mandatory for all Underwriters. The PPDs set out a series of standards and principles to apply to all business underwritten.

The Group Claims risk policy sets out the core risk management requirements for the Claims process. The UK Platform Claims Procedures apply to claims handling in respect of AIUK claims. It covers the full claims cycle and is supported by a range of detailed procedures. It includes specific considerations in respect of the handling of AIUK claims.

The Reinsurance Mitigation Policy defines Aspen's approach to managing the risk that gross losses are not reduced by reinsurance recoveries to the extent expected. The Insurance Accumulation Risk policy defines Aspen's approach to management of material risk concentrations by categorising those risks, setting tolerances and limit, measuring, monitoring, reporting and escalating Natural Catastrophe and Non Natural catastrophe accumulations.

The Key Risk limits are monitored and reported in the UK CRO report to the AIUK Risk Committee.

#### *Material Risk Concentrations*

AIUK has limited its exposure to material risk concentrations by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposures so they are managed within key risk limits.

The material risk concentrations managed via Key Risk limits include natural catastrophe risks (such as hurricanes, earthquakes and flood damage) and man made catastrophic events (such as acts of war, acts of terrorism and losses resulting from political instability).

The effectiveness of these risk mitigation techniques is performed through continual monitoring of the underlying risk profile and escalation of deviations from plan.

#### *Sensitivity of insurance risk*

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being written and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR).

A 5% increase or decrease in total claims liabilities would have the following effect on profit or loss:

Year ended 31 December (\$ in thousands)	2016		2015	
	5% Increase	5% Decrease	5% Increase	5% Decrease
Total	(64,582)	64,582	(70,013)	70,013

#### *Claims development table*

Reserves are required owing to the time between the occurrences, reporting and eventual settlement of a loss, which, for some lines of business, can be several years. Since reserves are an estimate of the likely outcome of these future events, they are subject to a degree of volatility. That is, the actual emergence of ultimate losses can be expected to differ, perhaps materially, from any estimate of such losses. The users should be aware that loss payment and loss reporting patterns are not the only considerations in establishing loss reserves.

In setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. The following tables show an analysis of incurred claims and allocated loss adjustment expenses and net of reinsurance as at 31 December 2016, 2015, 2014, 2013, 2012 and 2011. The loss development triangles are derived from all business written by the Company, as although a limited number of contracts are written which have durations of greater than one year the contracts do not meet the definition of a long duration contract.

The Company has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016-2021. Therefore six years of information are shown in these financial statements.

Gross insurance contract claims incurred as at 31 December 2016:

Accident year	Before 2011 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000
Estimate of cumulative claims incurred							
At end of accident year		1,085,054	806,232	851,646	784,453	883,234	884,327
One year later		1,214,041	912,675	849,546	803,889	834,355	
Two years later		1,094,657	940,180	845,576	798,504		
Three years later		1,080,749	941,638	818,427			
Four years later		1,054,893	958,310				
Five years later		1,050,448					
Current estimate of cumulative claims incurred	7,257,227	1,050,448	958,310	818,427	798,504	834,355	884,327

Net insurance contract claims incurred as at 31 December 2016:

Accident year	Before 2011 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000
Estimate of cumulative claims incurred							
At end of accident year		443,366	326,041	334,712	350,319	374,438	306,468
One year later		515,911	379,276	377,074	344,635	307,291	
Two years later		477,693	416,837	365,842	305,715		
Three years later		475,794	412,746	367,259			
Four years later		463,165	424,316				
Five years later		471,057					
Current estimate of cumulative claims incurred	3,368,555	471,057	424,316	367,259	305,715	307,291	306,468

#### (d) Market Risk

Market risk is defined as the risk of variation in the income generated by and the fair value of, AIUK's investment portfolio, cash and cash equivalents and derivative contracts including the effect of changes in foreign currency exchange rates.

Market risk includes the following:

- (i) Currency risk: The risk of adverse variation in the US dollar value of net assets in foreign currencies as a result of currency rate movements.
- (ii) Fixed income security risk: The risk of variation in the market value of fixed income securities or their derivatives. Fixed income security risk can be further split into sub-categories including:

*Interest rate risk:* The risk of variation in the market value of fixed income securities as a result of changes in prevailing interest rates. We classify reinvestment risk as the risk of lower yields on the reinvestment of the proceeds from coupons payments, maturities and prepayments, which is a sub-category of interest rate risk.

*Spread risk (including default risk):* The yield of a non-government fixed income security can be divided into two parts:

- 1) The 'risk free' rate, being the yield of the treasury security issued by the country in which the issuer operates which is closest to it in maturity; and
- 2) The 'spread' of the yield over the risk free rate (= total yield - risk free rate).

The spread is normally positive because it represents the extra consideration required by the market to compensate for the greater risk (compared to the Government issuer) of default on interest or redemption. The spread may also be influenced by the actual or perceived liquidity or marketability of the security.

