

ASPEN INSURANCE UK SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018



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THE COMPANY

Directors

Heather Brown
Helen Rose
Silvia Martinez

Secretary

Helen Lipscomb

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Registered Office

30 Fenchurch Street
London
EC3M 3BD

Registered in England No: 4270446

Legal Advisors

Willkie Farr & Gallagher LLP
City Point
1 Ropemaker Street
London
EC2V 9HT

STRATEGIC REPORT

Overview

Aspen Insurance UK Services Limited (“the Company”) has, throughout the year, continued to act as a service company for the following entities within the Aspen group (together referred to as “the group companies”):

- Aspen Insurance UK Limited (“AIUK”);
- Aspen Underwriting Limited (“AUL”);
- Aspen Managing Agency Limited (“AMAL”);
- Aspen Risk Management Limited (“ARML”); and
- Aspen Lloyd’s Syndicate 4711.

The principal activity of the Company is the provision of administrative and other services to the group companies. The Company also acts as the employer of all staff used by the group companies, except ARML. All services and expenses are paid for by the Company and then recharged to the group companies. The Company’s activities are not expected to change in the foreseeable future.

Activities During 2018

The Company is a service company and the principal activities of the Company reported in these financial statements are:

- the payment of salaries and related expenses for all staff employed by the Company and working for the benefit of the group companies; and
- processing and administering service fees to other group companies which is recognised as revenue by the Company.

Principal Risks and Uncertainties

The Company’s business is the provision of administrative and other services to the group companies. The Company has in place a risk management process which is appropriate to the relatively low risks of the Company and is in accordance with the Aspen Group Internal and Risk Management Framework. The main risks are defined as follows:

- Liquidity Risk - the risk that the Company is unable to make a payment, particularly to suppliers, when required. This will be reduced through funding from fellow group companies as and when needed;
- Operational Risk - the risk of loss arising from inadequate or failed internal processes, personnel or systems or from external events. These operational risks are managed by the Aspen group at the level of the entities that use the service company. The Group Risk Management Team have worked with key members of management within those entities and identified operational risks and their related risk assessments, owners and identified controls in a separate operational Risk Register for each of those entities. This includes operational risks relating to processes undertaken by the service company; and
- Market Risk - the risk of variation in the fair value of derivative contracts including the effect of changes in foreign currency exchange rates.

By Order of the Board



Helen Rose

Director

12 September 2019

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is the provision of administrative and other services to the group companies. The Company also acts as the employer of all staff used by the group companies, except ARML. A review of the business and future prospects of the Company is contained within the Strategic Report on page 3.

RESULTS AND DIVIDENDS

The results for the year are set out in the accompanying Income Statement on page 9. The profit for the year before tax was \$9,814,000 (2017: loss \$2,135,000) and the net asset position of the Company was \$31,279,000 (2017: \$20,426,000). The Directors regard the current state of affairs of the Company and its future prospects as satisfactory. No dividends were declared or paid in the year (2017: \$Nil) to Aspen (UK) Holdings Limited, the Company's immediate parent company.

SHARE CAPITAL

The authorised share capital of the Company is 1 ordinary share of £1.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company at the date of this report are set out on page 2. Changes in directors during 2018 and up to the date of this report are as follows:

	<u>Date of appointment</u>	<u>Date of resignation</u>
Heather Brown	May 17, 2019	
Silvia Martinez	June 4, 2019	
Michael Cain		June 4, 2019
Christopher O'Kane		March 28, 2019

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.

COMPANY SECRETARY

The Secretary of the Company at the date of this report is set out on page 2.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, as 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 ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITORS

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

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.

FINANCIAL RISK MANAGEMENT

The Company's business is the provision of administrative and other services to the group companies. The Company has in place a risk management process which is appropriate to the relatively low risks of the Company and is in

accordance with the Aspen Group Risk Management Framework. This is explained in more detail in the Strategic Report on page 3.

