Registered No. 1184193

ASPEN

ASPEN INSURANCE UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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THE COMPANY

Directors

Julian Cusack	Chairman, Non-Executive Director
Michael Cain	Director
Emil Issavi	Director
Mark Dean	Director
Dr. Karl Mayr	Non-Executive Director
Tim Leggett	Non-Executive Director
Peter Webster	Non-Executive Director
Gordon Ireland	Non-Executive Director

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Helen Lipscomb

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STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 December 2018.

Overview

The financial results of Aspen Insurance UK Limited (the "Company" or "AIUK") reflect a challenging year as a result of large catastrophe losses in the second half of 2018 and recognised a total comprehensive loss for the year of $42,811,000 (2017: loss of $86,622,000).

Gross written premiums remained broadly flat in 2018 at $1,475,237,000 (2017: $1,481,346,000) with a slight reduction driven by changes in underwriting appetite and focus based on market conditions and historic performance.

Ceded reinsurance premiums decreased to $983,407,000 (2017: $1,022,819,000) largely as a result of the Company restructuring certain ceded reinsurance arrangements with its affiliates on a majority of its US-based reinsurance business from a quota share to an excess of loss arrangement. This move also resulted in the Company experiencing a reduction in reinsurance recoveries, ceding commissions and an increase in net incurred claims compared to 2017.

Gross incurred claims decreased to $1,052,569,000 (2017: $1,144,842,000) due in part to the impact of exposure management decisions in catastophe exposed reinsurance lines. Reinsurance recoveries decreased to $670,366,000 (2017: $804,747,000) due to the reduced gross losses from catastrophe exposures compared to 2017 and the change in our ceded reinsurance arrangements discussed above. Net losses from catastrophe events totaled $97,200,000 (2017: $235,900,000) including Typhoon Jebi $23,700,000, U.S. Wildfires $14,500,000, Hurricane Florence $12,000,000, Hurricane Michael $8,200,000 and other smaller events totalling $38,800,000.

In 2018, the Company experienced an overall investment loss of $1,900,000 (2017: $88,049,000 gain) comprised of a $62,089,000 investment income (2017: $56,449,000) balancing with $1,954,000 realized investment losses (2017: $4,131,000 gains) and $25,254,000 unrealized investment losses (2017: $2,376,000 gains) and investment expenses of $3,281,000 (2017: $4,069,000). The Company's investment gains principally arose from an increase in the book yield of the Company's fixed income portfolio. The realized and unrealized investment losses were derived primarily by mark to market losses in the Company's fixed income portfolios. Included in the investment loss were realised and unrealised foreign exchange losses from derivate contracts totalling $33,500,000 (2017: $29,162,000 gains).

These foreign exchange losses were offset by the realized foreign exchange gains recognized within other income and expenses of $51,958,000 (2017: $103,208,000 loss) and the unrealized foreign exchange loss recognised in the total comprehensive loss statement of $22,399,000 (2017: $103,208,000 loss), arising from currency translation into U.S. Dollars relating to the Company's branch operations. The total net impact of foreign exchange during 2018, including the impact of foreign exchange derivative contracts, was a loss of $3,941,000 (2017: $37,768,000 loss). The Company uses foreign exchange contracts to manage foreign currency risk. The net foreign exchange loss was largely due to the strengthening of the U.S. Dollar, increases in the U.S. interest rates and the impact of market expectations of future U.S. interest rate rises.

In the first quarter of 2018, the Company took advantage of rising equity markets and sold its remaining equity portfolio and the proceeds from the sales were reinvested in fixed income investments.

The Company met its ratings agency and regulatory capital requirements throughout 2018 and the Company remains strongly capitalised for the future.

As at 31 December 2018, the Company was 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 paid no dividends (2017: Nil) to its parent company.

For 2019, the Company will continue to focus on its chosen markets, seeking a positive return 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 and A (Strong) by Standard & Poor's. An analysis of the technical account by segment for the years ended 31 December 2018 and 2017 is set out below.

	For the Year Ended 31 December 2018		
	Reinsurance	Insurance	Total
		($ in thousands)	
Gross written premiums	1,021,932	453,305	1,475,237
Gross earned premiums	1,060,549	453,967	1,514,516
Net earned premium	484,542	63,596	548,138
Net incurred claims	(335,964)	(46,239)	(382,203)
Expenses	(222,096)	(33,078)	(255,174)
Underwriting (loss)/income before investment income	(73,518)	(15,721)	(89,239)
Investment loss			(1,900)
Balance on technical account			**(91,139)**
Net claims ratio	69%	73%	70%
Expense ratio	46%	52%	47%
Combined ratio	115%	125%	117%

	For the Year Ended 31 December 2017		
	Reinsurance	Insurance	Total
		($ in thousands)	
Gross written premiums	1,038,137	443,209	1,481,346
Gross earned premiums	955,462	435,870	1,391,332
Net earned premium	325,141	83,376	408,517
Net incurred claims	(302,270)	(37,825)	(340,095)
Expenses	(186,681)	(17,267)	(203,948)
Underwriting (loss)/income before investment income	(163,810)	28,284	(135,526)
Investment gain			88,049
Balance on technical account			**(47,477)**
Net claims ratio	93%	45%	83%
Expense ratio	57%	21%	50%
Combined ratio	150%	66%	133%

The above ratios have been calculated using net earned premium.

Reinsurance Segment

The 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 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.

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 reinsurance and insurance, marine, aviation, terrorism, engineering, cyber 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 mortgage reinsurance and insurance and political risks. The Company's agricultural reinsurance business covers 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, engineering, terrorism, nuclear and personal accident.

Insurance Segment

The Company's insurance segment consists of property and casualty, marine and energy 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 commercial property, commercial liability, primary casualty, excess casualty, environmental liability and railroad liability, 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 commercial team's client base is predominantly U.K. institutional property owners, small and middle market corporates and public sector clients.
- Commercial liability provides employers' liability coverage and public liability coverage for insureds domiciled in the U.K. and Ireland. The team also covers directors' and officers' ("D&O") and professional indemnity, predominantly to small and medium corporates.
- Primary casualty consists primarily of lines written within the primary insurance sectors, focusing on insureds in hospitality, real estate, construction and products liability.
- Excess casualty line comprises large, sophisticated and risk-managed insureds worldwide and covers broad-based risks at lead/high excess 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.
- Environmental liability primarily provides both primary and excess coverages for contractors' pollution liability and pollution legal liability across industry segments that have environmental regulatory drivers and contractual requirements including: real estate and public entities, contractors and engineers, energy contractors and environmental contractors and consultants.
- Railroad liability comprises excess liability coverages for freight, commuter and excursion railroads, while also providing general liability covers to the railroad support industry (contracts, repair shops and products manufacturers) as well as contingent liability for railcar fleet owners/managers and railroad protective liability, in the United States.

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, marine hull, specie and aviation written on a primary, excess, quota share, program and facultative basis.

- The marine and energy liability business includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs ("P&I Clubs"). It also provides liability cover globally for companies in the oil and gas sector, both onshore and offshore and in the power generation sector.