The spread of a bond also adjusts over time to reflect the spread required on similar new issues. This movement up or down in spread therefore also contributes to overall market risk and AIUK calls this 'spread risk'. AIUK also includes within spread risk the risk that a security falls in value as a result of being downgraded by a rating agency as this will also cause the spread to increase. The risk of actual default on interest or redemption as a special case of spread risk is also included. This default risk is actually a type of credit risk but it is convenient to deal with it here under market risk because of the way it is modelled in the Internal Model as an extreme case of downgrade risk.

Spread risk is managed by limiting the overall credit quality of the investment portfolio and the concentrations of investments with specific issuers of investments. This risk is mitigated by limiting exposure to any single counterparty

- (iii) Equity risk: AIUK defines Equity risk as the risk of adverse movements in the market price of investments (or their derivatives) other than fixed income securities. Unlike Fixed Income Securities the value of equities is not directly linked to interest rates and spreads, there are many factors that affect the value of investments.
- (iv) Market risk mitigation risk: The risk of variation in the value or effectiveness of hedging positions.
- (v) Asset concentration risk: The aggregate value of AIUK's investment portfolio may be at greater risk if it is over exposed to the same asset or a group of similar assets with similar risk dynamics.

Concentrations which AIUK seek to manage for this reason include types of asset (e.g. mortgage backed securities), economic sector of issuer and securities of the same issuer.

#### *Processes for addressing and monitoring risk*

As with Insurance risk, Aspen model exposure to market risk using the Internal Model to measure the associated capital requirements on both an internal basis and the Solvency II SCR regulatory basis. Modelling market risk exposures is a key process for monitoring and managing market risk.

The Investment Risk Policy and Guidelines describes the investment strategy in the context of the annual business plan, asset allocation, and concentration limits at group and AIUK levels.

The Investment Risk Policy and Guidelines describes the measurement of market risks, and specifically describes what is permissible with regards to the use of derivatives in order to manage currency positions, portfolio duration and to hedge interest rate risk in the investment portfolio.

Use of derivatives is limited to interest rate swaps, forward rate transactions, bond options, interest rate futures, foreign exchange spot and forward transactions and currency options. As at 31 December 2016 AIUK has only entered into foreign exchange forward transactions. AIUK has no off balance sheet exposures.

The Asset and Liability Management Policy defines Aspen's approach to duration and currency matching. Management monitors the value, currency and duration of cash and investments held by AIUK to ensure that it is able to meet the insurance

and other liabilities as they become due. The following components of both cash matching and duration matching are employed to manage the investment portfolio:

- the average duration of liabilities;
- the outlook for interest rates and the yield curve;
- the need for cash to pay claims; and
- total return.

#### *Material Risk Concentrations*

As with Insurance Risks as well as modelling exposures and the capital required to address potential market risks using the Internal Model AIUK has also limited its exposure to material risk concentrations through the use of Key Risk Limits.

These material risk concentrations include foreign currency risk, interest rate risk and equity risk.

Key Risk limits regarding the shape (in terms of asset type concentrations), overall credit rating and the volatility of AIUK's investment portfolio have been defined by management and approved by the Board. The AIUK Investment Guidelines are reviewed and approved annually by the AIUK Board and define additional limits for AIUK.

In order that AIUK can manage the currency risk mismatch risk limits within the regulatory parameters required, a Key Risk Limit approved by the Board limits the mismatch between assets and liabilities where there are material positions in currencies other than the functional currency of AIUK i.e. US Dollars.

The effectiveness of risk mitigation techniques is performed through continual monitoring of the underlying risk profile and escalation of any deviations from plan.

#### *Sensitivity analysis*

##### *Foreign currency risk*

At 31st December 2016, if the U.S. Dollar had weakened / strengthened by 10% with all other variables held constant, profit for the year would have been \$0.6m (2015: \$0.5m) higher / lower, mainly as a result of foreign exchange gains / losses on the translation of non U.S. Dollar denominated financial assets, and foreign exchange losses / gains on translation of non U.S. Dollar denominated insurance liabilities.

##### *Interest rate risk*

The table below depicts interest rate change scenarios and the effect on profit or loss from AIUK's interest rate sensitive invested assets:

<b>Year ended 31st December 2016</b>				
Movement in basis points	-100	-50	+50	+100
Fixed income portfolio effect - gain/(loss) (\$m)	69.8	36.3	(38.9)	(77.2)

On a Solvency II basis the impact of interest rates on the value of the investment portfolio will be offset, to a material but not complete extent, by the impact on the valuation of the future liabilities within the technical provisions, which are discounted on a Solvency II basis.

##### *Spread risk*

As part of spread risk AIUK include the risk that a security falls in value as a result of being downgraded by a rating agency as this will also cause the spread to increase. AIUK includes the risk of actual default on interest or redemption as a special case of spread risk. Whilst this default risk is actually a type of credit risk it is convenient to deal with it within market risk because of the way AIUK model it in the Internal Model as an extreme case of downgrade risk.