EMPLOYEES

The Company 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 the Company's employment.

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

During the year the average number of staff employed was 664 (2017: 721) and the number of staff employed as at 31 December 2018 was 617 (2017: 755).

SUPPLIER PAYMENT POLICY

During the financial year the Company has followed standard payment terms and conditions for the Company's suppliers. Copies of the conditions can be obtained from the registered office of the Company.

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 apply the going concern basis in the preparation of these financial statements.

DONATIONS

The Company made charitable donations of \$659,384 (2017: \$683,489) during the year and were fully recharged to other group companies.

FUTURE DEVELOPMENTS

The Directors confirm that the Company will continue to administer and provide services and employs staff used by the group companies, except for ARML. All services and expenses are paid for by the Company and then recharged to the group companies. The Company's activities are not expected to change in the foreseeable future.

EVENTS SINCE THE REPORTING DATE

On February 15, 2019, Aspen Insurance Holdings Limited ("AIHL") completed its previously announced merger with Highlands Merger Sub, Ltd. ("Merger Sub"), a wholly owned subsidiary of Highlands Holdings, Ltd. ("Parent"). Pursuant to the Agreement and Plan of Merger, dated as of August 27, 2018, by and among AIHL, Parent and Merger Sub (the "Merger Agreement"), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the "Companies Act"), by and among AIHL, Parent and Merger Sub, dated as of February 15, 2019, Merger Sub merged with and into AIHL in accordance with the Companies Act (the "Merger"), with AIHL continuing as the surviving company and as a wholly owned subsidiary of Parent. Parent, a Bermuda exempted company, is an affiliate of certain investments funds managed by affiliates of Apollo Global Management, LLC, a leading global investment manager (collectively with its subsidiaries, "Apollo").

By Order of the Board



Helen Rose

Director

12 September 2019

Registered in England No: 4270446

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, 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 judgements 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.

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

Opinion

We have audited the financial statements of Aspen Insurance UK Services Limited for the year ended 31 December 2018 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity, Balance Sheet and 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 the Company's affairs as at 31 December 2018 and of its profit 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
- 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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.

Strategic report and 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 the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

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, 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.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for 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.

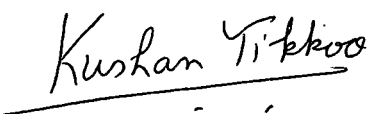
Auditor's responsibilities

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 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 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.uk/auditorsresponsibilities.

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 (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 September 2019

INCOME STATEMENT

	Notes	For the year ended 31 December	
		2018 \$'000	2017 \$'000
Turnover		266,978	253,100
Operating expenses	2	<u>(250,768)</u>	<u>(243,385)</u>
Operating profit		16,210	9,715
Foreign exchange losses		(3,562)	(9,582)
Net interest payable		<u>(2,834)</u>	<u>(2,268)</u>
Profit/(Loss) before tax	4	9,814	(2,135)
Tax credit on profit/(loss)	5	<u>3,335</u>	<u>1,559</u>
Profit/(Loss) for the financial year		<u>13,149</u>	<u>(576)</u>

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December	
		2018 \$'000	2017 \$'000
Profit/(Loss) for the financial year		13,149	(576)
Change in hedged derivative contracts	10	<u>(2,296)</u>	<u>1,795</u>
Total comprehensive income for the year		<u>10,853</u>	<u>1,219</u>

The results for the year ended 31 December 2018 and 2017 are derived from continuing operations.
The notes on pages 12 to 20 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Notes	For the year ended 31 December	
		2018 \$'000	2017 \$'000
Opening shareholder's equity		20,426	19,207
Other reserves	10	(2,296)	1,795
Profit/(Loss) for the financial year	11	13,149	(576)
Closing shareholder's funds		<u>31,279</u>	<u>20,426</u>

The notes on pages 12 to 20 form part of these financial statements.