- Onshore energy physical damage provides onshore energy and construction sector classes of business with a focus on property covers.
- Offshore energy physical damage (also knowns as Upstream Energy) provides coverage for property damage in addition to operators' extra expenses for companies operating in the oil and gas exploration and production sector.
- Marine Hull insures physical damage to ships (including war and associated perils) and related marine assets. This line of business has been discontinued in 2018 and placed into run-off.
- The specie line of business focuses on the insurance of high value property items on an all risks basis including fine art, general and bank related specie, jewelers' block and cash in transit coverages.
- Aviation writes physical damage insurance on airline hulls, aviation hull deductible covers and comprehensive legal liability for airlines, smaller operators or airline equipment, airports and associated business and non-critical component part manufacturers. This line of business has been discontinued in 2018 and placed into run-off.

Financial and Professional Lines Insurance

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

- The Financial and Corporate risks account comprises financial institutions business written on a primary and excess of loss basis and consists of professional liability, crime insurance and D&O covers for commercial and investment banks, asset managers, insurance companies, stockbrokers and the like. This account includes a book of 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 on both a primary and an excess of loss basis, focusing on risks in the U.K., Europe, Australia and Canada. The Company insures a wide range of professions including lawyers, accountants, architects, engineers, doctors and medical technicians. 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.
- Management Liability insures a diverse group of commercial and financial institutions primarily on an excess basis, with coverages including D&O liability, fiduciary liability, employment practices liability, fidelity insurance and blended liability programs including E&O liability with a focus on risks predominantly headquartered in the U.S. or risks with material U.S. exposure.
- 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.
- The accident and health team focuses on insurance and reinsurance products which help protect individuals, groups and companies from the consequences of accidental death or disability whether resulting from accident or sickness. Cover written includes whole account treaty and facultative reinsurance protection for insurance companies.
- The crisis management team writes insurance designed to protect individuals and corporations operating in high-risk areas around the world, including covering the shipping industry's exposure to acts of piracy. It also writes terrorism and political violence insurance, providing coverage for damage to property (largely fixed assets such as buildings) resulting from acts of terrorism, strikes, riots, civil commotion or political violence, in addition to product recall business.
- The surety team writes commercial surety risks, admiralty bonds and similar maritime undertakings including, but not limited to, federal and public official bonds, license and permits and fiduciary and miscellaneous bonds, focused on Fortune 1000 companies and large, privately owned companies in the United States.
- Technology liability (also known as Cyber insurance) is written globally and provides coverage for technology, media and telecommunications firms offering protection for damages and legal defence expenses associated with financial loss claims from third parties and various forms of intellectual property breaches.

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.	BNP Paribas
Conning Asset Management Limited	DWS Investment Management Americas Inc.
Blackrock Financial Management, Inc	Goldman Sachs Asset Management L.P.
BNY Mellon Asset Servicing	UBS AG
CIBC Mellon	Manufacturers and Traders Trust Company
Citibank	

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 $6,251,123,000 (2017: $6,396,729,000) and shareholder's equity of $844,962,000 (2017: $887,773,000). Of the total assets, $2,437,452,000, 38% (2017: $2,693,263,000 - 45%) was 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:

- The ongoing soft market conditions and its impact on the achievability of both top line and bottom line performance which remains a key focus and remains the main risk to the Company; and
- The uncertainty surrounding the United Kingdom's ("UK") future relationship with the European Union ("EU") is a growing risk.

Underwriting Performance

With the current soft market conditions, management and the Board are focused on monitoring and taking action in relation to underwriting performance to manage this risk, particularly to the bottom line. Portfolio management and risk selection will be key to management of this risk.

UK's Decision to Leave the EU

Significant uncertainty remains surrounding the implementation, timing and effect of Brexit since the triggering of Article 50 of the Lisbon Treaty on 29 March 2017. It is no longer certain that there will be a transitional period following this date although the UK continues to be a full member of the EU with access to the single market and operating under the current passporting regime.

Gross written premiums with a risk attributable to an EU territory, excluding the UK, were $171,084,000 (11.6%) in 2018 made up of $125,168,000 (8.5%) reinsurance business and $45,916,000 (3.1%) insurance business. Therefore, AIUK could potentially lose the insurance business currently written to a EU territory (the Reinsurance interests would be unaffected under World Trade Organization rules by the UK's withdrawal but could be adversely affected by a lack of Solvency II equivalence with the impact that would have on the acceptability of reinsurance security).

From a reinsurance perspective, AIUK considers its ability to write cross-border reinsurance from other EU countries in the event of Brexit will be largely unaffected, however, the Company has already experienced instances of reinsurance clients opting to use other Aspen Group companies to renew business due to uncertainties over:

- Whether the UK will remain Solvency II equivalent post Brexit and whether this impacts the ability for AIUK to write reinsurance business for European Cedants;

- The ability for AIUK to service the European Economic Area ("EEA") business post Brexit which is a material risk to the business.

There have been limited instances where EU reinsurance clients have requested their business to be renewed on other Aspen Group companies including Aspen Bermuda Limited as Bermuda's Solvency II equivalence is unaffected by the outcome of Brexit or the Lloyd's Belgium Subsidiary which can be accessed via the Aspen Group's Lloyd's Syndicate.

AIUK's ability to be able to continue to write EU insurance business is dependent on political agreements as part of the Brexit negotiations. If arrangements for contract continuity are not agreed then AIUK may have to Part VII transfer its historic EU business for which there is ongoing exposure, to an EU entity. Plans to undertake a Part VII transfer have been developed but have not yet been implemented.

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. Contingency plans for the Aspen Group due to Brexit have been drawn up and implementation is in progress.

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

Risk Management approach

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. The Company's Risk Committee provides enhanced 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 its Solvency II Regulatory Capital Requirement ("SCR").

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:

Risk Preferences	a high level description of the types of risks AIUK prefers to assume and avoid within the context of our objectives;
Capital Constraint	a minimum level of risk adjusted capital; and
Volatility Constraint	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. We consider conduct risk as part of operational risk and have specific processes to address it including a conduct risk forum and a specific quarterly conduct risk report to the AIUK Risk Committee.

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.

By order of the Board

Michael Cain
Director
18 April 2019

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 31 December 2018.

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 its branches in France, Switzerland, Ireland, Canada, Singapore, Australia, and Germany. In 2018, as communicated last year, the Company followed through with the closure of its branch in Germany on 31st July 2018 and closure the of its Paris branch continues to be progressed with legal arrangements to be finalised during 2019.

Results and Dividends

The results for the year are set out in the accompanying Income Statement. The loss before tax for the year was $39,181,000 (2017: loss $150,685,000). The Directors regard the current state of affairs of the Company and its future prospects as satisfactory. No dividends (2017: Nil) 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 2018 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
Jonathan Price	October 22, 2018	February 28, 2019
Helen Rose		October 22, 2018

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 affirmation, 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 $402,000 (2017: $435,000). 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 2019 is expected to show a significant improvement in profitability.