### *Equity risk*

The total value of AIUK's equities as at 31 December 2016 was \$125.3m. Therefore a 10% shock would reduce the value of AIUK's assets by \$12.5m.

### *(e) Credit risk*

Credit risk is the risk of loss to AIUK if the counterparty to a financial instrument or reinsurance agreement fails to meet its contractual obligations. As already stated within the Internal Model and management process, AIUK treats credit risk relating to fixed income security investments as part of Market risk. AIUK is exposed to credit risk through its investment holdings (cash, debt securities and other fixed income securities).

### *Counterparty default risk*

AIUK is also exposed to credit risk through the diminution in the value of insurance receivables as a result of counterparty default. This principally comprises default and concentration risks relating to amounts receivable from intermediaries, policyholders and reinsurers. Reinsurance and retrocession does not isolate AIUK from its obligations to policyholders. In the event that a reinsurer or retrocessionaire fails to meet its obligation, AIUK's obligations remain.

### *Processes for addressing and monitoring risk*

As with Insurance risk, AIUK model exposure to credit risks using the Internal Model to measure the associated capital requirements on both an internal basis and the Solvency II SCR regulatory basis. Modelling of credit risk exposures is the key process for monitoring and managing credit risk.

The processes for addressing credit risk in relation to financial instruments has already been dealt with as part of the explanation of the processes to address market risk. The Group Insurance Credit Risk policy defines the processes for assessing, monitoring and managing credit exposure to intermediaries, policyholders and reinsurance counterparties.

### *Material Risk Concentrations*

AIUK limits its exposure to material risk concentrations through the use of Key Risk Limits. AIUK is potentially exposed to concentrations of credit risk in respect of amounts recoverable from reinsurers, and insurance and reinsurance balances owed by the brokers with whom it transacts business. AIUK manages the levels of credit risk by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. AIUK has risk limits for the amount of exposure to both third party and intragroup related reinsurers and any breaches of those limits are reported to the AIUK Risk Committee and Board.

The effectiveness of these risk mitigation techniques is performed through continual monitoring of the underlying risk profile.

The following tables show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the balance sheet, with analysis by credit ratings of the counterparties issued by Standard and Poor's. AAA is the highest possible rating. Debtors are included in the table below (within 'other' in the second table).

The concentration of credit risk is substantially unchanged compared to the prior year. No credit limits were exceeded during the period. The financial assets below are neither past due nor impaired at the end of the reporting period.

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Reinsurers' share of claims outstanding	2,049,000	1,917,757
Debtors arising out of direct insurance operations - intermediaries	128,147	118,077
Debtors arising out of reinsurance operations	679,215	598,235
Cash at bank and in hand	70,569	116,107
Deposits with ceding undertakings	13,832	10,258
<i>Other financial investments</i>		
Debt securities and other fixed income securities	2,163,932	2,272,025
Short term investments	348,431	290,198
Derivative financial assets	4,298	8,771
Loans and receivables	96,635	138,260
<b>Total assets bearing credit risk</b>	<b>5,554,059</b>	<b>5,469,688</b>
AAA	420,887	385,052
AA	1,313,333	1,374,064
A	575,771	567,779
BBB	52,118	86,983
Below BBB or non-rated	24,343	38,804
Other	3,167,607	3,017,006
<b>Total assets bearing credit risk</b>	<b>5,554,059</b>	<b>5,469,688</b>

#### *Collateral*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

At 31 December 2016, the fair value of such collateral held was \$285.0m (2015: \$266.0m). No collateral received from the counterparty has been sold or repledged (2015: Nil).

#### *(f) Liquidity risk*

Liquidity risk is defined as the risk of failing to maintain sufficient liquid financial resources to meet liabilities as they fall due or to provide collateral as required for commercial or regulatory purposes.

Liquidity risk includes the following:

- i) Payment default risk: The risk that there is insufficient cash to make payments when due and that no additional cash can be made available by borrowing, sale of assets or capital raising.
- ii) Risk of unplanned asset realisation losses: The risk that securities are required to be sold at a loss to meet liquidity requirements.
- iii) Risk of failure of credit facility: The risk that advances from the credit facility are unavailable.
- iv) Group liquidity risk: The risk that liquidity cannot be secured for a Group company from elsewhere in the Group.
- v) Collateral risk: The risk that AIUK is unable to provide collateral to a third party when contractually required to do so.

### *Processes for addressing and monitoring risk*

Unlike Insurance, Market and Credit Risk AIUK do not model and manage liquidity risk using its Internal Model. This is because it is not a risk that is mitigated by holding capital against it.

AIUK's annual Stress & Scenario Testing ("SST") process is used to determine the basis of the Key Liquidity risk limit. The Liquidity Risk policy provides further details of how Liquidity risks are identified, monitored, managed and modelled. This includes details of an escalation process for a breach of the minimum free funds limit.