BALANCE SHEET

		For the year ended 31 December	
		2018	2017
	Notes	\$'000	\$'000
ASSETS			
Cash at bank and in hand		32,847	16,776
Debtors	6	54,814	24,334
Fixed assets	7	50,325	49,177
Total Assets		137,986	90,287
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	9	—	—
Other reserves	10	(1,021)	1,275
Profit and loss account	11	32,300	19,151
		31,279	20,426
Liabilities			
Creditors	12	106,707	69,861
Total Equity and Liabilities		137,986	90,287

These financial statements were approved by the Board of Directors on 11 September 2019 and signed on its behalf by:



Helen Rose
Director

The notes on pages 12 to 20 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 Services Limited (the "Company") is a company limited by shares and incorporated and domiciled in the United Kingdom. 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"). These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

1.2 Basis of preparation

The functional and 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, which are publicly available 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:

- 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 principal accounting policies are set out below and have been applied consistently to all periods presented in these financial statements.

1.3 Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.4 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:

1.4.1 Taxation

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.

1.5 Significant Accounting Policies

1.5.1 Turnover

Turnover represents the cost, plus a processing service fee, of providing services to the group companies and is recognised on an accrual basis in line with the underlying expense.

1.5.2 Operating expenses

Operating expenses represents the costs of providing administrative and other services to the group services as incurred.

1.5.3 Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

1.5.4 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 probable that the offer will be accepted, and the 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.

1.5.5 Taxation

Tax on the profit or loss for the period 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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 it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.5.6 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency 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 Income Statement, except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

1.5.7 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 installments over their estimated useful economic lives as follows:

- Office and other equipment 25% per annum
- Hardware and Software⁽¹⁾ 33.3% 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.

1.5.8 Financial instruments

a) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence whether they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial instruments measured at cost less impairment, impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

b) Other debtors and other creditors

Other debtors are recognised initially at transaction price less attributable transaction costs. Other creditors are recognised initially at transaction price and attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

c) Derivative financial instruments

The Company enters into derivative instruments such as forward exchange contracts in order to manage certain market and credit risks and its cash flows in respect of salaries and rent denominated in sterling. The Company records derivative instruments at fair value on the Company's balance sheet as either assets or liabilities, depending on their rights and obligations.

The accounting for the gain or loss due to changes in the fair value of these instruments is dependent on whether the derivative qualifies as a hedge. If the derivative does qualify as a hedge, the unrealised gain or loss is recorded within other comprehensive income. If the derivative does not qualify as a hedge, the unrealized gains or loss is recognised in the Income Statement.

The Company entered into several forward exchange contracts in order to hedge its cash flow in respect of salaries and rent against changes in foreign exchange rates between GBP and USD. The cash flow for these payments are expected to be made monthly and recognised in the Income Statement at the date of payment.

1.5.9 Share Based Payments

Directors and certain senior personnel received 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 was measured by reference to the fair value at the date at which they are granted and was 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 was recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which were treated as vesting irrespective of whether or not the market condition was satisfied, provided that all other performance conditions were met. When an equity-settled award was cancelled, it was treated as if it had vested on the date of cancellation and any cost not yet recognised in the Income Statement for the award was expensed immediately.

Share based payments were 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 recharged the share option at 100% of the fair value at the date of grant, when the Company settled the obligation with AIHL. Direct taxes on all share related awards were recognised in the balance sheet, as an accrual, at the expected future tax rate payable by the Company.

2. Operating expenses

	2018 \$'000	2017 \$'000
Staff costs (Note 3)	129,369	120,064
Other administration costs	121,399	123,321
	<u>250,768</u>	<u>243,385</u>

3. Staff costs

The average number of employees (including Directors) employed by the Company in the year was as follows:

	2018	2017
Underwriting	243	300
Claims administration	47	52
Other administration	374	369
	<u>664</u>	<u>721</u>

	2018 \$'000	2017 \$'000
Salaries	103,292	88,700
Social security costs	11,624	13,353
Other employee benefits	6,605	9,957
Pension costs	7,848	8,054
	<u>129,369</u>	<u>120,064</u>

The total share based payments made to Directors and employees by the Company during the year was \$3.8m.