Events Since the Reporting Date

On 11 February 2019, AIUK was issued a $100.0 million unsecured letter of credit from National Australia Bank (issued by its parent Aspen European Holdings Limited and guaranteed by AIHL, its ultimate parent). In October 2018, AIUK applied to the Prudential Regulatory Authority ("PRA") for approval of this arrangement to be treated as Tier 2 Ancillary Own Funds and the PRA approved the treatment on 28 January 2019. Historically, AIUK held Tier 1 Capital with a minimal amount of Tier 3 Capital and the introduction of the Ancillary Own Funds brings AIUK into line with its peers in terms of the proportion of Tier 2 Capital on its Balance Sheet.

On 15 February 2019, AIHL, the ultimate parent of the Company, merged with Highlands Merger Sub, Ltd. ("Merger Sub"), a Bermuda exempted company and wholly owned subsidiary of Highlands Holdings, Ltd., a Bermuda exempted company ("Parent"). Both Merger Sub and Parent are affiliates of certain investment funds managed by affiliates of Apollo Global Management, LLC ("Apollo"). AIHL, Parent and Merger Sub merged with and into AIHL with AIHL continuing as the surviving company and as a wholly-owned subsidiary of the Parent Company.

Statement of Disclosure of Information to the Company's Auditor

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.

Auditor

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

Michael Cain
Director
23 April 2019

30 Fenchurch Street
London, U.K.
EC3M 3BD

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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

1 Our opinion is unmodified

We have audited the financial statements of Aspen Insurance UK Limited ("the Company") for the year ended 31 December 2018 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and FRS 103 *Insurance Contracts*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors in 2002. The period of total uninterrupted engagement is for the 17 financial years ended 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that Standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Claims Outstanding (2018: $3.8bn, 2017: $3.8bn)
Refer to page 26 (accounting policy) and page 47 (financial disclosures)
Risk vs 2017: ◀▶

The risk	Our response
Subjective valuation: Insurance liabilities represent the single largest liability for the Company. Valuation of these liabilities, especially in respect of the incurred but not reported (IBNR) component, is highly judgemental as it requires a number of assumptions to be made in respect of ultimate loss ratios, frequency and severity of claims all of which carry high estimation uncertainty. The determination and application of the methodology and performance of the calculations are complex. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. This includes Marine Energy & Construction Liability, Management Liability, Professional Indemnity, Credit & Surety and Casualty classes.	Our procedures included: **Our actuarial expertise** We used our own actuarial specialists to assist us in performing our procedures in this area.Our procedures included: **Our actuarial expertise** We tested the controls in respect of the reserving process, including controls over the setting and approval of case reserves for reported claims and the scrutiny applied by the Reserving Committee in respect of the reserves set for the not reported claims. We assessed the qualifications and experience of those responsible and examined the output of the reviews to evaluate the effectiveness of the controls operating within the process.

Claims Outstanding (2018: \$3.8bn, 2017: \$3.8bn) Refer to page 26 (accounting policy) and page 47 (financial disclosures) Risk vs 2017: ◄►	
A margin is added to the actuarial best estimate of the IBNR component of insurance liabilities to make allowance for specific uncertainties associated with the estimation of insurance liabilities. The appropriate level of margin to recognise is a subjective judgement based on the level of uncertainty and potential for volatility in the claims experience. Case reserves for reported claims, whilst less subjective, carry the risk of management bias through underestimation of the level of reserves held for open claims. Given the size of these reserves, and the consequent impact on the development factors used in the projection of the IBNR, we consider this to form part of the key audit matter. The effect of these matters is that, as part of our risk assessment, we determined that IBNR has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 2) disclose the sensitivity estimated by the Company.	**Substantive testing** *Historical comparison* We assessed the assumptions adopted in respect of ultimate loss ratios, frequency and severity of claims by comparing to relevant historical company experience data. *Sector experience and Benchmarking assumptions:* We evaluated the appropriateness of assumptions, reserving methodologies and estimates of losses including those of total losses on natural catastrophes by comparing to expectations derived from our understanding of current trends in loss development and industry benchmarking in order to identify specific trends and outliers. *Independent re-performance in respect of the actuarial best estimate:* We used our own modelling tools to re-project ultimate losses for certain individual classes of business and compared this to the Company's estimates. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other analytical procedures. *Methodology assessment in respect of margin:* We evaluated the appropriateness of the Company's methodology in respect of the margin applied to the actuarial best estimate by comparing to our understanding of the development in uncertainties specific to the exposures in the Company's portfolio. *Test of detail:* For a sample of individual reported claims, we agreed the reserve booked to third party evidence such as loss notification information from cedants and loss adjuster reports. **Our result** **We found the valuation of the claims outstanding liability to be acceptable (2017:acceptable)**

Gross Written Premiums - Inward Reinsurance (2018: $1.0bn, 2017: $1.0bn)
Insurance receivable (2018: $0.7bn, 2017: $0.7bn)
Refer to page 26 & 28 (accounting policy) and page 39 (financial disclosures)
Risk vs 2017: ◄►

The risk	Our response
Calculation Error: The appropriateness of certain inward reinsurance premiums written, specifically relating to proportional contracts, is an area of audit risk. This is primarily due to notification lags from cedants and brokers for such business, resulting in uncertainty in respect of the exact quantum of the ultimate premium resulting in the potential for adjustments to historic written premiums which have not yet been fully realised in cash; this creates opportunities for overstating or understating the premium amount (or delaying downward adjustments) as the actual premium is likely to take some time to develop. The associated proportional treaty premium receivable is also an area of risk given the balances recognised, in certain cases, reflect historic estimates of written premiums that are yet to be fully validated by third party evidence.	Our procedures included: **Control design and operation:** We tested, assisted by our own IT specialists, the design and operation of the Company's controls in respect of data entry, monitoring of premium estimates and approval of changes operating within the process for booking and adjusting estimates of inwards reinsurance premiums relating to proportional contracts. **Substantive testing:** *Historical comparison* We critically assessed the Company's approach in respect of premium estimation by checking the historical accuracy of the premium estimates through comparison of prior year estimates to trends in cash received and trends in the recognition pattern over time. *Tests of details* -We agreed the premiums booked for a sample of policies to counterparty notifications of premium estimates and other external information and corroborated any material adjustments to previously held estimates. -We also compared the premium estimates for individual counterparties to trends in cash collections to ascertain the ongoing appropriateness of historic estimates. **Our result** **We found the amounts recognised in respect of elements of the Company's gross written premiums - inward reinsurance totalling $0.3bn, relating to inwards reinsurance premiums on proportional contracts and the associated debtor balance totalling $0.3bn to be acceptable (2017: acceptable).**

Provision for unearned premiums (2018: $0.8bn, 2017: $0.9bn)
Refer to page 27 (accounting policy) and page 47 (financial disclosures)
The risk versus 2017: ▲