### *Material Risk Concentrations*

AIUK limits its exposure to material risk concentrations through the operation of the Liquidity Risk Policy. This highlights the measures that Aspen have put in place in order to maintain an agreed amount of unencumbered assets in cash and cash equivalents. These measures include concentration limits to ensure the liquidity of assets, appropriateness of the marketability or realisability of assets and a liquidity contingency funding plan.

Liquidity stress testing is carried out against AIUK's & the Group's risk profiles at least annually by the Risk Management & Analytics ("RM&A") department as part of the Stress and Scenario Testing programme. This allows management to identify the potential strains on AIUK's liquidity as a result of the scenarios assessed as well as gaining understanding of the Group's ability to support the liquidity needs of entities such as AIUK as the need arises. Cash-flow forecasting is also used to reduce liquidity risk.

The effectiveness of these risk mitigation techniques is performed through continual monitoring of the underlying risk profile.

The table below analyses the Company's liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates:

31 December 2016	Up to 1 year	1-3 years	3-5 years	Over 5 years	Total
	(\$ in thousands)				
Outstanding claims liabilities	1,509,227	1,090,194	183,422	559,162	3,342,005
Provision for unearned premiums	476,090	144,419	54,036	60,172	734,717
Creditors arising out of reinsurance operations	787,215	—	—	—	787,215
Other creditors including taxation and social security	99,200	—	—	—	99,200
Accruals and deferred income	88,173	—	—	—	88,173
<b>Total</b>	<b>2,959,905</b>	<b>1,234,613</b>	<b>237,458</b>	<b>619,334</b>	<b>5,051,310</b>
31 December 2015	Up to 1 year	1-3 years	3-5 years	Over 5 years	Total
	(\$ in thousands)				
Outstanding claims liabilities	1,499,008	1,082,812	182,180	555,377	3,319,377
Provision for unearned premiums	457,071	138,650	51,878	57,766	705,365
Creditors arising out of reinsurance operations	636,456	—	—	—	636,456
Other creditors including taxation and social security	101,778	—	—	—	101,778
Accruals and deferred income	92,730	—	—	—	92,730
<b>Total</b>	<b>2,787,043</b>	<b>1,221,462</b>	<b>234,058</b>	<b>613,143</b>	<b>4,855,706</b>

### 3. Segmental Information

For the Year Ended 31 December 2016						
	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Underwriting Result
	(\$ in thousands)					
<b>Direct insurance:</b>						
Fire and other damage to property	151,692	144,429	(93,859)	(40,496)	(7,021)	3,053
Third party liability	148,894	177,906	(116,886)	(70,787)	(10,819)	(20,586)
Marine, aviation and transport	98,015	93,307	(60,255)	(24,597)	(1,118)	7,337
Credit and suretyship	57,098	62,816	(17,662)	(24,372)	(15,069)	5,713
	<u>455,699</u>	<u>478,458</u>	<u>(288,662)</u>	<u>(160,252)</u>	<u>(34,027)</u>	<u>(4,483)</u>
<b>Reinsurance acceptances:</b>						
Credit and suretyship	151,030	106,759	(72,435)	(51,566)	(327)	(17,569)
Fire and other damage to property	462,229	461,508	(223,912)	(168,894)	(60,999)	7,703
Miscellaneous	1,137	2,625	(3,158)	(9,738)	506	(9,765)
Marine, aviation and transport	69,093	66,563	(31,268)	(17,345)	(9,750)	8,200
Motor (third-party liability)	37,535	33,315	(19,666)	(5,911)	(836)	6,902
Third party liability	292,676	289,375	(190,378)	(112,783)	(923)	(14,709)
	<u>1,013,700</u>	<u>960,145</u>	<u>(540,817)</u>	<u>(366,237)</u>	<u>(72,329)</u>	<u>(19,238)</u>
	<u>1,469,399</u>	<u>1,438,603</u>	<u>(829,479)</u>	<u>(526,489)</u>	<u>(106,356)</u>	<u>(23,721)</u>
For the Year Ended 31 December 2015						
	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Underwriting Result
	(\$ in thousands)					
<b>Direct insurance:</b>						
Fire and other damage to property	133,806	131,846	(101,451)	(37,103)	4,726	(1,982)
Third party liability	156,974	156,886	(41,418)	(55,195)	(48,048)	12,225
Marine, aviation and transport	105,235	127,155	(82,218)	(24,864)	(20,810)	(737)
Credit and suretyship	50,269	51,937	(2,527)	(18,231)	(28,307)	2,872
	<u>446,284</u>	<u>467,824</u>	<u>(227,614)</u>	<u>(135,393)</u>	<u>(92,439)</u>	<u>12,378</u>
<b>Reinsurance acceptances:</b>						
Credit and suretyship	150,251	104,239	(58,182)	(50,156)	(7,552)	(11,651)
Fire and other damage to property	541,205	518,411	(212,931)	(182,811)	(80,256)	42,413
Miscellaneous	11,663	6,581	(482)	(1,605)	(1,941)	2,553
Marine, aviation and transport	74,116	69,736	(31,050)	(15,077)	(11,122)	12,487
Motor (third-party liability)	29,103	27,385	(14,028)	(7,028)	(1,304)	5,025
Third party liability	270,795	267,010	(158,219)	(106,473)	(16,725)	(14,407)
	<u>1,077,133</u>	<u>993,362</u>	<u>(474,892)</u>	<u>(363,150)</u>	<u>(118,900)</u>	<u>36,420</u>
	<u>1,523,417</u>	<u>1,461,186</u>	<u>(702,506)</u>	<u>(498,543)</u>	<u>(211,339)</u>	<u>48,798</u>

The underwriting result represents the balance on the technical account before investment income and equalisation provision. The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation as noted in Note 6.