Directors' remuneration

The aggregate emoluments of the Directors were as follows:

	2018 \$'000	2017 \$'000
Directors' emoluments	1,425	2,197
Company contributions to defined contribution pension schemes	3	3
	<u>1,428</u>	<u>2,200</u>

The remuneration of the highest paid Director in 2018 was \$1,323,860 (2017: \$2,080,000) including pension contributions of \$3,510 (2017: \$Nil) and were fully recharged to other group companies. Retirement benefits are accruing to the following number of current directors under:

	2018	2017
Defined contribution pension schemes	<u>3</u>	<u>3</u>

4. Profit/(Loss) before taxation

All administrative and service expenses for the group companies are borne by the Company. All these expenses are subsequently reimbursed by the group companies together with a service fee payable to the Company. Fees paid to the auditors in respect of the audit of these financial statements of \$29,000 (2017: \$28,000) were reimbursed by AIUK.

5. Taxation

	2018 \$'000	2017 \$'000
<i>UK corporation tax</i>		
Current tax charge on profit/(loss) for the year	(3,235)	(2,430)
Adjustments in respect of prior periods	287	905
Total current tax charge	<u>(2,948)</u>	<u>(1,525)</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	769	4,011
Adjustments in respect of prior periods	5,746	(161)
Impact of rate change	(232)	(766)
Total deferred tax credit	<u>6,283</u>	<u>3,084</u>
Tax credit on profit/(loss) on ordinary activities	<u>3,335</u>	<u>1,559</u>

The tax credit (2017: credit) for the period is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below.

	2018 \$'000	2017 \$'000
<i>Total tax reconciliation</i>		
Profit/(Loss) on ordinary activities before tax	9,814	(2,135)
Current tax at 19.00% (2017: 19.25%)	<u>(1,865)</u>	<u>411</u>
<i>Effects of</i>		
Disallowed items	(570)	(558)
Depreciation in excess of capital allowances	(203)	666
Adjustments relating to share based payments	(59)	1,244
Pension contributions unpaid	—	285
Foreign exchange	230	(466)
Impact of rate change	(232)	(766)
Adjustments in respect of prior periods	6,034	743
Total tax credit (see above)	<u>3,335</u>	<u>1,559</u>

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

The \$6,033,459 adjustment in respect of prior periods consists of two parts, \$5,746,104 relating to changes in deferred tax on accelerated capital allowances and unpaid pension accruals and \$287,355 in respect of current tax adjustments.

6. Debtors

	2018 \$'000	2017 \$'000
Prepayments and other debtors	23,131	5,149
Amounts owed by group undertakings	16,287	9,864
Deferred tax asset (Note 8)	14,025	7,742
Hedged derivatives at fair value (Note 10)	—	1,579
Unhedged derivatives at fair value	1,371	—
	<u>54,814</u>	<u>24,334</u>

7. 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				
At 1 January 2018	2,039	660	64,659	67,358
Additions	9	706	23,295	24,010
At 31 December 2018	<u>2,048</u>	<u>1,366</u>	<u>87,954</u>	<u>91,368</u>
Depreciation				
At 1 January 2018	(58)	10	(18,133)	(18,181)
Charge for the year	(137)	(341)	(22,383)	(22,861)
At 31 December 2018	<u>(195)</u>	<u>(331)</u>	<u>(40,516)</u>	<u>(41,042)</u>
Net Book Value				
At 31 December 2017	<u>1,981</u>	<u>670</u>	<u>46,526</u>	<u>49,177</u>
At 31 December 2018	<u>1,853</u>	<u>1,035</u>	<u>47,438</u>	<u>50,326</u>

8. Deferred taxation

	2018 \$'000	2017 \$'000
The deferred tax asset comprises of the following:		
Temporary differences related to fixed assets	11,601	4,159
Temporary differences related to share based payments	2,431	3,583
Temporary differences related to pension contributions	(7)	—
	<u>14,025</u>	<u>7,742</u>

9. Called up share capital

The allotted, issued and paid-up capital is set out below.