The risk	Our response
Subjective Valuation: We determined the key risk in this area to be around the judgemental aspects of revenue which include premium earning profiles applied to the various contracts written by the Company. Either a standard or non-standard recognition pattern is applied on all policies. Standard patterns apply a fixed time apportionment recognition pattern to reflect an even risk incidence, while nonstandard patterns are tailored for certain classes of business at an individual policy level basis to better reflect differences in exposure development and likely loss emergence. This risk can arise through the application of earnings patterns in order to determine the extent of the written premium that should be deferred to future periods. The selection of these earning patterns is judgemental as it represents management's assessment of the likely pattern of loss emergence. The diversity of business classes and nature of exposures underwritten by the Company makes this particularly subjective. The effect of these matters is that, as part of our risk assessment, we determined that the Provision for unearned premiums has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: **Controls design and operation** We tested, assisted by our own IT specialists, the design and operation of the Company's controls in respect of the application and monitoring of earning patterns. **Substantive testing** *Methodology choice* Based on our sector expertise, we have critically assessed and challenged management on the appropriateness of their application of non-standard patterns for a sample of policies. *Tests of details* For a sample of policies, where management apply judgement in determining tailored patterns we tested the underlying data by reference to relevant information supplied by cedants and brokers, appropriateness of their assumptions in respect of pattern of risk incidence by reference to historical loss development and our own expectation of loss emergence and consideration of alternative scenarios in respect of risk incidence. *Reperformance* We have performed a recalculation of the unearned premium reserve balance for 100% of policies with standard earning patterns using Data and Analytics capabilities. We have, for a selection of policies which have nonstandard earning patterns, performed recalculation of the non-standard pattern applied to ensure the application of each pattern is accurate. **Our result** **We found the resulting provision for unearned premiums to be acceptable (2017: acceptable).**

Outward reinsurance premiums (2018: $1.0bn, 2017: $1.0bn) Refer to page 26 (accounting policy) and page 39 (financial disclosures) The risk versus 2017: ▲	
The risk	**Our response**
Calculation error: Reinsurance contracts are often complex. In recent years the mix of the Company's Outwards reinsurance program has changed with the inclusion of significant, multi-line quota share agreements in the portfolio resulting in greater complexity being associated with this area.	Our procedures included: **Controls design and operation** We tested, assisted by our own IT specialists, the design and operation of the Company's controls over outward reinsurance transactions being initiated and recorded in the systems, including testing of manual controls such as reconciliations between the accounting ledger and policy administration systems, through re-performance or inspection. **Substantive testing** *Tests of details* We inspected the contractual terms of a sample of reinsurance agreements to check that risk transfer has occurred. We inspected the contractual terms of a sample of reinsurance agreements to check these have been accurately applied in deriving the relevant accounting entries. **Our result** **We found the amounts recognised in respect of the Company's outward reinsurance related balances in respect of premiums, claims and technical provisions to be acceptable (2017: acceptable).**

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $9.5m (2017: $10.5m), determined by reference to a benchmark of gross written premium, of which it represents 0.6% (2017: 0.7%). Gross written premium has been selected as the benchmark due to its relative stability and correlation with business performance and size.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.48m (2017: $0.50m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was performed at the Company's head office in London and the Bermuda and US office locations.

Our audit of the Company was undertaken to the materiality level specified above.

The auditor of the ultimate parent company as at 31 December 2018, Aspen Insurance Holdings Limited, performed testing on controls relating to outward reinsurance and tests of detail in relation to outwards reinsurance related balances in the financial statements. Audit teams in Bermuda and US performed controls testing and tests of detail relating to investments and investment income (including realised and unrealised gains/losses on investments) and account balances relating to business of the Company in the US, respectively. We instructed auditors in these locations as to the specific procedures required to be performed the information to be reported back.

We evaluated the scope of the work and the information reported back to ensure that it addressed the risks relevant to our audit.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Adverse loss experience; and
- A deterioration in the valuation of the Company's investments

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the failure of counterparties who have transactions with the Company (such as banks and reinsurers) to meet commitments that could give rise to a negative impact on the Company's financial position and the impact of Brexit on the economic environment and the resulting impact on the Company's capital resources.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 13, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.ukauditorsresponsibilities.

Irregularities - ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity recognising the financial and regulated nature of the company's activities and compliance with regulation relating to sanctions due to the nature of the business written by the Company and its customers. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing noncompliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Kushan Tikkoo

Kushan Tikkoo
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
18 April 2019

Income Statement: Technical Account - General Business

	Notes	For the Year Ended 31 December 2018	2017
		($ in thousands)	
Gross premiums written	3	1,475,237	1,481,346
Outward reinsurance premiums		(983,407)	(1,022,819)
Net premiums written		491,830	458,527
Change in gross provision for unearned premiums	19	39,280	(90,014)
Change in provision for unearned premiums reinsurers' share	19	17,028	40,003
Earned premiums net of reinsurance		548,138	408,517
Allocated investment return transferred from the non-technical account		(1,900)	88,049
Total technical income		546,238	496,566
Claims incurred net of reinsurance			
Claims paid			
Gross amount		(996,908)	(817,659)
Reinsurers' share		637,954	480,638
		(358,954)	(337,021)
Change in the provision for claims			
Gross amount	19	(55,661)	(327,183)
Reinsurers' share	19	32,412	324,109
Claims incurred net of reinsurance	4	(382,203)	(340,095)
Net operating expenses	6	(255,174)	(203,948)
Total claims and expenses		(637,377)	(544,043)
Balance on the technical account - general business		**(91,139)**	**(47,477)**

The results for the years ended 31 December 2018 and 2017 are derived from continuing operations.

Income Statement: Non-Technical Account

	Notes	For the Year Ended 31 December 2018	2017
		($ in thousands)	
Balance on technical account general business		(91,139)	(47,477)
Investment income	7	62,089	56,449
Realised (losses)/gains on investments	7	(28,266)	19,080
Unrealised (losses)/gains on investments	7	(32,442)	16,589
Investment expenses and charges	7	(3,281)	(4,069)
Allocated investment loss/(income) transferred to the general business technical account	7	1,900	(88,049)
Other income/(expenses)	5	51,958	(103,208)
Loss before tax	8	(39,181)	(150,685)
Tax credit on loss	10a	18,769	27,785
Loss after tax for the financial year		**(20,412)**	**(122,900)**

The results for the years ended 31 December 2018 and 2017 are derived from continuing operations.

Statement of Comprehensive Loss

	Notes	For the Year Ended 31 December 2018	2017
		($ in thousands)	
Loss for the financial year		(20,412)	(122,900)
(Loss)/Gain on foreign exchange translation	11	(22,399)	36,278
Total comprehensive loss for the year		**(42,811)**	**(86,622)**

Statement of Changes in Equity

2018	**Notes**	**Called up share capital**	**Capital contribution reserve**	**Profit and loss account**	**Total**
			($ in thousands)		
Opening shareholder's equity	21	614,900	470,000	(197,127)	887,773
Total comprehensive loss for the year		—	—	(42,811)	(42,811)
Closing shareholder's equity		**614,900**	**470,000**	**(239,938)**	**844,962**

2017	**Notes**	**Called up share capital**	**Capital contribution reserve**	**Profit and loss account**	**Total**
			($ in thousands)		
Opening shareholder's equity	21	614,900	470,000	(110,505)	974,395
Total comprehensive loss for the year		—	—	(86,622)	(86,622)
Closing shareholder's equity		**614,900**	**470,000**	**(197,127)**	**887,773**