The above analysis does not reflect the way in which the business is managed. For example, ceding commission is applied consistently across each line of business above, however this does not reflect the known differences in acquisition costs between lines of business.



### *Geographical analysis*

The following is a breakdown by geography of the gross written premium, which is written through the London Market, regional offices and branches:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
United Kingdom	715,319	736,495
USA	389,898	394,274
Switzerland	202,711	208,557
Republic of Ireland	42,165	75,693
Canada	20,143	16,759
Australia	38,153	32,798
Singapore	49,201	53,855
United Arab Emirates	7,220	—
France	2,521	2,938
Germany	2,068	2,048
	<b>1,469,399</b>	<b>1,523,417</b>

#### **4. Net Claims Incurred**

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Current year claims movement	(367,149)	(343,589)
Prior years' claims movement	77,700	77,172
	<b>(289,449)</b>	<b>(266,417)</b>

#### **5. Other Charges**

Other charges of \$25,498,000 (2015: \$28,908,000) consist of foreign exchange gains and losses on monetary assets and liabilities.

#### **6. Net Operating Expenses**

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Acquisition costs	364,916	382,386
Change in net deferred acquisition costs	10,060	(30,671)
	374,976	351,715
Administrative expenses	151,513	146,828
Gross operating expenses	526,489	498,543
Reinsurance commission and profit participation	(269,350)	(266,595)
	<b>257,139</b>	<b>231,948</b>

Commissions in respect of direct insurance business amounted to \$75,868,000 (2015: \$65,976,000).

## 7. Investment Return

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Income from other financial investments	49,932	53,053
Net gains on realisation of investments:		
Fair value through profit or loss designated upon initial recognition	2,159	13,833
Total investment income	52,091	66,886
Net unrealised losses on investments:		
Financial instruments at fair value through profit or loss	(14,841)	(22,239)
Investment expenses and charges	(1,492)	(1,128)
Total investment return	35,758	43,519

## 8. Profit and Loss Account

Profit on ordinary activities before tax is stated after charging:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Depreciation of tangible fixed assets (Note 12)	14,589	10,601
Share based payments made to directors and employees (Note 24)	13,393	16,025
Auditor's remuneration		
Audit of these financial statements	509	364
Amounts receivable by the auditors and their associates in respect of:		
Other services pursuant to such legislation	385	225
Other assurance services	99	143
Tax compliance services	12	12
Other services	14	—

## 9. Directors' Emoluments

The aggregate emoluments of the directors were as follows:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Aggregate emoluments	3,491	7,077
Aggregate contributions to pension schemes	52	213
	3,543	7,290

No (2015: 3) directors exercised share options in respect of qualifying services under long term incentive schemes.

Nil (2015: nil) advances or credits granted to any director subsisted during the year. Also, no (2015: no) guarantees on behalf of any director subsisted during the year.

## Highest Paid Director

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Aggregate emoluments and benefits	1,042	2,723
Aggregate contributions to pension scheme	14	66

In respect of the highest paid director share options in respect of qualifying services under long term incentive schemes were received in the year and shares were receivable in respect of qualifying services under long term incentive schemes.

## 10a. Taxation

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
<i>U.K. corporation tax</i>		
Current tax charge on result for the year	(4,828)	(18,805)
Adjustments in respect of prior periods	13,782	579
Total current tax credit/(charge)	<u>8,954</u>	<u>(18,226)</u>
<i>Deferred tax</i>		
Origination / reversal of timing differences	(21,327)	3,682
Adjustments in respect of prior periods	(15,544)	(1,137)
Impact of rate change	1,449	(886)
Total deferred tax credit	<u>(35,422)</u>	<u>1,659</u>
Tax charge on profit on ordinary activities	<u>(26,468)</u>	<u>(16,567)</u>

The current tax prior period credit of \$13.8m should be viewed in conjunction with the deferred taxation prior period charge of \$15.5m as the two adjustments are related. The net prior period adjustment of \$1.8m predominately relates to the eligibility of fixed assets per capital allowances.

The tax charge (2015: charge) for the period is lower (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below.