	2018 £	2018 \$	2017 £	2017 \$
Allotted, issued and fully paid-up	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
1 ordinary share of £1 each				

10. Other reserves

Movement in other reserves during the year comprise of the following:

	2018			2017		
	\$'000			\$'000		
	Hedged Derivatives	Tax	Total	Hedged Derivatives	Tax	Total
As at 1 January	1,579	(304)	1,275	(644)	124	(520)
Movement in the year	(2,840)	544	(2,296)	2,223	(428)	1,795
As at 31 December	(1,261)	240	(1,021)	1,579	(304)	1,275

The financial assets and liabilities in respect of derivatives are measured at fair value through other comprehensive income and are included within either Debtors (Note 6) or in Creditors (Note 12).

11. Profit and loss account

	2018 \$'000	2017 \$'000
At 1 January	19,151	19,727
Profit/(Loss) for the financial year	13,149	(576)
At 31 December	<u>32,300</u>	<u>19,151</u>

12. Creditors

	2018 \$'000	2017 \$'000
<i>Amounts due in less than one year</i>		
Accrued expenses and other payables	50,319	14,171
Hedged liabilities under derivative contracts (Note 10)	1,261	—
Amounts owed to group undertakings relating to tax	7,127	1,692
<i>Amounts due in greater than one year</i>		
Inter-company loan	<u>48,000</u>	<u>53,998</u>
	<u>106,707</u>	<u>69,861</u>

The \$48,000,000 (2017: \$53,998,000) inter-company loan was issued by AIUK, a fellow group subsidiary, and used to purchase tangible assets from AIUK on 1 April 2017. The inter-company loan bears interest at 5.6% per annum and no interest was payable on this loan as at December 31, 2018 (2017: \$Nil).

13. Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the fund and amounted to \$7,848,000 (2017: \$8,054,000) (Note 3).

14. Ultimate holding company

The Company is a direct subsidiary undertaking of Aspen (UK) Holdings Limited whose ultimate parent company as at 31 December 2018 was AIHL incorporated in Bermuda. The ultimate parent undertaking and controlling party is AIHL which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The financial statements of AIHL are accessible on the Securities and Exchange Commission's website at <http://www.sec.gov> and the registered address for AIHL is shown below:

Aspen Insurance Holdings Limited
141 Front Street
Hamilton HM19
Bermuda

The consolidated accounts of this company are available to the public and may be obtained from The Company Secretary at the address below:

Aspen Insurance Holdings Limited
c/o 30 Fenchurch Street
London
EC3M 3BD

15. Subsequent Events

On February 15, 2019, the Company completed its previously announced merger with Highlands Merger Sub, Ltd. ("Merger Sub"), a wholly owned subsidiary of Highlands Holdings, Ltd. ("Parent"). Pursuant to the Agreement and Plan of Merger, dated as of August 27, 2018, by and among the Company, Parent and Merger Sub (the "Merger Agreement"), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the "Companies Act"), by and among the Company, Parent and Merger Sub, dated as of February 15, 2019, Merger Sub merged with and into the Company in accordance with the Companies Act (the "Merger"), with the Company continuing as the surviving company and as a wholly owned subsidiary of Parent. Parent, a Bermuda exempted company, is an affiliate of certain investments funds managed by affiliates of Apollo Global Management, LLC, a leading global investment manager (collectively with its subsidiaries, "Apollo").

16. 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 took 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 took all actions necessary to cause the ESPP to terminate. At the effective time of the Merger, the newly issued ordinary shares will be 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, vested in full 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, vested in full (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 were 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, vested in full (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 were converted into the right to receive \$42.75 in cash, without interest and less any required withholding taxes.