Balance Sheet

	Notes	2018	2017
		As at 31 December 2018	
		($ in thousands)	
ASSETS			
Investments			
Other financial investments	13	2,437,452	2,693,263
Deposits with ceding undertakings		34,847	23,621
Reinsurers' shares of technical provisions			
Provision for unearned premiums	19	141,803	126,436
Claims outstanding	19	2,366,686	2,276,153
Debtors			
Debtors arising out of direct insurance operations - intermediaries		93,545	166,743
Debtors arising out of reinsurance operations		674,962	665,463
Amounts due from fellow group undertakings		157,216	135,285
Other debtors	14	31,309	20,846
Other assets			
Tangible fixed assets	12	1,264	2,095
Cash at bank and in hand		142,085	96,798
Prepayments and accrued income			
Accrued interest and rent		13,279	13,307
Deferred acquisition costs	18	156,675	176,719
Total Assets		**6,251,123**	**6,396,729**
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	21	614,900	614,900
Capital contribution reserve	21	470,000	470,000
Profit and loss account		(239,938)	(197,127)
Shareholder's equity		**844,962**	**887,773**
Technical provisions			
Provision for unearned premiums	19	793,774	856,647
Claims outstanding	19	3,787,236	3,823,484
Creditors			
Amounts due to fellow group undertakings	15	603,442	765,271
Other creditors	16	218,710	23,857
Accruals and deferred income		2,999	39,697
Total Liabilities		**5,406,161**	**5,508,956**
Total Equity and Liabilities		**6,251,123**	**6,396,729**

These financial statements were approved by the Board of Directors on 12 April 2019 and signed on its behalf:

Michael Cain
Director

The notes on pages 26 to 50 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

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 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("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 2018 were approved for issue by the Board of Directors on April 2019. The Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

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; and
- 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. The following are the Company's key sources of estimation uncertainty:

Insurance and reinsurance contract technical provisions

For insurance and reinsurance 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.

Provision for unearned premiums and deferred acquisition costs

For (re)insurance contracts management use their judgement in selecting appropriate earnings patterns for the business underwritten and associated acquisition costs, in particular for contracts where the pattern of loss emergence is likely to be markedly uneven. Patterns are calculated (determined) with reference to the inception and expiry dates of the policies concerned and the likely pattern of loss emergence which is driven off the same underlying considerations that apply to the technical provisions, taking into consideration information provided by cedants on loss emergence where appropriate.

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 adjustments in subsequent periods to 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 and provisions for unexpired risk.

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. 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 uncertainty 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.

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 income statement.

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 income statement.

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 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, are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place 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 asset is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. 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 carried 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. Interest income and payable and dividend income are recognised in the income statement.

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:

• Office and Other Equipment	25% per annum
• Hardware and Software(1)	33.3% per annum
• Underwriting Platform, Subscribe	20% per annum
• Leasehold Improvements	Lesser of 15 years or remaining life of lease

(1) 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.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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 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.

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 is it 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;
- Volatility constraint - a basis for monitoring volatility of return; and
- Capital Constraint: a minimum level of risk adjusted capital.

(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; and
  - 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 Tail Value at Risk the mean of the worst 1% of simulations (TVaR99) 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 Certified Risk Officer's 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 assessed 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. A 5% increase or decrease in total claims liabilities would have the following effect on profit or loss:

Year ended 31 December	**2018**		**2017**	
($ in thousands)	**5% Increase**	**5% Decrease**	**5% Increase**	**5% Decrease**
Total	**(74,867)**	**74,867**	**(77,298)**	**77,298**

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 2018, 2017, 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 2015-2020. Therefore, eight years of information are shown in these financial statements.

Gross insurance contract claims incurred as at 31 December 2018:

Accident year	Before 2011 $000	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000
Estimate of cumulative claims incurred									
At end of accident year		1,085,054	806,232	851,646	784,453	883,234	884,327	1,225,763	1,075,899
One year later		1,214,041	912,675	849,546	803,889	834,355	1,148,294	1,252,375	
Two years later		1,094,657	940,180	845,576	798,504	816,003	1,156,735		
Three years later		1,080,749	941,638	818,427	764,237	774,179			
Four years later		1,054,893	958,310	764,157	759,331				
Five years later		1,050,448	940,846	759,859					
Six years later		997,537	939,627						
Seven years later		978,653							
Current estimate of cumulative	7,199,124	978,653	939,627	759,859	759,331	774,179	1,156,735	1,252,375	1,075,899

Net insurance contract claims incurred as at 31 December 2018:

Accident year	Before 2011 $000	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000
Estimate of cumulative claims incurred									
At end of accident year		443,366	326,041	334,712	350,319	374,438	306,468	399,703	472,419
One year later		515,911	379,276	377,074	344,635	307,291	511,455	455,648	
Two years later		477,693	416,837	365,842	305,715	292,627	532,322		
Three years later		475,794	412,746	367,259	299,849	242,915			
Four years later		463,165	424,316	324,368	292,230				
Five years later		471,057	436,128	305,643					
Six years later		429,543	419,930						
Seven years later		411,556							
Current estimate of cumulative	3,253,904	411,556	419,930	305,643	292,230	242,915	532,322	455,648	472,419

(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 appropriate 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. AIUK sold all its equities in January 2018 and does not plan to invest in equities in 2019.

(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 include types of asset (e.g. mortgage backed securities), economic sector of issuer and securities of the same issuer.

(vi) Real Estate fund risk: The risk in the value of our investments in real estate funds is subject to the success of the property investments made by the funds. AIUK did not invest in real estate funds in 2018 and does not plan to do so in 2019.

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 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. During 2018, AIUK only entered into foreign exchange forward transactions and 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 asset allocation, overall credit rating and the volatility of AIUK's investment portfolio have been defined by management and approved by the Board. The AIUK Annual Investment Plan is reviewed and approved by the AIUK Board. In order that AIUK can manage its currency risks 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 assessed through continual monitoring of the underlying risk profile and escalation of any deviations from plan.

Sensitivity analysis

Foreign currency risk

As at 31 December 2018, if the U.S. Dollar had weakened / strengthened by 10% with all other variables held constant, loss for the year would have been $6,837,000 (2017: $13,533,000) 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:

Movement in basis points	-100	-50	+50	+100
Year ended 31 December 2018				
Fixed income portfolio effect - gain/(loss) ($m)	75.3	37.6	(37.6)	(75.3)
Year ended 31 December 2017				
Fixed income portfolio effect - gain/(loss) ($m)	78.3	41.0	(41.4)	(82.4)

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

In January 2018, AIUK liquidated its entire holdings of equity securities and reinvested the proceeds into fixed income securities, therefore the Company was not exposed to equity risk as at 31 December 2018.

(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. AIUK is exposed to credit risk through its investment holdings. As already stated within the Internal Model and management process, AIUK treats credit risk relating to fixed income security investments (including cash and debt securities) as part of Market risk.

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 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 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 assessed through continual monitoring of the underlying risk profile.