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
<i>Tax reconciliation</i>		
Profit on ordinary activities before tax	136,920	76,055
Current tax charge at 20% (2015: 20.25%)	(27,384)	(15,401)
<i>Effects of:</i>		
Non-taxable dividends receivable	869	812
Non-deductible expenses	—	(115)
Restricted double tax relief	198	(648)
Foreign exchange	1,551	127
Impact of rate change	1,449	(887)
Interest on tax position	(1,284)	—
Adjustments in respect of prior periods	(1,762)	(558)
Depreciation in excess of capital allowances	(105)	103
Total tax charge (see above)	<b>(26,468)</b>	<b>(16,567)</b>

Further reductions of the UK corporate tax rate to 19% from April 1, 2017 and 17% from April 1, 2020 were enacted on November 18, 2015 and September 15, 2016 respectively. These reductions have been reflected in measuring deferred taxes.

#### 10b. Deferred Taxation

The deferred tax (liability)/asset recognised in the financial statements is as follows:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Temporary differences related to fixed assets	6,573	7,715
Temporary differences related to foreign tax	1,565	10,505
Temporary differences related to overseas branches	2,470	4,675
Temporary differences related to FRS 102 transitional adjustments	(577)	(677)
Temporary differences related to release of the claims equalisation provision	(22,996)	—
	<b>(12,965)</b>	<b>22,218</b>

Deferred tax on the release of the claims equalisation provision arises owing to transitional rules under the Finance Act 2012, which allow the release to be brought into tax over a six year period, commencing from 2016.

#### 11. Currency Translation

The currency translation gain of \$3,872,000 (2015: \$37,662,000 loss) represents unrealised gains (2015: losses) arising from the translation into U.S. Dollars of the Company's branch operations. The functional currencies of the Company's branches are Euros, Australian Dollars, Singaporean Dollars and Canadian Dollars. Assets and liabilities of foreign operations are translated into U.S. Dollars at the exchange rate prevailing at the balance sheet date. The exchange differences arising from this translation are included in the Statement of Comprehensive Income.

## 12. Tangible Assets

Details of tangible asset net book values as at the balance sheet date by major category are given below:

	Office and Other Equipment	Leasehold Improvements	Hardware and Software	Total Assets
	(\$ in thousands)			
<b>Cost</b>				
At 1 January 2016	5,707	17,791	129,993	153,491
Additions	39	1,350	26,491	27,880
Disposals	—	—	(40)	(40)
At 31 December 2016	5,746	19,141	156,444	181,331
<b>Depreciation</b>				
At 1 January 2016	3,690	11,500	78,785	93,975
Charge for the year	56	1,587	12,946	14,589
Disposals	—	—	(31)	(31)
At 31 December 2016	3,746	13,087	91,700	108,533
<b>Net Book Value</b>				
At 31 December 2015	2,017	6,291	51,208	59,516
At 31 December 2016	2,323	6,029	64,446	72,798

### 13. Other Financial Assets and Liabilities

	For the Year Ended 31 December 2016		For the Year Ended 31 December 2015	
	Cost	Market Value	Cost	Market Value
	(\$ in thousands)		(\$ in thousands)	
<b>Financial Assets at fair value</b>				
Derivative assets held at fair value through profit and loss	—	4,298	—	8,771
Debt securities and other fixed income securities	2,283,960	2,163,932	2,248,396	2,272,025
Equity Investments	122,963	125,292	120,800	118,174
Short term investments	351,382	348,431	290,212	290,198
<i>Financial assets at fair value through profit and loss</i>	<b>2,758,305</b>	<b>2,641,953</b>	<b>2,659,408</b>	<b>2,689,168</b>

#### Listed Investments

Included in the carrying values above are amounts in respect of listed investments as follows:

	For the Year Ended 31 December 2016		For the Year Ended 31 December 2015	
	Cost	Market Value	Cost	Market Value
	(\$ in thousands)		(\$ in thousands)	
<b>Financial Assets at fair value</b>				
Debt securities and other fixed income securities	2,226,081	2,105,835	2,138,679	2,219,460
Short term investments	138,635	135,683	157,973	121,979
<i>Total financial assets</i>	<b>2,364,716</b>	<b>2,241,518</b>	<b>2,296,652</b>	<b>2,341,439</b>

There was no material change in fair value for financial instruments held at fair value (other than derivatives) attributable to own credit risk in the current or comparative period.

#### Derivative financial instruments, at fair value through profit or loss

The Company uses limited forward foreign currency contracts to mitigate some adverse movements associated with changes in foreign exchange rates in respect of changes in the foreign currency rate from the collection of premiums to the payment of claims by fixing the rate of any material payments in a foreign currency.