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Reinsurers' share of claims outstanding	2,366,686	2,276,153
Debtors arising out of direct insurance operations - intermediaries	93,545	166,743
Debtors arising out of reinsurance operations	674,962	665,463
Cash at bank and in hand	142,085	96,798
Deposits with ceding undertakings	34,847	23,621
Loans and receivables	31,309	136,928
Other financial investments		
Debt securities and other fixed income securities	2,214,441	2,283,793
Short term investments	216,785	250,514
Derivative financial assets	6,226	4,762
Total assets bearing credit risk	**5,780,887**	**5,904,775**
AAA	339,685	409,586
AA	1,319,016	1,345,713
A	566,969	606,230
BBB	72,331	72,352
Below BBB	533	—
Other	3,482,353	3,470,894
Total assets bearing credit risk	**5,780,887**	**5,904,775**

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 2018, the fair value of such collateral held was $412,000,000 (2017: $320,000,000). No collateral received from the counterparty has been sold or repledged (2017: 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 does not model and manage liquidity risk using its Internal Model as 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 and 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 assessed 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 2018	**Up to 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
			($ in thousands)		
Claims outstanding	956,708	1,230,362	589,010	1,011,156	3,787,236
Provision for unearned premiums	545,388	158,681	48,363	41,342	793,774
Amounts due to group undertakings	603,442	—	—	—	603,442
Other creditors	218,710	—	—	—	218,710
Accruals and deferred income	2,999	—	—	—	2,999
Total	**2,327,247**	**1,389,043**	**637,373**	**1,052,498**	**5,406,161**

31 December 2017	**Up to 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
			($ in thousands)		
Claims outstanding	982,340	1,251,850	591,841	997,453	3,823,484
Provision for unearned premiums	580,590	156,661	64,009	55,387	856,647
Amounts due to group undertakings	765,271	—	—	—	765,271
Other creditors	23,857	—	—	—	23,857
Accruals and deferred income	39,697	—	—	—	39,697
Total	**2,391,755**	**1,408,511**	**655,850**	**1,052,840**	**5,508,956**

3. Segmental Information

	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Underwriting Result
	For the Year Ended 31 December 2018 ($ in thousands)					
Direct insurance:						
Fire and other damage to property	151,238	149,016	(119,723)	(42,738)	15,087	**1,641**
Third party liability	179,706	182,413	(159,765)	(49,867)	9,858	**(17,361)**
Marine, aviation and transport	54,078	60,020	(27,527)	(11,486)	(19,045)	**1,962**
Credit and suretyship	68,284	62,518	(42,951)	(22,672)	1,142	**(1,963)**
	453,306	**453,967**	**(349,966)**	**(126,763)**	**7,041**	**(15,721)**
Reinsurance acceptances:						
Credit and suretyship	103,852	143,082	(67,873)	(58,024)	(21,305)	**(4,120)**
Fire and other damage to property	461,537	467,567	(300,998)	(147,515)	(78,538)	**(59,484)**
Miscellaneous	3,788	4,413	(11,468)	(11,767)	10,231	**(8,592)**
Marine, aviation and transport	105,472	92,884	(55,878)	(20,397)	(11,775)	**4,834**
Motor (third-party liability)	40,809	40,016	(31,414)	(9,873)	1,337	**67**
Third party liability	306,472	312,588	(234,972)	(84,288)	449	**(6,222)**
	1,021,932	**1,060,549**	**(702,603)**	**(331,864)**	**(99,600)**	**(73,518)**
	1,475,237	**1,514,516**	**(1,052,569)**	**(458,627)**	**(92,559)**	**(89,238)**

	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Underwriting Result
	For the Year Ended 31 December 2017 ($ in thousands)					
Direct insurance:						
Fire and other damage to property	144,042	143,686	(120,290)	(41,292)	23,009	**5,113**
Third party liability	169,072	153,363	(103,730)	(49,481)	8,473	**8,625**
Marine, aviation and transport	93,273	89,345	(77,540)	(20,700)	15,542	**6,647**
Credit and suretyship	56,480	58,913	(12,999)	(21,536)	(19,365)	**5,013**
	462,867	**445,307**	**(314,559)**	**(133,009)**	**27,659**	**25,398**
Reinsurance acceptances:						
Credit and suretyship	146,676	106,231	(59,447)	(53,029)	(7,655)	**(13,900)**
Fire and other damage to property	456,343	441,634	(467,805)	(143,336)	58,670	**(110,837)**
Miscellaneous	2,685	4,297	(3,219)	(54,370)	(1,294)	**(54,586)**
Marine, aviation and transport	68,738	67,632	(95,424)	(14,260)	34,594	**(7,458)**
Motor (third-party liability)	51,058	45,145	(32,465)	(11,520)	(760)	**400**
Third party liability	292,979	281,086	(171,923)	(68,928)	(14,778)	**25,457**
	1,018,479	**946,025**	**(830,283)**	**(345,443)**	**68,777**	**(160,924)**
	1,481,346	**1,391,332**	**(1,144,842)**	**(478,452)**	**96,436**	**(135,526)**

The underwriting result represents the balance on the technical account before investment income. 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	
	2018	2017
	($ in thousands)	
United Kingdom	726,648	753,082
USA	366,345	362,938
Switzerland	197,854	175,260
Republic of Ireland	35,998	47,117
Canada	15,640	13,052
Australia	43,101	43,791
Singapore	48,737	46,121
United Arab Emirates	38,676	35,704
France	1,147	2,119
Germany	1,090	2,162
	1,475,236	**1,481,346**

4. Net Claims Incurred

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Current year claims movement	(519,319)	(464,731)
Prior years' claims movement	137,117	124,636
	(382,202)	**(340,095)**

5. Other Income

Other Income of $51,958,000 (charge in 2017: $103,208,000) consist of foreign exchange gains (2017: losses) on monetary assets and liabilities and realised gains (2017: losses) arising from the translation into U.S. Dollars of the Company's branch operations.

6. Net Operating Expenses

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Acquisition costs	334,153	344,946
Change in net deferred acquisition costs	12,937	2,459
	347,090	347,405
Administrative expenses	112,131	131,047
Gross operating expenses	459,221	478,452
Reinsurance commission and profit participation	(204,047)	(274,504)
	255,174	**203,948**

Commissions in respect of direct insurance business amounted to $60,565,000 (2017: $75,868,000).

7. Investment Return

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Income from other financial investments	62,089	56,449
Net gains on realisation of investments:		
Fair value through profit or loss designated upon initial recognition	(1,954)	4,131
Realised (losses) / gains on derivative contracts	(26,312)	14,949
Total investment income	33,823	75,529
Net unrealised gains/(losses) on investments:		
Financial instruments at fair value through profit or loss	(25,254)	2,376
Unrealised (losses) / gains on derivatives contracts	(7,188)	14,213
Investment expenses and charges	(3,281)	(4,069)
Total investment (loss)/return	**(1,900)**	**88,049**

8. Profit and Loss Account

Loss before tax is stated after charging:

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Depreciation of tangible fixed assets (Note 12)	831	5,344
Defined contribution plan expense	3,958	3,966
Share based payments made to directors and employees (Note 22)	1,653	6,933
Auditor's remuneration		
Audit of these financial statements	727	612
Amounts receivable by the auditors and their associates in respect of:		
Audit related assurance services	277	221
Other non-audit services	15	165

9. Directors' Emoluments

The aggregate emoluments of the Directors were as follows:

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Aggregate emoluments	1,024	1,119
Aggregate contributions to pension schemes	18	12
	1,042	**1,131**

No (2017: no) Directors exercised share options in respect of qualifying services under long term incentive schemes. No (2017: no) advances or credits were granted to any Director subsisted during the year and no (2017: no) guarantees on behalf of any Director were subsisted during the year.

Highest Paid Director

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Aggregate emoluments and benefits	209	231
Aggregate contributions to pension scheme	2	—

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	
	2018	2017
	($ in thousands)	
U.K. corporation tax		
Current tax credit/(charge) on result for the year	19,511	(411)
Adjustments in respect of prior periods	—	1,772
Total current tax credit	**19,511**	**1,361**
Deferred tax (see note 10b)		
Origination / reversal of timing differences	(1,109)	30,373
Adjustments in respect of prior periods	367	(1,131)
Impact of rate change	—	(2,818)
Total deferred tax (charge)/credit	**(742)**	**26,424**
Tax credit on profit on ordinary activities	**18,769**	**27,785**

The tax credit (2017: credit) for the period is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below.

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Tax reconciliation		
(Loss) before tax	(39,181)	(150,685)
Current tax credit at 19% (2017: 19.25%)	7,510	29,007
Effects of:		
Non-taxable dividends receivable	—	900
Impact of overseas tax	(124)	(1,652)
Foreign exchange	(1,691)	59
Impact of rate change	—	(2,817)
Reversal of uncertain tax position	12,985	(364)
Adjustments in respect of prior periods	367	641
Permanent differences in respect of fixed assets	(278)	2,011
Total tax credit	**18,769**	**27,785**

The $12,985,000 reversal of uncertain tax position in 2018 relates to the successful conclusion of an HMRC inquiry which enabled the release of a provision held against the potential disallowance of a prior period adjustment.

A reduction in the U.S. corporate tax rate from 34% to 21% from 1 January 2018 was enacted on 22 December 2017. This reduction has been reflected in measuring deferred taxes.

10b. Deferred Taxation

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

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Temporary differences related to fixed assets [1]	—	7,304
Temporary differences related to foreign tax	890	2,509
Temporary differences related to overseas branches [2]	11,123	2,710
Temporary differences related to FRS 102 transitional adjustments	(446)	(527)
Losses carried forward	1,149	1,463
	12,716	**13,459**

[1] Fixed assets were transferred in 2017 to Aspen Insurance UK Services Limited and that group entity has inherited the entire capital allowance pool

[2] Deferred tax was of $5,500,000 was recognised on the 2017 losses incurred by a permanent establishment in the United States

11. Currency Translation

The currency translation loss of $22,399,000 (2017: $36,278,000 gain) represents unrealised losses (2017: gains) 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)		
Cost				
As at 1 January 2018	2,430	14,836	56,426	73,692
Additions	—	—	—	—
As at 31 December 2018	2,430	14,836	56,426	73,692
Depreciation				
As at 1 January 2018	2,430	12,741	56,426	71,597
Movement in the year	—	831	—	831
As at 31 December 2018	2,430	13,572	56,426	72,428
Net Book Value				
As at 31 December 2017	—	2,095	—	2,095
As at 31 December 2018	—	**1,264**	—	**1,264**

13. Other Financial Assets and Liabilities

	For the Year Ended 31 December 2018		For the Year Ended 31 December 2017	
	Cost	Market Value	Cost	Market Value
	($ in thousands)		($ in thousands)	
Financial assets at fair value				
Derivative assets held at fair value through profit and loss	—	6,226	—	4,762
Debt securities and other fixed income securities	2,301,666	2,214,441	2,322,138	2,283,793
Equity investments	—	—	132,157	154,194
Short term investments	218,394	216,785	249,376	250,514
Financial assets at fair value through profit and loss	**2,520,060**	**2,437,452**	**2,703,671**	**2,693,263**
Financial liabilities at fair value				
Derivative liabilities held at fair value through profit and loss	—	**10,396**	—	**1,090**

Listed Investments

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

	For the Year Ended 31 December 2018		For the Year Ended 31 December 2017	
	Cost	Market Value	Cost	Market Value
	($ in thousands)		($ in thousands)	
Financial Assets at fair value				
Debt securities and other fixed income securities	2,239,341	2,153,156	2,258,200	2,219,400
Short term investments	218,394	216,785	125,863	127,000
Total financial assets	**2,457,735**	**2,369,941**	**2,384,063**	**2,346,400**

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 form 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	
	2018	2017
	($ in thousands)	
Total financial assets	**6,226**	**4,762**
Total financial liabilities	**10,396**	**1,090**

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 2018 and 31 December 2017:

	For the Year Ended 31 December 2018			
	Level 1	Level 2	Level 3	Total
	($ in thousands)	($ in thousands)	($ in thousands)	($ in thousands)
Financial assets at fair value				
Debt securities and other fixed income	962,311	1,252,130	—	2,214,441
Short term investments	214,809	1,976	—	216,785
Derivatives	—	6,226	—	6,226
	1,177,120	**1,260,332**	—	**2,437,452**
Financial liabilities at fair value				
Derivatives	—	(10,396)	—	(10,396)
Total	**1,177,120**	**1,249,936**	—	**2,427,056**

	For the Year Ended 31 December 2017			
	Level 1	Level 2	Level 3	Total
	($ in thousands)	($ in thousands)	($ in thousands)	($ in thousands)
Financial assets at fair value				
Debt securities and other fixed income	975,702	1,308,091	—	2,283,793
Short term investments	248,002	2,512	—	250,514
Equity Investments	154,194	—	—	154,194
Derivatives	—	4,762	—	4,762
	1,377,898	**1,315,365**	—	**2,693,263**
Financial liabilities at fair value				
Derivatives	—	(1,090)	—	(1,090)
Total	**1,377,898**	**1,314,275**	—	**2,692,173**

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. Instruments included in Level 2 comprise primarily U.S. Government and Agency Securities, Municipal Securities, Non-U.S. Government Securities, Corporate Securities and Mortgage-backed Securities.

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 (2017: none).

Transfers of assets into or out of a particular level are recorded at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As at December 31, 2018, the Company transferred $5.2 million of non-US government securities from Level 1 to Level 2. There were no transfers between Level 2 and Level 3 during the twelve months ended December 31, 2018.