	For the Year Ended 31 December	
	2016	2015
	Fair Value Asset	
	(\$ in thousands)	
Total financial assets	4,298	8,771
Total financial liabilities	15,433	2,703

#### Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1	Quoted market prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's assets and liabilities measured at fair value at 31 December 2016 and 31 December 2015:

For the Year Ended 31 December 2016				
	Level 1	Level 2	Level 3	Total
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
<b>Financial Assets at fair value</b>				
Debt securities and other fixed income	945,264	1,218,668	—	2,163,932
Short term investments	346,788	1,643	—	348,431
Equity Investments	125,292	—	—	125,292
Derivatives	—	4,298	—	4,298
	<b>1,417,344</b>	<b>1,224,609</b>	<b>—</b>	<b>2,641,953</b>
<b>Financial Liabilities at fair value</b>				
Derivatives	—	(15,433)	—	(15,433)
	<b>1,417,344</b>	<b>1,209,176</b>	<b>—</b>	<b>2,626,520</b>
For the Year Ended 31 December 2015				
	Level 1	Level 2	Level 3	Total
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
<b>Financial Assets at fair value</b>				
Debt securities and other fixed income	970,454	1,301,571	—	2,272,025
Short term investments	285,598	4,600	—	290,198
Equity Investments	118,174	—	—	118,174
Derivatives	—	8,771	—	8,771
	<b>1,374,226</b>	<b>1,314,942</b>	<b>—</b>	<b>2,689,168</b>
<b>Financial liabilities at fair value</b>				
Derivatives	—	(2,703)	—	(2,703)
	<b>1,374,226</b>	<b>1,312,239</b>	<b>—</b>	<b>2,686,465</b>

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in the accounting policy. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily listed debt securities.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Company has no level 3 instruments (2015: none).

**14. Other Debtors**

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Prepaid expenses	2,802	629
Sundry debtors	1,017	364
Amounts due from ultimate parent	—	12,759
Amounts due from fellow group undertakings	93,833	137,631
Corporation tax	980	—
Deferred tax asset (Note 10b)	—	22,218
	<b>98,632</b>	<b>173,601</b>

**15. Creditors Arising Out of Reinsurance Operations**

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Underwriting creditors	80,538	52,746
Amounts due to fellow group undertakings	706,677	583,710
	<b>787,215</b>	<b>636,456</b>

**16. Other Creditors Including Taxation and Social Security**

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Derivatives, at fair value through profit or loss	15,433	2,703
Amounts due to fellow group undertakings	53,574	80,228
Amounts due to ultimate parent	2,898	—
Amounts due to intermediate parent	4,444	1,495
Outstanding claims advances	4,690	6,120
Corporation tax	—	10,582
Deferred tax liability (Note 10b)	12,965	—
Other indirect taxes	5,196	650
	<b>99,200</b>	<b>101,778</b>

**17. Contingencies and Other Liabilities**

At 31 December 2016 and 2015 the Company had granted charges over various of its assets in the ordinary course of business in respect of potential future insurance liabilities and as collateral for letters of credit and U.S. and Canadian Trust funds. The charged assets comprised the following categories:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
U.S. Surplus Lines Trust	120,000	119,000
U.S. Reinsurance Trust Fund	955,000	939,000
Australia Branch	100,000	100,000
Canadian Branch	186,000	242,000
Other	285,000	266,000
	<b>1,646,000</b>	<b>1,666,000</b>

The Company had no other contingencies or other liabilities at the reporting date.



## 18. Deferred Acquisition Costs

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
At 1 January	181,766	152,893
Movement in the year (Note 6)	(10,060)	30,671
Exchange adjustments	1,460	(1,798)
At 31 December	<b>173,166</b>	<b>181,766</b>

## 19. Technical Provisions

	Claims Reserves	Unearned Premium Reserves
	(\$ in thousands)	
<b>Gross of reinsurance</b>		
At 1 January 2016	3,319,377	705,365
Movement in the year	101,806	30,796
Exchange adjustments	(79,178)	(1,444)
At 31 December 2016	<b>3,342,005</b>	<b>734,717</b>
<b>Reinsurance</b>		
At 1 January 2016	1,917,757	70,919
Movement in the year	133,167	14,031
Exchange adjustments	(1,924)	(284)
At 31 December 2016	<b>2,049,000</b>	<b>84,666</b>

## 20. Equalisation Provision

The equalisation reserve maintained in respect of general business by the company was previously required in accordance with the rules in section 1.4 of the Prudential Sourcebook for Insurers under Part 10 of the Financial Services and Markets Act 2000. Following the introduction of Solvency II from 1 January 2016 this is no longer required by the regulations and the liability has therefore been derecognised.

The derecognition of the equalisation reserve has resulted in a credit to the general business technical account of \$150,381,000 during the year. In 2015, there was a movement on the equalisation provision of \$12,646,000.

## 21. Commitments

The Company has no capital commitments authorised or contracted for at the year-end.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	For the Year Ended 31 December	
	2016	2015
	(\$ in thousands)	
Within one year	5,437	8,117
Between one and five years	13,920	24,977
After five years	6,251	9,999
	<b>25,608</b>	<b>43,093</b>

The expense in the year for operating leases amounts to \$3,650,000 (2015: \$3,481,000).

## 22. Share Capital

The paid up capital is set out below.