14. Other Debtors

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Deferred tax asset (Note 10b)	12,716	13,459
Corporation tax	12,026	2,315
Sundry debtors	6,567	5,072
	31,309	**20,846**

15. Amounts due to fellow group undertakings

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Amounts due to fellow group undertakings	598,428	763,000
Amounts due to intermediate parent	5,014	2,271
	603,442	**765,271**

16. Other Creditors

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
Underwriting creditors	203,951	11,124
Fair value in respect of derivatives	10,396	1,680
Other indirect taxes	4,363	7,264
Outstanding claims advances	—	3,789
	218,710	**23,857**

17. Contingencies and Other Liabilities

At 31 December 2018 and 2017 the Company had granted charges over a variety 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	
	2018	2017
	($ in thousands)	
U.S. Surplus Lines Trust	124,000	122,000
U.S. Reinsurance Trust Fund	941,000	955,000
Australia Branch	147,000	155,000
Canadian Branch	112,000	136,000
Other	412,000	320,000
	1,736,000	**1,688,000**

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

18. Deferred Acquisition Costs

	For the Year Ended 31 December	
	2018	2017
	($ in thousands)	
At 1 January	176,719	173,166
Movement in the year (Note 6)	(12,937)	(2,459)
Exchange adjustments	(7,107)	6,012
At 31 December	**156,675**	**176,719**

19. Technical Provisions

	2018		2017	
	Claims Reserves	Unearned Premium Reserves	Claims Reserves	Unearned Premium Reserves
	($ in thousands)		($ in thousands)	
Gross of reinsurance				
At 1 January	3,823,484	856,647	3,342,005	734,717
Movement in the year	55,661	(39,280)	327,183	90,014
Exchange adjustments	(91,909)	(23,593)	154,296	31,916
At 31 December	**3,787,236**	**793,774**	**3,823,484**	**856,647**
Reinsurance				
At 1 January	2,276,153	126,436	2,049,000	84,666
Movement in the year	32,412	17,028	324,109	40,003
Exchange adjustments	58,121	(1,661)	(96,956)	1,767
At 31 December	**2,366,686**	**141,803**	**2,276,153**	**126,436**

20. 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	
	2018	2017
	($ in thousands)	
Within one year	6,172	6,031
Between one and five years	6,806	10,152
After five years	4,058	6,009
	17,036	**22,192**

The expense in the year for operating leases amounts was $4,101,000 (2017: $3,755,000).

21. Share Capital

The paid up capital is set out below.

	For the Year Ended 31 December 2018		For the Year Ended 31 December 2017	
	(£ in thousands)	($ in thousands)	(£ in thousands)	($ in thousands)
Allotted, issued and fully paid up				
410,000,000 (2017: 410,000,000) ordinary shares of £1 each	**410,000**	**614,900**	**410,000**	**614,900**

The Company received capital contributions of $150,000,000 and $320,000,000 from its former immediate holding company, Aspen (UK) Holdings Limited, on 23 March 2006 and 22 March 2011, respectively. The Company was sold to AEHL on 26 February 2015 through an internal re-organisation to optimise the Company's regulatory structure.

The total funds available for distribution of $230,062,000 (2017: $272,873,000) include the $470,000,000 (2017: $470,000,000) capital contribution reserve less the $239,938,000 (2017: $197,127,000) profit and loss account.

22. Share Based Payments

AIHL, the Company's ultimate parent, has issued options, performance shares, phantom 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 Plans** (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. In accordance with the Merger Agreement, the Company did not commence any offering period to purchase the Company's ordinary shares that would begin after the end of any offering period in effect as of the date of the Merger Agreement or accept payroll deductions to be used to purchase ordinary shares under the ESPP after the end of any offering period in effect as of the date of the Merger Agreement. In addition, the Company did not permit new participants to participate in the ESPP or allow existing participants to increase their elections with respect to any offering period in effect as of the date of the Merger Agreement. Immediately prior to the Merger, the Company will take all actions necessary to enable and require participants in the ESPP to utilize their accumulated payroll deductions to purchase newly issued ordinary shares in accordance with the terms of the ESPP and, immediately after such purchases are completed, the Company will take all actions necessary to cause the ESPP to terminate. At the effective time of the Merger, the newly issued ordinary shares converted into the right to receive $42.75 in cash, without interest and less any required withholding taxes.

- **Employee Equity Incentives**

  a) Restricted Share Units ("RSUs") - granted to employees vest equally over a three-year period subject to the employee's continued service RSUs granted to employees 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 less a deduction for illiquidity. The fair value is expensed through the income statement evenly over the vesting period. For RSUs granted to non-employee directors, one-twelfth of the restricted share units will vest one-twelfth 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. At the effective time of the Merger, all outstanding RSUs, whether vested or unvested, became fully vested and converted into the right to receive $42.75 in cash, without interest and less any required withholding taxes, plus a cash amount for any accrued but unpaid dividends in respect of such awards prior to the effective time of the Merger.

  b) Performance Share Awards - Performance share awards are subject to a three-year service vesting period with a separate annual growth in diluted BVPS test for each calendar year during the vesting period. Accordingly, one-third of the award may be earned in each calendar year. Performance share awards are not entitled to dividends before they vest and are subject to the employee's continued employment. If performance goals are achieved, the performance shares will vest up to a maximum of 200% of target. The fair value of performance share awards is based on the value of the closing share price on the date of the grant less a deduction for illiquidity and expected dividends which would not accrue during the vesting period. At the effective time of the Merger, all outstanding performance shares, whether vested or unvested, became fully vested (with respect to any performance period that has been completed, determined based on actual level of performance achieved, and, with respect to any performance period that has not been completed, determined based on achievement of performance-based vesting requirements at target payout levels) and converted into the right to receive $42.75 in cash, without interest and less any required withholding taxes.

c) **Phantom Shares** - are subject to a three-year service vesting period with a separate annual growth in diluted book value per share test for each calendar year during the vesting period. One-third of the award may be earned in each calendar year with the vested amount being paid in cash in lieu of ordinary shares. As ordinary shares are not issued, phantom shares have no dilutive effect. At the effective time of the Merger, all outstanding phantom shares, whether vested or unvested, became fully vested (with respect to any performance period that has been completed, determined based on actual level of performance achieved, and, with respect to any performance period that has not been completed, determined based on achievement of performance-based vesting requirements at target payout levels) and converted into the right to receive $42.75 in cash, without interest and less any required withholding taxes.

23. Related Parties Transactions

The Company's ultimate parent company is 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 2018, 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 2018, the Company had a balance owed by Aspen Risk Management Limited of $21,913,000 (2017: $5,326,000) in respect of net premium.

24. Ultimate Holding Company

The ultimate parent company as at 31 December 2018 was Aspen Insurance Holdings Limited 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.

The ultimate holding company changed on 15 February 2019, see Note 25 for further details.

25. Subsequent Events

On 11 February 2019, AIUK was issued a $100.0 million unsecured letter of credit from National Australia Bank (issued by its parent Aspen European Holdings Limited and guaranteed by AIHL, its ultimate parent). In October 2018, AIUK applied to the Prudential Regulatory Authority ("PRA") for approval of this arrangement to be treated as Tier 2 Ancillary Own Funds and the PRA approved the treatment on 28 January 2019. Historically, AIUK held Tier 1 Capital with a minimal amount of Tier 3 Capital and the introduction of the Ancillary Own Funds brings AIUK into line with its peers in terms of the proportion of Tier 2 Capital on its Balance Sheet.

On 15 February 2019, AIHL, the ultimate parent of the Company, merged with Highlands Merger Sub, Ltd. ("Merger Sub"), a Bermuda exempted company and wholly owned subsidiary of Highlands Holdings, Ltd., a Bermuda exempted company ("Parent"). Both Merger Sub and Parent are affiliates of certain investment funds managed by affiliates of Apollo Global Management, LLC ("Apollo"). AIHL, Parent and Merger Sub merged with and into AIHL with AIHL continuing as the surviving company and as a wholly-owned subsidiary of the Parent Company.