	For the Year Ended 31 December 2016		For the Year Ended 31 December 2015	
	(£ in thousands)	(\$ in thousands)	(£ in thousands)	(\$ in thousands)
Allotted, issued and fully paid up				
410,000,000 (2015: 410,000,000) ordinary shares of £1 each	410,000	614,900	410,000	614,900

## 23. Share Based Payments

AIHL, the Company's ultimate parent, has issued options, performance shares and restricted share units under the 2003 and 2013 Share Incentive Plans. In addition, AIHL approved the 2008 Sharesave Scheme as part of AIHL's Employee Share Purchase Plan.

A list of the schemes in place is detailed below. The Company measures and recognises its share-based payment expenses on a basis of reasonable allocation of the expense recognised for the Group. The expense is calculated by the Group for each individual employee and allocated at pre-assigned rates based on geographical location, which is in line with the allocation of other staff related costs to the Company. Full details of the schemes in place across the Group can be obtained in AIHL's Annual Report on Form 10-K.

- **Employee Share Purchase Plan** (the "ESPP") - consists of the UK Share save Plan which is granted annually under the HMRC approved Save As You Earn share option schemes in the UK and Ireland. It allows AIHL to offer employees of the Group the opportunity to acquire AIHL ordinary shares on preferential terms, and to acquire those shares in the most tax efficient manner. Employees can save up to £500 per month over a three-year period. At maturity employees receive their accumulated savings balance and a tax free bonus which can be used to either elect to purchase AIHL ordinary shares at a discounted price or receive cash equal to the accumulated savings balance and the tax free bonus. The purchase price will be eighty-five percent of the fair market value of a share on the offering date which may be adjusted upon changes in capitalisation of AIHL. An expense is recognised in the financial statements over the service period in respect of the fair value of the outstanding options at the balance sheet date, with a corresponding increase in liabilities. The fair value of the options are calculated using the Black-Scholes option pricing model.
- **Restricted Share Units** - 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. 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. One-twelfth of the restricted share units will vest on each one month anniversary of the date of grant, with 100% of the restricted share units becoming vested and issued on the first anniversary of the grant date, or on the date of departure of a director (for the amount vested through such date). Restricted share units entitle the holder to receive one ordinary share unit for each unit that vests. Holders of restricted share units are not entitled to any of the rights of a holder of ordinary shares, including the right to vote, unless and until their units vest and ordinary shares are issued but they are entitled to receive dividend equivalents with respect to their units. Dividend equivalents will be denominated in cash and paid in cash if and when the underlying units vest.
- **Performance Share Awards** - vest over a three or four-year period with vesting dependent on the achievement of performance targets at the end of specified periods as established at the time of grant. 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.
- **Phantom Shares** - These allow for certain employees to share in the rewards of share ownership without the dilutive effect of actually issuing shares as the payment to beneficiaries will ultimately be in cash rather than shares.

## 24. Related Parties Transactions

On 26 February 2015, the ownership of the Company was transferred from Aspen UK Holdings Limited to Aspen European Holdings Limited whose ultimate parent company is Aspen Insurance Holdings Limited ("AIHL"). As AIHL is incorporated in Bermuda, the Company is exempt from disclosing related party transactions with fellow subsidiaries which are also wholly owned by AIHL.

During the period the Company entered into transactions, in the ordinary course of business, with related parties which are not wholly owned by Aspen Insurance Holdings Limited. Transactions entered into, and balances outstanding at 31 December 2016, are as follows:

**Aspen Risk Management Limited**

The Company assumes premium from Aspen Risk Management Limited net of 15% agent's commission.

As at 31 December 2016 the Company had a balance owed by Aspen Risk Management Limited of \$2,207,000 (2015: \$9,118,000) in respect of net premium.

**25. Ultimate Holding Company**

The ultimate parent company is Aspen Insurance Holdings Limited (AIHL) incorporated in Bermuda.

The largest and smallest group in which the results of the Company are consolidated is that headed by AIHL. The consolidated accounts of this company are available to the public and may be obtained from The Company Secretary, Aspen Insurance Holdings Limited, c/o 30 Fenchurch Street, London, EC3M 3BD.

**26. Subsequent Events**

On 27 February 2017, the Lord Chancellor announced a reduction in the Ogden discount rate applied for personal injury claims from 2.5% to -0.75%. In line with market practice, AIUK has adjusted its reported insurance reserves as at 31 December 2016 for the effect of the change. The impact to AIUK is an \$11,308,000 reduction in profit after tax.

The tangible fixed assets of AIUK were sold to Aspen Insurance UK Services Limited, a fellow group subsidiary, in April 2017. The estimated financial effect of this transaction is an initial pre-tax loss of \$13m.

**27. Capital Contributions**

The Company received capital contributions of \$150m and \$320m from its former immediate holding company, Aspen (UK) Holdings Limited, on 23 March 2006 and 22 March 2011, respectively. The Company was sold to Aspen European Holdings Limited (AEHL) on 26 February 2015 through an internal reorganisation to optimise the Company's regulatory structure. The capital contributions are distributable.